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tenth edition

Strategic Management

AWARENESS AND CHANGE

John Thompson, Jonathan M. Scott & Frank Martin

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Preface

About this book

No single approach, model or theory can explain the realities of strategic change in practice for all organizations; different organizations and managers will find certain approaches much more relevant to their circumstances and style. All approaches will have both supporters and critics. It is, therefore, important to study the various approaches within a sound intellectual framework so that they can be evaluated by students and other readers.

Students of business and management and practising managers must work out for themselves the intricacies and difficulties of managing organizations at the corporate level, and of managing strategic change at all levels of the organization. It is no good being told how to be prescriptive – or thinking that 'right answers' are always there to be found – when it is patently obvious that there is no universal model. Yet observations of practice in isolation are equally limited in their usefulness; theories, concepts and frameworks should thus be blended with practical examples. Attempts to find explanations that can be utilized do make sense; testing and evaluating reality against a theoretical framework helps this process.

Changes for the tenth edition

Since the first edition of *Strategic Management: Awareness and Change* was published in 1990, the subject of strategic management has been developed and our understanding of certain aspects has changed. However, the key building blocks of our study have proved to be resilient over many years; and our reference to the relevant texts (among more recent citations!) remains important. Together these provide an introductory foundation to the subject for all levels of student. That said, research continues all the time, and we continue to make use of end-of-chapter Research Snapshots which reflect cutting-edge, up-to-date academic research and scholarship on strategic management – to provide an introduction to some of the most recent journal articles – which some students, particularly those writing dissertations and undertaking research, will follow up.

In addition, the world of business has been transformed, not only by the rapid growth of the internet and the emergence of the new and entrepreneurial dot-com organizations but also, since the late 2000s, by new disruptive business models such as the gig economy and online subscription services such as Netflix. At the same time, entrepreneurship as a subject has also increased in popularity and significance; it is not realistic to treat it as completely divorced from strategy as the two are very clearly related. Moreover, since the ninth edition was published in 2019, the world has had to deal with the challenges of COVID-19, which has highlighted the need for both strategic agility and strategic resilience in every organization, regardless of sector. While some of these changes were reflected in earlier editions of this book, this tenth edition sees further revisions to both the structure and content to bring the text and the case material fully up to date. For this edition, we have introduced some new content in every chapter and added several new figures.

The most obvious of these changes are:

Chapter 1 examines the distinction between 'teaching strategy' (very loosely, 'theory and concepts') and 'teaching about strategy' (which has a much more applied, practice perspective), a theme that is developed further in Chapter 8 (decision-making) and Chapter 14 (organizational 'realities').

Chapter 2 offers a revised and stronger treatment of the business model.

Chapter 5 revisits how the resource-based view is presented.

Chapter 7 sees the introduction of the 'Culture Circle' in order to highlight that different parts of complex organizations might well have different cultures – without necessarily destroying the presence and value of a more holistic 'organizational culture'.

Chapter 8 includes the topic of 'noise' for the first time and shows how it can impact on decisions.

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Chapter 9 revises the treatment of the role of planning in strategy.

Chapter 10 re-examines the significance of an entrepreneurial mindset.

Chapter 13 introduces and discusses the notion of 'strategic break points' to explain how organizational fortunes are inconsistent over time and reinforce the significance of strategic agility.

Chapter 17 has been substantially rewritten to provide a fresh treatment of 'strategic resilience'.

References are made to the impact of COVID-19 in various chapters, culminating with a final case on the UK's COVID-19 vaccination programme in Chapter 17. In all, there are some 15 new cases in this edition, with a similar number removed and placed online. These also include:

Chapter 1: 'Music Royalty'
Chapter 2: Asos and Boohoo
Chapter 5: Stitch Fix
Chapter 7: The Burning Man
Chapter 10: Berry Gordy & Motown Music
Chapter 12: Soupah Farm-en-Market
Chapter 15: Starbucks and the Rise of Specialty Coffee
Chapter 17: Ubuntu Beds.

All the retained cases have been checked for relevance and, where appropriate, revised. As is customary with this text, several topics have been slimmed down a little, but nothing has been removed completely. For this revision, Professor John Thompson has continued his collaboration with Dr Jonathan M Scott formerly at Northumbria University (now at University of Waikato, Tauranga, New Zealand). Frank Martin's major contribution to previous editions continues to be recognized.

How to use this book

Structure and content

The content generally follows the established analysis, choice and implementation model that is used in most strategy texts. It is structured in five parts, which systematically deal with a series of key questions and issues.

Part 1: *Understanding strategy* examines the strategy process as a whole and includes a comprehensive explanation and framework of the process around which the book is structured. Part 1 introduces a mind map summary of the book's structure. Material on the business model is developed in a short, dedicated chapter to stress its significance for understanding the strategy of an organization.

Contents:

Chapter 1 What is strategy and who is involved?
Chapter 2 The business model and the revenue model
Chapter 3 Strategic purpose

Part 2: *Analysis and positioning* looks at three distinct but clearly related approaches to strategy: market- or opportunity-driven, resource-based and competitor influenced strategic management. It is crafted around the Environment–Values–Resources (E–V–R) model introduced in Chapter 1. Part 2 includes a number of tools and techniques which help us to understand the current competitive situation. This Part also looks at strategic positioning and competitive advantage.

Contents:

Chapter 4 The business environment and strategy
Chapter 5 Resource-led strategy
Chapter 6 The dynamics of competition

Part 3: *Strategy development* describes and evaluates the different ways in which strategies are formulated and created. Part 3 opens with Chapter 7 on culture. This is a vital element of our study, as it determines how strategies and changes are both determined and implemented. Next, we consider the various strategic

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alternatives that a firm may consider and the determinants of a good choice, leading on to examinations of strategic planning, strategic leadership and intrapreneurship. Planning frameworks and techniques, together with the contribution of planning in strategy, are discussed in Chapter 9. We look at both entrepreneurship and intrapreneurship in Chapter 10 on strategic leadership.

Contents:

Chapter 7 Introducing culture and values

Chapter 8 Strategy formulation: Strategic alternatives and decision-making

Chapter 9 The role of planning in strategy

Chapter 10 Strategic leadership, entrepreneurship and intrapreneurship

Part 4: *Strategic growth issues* deals with growth as well as retrenchment issues, which includes material on international strategy. There is also a discussion of business failure. This part opens with Chapter 11 on evaluating strategic success.

Contents:

Chapter 11 Strategic control and measuring success

Chapter 12 Issues in strategic growth: Domestic and international

Chapter 13 Failure, consolidation and recovery strategies

Part 5: *Strategy implementation* evaluates the issues involved in strategy implementation. Organization structures, resource management and the complexities of managing change are included, as are issues of risk and crisis management.

Contents:

Chapter 14 Strategy implementation and structure

Chapter 15 Leading change

Chapter 16 Corporate level strategic management

Chapter 17 The strategically resilient organization

Key features

Cases and examples In addition to numerous references in the main text to organizations and events, as we mentioned above, many short case examples are included. The cases are all designed to illustrate points in the main text. They are also intended to supplement the reader's own experiences and investigation. There are specific questions at the end of every case and relevant website addresses are provided to enable easy follow-up. Inevitably, some of the cases will date during the life of the text, in the sense that the strategies and fortunes of the companies featured in the examples will change. Strategies have life cycles, and strategies that prove effective at certain times will not always remain so. Companies that fail to change their strategies at the right time are likely to experience declining fortunes. Questions are included at the end of chapters to encourage the reader to research and analyze the subsequent fortunes of companies included as cases.

As teachers and examiners ourselves, we are aware of the value of longer and more analytical cases that can be particularly useful for examination purposes. We also recognize that a number of competing books feature a selection of such cases. We recommend that lecturers visit the Case Centre website – www.thecasecentre.org – where they will be able to search through abstracts for literally thousands of cases written by case writers from around the world, many of whom have enjoyed direct access to the organizations involved. In fact, longer cases on many of the organizations we feature in this text are likely to be found there, if you are attracted to a particular business. In addition, the Case Centre includes details of the most popular long cases with lecturers around the world.

Learning objectives These appear at the start of every chapter to help you monitor your understanding and progress through the chapter. You will see we have adopted a principle of one learning objective for each major section in a chapter.

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Boxes These are used in the text and featured separately within the relevant chapter for special emphasis and easy reference. There are six types of box:

1. Key Term Boxes, which define and explain key concepts in strategy and also explain significant contributions which underpin an understanding of strategic management.
2. Critical Reflection boxes, which feature debates and discussions where there are differing opinions.
3. Strategy in Action boxes provide annotated applications of particular ideas and concepts.
4. Strategy in Practice boxes put strategy decisions and actions into an everyday setting to help provide insight into how we could interpret behaviours and events.
5. Strategic Reflection boxes build on Strategy in Action and Strategy in Practice to encourage students to think about the meaning, point and value of strategy, and the meaning of key strategic themes.

   Although, realistically, there can be no such thing as 'strategic reality' – because of varying personal perceptions – these boxes help readers to make sense of strategic ideas applied and gain insight into their own 'strategic realities'.
6. Research Snapshots appear at the end of most chapters and signpost opportunities for a much more in-depth study of the subject. They make reference to valuable ideas and contributions which enrich a study of strategy, but which take the debate beyond the scope of the main content of the book. These recommended readings will help students studying one particular topic in depth as, say, a dissertation or research project. Not all readers will feel it necessary to access up-to-date and relevant journal articles and follow up on the current and recent strategy research agenda.

Figures A comprehensive set of figures, which are either new or redrawn, illustrate and explain the issues covered in the text.

Quotations Short and pithy quotations from a variety of senior managers in the private and the public sectors are sprinkled throughout the text to illustrate a spectrum of opinions. These are useful for provoking class discussion and examination questions.

Chapter summaries An outline summary of the content and main points is given at the end of every chapter. This summary can help readers to check that they appreciate the main points and issues before reading on.

Questions and research assignments These are included at the end of each chapter. Some questions relate to the ideas contained in the text and the illustrative cases, and some are examples of the type that feature in study examinations of this subject that are not related to cases.

Several research projects, both library- and internet-based, are included to encourage the reader to develop their knowledge and understanding further.

In addition, we have included one extra short case at the end of chapters, called Strategic Activities, to allow further exploration of strategy in action.

Further reading There are also two different types of listings of books, chapters, journal articles and other sources of literature at the end of each chapter:

- **References** are those pieces of literature which are directly cited in the text.
- **Further reading** provides the full list of references for each Research Snapshot. However, these are not considered references but, instead, 'further reading', to distinguish them from the reference list at the end of each chapter.

It should be appreciated that, although fresh articles are being published constantly, only a very small number add anything really new and seminal to our understanding of strategy and strategic management.

Glossary The book also offers a glossary, including definitions of well over 100 key terms. For ease of reference, words that are included in the glossary are highlighted in green in the text.

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There are additional online features which, effectively, expand the text. **Finance in Action** supplements link directly to certain chapters and expand on points introduced in the text. They provide more detail than some readers will require; for others, they enhance key aspects of strategic analysis. There are also two additional supplements on **Military Strategy** which offer a different but valuable perspective. Finally, there are **Online Cases** which follow the same format as those included in the book. Indeed, many of them have been included in previous editions. While typically more dated than those in the main text, they offer valuable additional insights – and sometimes the text refers to them directly.

Online resources

An extensive accompanying website provides a comprehensive set of additional resources for both students and lecturers. It includes web supplements and examples about strategic management (online cases), guidance for lecturers (PowerPoint slides, Instructor's Manual) and interactive resources for students. For full details, refer to 'About the digital resources', and look out for the marginal icon throughout the text which denotes associated resources available on the platform.

Advice for lecturers: teaching aims

The main purpose of the book is to help students who aim to become managers and also managers in practice, to:

- develop their strategic awareness
- increase their understanding of how the functional areas of management (in which they are most likely to work) contribute to strategic management and to strategic changes within organizations
- appreciate how strategic change is managed in organizations.

The content is broad, and the treatment is both academic and practical, in order to provide value for practising managers as well as full- and part-time students. The subject matter included is taught in a wide variety of courses, including undergraduate courses in business studies and related areas, MBA and other postgraduate Master's degrees, post-experience executive management courses and courses for a number of professional qualifications. The subject can be entitled 'strategic management', 'business policy', 'corporate strategy' or 'business planning', although strategic management now seems the most popular.

The material is relevant for all types of organization: large and small businesses, manufacturing and service organizations, public sector organizations, charities and social enterprises; the examples included relate to all of these. Although the topics discussed are broadly applicable, certain issues are sector specific; these are discussed individually.

This edition has been written and structured into 17 chapters to support courses that last up to a full academic year. Clearly, some lecturers will opt to spend longer than a single week or session on some topics, or possibly switch the order of the chapters marginally. Neither of these should present any problems and suggested course outlines are provided on the website for different types of course. Some courses in strategy run for only a single semester, focusing more on the analytical aspects of the subject. A careful selection of chapters, in a logical sequence, can underpin such courses quite readily, and a suggested outline is provided on the companion website.

Advice for students: studying strategy

Strategic management is concerned with understanding, as well as choosing and implementing, the strategy or strategies and tactics that an organization follows. It is a complex process that can be considered from a number of different perspectives. For example, you can set out to design prescriptive models based on a series of logical stages that look at how to choose and implement strategies aimed at achieving some form of

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long-term success for the organization. The decisions from the analysis can be broadly directional or drill down into tactical detail. This systematic approach is designed to bring about optimum results but, realistically, it depends on forecasts of future events and behaviours; consequently, it is fraught with uncertainty and relying on it can be highly risky. That said, the analysis that is its foundation still has value in helping understand and make sense of the strategic challenge. An alternative paradigm, or more conceptual framework, is a systemic approach that concerns understanding what is happening in reality and thinking about how things could be improved. The emphasis is on learning about how strategic management is practised by looking at what organizations actually do and by examining the decisions they make and carry out.

In this book both perspectives are considered and linked together. While it is always useful to develop models that attempt to provide optimizing solutions, this approach is inadequate if it fails to explain reality. Strategic management and strategic change are dynamic, often the result of responses to environmental pressures, and frequently not the product of extensive deliberations involving all affected managers.

Managers should be aware of the issues and questions that must be addressed if changes in strategy are to be formulated and implemented effectively. At the same time, they should be aware of the managerial and behavioural processes taking place within organizations in order that they can understand how changes actually come about.

Prescriptive models are found quite frequently in business and management literature and teaching. For example, there are models for rational decision-making built around the clear recognition and definition of a problem, and the careful and objective analysis and evaluation of the alternative solutions. There are economic models of various market structures showing how an organization can maximize profit. However, decision-making invariably involves subjectivity and shortcuts, and organizations do not always seek profit maximization as their top priority. Although organizations and individuals rarely follow these models slavishly – quite often they cannot, and sometimes they choose not to – this does not render them worthless. Far from it; they provide an excellent framework or yardstick for evaluating how people reach their decisions, what objectives are being pursued and how situations could be improved. The argument is that if managers observe what is happening and seek to explain it and evaluate it against some more ideal state, then they will see ways of managing things more effectively. In this way, managerial performance can be improved. Note the use of the expression ‘more effectively’. For a whole variety of reasons, situations cannot be managed *perfectly*.

The reader with personal experience of organizations, management and change – whether it is limited or extensive, broad or specialized – should use this experience to complement the examples and cases described in the book. Ideally, the experience and the cases will be used jointly to evaluate the theories and concepts discussed. There is no universal approach to the management of strategy and strategic change. An individual must establish what approaches and decisions are likely to prove most effective in particular circumstances, and why. This learning experience can be enhanced by:

- evaluating the theoretical and conceptual contributions of various authors
- considering practical examples of what has proved successful and unsuccessful for organizations
- examining these two aspects in combination to see which theories and concepts best help an understanding of reality.

The manager’s job is change. It is what we live with. It is what we are here to create. If we cannot do that, then we are not good at the job. It is our basic job to have the nerve to keep changing and changing and changing again.

Sir Peter Parker

Pressures to change are always present in the form of opportunities and threats. At any point in time, the significance of these pressures will vary markedly from industry to industry and from organization to organization. Managers may be aware of them and seek to respond positively; they may recognize opportunities and threats and choose to do little about them, other than perhaps to avert crises; or they may be totally unaware of them. A lack of awareness can mean that potentially good opportunities are lost; it may mean that businesses fail if they are not able to react and respond to the threats and problems when they arise. All businesses must react to pressures from the environment such as supply shortages, new products from

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competitors, or new retailing opportunities, but some will be very proactive and thereby seek to manage their environment. Similarly, every organization will have been affected by COVID-19 in some way or another and have had to react; the implications for some will continue into the future. At the same time, of course, COVID-19 has provided new opportunities.

It is important to point out that students of strategic management may not be, or may not become, key strategic decision-makers in their organizations but, instead, may specialize in one particular function, such as marketing, production, human resources or finance. Similarly, their experience may be with only one product or one division if their employer is a multi-product or multidivisional organization. Nevertheless, the decisions they make or to which they contribute can affect the strategy for a particular product or service and, in turn, affect the organization. It is vital that they appreciate exactly how their function operates within an organizational context, and how decisions made in their area of interest can affect both other functions and the organization as a whole.

Finally, and to reinforce this last point, students occasionally ask whether 'strategic management' is about the management of strategy in organizations, or about how people can manage strategically – an interesting point! The focus here is on the management of strategy in organizations, but by studying and applying the theory, and reflecting on its relevance in the context of personal observations and experience, readers should be able to improve their strategic effectiveness as managers. In essence, they will benefit – as will any organization in which they work – by being better placed to take a strategic perspective and to use it to inform decisions and actions. Remember, there are no finite answers to the decisions and actions that should be taken. Organizations, and many of the problem issues they have to deal with, are complex and ill-defined. After all, if strategy were straightforward, the relative success rate of organizations of every type and size would be much greater than it is.

Experience is a wonderful thing, but not a useful one. When you are young, you don't trust others' experience – for if you do, this can paralyze you. When you get old, it is too late to use it – and you cannot transmit it for the reasons outlined.

Jacques Calvet, when Le President du Directoire, PSA Peugeot Citroën

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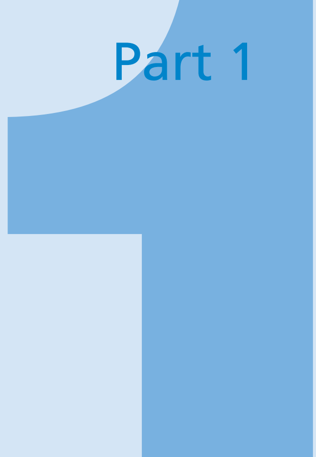

Part 1

Understanding strategy

What does 'strategy' mean? What does the word mean to you? What does a study of strategic management cover?

As a student, you chose a specific university, and a specific course to help start your career, to build your future, to earn your living. Just possibly, you changed your course once you got into it … you realized you had made the wrong choice. You possibly acted with some view of where you want to be in five years' time, why, and what might help you reach your dream. But perhaps you simply thought university was a good way to spend a few (enjoyable) years until you decide 'what next'. Perhaps, also, you have yet to discover your strongest talents and attributes, and what you most enjoy doing? This all relates to your strategy for yourself for the immediate future; strategies are means to ends.

Life is never simple. As we finish the manuscript for this new edition, the military conflict between Russia and the Ukraine is ongoing. It is already affecting businesses everywhere – as well as countless individuals. Just how much long-term impact there will be is unknown and cannot yet be quantified. But that does not mean businesses can avoid reacting. While there are clear threats, there are, and there will be, opportunities for entrepreneurial people to seize. To complicate things further, we might wonder just how different will the world be in five years' time? We don't know, you don't know. By then, we may have written another edition of this strategy book and you may have graduated and possibly be either working for one of the organizations featured in this book or working for yourself. In recent years we have seen organizations having to deal with COVID-19, the UK leaving the European Union (EU), the emergence of the new and entrepreneurial dot.com organizations, new disruptive business models such as the gig economy, online subscription services such as Netflix, and the increasing demand – and need – for electric cars. Alongside, how might further climate change – as well as new emergent technologies – continue to affect demand and behaviour? Again, we don't know. That said, we will all be expected to do our best in a changing world to develop a plan of some sort, be it relatively vague or more detailed, and set out to change things – while reacting to new opportunities we spot and also decisions and actions taken by others that might threaten our hopes and ambitions.

This, then, is the general idea of strategy and strategic thinking: how to be agile and compete with the future's challenges – by applying our strengths and competencies, by taking risks and handling setbacks – all in a world of great uncertainty.

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The main purpose of this book is to help you – the reader – make sense of a complex subject which is relevant for all of our lives and jobs. While complex, it is still based around simple principles, all linked to value. The ideas can be personalized; and we can help you do this in various ways, and particularly with the short cases included in every chapter.

Organizations, their strategies, their structures and how they are managed seem to become ever more complex. Among the reasons for this view are the increasing turbulence and propensity for change in the **business environment** – witness the huge shock of the COVID-19 pandemic in 2020 and 2021 – and the tendency for powerful multi-product, multinational organizations, together with their global brands, to become commonplace. This alongside a constant stream of new business start-ups, new product ideas and business failures. Organizations need to know where they are, where they are going and how to manage change. Managers in these organizations need to know where their roles fit in relation to the whole and how they can contribute to strategic developments and changes. These are the issues addressed by a study of the practice of **strategic management**.

This book is about strategic awareness, strategic analysis, strategy development, strategic decision-making and the management of strategic change. It is designed for use by students who will become future managers, for managers already working, as well as for people who might start their own business; after all, in some way or another, *all managers are strategy-makers*. It looks at how managers become strategically aware of their company's position and potential opportunities for change, how changes often happen in reality and how the process could be managed more effectively.

Strategic management is concerned with the actions that organizations take to deal with the changes, opportunities, threats, challenges and surprises in their external and internal environments. Put simply, strategies are means to ends.

How, then, do people and organizations:

- determine desired outcomes?
- make sense of 'their world' and understand the circumstances and events affecting desired outcomes and the means of attaining them?
- decide on actions they intend to take?
- implement these desired strategies through a series of tactical moves and changes?
- evaluate progress and relative success?

These are the broad themes addressed in this book.

Strategy is about how an organization sets about getting to where it wants to be. It is about clarifying, pursuing and achieving its purpose, however clearly this strategy might be articulated. In the early stages of a firm's development, this aspect is usually straightforward. It is not difficult for everyone concerned to appreciate the desired end points and the routes forward. As the business grows and perhaps diversifies, it separates into different parts and these have to be co-ordinated. Strategy takes on a different complexity. The ideal outcome is synergistic – the sum of the achievements of the various parts exceeds what they could be expected to achieve individually and independently. At this stage, issues of strategy and structure (including managing and controlling within the structure) have to be dealt with together. The ability to execute and implement strategic ideas holds the key to prosperity.

If something goes wrong, it could be that the organization has made a strategic misjudgement – it has attempted to do something for which it is inadequately or inappropriately resourced, for example – or it could be that it makes mistakes in implementation – it underestimates the reaction of its competitors, perhaps.

Uncertainty (and, therefore, risk, a key theme in entrepreneurship) is always prevalent in strategy. Organizations will plan to some extent, whether this planning is directed or executed or both, and they will vary in the extent to which they do plan. But managers can never plan for every eventuality and possibility. Strategies emerge as managers and organizations react to the world around them. They attempt to counter threats and seize opportunities. Flexibility is essential. How they achieve these objectives comes down to the style and approach of the person in ultimate charge – the strategic leader. But in some way or other, every manager is (potentially) a 'strategy-maker' – or, at least, a strategy influencer.

Strategy may involve planning, with plans and even formal documentation, but, fundamentally, our study is really concerned with thinking and understanding behaviour.

Ultimately, it is probably true that 'everything in strategy is simple, but nothing in strategy is very easy'. Hence the popular adage: 'Keep it simple, stupid'. It is a mistake to overcomplicate things. It is also a mistake to underestimate competition – in part, because new competitors can enter an industry quickly and surprisingly – or to ignore change pressures and become complacent.

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It has to be tempting, though, to sit back and enjoy the fruits of success once an organization has become an industry leader and perhaps a global organization in the process, and is benefiting from a visible media profile. But size and success are no guarantee of permanency, especially in the uncertain and turbulent economic conditions we have witnessed globally in the recent past. In fact, the phrase 'new normal' has come to characterize these turbulent times. Corporate history (as with military history) contains numerous stories of once-great, once-dominant corporations that have fallen by the wayside. It is vital that stasis and inertia are avoided. Again, it is an attitude of mind.

Prolonged success, then, in part, depends on how organizations deal with setbacks and crises when they occur. Astute companies will have made preparations for dealing with possible crises, but these will still have to be dealt with when they happen. Yet again, this comes down to an ability to think things through and to stay vigilant and flexible. As always happens, some organizations will emerge intact from the political and economic challenges we are experiencing as we write these comments in 2022 as we emerge from COVID-19; they will be in a position to exploit the opportunities that are there. But other organizations will have fared less well. We need to understand why this is the case.

Of course, from time to time, there will be changes of strategic leadership. When these changes happen, it is likely that newcomers will want to change strategies and/or structures. There is always the potential to improve a situation, but it is equally possible to destroy something that works well.

You will quickly realize that strategic agility and strategic resilience are critically important – and you will easily recognize these themes as they crop up in various chapters throughout the book.

The E–V–R congruence framework in Chapter 1 is central to the book. The core argument here is that strategic and organizational success is dependent upon how well organizations are able to create and deliver (perceived) value to customers (and clients) in a changing world where competitors are always attempting to add value and thereby steal customers and business. The 'E' in the framework represents 'environment', which is the source of both opportunities and risks (the two key themes of entrepreneurship). 'R' stands for 'resources' and encompasses, in particular, people, capability, funding and information. These resources not only have to be fit for purpose, but they will ideally be distinctively strong. 'V' is for 'values', but it embraces everything that affects the decisions that, in turn, determine the strength of the fit between 'E' and 'R'. We have already introduced our first complexity in this straightforward subject: perceived value for customers and organizational values are not the same thing!

The first part of this book is designed to provide a broad appreciation of strategic management and to develop the framework used in the book to:

- outline the scope and complexity of the study area
- provide an initial overview of some major contributors to the subject in order to illustrate what is meant by, and included in the definition of, strategic management and to demonstrate that there is no single universally accepted approach
- provide a framework for the structure and content of the book
- explain the significance of a robust **business model**
- examine what is meant by purpose, direction and **objectives**, and consider how these may be set and used
- help you to think and act in a strategic way.
- distinguish between 'teaching strategy' and 'teaching about strategy'

In Chapter 1, we introduce the subject of **strategy** and create the framework for this book. We examine and discuss what strategy is, who is involved in strategic decisions, and how and when they are involved.

Chapter 2 is on the business and **revenue models**. These topics could have been included in Chapter 1, but we believe they are of significant importance and deserve special treatment.

Chapter 3 sets strategic decision-making in the context of strategic purpose; it helps us to understand why organizations pursue particular routes and what they are hoping to achieve.

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Chapter 1

What is strategy and who is involved?

PART 1
Understanding strategy

1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- define strategic management and **strategic change**, distinguishing between different types of, and perspectives on, strategy **(Section 1.1)**
- apply Thompson's **Environment–Values–Resources (E–V–R) congruence** model to organizations and their strategies **(Section 1.2)**
- clarify the three broad approaches to **strategy creation** – namely, visionary ideas, planning and emergence **(Section 1.3)**
- appreciate how different views and theoretical underpinnings of strategy have developed **(Section 1.4)**.
- comprehend the importance of strategy as practice and in reality **(Section 1.5)**

Strategies are means to ends. To succeed, both strategies and organizations must create and add value for customers and clients. All organizations, large and small, profit-seeking and not-for-profit, private and public sector, have a purpose; this may or may not be articulated in the form of a ***mission*** *and/or* ***vision*** *statement. Strategies relate to the pursuit of this purpose. Strategies must be created and implemented, and these issues are addressed by our study of strategic management.*

1.1 Strategy explained

Organizations that succeed and sustain success over a period of time will be able to demonstrate a number of achievements.

First, there is a clear purpose to what they are doing, which gives a degree of focus and directs the key decisions that need to be made. The purpose thus provides direction against which alternative choices and actions can be evaluated. We could also describe having a clear purpose and direction – together with the choice of actions designed to help fulfil that purpose – as having mastery of the so-called 'big picture'. Strategies are the means by which organizations seek to fulfil their purpose.

Working towards this big picture requires (co-ordinated) **activities** which cut across the various functional areas of the business – and, sometimes, a number of different individual businesses within the corporate whole. This more detailed level could be described as the 'little picture'. It is at this level that limited but critical competitive gains may be made. If we take a sporting analogy, then single goals can determine matches, and sprinters beat their rivals by fractions of a second. The extent of the difference may not be great, but it still matters.

Second, as well as mastery of the big picture, strategic success requires getting the details right and creating perceived and appreciated value. Sustaining success requires continuous improvement and **innovation** at the activity level – but always with the big picture in mind. Changing activities to strengthen the organization and its competitiveness are really **tactics**, rather than strategies, but tactics that make a broader strategic contribution. In summary, strategic success requires a clear big picture and mastery of the details. Both are required; one alone is not enough.

While we talk about organizations, they comprise people working individually and in teams (both formal and informal teams) who make decisions and carry out (and improve) all the activities in which the organization engages. Clear understanding of the purpose and the overall strategy, commitment towards these, and consistent **values** are, therefore, important in making serious progress. An additional argument could be made that an ethical approach is also of great significance.

In turn, these are affected by the way the organization is led and directed. Understanding **strategic leadership** is, therefore, at the core of strategic management. Companies and organizations create and sustain success by clarifying, creating and delivering something their customers and clients judge to be valuable to them and, therefore, worth choosing and consuming.

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Strategy in a nutshell

Adding some detail to this description, but still keeping the message simple, is a very important task. Strategy is about how organizations cope with a world which is dynamic and emergent. Technologies, fashion and competitors all change constantly and simultaneously. Organizations have to harness all their strategic resources (including, in particular, their employees), deal with other **stakeholders** (such as funders and suppliers) and meet the expectations of their customers or clients. They sometimes have to deal with legislative and other constraints, and often they have to out-manoeuvre competitors.

Strategies are means to ends; the process of strategic management involves:

- clarifying the desired ends
- mapping out a route for achieving them (*creating strategies*)
- putting those strategies into practice (**implementation**)
- changing what you are doing tactically in the face of competition and unexpected issues that arise
- evaluating progress and performance.

To achieve all of these aspects effectively, organizations need a clear, if broad, vision and a willingness to be flexible in its pursuit. Strategies are sometimes determinedly intentional, but, on occasions, they emerge from the choices that organizations make in the face of dynamic uncertainty. Intention can come from the personal insight of individuals and from a more analytical process.

Organizations thus need to be able to harness and deploy the necessary resources and to respond to both opportunities and competition. It is here that any distinctive **competitive advantage** (a real edge over rivals) is created.

To thrive and grow, organizations must be able to meet the expectations of their customers or clients and to do what they do at least as well as, and ideally better than, any rivals. Competitiveness is based on many things, but being different (in both a distinctive and a meaningful way), cost management and speed are all critical.

We can, therefore, think of strategy from three distinct, but clearly linked, perspectives – opportunity, capability and competitiveness. These three themes, together with aspirations and values, are the five key strategy drivers. They affect the choices organizations make and how well they perform.

The five key drivers of strategy are: opportunity, capability, competitiveness, aspiration and values.

Strategy involves creation and ideas, and also delivery – implementation. Implementation depends on people who work together in organizations which can be cohesive and effective or more disjointed.

When organizations succeed, it is highly likely that they are doing the right things well. But if things go wrong, was the real problem what they were doing (the strategies) or how they were doing it (implementation)? It can be either – or both!

Put another way, successful organizations have a clear business model, which they implement well. They are clear what their product (or service) is, for whom it is intended and why these target customers (clients) have a compelling reason to do business with them. And they produce and deliver the right **quality** both on time and consistently. Their customers are satisfied.

A number of important themes thus emerge. It is people who produce and deliver the products and services, and so their skills, capabilities and motivation are critical. In turn, people work in organizations in which their roles need to be clear but where they have some freedom to influence what goes on. In a competitive and uncertain **environment**, it will be necessary for organizations to change from time to time and, sometimes, quite frequently. Organizations must react to what happens in the world and in their industry; and they should look to innovate proactively to get and stay one step ahead of their rivals.

The ability to match resources and opportunities effectively, to harness resources and satisfy customer expectations, meeting performance targets in the process, and to change things as and when necessary, are very dependent on the strategic leadership of the organization and on the **culture** and values prevalent within the organization. The congruence (or relative incongruence) of environment, resources and values is, therefore, a good test of strategic **effectiveness**.

Above all, strategy is about choices: choosing what to do and choosing what not to do. The secret is to keep things focused and straightforward and to ‘deliver’ through the implementation stage.

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In their book, Lafley and Martin (2013) argue that there is no single, universally accepted definition of strategy, and they contend that strategy is really about choices. Successful organizations make more 'smart' choices than 'bad' ones. These choices, they argue, are (or should be!) designed to position a firm in its industry in order to create **sustainable competitive advantage** by offering value to customers that is superior to the value offered by competitors. We shall see that this relates to themes that have been championed by Porter, whose work is referenced throughout the book. Lafley and Martin (2013) warn against the danger of 'allowing what is urgent to crowd out what is important'. It is, they say, inadequate to define strategy as either a vision or a plan; it is short-sighted not to embrace the long term, medium term and short term when choosing strategies and tactics; it is also short-sighted to assume that successful strategies and tactics adopted by competitors are best practice that can and should be copied.

What are strategies?

At their simplest, strategies help to explain the things that managers and organizations do. These actions or activities are designed and carried out in order to fulfil certain designated purposes, some of them short term in nature, others longer term. The organization has a direction and broad purpose, which should always be clear, articulated and understood, and which sometimes will be summarized in the form of a **mission statement**. More specific **milestones** and targets (objectives) can help to guide specific actions and measure progress.

Strategies are the ways that organizations and their strategic leaders choose to go, the paths they follow, with some broad or specific end in mind. Strategic management might, therefore, be described as wayfinding.

Strategies, then, are means to ends

They are relevant for the organization as a whole and for the individual businesses and/or functions that comprise the organization. They are created and changed in a variety of ways. They have, however, one common feature: they all have **life cycles** and need changing, either marginally or dramatically, at certain times.

To some extent all managers are strategy-makers

While strategic management incorporates major changes of direction for the whole business, such as **diversification** and growth overseas, it also involves smaller changes in strategies for individual products and services and, in particular, functions such as marketing and operations. Decisions by managers in relation to their particular areas of product or functional responsibility have a strategic impact and contribute to strategic change.

Strategic management is a complex and fascinating subject with straightforward underlying principles but no 'right answers'. Strategy is about issues and perspectives on problems – there is no single, *prescriptive* doctrine which satisfies everyone's views.

Companies succeed if their strategies are appropriate for the circumstances they face; feasible in respect of their resources, skills and capabilities; and desirable to their important stakeholders – those individuals and groups, both internal and external, who have a stake in, and an influence over, the business. Simply, strategy is fundamentally about a fit between the organization's resources, the markets and customers it targets – plus, of course, the ability to sustain that fit over time and in changing circumstances.

Companies fail when their strategies fail to meet the expectations of these stakeholders or produce outcomes which are undesirable to them. To succeed in the long term, companies must compete effectively and outperform their rivals in a dynamic, and often turbulent, environment. To accomplish such *strategic success*, they must find suitable ways for creating and **adding value** for their customers. A culture of internal co-operation and customer orientation, together with a willingness to learn, adapt and change, is ideal. **Alliances** and good working relationships with suppliers, distributors and customers are often critically important as well.

Morrison and Lee (1979) concluded that successful companies seem to be distinguished from their less successful competitors by a common pattern of management practices, and these still hold:

- First, they identify more effectively than their competitors the **key success factors** inherent in the economics of each business. For example, in the airline industry, with its high fixed costs and relatively inflexible route allocations, a high load factor is critical to success. It is important, though, that high load factors are not at the expense of healthy sales of more expensive seats, and this requires skilful marketing.

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- Second, they segment their markets so as to gain decisive competitive advantage, basing the segmentation on competitive analysis and often separating segments according to the strengths and weaknesses of different competitors, which enables them to concentrate on segments where they can maximize their competitive advantage and avoid head-on competition with stronger competitors. They are not all things to all people.
- Third, they carefully measure and analyze any competitive advantage. This requires a sound basis for assessing a company's advantages relative to its competitors.
- Fourth, they anticipate their competitors' responses. Good **strategic thinking** also implies an understanding of how situations will change over time. Business strategy, as with **military strategy**, is a matter of manoeuvring for superior position and anticipating how competitors will respond and with what measure of success.
- Fifth, they exploit more, or different, degrees of freedom than their competitors. Specifically, they seek to stay ahead of their rivals by looking for new competitive opportunities. While innovation and constant improvement are essential, there are also potentially huge rewards for organizations which are first to reach the new competitive high ground by changing the currently practised rules of competition.
- Finally, they give investment priority to businesses or areas that promise a competitive advantage.

Because there are many views on strategy and strategic management and no single, universally accepted approach, a study of strategic changes in a variety of different organizations is valuable. An examination of outcomes, followed by an analysis of the decisions which led to these relative successes and failures, is rich in learning potential. Examples should not be confined to just one sector. Manufacturing and service businesses, the private and public sectors and **not-for-profit organizations** are all relevant.

Everyone in a position to make or influence decisions which impact on the strategic effectiveness of the business should have at least a basic understanding of the concepts and processes of strategy. The processes will often be informal and the outcomes not documented clearly. But they still exist, and managing the processes effectively determines the organization's future. Without this understanding, people often fail to appreciate the impact of their decisions and actions for other people within the business. They are less likely to be able to learn from observing and reflecting on the actions of others. They are also more likely to miss or misjudge new opportunities and growing threats in the organization's environment.

As a starting point, key terms used in this book are defined in Key Terms 1.1 and examples of strategic changes over time in three familiar organizations are illustrated in Strategy in Action 1.1.

Key Terms 1.1

Mission and vision both relate to the essential purpose of the organization: the **vision** concerns why it is in existence and what it aims to become; the **mission** reflects what it needs to be if it is to pursue its purpose. It embraces the nature of the business(es) it is in and the customers it seeks to serve and satisfy.

Values statements represent word pictures which reflect the future standing of the organization and how it will behave and feel. They will typically comprise a set of behaviours and key values to which employees should subscribe. They are linked to the mission, but there is a subtle difference.

Objectives (or **goals**) are desired states or results linked to particular time-scales and concerning such things as the size or type of the organization, the nature and variety of the areas of interest and levels of success. Taken to a particular level of detail, they can become targets and milestones.

Strategies are means to ends, and these ends concern the purpose and objectives of the organization. They are the things that businesses do, the paths they follow and the decisions they take in order to reach certain points and levels of success.

Tactics are the specific activities which deliver and implement the strategies in order to fulfil objectives and pursue the mission. Often short term, they can be changed frequently if necessary.

Strategic thinking is the ability of the organization (and its managers) to synthesize and share the learning from the organization's history, understand its present competencies and position, and clarify ways forward.

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Strategic awareness is the understanding of managers within the organization about:

- the strategies being followed by the organization and its competitors
- how the effectiveness of these strategies could be improved
- the need for, and suitability of, opportunities for change.

Strategic management is a process or series of processes which needs to be understood as more than a discipline which can be taught. It is the process by which organizations determine their purpose, objectives and desired levels of attainment; decide on actions for achieving these objectives within an appropriate time-scale and, frequently, in a changing environment; implement the actions; and assess progress and results. Whenever and wherever necessary, the actions may be changed or modified. While we might teach what (we think) organizations could and should do, understanding what organizations have done, how and why, helps us appreciate strategy in reality.

Strategic change concerns changes which take place over time in relation to the strategies and objectives of the organization. Change can be gradual or evolutionary; or more dramatic, even revolutionary.

Synergy is the term used for the added value or additional cost benefits which ideally accrue from the linkage or fusion of two businesses, or from increased co-operation either between different parts of the same organization, or between a company and its suppliers, distributors and customers. Internal co-operation may represent linkages between either different divisions or different functions.

Strategy in Action 1.1 Examples of Historic Strategy Changes

WH Smith, desiring growth beyond the scope offered from its (then) current business lines (wholesaling and retailing newspapers and magazines, stationery, books and sounds), diversified into do-it-yourself with a chain of Do-It-All stores, introduced travel agencies into a number of its existing stores and acquired related interests in Canada and the United States. Travel was later divested, along with investments in cable television, to enable greater concentration on sounds, videos and consumer and office stationery. Important acquisitions included Our Price and Virgin music stores, and the Waterstones chain of specialist booksellers. Do-It-All became a joint venture with Boots, but it struggled to be profitable with strong competition from B&Q and Texas, acquired by Sainsbury's in the mid-1990s. In 1996, WH Smith divested Do-It-All and its office stationery businesses. Later in the 1990s, Waterstones and Our Price were also divested, and the book publisher Hodder Headline was acquired – and later also divested.

In the last few years, the group has split into two separately listed companies: WH Smith now incorporates the retail stores in town centres, and at airports and railway stations, while WH Smith News (now called Connect) is in the newspaper and magazine wholesale and distribution business. The retail stores have reduced their interest in music (because of the low margins and serious competition from other retailers, especially online retailers) and, instead, they focus on books, magazines, newspapers, cards and stationery. Other products – including chocolate – have been added as impulse purchase opportunities. Customers who have bought from WH Smith over the years generally now comment that the stores feel different than in the past, that they are cluttered as the company attempts to achieve as much revenue as possible from every square metre of floor space. As a bookshop, for example, WH Smith is very different from a specialist bookseller such as Waterstones – although this company, too, has been subject to major changes. The highest growth in recent years has come from the shops at airports and railway stations.

The **Burton Group** is another UK high street retailer whose name has 'always seemed to be around'. Unlike WH Smith, Burton originally manufactured the men's suits that it sold. At one time, made-to-measure bespoke suits were far more popular than off-the-peg clothes. But technology changed this as sizing became easier. Burton closed the last of its manufacturing interests in 1988. Once one of the leading men's clothing manufacturers in Europe, the group, by a series of related acquisitions and divestments, essentially became a major retailer of fashion goods for men and women, changing the group name to Arcadia. In recent years, Arcadia acquired – and later divested – Debenhams. Arcadia was owned by the family of the entrepreneur and specialist in corporate turnarounds, Philip Green. In part because of the opportunities offered by IT – and also faster transportation – bespoke clothing, often manufactured

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in the Far East but using European cloths – has been resurgent. However, as we shall see, high street fashion stores have suffered in recent years, and the Burton brand is now owned by online retailer Boohoo, as discussed in the next chapter.

Oxfam is a UK-based international charity that lobbies, campaigns, raises funds and carries out relief work related to famines and natural disasters, such as the devastating tsunami in Indonesia in 2004. One of its fund-raising activities is Oxfam shops, which are visible on high streets in most towns, and which rely extensively on business rate rebates, volunteers and donated items. They have been described somewhat tongue-in-cheek as shops where middle-class ladies sell their own mothers' cast-offs to their friends' daughters. In recent years, Oxfam has opened specialist second-hand bookshops and, in 2008, it announced a new venture in London. It was to open a fashion boutique in a deliberate attempt to move more up-market. The clothes would be new, re-mades or donations from designers. Oxfam is typical of many charities which need, on the one hand, to be aggressive fund raisers while, on the other, doing good and being seen to be doing good. Oxfam is one charity where the major fundraising is geographically separated from the main charity work.

Explaining strategic management

Key Terms box 1.1 defines strategic management as a process involving creation, implementation and change; and there are a number of components.

Obviously, first, the *strategy* itself. This is concerned with the establishment of a clear direction for the organization and for every business, product and service, and a means for getting there which requires the creation of strong competitive positions.

The second requirement is excellence in the *implementation* of strategies in order to yield effective performance.

Third, *creativity* and *innovation* are needed to ensure that the organization is responsive to pressures for change and that strategies are improved and renewed.

Fourth is the ability to manage *strategic change*, both continuous, gradual, incremental changes and more dramatic, discontinuous changes. Innovation and change concern the strategy process in an organization.

Sound implementation and innovation should enable an organization to thrive and prosper in a dynamic, global environment, but, in turn, they depend on competencies in **strategic awareness** and learning. Organizations must be able to make sense of the world in which they operate and compete – spotting key opportunities and threats from the various signals is critically important and some do it better than others. Organizations must understand the strategic value of the resources they employ and deploy, and how they can be used to satisfy the needs and expectations of customers and other stakeholders while outperforming competitors.

> *Strategy is about actions, not* ***plans*** *– specifically the commitment of resources to achieving strategic ends . . . concrete steps that immediately affect people's lives, not abstract intentions.*
>
> Andrew S. Grove, when CEO, Intel

It is, however, also important to realize that, in many organizations, certain parts may be 'world class' and highly profitable while other businesses are not. Good practices in the strong businesses can be discerned, transferred and learned, but this may not be enough. Some industries and competitive environments are simply less friendly and *premium* profits are unlikely. The real danger occurs if the weaker businesses threaten to bring down the strong ones that are forced to subsidize them.

Finally, it must also be realized that past and current success is no guarantee of success in the future. Companies are not guaranteed, or entitled to, continued prosperity. They must adapt and change in a dynamic environment. For all sorts of reasons, many fail to do this and disappear. Some close down; others are acquired. Another featured case in a later chapter, Marks & Spencer plc, is an excellent example of a previously outstanding company that has lost its way in recent years. Case 1.1 (Music Royalty) has been written to illustrate several relevant themes in strategy that you will encounter at various points in the book.

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Case 1.1 Music Royalty US, AUS

The opening case to this book examines three female entertainers who have all been outstandingly successful, but in different ways. ***Madonna*** *has been called 'The Queen of Pop' and* ***Kylie Minogue*** *'The Princess of Pop'.* ***Dolly Parton*** *apparently does not wish to be given the title 'The Queen of Country Music', although many would see her as being in this position. The case summarizes their careers and then introduces various strategic lessons.*

Why these three entertainers, when sales and downloads made Taylor Swift the most popular artist in 2021? Swift has been 'on the music scene' since 2007 and a 'leading artist' since 2014; she broadened her repertoire from country to 'pop'. Simply, Madonna still makes a contribution and has been 'around' since 1983; she has also diversified and become an entrepreneur. That said, Dolly Parton has commented that 'Swift is [similarly] very creative and very smart in the marketing of her life'. Kylie's popularity spans several age groups and makes her an instantly recognizable performer. Dolly Parton has a unique and distinctive presence; she too is an entrepreneur and social entrepreneur.

Madonna Louise Ciccone was born in Michigan in 1958; from a humble background, she achieved 'superstar status'. It has been claimed that her music sales have exceeded 300 million albums, making her the leading female artist 'ever'; and she is reported to have amassed a net worth in excess of US$850 million. She remains 'the world's highest earning female entertainer' and has won numerous awards, including seven Grammy awards– although other female artists have won more. While her popularity has waned in the last ten years, she has released 14 successful studio albums, together with five live performance and three soundtrack albums, and had 11 major worldwide – and very visual – concert tours. Only The Rolling Stones and U2 have earned more from music tours than Madonna.

But she is more than a recording artist. She is a dancer (which is how she began her career), an actress (she has appeared in over 20 movies, including *Evita*, where she had the starring role of Eva Peron), an author (some 30 books in total, comprising coffee table and children's books), a songwriter, the creator of a record label (Maverick), a business entrepreneur (fitness studios), a fashion model (for Versace) and fashion designer (the M for Madonna line for H&M), as well as a high-profile mother of six children (four of them adopted) and a humanitarian. Her charity, Raising Malawi, has, for example, built ten schools in Africa.

Her looks and style have changed (and changed again) over time, as can be seen by downloading her various album covers. She has always been controversial, tackling social, political, sexual and religious themes; it would be possible to claim she has used 'sex appeal' to give her a competitive edge as demonstrated by the explicit titles of some of her albums and a book. But really she has sought, found and exploited a variety of opportunities, exploiting her (very real) talents – and sometimes selecting other key people to work with – to create and add value for her fans.

Melbourne-born **Kylie Minogue** is ten years younger than Madonna; she first came to prominence as a young actor in the Australian soap *Neighbours*. Here she worked alongside Jason Donovan, with whom she has subsequently had several hit records. She relocated to the UK in the late 1980s and started to record for Stock, Aitken and Waterman, where she enjoyed almost immediate success with studio dance albums and a style that has been described as 'bubble gum and dance pop'. She had (and still has) a youthful quality and she quickly secured a popular appeal that has never deserted her. Today she has fans that were her fans 30 years ago, supplemented by many newer ones, from various demographic groups.

She parted company with Stock, Aitken and Waterman in the 1990s and rebranded herself with a 'disco kitsch and hot pants indie' style before becoming more punky for a while; her most recent album (released in 2020) is called *Disco*, reflecting her most recent image. The success of her career means that she has had chart-topping albums in each of the last five decades. She has several UK Number 1 singles and albums; however, her reported album sales are much lower than Madonna's, but they are still substantial; she has had 19 popular arena tours. Interestingly, and significantly, she has never 'made it' in the United States. In 2005 she was forced to take an extended career break after she was diagnosed with breast cancer; this illness forced her to withdraw from the Glastonbury Festival that year. But she did ultimately play a popular (and televised) set there in 2019, which prompted the following comment from BBC Radio DJ, Lauren Laverne: 'Everyone loves Kylie; you could feel it'.

She has appeared in seven movies (but never in the starring role) and she was the subject of a fashion exhibition at the Victoria & Albert (V&A) Museum, London, in 2009. She was described as 'the most powerful celebrity in Britain' in 2010.

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Dolly Parton was born into a large farming family in Tennessee in 1946. Music was part of everyday life for her family and she was soon performing as a child. In terms of dollar earnings, she would ultimately become the most successful female country singer. She was selected to appear regularly on a weekly country music show that was televised from Nashville – *The Porter Wagoner Show* – and that brought her attention and ultimately success as a recording artist. On her last appearance on the show, in 1974, she sang something that she had written specially for Wagoner: *I Will Always Love You*. When later chosen to be the theme song for the movie *Bodyguard* in 1992, it became one of her most successful songs, along with *Jolene* and *9 to 5*. Dolly Parton is credited with writing some 3,000 songs, and many of which are recorded hits for other singers. She has personally sold over 100 million records, including 25 Country Number 1s and 44 Top 10 albums. One of her most acclaimed albums is *Trio* – where she collaborated with Emmylou Harris and Linda Ronstadt. Her 2014 set at Glastonbury attracted an audience of 180,000 people, many of whom sang along with her.

Her recordings span country, bluegrass and pop. She had a starring role in the successful movies *Steel Magnolias* and *9 to 5*; she wrote the music for the stage musical of the latter. She has won countless awards, including admission to the prestigious Country Music Hall of Fame. In all, she would be described as a singer, songwriter, multi-instrument player, actress, author, businesswoman and humanitarian. Her fame is in part linked to her blonde wigs and plastic surgery – but she has never really pushed a sexy image.

She is the co-owner of the *Dollywood* theme park, which attracts some 3 million visitors each year, and she is also involved with a movie production company. In stark contrast to Madonna and Kylie, her private life has remained private and out of the media spotlight; her 'invisible' husband of over 50 years owned an asphalt paving business in Nashville before he retired. Much of her charity work is linked to children's literacy, through which disadvantaged children in various countries receive free books. In 2021 she co-wrote a novel, *Run, Rose, Run* about an aspiring country singer with leading US author, James Patterson. She is also involved in medical research charities and donated US$1 million to support the development of the Moderna COVID-19 vaccine.

These three artists have all been outstandingly successful entertainers in a competitive business. They may or may not be seen as the 'best in their field' by people other than their greatest fans – you may have your own opinion on whether they are or not – but they have appealed to audiences worldwide and built on their success and fame to both entertain and bring pleasure. There has and always will be 'fresh talent' waiting and hoping to replace them. Madonna, Kylie and Dolly Parton are businesswomen as well as performers; all three have reinvented themselves to stay fresh and relevant over time.

* * *

Before reading further, just pause for a short time and think of some relevant business lessons which might be drawn from these short vignettes. To do so, you should draw on your own knowledge of popular music as well as the text.

* * *

The following themes are all relevant and you will see all of them discussed as we progress through this book:

- Creative talent is really important. It is a critical 'strategic resource' but alone it is not enough. This talent and ability need to be captured and channelled to entertain people and to create value for them.
- It will always be important to understand fans and audiences and to deliver consistently on promises and expectations. Fans' time and money is limited, and they will always have alternative opportunities. And these opportunities change all the time as new artists come on to the scene. Moreover, some fans always like to think they understand and relate to the star performer, and that the performer can empathize with who they are. For this reason, any key values espoused by an entertainer may be important.
- Ambition matters. Performers work hard and arguably sacrifice a great deal – although, for some, the rewards can be phenomenal. But not everyone

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is as successful as the three artists featured here. Many others will experience real disappointments. Success is never guaranteed.

- Even the most successful will not be successful all the time. A hit record does not mean the next album or single will also be a hit. There will be disappointments and setbacks. The word 'comeback' is sometimes relevant.
- Put another way, it will always be important to understand who your target audience is and what they are looking for; there will always be others competing for their attention and their money. That said, 'good products' do stand the test of time.
- Fundamentally, strategies are means to ends. There will be a desired outcome. Over time, it will be necessary to change strategies to stay 'fresh' and successful. Innovation, and sometimes reinvention of some form, will almost certainly be required for survival, resilience and retained popularity.
- As this process occurs, it is valuable to retain existing fans while also attracting new ones. These goals may mean different age groups (or segments). Significantly, though, some fans will always return to see the entertainers they really like – even if there is something similar and familiar about the shows.
- Part of this audience understanding is driven by an appreciation of their changing behaviour in general. Streaming has replaced sales of CDs and vinyl records for many people, but not all.
- Tours help sell records and merchandise. They may even be essential. Similarly, television (chat shows) will also promote recordings and tours.
- Opportunities change all the time. In today's world, entertainers often play in large arenas with huge audiences (where many rely on television screens rather than having a great seat near the stage). This configuration creates a different relationship with the audience than the one offered in a smaller venue – but the revenue generating ability is also very different. Small venues may provide a better audience experience but all-too-often demand (for seats) will be far in excess of those available.
- The top artists will seek to control their intellectual property. For this reason, these top artists can be seen as brands that can be exploited in various ways.
- There will, therefore, be opportunities for diversifying to exploit the brand – but staying focused can also be a sensible core strategy, as long as it is an emergent strategy that evolves all the time. The choice is affected by ambition and opportunity.
- The star performer might be at the heart of everything that happens, but really they are dependent on a whole host of other people who support them and 'make sure things happen' operationally.
- Linked to this approach, finding key partners – other artists to work with – can be helpful.

The 'five Ps' of strategy

More than anyone else, Professor Henry Mintzberg has been responsible for drawing attention to alternative views and perspectives on strategy, all of them legitimate (see Mintzberg *et al*. (1998) for a fine summary of his work on this topic).

Figure 1.1 illustrates Mintzberg's 'five Ps' of strategy:

- **perspective** – this is the 'big picture' discussed above
- **pattern** – making sense of the past, bringing the organization to its . . .
- **position** – a clear understanding of the present
- **plan** – looking ahead and trying to discern a clear picture of possible courses of action
- **ploy** (or **tactic**) – activities at the 'little picture' level in a dynamic and competitive world.

In Figure 1.1, the top oval suggests that strategies can be seen in a *visionary* context where, implicitly, strategy can be considered to be a clear strategic purpose, intent and direction for the organization, but without the detail worked out. In a dynamic environment, managers would then determine more detailed and specific strategies in 'real time', rather than exclusively in advance. However, they would always have a framework of direction to guide their decision-making and help them to determine what is appropriate. In addition, some strategies come from a visionary input from an entrepreneurial manager, or strategic leader, who spots an opportunity and is minded to act on it.

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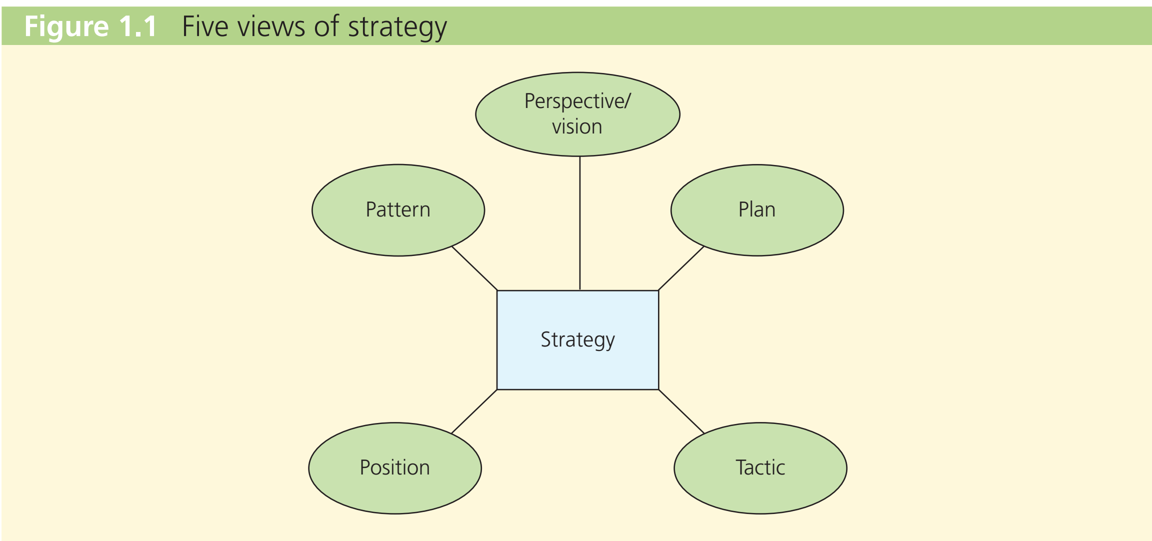
Figure 1.1 Five views of strategy



This perspective contrasts with some people's thinking that strategy and *planning* are synonymous. Certainly, as we shall see later in this chapter, **planning** has a crucial role in strategy creation, but it does not fully explain how strategies are changed. Both the visionary and planning perspectives are concerned with thinking ahead as far as it may be sensible to think and plan. While the *tactical* view is also about the future, it is really about the immediate future. The assumption being made here is that competitors in a dynamic market will constantly adopt new ploys in an attempt to steal a short-term gain or advantage. Their tactics may be easily copied, but there can be some temporary advantage when rivals are caught by surprise and need time to react.

Metaphorically, we can relate these ideas to a game of competitive football (soccer). There will be a broad purpose concerned with finishing at a certain level in a league or winning a cup competition, and this will influence the fundamental approach to every game. Sometimes, a win would be seen as essential; on other occasions, a 'clean sheet' would be more desirable, or a draw could be perfectly satisfactory. Hence, more detailed game plans will be devised for every match. But, inevitably, 'The best laid schemes o' Mice an' Men, Gang aft agley' (Scots poet Robert Burns). Early goals by the opposition can imply a setback and demand that plans be quickly revised and tactics changed. A discussion of options and opportunities is always possible at half-time, but during the match, the team will have to rely on shouted instructions from the touchline and leadership from the team captain as play continues. Unlike American football, time-outs to issue new instructions are not allowed. Individual players will always be allowed some freedom of movement and the opportunity to show off their particular skills. New tactics will emerge as players re-group and adapt to the circumstances, but quite often, games will be turned around by the individual vision, inspiration and brilliance of key players.

These three views all concern the future and imply change; the notion of *position* is akin to the idea of freezing time momentarily. It relates to strategic fit and the organization's competitive position at the present time. It is, in effect, a statement of what is happening; and it can be vital for 'taking stock', realizing and clarifying a situation so that future changes are based on clear **knowledge**, rather than assumption.

Of course, organizations come to their present position as a result of decisions taken previously; plans have been implemented and tactics adjusted as events have unfolded. It is, again, crucial to analyze and understand this emergent or developing *pattern*, appreciating just what has happened, why and how. This pattern can be a valuable foundation for future decisions, plans and actions, but, although history can be a guide to the future, rarely in strategy are events repeated without some amendment. The importance of clarifying the pattern from the various decisions and changes also explains why strategy has irreverently been described as a 'series of mindless, random events, rationalized in retrospect'!

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Our understanding of these alternative perspectives will be strengthened when we look at how strategies are created and changed.

Strategic thinking

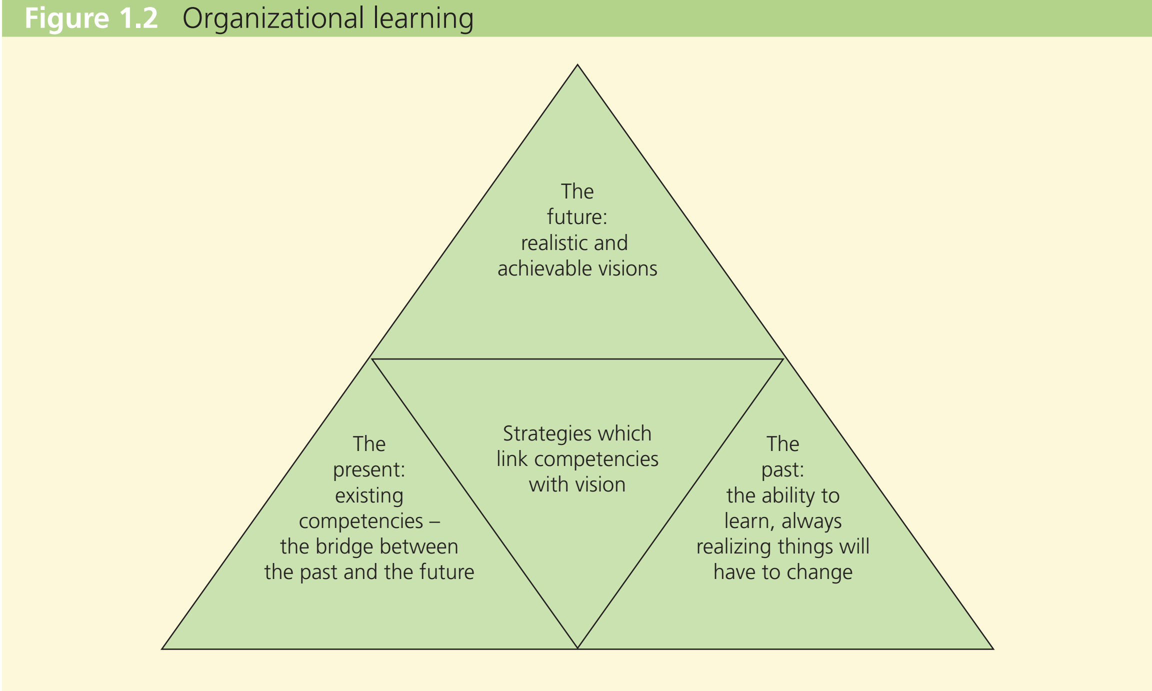
Strategic thinking is about finding something new and different, something that is valuable to customers, something that is feasible for the organization to do – and, critically, something key decision-makers want to do.

Strategic thinking embraces the past, present and future. Understanding patterns and lessons from the past will certainly inform the future – but, given the dynamic, turbulent and uncertain business environments that affect many industries and organizations, it would be dangerous to assume that the future will reflect the past and be a continuation of either past or existing trends.

Figure 1.2 shows how strategies linking competencies with a strategic vision for the future embrace learning from the past, an awareness of existing competencies and some insight into likely future trends. *Organizational learning* is required to build the future and encompasses:

- a reflection on how present strategies have emerged over time
- an understanding of current competencies and the strategic value of particular resources and the linkages between them
- knowledge of existing competitors and what they are doing at the moment – and preparing to do in the future
- an appreciation of possible new sources of competition
- an awareness of wider environmental opportunities and threats
- an ability to share information with, and thus learn from, external partners and contacts, including suppliers, distributors and customers.

Figure 1.2 Organizational learning



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Really, it is about 360-degree awareness – of the future, of how this could be an improvement of the past, of direct competition and of indirect competition. The effective organization will synthesize this learning into insightful strategies for dealing with future uncertainties.

No organization deliberately plans to fail but many do fail to plan. Strategic thinking demands an ability to learn from the past, to understand the present and to think ahead. Effective thinking can be used to generate synergy, where the total achievements of the whole organization exceed what would be achieved if the various parts were working independently.

Synergy

Synergy (defined in Key Terms 1.1) is either a path to sustained growth or a 'bridge too far' for organizations. It is concerned with the returns that are obtained from resources. Ansoff (1968) argues that resources should be combined and managed so that the benefits which accrue exceed those which would result if the parts were kept separate, describing synergy as the '2 + 2 = 5 effect'. Simply, the combination of the parts produces results of greater magnitude than would be the case if the parts operated independently. There are three basic synergy opportunities:

- *Functional* – sharing facilities, competencies, ideas and best practice
- *Strategic* – complementary competitive strategies across a corporate portfolio: even in a diversified conglomerate, some sharing is possible
- *Managerial* – compatible styles of management and values in different functions and businesses.

As examples, particular functions – such as specialist Public Relations (PR) and Human Resources (HR) support for small businesses – can be bought in from experts. Organizations can become more focused and more effective by divesting businesses that are not adding value.

Functional, competitive and corporate strategies

Figure 1.3 reflects the three distinct perspectives of strategic analysis:

1. the strategic environment and the opportunities where an organization can add meaningful value
2. the business as a competing organization to ensure it can do so profitably
3. the individual strategist and the operational contributions that enable everything.

The diagram summarizes three distinct, but inter-related and interdependent, levels of strategy: corporate (the whole organization), competitive (the distinct strategy for each constituent business, product or service in the organization) and functional (activities which underpin the competitive strategies).

Corporate strategies thus relate to **where** the organization is going and what it hopes to achieve; competitive strategies deal with questions concerning **how** this may be achieved; **functional strategies** then concern **who** does **what** at the activity level. As we move from top to bottom, there is really a switch from true strategies to tactics – but appreciation and separation of the different levels is perhaps more important than terminology.

Simply, many organizations choose to produce one or more related or unrelated product or service for one or more market or **market segment**. Consequently, the organization should be structured to encompass this range of product markets or service markets. As the number and diversity of products increases, the structure is likely to be centred on divisions which are sometimes referred to as **strategic business units** (SBUs). Such SBUs are responsible individually for developing, manufacturing and marketing their own product or group of products. Each SBU will, therefore, have a strategy, which Porter (1980) calls a **competitive strategy**. Competitive strategy is concerned with 'creating and maintaining a competitive advantage in each and every area of business' (Porter, 1980). It can be achieved through any one function, although it is likely to be achieved through a unique and distinctive combination of functional activities.

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Figure 1.3 Levels of strategy

STRATEGY	SCOPE	RESPONSIBILITY
Corporate strategy	The strategic perspective (range, scope, diversity) of the organization	The Board and senior executives
Competitive strategy	The search for a distinctive competitive advantage for each business/product/service	Those strategic leaders responsible for discrete products and/or individual businesses
Functional strategies	The source of competitive advantage in the activities and functions carried out by the business	Every manager and influencer if they are in a position to innovate

For each functional area of the business, such as production, marketing and human resources, the company will have a functional strategy. It is important that functional strategies be designed and managed in a co-ordinated way so that they inter-relate with each other and, at the same time, collectively allow the competitive strategy to be implemented properly.

Successful competitive and functional strategies add value in ways which are perceived to be important by the company's stakeholders, especially its customers, and which help to distinguish the company from its competitors. Mathur and Kenyon (1998) reinforce these points and contend that competitive advantage is fundamentally about the positioning and fit of an organization in its industry or market, and that success is based on distinct differences and sound cost management.

Corporate strategy, essentially and simply, is deciding what businesses the organization should be in and how the overall group of activities should be structured and managed. It has been described by Porter as 'the overall plan for a diversified business', although it is perfectly acceptable for a business to elect to stay focused on only one product or service range. This situation does happen in many companies, especially small businesses. In this case, the corporate and competitive strategies are synonymous. Corporate strategy for a multi-business group is concerned with maintaining or improving overall growth and profit performance through **acquisition**, organic investment (internally funded growth), **divestment** and closure. The term 'strategic perspective' is often used to describe the range and diversity of activities – in other words, the corporate strategy. Each activity then has a competitive position or strategy. The management of corporate strategy concerns the creation and safeguarding of *synergies* from the portfolio of businesses and activities.

1.2 E–V–R congruence

This simple construct pulls together three key elements (issues) that underpin strategy, elements that are inter-dependent and that should be working together positively. The idea can be presented in a number of alternative ways; these are developed through the book. The underlying premise of E–V–R congruence is that an organization enjoys a strong strategic position and fit, such that it does find favour with its target market. In other words, it has a strong business model. Of course, at any time, it is likely that one or more rivals will want to destroy that position metaphorically and seize the organization's customers for themselves. This requires organizations to be vigilant to changing circumstances and competitor actions, and to act and react at appropriate times. The ability to do so is dependent in large part on issues of leadership and values – which determine both awareness and consequential actions.

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If an organization's management wished to claim that the organization was being managed effectively from a strategic point of view, then they would have to show, first, that they appreciated fully the dynamics, opportunities and threats present in their competitive environment, and that they were paying due regard to wider societal issues; and, second, that they were managing the organization's resources (inputs) strategically, taking into account the organization's strengths and weaknesses, and that they were taking advantage of the organization's opportunities. Key success factors and **core competencies** would be matched.

The factors behind these matching issues are ubiquitously listed in the form of a **SWOT analysis**, a simple framework that most readers will already be familiar with, and which stands for:

Strengths
Weaknesses } the (**internal**) *resource* themes

Opportunities
Threats } the (**external**) *environmental* themes

Effective matching will not just happen, though. It needs to be created and then managed. Moreover, potential new opportunities need to be sought and resources developed. Simply, resources are used to create value for customers and clients; organizational and personal values influence how they do it. It is also important, therefore, that the values of the organization match the needs of the environment and the key success factors. It is the values and culture that determine whether the environment and resources are currently matched and whether they stay congruent in changing circumstances.

It is possible to argue that culture and values are an intangible 'soft' resource and thus subsume them in a SWOT analysis as either a strength or a weakness – but we choose not to do this. We thus reserve 'resources' for the more tangible components. The notion of Environment–Values–Resources (E–V–R) congruence, then, is an integration of these elements. Basically, there is an overlap between the environment (key success factors) and resources (competencies and capabilities), and the organization is committed to sustaining this overlap with effective strategic change initiatives. This notion of E–V–R congruence is illustrated in the top left diagram in Figure 1.4.

The value of E–V–R analysis is that it provides a straightforward framework for assessing the organization's existing strategies and strategic needs. It is crystal clear at a conceptual level what organizations have to achieve and sustain strategically; the challenge then is to explore and create opportunities and ways to achieve and sustain congruence by dealing with the various, but different, risks that organizations have to manage if they are to avoid crises in the face of uncertainty.

If we conclude that an organization does enjoy E–V–R congruence, it is important to test its robustness. Conceptually, the three circles can merely overlay each other and be easily pulled apart. Alternatively, like the old magician's trick, they can seem like interlocking circles which seem difficult to separate.

The other four illustrations in Figure 1.4 illustrate alternative instances of incongruence. E–V–R analysis can be applied at more than one level; consequently, different managers should be in positions where they can address which of the alternatives in Figure 1.4 best represents their organization and their individual business. Having selected the one that they feel best sums up the present situation, they can immediately see the direction and thrust of the changes that are needed to create or restore congruency.

Managers at the individual business level may find it more expedient to recast the mnemonic E–V–R with three Cs – Customer expectations (for E), Competencies and capabilities (for R) and Culture (for V).

Working downwards from the top left in the figure, a 'lost organization' is seen next. Possibly there was congruency at some time, but products, services and markets are now out of alignment and the values inappropriate. Without major changes to strategy, structure and style, almost certainly involving a change of strategic leader, an organization in this situation has no future. Surviving for any length of time with this degree of incongruence would be relatively unusual, but the other three under-performing possibilities are not.

The 'consciously incompetent' organization is aware of the needs for success in its marketplace, and managers appreciate the importance of satisfying their customers, but it is simply not achieving the desired level of service and quality. Managers may well have some insight into what could be improved but not be in a position to achieve this improvement. Perhaps there is a key resource shortage of some form, or a lack of investment, or a person or people with key skills have left and not been replaced. Possibly, too many managers are unwilling to grasp the changes that are needed and accept **empowerment** and responsibility.

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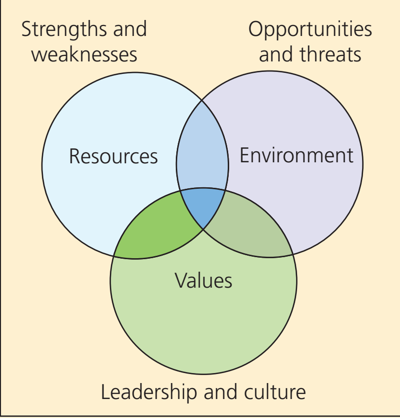
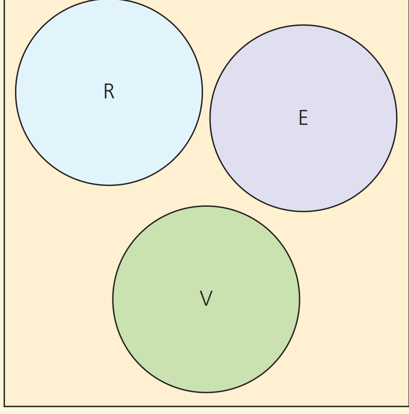
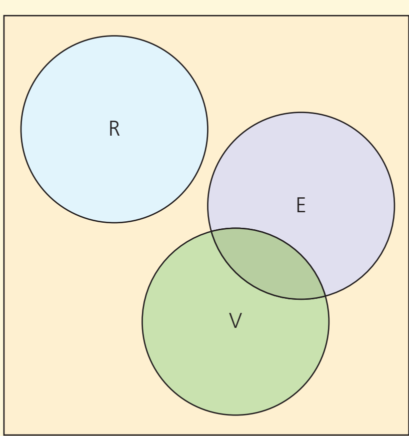
Figure 1.4 E–V–R congruence



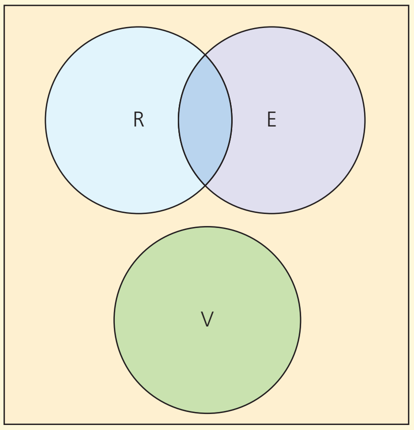
E–V–R congruence



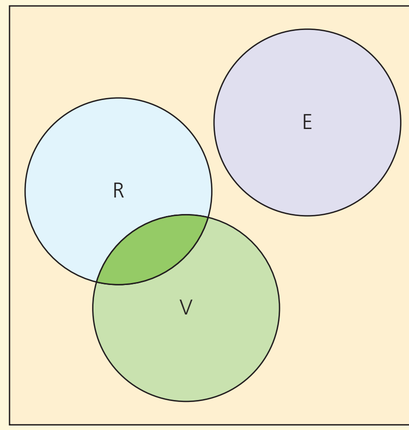
The lost organization



The consciously incompetent organization



The unconsciously competent organization



Strategic drift

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It is typical for a company in this situation to be constantly fighting crises and problems. Because of the customer orientation, there will be a commitment to resolve the problems and difficulties and, for this reason, some customers may be somewhat tolerant. However, the organization is likely to be highly reactive and, consequently, again the position cannot be sustained indefinitely. A more proactive and entrepreneurial approach will be required to strengthen the resource base and restore congruency with a fresh strategic position.

In contrast, the 'unconsciously competent' organization enjoys **strategic positioning** without any real commitment, especially to improvement and change. Things are working at a surface level and possibly with some element of luck. It might relate to weak competition, a situation which can easily change. Any success is taken for granted. The organization is unable to exploit its strengths and, if it fails to address this, then E and R will drift apart over time – possibly sooner rather than later – to create a lost organization. The required change in culture and values probably implies a change of leadership, certainly of leadership style, to increase **decentralization** and empowerment.

'Strategic drift' is commonplace. An organization which is internally cohesive simply loses touch with its environment. Demands may change, and fresh competition may make the company's products and services less attractive than in the past. Organizations and their managers fail to recognize and/or understand the change forces they face. Past successes are no guarantee of future success. Strategic capabilities – previous 'winning products' or powerful managers who are 'past their best' would be examples – may even have become rigidities that threaten the future. The challenge then concerns realignment in a dynamic environment, which certainly requires a change in management style and, possibly again, leadership. This organization desperately needs new ideas, which may already be available inside the organization but have not been captured.

An article by Drucker (1994) complements both this model and these arguments when he states that all organizations have implicit or explicit 'theories' for their business, incorporating three sets of assumptions about:

- the environment – specifically, markets, customers and important technologies
- its mission or purpose
- the core (content) competencies required to fulfil the mission.

At any time, these assumptions must be realistic, congruent, communicated and understood and, thus, must be evaluated regularly and rigorously.

Pümpin (1987) uses the term 'strategic excellence positions' (SEPs) to describe 'capabilities which enable an organization to produce better-than-average results over the longer term compared with its competitors'. SEPs imply that organizations appreciate the views of customers and develop the capabilities required to satisfy these needs. Moreover, they are perceived by their customers to be a superior competitor because of their skills and accomplishments.

It is important to deploy resources and to focus the drive for excellence (an aspect of the organization's culture) on issues which matter to customers. IBM, for example, has succeeded historically by concentrating on service, Rolls Royce motor cars on image and quality, and Procter & Gamble on advertising and **branding**.

Businesses should seek to develop competitive advantage and a strategic excellence position for each product and service. Overall, E–V–R congruence depends on these SEPs together with any corporate benefits from linkages and inter-relationships.

The development of SEPs and E–V–R congruence takes time and requires that all functional areas of the business appreciate which factors are most significant to customers. Once achieved, however, it cannot be assumed that long-term success is guaranteed. Situations change and new windows of opportunity open (Abell, 1978). The demand for guaranteed overnight parcel deliveries anywhere in the country, and immediate services within cities, opened up the opportunity for couriers; new technologies used in laptop computers, smartphones and the internet have created demand and behaviour changes. Competitors may behave unexpectedly and, consequently, there is a need for strategic awareness and for monitoring potential change situations.

Bettis and Prahalad (1995) argue that business decisions are affected by a 'dominant logic', championed by the strategic leader and communicated through the organization. This could be an articulated vision or a culturally integrated **paradigm** concerning 'what the business is about and how things get done'.

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It is shown next how **strategic regeneration** implies that this logic needs to be changed. IBM's growth and early industry dominance was built on a belief that mainframe computers were essential for organizations. Competitors such as Microsoft, which concentrated on software, highlighted that IBM's logic was outdated and it needed to be 'unlearned'. New products and new processes alone would prove inadequate. IBM changed course; it still exists and is successful, but it is not the force it once was. The new logic is one of decentralized personal computers in the hands of knowledgeable workers.

Organizations, therefore, should build on their past successes while always realizing that the past may not be the best guide to the future.

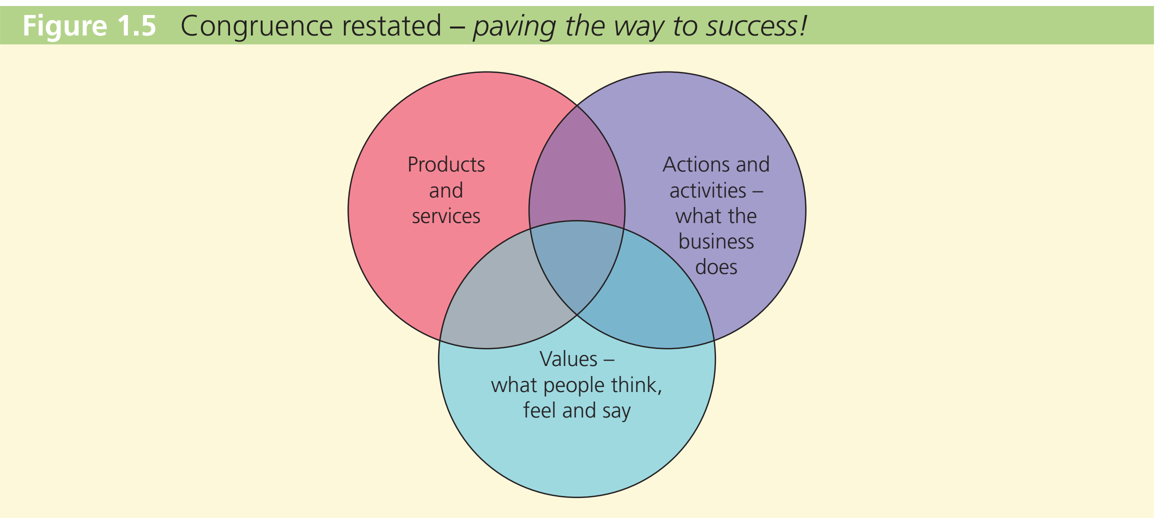
Two alternative presentations

E–V–R congruence provides a framework to evaluate how strategically robust an organization is at a particular point in time – and also for tracking changes over time. The same idea can be used to look at just what an organization is doing and its strategic position. As illustrated in Figure 1.5, the variables are:

- products and services
- actions and activities
- values.

It needs pointing out – and we will expand on the point later in the book – that, here, we are concerned with the *value* (for the customer) that is provided by products and services, not simply what they are. This value is critical in a competitive context, but it is not the same as the *values* shown in the bottom circle of Figure 1.5 that help explain how the organization and its decision-makers behave.

Figure 1.5 Congruence restated – *paving the way to success!*



Case 1.2, Marvel, shows how a business developed, fell back and was rejuvenated with an entrepreneurial intervention. It shows how E–V–R was out of alignment and then congruent.

The second presentation links E–V–R to the next section on strategy creation. Here we suggest:

E stands for Externally originating opportunities – simply arguing that the external environment can be seen as a source of new opportunities for those vigilant entrepreneurs and organizations that spot and seize them. It is, of course, also the natural home of competitors.

R represents Resource-generated opportunities. Finding new, different, better opportunities to create and add value from existing resources that might in the process need strengthening. People using their skills and knowledge to create new products or services; financial surpluses being used to do the same would be examples.

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V embraces Values-led opportunities, which is more relevant for some organizations than it is others. A charity driven by a clear social value purpose that finds opportunities to do good work (possibly at no direct cost to the beneficiary) and which perhaps raises or generates funds specifically for its social value purpose would be an example. Readers will find relevant cases throughout the book.

Given that E–V–R congruence demands all of these components to be in play, all three are typically relevant variables. Simply, when exploring strategic change, we will see that they are not all equally relevant in any particular instance; one is likely to be the dominant force. But the three do need to support each other.

Case 1.2 Marvel US

Marvel has succeeded in blending outstanding creative content and business success, which did not happen overnight, and it did depend upon entrepreneurial interventions.

This story is about the search for lucrative strategic opportunities based around storytelling; in this respect, it is not dissimilar to the story of Walt Disney and in fact the two stories eventually converge. The Disney Corporation that we know today began in the 1930s when Walt Disney started to make cartoon films – of characters such as Mickey Mouse but also of well-known fairy tales, beginning with *Snow White*. When Walt Disney later suggested opening a theme park with activities based on Disney characters, he was opposed – not least by his own brother, who was a fellow shareholder in Disney. He persisted, believing in his vision, and history has shown he was right to persevere.

In 1939, and two years after Disney made *Snow White*, Martin Goodman founded Marvel, which would create and distribute magazines and comic books based on larger-than-life superheroes and villains. Reality was never meant to be a constraint in the stories. Five years earlier DC Comics – the DC standing for *Detective Comics* – had started producing comic books; in 1938 DC created a series of *Action Comics* books, with its first superhero being Superman. Super Woman and Batman would soon follow. Marvel was also featuring superheroes, but there was a subtle difference. DC characters were basically 'not of this world' but living in our world with special powers. By contrast, Marvel characters were largely 'ordinary people' who had been transformed into people with super powers, sometimes, often, by chance. They were attractive characters to many people because they did have 'human flaws'.

The Marvel strategy was to create multiple characters and see which ones were received favourably by their customers. It was emergent and was based on trial and error. The number of different characters introduced in 80 years now exceeds 8,000. The comic books themselves were of modest production quality and relatively low priced. The intention was always to focus on the stories and the characters rather than the physical quality of the books. One major key success factor, therefore, is creative writers and compelling plots and characters. There was a real demand for these books, in part because the media opportunities for storytelling that we take for granted today simply did not exist. Television had been invented but few people owned a TV set; video games were years away. Cinema was popular, but the opportunities for the special effects we know today did not exist.

Of the early Marvel characters, only one was really noteworthy – Captain America, who first appeared in 1941. The basic premise was of a man of modest stature who dreamed of being a war hero but was rejected for military service. He was, however, chosen for an experimental programme and he emerged with enhanced powers.

Both DC and Marvel – who were the market leaders – thrived and grew during the 1940s and early 1950s; there were other rival publishers who were also successful. Theirs was a popular product. However, in the early 1950s published academic research linked comic books with teenage delinquency and promiscuity, and this adverse publicity damaged the industry. Only DC and Marvel really survived. DC was the stronger business as it had the strongest and most popular characters and was able to justify a higher cover price than Marvel. Moreover, it had been able to acquire a controlling interest in most of the distribution network and was thus able to restrict the retail presence of Marvel comics and books across the United States.

Marvel was in need of a fresh approach and strategy. This would begin to emerge properly in the 1960s, when there was a clear intent to move the business more upmarket with stronger and more identifiable

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characters; many of those we would recognize today began to emerge and become popular, including:

- The Fantastic Four were a group of ordinary people who had mutated after exposure to cosmic rays.
- The Incredible Hulk was a quiet 'geeky' scientist who could transform into a ferocious green monster.
- Thor (unusually) was a god who visited the Earth.
- Ant-Man was a reformed thief.
- Spider-Man was a teenager bitten by a spider and thus inheriting the ability to climb sheer faces largely unaided.
- Iron Man was a military contractor with a serious heart condition who built for himself a high-tech metal suit that allowed him to confront 'bad guys'.

(*Captain America, Iron Man, Hulk and Thor were often bundled into a group known as The Avengers*).

- The X-Men were all people who had been born with a specific mutation (such as scissor hands), which allowed them to yield superior power. They were connected through attending *The Academy for Gifted Youngsters*, whose headmaster was Professor X. This series resulted in a huge number of characters who sometimes featured as individuals but often in conjunction with others. The X-Men stories, therefore, featured a rotating cast.
- Black Widow had been trained as a Russian spy but she had defected to the United States. Although she is a very skilled fighter who operates with high-tech weaponry, she does not possess any super powers.

Certain individuals, and in particular Stan Lee (who died in 2018), were instrumental in creating the stand-out characters such as The Incredible Hulk and Spider-Man. This new group of characters allowed Marvel to expand its readership, particularly among college students. It was estimated that by 1965 Marvel's annual sales were around 35 million books. By 1967, DC sales were around 7 million per month with Marvel around 6 million books per month. DC was controlling this as it still controlled distribution. In 1968 (after 30 years) Goodman agreed to sell Marvel to a conglomerate with distribution presence and experience – but no creative or publishing background. Marvel was valued at $15 million, which equates to over $100 million in today's money.

Perhaps inevitably, Marvel lost a number of its key people, especially its creatives, and the business stagnated and declined. In 1986 it was bought by New World Entertainment about whom it was commented: 'They didn't know the difference between Superman and Spider-Man'. Were this true, it would be a serious concern in an industry that depends on its characters and stories.

Maybe it was true because in 1988 the business was auctioned and bought by a multi-billionaire businessman, who did not hide the fact that he was looking to extract value from the business rather than make a serious investment. Not unusually he raised prices, believing that core customers loyal to certain characters would still buy the books. Also, very cleverly, and capitalizing on the popularity of collecting sets, especially character cards, Marvel started to produce multiple versions of the same story, each with a different cover. True fans wanted every cover available and bought the set.

Later, 40 per cent of the shares were sold to the general public, attracting investment (but not control) from Marvel fans. Distribution was at last consolidated and under full Marvel control. However, in this process, a number of small retailers were abandoned. The billionaire owner meanwhile also bought a controlling interest in a toy business, Toy Biz, which was able to make and market models of the Marvel characters.

Success was mixed, however, and in 1996 Marvel filed for bankruptcy. It would emerge from this period in 1998 as a business owned by Toy Biz and with the entrepreneur Ike Perlmutter in control. At this time, sales of comic books were declining further as new media became more popular. There were now five related activities in Marvel:

1. Comic books
2. Trading cards – a number of small businesses had been acquired and consolidated
3. Toys
4. Character licensing
5. Marvel Studios – which at the time was little more than a team of people set up to try to license the characters to movie producers and studios. This strategy made enormous sense and would relaunch the business. The first Superman movie had been released (successfully) in 1978; now well over 100 movies based around DC and Marvel characters have been made.

There was a declared intent now to refocus on creativity, character development and storytelling, with less focus on value extraction. Movie rights (differing arrangements) were subsequently reached with various studios for movies featuring Spider-Man, Incredible Hulk and the X-Men. Marvel received royalties and seemed happy with this, but the real money was being made by the studios producing the films. It was, however, an outsider with no direct link to Marvel who came up with what some might

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think was the obvious answer, based on value innovation and creation rather than value extraction.

In 2004 Perlmutter was approached by David Maisel, who was suggesting the creation of a new movie studio set up to raise funding and commission production of movies based on Marvel characters rather than rely on licensing. Maisel had graduated from Harvard Business School and worked as a strategy consultant before joining a Creative Artists Agency in 1994. After this he worked in strategic planning for Disney, directed a live theatre company, and then became the Managing Director of a broadband service provider.

Maisel joined Marvel, and Marvel Studios was established. This studio was never intended to be a major set-up with dedicated lots and staggeringly high budgets; space could always be rented from other studios. It has now directly produced movies featuring Iron Man, Incredible Hulk, Thor, Captain America, Ant-Man and The Avengers. Spider-Man will in future be a Marvel movie; the original licensing agreement has expired. With recent Marvel movies, the number featuring Avengers characters individually and ones featuring several working together has been in the order of 3:1. Many more are planned, but with the emphasis on single character movies. There was a decision to rely more on identifiable actors but not necessarily the best known, who were often the most expensive. After all, the movies are about the characters and not the actors. The storylines would be dramas involving superhero characters as distinct from what might be called superhero movies. A strong story was seen as essential. Moreover the various characters might turn up in any Marvel movie.

This venture was soon successful, such that Disney acquired Marvel at the end of 2009 for US$4.2 billion. Maisel stayed for a while but left in 2011 and was involved (elsewhere) in the Angry Birds (animated) movies.

The first 20 dedicated Marvel movies under this new arrangement generated box office receipts of US$17.5 billion, with production budgets of around US$4 billion. Naturally, there are other spin-off revenue opportunities as well. To put this figure into perspective, the first six *Star Wars* movies grossed US$5 billion at the box office; and the eight *Harry Potter* movies earned US$3 billion. Superhero movies have become a seriously big business. There is an additional revenue earning opportunity from streaming on the Disney Channel.

Questions

1. Is the success of Marvel Studios fundamentally the 'right strategy at the right time'?
2. With established products and services, while ever still popular, there will perhaps always be opportunities for value extraction and value creation – with the most appropriate strategic choice affected by customers and competition. Does the story of Marvel (as we have told it) suggest missed opportunities or effective flexibility?
3. Can you delineate strategies that would be classed as planned, emergent and leader-driven in this story?

Assignment

Begin by reading Online Case 15.2 on Walt Disney Corporation for background reading and then investigate how Disney has built a strong presence in the movie industry – obviously it was making its own cartoon pictures from the 1930s. The key strategic moves began with the acquisitions of Touchstone in the 1980s followed by Miramax in 1993. Disney was now producing movies with more adult themes but beginning to also produce non-cartoon adventure movies such as the *Pirates of the Caribbean* series. ABC Television was acquired in 1995. Pixar (bought in 2006) enhanced its animation capability. Marvel (2009) was followed by Lucasfilm (again for approximately US$4 billion in 2012); this approach has allowed Disney to start producing new *Star Wars* films to build on the original six made by George Lucas. While a case can be made for Disney's acquisition of Marvel, was it also a wonderful opportunity for Marvel's then owners to capitalize on their investment and sell the business? What other alternatives might there have been for them at the time?

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1.3 Strategy creation

This section now looks in greater detail at *how* strategies are changed and *by whom*, and how new strategies are created. Until we appreciate these two aspects, we will not understand the practice and realities of strategy in different organizations.

Opportunities for change

A wise man will make more opportunities than he finds.

Francis Bacon

It is vital that managers are strategically aware both of potentially threatening developments and of opportunities for profitable change, and that they seek to match and improve the fit between the environment and the organization's resources.

COVID-19, for example, came as a huge shock that affected organizations everywhere, regardless of size or type. In some way, an instant response – and changing behaviour – was required. In some (many) cases, jobs and business were lost; others found new opportunities. With the benefit of hindsight, some would argue that such a pandemic was predictable; perhaps it was, but the timing was not. Only a certain level of preparation and readiness was conceivable realistically. Existing plans and aspirations had to be placed on hold; in some cases, new lines of business needed to be opened up. When the relative (worldwide) shortage of personal protective equipment (PPE) was recognized, some organizations and some individuals (with many of these being volunteers) responded – and made a huge difference.

Loosely relating to E–V–R, health policy analyst Roy Lilley (2021) suggested the following acronym:

C = Change
O = Opportunity
V = Value
I = Integration
D = Data.

While some believe that **entrepreneurs** chase perceived opportunities with only limited regard to current resources (see, for example, Stevenson and Jarillo, 1990) – believing they will find a way to meet the various challenges and risks involved – inadequate resources can definitely result in under-achievement or in over-stretching and failure. There is, however, no single recommended approach for seeking out and pursuing new opportunities. There is a broad spectrum ranging from what could be termed 'entrepreneurial opportunism' to what Quinn (1980) calls '**logical incrementalism**', based somewhat on learning via trial and error.

Strategic change can be relatively evolutionary or gradual, or much more dramatic or revolutionary. The nature of the opportunities (and threats) is directly related to both the general and the specific industry environments; and the approach that particular organizations take in seeking to match resources to the environment is dependent on the basic values of the organization and the style of the strategic leader. However, as will be seen, it does not follow that the strategic leader is the sole manager of strategic change.

Effectively managed change requires a vision of the future – where the organization is heading or wants to go – together with the means for creating and reaching this future. Planning a way forward from where the organization is now may not be enough to create the future vision; at the same time, when there is a vision, it is illogical to set off in pursuit without the appropriate 'equipment'. There must be a clear vision of a route, and this requires planning; on the way, managers should stay alert to dangers and opportunity (refer to Figure 1.6). Well-tracked routes (strategies that have proved successful in the past) and experience can both be beneficial, but in a dynamic environment there will always be an element of the unknown. As time goes on, and progress is made, elements of the vision will change to reflect reality.

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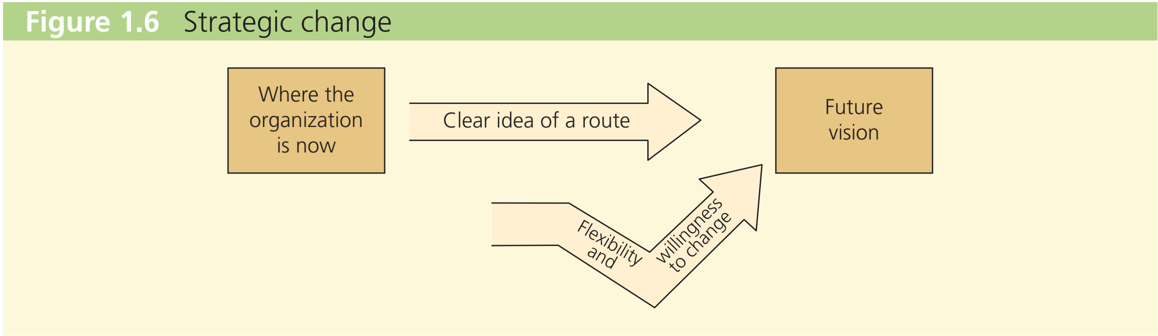
Figure 1.6 Strategic change



Planning and strategy creation

Businesses do not plan to fail – rather they fail to plan.

Chris Gorman, Entrepreneur

All managers plan. They plan how they may achieve objectives.

In essence, planning is essential to provide direction and to ensure that the appropriate resources are available where and when they are needed for the pursuit of objectives. Sometimes, the planning process is detailed and formal; on other occasions planning may be informal, unstructured and essentially 'in the mind'. In the context of strategy, a clear distinction needs to be made between the cerebral activity of informal planning ('planning strategy') and formalized planning systems ('strategic planning'), which is often related more to implementation than it is to the creation of the strategy itself.

Formal strategic planning systems are most useful in stable conditions. Environmental opportunities and threats are forecast, and then, as we saw earlier, strategies are planned and implemented. Strategies which are appropriate, feasible and desirable are most likely to help the organization to achieve its mission and objectives.

Where the environment is more turbulent and less predictable, strategic success requires flexibility and the ability to learn about new opportunities and introduce appropriate changes continuously. Planning systems can still make a valuable contribution, but the plans must not be inflexible. The formal planning process will gather and share knowledge in a complex and diverse organization; it promotes co-ordination; and it can provide an ideal bedrock for budgeting and control. But in itself it does not provide a mechanism for managing change.

In addition, it is important never to discount the contribution of visionary strategic leaders who become aware of opportunities – and, on occasions, create new opportunities – and to take risks based on their awareness and insight of markets and customers.

Chia and Holt (2009) use the term 'way finding' to explain strategy creation in volatile, uncertain, complex and ambiguous environments – which personifies the challenge facing many organizations today. Designed, planned strategies, along with command leadership, are inadequate. They are, Chia and Holt contend, doomed to fail because of uncertainties. People are charged with making decisions 'on the hoof', all the time,; and it is their 'experiments' (the things they try) and their collective learning, that dictate how organizations find a way to move forward. Strategy thus evolves and emerges from a series of devolved, and maybe unrelated decisions and actions.

Der Mentsh Trakht, Un Got Lakht [Man plans and God laughs] – old Yiddish saying.

If we are able to make (genuine) sense of what is happening today by using a reflective study of yesterday, then we (at least) improve our chances of preparing for and 'managing' the challenges of tomorrow.

Visionary and entrepreneurial leadership

Strategic planning systems imply that strategies are selected carefully and systematically from an analytical process. In other instances, major strategic changes will be decided on without lengthy formal analysis. Often, such changes will reflect strong, entrepreneurial leadership and be visionary and discontinuous: I have seen the future and this is it! **Let us go and make it happen.**

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To an outsider, it can often appear that the organization is pursuing growth with high-risk strategies, which are more reliant on luck than serious thought. This approach can underestimate the thinking that is involved, because quite often these entrepreneurs and visionary leaders have an instinctive feel for the products, services and markets involved, and enjoy a clear awareness and insight of the opportunities and risks.

This mode of strategy creation is most viable when the strategic leader has the full confidence of the organization, and they can persuade others to follow their ideas and implement the strategies successfully. Implementation requires more detailed planning and incremental changes with learning: initially, it is the broad strategic idea that is formulated entrepreneurially.

Formal planning and/or visionary leadership will invariably determine important changes to corporate strategies; competitive and functional level changes are more likely to involve **emergent strategy** in the form of adaptive and incremental changes. The actual implementation of corporate level decisions is also likely to be incremental.

Gladwell (2000) refers to unpredicted events that open up unexpected opportunities as 'tipping points', but, of course, organizations must be in a position to take advantage. One such event happened to Hush Puppies in the mid-1990s. This once very popular brand of casual shoe had declined markedly in popularity and its owners were barely supporting it. However, a number of young people in New York started wearing them as something of a fashion statement, and mainly because nobody else was wearing them. This trend started when they bought them from charity shops! What they were doing was spotted and copied and there was a sudden resurgence in the popularity of the brand. It had nothing to do with any marketing by the manufacturers. The owners then had a huge challenge restoring the **supply chain** to meet demand.

The critical point that emerges from the Hush Puppies example is that, in contrast to the view that strategies are planned, successful strategies can emerge without prior planning.

In more recent times, we have seen the demise of many products related to the delivery of music – including music cassette tapes, DAT and, of course, vinyl.

Yet vinyl records have made a comeback. Streaming is hugely significant, but some people still also buy compact disks (CDs). That said, as a reflection of popularity, consider how many new cars today offer a CD player as an optional extra, let alone as standard. In parallel, consider photography. Single lens reflex (SLR) and 'pocket size' cameras remain popular – but many people use and rely on their smart phones. These are convenient and the image quality is high; they have led to far more pictures being taken. Many of these are then shared via the internet in a way that never happened in the past; only a fraction will be printed or kept. Leading artist David Hockney has always been experimental, and he has opted to use technology for creating new (artistic) value. He used a Polaroid camera to build montages from multiple images; more recently he has used his iPad to create 'paintings'.

We can now argue that there are two distinct elements to emergent strategic change.

Incremental strategic change

Detailed formal planning is seen to be problematic in dynamic and turbulent competitive environments. The plans are only as good as any forecasts, which must be uncertain. It can make sense, therefore, not to rely on detailed plans but, instead, to plan broad strategies within a clearly defined mission and purpose.

Having provided this direction, the strategic leader will allow strategies to emerge in a decentralized organizational structure. Managers will meet regularly, both formally and informally, to discuss progress and changing trends; they will plan new courses of action and then try them out: a form of 'real-time planning', mirroring what Sarasvathy (2001) terms an 'effectual approach' to strategy that is typical of entrepreneurs (see also Venkataraman and Sarasvathy, 2002).

Adaptive strategic change

Some organizations will be characterized by extensive decentralization, empowerment and accountability. Here, managers throughout the organization are being encouraged to look for opportunities and threats, and to innovate. The underlying argument is that managers 'at the coal face' are closest to the key changes in the organization's environment and should, therefore, be in a position where they can, on the one hand, react quickly and, on the other, be proactive or intrapreneurial in attempting to change or manage the external environment. Managers will

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be encouraged and empowered to make changes in their areas of responsibility and, ideally, be rewarded for their initiatives. The implication is that functional changes will impact on competitive strategies in a positive way as the organization adapts to its changing environment. Conceptually, this process is similar to incremental change.

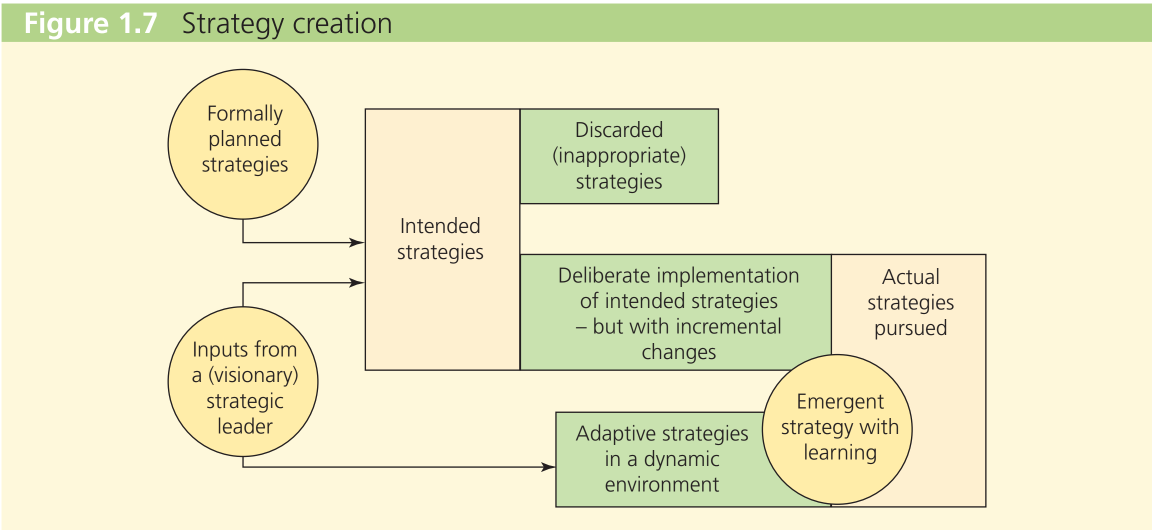
Team working and learning are at the heart of the adaptive and incremental modes. Managers must learn about new opportunities and threats; they should also learn from the successes and mistakes of other managers. Managers must be willing to take measured risks. For this approach to happen, understandable mistakes and errors of judgement should not be penalized harshly.

Change is gradual and comes from experimentation; new strategies involve an element of trial and error. Success is very dependent on communications. Managers must know of the opportunities and threats facing them, and must be able to synthesize all changes into a meaningful pattern and spread learning and best practice.

Mintzberg (1989) argues that organizations should be structured and managed to ensure that formulators of strategies (managers whose decisions lead to strategic changes) have information, and that the implementers of strategies and changes have the appropriate degree of **power** to ensure that the desired changes are brought about.

Figure 1.7 pulls these ideas together and highlights that it is quite normal to find all of these modes in evidence simultaneously in an organization, although there is likely to be one dominant mode. Moreover, different managers in the same organization will not necessarily agree on the relative significance of each mode; their perceptions of what is actually happening will vary.

Figure 1.7 Strategy creation



The message for managers is that they need to recognize this process of emergence and intervene where appropriate, killing off bad emergent strategies but nurturing potentially good ones. To make such decisions, however, managers must be able to judge the worth of emergent strategies. They must be able to think strategically. This viewpoint is probably the best argument for the continued use of the rationalist approach.

> *Strategy is necessarily incremental and adaptive, but that does not in any way imply that its evolution cannot be, or should not be, analyzed, managed and controlled.*
>
> Pascale, 1984

To help explain these ideas, and, in doing this, linking them to Mintzberg's arguments presented earlier in the chapter, Johnson, Scholes and Whittington (2007) adopted the term '**strategic lenses**'. We can conclude:

1. Strategies can be designed, a conscious process.
2. Strategies emerge effectually from experience – a learning and sense-making view (or lens).
3. Strategies come out of ideas through a creative, imaginative intervention.
4. Strategies are chosen, using decision-making and judgement.

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All the lenses are relevant. Different individuals (and collectively, their organizations) adopt particular approaches and perspectives. Dealing with the complexity that this implies is one of the (many) strategic paradoxes that organizations are required to deal with. Throughout the book you will come across a number of relevant paradoxes, where choices must be made, and where there are no clear-cut answers. These paradoxes are all summarized for you in Chapter 17. You, of course, can choose to read this section in Chapter 17 now, to provide a foretaste of what is to come. Unlike a work of fiction you should not automatically see that reading the final chapter early on is a natural spoiler.

Case 1.3, The UK Packaged Sandwich Industry features the themes of strategic positioning and customer value; it illustrates how one intervention acted as a spur for innovations and further interventions in an emergent new industry, with new businesses and competitors finding opportunities. It also brings out the important contributions made by key people.

Case 1.3 The UK Packaged Sandwich Industry UK

Buying and eating pre-packed sandwiches, generally, but not exclusively, at lunchtime, has become ubiquitous. The competition for our money is extensive; for some companies, this habit has become a very lucrative opportunity. The 'revolution' started in 1980 when M&S began to sell sandwiches in some of its stores.

At the outset, the choice of sandwiches was limited to staples such as egg and cress, and salmon and cucumber, invariably using white sliced bread. By 1990, the turnover of pre-packed sandwiches had reached £1 billion per year; and in 2017 the annual spend exceeded £8 billion. This represented around 4 billion sandwiches. The market continues to grow at around 2 per cent per year – but, given that there are estimated to be 5 billion sandwiches made at home each year, the key players are convinced that there are still new opportunities to be found.

Looking back in time, it might seem bizarre that this simple idea had not really been tried very much before.

The history of the sandwich can be traced back to some point in the eighteenth century and attributed to the Earl of Sandwich, who was accredited with putting turkey between slices of bread. There are various explanations for what he did, and perhaps nobody really knows. One story suggests he fell on hard times after his wife died and started to create meals by putting together what was effectively leftover food in a simple way. An alternative story contends that his work at the Admiralty was keeping him very busy. He had a preference to eat at around 4.00 pm, which was apparently not at all unusual, and looked for something he could eat at his desk while continuing to work. Both are plausible but reflect a different logic and motive. By the nineteenth century various cookbooks included sandwich recipes; indeed, the notorious Mrs Beeton included a toasted sandwich in her 1861 book.

Before 1980 sandwiches were widely available but just not in pre-packed form from high street stores. Various cafés sold sandwiches, but again they were more likely to be made to order; cafeterias at railway stations sold pre-plated sandwiches, but the choice was more limited. Delicatessens in the United States have supplied (substantial) sandwiches on demand for a long time; these are rarely pre-packed. Their range of choice is substantial, with customers able to dictate just what they want.

The interesting question then and now is, why would someone pay for something that can so easily be made at home? The answer lies less in the actual product than in the convenience it represents. The pre-packed sandwich is a quick-and-easy pick-up-and-go alternative. It is very simple, very predictable and a very safe choice.

Given many sandwich shops opened to provide a service to office workers and shoppers, they experienced a decline in sales during COVID-19 when large numbers of people were forced to work at home. While (some of) their popularity is restored as people 'return to work', there is no guarantee that customers' tastes and preferences will be the same as they were before the pandemic. Eating more meals at home may have a lasting impact.

Overall the industry has become far more diversified as demand has grown. There is room for creativity and imagination. The BSA (British Sandwich Association) presents annual awards ('The Sammies') for the best sandwich creations.

M&S started with trials in five stores. The sandwiches were made in the stores by staff who used workspaces they created. Their success proved to be instant and the subsequent rollout rapid. It took less than one year before M&S sought external supplier support. Competition in the high street became intense as the leading supermarkets saw the opportunity and started to copy M&S – as did Boots, who introduced the 'meal deal' concept in 1985.

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Here people could buy a sandwich, snack and drink for a reduced price, choosing each one from a range of alternatives. More recently, WH Smith also began selling food in its travel outlets at airports and railway stations.

Now M&S is supported by dedicated suppliers and a sophisticated supply chain. The two leading suppliers in the UK are Greencore and 2Sisters who together provide more than 50 per cent of the market. They both supply a variety of different retail and institutional customers; most supermarkets sell sandwiches but they do not make their own. Greencore, a business with Irish origins in the food industry, has eight factories in the UK plus one in the United States. This supply chain is very competitive and margins are slim; fresh ideas can be copied easily. Conveyor belt production is the norm, with ingredients loaded quickly onto passing bread slices. Slicing and packaging is fully automated. This approach is very different from some sandwich shops where sandwiches continue to be handmade on the premises even though they are still sold in packets. With this type of supply chain – which enables high volume and managed costs – the challenge is to get the in-store range to match demand, given that people expect choice and the food has only a limited shelf-life and no value if it remains unsold.

Straight away, M&S saw that there was real potential and established a dedicated sandwich department; they appointed a recent economics graduate, Roger Whiteside, to run it. Inspired in part by what he had seen in the United States, Whiteside set out to find more and better ways for M&S to supply 'food made for you'. He established a development arm, and M&S commissioned a range of trials with different breads (and later bread alternatives such as wraps), core fillings, accompaniments and packaging. From this came different price bands with very simple (egg or cheese) and more sophisticated (smoked salmon) alternatives, but real and sustainable differentiation remained elusive. Research indicated that many people simply choose either their nearest outlet or the one where the waiting time at the till is low. Many also choose the same sandwich time and again; they are creatures of habit. Different sandwiches are popular in certain regions and at different times of the year. That said, research into finding new ways to improve the product continued. In recent years, for example, more stimulating vegan and vegetarian options have commanded serious interest.

Most sandwiches are eaten for lunch, but some people enjoy buying a sandwich (perhaps one with bacon and egg) at breakfast time, often as they travel into work. It has been estimated that sandwiches, wraps and baguettes represent 30 per cent of lunchtime food spending, with burgers adding a further 10 per cent. But some people also enjoy a sandwich-based meal in the evening; at this time hot sandwiches feature strongly. Greggs refer to these as 'street food'. Hot sandwiches will naturally require an onsite facility to heat up the food. While most specialist sandwich outlets have this facility, it is not generally a feature of high street stores and supermarkets. Although these stores do have kitchens linked to their cafeterias, they tend to separate food-to-go from foods they sell for in-store consumption. In many respects, of course, burgers are hot sandwiches and so the nature of competition in the evening is not quite the same as lunchtime competition.

Whiteside left M&S in 1999 and was a co-founder of Ocado, the online supermarket that provides a home delivery service for other supermarkets such as Waitrose (until 2020) and M&S (from 2020). In 2013 he left Ocado to become CEO of Greggs, the UK's largest bakery chain.

Greggs is one of the three leading high street names in the UK pre-packed sandwich industry; the others are Subway and Pret a Manger. Specialist sandwich shops can be found in towns and cities everywhere, but many of these are small independent businesses that make sandwiches to order and sometimes sell other food products. Some of them also take orders and deliver to offices and other places of work.

Greggs had existed for around 70 years when Whiteside became CEO, but it had started to struggle. It was an established high street bakery chain that sold some sandwiches that had come to realize that it needed to be reincarnated as the place to go for 'instant eat-now food', which is what the vast majority of its potential customers were really looking for. Whiteside both simplified and expanded the business, whose headquarters were in Newcastle-upon-Tyne. He opened new stores, some of them drive-through, and some of them co-located out of town with Tesco Express stores. He also established a home delivery service which has now become part of Just Eat. Sausage rolls are one of Greggs' most popular products and a growing range of vegetarian options has proved very popular. Products are made in each store. The average customer spend is £2.85. Only Subway now has more branches in the UK. Whiteside succeeded in turning the business round in four years, increasing profits by 50 per cent. Although Greggs posted a trading loss in 2020, it continues to expand by investing in new stores and new products.

Subway is a US chain with some 2,500 branches in the UK. Worldwide there are more Subways than there are McDonald's; the business has grown with franchising. The company, which sells freshly made sandwiches and salads to order – its trademark is the long 'submarine'

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roll – was started in 1965 by the 17-year-old Fred DeLuca, in partnership with a family friend – and nuclear physicist – who invested US$1,000. The first sandwich shop struggled, but it survived and was joined by a second and then a third. By 1968 DeLuca owned five outlets. In 1974 he switched to franchising. Rapid growth followed such that 200 outlets in 1981 became 5,000 in 1990 and 11,000 in 1995. In 1983 Subway outlets began baking all their own bread. Subway is successful for a number of reasons:

- It is simple – an easy model to replicate.
- It is innovative. Menus are changed constantly with new breads as well as fillings.
- There is distinct advantage in the healthy option sandwiches and salads.
- It has a clear focus and business model. Franchisees are not creators of new ideas; rather they are there to deliver products and service. Their overheads are low because the franchisor supplies most of the equipment they need. Franchisees organize their own local food purchases – which is quite different from the way many franchised fast-food outlets are supplied with centrally sourced materials.

Pret a Manger realistically started in 1986 when two business partners, Julian Metcalfe and Sinclair Beecham, purchased the business name after a previous (and similar) fast food business had folded. They began with a single branch in Victoria Street, London; a second would follow four years later when they had clarified their business model. There are now around 500 in the UK, with some three-quarters of these in and around London. From the outset, their idea was a 'better sandwich' with fresh ingredients, made in store. Metcalfe had previously worked in a delicatessen. Crayfish and roast chicken were early favourites. Their business model was to make a limited amount of different sandwiches, display them and make some more when the numbers started running down. McDonald's acquired a 33 per cent shareholding in 2001, but the business was sold to a private equity business in 2008. There are also branches overseas, including the United States, France and the Netherlands. In 2019, Pret a Manger absorbed smaller rival Eat (sandwich shops) before, a year later, and when affected by COVID-19, Pret announced branch closures. To help offset this, Pret started to sell bake-at-home croissants through supermarkets.

Neither Greggs nor Pret a Manger have followed the franchise route preferred by Subway. All of the shops are open throughout normal daytime trading hours, but many also stay open until well into the evening.

Questions

1. How would you explain the UK packaged sandwich industry in terms of segments and niches?
2. How would you evaluate the contributions of Roger Whiteside, Julian Metcalfe and Fred DeLuca in developing the industry?
3. Visit a local branch of at least two of the three main competitors, Greggs, Subway and Pret a Manger, and compare and contrast the product range, the retail operation and the overall service. Which of them do you believe has the most compelling offering and why?
4. To the extent to which you are able to do this, reflect on sandwich shops before and after the 2020/21 COVID-19 lockdowns. How much has changed?

Strategy at work

Figure 1.8, which has its origins in Mintzberg's work cited earlier, proposes that strategy comprises:

- **learning** from the past
- **understanding** (making sense of) the present
- **imagining** the future
- **competing** and innovating to stay ahead of rivals and seize new opportunities.

Simply, these 'lenses' are all legitimate ways of looking at strategy.

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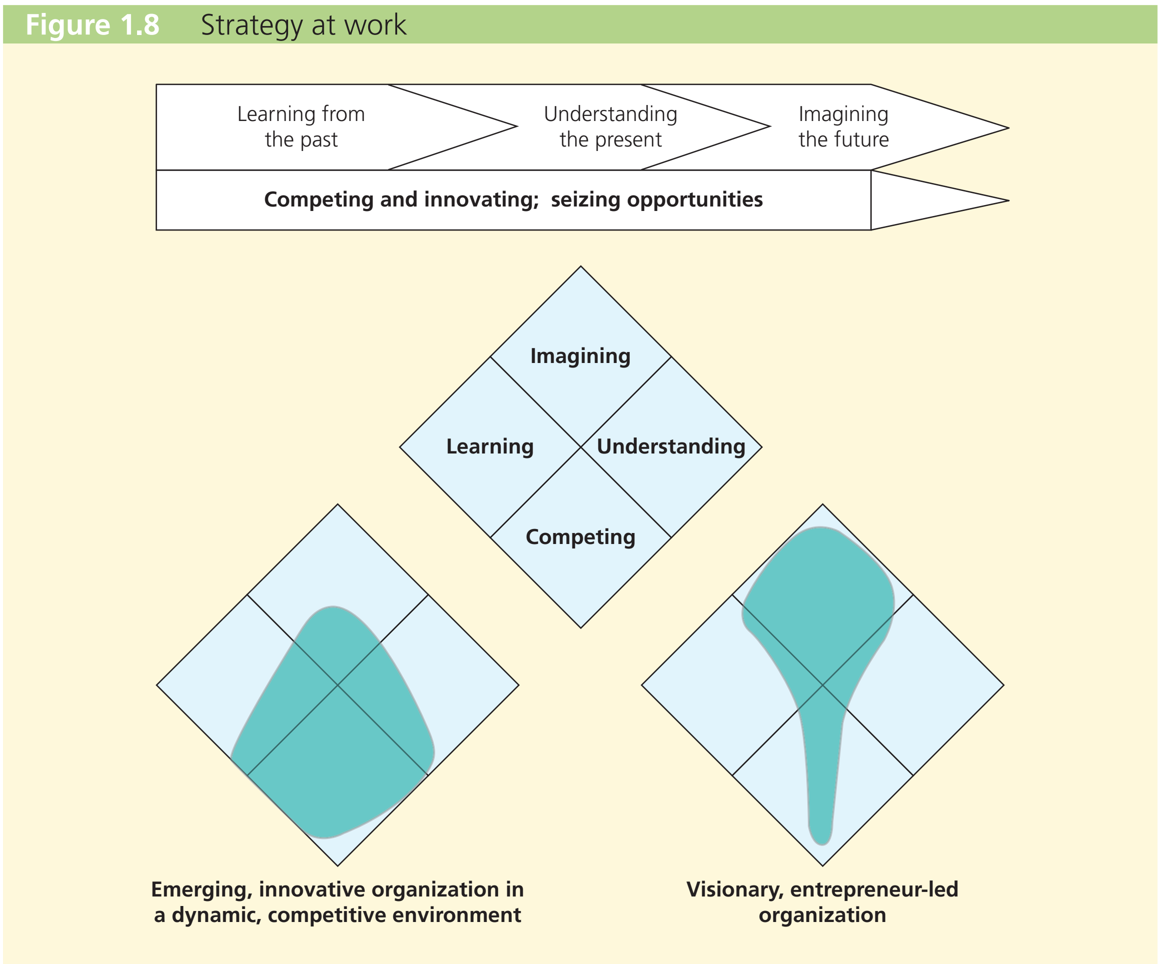
Figure 1.8 Strategy at work



Individually, we are all different and, if we think about ourselves, we would be able to explain which of these perspectives we find most natural and which we struggle with the most. Indeed, some people are naturally analytical; others are naturally creative. Some of us see opportunities before others do because we form different mental patterns from what we see and observe. And, finally, some of us are very tactical and enjoy the buzz of competition; we are flexible in the face of adversity.

Metaphorically, organizations are the same as individuals. And their behaviour will reflect the type of organization they are strategically. Moreover, the circumstances they face will influence the type of organization they ideally need to be or become, if they are to be strong and effective.

An emerging and innovative (entrepreneurial) business in a dynamic, competitive environment could be expected to be strong in the bottom diamond (competing) and less strong in the other three. A business led by a visionary entrepreneur may be less strong in the other three. That said, to some degree, it is important to have some strength in every segment.

Figure 1.9 has been developed to pull together the key arguments about strategy and strategic management that we have so far made in this chapter. The diagram is titled 'The strategic challenge' and it separates the directional and operational themes of strategy. The more conceptual elements are shown on the right, and the more activity-based elements on the left. The central circle shows a values-led decision-maker, which may be a single person but, in many organizations, this will actually be carried out by a team of senior people, but still a team led by a nominated strategic leader, probably the

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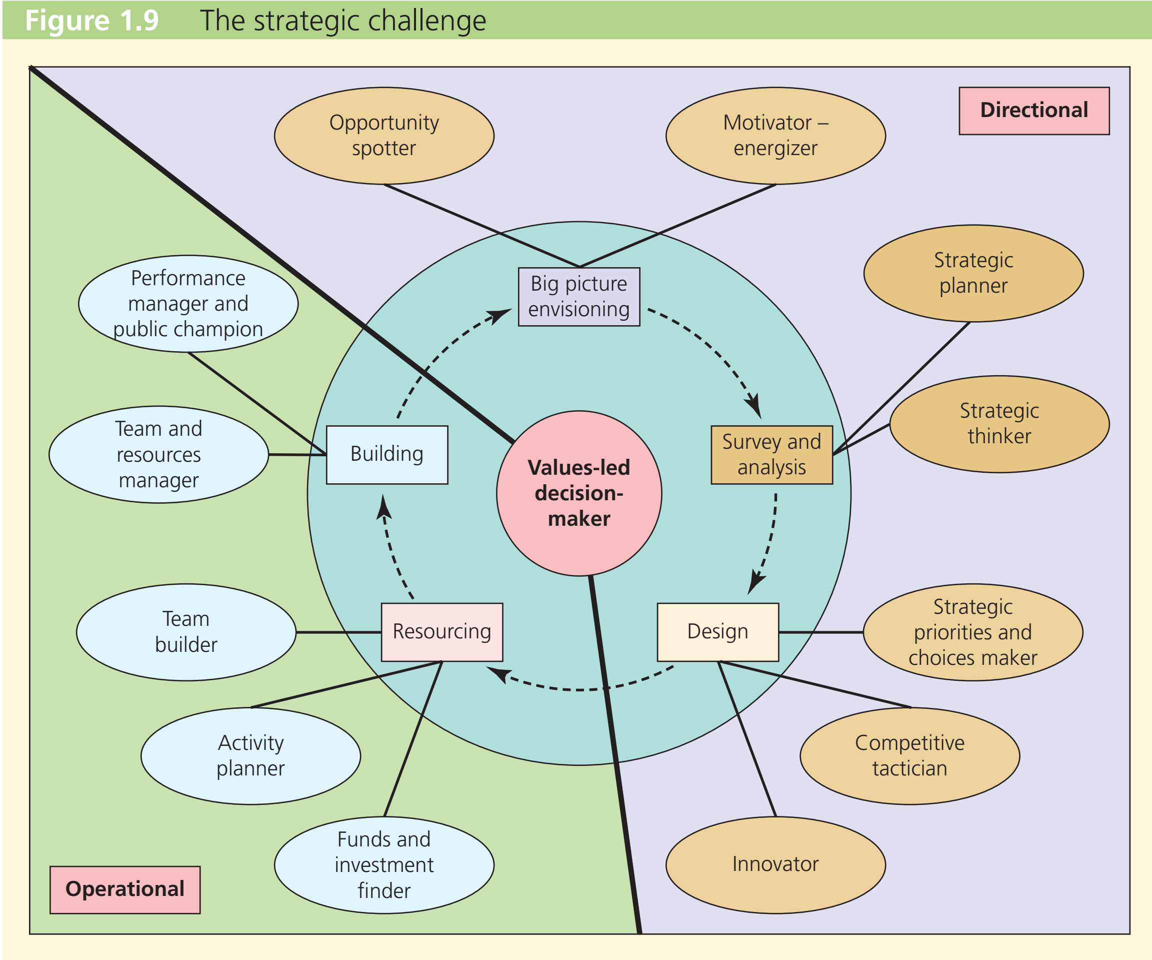
chief executive officer (CEO). Thus, the strategic leader or strategic leadership team has to deal with the five challenges of:

- big picture envisioning
- surveying and analyzing the (competitive) environment
- designing strategies to deal with opportunities and threats
- mobilizing resources
- building an organization that can implement the strategies effectively and is resilient over time.

Figure 1.9 The strategic challenge



Around this circle, 12 strategic roles are shown. They are all important roles, although their relative significance will vary and will also change, depending on current circumstances. It will be apparent that these roles require different capabilities and perspectives, such that it is likely that different people will be responsible for them. Where more than one role is the responsibility of an individual, that individual's attributes and motivation will affect where they are most likely to be effective. Put simply, these strategic roles vary markedly and it would be very difficult to find an individual who can perform all of them well. For example, the directional challenges involve both creative and analytical elements; the operational challenges deal with human, physical and monetary resources. Some roles are strongly 'internal' to the organization, while others are much more outward facing. Which roles are performed well, and which are performed less well, will determine the overall strategic performance and success of the organization.

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You will see these points developed in more detail as you read through the book. You may like to make a mental note or pop in a Post-it note to remind you to return to this diagram when you have read the book so you can consider where you think you would be most valuable.

Organizations and their managers then have to manage three broad issues or themes:

- operations and resources
- strategic change and innovation in the context of both opportunities and competition
- manage the risks of both of these through choosing to act (or not act) in a dynamic and uncertain environment.

This is relevant for all organizations, but your own experiences, both in the past and in the future, will highlight that this is often handled differently in small and large organizations and in different sectors – private businesses, the public sector and the third sector, comprising charities and social enterprises. You will thus see that while there are many common elements, there are significant areas of difference such that people dealing with strategy in one context will find certain issues more or less critical. When you discuss strategy with people whose background and perspective differ from yours, you will appreciate why.

Strategic management in specific contexts

While strategic ideas are relevant for all types of organization, the key issues might be the same or different, while varying in their relative significance. Below we consider strategy in different contexts: (a) small businesses, (b) global companies, (c) not-for-profit organizations, and (d) **public sector organizations**.

First, typically, **small businesses** focus on a single product or service, or at least a restricted range of related products and services, probably targeted at a defined market niche. Competitive and functional strategies are important, but many of the corporate strategy issues discussed herein will not be relevant until the organization grows larger, assuming that it does so. In addition, their customers may be concentrated in a single geographical area, but this will certainly not always be the case, especially with the internet available to drive sales. In some large organizations, the structure is designed to encourage the individual businesses to behave as a typical small business in some of its operations.

There is generally a great reliance on the owner-manager for all major strategic decisions. The advantage can be speed, as decisions need not become lost or slowed down in discussion or committee; the corresponding disadvantage can be an over-reliance on one person who may become overstretched as the business develops. Hence, there is an emphasis on visionary strategy creation and on emergence, as new ideas are tried out. Sophisticated analysis and planning are less likely and, sometimes, a lack of attention to detail can constitute another weakness.

The real challenge for small businesses is to develop and strengthen their resources once they start growing: if they fail, they will lose their competitiveness. Some never possess any real competitive advantage in the first place and, while they may survive if they are run efficiently, they are unlikely to grow to any significant size.

Where a small business fails to grow, it will always be dependent on the actions of others. Both its suppliers and customers could be larger and, consequently, more powerful. In this case, it could be paying cash for its supplies and giving extended credit to its customers, resulting in cash flow problems. It is also likely to be very reactive to competitor initiatives until it can become more prominent and proactive. The helpful publicity and visibility given to larger organizations may be withheld, even at a local level. High-quality managers and employees who could fuel the growth may not find it attractive to work for a small and perceptually inconsequential company. Nevertheless, all companies start small: they are, after all, the seedbed for those successful entrepreneurs who create growth businesses.

The success, or lack of it, then, will be hugely dependent on the strategic leader and their culture and style. The future will be dictated by their skill and also by their ability to acquire resources, particularly in terms of finance. A lack of capital can often be a real restraint to growth. Banks often demand security and collateral, and venture capitalists often only become interested once the business has reached a certain size and has proved itself. The web supplement on Military Strategy illustrates how guerrilla warfare provides a useful metaphor for the strategic use of tactics by small businesses.

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Some of the traditional logic concerning small businesses, however, has been turned on its head to some degree in the case of many new internet or **dot.com companies** who have been able to raise millions of dollars and pounds on the strength of a barely proven idea that appeared to offer a golden opportunity. Financiers have taken risks that they would previously have shunned because of the speed and growth of this sector and its inherent uncertainty. Some of the new organizations have grown rapidly and become huge in a very short space of time; equally, many have failed.

Second, in **global companies** the emphasis is very much on corporate strategy: diversity, geographical scope and co-ordinating the countries where products are made with the countries where they are sold. Using low-cost labour factories in Eastern Europe and the Far East can prove controversial, while still being an economic necessity. In addition, these are often very powerful companies whose annual turnover exceeds the gross national product (GNP) of many of the world's smaller countries. Nevertheless, issues of competitiveness and competitive advantage are as relevant as they are for a small business. One key complication can be currency fluctuations when component supplies and finished goods are moved around the world. Tariffs can also play a role.

The major dilemma for many global companies concerns their need to achieve global scale economies from concentrating production in large plants while not sacrificing their local identity and relevance in the various markets. To accomplish this aspect, they must stay close to their customers and markets whose specific tastes and preferences may differ markedly, even though they are buying essentially the same product.

The organizational structure can be, and often is, just as important as the strategy. This aspect, in turn, raises a number of important people issues. People may be switched from business to business and from country to country as part of their personal progression. This movement also helps the whole organization to transfer skills and knowledge, and to learn good practices from different parts of the business.

Global corporations also need to develop expertise in financial management. Attractive development grants and packages will be available in certain countries and influence strategic developments. Interest rates are not the same around the world and, consequently, loans can be more attractive in certain countries and not in others. Moreover, tax rates vary and it can be very beneficial to be seen to be earning profits in low-tax countries instead of high-tax ones.

Third, not-for-profit organizations such as churches and charities and also certain other surplus-generating businesses (such as museums, zoos and local theatres) are relatively closely aligned. In the case of the latter examples, the profit objective is often designed to create a 'war chest' for future investment, rather than to reward an owner or a group of investors. For this reason, there are many common characteristics. Many *social enterprises* demonstrate issues described above in the section on small businesses and in the comments here.

Money and surpluses may be perceived differently in not-for-profit organizations than in profit-seeking businesses, but there is still a need to create a positive cash flow. A charity, for example, can only spend on good causes if it can generate funds. For this reason, churches and charities can legitimately appear very commercial in their outlook, and this must be accepted alongside the cause that they are targeting.

These not-for-profit organizations need social entrepreneurs or strategic leaders who, in many ways, will be similar to those found in the profit-seeking sector. They will possess similar entrepreneurial and leadership qualities, but they will be driven by a cause which attracts them to the particular organization and sector. This aspect, in turn, guides the mission, purpose and culture. In addition, there is likely to be a greater reliance on voluntary helpers and, possibly, managers and others who readily accept salaries and wages below those that they could earn in the for-profit sector.

There are likely to be variations on the modes of strategy creation discussed herein. There is likely to be some committee structure, involving salaried employees and unpaid trustees, the latter often in influential roles. Decision-making can be slow and political in nature, although clearly it does not have to be this way. However, strong and dominant leaders (either paid or unpaid) quite often emerge and are at the heart of strategy-making. Because there is a need for accountability for the funds raised, documented evidence of planning is likely to be visible.

Fourth, there are public sector organizations, since globally, governments – national, regional and/or local – are concerned with business in their countries and communities. Sometimes, they will run certain critical services directly; on other occasions, they will allow these services to be in the hands of private business owners but ensure they are regulated in some way. Political ideology is often a feature, and complexity is added because governments often think short term, always with an eye on winning the next election. Many businesses caught up in this sector require long-term investment.

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The composition of this sector has changed over recent years in many countries around the world. Typically, in the developed world, essential service industries – such as telecommunications, gas, electricity, water, and air, bus and rail transport – have been privatized if they were previously in public ownership; this encourages both operating efficiencies and a competitive spirit. This trend has often led to the creation of a number of complementary, or even competing, businesses. The outcome in each industry has been one or more private companies, some of which have since merged or been acquired, sometimes by overseas parents. In the case of the UK, this privatization programme has also included individual companies such as the British Airports Authority (BAA), which manages several airports but is largely a retail organization. Outside direct government control, BAA has expanded overseas and now manages a number of other airports around the world. Since privatization, it has been sold to a Spanish parent and was also required by the UK competition authorities to reduce the number of airports it **controls**, especially in London.

The trend towards privatization has gathered momentum for many reasons, one factor in Europe being the stronger stance on government subsidies to individual industries by the European Commission (EC). The key appears to lie in the effectiveness of the regulation, which must attempt to balance the needs of all key stakeholders: customers, employees and investors.

As a result, we now tend to think of local authorities and public health and emergency services as the archetypal public sector organizations. Clearly, these are service businesses and ones which will always have to choose and prioritize between different needs and stakeholders. In general, they will always be able to achieve more outcomes if they can acquire more resources. However, they remain largely dependent on central government for their resources and are, therefore, influenced by the political agenda of the day.

1.4 Theoretical underpinnings: The emergence of strategic management

The business model (covered in the next chapter) is useful to consider just how the subject of strategic management has emerged in recent years, and how views have changed on what is and is not significant. In 'the early days', strategy was taught from a strongly analytical viewpoint but, as time has gone on, the more subjective elements have become increasingly significant.

The notion and the study of strategy have been around for a very long time. The origins of our study are in warfare and military strategy – and for those readers who are interested to dig deeper into this, we have included a Chapter 1 Supplement on Military Strategy on our accompanying online platform.

Evolving views of strategy

In this section, we refer briefly to a number of approaches to strategic management, all of which are discussed in detail at different points in the book, where they are referenced more fully.

In the 1960s, when we really began to study strategic management, a sequential strategic planning framework provided a valuable base for the understanding of the subject. (This was still a popular approach when the first edition of this textbook was published in 1990.) Since the 1960s, several other approaches have been added. They are all relevant and help to shed further light on this complex topic. If strategy was easy to understand and practise, then more organizations would be successful and sustain this success over time. However, although it is based in many ways on some simple points and common sense, strategy remains enigmatic.

Figure 1.10 shows that when Porter (1980, 1985) drew attention to the subject of competitive advantage and the significance of strategic positioning, an important second layer was added to the planning foundation. Although criticized by some strategy academics, this remains seminal work. The next important contribution was the clarification that many strategies emerge as continual decision-making in dynamic circumstances, highlighting that while planning plays an important role, it is a partial one. In turn, this approach generated greater emphasis on studying entrepreneurship in action.

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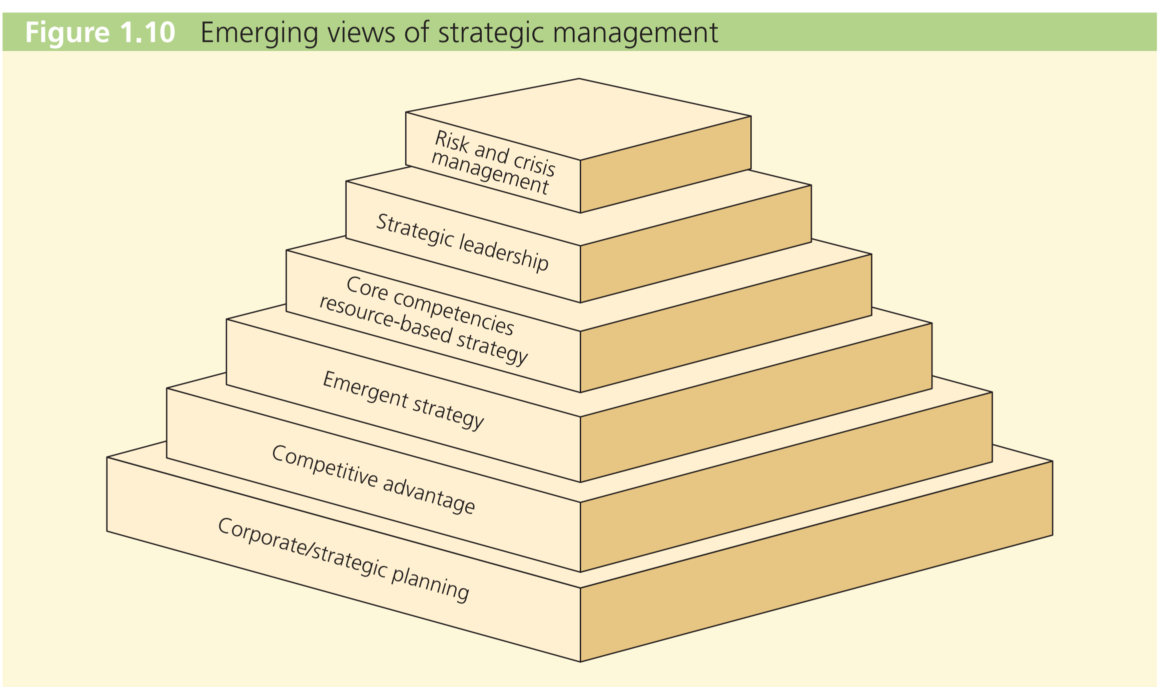
Figure 1.10 Emerging views of strategic management



The general thrust of these approaches is market driven, based on the argument that organizations must react in a dynamic environment, seizing new opportunities and avoiding major potential threats. Responding to customers, suppliers and competitors will always be vital, but an alternative perspective is also relevant. This **resource-based strategy** argues that organizations must discern their critical strategic strengths and look for ways to build and exploit them in order to mould the competitive environment.

In the online resources for this chapter, we look at the relevant issues of core competency and **strategic capability**. Successful organizations will blend both the market and resource perspectives so that they do not overlook potentially good opportunities.

In recent years, the subject of strategic leadership has received greater prominence, stimulated in part by the media and also by the attention given to successful entrepreneurs. Business success stories have been popular items for newspapers and magazines, especially where there is a high-profile figure that can be identified with the organization and the story. In addition, the 'falls from grace' of some very high-profile business people have proved newsworthy. The accompanying autobiographies of some of these people have added to this understanding.

Critical Reflection 1.1 provides an alternative perspective on these important approaches.

Most recently, **risk management** and **crisis management** have joined the debate, linked to the critically important themes of resilience and sustainability. In the 2007–14 economic recession, the most prolonged recession for many years, resilience and survival were significant challenges; and the challenge of dealing with the consequences of COVID-19 has been the same. Many financial challenges lie ahead for economies across the globe.

Organizations have recognized that scenario building can help their understanding of uncertainty, where the future may depend, in part, on the past but will not replicate it. For some industries, such as pharmaceuticals (where huge investments in new drugs are required but carry no guarantee of success) and electronic commerce (which is changing by the day), serious risk assessment is vital. The environment is busy with information and triggers, never more so than now, thanks to the internet, but discerning the real commercial opportunities is probably harder than it was in the past, rather than easier. Organizational fortunes can, therefore, change rapidly, and crises can arise suddenly to catch out the unwary organization. The study of learning, and the involvement of people in an empowered and intrapreneurial culture, is a key element both of this topic and of emergent strategy.

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Critical Reflection 1.1 Directions of Strategic Thought

The classical approach – *Planning*

- This is driven by the 'rational economic man' paradigm and is based on the economists' profit-maximizing model.
- Planning is the vehicle for rational strategy creation.
- There are elements of creation and implementation, the classical strategy-structure framework.
- Strategic positioning is at its heart. Appropriateness is, therefore, a key test.
- Strong central leadership is required to drive the process.

The evolutionary approach – *Opportunity-driven emergent strategy*

- Driven by competition – and, in this respect, the work of Professor Michael Porter – it is based around responding to identified opportunities and threats.
- The idea is that only the best performers survive in a dynamic world, accepting there is always an element of luck and chance.
- The approach questions whether organizations can create differences by a largely rational approach.
- 'Strategizing' – or thinking long term – can be dangerous if it reduces organizational flexibility.
- Rather, strategy is about tactical moves (changes) in response to external events.
- The appropriate resources are essential to put the organization in a position to 'engage the enemy'.
- Appropriateness and feasibility are the key tests.

The processual approach – *Resource-based emergent planning*

- This is driven by internal stakeholders and assumes that adaptation to the outside world is through internal political bargaining, compromise and accommodation.
- Along the lines of Mintzberg, strategies are crafted by trial, error and learning.
- The organization needs to develop key strengths (core competencies and strategic capabilities) which become the foundation for resource-based strategies.
- Feasibility and desirability for key internal stakeholders are important tests.

The systemic approach – *Visionary strategy driven by key players*

- Strategies emerge from the culture and values of key players, typically the strategic leader.
- This approach is very much affected by the 'wider picture' perspective, although this perspective could embrace the needs of a local community as much as concerns for the global environment.
- In some economies, the systemic approach can correspond to the profit-seeking paradigm behind the classical approach.

Reference

Whittington, R. (1993) *What is strategy: And does it matter?* Thomson/Cengage Learning.

Commentary

Whittington sees the classical and processual approaches as internally driven, on the grounds that the classical approach is driven by an internal desire to maximize profits. Evolutionary and systemic are, then, external.

However, we could argue that the classical approach (like the evolutionary) is external, as they are both based on a search for economic opportunities in a competitive environment.

The systemic approach (like the processual approach) is internal because it is based on the values of powerful strategic leaders.

In the next chapter, we develop further the ideas introduced so far in this introductory chapter. We examine the constituent elements in the business model and argue that, for any organization to be able to show that it is strategic, it must have – and been seen to have – a credible business model.

One feature of most chapters is the 'Research Snapshot', which reviews some of the most cutting-edge contemporary research on the sub-theme of strategic management. While we review relevant research on strategy as practice at the end of this chapter, we wait until the final chapter, after you have digested the contents of this book, for a thorough discussion and some concluding thoughts on this theme.

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1.5 Strategy as practice and in reality

All newly appointed chief executives should ask five key questions:

- *What are the basic goals of the company?*
- *What is the strategy for achieving these goals?*
- *What are the fundamental issues facing the company?*
- *What is its culture?*
- *And is the company organized in a way to support the goals, issues and culture?*

Bob Bauman, ex-Chief Executive of Smithkline Beecham

Strategy and strategic management can be tackled from a theoretical perspective: basically, given the information to hand, **what could** and **should** an organization do? And this question can be considered at both the corporate and competitive strategy levels, as well as in the context of functional strategies and tactics. Against the backdrop of a clear business model (which we explain in depth in the next chapter), analysis leads to decisions, which lead to implementation – **what to do** to deliver on the decisions that have been reached. **The approach is what needs to be done, by whom, how and when.**

In the context of the content of this book, we could summarize this as:

Strategic direction
Strategic purpose
Broad 'means to ends'
'Big picture' strategy
Covered in Parts 1 and 3 of the book

Strategic logic
Environmental and competitive fit
Resource capability
People and leadership capability
Covered in Parts 2 and 4 of the book

Strategic means
Supply chain – suppliers and routes to market
Tactical capabilities to deal with the operational challenges
Organizational capability to implement strategies and tactics
Covered in Parts 4 and 5 of the book

This approach is justifiable, but it is not the whole story. We need also to factor in strategy as practice (Jarzabkowski, 2004, 2005; Jarzabkowski and Spee, 2009; Jarzabkowski et al., 2007; Miettinen et al., 2009 Whittington, 2004, 2006), defined as, 'detailed aspects of strategizing; how strategists think, talk, reflect, interact, embellish and politicize, what tools and techniques they use and the implications of different forms of strategizing for strategy as an organizational activity' (Jarzabkowski, 2005, p. 3).

The foundational work of Jarzabkowski (2004, 2005) significantly contributed to the field – for example, by examining recursive and adaptive practice in strategic management and highlighting a 'tension' between such practices, and also in terms of implementing strategy (Jarzabkowski, 2004). Moreover, Whittington (2006, p. 613) contended for a need for further research, given the focus, 'either on strategy activity at the intra-organizational level or on the aggregate effects of this activity at the extra-organizational level'. Hence he, along with others, argues for an approach or 'overarching conceptual framework' linking three elements of strategy, 'praxis', 'practices' and 'practitioners' (Whittington, 2004).

Strategy as Practice has been contrasted with various views of strategy, including the process-based view. Indeed, Chia and MacKay (2007) referred to it as 'post-processual', focusing on both 'agency' and 'structure'. The role of practitioners has been taken up in later work (e.g. Jarzabkowski and Spee, 2009).

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Earlier, Jarzabkowski and Whittington (2008a, 2008b) argued for greater alignment between strategy as practice, and learning and teaching at universities, given the clearer and more real-world insight that practice can give students and future managers/strategists; that has some salience for our distinction between teaching strategy and teaching about strategy raised in this chapter. Corradi *et al.* (2010) perhaps more critically, consider strategy as practice to be something of a 'bandwagon', suggesting that, 'the collective appropriation of the label has not been achieved, and therefore, the bandwagon is heading for a partition'.

Other authors have linked strategy as practice with, for example, dynamic capabilities, particularly in terms of 'organizational assets' (Regnér, 2008), framing in uncertain conditions (Kaplan, 2008), strategy teams (Paroutis and Pettigrew, 2007), the concept of 'social practice' (Rasche and Chia, 2009), and a Heideggerian view on the role of 'practical coping' (Chia and Holt, 2006). In the latter article, the authors offer two strategizing 'modes' – 'building' ('purposeful' and planned) and 'dwelling' ('non-deliberately through everyday practical coping' and without 'strategic intent' or 'goal-orientation') – and they conclude that: 'Actions may be consistent and organizationally effective without (and even in spite of) the existence of purposeful strategic plans' (Chia and Holt, 2006: 635). In some respects, Chia and Holt's (2006) paper mirrors the two alternative cognitive approaches of predictive-and-planning-oriented causation (akin to building) and the much more entrepreneurial, controlled, future-changing effectuation (à la dwelling) theorized by Sarasvathy (2001) and extended by Venkataraman and Sarasvathy (2002) in terms of strategic management.

Rather than take an analytical and detached view, beginning with what an organization may do, we also must look at how people make decisions in the face of uncertainty and at how they translate their ideas into actions. **The approach now is: what is being done, by whom, how and when, with what effect.** We have already highlighted that strategy is concerned with the decisions that people make. Strategic decision-makers must make sense of the situation the organization is in – and they may misinterpret the data and information. They may (i) overestimate opportunities or underestimate threats, (ii) not read the signals that should be telling them that changes are required, or (iii) not truly appreciate the competitiveness of their resources and their business model. Threaded throughout the book, therefore, are discussions concerning **who** makes the decisions, **why** and **how** they reach the conclusions they do reach, alongside explanations of the theoretical and conceptual frameworks they have available to assist them. We might see this type of strategy as AI strategy. A represents analysis (supported by theories, concepts and constructs); I is interpretation and finding the way forward.

Developing this point, Table 1.1 and Figure 1.11 show strategic management as a series of questions. Simply, the key questions concern who decides what should be done, why, how and when – but within an environment of opportunities and constraints. Organizations have to have clear and robust answers to these questions – this is what the practice of strategic management involves. Sound answers will result in a clear and defensible business model – a topic we explore in more depth in the next chapter.

Alongside the questions in Table 1.1 are the relevant chapters in this book. Reading from top to bottom, the questions are presented in a logical flow in respect of how someone would 'tell the story' and, in this context, with the contextual constraints coming at the end rather than the beginning – but there is no requirement that organizations will have sought to answer the questions, or would expect to answer them, in any particular order. Until sense can be made of the environment and the context, for example, the specific questions cannot be tackled seriously. Hence, the order in which the material is presented in this book allows for a step-by-step building up of the issues to allow the questions to be answered – starting with the contextual variables.

The core framework for this book, therefore, is as follows:

- The business model (what we are offering the marketplace)
- Strategic analysis – environment, resources, competition, culture and values (*background and contextual themes*)
- Strategy creation and strategic choice (*strategic decision-making*)
- **Strategy implementation** (*managing strategy and strategic change*).

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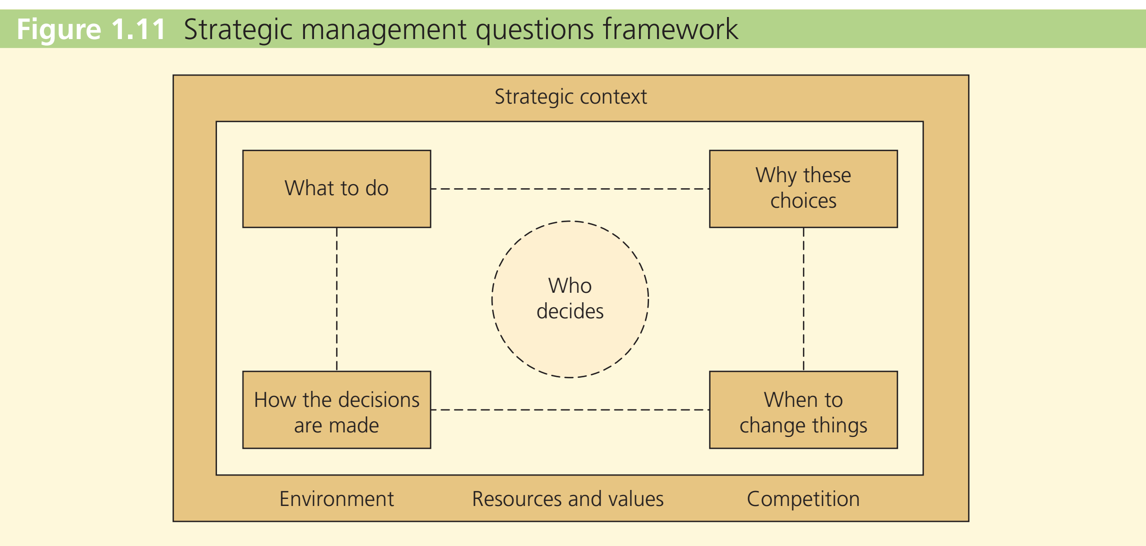
This framework has been expanded in Table 1.2 to illustrate the key theme and issue being tackled in each chapter.

Table 1.1 Strategic management

Key strategy question	Relevant chapter	Strategic theme
Who decides	10	Leadership/entrepreneurship
	7	Culture
	14	Organizational structure
What to do	2 and 8	Business and revenue model, alternatives and choices
	12 and 13	Growth issues to consider
Why (do they make the choices they do)	3	Objectives and purpose
(*What may they have in mind*)	16 and 17	Level of ambition/desire to avoid risk
How (do they decide)	8, 9 and 10	Strategy creation
and **When**	15	Change issues
using what information	4	Strategic awareness and knowledge
and what resources	5	Resources and capability
and, in turn, affected by (which factors)	4	Environmental forces
	6	Competition
with what **outcomes**	11	Performance

Figure 1.11 Strategic management questions framework



The core framework has also been extended into the mind map which appears at the beginning of every chapter. We return to this framework towards the end of the book when we reprise strategy as practice and in reality.

Strategy will always be subjective – there are no absolute 'right answers', but there are good and poor decisions. For this reason, there are relative winners and relative losers among competing organizations. Significantly, what one successful company does is not automatically the way forward for another; it is not possible to simply re-engineer someone else's successful approach, confident in the knowledge it will also work for you. But that is not to say that valuable lessons cannot be learned from observation, analysis and reflection. Moreover, conceptual frameworks do not provide answers to the key strategic questions – but they can help decision-makers by forcing them to ask particular questions and focus on particular themes.

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They stimulate thinking. They can certainly be very valuable, but their value is contextual, and they are typically most useful at certain times and with specific issues. This book includes several frameworks in Chapters 1–9 (starting with E–V–R congruence all of which can help strategic decision-makers. Different decision-makers will inevitably have their preferences. The mind map presented in Figure 1.12 provides a summary of these frameworks and where they can be found.

Table 1.2 Strategic management: awareness and change topics

Chapter	Part and chapter title	Themes, issues, questions
Understanding strategy		
1	What is strategy and who is involved?	
2	The business model and the revenue model	The big picture What the organization is all about and how it is seen by others
3	Strategic purpose	Why the organization exists and what it aspires to be
Analysis and positioning		
4	The business environment and strategy	General external opportunities and constraints
5	Resource-led strategy	The building blocks that enable the organization to function
6	The dynamics of competition	Competitive realities and strategic positioning
Strategy development		
7	Introducing culture and values	The essential ‘lubricants’ that determine how effective the organization is
8	Strategy formulation: Strategic alternatives and decision-making	Processes for deciding what strategic direction to take; actual decisions about focus and direction. Deciding what to do; what not to do
9	The role of planning in strategy	Planning strategy and planning the implementation of strategic decisions
10	Strategic leadership, entrepreneurship and intrapreneurship	How well the organization is led and directed How innovative the organization is
Strategic growth issues		
11	Strategic control and measuring success	Evaluating performance and the impact from activities
12	Issues in strategic growth: Domestic and international	Contextual issues affecting the directional choices the organization makes
13	Failure, consolidation and recovery strategies	Dealing with setbacks
Strategy implementation and strategic management		
14	Strategy implementation and structure	Structuring the organization to co-ordinate activities and to enable strategic choices to be put into practice and carried through
15	Leading change	Innovating and changing in an uncertain and complex world
16	Corporate level strategic management	Staying focused and dealing with crises
17	The strategically resilient organization	A reprise of how the ‘big picture’ and the ‘little picture’ detail must all come together

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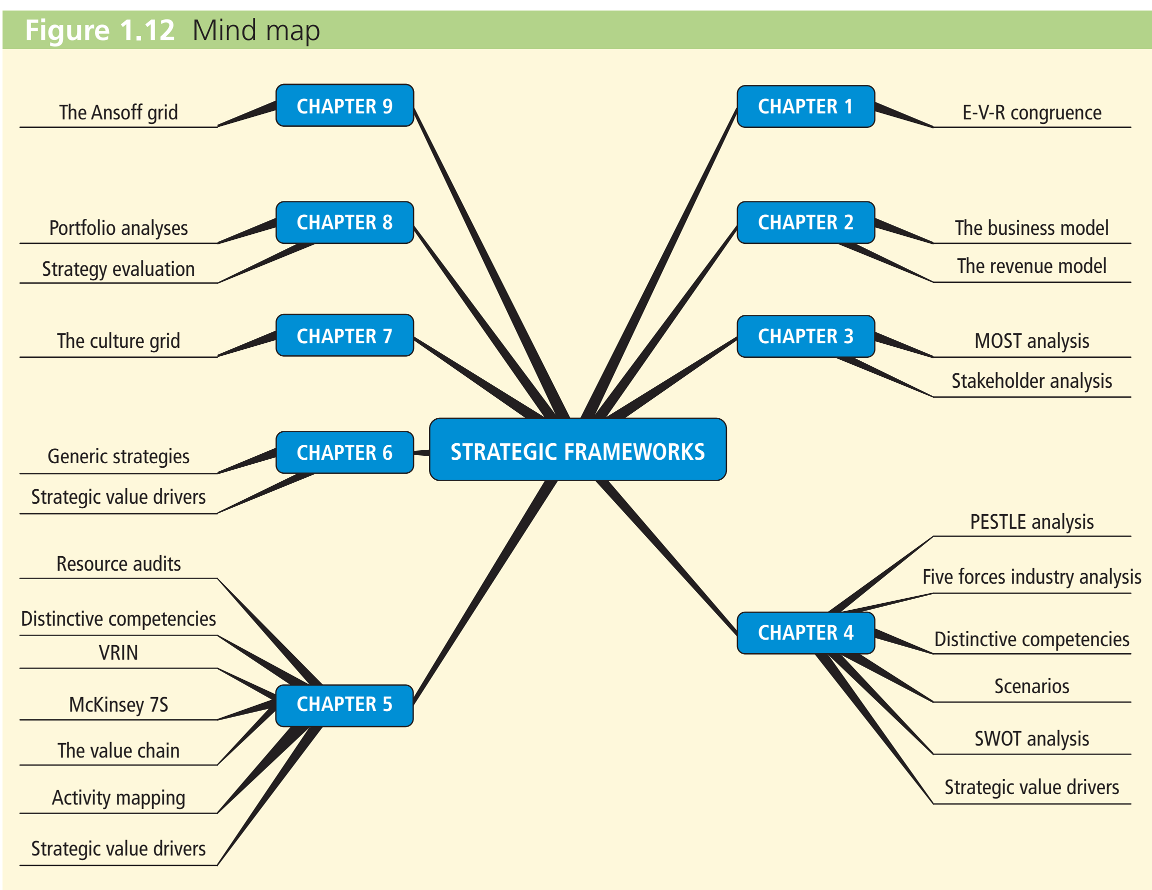
Figure 1.12 Mind map



Teaching strategy and teaching about strategy

We introduce this theme here and refer to it frequently throughout the book, while developing it in depth in two special sections in Chapter 8 (where we examine the everyday realities of strategic decision-making in action) and Chapter 14 (where we examine how strategies and strategic decisions are operationalized). We are basically discussing how strategy is practised in real life, and (similar but different) how strategic ideas and themes can be seen in everyday settings. While practice needs to be grounded in strategic theory (and it is), there is no assumption that theory and practice are one and the same. We deliberately use the term 'real life' and choose to reference this text and boxed material as *strategy in practice*. The authors suggest that 'reality' would be a questionable term to use. If, as we know, different individuals, in their sense-making (see Balogun and Johnson, 2005), draw different conclusions from events and data, then 'reality' is what something means to them. It is not necessarily a shared reality. In addition, there is a relevant and important body of literature on 'strategy as practice' (which we reference) but the examples used in this book extend beyond the main parameters of this literature – hence the use of slightly different terminology (see Research Snapshot 1.1).

Throughout the book, then, you will be introduced to various theories, concepts and constructs – in the main body of the text, in special Key Terms boxes, and with guided introductions (that you can follow up) in the end-of-chapter Research Snapshots. These constitute the key *strategic underpinnings* that you need to appreciate. We would argue that this content is where this book supports the teaching of strategy as an academic subject.

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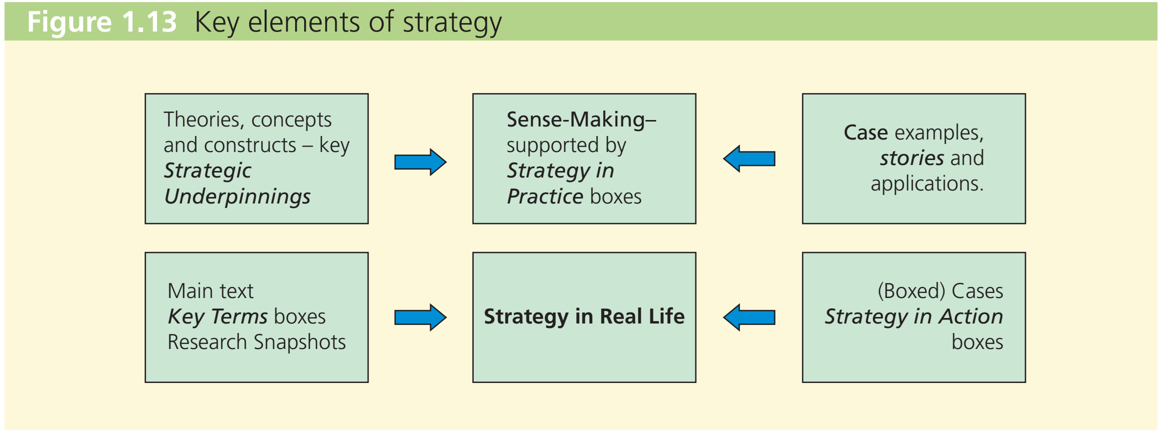
In every chapter there are short cases which illustrate *strategy in action*. These are applications which illustrate documented strategic behaviour in various organizations. They all show what different (real) organizations have chosen and opted to do, influenced in part, no doubt, by the various theories and concepts. But, almost certainly, only influenced (and not driven) by theory. These 'strategy in action' boxes do not set out to explain the how and why elements of the decisions, as, realistically, only the decision-makers themselves could explain this. And, as we said above, those involved might interpret events differently. There are, therefore, additionally *strategy in practice* boxes, which typically focus on ideas and broader themes as distinct from actual case stories. The real challenge, using all this material, is to try to understand, and to make sense of, why strategy is practised in the way that it is, by both individuals and organizations – *strategy in real life*. This challenge is a personal one and, consequently, it is something that cannot be taught as an absolute. As we approach this challenge, therefore, we suggest we are 'teaching about' strategy rather than teaching strategy.

This strategic sense-making embraces insight into who the decision-makers are, how they reach the decisions and choices they make, typically sharing knowledge, thoughts and opinions with others, both formally and informally. These discussions and interactions combine to determine strategy as it is practised. This practice, this real life, is affected by the understanding, bias, feelings, power, influence and risk propensity of every practitioner engaged in the process. As we discuss later in the book, different people, when confronted with the same situation and data, might well reach different conclusions. It all comes down to the sense they are making of the relevant complexity. And, also, by the outcomes that they would see as being most desirable. It is their chosen route through the strategy maze. But, unlike a real maze, there is no ideal route to find, no right answer. There is just their preferred route. Their choices might (and should) deliver outcomes that satisfy the relevant stakeholders. There might be, and probably are, routes that would lead to better outcomes – depending on how we might interpret 'better outcomes'; there are also very likely to be poorer outcomes that it was wise to avoid. Figure 1.13 shows how these ideas and the relevant box inserts link together.

Figure 1.13 Key elements of strategy



Think, therefore, of strategy as a set of challenges:

- Establishing a co-ordinated blend of direction (a desired way forward to some understood outcome) and operations to deliver this aspiration.
- Managing continuity (using the past to inform the present) while adapting to change pressures to build the future. A key temporal element (i.e. related to time).
- Decision-making by individuals and groups of individuals, with all of them required to make sense of events and signals that need interpretation – and that 'keep on coming' in a dynamic and competitive world.

The specifics of these challenges vary between organizations and over time – and we can certainly learn a great deal from studying both good and poor practice. We will, therefore, be returning to these challenges at various points in the book, both explicitly and implicitly.

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Research Snapshot 1.1

Research Snapshots appear at the end of most chapters and signpost opportunities for a much more in-depth study of the relevant subject. They make reference to valuable ideas and contributions which enrich a study of strategy, but also take the debate beyond the scope of the main content of the book. These recommended readings – typically more recent than many included in the main text – will help students studying one particular topic in depth as, say, a dissertation or research project. Not all readers will feel it necessary to access up-to-date and relevant journal articles and follow up on the current and recent strategy research agenda. The main text focuses on 'telling the story of strategy' and generally focuses on the best known references.

Strategy as practice (SAP) is truly coming of age. A few short years ago, Vaara and Whittington (2012:285) claimed that the 'power' of SAP:

> *[l]ies in its ability to explain how strategy-making is enabled and constrained by prevailing organizational and societal practices … SAP research has helped to advance social theories in strategic management, offered alternatives to performance-dominated analyses, broadened the scope in terms of organizations studied and promoted new methodologies. In particular, it has provided important insights into the tools and methods of strategy-making (practices), how strategy work takes place (praxis) and the role and identity of the actors involved (practitioners).*

SAP has been extensively reviewed and theorized in recent years (refer, for example, to Balogun *et al.*, 2014; Burgelman *et al.*, 2018; Jarzabkowski *et al.*, 2013, 2016; Kohtamäki *et al.*, 2020; Seidl and Whittington, 2014; Suddaby *et al.*, 2013; Vaara and Lamberg, 2016; Vaara and Whittington, 2012; Weiser *et al.*, 2020; Whittington, 2018). While these studies are largely from a more corporate strategy viewpoint, SAP and strategizing in micro firms has been reviewed (Kearney *et al.*, 2019). Whittington (2018), for example, suggests that 'great strategies' can be achieved by applying his five proposed principles. These principles, he explains, are 'value the ordinary, see past markets, embrace diversity, allow for the bottom up, and accept different forms of greatness'. Tsoukas (2018), on the other hand, suggests that the 'moral dimension of *practice*' (and, correspondingly, the other two parts of the SAP triumvirate, *praxis* and *practitioners*) should be incorporated.

Jarzabkowski *et al.* (2019) sees radical change occurring in organizations as strategy and structure develop in parallel. SAP is a key component of the new concept of 'open strategy' (e.g. Hautz *et al.*, 2017) Indeed, and furthermore, Herepath (2014) adopted a critical realist approach to analyze SAP using a 'stratified ontology for structure, culture and agency', helping to isolate structure (or 'conditions for the action') from agency (relating to 'the action itself'). MacKay *et al.* (2021: 1337–1338) later offered a combinatory 'perspective' which they titled Strategy-*in*-Practices since process research is macro and practice is micro; therefore, they suggested that there is a 'multitude of coping actions taken at the "coal-face" of an organization [that] congeal inadvertently over time into an organizational modus operandi that provides the basis for strategizing'. In other words, the practices (or actions) become the strategy (process) of the organization.

Recent articles have examined how practitioners present keynote speeches as 'performances' (Wenzel and Koch, 2018) and even the use of PowerPoint, which involves 'depiction, juxtaposition, and salience' as 'visual mechanisms' (Knight *et al.*, 2018). Other novel lenses through which SAP has been analyzed and/or theorized include, for instance, neo-institutional theory (Suddaby *et al.*, 2013), discourse analysis (Balogun *et al.*, 2014; Hardy and Thomas, 2014; Mantere, 2013; Pälli, 2018) and the related narrative approach (Brown and Thompson, 2013), sense-making (Balogun *et al.*, 2014), sociomateriality (Brito *et al.*, 2020), and temporality (i.e. time) (Vesa and Franck, 2013; including when decisions have to be made quickly due to 'time pressures … due to unforeseen events' (Netz et al., 2020)). These studies offer students some fascinating but academically challenging insights into the cutting edge of recent SAP research.

Other authors have linked SAP with, for example, co-opetition (Tidström and Rajala, 2016), attention dynamics (Ocasio *et al.*, 2018), and causation and effectuation type approaches in the uncertain environment in China that could enable strategic change through SAP (Wei and Zhang, 2020).

Recent studies have also investigated, *inter alia*, practices and praxis of business rescue practitioners in South Africa (Pretorius, 2013), and the use of both 'material artifacts' including spreadsheets, maps and so on (Jarzabkowski *et al.*, 2013) and also strategy tools (Bellamy *et al.*, 2019; Burke and Wolf, 2021; Jarzabkowski and Kaplan, 2015; Rengarajan et al., 2021; Vuorinen *et al.*, 2018) in strategizing and strategy-making,

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specifically, for example, in the context of strategizing by medical managers where there are different priorities for healthcare organizations and their respective patients (Begkos *et al*., 2020). The implementation of corporate sustainability as a major change initiative in organizations is yet another good example of strategy in practice (Linneberg *et al*., 2019; Thakhathi *et al*., 2019).

Students will find these articles particularly useful in developing a comprehensive understanding of SAP.

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Summary

Strategies are means to ends – they are the means through which organizations seek to achieve objectives and fulfil their mission or purpose.

All managers can be strategy-makers because of their influence in both strategy creation and strategy implementation.

Strategic management is a process which embraces the strategies together with the themes of excellence in their implementation, creativity and innovation when they are changed, and the effective and timely management of these changes.

There is evidence that strategic thinking – and, hence, strategic management – could be improved in many companies by:

- *segmenting* and *targeting* markets more crisply and definitively
- appreciating clearly what the *key success factors* are in the targeted markets and segments
- creating real *competitive advantage*
- out-thinking rivals.

There are three levels of strategy:

- *corporate* – the overall portfolio of businesses within an organization
- *competitive* – the search for, and maintenance of, competitive advantage in each and every business, product and/or service
- *functional* – the activities that deliver the competitive advantage.

These activities, products, services and businesses should not be analyzed exclusively at an individual 'ring-fenced' level but should also be analyzed in terms of the whole organization. Links should be forged wherever possible to generate *synergies*.

Strategies should not be thought of as having one single definition or perspective. Five have been discussed: **visionary strategies**, planned strategies and tactics, all of which address the future; present strategic positions; and patterns that have emerged with past decisions and with past strategies.

Strategy, then, comprises elements of learning, understanding, imagining and competing.

The Environment–Values–Resources (E–V–R) framework is a simple but very powerful means for examining the effectiveness of the current strategies and strategic position of an organization.

There are three ways in which strategies are created: with visionary leadership, from a planning process, and adaptively and incrementally as new decisions are taken in real time.

Additional themes complement, but do not replace, strategic planning in the understanding of the realities of strategic management and strategic change – competitive advantage, emergent strategy creation, strategic competency, strategic leadership, and risk and crisis management.

Strategy and strategic management in different sectors, such as small and global businesses, the public sector and not-for-profit organizations, have many similarities, but there are clear differences, especially of emphasis.

Elements of strategy can be taught with theories, concepts and constructs, but 'teaching about strategy' is also important. Here we are looking at strategy in reality, strategy as it is practised, by studying cases and also (retrospectively) endeavouring to make sense of relevant decisions and the actions taken by strategists and organizations.

Online cases for this chapter

Online Case 1.1: P&O

Online Case 1.2: The Low-Price, No-Frills Airlines

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Web supplement related to this chapter

Military Strategy I

In addition to the web supplement, there are some additional questions for this chapter on the online platform.

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Chapter 2

The business model and the revenue model

PART 1 Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2 Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3 Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4 Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5 Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- appreciate how organizations utilize business models to make strategic decisions and identify ways of building value and creating a winning business model **(Section 2.1)**
- understand how revenue models help organizations to maximize their performance **(Section 2.2)**
- through examples, realize different types and contexts of business models **(Section 2.3)**.

Introduction

This chapter is relatively descriptive in style but very important for understanding strategic management and the link between strategy and entrepreneurship.

A **business model** is an articulation of strategic thinking; it summarizes and explains how an organization's adopted strategies provide answers to key value-related questions. In the previous chapter we saw how 'strategy' is effectively a process or a set of questions where we need to examine **who** decides **what** an organization should do, **why** (the context of the overriding purpose), **how** and **when**. The outcome is a series of decisions and actions that determine how distinctive an organization is and how strong a competitor it is – and, in turn, how strong a performer it is in the short term – and, with change, how sustainable it is. Success, and particularly sustained success, is dependent upon an organization's ability to create, build, deliver and change (when necessary) perceived and recognized value for customers. In relation to this aspect, Bolton and Thompson (2013) define an entrepreneur as 'a person who habitually creates and innovates to build something of recognized value around perceived opportunities'. The business model reflects this value. The relevant decisions and actions are manifest in the business model, while the **revenue model** illustrates the level of performance. In short, the business model is the outcome of processes which seek to capture and deliver something (a product or service) that customers perceive to be valuable to them. These processes craft the organization's strategic proposition and guide its execution.

Table 2.1 summarizes the links between strategy and entrepreneurship.

Table 2.1 Strategy and entrepreneurship

Realizing an opportunity	**Entrepreneurship: The 'elevator pitch' stage**	Perhaps crafted with analysis, experimentation or instinct
Articulated strategy	**The Business Model**	
Operationalized strategy	**The Revenue Model**	
Innovation and change	**Entrepreneurship**	The ongoing need to develop the business and for the entrepreneur to progress

In many respects, the business model is the vehicle for delivering the purpose or mission. It encapsulates both 'big picture' and 'little picture' elements and it can be applied to both the present and the future. Over time the model – and the strategies it encapsulates – are likely to change, even if the basic purpose remains constant. Put simply, the business model should clearly show how the business is going to make money. Many dot.com businesses essentially failed because they did not address the issue of how they were going to make money. They offered technology to deliver a product that customers simply were not prepared to pay for. They failed to blend business and technology innovation. In Case 2.1, it was the reluctance of the consumer to pay the very high price of designer eyewear that led to the creation of Glasses Direct by Jamie Murray Wells. This success story shows how 'online' can be made appropriate and relevant for a product that many would see as needing an in-store personal service.

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Case 2.1 Glasses Direct UK

Glasses Direct is a story of entrepreneurship in action. It illustrates how someone with entrepreneurial potential, a keen motivation and a simple but winning idea can quickly become established with a widely recognized brand. It is also the story of a business and an entrepreneur that have won multiple awards.

Jamie Murray Wells comes from something of a business background – his father is an investment analyst and his maternal grandfather was involved when both Chrysler and Ford established plants in the UK – but he chose to read English at University in Bristol. He confesses he had been searching for business ideas when, and while studying for his final exams, he was told he needed glasses. He was surprised at the prices of around £150 that opticians were charging for glasses and thought there must be a lower cost alternative. When he checked he discovered professional labs can make glasses with quality prescription lenses at relatively low cost. He had his idea for something new and different – glasses supplied through online ordering – which he then researched thoroughly before taking the metaphorical plunge. Customers with a prescription from an optician could log on, choose a frame (or frames) and provide details of the lenses they needed. A trial pair (or pairs) would be sent out – which the customer would return and which would then be sent to another prospective customer. This mimics how people choose frames in an optician's store. New glasses would be produced and posted out with little delay. The prices they would pay for good quality products have always been substantially lower than the traditional high street. With up-front payments from their customers and trade credit for their laboratory suppliers the business had a sound cash flow. The business model also passes the test advocated by the founders of Innocent Smoothies – one's granny could understand it in no time at all.

Jamie used his own funds to pay a fellow student to produce the website, and his early marketing involved him in distributing flyers to rail commuters and passengers in the West Country. His simple viral marketing approach worked. Reflecting current trends, Glasses Direct now makes extensive use of online social networks, but Jamie Murray Wells has always looked for valuable publicity opportunities and relevant stories for the press. Although there are aspects of creative irreverence such as fun cleaning sprays, he acknowledges that glasses are a serious purchase for most people and is careful to preserve the right image for the business.

The first base for Glasses Direct (in 2004) was his parents' home in the south of England, but as others started to join the business it became necessary to decamp to a nearby converted barn. As the business grew he expanded in the same area, but now the head office and marketing are based in London with manufacturing – Glasses Direct originally relied on laboratories but (in 2010) switched to producing their own – and distribution in Swindon, UK. Qualified opticians were recruited to the business to support the business experts. As time has gone on varifocal lenses have been added to the range – supported by opticians who will travel to people's homes – as have designer frames and a wide range of prescription and non-prescription sunglasses. Innovation is taken seriously. There are now three categories of frames available: Essential, Boutique and Designer - at different price points. Venture capital funding (from Index Ventures and Highland Capital Partners) supplemented business angel funding, which itself had helped the business move on from a personal and family funding dependency. Straightforward prescription glasses can be bought for £39, but there are more expensive alternatives. The leading designer frames are, not unexpectedly, the most expensive with typical prices of £159 (glasses) and £220 (sunglasses).

With annual sales revenue now in the millions of pounds, Glasses Direct became the leading online supplier in the industry sector it created. Murray Wells reckons he has saved customers in the UK over £50 million in the first six years. Again, not unexpectedly, his success provoked a reaction from high street opticians, most noticeably the high-advertising Specsavers – but threatened legal actions have led to nothing of consequence. Invoking reminders of how the then small Ben & Jerry's saw off competition from the owners of Häagen-Dazs (Pillsbury Corporation) in America, Murray Wells published letters from Specsavers' lawyers on the Glasses Direct website. In 2012 (linked to an acquisition) Glasses Direct added contact lenses. The group business was rechristened MyOptique in 2013 to reflect the growing diversity and portfolio; it was later sold to Essilor (in 2016) for some £20 million.

A more recent diversification (2010) was Hearing Direct, a separate company based in Andover. Murray Wells supplied, again online, digital hearing aids with prices depending on looks and specification. Prospective customers can take a simple hearing test online and again be supplied with a trial hearing aid (which they return) before they make a final choice. Industry experts have been recruited to ensure the products are reliable and appropriate.

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Murray Wells appreciated that businesses have to develop and move on if they are to preserve their existing markets and open new opportunities. He knew he had to explore the potential of the 'higher end' of the market for glasses where margins were higher, while not threatening his volume sales of lower price glasses by doing this. He also appreciated there are strategic opportunities overseas.

The main lessons

Jamie Murray Wells believes he has learnt a number of simple but important lessons from Glasses Direct, which he sold in 2013 (he is currently Head of Retail for Google):

- First, all staff in the business should engage with customers on a regular basis.
- Second, it can pay off to stir things up occasionally if it brings valuable publicity. Michael O'Leary and Ryanair would undoubtedly agree with this, as would James Watt of BrewDog (Chapter 10 case).
- Third, it is important to build the right team and to exploit people's talents.
- Fourth, in the end, the product is going to be more important than the marketing, but marketing, especially social marketing, does matter – as does customer service.
- Fifth, a business evolves and revolves around its culture. A set of understood and practised guiding principles can really help.

Questions

1. Why do you think this is a successful business?
2. How different and distinctive is it?
3. Is Hearing Direct a logical extension? Why? Why not? Is it appropriate and logical to keep it separate?

The business model explains **what** the organization does, **for whom** it does it (its target customers), **why** they are (ideally loyal and sustained) customers – their compelling reason to choose this organization's products – **how** the strategy is executed and **when** it needs to change. The revenue model deals with the financial implications of the business model; it examines revenue and costs and thus reflects both viability and performance.

This chapter explains both the business and revenue models and provides several examples to illustrate the points. We deliberately provide more illustrations than we do in other chapters – we want to show that good business models can be found in every industry, with some organizations standing out as strong competitors. Models will be changed as appropriate to maintain and strengthen competitiveness in a dynamic and unpredictable world; and new models will periodically emerge to change industries. What works in one sector, of course, might not be appropriate for another industry. Customers and markets are different; therefore, there is no single best way of satisfying them.

The need for a clear and persuasive business model is a key plank in strategy. In essence, the business model involves a clear understanding of:

- What product or service is on offer?
- Who will buy it?
- Why will they buy it?

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At a conceptual level, the business model can appear simple and straightforward – and it probably is for those companies who succeed in getting it right – but many do not succeed in this challenge. Their business models are flawed in some way. In addition, what appears to be a sound model 'on paper' may not deliver to its potential if the organization fails to manage the implementation of its ideas and intentions. There are several examples of good business models that demonstrate the robustness of this process and the importance of getting it right, and in this chapter we will describe and evaluate a number of successful models.

Yet we are left with questions to answer regarding companies with apparently sound businesses and business models who get into difficulty for one reason or another. In recent years, we can look at a number of less successful business stories that are relevant to this debate and reinforce the argument of the importance of a continued sound business model.

- Northern Rock (building society) got into severe difficulty because the underlying business model was wrong – they had lost sight of the key success factor that you should only lend where you can borrow for lower cost. Simply, the business was making too many loans, some of them to people who had inadequate security; as a consequence, their own borrowing costs escalated. At the same time, certain other banks were making similar high-risk mortgage loans and then bundling these loans into packages that they were selling on to raise money for further high-risk lending. Once defaults kicked in, the fragility of this business model was all too apparent. When Northern Rock collapsed, the implications for the UK government (which had to intervene) were very significant and costly. Northern Rock became part of Virgin Money. Virgin has more recently become part of Clydesdale Bank, although still operating with the Virgin name.
- Meanwhile, Monzo has shown that banking no longer has to rely on a 'legacy perspective'. Monzo offers entirely online banking services accessed via a smartphone app. It is simple, convenient and ideal for those customers who are comfortable doing their banking this way – while their number is growing all the time, it is not yet 'everybody'.
- Starbucks has grown rapidly over the years and its popularity has been retained in the face of competition from Costa, Caffè Nero and others – as well as adverse publicity from time to time. Some rivals never quite made it; Coffee Republic, although successful to a point, might be considered as an example here. McDonald's responded in some countries with its own McCafé format. These businesses all have largely the same business model – the menu looks the same; the prices are generally not significantly different; they are often located close to each other – but they do not all execute the business model in the same way. Implementation and service matter. As they say, 'the devil is in the detail'. The realities of competition in this sector are at least as much about levels of customer service and outlet ambience as they are about the actual cup of coffee.

  Moreover, Starbucks had a two- to three-year period when its profits fell. Observers would suggest it opened too many new branches too quickly and, in part to help finance this, increased its prices a tad too far. Customers resisted and Starbucks had to take a step back in order to restore its profit growth trajectory.
- Ryanair (part of Case 2.2) typically outperforms its direct rivals in the low-cost no-frills end of the market. Again there are few fundamental differences in the underlying business model – although there are differences in routes and destinations and sometimes prices. But Ryanair again scores with implementation and its never-ending search for ways to reduce costs and stay more efficient with greater scale economies than its rivals. Significantly, customers will privately have a moan about certain features and examples of service trimming, but they appreciate the low prices and believe they are getting value for money. This point is reinforced by experiences in 2018 – Ryanair had to cancel flights, leaving some passengers stranded, when it mismanaged pilot rosters, receiving serious adverse publicity in the media. But the end of year revenues and profits still grew by some 10 per cent.

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Case 2.2 The Low-Price, No-Frills Airlines Business Model UK, US, Ireland

The airlines that we would today describe as 'no frills, low cost and low price' really began when US lawyer Herb Kelleher founded **Air Southwest** in 1967, changing its name to Southwest Air in 1971, with a simple intention – 'fly people safely, cheaply and conveniently between Dallas, Houston and San Antonio', three key cities in Texas. The airline proved an instant success and routes grew rapidly. The industry 'took off' in Europe much later, when, in the 1990s both **Ryanair** and **easyJet** became serious competitors. Although there are differences in culture, values and reputation, there are many common themes across the industry sector, and an underlying business model adopted by all the airlines.

Their strategy, competitive advantage (when compared against 'full-service' airlines around the world) and success have always been based on several factors:

- Frequent and reliable departures. The airlines have multiple hubs from which they fly various routes.
- Relatively short journeys; few, if any, true long-haul flights. That said, Southwest planes will cross the United States with various stops, much as a train would.
- The choice of smaller airports. Sometimes airports nearer to city centres are chosen in preference to international airports which are further away from the centre. Ryanair, though, has also always sought airports with relatively low charges, even if they are several miles outside the city they serve. For example, their airport of choice for serving Brussels (Charleroi) is 40km to the south of the city; the commute to Stockholm is 100km; and, at one point, the one designated as Copenhagen was actually over the border in Sweden in Malmö. This arrangement can provide a substantial cost saving.
- Fast gate turnarounds to maximize the time the planes are in the air.
- Very low prices. Typically the prices will start really low for the first seats sold for a flight, and then increase as the plane fills up due to high demand.
- Automated ticketing and only direct bookings now using the internet extensively. Outlawing travel agents can mean a saving of up to 15 per cent.
- Limited *frills*. Limited refreshments (with none free), no videos and just one class of seating. In some parts of the world, similar airlines will serve only soft drinks, rather than coffee and tea (with the inevitable milk, sugar and stirrer) as it is easier to collect passenger rubbish and thus speed up cabin cleaning between flights.
- The airlines have started to allow passengers to use mobile phones and smartphones in the air – because they can earn a commission.
- Historically, no seat assignments, attempting to encourage passengers to arrive early so they can be towards the front of the boarding line, which, in turn, means planes are likely to take off on time. Typically, and, in response to customer pressure, there are now seat assignments and priority boarding systems, which normally require an extra payment.
- A standardized fleet of either Boeing 737s or certain Airbuses to simplify maintenance.
- Aircraft are often bought when the manufacturers are experiencing trading problems, thus driving down the price.
- Often there are no air bridges for boarding. Passengers must walk out to the aircraft.
- Crew costs. Pay rates are lower than rival full-service carriers, and there are just three cabin crew on each flight – low for an aircraft of the size involved. Crew are not there to serve food and drinks, but rather to look after passenger safety. And the safety record of Southwest, easyJet and Ryanair has been very good, unlike the tragic 'critter' (named after its callsign) ValuJet 592 that crashed into the Florida Everglades in 1996 with the loss of 110 lives due to dangerous cargo on board, and which caused ValuJet to go out of business.
- Seat density. Ryanair, for example, packs 15 per cent more passengers into its Boeings. (The seats are frequently plastic, for easy, fast cleaning). In part, this implies a reduction in leg room; it also means reducing the space taken by toilets and galleys – although not much food is stored onboard, duty-free goods are and these require space ... so 'restrooms' might be sacrificed!

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- Some airlines began charging for every case put into the hold and even experimented with flights where no hold bags were allowed, where everything must be carried on but with normal size restrictions applying.
- The airlines may charge people who need manual help to check in; instead, customers are expected to use the self-service booths.
- Employees are encouraged to accept empowerment and are motivated to work hard and deliver high levels of service consistently. Rules and regulations are minimized to allow staff the freedom to deal with issues as they arise.
- Passenger loyalty schemes are the exception, rather than the norm. In 2018 easyJet broke with tradition for low-cost airlines and introduced one.

In addition, from the very beginning, Herb Kelleher encouraged Southwest flight attendants to crack jokes during in-flight emergency briefings, but, at the same time, operate with very high safety standards. He was determined that passengers would enjoy their flights. 'At Southwest we don't want clones – everyone is expected to color outside the lines.'

Some of the Southwest planes were soon decorated externally to reinforce the fun image. When this began, three of them, promoting major sponsor Sea World, were flying killer whales; one was painted with the Texas flag; another was christened 'Arizona One', a spoof on Air Force One. Advertisements also began to appear on the outside of some Ryanair (and other) planes.

The 'low-price, no-frills' product is, in reality, a package of services, many subcontracted in. The airline will provide the planes and their crews, and market and sell the flights. As a company, it is focused. Check-in and information services, snacks (for passengers to buy before they board the aeroplane as well as onboard), baggage handling and fleet maintenance are all bought in from specialists.

Every activity, every operation, is an opportunity to reduce costs and enable competitively low prices. 'Everything we do is designed to pass on lower fares' (Michael O'Leary, CEO, Ryanair). But this can lead to vulnerability … although, often, the relevant events affect full-service airlines as well. In the past, for example, profits have been hit by rising fuel costs, sometimes leading to recorded losses. The COVID-19 pandemic, of course, has affected every airline as the number of passengers has collapsed.

There are other less obvious, but significant, reductions in the services provided by the no-frills airlines. Ryanair, for example, only has a relatively small customer services activity. The low-cost model means they are likely to be less sympathetic than the full-service carriers if passengers miss their flight or the flight has to be cancelled.

Significantly, though, the business model has proved to be resilient. In 2018 several Ryanair flights were cancelled, and passengers left stranded, when pilot rosters were mismanaged. Those passengers affected were certainly unhappy, but the company subsequently posted revenue and profit increases of around 10 per cent for the year affected. Some passengers, but not all, it seems, will tolerate relatively poor service for low prices on relatively short flights. This tolerance does not mean they enjoy the relatively low level of service, of course. And this phenomenon, often referred to as 'slumming it', applies to both business and leisure passengers. Another excellent example in this sector is Norwegian which, prior to the COVID-19 pandemic, was very successful when it added a low-cost transatlantic flight to its existing shorter routes: a value proposition that underpinned what seemed like a very lucrative business model at the time.

Some commentators have argued that staff are partially exploited with long hours and relatively low wages for the industry, but there is no shortage of recruits. Enough people seem to like and want this type of work.

The no-frills carriers have certainly had a major impact on the airline industry, and their success has, in part, been at the expense of the full-service carriers, such as BA in the UK, which have had to respond. BA, for one, has worked hard to trim its costs and reduce its fares in order to narrow the price gap.

Questions

1. Before we dissect the component parts of the business model in depth, ask yourself: who are the target customers for the no-fills, low-price airlines? Where and why do they perceive value? What really matters to them?
2. From your own experiences, think about which airlines you prefer and choose, and why. Do you see yourself as typical or unusual as a customer?
3. Consider Norwegian and some other examples of low-cost airlines that you can identify (perhaps including AirAsia) and clarify the specifics of their business models. How were these business models: (a) extensions of the concept of 'no frills' to previously untapped air routes; and (b) affected by the pandemic? Do you think these companies have been resilient? Is this particular business model more resilient than that of those airlines termed 'full service' and which are often national flag carriers?

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One of the more recent examples of the need to rethink the business model is the change that has come about in the news and magazine market. Charging money for the news linked to advertising revenues was the basis of the industry in the United States and the UK. In 2008 the news industry reached a tipping point when the number of people getting news online for free outstripped those paying for the news. The most vocal response to this issue was that of Rupert Murdoch, who has led the attempt to get consumers to pay for news online. In the UK some daily newspapers are now given away free on weekdays, paid for by advertising. In London, the *Evening Standard* is the prime example. In the UK as a whole, local editions of the *Metro* are produced. These papers are all left at transport hubs for people to pick up as they commute. Will these developments change anything in terms of what is happening to news revenue? It can be argued that business models need to innovate by looking forward not back. Trying to still charge for news in an era of tablet computers and smartphones might be argued as a way of looking back and not forward, and it will cease to be as relevant as it has been in the past.

These last examples highlight the importance of finding valuable new ways to be different, and the resulting value of **new business model** ideas for their creators if they satisfy customer needs more efficiently and effectively – but only for those organizations that succeed in appropriating the value of their ideas. It is not always the inventor or innovator that benefits the most. Related to this theme, and later in this chapter, we will discuss the significance of open and new business models.

Readers of this book who are acquainted with business pitches, perhaps because they watch *Dragons' Den* (or similar programmes) on television, will have been exposed both to persuasive and less convincing business models. Here potential investors require the would-be entrepreneurs to explain their product or service in a short period of time and provide basic answers to the what, who and why questions we posed above. The notion of business pitches like this can be linked to what are sometimes called 'elevator pitches'. The idea behind this is that you have a business idea and by chance you meet someone to whom you would like to sell your idea – but you are about to ride an elevator and you have only the time the elevator car is going up (or down) to explain enough to warrant further discussion.

2.1 The business model

When we argue that an organization needs a sound – or a winning – business model, we mean that there is a need for a very clear picture concerning what the organization is – and what it is not – and who will buy its products and services, and why. The business model thus embraces three key themes: the actual product (or service); the market, specifically the customers; and their 'compelling reason to buy' from a particular supplier as distinct from any competitors.

It is important to remember here that strategy always involves choices. Organizations have to make decisions about what they intend to do – at the same time as ruling out things it is less appropriate or desirable for them to do. Perhaps this is because competition is too intense, or they do not possess the required competencies and capabilities. This picture then needs to be communicated and understood throughout the organization. Moreover, the model – and the strategies that underpin it – needs to be reviewed constantly. The picture should embrace the business as it is now and how it will be in the future – where and how it will change and grow.

The business model provides an explanation of an organization's 'recipe for success', and it contains those factors that essentially define the business. Many of the differences are often obvious to customers, although some are more subtle. Indeed, early work on business models hailed from the e-business field (Amit and Zott, 2001) because many business model innovations and examples of innovative business models were related to the shift from offline to more online or electronic business models.

It must not be assumed that either finding or defending a distinctive business model is either easy or straightforward. To support this argument, consider what you know (from your shopping experiences) about the leading grocery retailers. Talk to other people about where and why they make their 'weekly shop'. It is rare to find people who are 'exclusive' to one particular retailer – although they may have a favourite. The following narrative discusses the business model of the leading competitors. It is important to flag that during

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the COVID-19 pandemic home deliveries and click-and collect (from online ordering) grew to 20 per cent of the total spend (from 12 per cent). Yet two of the leading retailers, Aldi and Lidl, have historically not offered this service. Perhaps the price sensitivity of their core customers and/or the margins their business model involves and/or the desire to stay tightly focused helps explain this. From your own experiences, you may (and really should!) have realized how similar the shop layouts are and where different items can be found within the stores. There are certainly more similarities than differences.

In 2021 Tesco was the market leader with a groceries market share of roughly 27 per cent. In the past this percentage had been greater. For a number of years Tesco had been pursuing a strategy of opening smaller local stores, typically on the fringes of towns and with locations on major entry roads. There also seemed little doubt that the success of Aldi and Lidl was a major contributor to the decision made by Tesco that it would not be opening any further 'megastores' in the foreseeable future. Megastores – which Tesco brands Tesco Metro – are where the large grocery retailers also sell extensive ranges of non-food items such as electrical goods, clothing, and home and gardening equipment. Many of these products can now be bought online from Amazon. In addition, Tesco had pursued a **vertical integration** strategy and merged with Booker, a leading food wholesaler, to help secure lower prices from its suppliers. In 2018 Tesco embraced the challenge from Aldi and Lidl with another initiative – Tesco opened some trial Jack's discounts stores, named after the company's original founder, Jack Cohen. These stores may be along the lines of the local stores, but they feature very low prices and rely largely on own-brand products. The range is limited and the ambience is 'no frills'. Pallets are as likely as shelves. It was predicted that some poorly performing larger stores would be converted into the Jack's format but, in the event, the Jack's initiative was abandoned in early 2022 and the existing stores closed. Around the same time, Tesco also closed its in-store fresh food counters.

Sainsbury's has a number of smaller local stores. Sainsbury's owns Argos (since 2016) and has closed many (smaller) Argos stores where it is in a position to offer click-and-collect from inside a larger Sainsbury's.

Certain tactical decisions make Morrisons (10 per cent market share) distinct from its leading rivals; but are they significant enough to make a real difference, given the large supermarket chains all offer broadly the same product ranges? For this reason, Morrisons' target customers are not going to be markedly different from those who pick Tesco, Sainsbury's (or Asda); part of the choice, of course, will simply be location.

Morrisons (distinctively) manufactures a substantial proportion of its own food products, even owning its own abattoirs. It packages most of its own fresh foods and displays them in-store as they would feature in a traditional open street market. This is very deliberate and it reflects Morrisons' origins as market traders. In addition, every store looks the same. Bananas used to be hung up to keep them fresh; now they are laid out, but never stacked, on open shelving. Again, unusually, it owns its own delivery fleet rather than relying on specialist logistics companies. In a Morrisons' store you will see fishmongers and butchers in white hats and striped aprons – which is pretty ubiquitous – but they will be found in the section of the store which is designed to feel like an open street market. The focus is on food; Morrisons is less interested than its main rivals in clothing and other non-food products. For many years there were no online sales and no loyalty cards, but rivalry (and the popularity of these activities) eventually forced Morrisons to react. Again following its rivals, Morrisons began to open smaller local convenience stores – although, and perhaps because it was 'late to the game' and unable to acquire ideal and affordable sites, Morrisons decided (in 2015) to divest these smaller stores. Furthermore, we can see Morrisons' Northern roots being strongly reflected in its ambience and culture. None of these leading retailers would be described as 'low price', but that does not mean they do not compete on price – and feature this price competition extensively in their advertising and promotion.

This discussion highlights that finding a powerful and defensible distinctive competitive position is difficult and rarely sustainable without change and refinement.

Two other notable competitors who have a distinctive position but only small market share are Waitrose (owned by John Lewis) and M&S. They both have a greater focus on premium products and higher prices, and consequently have a different market appeal.

Aldi and Lidl – two German-owned no-frills grocery retail chains – both have a business model that challenges that of the leading supermarket groups in the UK, in a similar way to how Ryanair and easyJet have challenged the business operating model of the airline industry since the mid-1980s. Aldi and Lidl are rivals, with roughly the same number of stores (800 each) in the UK, and their approach and business models are similar.

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Both are successful, growing and profitable businesses with a combined grocery market share of around 14 per cent – 8 per cent for Aldi and 6 per cent for Lidl. They each offer a more limited product and service package than their larger rivals – and very competitive prices – which might well vary between locations in the same country. Yet, Aldi pays the highest hourly wage rate among UK supermarkets. There tends to be few discount-price offers at any time, but there are special promotion items for sale for a limited period. Their strategy works well but it is not a market-dominating approach, in part because many customers would struggle to complete their 'weekly shop' in an Aldi or a Lidl store.

Aldi and Lidl stores can be found in several European countries, unlike their larger UK rivals. Aldi is actually two groups, Aldi Nord and Aldi Sud after two brothers had a disagreement in 1966 and split their family business into two separate territories. Lidl is one of two retail groups within the Dieter Schwarz Gruppe, Europe's largest retailer; the other is Kaufland, a hypermarket chain not dissimilar to Walmart.

In both cases, their store size is also relatively low in comparison to their larger competitors. In terms of sales philosophy, they adopt a very simple approach – get the product and price right and it will sell. Branded products carry much less operating profit so though not wholly averse to stocking these brands, Aldi and Lidl tend to steer away from many popular iconic brands and instead focus on 'brand equivalent' products – lesser-known brand names, but ones that buyers think replicate the product quality which consumers have come to expect. Lidl's parent business actually owns a number of own label brand manufacturers. These products state who the manufacturer is and explain they are produced exclusively for Aldi or Lidl. The focus of these 'brand equivalents' is on decent quality in modest packaging (which often looks remarkably similar to the leading brands) at low prices. Historically, both Aldi and Lidl sold products direct from cartons and pallets, but this strategy has disappeared in favour of 'proper' displays, based in large part on the principle that 'eye level is buy level' (especially sugary products placed at the eye level of children). Tall shelves are rare.

In contrast to around 1,750 product lines in Aldi and Lidl, a large Tesco or Sainsbury's store will typically stock up to 40,000 lines, of which 50 per cent will be clearly identified own label items. These much larger supermarkets also offer a wide range of non-food items which the no-frills grocers tend to avoid. As mentioned, both Tesco and Sainsbury's have smaller local stores which sell a smaller range, but still with the same mix of leading brands and own label.

Purchasing decisions for these European retailers are generally made at the country level but within a clear international supply chain system. A key part of the strategy is for buyers to work closely with suppliers, especially on food and drink products; the aim is to refine as many products as possible to match the taste and consumer experience of more well-known brand names.

An important distinguishing feature with Aldi and Lidl is that there are always 'special offers' of low-price bargain items which will only be available while stocks last – and these items could be almost anything. It is here that Aldi and Lidl sell their non-food items. They are always placed in sections with a middle aisle dissecting them, and are identified by this layout.

While many of the changes in the sector have been driven by competitive pressure among high street retailers – who have their own online ordering and delivery arms – they will all be aware of the growing threat from specialist online rivals. Ocado delivers various branded grocery products from its own warehouses and also handled the online business for Waitrose (until autumn 2020); it is now owned by M&S. Amazon has started to take a serious interest in the grocery business.

In reality, every organization is practising a model, even though it may not have thought it through, or be able to articulate it, in any depth. It might be argued that if the model cannot be articulated or written down, then the organization's managers do not know what the model is perhaps? Where this unconscious competence is the case, any success could well be short-lived as it implies that there is a reliance on good fortune rather than analytical insight. It is, of course, important to recognize that good ideas and a plausible outline model are relatively easy to imagine and define … the secret lies in delivering the model and implementing the strategies. In military terms, tactics can be trickier than the grand strategy – even though we clearly need both.

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The business model is explained in three different but clearly linked presentations in Figures 2.1, 2.2 and 2.3 and the key elements are discussed below.

The challenge for every competitor is to create and sustain a value proposition that is:

- relevant for customers because it offers a solution/resolution to a perceived problem they have, and
- which can be operationalized and delivered profitably, and also
- protected against predatorial rivals.

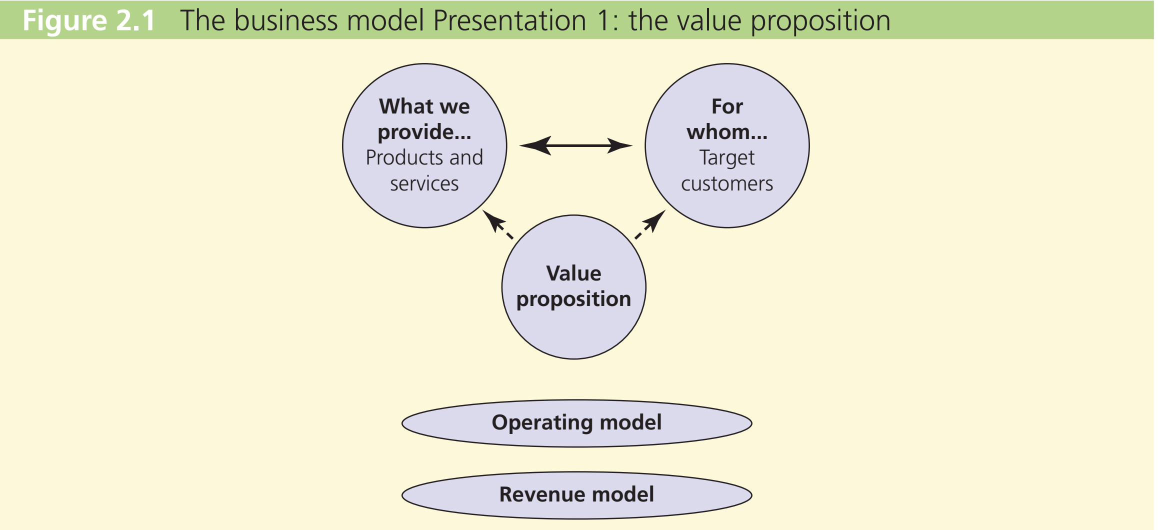
The key points here are entrepreneurial ideas in the context of a clear understanding of customer needs and problems and the desire for a clear 'blue ocean' rather than a bloody red one (terminology we explain below). Operationalizing embraces people and other resources; resistance can be expected in the form of key people who oppose the implied changes, and a lack of ability or motivation (or both) on the part of employees generally.

Each of the three presentations adopts a different perspective on the business model. That said, these are all relevant lenses and they are all inter-linked. In the text we refer to various important underpinning ideas that help explain the business model.

Presentation 1: The value proposition

The three fundamental elements of the model itself are shown at the top of Figure 2.1 as three circles.

Figure 2.1 The business model Presentation 1: the value proposition



Products and services constitute *what* the organization produces or markets. The range can be broad or narrow, focused or diversified. The choice, like the selection of target customers and competitive strategies, implies a decision concerning what to do and what not to do. There needs to be a clear strategic logic for what is in the range. Every product and service should be able to make a contribution to the business; none of them should be in a position where they bring harm to any of the others because, perhaps, they are underperforming and demanding cash subsidies.

Customers make up markets – they are the *who* in the model. Again the coverage can be narrow or broad. The scope of the business can be localized, national or international. And these can differ between the various products.

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The link between products and customers represents the organization's strategic or competitive position. If it is a strong – or a winning – position, then there is a good reason for this situation.

When we add the third element, *the* ***value proposition***, which we might have also termed '**competitive logic**', then we have our *why*, our compelling reason to buy. These three together constitute the organizational 'big picture'. The value proposition can be based on price; equally, it can be based on difference. Case 2.3 describes Kiko's attempt to fill an identified gap in the market for cosmetics.

Case 2.3 Kiko Cosmetics — UK, Italy

Kiko Cosmetics is a subsidiary of the Italian fashion business Percassi. Founded in 1997, it was introduced to the UK in 2015. Its strategy and business model were based on finding the 'middle ground' between high-end branded cosmetics and lower price budget alternatives.

Traditionally, the value of a cosmetics brand is related to where it is sold; different outlets convey a particular message about their quality – which may or may not be a valid message. Cheaper brands are to be found in self-serve concession stands in chemists and supermarkets; they may sometimes also find their way into pound stores. Sometimes they are manufacturer brands; sometimes they are retail own brands, such as Boots Number 7. Customers are basically left to decide for themselves; specialist product advice is rarely on offer.

High-end cosmetics are found mainly in well-known department stores (where they have their own section and possibly dedicated staff) and which also feature (but often on a different floor) a range of high quality fashion and accessory brands – plus, of course, Airport Duty Free stores. Various competing brands are featured alongside each other and the product ranges available are led by various fragrances which are sometimes linked to fashion houses and celebrities. Some customers change their fragrances quite readily while others remain loyal to one. Here displays are superior and staff are in attendance to help people choose, provide product information and make-up advice, and allow people to sample various products. Some fragrances are linked to ranges of skin-care and other make-up products, but this is not always the case; and the ranges available are narrower than many of the cheaper brand alternatives.

Few cosmetics companies rely on mass media branding to promote their products; instead they chase performance reviews in fashion magazines and take advantage of social media opportunities. Most customers are cognizant that the look they want to achieve (and the image they want to convey) is best achieved with a mix of brands at very different price points.

Kiko spotted an opportunity in the middle ground and developed a range of mid-price cosmetics and skin care products which they sell in dedicated single-brand shops as well as online – which is particularly relevant for loyal customers. There are no franchises or concession stands. Their focus is on make-up and not fragrances, although there seems no reason why fragrances would not be relevant; they sell eye make-up, lipsticks, nail polishes and related products, and face and body creams, for example. They claim to be innovative, cutting-edge and not overly expensive; and they declare they do no animal testing. They have wide ranges of each product and often multiple shades; they encourage would-be customers to experiment. In any one store there can be around 1,000 different products to consider. The wide variety of 'smells' makes it a very sensory experience. The displays are switched around to provide variety for regular customers. Previous season colours are discounted and sold in dedicated sales areas within the stores. The format would be described as boutique.

The Kiko approach was novel when it was introduced and it has clearly been successful in the countries targeted to date. Recently, there were around 340 stores in Italy, 200 in France, 150 in Spain, nearly 50 each in the UK and Germany. But they have, and perhaps inevitably, attracted competition in their market space. Body Shop and Lush would be seen as competitors and a few me-too businesses such as Models Own and NYX have also appeared. In 2018 Kiko announced the closure of 12 stores in the UK; they also downsized in the United States. But at the same time they were raising money to fund innovation and growth, with India, Asia and the Middle East all seen as having high growth potential for cosmetics.

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Questions

1. How sustainable is their business model?
2. How might they expand and what are the relevant risks?
3. How realistic is growth (in various countries), and where and how might scrutiny in terms of waste and pollution linked to disposal have a detrimental impact?
4. Given they are part of a fashion empire, will any changes in the popularity and appeal of fast fashion have a material impact?
5. Is the market for (similar) male cosmetics products a growth opportunity for Kiko? Would they need separate retail outlets?

We shall see later in the book that there are four basic approaches to the positioning element of the model:

- A narrow product (or service) range for a broad range of customers – the basics of the business model for Starbucks and the low-cost airlines.
- A broad product range for a defined segment of the market – Harrods provides a vast choice of items for those people who are willing to pay premium prices and who enjoy being seen out with a Harrods bag.
- A narrow range for a targeted niche – handmade Morgan cars appeal to a limited number of people who want a sports car with an essentially pre-war style and who are willing to join a waiting list of some 6 to 12 months (a few years back it was four years).
- A broad range for a wide market – Amazon.com has added a diverse range of products to its original books and it sells to anyone who is interested in buying online.

Gerber (1991) elaborated on what he believes are the key pillars of value; he calls these the **power points**. He explains that any and every product must fulfil certain criteria if it is to stand any chance of finding and retaining customers – but that additional criteria provide the key to success. He argues that no business can hope to succeed if it fails to meet two basic tests. First, its products and services must be 'fit for purpose'. They must work – reliably – and do what they promise to do. Second, they must be affordable to the target customers. If there is competition, they should appear to offer better value than rival products and services. Price will often matter, but other things constitute value for the customer.

Really successful businesses, though, offer more than functionality and affordability. Design and aesthetics – how something looks and feels – can have an impact on buying decisions. One of the reasons for Apple's success is the design and look of its products; Stobart trucks stand out on UK roads because of their distinctive colours and clean appearance. When ownership of a product or brand is meaningful to customers, then the business concerned has something of genuine value. Ownership or involvement has become aspirational. Apple's products do not have to be the best technically, because for many they are the 'ones to have'. McDonald's burgers may not win in taste tests against some leading rivals – indeed, in the past, both Burger King and Wendy's have done better in blind taste tests – but it remains the preferred fast food destination of choice for many people. Everyone recognizes the golden arches and what the brand stands for. There is an emotional attachment to it. Many fans around the world who support Manchester United – and who may never get to a live United match – want to be associated with the recognition and success attributed to the club and the brand. The values associated with the brand provide significant reinforcement to this message; and when such loyalty can be built up and maintained, then the businesses concerned command loyalty. Realization and appreciation of these key issues do not mean something can be achieved easily, of course, and that is why some brands achieve and retain customer loyalty and popularity.

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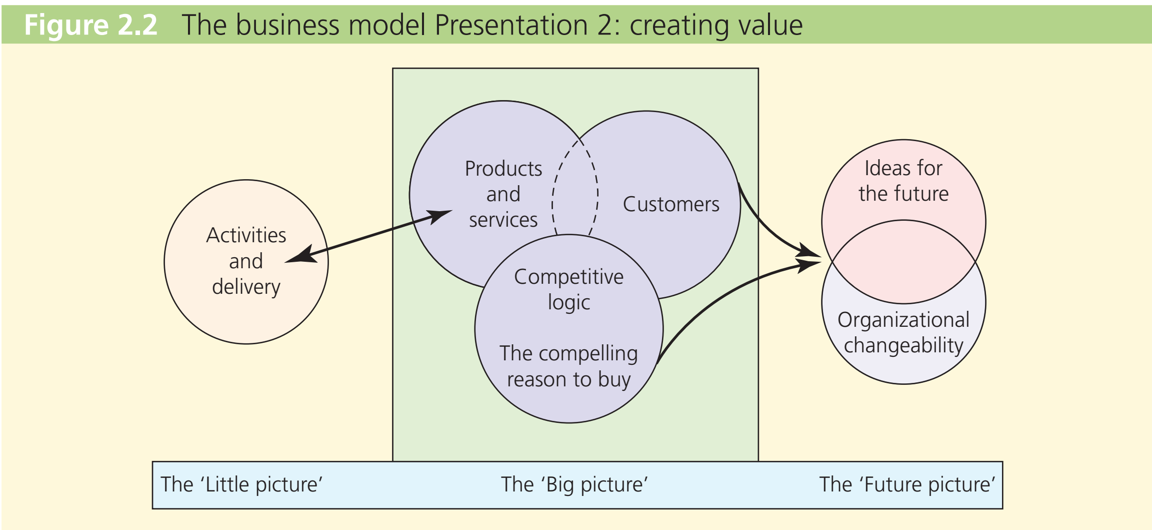
In Figure 2.1 we show *how* both the operating model and the revenue model underpin the three key elements of the business model, and we discuss these below.

Presentation 2: Creating value

The first important addition to this second presentation (Figure 2.2) is the 'little picture' activities. Simply, the *activities and delivery* element is an essential adjunct, even though it may not strictly be part of the outline business model itself. Without a clear strategy for implementing and delivering the model, the organization will be compromising on **efficiency** and **effectiveness**. This aspect is the *how* element, and it includes the structure of the organization and the operations and activities carried out by people within the structure. Cost management and synergy are key themes. Unnecessary costs should be avoided; equally, it can be a mistake to 'penny-pinch' on things that really matter to customers. At the same time, it can be helpful if the activities complement and support each other. This aspect, then, is the 'little picture' behind the 'big picture'.

Figure 2.2 The business model Presentation 2: creating value



Important here are internal and external partnerships, networks and relationships – sometimes known as **architecture**. The ways in which different parts of an organization work together can create (or destroy) value and save or create costs; complementarity matters, and conflict and internal competition must be avoided. The relationships with suppliers and distributors also affect costs and, when effective, are capable of building genuine value for customers. In any industry, we might expect to find 'conventional ways' that things are done – when an organization succeeds in turning such convention on its head in a way that customers respond to, it can be both powerful and lucrative. Ikea achieved exactly this scenario by 'persuading' customers that they should engage in self-assembly, having collected everything they would need prepackaged from one of their stores. They also established a global supply network to deliver reliable quality at low cost. Moreover, by limiting the number of Ikea stores in any one country, they made them a destination store with significant appeal and pull. And the layout of each store requires customers to walk past everything to reach the checkout. Simply, they are different. We will see the value of imaginative ways of getting products to customers in various case stories throughout the book.

A number of authors argue that **value creation** is, in effect, 'bigger' than a single organization; instead, it relies on a network of social and technical resources which link the business in a relevant supply chain, embracing design and creation, manufacturing and delivery. The real value for individual customers could be in any of these. The linkages and inter-relatedness is built on both tangible and intangible (e.g. knowledge) resources; as they cover such elements as order fulfilment, innovation and customer support. The relevant flows which form the linkages include information and money. Christensen (1997) argues that **value networks** support business models and underpin innovation, especially disruptive innovation and change.

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Allee (2003) and Norman and Ramirez (1993) draw attention to the constituent human element of value networks and flag that effectiveness comes from the intangible relationships between people and how they communicate, share and work together. They emphasize that for this reason it can sometimes be difficult to pinpoint exactly how value is created. Stabells and Fjeldstad (1998) suggest that the constituent members of the value network create and supply a service which is attractive to customers, together with access to that service. As we argue later (when we discuss **lean start-ups**), the attractiveness of this service to customers lies in its ability to help with problems they have. An example might be car insurance. Without valid insurance a motorist cannot legally drive a car on public roads; without this access they cannot use their vehicle to get from A to B for whatever reason they have to make this journey. On the same theme, rail transport in the UK relies on a network which brings together the separate providers of the infrastructure (tracks, stations, etc.) and the actual trains; in turn, these train providers rely on a network of suppliers of engines, carriages, power or fuel, and food and beverages. The ultimate customer experience depends on how well the members of this network work together.

While similar in concept, Christensen favours a supply-side resource perspective while Stabells and Fjeldstad show a stronger customer focus.

Open business models

Chesbrough (2007) introduced the term **open business models** (linked to innovation) to highlight that organizations should look outside their 'natural boundary' for new ideas. Ideas can be transferred from one industry to another, for example. In Case 5.1 (James Dyson), the point is made that Dyson borrowed and adapted technology used for large-scale machines that allows particle separation using centrifugal force in spinning cylinders. Having successfully applied this transfer for small-scale paint spraying, he was able to use it in the design of his new vacuum cleaners; it was this inventive transfer that provided the foundation for a powerful global business. At the same time, ideas can come from collaborating with suppliers and competitors – perhaps most logically non-direct competitors, which operate in different segments of an industry.

A number of key pointers have been identified in developing open business models, including the clear definition of 'co-development' partnership objectives, classification of research and development capabilities ('core, critical and contextual') and, therefore, aligning the partners' business models (Chesbrough and Schwartz, 2007), or the example of the newspaper industry with its focus on open business models and open innovation (Holm *et al*., 2013). Chesbrough (2007) explores various exemplar business models in terms of the six functions: value proposition (General Electric aircraft engines), target market (Ryanair), value chain (Walmart), revenue mechanisms (Xerox), value network/ecosystem (Ryanair) and competitive strategy (Southwest Airlines), and then presents the following indicative typology of business models:

1. undifferentiated
2. some **differentiation**
3. segmented
4. externally aware
5. integrates its innovation process with its business model
6. adaptive platform, which involves 'experimentation', through corporate ventures, spin-offs, joint ventures (such as Intel, Microsoft and Walmart) where 'key suppliers and customers become business partners, entering into relationships in which both technical and business risk may be shared' and in which business models are integrated with both suppliers and top customers (Chesbrough, 2007, pp. 13–15).

The future model

Given that what works successfully today cannot be guaranteed to work forever, business models and strategies have life cycles which require that organizations address *when* they might need to make changes. They need an appreciation of a 'future picture', concerning changes to *what*, *how* and *for whom*. This is the *future model* and it is added to the right hand side of this second presentation.

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Simply, the business model must be, and remain, relevant. When there are crises or shocks, such as COVID-19, questions must be asked: how does a particular business need to (quickly) react and adapt; will the change be temporary, or will the outcome be a longer-term new competitive landscape? The (2020–21) switch (with some customers) to home deliveries for their groceries seems unlikely to be reversed. Many organizations which switched their manufacturing plants to PPE production will plan to switch back as the PPE orders will not be permanent. Drive-in cinemas and theatres have the potential to remain open. Alongside, we can see how concern over carbon emissions and the environment are causing a permanent change in the motor vehicle industry (refer to Case 2.4).

Hislop *et al*. (2014) discuss 'unlearning' – the ability and willingness of people to abandon things that have worked in the past, and that they have come to take for granted. Diedrich *et al*. (2021) flag: the new digital opportunities that are constantly opening up, the value of partnering with others to share the change journey and the speed of new product development. We revisit this point when we discuss resilience (in Chapter 17) and examine how quickly scientists were able to develop and test the new COVID-19 vaccines. It is also an important theme when we consider organizational purpose and direction (Chapter 3), scenario modelling (Chapter 4) and learning by trial and error (Chapter 10).

Essentially, the right business model changes with circumstances. Therefore, developing and adapting the model is the key to business success. Getting it right is essentially the main test for the top management of any business. When they get the business model wrong, profits suffer. The business model must, then, clearly show and prove how an organization is going to make money; and it must address and answer the following questions:

- What is different about our value proposition?
- Who are our customers?
- What do customers value today?
- What will customers value tomorrow?

The questions asked of customers should also be addressed to investors. The capital markets need to be convinced that a business understands the needs of investors. If not, they will not buy into the business model.

These issues are addressed in Case 2.4 on electric cars, where there are various active competitors in a rapidly emerging industry. It is complex because, while opportunities are coming from growing customer demand, there is also significant pressure from various governments who are concerned with vehicle emissions.

Ensuring the future model can also be delivered when it is needed means that the organization needs *changeability*, which in turn will be very dependent upon its strategic leadership.

Case 2.4 Electric Cars

Int

In 2020, 1 in 250 cars in the world was electric; electric cars and vans together had a market share of 2 per cent. These figures do not include hybrids and many of the sales are in Asia. Experts are predicting that the market will reach 125 million by 2030 as technological and other innovations, as well as governmental pressures and interventions, drive market growth.

Competition for market leadership comes from successful and wealthy entrepreneurs such as Elon Musk and (until he withdrew) James Dyson, with no background in motor vehicles, but also from the established global car producers. BMW, Volkswagen, Toyota, Nissan, Renault, Hyundai and Kia all manufacture electric vehicles, albeit in modest volume relative to their petrol and diesel cars. Realistically it would be difficult for them to ignore the pressure for change. Musk (and Dyson) pledged to invest hundreds of millions of dollars. Yet these various competitors will see different opportunities for creating value as the market emerges. This case invites you to contemplate one or more possible business models.

While the core product would appear to be an electric car, the challenge is quite complex. The cars

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are battery powered, which means the car designers/manufacturers will need to make their own batteries or secure a supply chain. Given that everything really depends on the batteries as a power source, we might ponder the extent to which this is something they really need to control. The batteries have to be plugged into an electricity supply to charge them up. At the moment, the charge is the only source of power; running the engine discharges the battery, and there is no system for using the engine power to recharge. And they are not hybrid. While technology now allows for a few hundred miles from each charge – and this number continues to increase – it is much less than that obtained from a tank of petrol or diesel. When the charge has expired the vehicle has to have access to a charging point. You will see charging points being created widely in public and retail car parks and in petrol stations. The cost of a charge is relatively modest, but a fast charge is more expensive.

Petrol stations are ubiquitous in most developed areas. Once the low fuel light comes on, a petrol station is usually not too far away. And refuelling takes just a few minutes, normally. But what will ultimately constitute the parallel infrastructure for charging a battery, which takes a few hours to fully charge? People in theory could do it at home, say in their garage overnight. But not everyone has a garage. Many people without private drives street-park where they can find a place – and in many parts of the world, large numbers of people live in high-rise apartment blocks. Some retailers such as Ikea provide charging points – but not very many at any one place. It has been suggested that electric cars enjoy popularity where people's employers provide charging points where they can leave their vehicle charging while they are at work. This makes sense, but is it feasible to rely on this as the market grows?

So who are the target customers? To date, age and socio-economic background do not seem to be significant deciding factors. Economics cannot be ignored. The cars are relatively expensive to buy, but they are cheaper both to run and to maintain. Passion for the environmental cause, given the low carbon emission from electric vehicles, will attract some buyers, naturally. Theories about the diffusion of innovation are clearly relevant, but as the market grows, who will be the critical adopters that manufacturers have to persuade? At what point will postulated legislation (that prohibits new petrol and diesel vehicles) become a reality and a serious constraint that drives demand by limiting choice? By the time this happens, will technology and learning have driven down costs? At this point the balance of the inter-related decisions (whether to 'go electric' followed by which model to pick) changes, and this change will offer different marketing opportunities and challenges.

Tesla is one of the best known brands. Based in California, but exporting around the world from the United States, Tesla is over 17 years old and it has recently posted its first profits. It was founded in 2003 by two entrepreneurs: Martin Eberhard and Marc Tarpenning. Very quickly others joined the business, including Elon Musk who became the CEO and a leading investor. Musk was born in South Africa but relocated to the United States as a student. After graduating he started a web software business which he sold in 1999 (when he was 28 years old) to Compaq for $340 million. He then started an online bank which (after a merger and name change) became PayPal, which was also sold – this time to eBay, for $1.5 billion in 2002. Musk has an additional passion for passenger space travel; and in this respect he is competing with Jeff Bezos (Amazon) and Richard Branson (Virgin).

Tesla currently sells three models of cars, with two more in active development. They make their own batteries and are investing in other products related to solar power. Their first European showroom was in London in 2009; this was quickly followed by Japan a year later. Tesla actively partners with Toyota and Mercedes. Tesla is also actively developing 'driverless vehicles' which will inevitably meet resistance from critics concerned about safety.

James Dyson – who reinvented the vacuum cleaner – became interested in the challenge of electric cars, focusing his research on batteries. He concluded that he could not produce something that would be economically viable and pulled out.

Global pressures linked to energy sources and emissions means that the potential for electric cars is huge, and will continue to grow for years to come, as new petrol and diesel cars are phased out. The market will grow dramatically, faster in some parts of the world than others. All the major vehicle manufacturers will need to engage in some way if they are to survive. The challenge is also likely to attract more wealthy business people. Logic and history would suggest that they cannot all be 'winners'. So who will triumph? Why and how?

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Question

1 Using the themes we have introduced in this case, together with anything else you might be able to source, apply the key business model value-creation questions to electric cars:

- What should constitute 'the product'?
- At whom should the cars be targeted?
- What will constitute value and provide a compelling reason to buy, for these target customers?
- How should/might this business model be delivered (profitably)?

You might prefer to take a neutral perspective and look for what you believe would provide a 'winning formula' or take the perspective of one of the competitors we have described.

New business models

Developing these points further and returning to the central theme that a business model clarifies the what and how questions that allow answers to the why and for whom questions, the term **new business model** refers to markedly different ways of doing things that in some way change the nature of an industry.

Hamel (2000) argues that new business models are emerging all the time as fresh opportunities are found. Among the examples he cites are:

1 Consolidation in the SME (small and medium-sized enterprise) sector as large organizations grow bigger by systematically absorbing a series of small (and sometimes local) businesses. Examples include funeral services in the UK; this industry now comprises national organizations which own several 'subsidiaries' which trade as local businesses, and small independents which have often evolved as family businesses. We see the same with opticians' practices.

2 Throwaway varieties of such products as watches and cameras. For an example, see the commentary on Swatch in Section 2.3.

3 Individual customizing. Collectors' editions of the ubiquitous Barbie doll appeal to certain enthusiasts and command a premium price. Various online sites such as Spotify (Case 5.3 later) allow people to download music of their own choosing to compile a playlist of their favourites.

Glasses Direct (Case 2.1) is a new business model. Franchising (popularized by fast food organizations such as McDonald's) is another example of a new business model. We might also include home deliveries of groceries, which we discussed earlier; leasing electrical goods and cars rather than actually buying them outright; package holidays (where holiday companies basically sort everything for customers); bundling games consoles and dedicated games – with relevant pricing practices that encourage people to buy specific consoles; and sharing bicycles and electric scooters in city centres.

In reality, there is any number of possible models – some of which imply clear choices and compromises. Some examples that we cite later in the chapter bring out the challenge of 'getting it right' and then sustaining this state in a uncertain, dynamic and competitive world faced by many organizations in what we commonly refer to as the '**new normal**' business environment. Body Shop, started originally by the late Anita Roddick and her husband, became a fast-growth organization; it was both profitable and a notable campaigner for environmental causes, values which defined it. However, its success attracted competition from established businesses like Boots in the UK but also new start-up businesses in both the United States and the UK.

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Later, and in order to survive, Body Shop was bought by cosmetics giant L'Oréal, although it has since changed ownership again. Another pioneering business whose success attracted competitors was the retailer Mothercare. In 2018 this company announced it was having to close a significant number of stores in a necessary and forced consolidation.

Summarizing this section, business models are clearly linked to both the innovation and strategic management literatures with prominent scholars from both academic fields – including Teece (2010) and Chesbrough (2007) – crossing the intersection between the fields with their studies on business models. Teece (2010), though, notes the lack of a conceptual foundation for business models, particularly in the economics or management literature, then reviews examples of business models (e.g. traditional industries, e-business models) and considers their linkage with strategy and sustainable competitive advantage, barriers to imitation and technological innovation. Business models are also important to the design and execution of new ventures (see e.g. Morris *et al*., 2005; Rajala and Westerlund, 2007, the latter focusing on assets and capabilities).

Blue and red ocean strategy

When competition becomes intense and drives down prices (and, therefore, profit margins), organizations will inevitably seek to be innovative and tweak the established business model. An example would be the attempt to get consumers to pay for online newspapers (discussed earlier), which is innovatory and arguably a new business model. It succeeded to a point. Sometimes what is needed is a more radical approach to business model development. The theme of **Blue Ocean Strategy**, a concept developed by Kim and Mauborgne (2005), is relevant here. The basic presumption here is that some dynamic and leading organizations are successful because they discover radical new opportunities for competitive advantage. They do not set out to compete directly with their rivals by offering 'similar' products and services – which might well result in what Kim and Mauborgne call a 'red ocean' where there is metaphorical blood from cut-throat price competition. Rather, they look to offer their customers something really new and different by creating fresh opportunities and by, therefore, being entrepreneurial.

Entrepreneurs spot new opportunities before others, sometimes finding the opportunity by insight and inspiration, having a 'gut-feel' for something new that will find favour with customers. They spend their lives looking at what is, questioning why it is as it is and believing there is always going to be a better way – and that you will find that way if you ask yourself the right questions – based around 'how can I improve on this?'

You might query whether such new opportunities are naturally and automatically subjective and not the outcome of something more logical and analytical.

Kim and Mauborgne (2005) suggest that, in fact, entrepreneurs and organizations can analyze and list those factors that make up the competitive offering for any product or service, which can then be examined individually and a new business model/product offering sought by examining:

1. Which factors might usefully be *raised* above current expectation levels because they really matter to (certain) customers?
2. Which factors can easily be *reduced* because they are relatively unimportant?
3. Which elements are of no importance but are there 'because they always have been there' but could easily be *eliminated*?
4. What new elements could be created and *added* that would make a new and real difference and set this new product apart in a meaningful way?

Questions 1 and 4 set alongside Questions 2 and 3 help to identify those factors the organization should focus on to create a compelling business model. Remember strategy is about choices – choosing what to do and choosing what not to do – with the latter sometimes being the more important decision. Question 4 and to a lesser extent Question 1 also flag where the organization should seek to diverge from competitors. Yellow Tail, a leading Australian wine brand, for example, offers a limited range of single grape branded wines and

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has capitalized on the surging demand for wine in recent years. Against the above four criteria, the following answers were generated:

1. There is no requirement to be the cheapest wine available as this affects perceptions of quality. So the price should be affordable and the wine readily available through the leading supermarkets and other relevant outlets. Company staff must be enthusiastic and champion the product.
2. Customers do not expect a huge range of different grapes and so a limited range of 'favourites' will suffice. Similarly, many customers are not really interested in the prestige of the vineyard (but they are interested in the taste).
3. Wine aficionado technology is important to only a minority of people and not the mainstream buyer, and relatively few concern themselves with ageing properties. Availability and word-of-mouth are more important than above-the-line advertising.
4. Easy drinking, easy selection and a sense of fun and adventure can be utilized to marked effect to promote a new brand.

Kim and Mauborgne (2005) also suggest organizations can make use of what they call a 'buyer utility map'. Such a map would list the factors that might influence a customer's choice of something. In the case of a car, for example, the following might be relevant:

- the model range available, their features and performance
- prices – both absolute and in relation to perceived quality
- size, ease of handling and parking, plus interior space and seating comfort
- image and design
- performance and economy
- safety features
- the showroom and sales experience
- the availability of a preferred model and colour
- servicing costs
- the ability to retain value
- emissions and annual licence costs
- insurance costs.

These features could be ranked or valued in respect of their significance for a relevant customer. Any individual car might then be scored and compared with those models which are seen as direct competitors. This aspect could highlight opportunities for making it more distinctive in a valuable way – and thus strengthening it as a competitor.

At the same time, gaps might emerge in respect of customer preferences that are not being satisfied. If these gaps could be filled without losing something else that is important, this could be a real opportunity. What is significant here is that this approach targets those issues that matter to customers. But this approach has to be determined by questioning and research, not assumption.

In a more recent book, Kim and Mauborgne (2017) re-emphasize the value of competing in uncontested space, where there is little direct competition and the opportunity to find a perceived clear advantage – with and through a distinctive value proposition. This, they argue, should always be preferable to a search for better tactics with which to out-rival direct competitors, even if this is at the expense of margins and **profitability**. This is a persuasive argument – although for some companies it is likely to prove a fruitless search because of the difficulties involved in creating such distinctiveness and also the lack of barriers to deter or deflect competitors. Simply, 'market-creating innovation' to generate higher value at lower cost has to be an ideal – and something that certain competitors do manage to achieve – but it cannot be sustained by all organizations because, as we saw with Body Shop and Mothercare (mentioned earlier in the chapter), success attracts competition.

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Kim and Mauborgne (2017) restate their belief that:

- Blue Ocean change often requires a fresh mindset.
- Analytical tools can help clarify the detail.
- People matter – executives need confidence and belief to own and drive the level and process of change being demanded.

The relevant mindset may well demand new questions that challenge long-held beliefs about products and preferences – beliefs that now need to be abandoned. When we discuss the 'lean start-up' approach elsewhere in this chapter (briefly) and in Chapter 10 (more extensively), we will elaborate on the types of question to be asked. Launching the shift in mindset (as Kim and Mauborgne describe the challenge) is an effectual process involving trials and testing, which is another feature of the lean start-up approach.

Kim and Mauborgne (2017) use the term 'settlers' to describe organizations that opt to operate within a comfort zone of existing competition but protecting their position; 'migrators' for those who seek to improve the value proposition; and 'pioneers' for those who actively search for market-creating innovation. Migration is realistically a must and pioneering an ideal. Large organizations will follow all three approaches because of the nature of their product and service range. When we discuss (later in Chapter 9) the Boston Consulting Group (BCG) matrix – which categorizes products as 'stars', 'question-marks', 'cash cows' and 'dogs' – we will see a similarity in approach.

It is clear that considerable emphasis on finding new customers is required. These may be people who are new to a particular competitor (but already buyers of rival products) as well as people who are new to the product itself. We have already discussed the low-cost airlines. Their growth has certainly impacted on the 'full-cost' airlines who offer a higher level of service (as some people have been willing to sacrifice service for lower prices), but much of their success has come from attracting new customers who have opted to use these flights when otherwise they would have used a different form of travel or not even undertaken the journey.

It all comes down to situational and competitor awareness; and it is always important to consider whether there is any risk of losing existing customers when new customers are being sought. Focused 'up-market' burger restaurants were never a logical product extension for the outstandingly successful McDonald's business model, but the idea has provided a valuable opportunity for chains such as Five Guys and Byrons. They might well attract McDonald's customers, of course, but only when they want a more relaxed dining experience. The most popular cricket formats are now the 50 over, the 20 over and the 100 ball games. Test matches attract large crowds on some days, but the four-day County games are played with relatively few supporters at the ground. However, it is more a case that the new formats have attracted new customers; the 'old game' was in terminal decline. Bumble is a dating app and second only to Tinder in the United States in terms of size. Its founder previously worked for Tinder. In eight years, it has become a billion-dollar business. It has one key distinguishing feature: with heterosexual matches, only female users of the site can make the first contact with potential male matches. As a result, it has been described as a 'feminist dating app'. Bumble, of course, is more likely to have encouraged people to move from a rival, or use more than one, than attract a whole new clientele.

Drawing on the idea of the marketing mix having four 'P' constituents (McCarthy, 1960), we can relate actions and the questions they address as follows:

What	Products and services
Why	Value proposition
	Price point(s)
Where (they are attractive)	Places available; distribution
How	Promotional activities; how people learn about them and their availability

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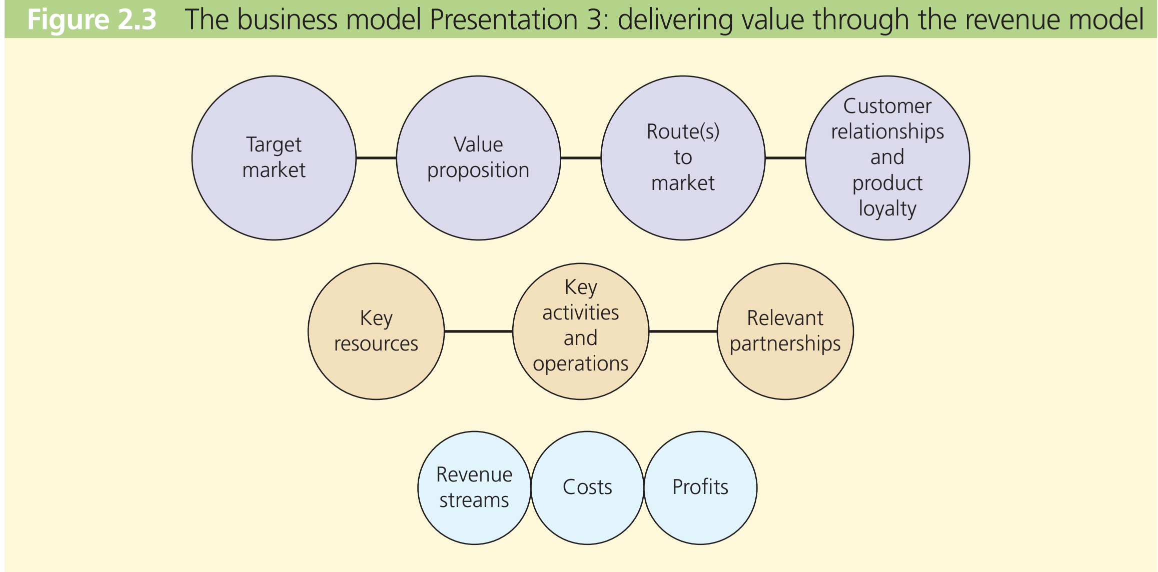
Recalling a point we made earlier, people should be able to answer these questions quickly and succinctly if ever asked to make an elevator pitch. We conclude, then, that the business model matters – but so too does the way the business is run. The detail of implementation and execution are critically important – and it is here that really we switch from the business model to the revenue model – both of which are critical and need to be 'right'.

Presentation 3: Delivering value

The final presentation (Figure 2.3) thus adds in the elements of the revenue model. This time the top line concentrates on external themes – the target market, the value proposition, routes to market (which might be called 'external architecture' and include links and arrangements with distribution partners), customer relationships and product loyalties. The middle line is more internally focused – key resources and key activities.

Figure 2.3 The business model Presentation 3: delivering value through the revenue model



The relevant partnerships here are with suppliers rather than distributors. The bottom line comprises the financial underpinning – revenue streams, costs and the consequent profits – which we discuss here as the revenue model. Essentially, the top line dictates revenue streams and the middle line determines costs.

Before we move on to the revenue model we might summarize our arguments about the business model as follows. Organizational executives must be able to articulate the competitive advantage offered by the company's products and services. Genuine competitive advantage implies that the business understands its customers and what constitutes value for them. In addition, they must appreciate what is required to produce and deliver good quality products and services on time, with the relevant costs and prices implying profitability. Finally, they will have the capacity to engage customers, suppliers and employees and to persuade them of the inherent value in the business model – and, additionally, they will always be thinking ahead and recognizing that (appropriate) change matters.

The 'business model canvas' and the lean start-up

Osterwalder and Pigneur (2010) offer their **business model canvas** as a framework for helping to develop a new business model. In effect, their 'canvas' is an empty (and often large) chart inviting answers to questions relating to the business proposition, company infrastructure, customers and finance. Potential trade-offs can be factored in and tracked through. It is basically designed to gather data which can be used to tease out opportunities. *Illustrations of the business model canvas can readily be found online.*

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In more detail, Osterwalder's approach is concerned with:

- infrastructure: activities, resources and partners (in the corporate network)
- 'offerings' or the value proposition – for each product and service: what makes each one stand out, whether this is quantitative (cost and price related) or qualitative (and linked to differentiation)
- customers: market segments and niches (where these are relevant); routes to market; the nature of the supplier-customer relationship (such as face-to-face transactions or online exchanges)
- finances: the elements of the revenue model, which we expand below.

An example of the canvas being applied is provided in Table 2.3 (later) when we look at the Uber business model.

The business model canvas is also relevant in the context of the lean start-up which we discuss further in Chapter 10, in the section on entrepreneurship and **intrapreneurship** (Ries, 2011). The thesis here is that 'winning opportunities' are best found by first identifying exactly those problems that are most pertinent for potential customers, which they will inevitably prioritize and seek solutions to these problems. Simply, many new products and services fail or at least under-achieve because, however attractive and valuable they are and are seen to be, they are not important or significant enough to warrant customer spending. The products may well be desirable and feature on a wish-list but they still lose out to other priorities.

The subsequent argument is that in a search for new ideas and opportunities we begin by clarifying the priority problems and issues for customers and then designing a possible solution or resolution. The canvas can be valuable here in pulling together thoughts and specific issues. These ideas are then tested with low-investment prototypes, and the thinking is constantly and iteratively updated and refined. Lean start-up is, therefore, a trial-and-error based learning experience.

Success is heavily dependent on asking appropriate questions and remaining open-minded (rather than believing you already know what the solution is), although there will always be a need for imagination and creativity in the process.

Earlier in the chapter we discussed value networks. Henrich *et al*. (2012), taking a similar perspective to Christensen (1997), argue that new **product development** and innovation should involve co-operation between all those who contribute to the value-creation process – product designers, suppliers, manufacturers, distributors, packaging designers and marketing experts – as it is important to only incur those costs that are necessary for delivering relevant value. In today's fast-moving and competitive world, where both value and prices really do feature, this makes sense. However, the need to establish such dialogues and sharing would perhaps suggest a resource-driven perspective for strategy when the lean approach has a much stronger customer perspective. Blending the two perspectives, and factoring in competition and competitor activities, may be challenging, but it is arguably necessary. We can thus see how strategy creation links resources, opportunities and competition – themes we introduced in Chapter 1.

2.2 The revenue model and business value

The revenue model focuses on activities and what the business does to (a) conserve resources, using only what it needs to use, (b) manage its resources efficiently and (c) prioritize those resources that create and build value for customers.

In the context of our framework for the book, we are here asking:

- Why are our profits at the level they are – what is the trend – are we doing better or worse than our leading rivals?
- Where are the profits going with current strategies – up or down?
- How do we improve the numbers – what do we have to do?

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Businesses use cash and knowledge to invest in resources and instigate and execute activities that help them with what they need to do. They are implementing their strategies (and tactics) within the confines of their business model. In turn, they should be generating more cash and also new knowledge and insights as they learn how to do things better and also explore what they might do differently. **Income should exceed spending**. We deliberately use the word 'should' rather than 'must' because of timescales. Amazon provides a wonderful example of a business which spent more than it earned for several years – accumulating trading losses – until it had **critical mass** in terms of size and product ranges. There was always logic to Jeff Bezos' business model, but it required significant investment to build the infrastructure and the business. FedEx (Federal Express delivery service) was not dissimilar at the outset. In recent years, and in no small way thanks to the Kindle, Amazon has repaid the investment and become a very profitable and powerful organization. We shall see if the same holds true for Tesla.

In this context, though, we should never overlook the reality that 'cash is king'. Unless the business can generate surplus cash to invest (from its trading activities), it will need to borrow money to fund its growth – as long as it is in a position to do this. This money will need to be repaid at some point or, simply, the business is insolvent.

The strategic logic and longer-term value of certain courses of action will always be an important issue – but so too are short-term returns and financial considerations. However valuable the desired action might appear to be, it has to be financially possible.

The key issue with any decision concerning what to do next is whether it will lead to an increase or deterioration in the value of the business for its owners (shareholders). This again can be looked at over the longer term rather than the immediate future, as long as those involved are fully aware and supportive. In other words, the net present value of the return on any investment we make must be positive – and, essentially, more positive than other alternatives. There might be alternative options/investments to evaluate. It might sometimes be more beneficial to the organization to sell a part, say one business unit (unless it has a hidden strategic worth and significant opportunity cost), and spend the money on perhaps developing a new product or buying an alternative business.

Businesses make money when they sell things at a profit. In order to have things to sell, they incur costs and they need to spend on:

- direct costs to acquire resources and pay people
- indirect costs on marketing and promotion
- investment to make sure the business can stay resourced in the future and that there is a flow of new ideas, products and services.

These (eventually) all have to be recovered from sales revenues. Revenues and costs, the cash implications and the margin (profit) from revenues exceeding total costs are the basic components of the revenue model. In other words, the execution of the business model must be profitable. And ideally more profitable than other alternatives – otherwise these alternatives would imply more value for the business and its owners.

The revenue model is, therefore, about the financial implications of a series of tactical decisions. These tactical decisions are taken in the context of the overall strategy and the business model. Revenues, of course, can be increased with additional marketing and selling activities – but, naturally, these incur fresh costs. There are often opportunities to cut costs – and really organizations should always be looking to manage their cost drivers to generate savings. At the same time, it is important to remember that some costs (and some activities) should not be sacrificed as they make significant contributions. They are valued by key stakeholders.

Table 2.2 loosely follows accounting conventions to show that activities generate surpluses that can be used in a variety of ways. Different stakeholder groups might be the preferred beneficiary, for example. The table flags that 'typical' (so-called profit-seeking) businesses will allocate their surplus in a different way from a charity, but the principle is the same. There will always be choices; but to have the choice, the organization must create a surplus.

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Table 2.2 How organizations earn and spend revenue

	Revenue trail	Possible options	Commentary
Income to business from relevant trading activities	Revenue and surplus after costs		*The relevant costs start with direct costs such as labour and materials, and, for convenience, we are also including overheads, such as rents, rates and other indirect costs. In management accounts, of course, they are separated.*
	Possible grants and donations		*Most relevant for a charity or social enterprise*
Payments	Loan interest and, as appropriate, taxes		
Leaving for distribution	Surplus to 'spend'	Investment pot	*A business might wish to build new plant, buy new equipment* *It could use the surplus to lower prices to benefit customers* *The investment pot might be retained as cash for a more opportune time*
		Shareholder dividends	*An important decision for larger businesses*
		Owner drawings	*In the case of a small business the owner(s) may wish to capitalize rather than reinvest*
		Charitable giving	*A business might top-slice to make a donation annually or as a one-off* *This will be the main spend for a charity or social enterprise of course and will reflect its purpose*
		Staff bonuses	*A specific reward for staff*
		Funding campaigns	*This could range from optional additional marketing or involvement in special promotions and events – which in turn might have a charitable element*
		Business cross-subsidies	*Relevant for multi activity organizations – and might be seen as a sub-set of the investment pot*

The basic argument, therefore, is that there needs to be both a strategic logic and a financial logic to the strategic decisions and actions that organizations take. New activities should help to improve both – there will always be a downside risk if they have a positive impact on just one of the two, but that may not mean they are automatically the wrong thing to do. Such potential actions require very careful thought and evaluation. Sometimes financial needs and priorities dictate the choice; an alternative might make more sense strategically but not add sufficient financial value to the organization. On other occasions, the strategic importance of certain actions is such that something that would be more lucrative financially should not be preferred. If any proposals under consideration have a negative impact upon both the strategic logic and the finances, they should be avoided. These points are illustrated in Figure 2.4. We do not develop the arguments in depth here, but instead return to them when we examine strategic choice in Chapter 8.

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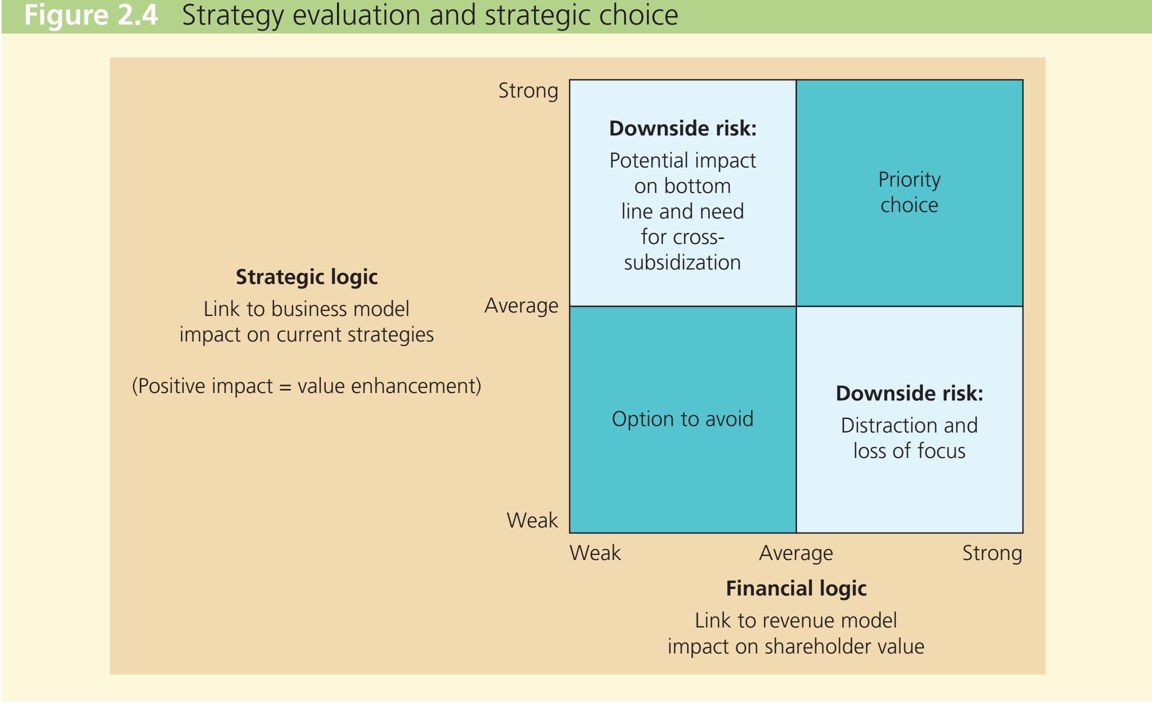
Figure 2.4 Strategy evaluation and strategic choice



We conclude this section by stressing again that today's business environment is dynamic, turbulent and competitive. We have seen how customer attitudes to brands such as Aldi and Lidl have changed the structure of the grocery market and forced more established competitors to react. Organizations survive and stay resilient (the theme of Chapter 17) by becoming and then staying relevant for customers. This demands changes to the business model – which are engineered through the revenue model. The premise here is to eradicate any activities which do not add value for customers and to invest what can be saved into things that do add value. Examples of how this objective might be achieved are:

- promotional spending on popular products and brands
- strengthening those distribution channels that customers are preferring
- developing any identified but missing capabilities carefully and within reason
- speculative innovation into more radical ideas.

2.3 More examples of business models

This section features a number of examples from different sectors to help explain the notion of relevant value creation – what constitutes value, for whom and why, such that they buy the products and services in question?

Fast fashion business models

Fast fashion implies 'trendy, fashionable and not too expensive to not be disposable'. It requires constant changes of design and a speedy supply chain that can react to these fresh demands. Typically designs will be experimental, with modest order quantities and fresh calls whenever a particular design is proving to be popular. Two leading high street names in fast fashion are Zara and H&M. But also popular are two online-only businesses – Asos and Boohoo – which are discussed in Case 2.5.

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Case 2.5 Asos and Boohoo UK

Asos and Boohoo are relative newcomers to UK retailing, but they are growing quickly at a time when other retailers are declining. Their business model is 'right for the time' and (historically) is non-traditional. Both businesses are in the fashion industry; they are entirely online, with no high street stores. They feature well-known brands in their product portfolios, as well as many own-label items and they provide a route to market for smaller manufacturers (and brands) who would struggle to compete on their own. There are scale economies from size linked to centralized warehousing, logistics and distribution as well as information management and shared financial systems. This aspect is where the focus of the business lies; branding, design and manufacture need not be in-house. These functions can easily be decentralized to smaller specialists. Both businesses were started by (and continue to be run by) entrepreneurs with relevant retail experience and who were able to secure adequate start-up finance. Both have secured substantial extra investment once they had proven their model.

To put Asos and Boohoo into context: until recently fashion goods were typically bought from (i) premium brand businesses who had independent boutiques and concessions in department stores – with some direct sales online – and (ii) from 'high street stalwarts' such as M&S and Next, also with some online sales, as well as (iii) retail groups comprising independent brands (Arcadia) and (iv) retailers of lower-price alternatives, such as Primark, which opts not to offer online sales, and Matalan, which does. To take sales away from all of these, as the exclusively online retailers have succeeded in doing, they had to deal with the challenges of customers not being able to try on goods before purchase and the number of returns for a refund. (In 2022 Boohoo started to charge for refunds.) In no small part, the success has been through initial careful targeting to younger people, mainly females, who are drawn by fast fashion and regular purchases of new products, mainly, but certainly not exclusively, for leisure. They intend to be, and are, 'fast to market' with new products and new designs. As the case in Chapter 4 (on High Street Retailing) shows, all of these four retail types have suffered in recent years, and particularly during the 2020–21 COVID-19-driven lockdown – a time when the online retailers remained fully 'open for business'. The lockdown may have been a wonderful opportunity for them, but it was certainly not the only reason they have been successful.

The name **Asos** was created from the words 'As seen on screen'; the business is not exclusively clothing and Asos also sells (related) cosmetics. Its targeted image is casual wear which is 'individual and fun', but the company also declares concern with employee welfare and the global environment. Target customers are young adults. Sales are worldwide from fulfilment centres in the UK, the United States and Europe. The company was opened in London and its UK warehouse is in South Yorkshire. By 2020 – when the business was 20 years old – global revenue approached £4 billion, with brands from some 850 manufacturers. Asos boasted 2.7 billion visitors to its platform and around 24 million active customers in more than 200 countries. There is considerable benefit from sharing across social media. In 2019 Asos had altered its returns policy because 'too many customers were manipulating the easy returns policy'.

In early 2021 Asos bought various brands from the administrators of Arcadia; in reality, these were the brands that Boohoo had not already bought. They were Topshop, Topman, Miss Selfridge and HIIT. Like Boohoo, Asos was buying the brand, the customer database, the company website and access to the relevant supply chains; there was no intention of reopening any high street stores. The price paid was £330 million – £265 million for the brands and support services and a further £65 million for existing stock and products already in the supply pipeline.

Boohoo was started by Mahmud Kamani and Carol Kane in Manchester in 2006. Its market value now exceeds that of Asos and the number of products it offers exceeds 40,000. The two businesses are similar but different. The target market is the same, namely 16- to 40-year-olds – but are they the same people in this age group that Asos appeals to? As a percentage of the total, more of Asos's revenue is generated overseas, but both businesses are international in scope. Boohoo has absorbed Pretty Little Thing and Nasty Gal as subsidiary businesses, and offers the Karen Millen, Coast, Oasis and Warehouse brands which it has also bought. Each of these brands has its own dedicated customer base and website. Customer expectations for the product quality of these more upmarket and premium price brands will inevitably be high and different from the expectations of lower price own-label items. Boohoo acquired various other brands in early 2021. The 242-year-old Debenhams was first, at a price of £55 million. As a consequence, 124 department stores would be closed down. This opportunistic acquisition was soon followed

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by Burton, Dorothy Perkins and Wallis from the Arcadia portfolio for a 'discount' price of £25 million.

Boohoo produces over half its own-label products in the UK – in London, Manchester and particularly Leicester. Some of the relevant factories have been accused of not always paying UK minimum wages. A typical strategy is to buy and trial between 300 and 500 of a new design, repeating the order if it is selling well. Fast turnaround is required from manufacturers. Boohoo promises next day delivery for any orders of an in-stock item if is placed before midnight.

Before the various 'big brand acquisitions', in 2019 Asos and Boohoo held 4 per cent of the UK fashion market roughly in a 60:40 ratio.

Questions

1 Do you see yourself as (are you, in fact) an Asos or Boohoo customer? Why? Why not?
2 How much do particular brands make you a target customer? What constitutes value for you?
3 Is reputation a factor in your decision? If so, how?
4 Are there any reasons why you prefer a 'proper store' in the high street and shun online retail?

Swatch watches

Swatch watches would also be classified as fast fashion. They have a distinctive proposition for their industry and they have been instrumental in maintaining the popularity of the Swiss watch industry. Swiss watches have always presented an image of quality; for many, many years the movements that are at the heart of quality branded watches have been manufactured in Switzerland. The brand owners add the case, face, name and strap. These quality movements are mechanical – sometimes requiring winding, but often being automatic (self-winding). They are always analogue – the time is always shown with hands (but sometimes involving additional fashion features). Many less expensive watches are available. These tell the time (the main function of a watch!) and they may even look like a more expensive original. They are rarely serviced or repaired. These are likely to have a quartz movement (and require batteries); although many are also analogue, they can sometimes be digital. Quartz movements are typically less expensive and might be manufactured 'anywhere'.

Swatch watches have a Swiss quartz movement – although some parts might well be sourced in the Far East – and the faces are colourful and distinctive. The designs might be unusual or more traditional and many are changed quite frequently. The straps are often plastic, but not always. The watches can be very slim (which makes them more expensive) or 'normal' size. There is an assumption that they will not be repaired if something happens – although batteries can be replaced. Swatch watches are not cheap and they have a distinctive identity and place in the market, somewhere between 'cheap watches' and 'expensive branded watches'. They can be found in department stores, although they are most prominent in small, dedicated boutiques in shopping malls and in duty free shops at airports.

Retail business models

Iceland

Iceland is a food retailer that complements the major high street names as much as competing directly with them. With a niche approach, it enjoys around a 3 per cent market share. The major supermarkets sell frozen food but dedicate just one or two aisles to these products. Iceland specializes in a large range of frozen foods,

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including ready meals and bulk buys. Relatively low price frozen food is the Iceland product. The business offers 'value for money' at very competitive prices – which, unusually, are rounded off rather than ending in x9 pence. Innovative, it is always working with its suppliers to produce new products – over 200 a year. Iceland also invests in staff relations to ensure shopping can be an enjoyable, if cold, experience.

Pound shops

Poundland is perhaps the best known but is just one of a number of 'value retailers' or discount stores which represent a retail sector that has grown dramatically in recent years, although (as we see in Chapter 4) some pound stores are now beginning to close down. Also in Chapter 4 we see how M&S began as a market stall where everything was priced at a penny – the intention with many stores in this sector is to charge a low price for everything, with 'everything' focusing on various household and bathroom products, although not exclusively. As product ranges have been expanded to differentiate in a competitive sector, some higher price items have been included. Anything might appear in these stores because the business model is based on sourcing 'anything anywhere' which can be sold profitably for a discount price. Surplus stock from other retailers who are in trouble, plus imported goods, are all likely to appear. The range changes in line with availability and the uncertainty concerning what might suddenly appear is attractive to some customers. The certainty is the price, which will always be low, even if it is more than a pound, which puts great pressure on sourcing and the supply chain. The margins on goods sourced overseas, for example, are affected by currency movements, which means Brexit in the UK has been a critical issue. There might be an expectation that such stores would have a down-market profile, but the careful choice of high street locations helps alleviate this. That said, these discount stores are more likely to appear at the 'poorer end' of the high street where rents are lower. As is the case with charity shops, there is no single target market; the format attracts a wide range of customers looking for a surprise and a bargain.

Build-a-Bear

The founder of Build-a-Bear, Maxine Clarke, developed a new retail format when she realized that if retailing is fun, people buy more; she also realized how much children enjoyed crafts and making things, and also how attached they became to stuffed animals, especially teddy bears. She saw an opportunity to bring these together. She believed her key customers for what she had in mind, children, would judge her less on the financial performance and more on what the in-store experience meant to them. Potential investors would think differently, of course, so the business would also need to be run efficiently. The first Build-A-Bear Workshop was opened in St Louis, Missouri in the late 1990s; the idea was that children would build their own soft toy. For each one of them it would be a unique experience. They would be able to select a bear skin from a number of different ones available and then help operate the machine that stuffed it and gave it form and substance. They would also select a heart that would be popped inside and a voice. They would also help to seal the finished toy and give it a name, which would be printed on a tag and attached. As the business grew, more and more animals were made available. At first, parents said it would not work, but children asked where the workshop was and when could they go. After 15 years, there were over 400 Build-A-Bear Workshops around the world, roughly 60 per cent in the United States and 40 per cent overseas. There is a mix of company-owned and franchised stores. By now there are over 700 million bears and other animals 'alive' somewhere in the world. The business would not have succeeded without solid and reliable retail systems – that Maxine Clarke was already familiar with – and strong relationships with her suppliers, especially those who supply the skins.

Service business models

Uber

The Uber brand represents the 'gig economy' and it has achieved global prominence in a relatively short period of time by, in effect, using technology to reinvent an industry. People always need taxis but they may not always be happy with those taxis that are available. Maybe the cars are old or dirty; maybe they don't feel safe, especially if the drivers seem to be taking a roundabout route; maybe the prices seem too high. Uber was

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first started in San Francisco in 2010, with New York following in 2011, and Paris and London joining in 2012. But it now has a global reach and embraces India, China and South Africa as well as the United States and Europe. It has diversified into boats and helicopters for additional revenue generation; Uber also provides delivery services.

Instead of the 'traditional' ways of finding a taxi (such as street taxi ranks or listed telephone numbers or, in some cities, 'flagging one down' in the street), the Uber business model relies on an app which people will download onto their smartphone and then enlist as an Uber subscriber. Once registered, all customers really need to do is open the app to alert Uber that you need a taxi; the location (and assumed pick-up point) is automatically confirmed. Of course, this basic model can be refined. The computer model is programmed to identify the nearest free driver – who will effectively be semi-independent and contracted to Uber and recorded as 'on duty'. No money is exchanged between the driver and the client; this is all handled by online transactions. The reality that Uber needs to be licensed as a provider ensures some control over standards.

Customers can choose (and register) the type of car they prefer – say a 'black cab', a sedan or an SUV – which come at different price points. Prices vary by the time of day, current demand and the number of drivers currently on duty. Once they input their desired destination, customers are told the waiting time and the price. They can then accept or decline – or refine. When demand surges, the computer system alerts off duty registered drivers who know that prices will be at 'surge levels' and they may opt to go on duty. Normal off-peak prices are perceived to be lower than competing rank prices. There are special rates for unaccompanied children and registered pensioners, a form of price discrimination which is easy for the model to administer (refer to Table 2.3).

Cars are tracked at all times using GPS. Customers are provided with the name and picture of the driver who is coming for them – again they can reject if they have any concerns and ask for an alternative. Drivers largely work when they want to work; they can receive certain bonus payments from Uber if they work when demand is low. It remains a point of debate whether they are truly self-employed or employees. Legally, at least, the 70,000 UK drivers are classified as employees with minimum wage entitlements

Table 2.3 Elements of the business model canvas applied to Uber

Infrastructure	The Uber app Locations Cars and drivers
Activities	Product development Marketing and finding customers Vetting and hiring drivers Managing driver payments
Value proposition	Limited waiting time Competitive prices Cashless rides Relative customer safety
Key resources	The platform The cars and drivers
Customer segments	People without transport People looking to 'drive in style' People looking for low prices
Revenue management	Surge pricing Driver payments only when on a job Drivers maintain their own cars
Customer relations	Social media feeds Online ratings

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(for the hours they drive), together with holiday and sick pay allowances and a pension. They remain free to choose when they work; they are not paid when they are waiting for fares. The relevant legal ruling also put pressure on other businesses in the gig economy, including those in the next example. In 2022, questions were raised about the ethics and legality of political lobbying (in Europe) by Uber.

Of course, the 'devil is in the detail' and the model must work reliably and consistently. Table 2.3 shows how some of the elements of the business model canvas might be used to summarize the Uber offering. The table is not offered as fully comprehensive.

Deliveroo

Deliveroo (like Just Eat and Uber Eats) is another example where IT has been used to create customer value. This sector benefited enormously during the COVID-19 lockdowns, when many people relied on takeaways. Deliveroo was established in the UK by two US entrepreneurs in 2013. It has expanded quickly to cover 200 cities in Europe, the United Arab Emirates, Hong Kong and Singapore. Simply an app or the website can be used to order food deliveries (breakfast, lunch and dinner) from a 'favourite' restaurant from a wide range on offer. Chain restaurants including Byron, Carluccio's, Wagamama and Zizzi's all participate. Customers order from the menu; self-employed drivers are alerted and they then collect and deliver the food. Customers pay for their food plus a fee for the delivery; the restaurants pay a commission to Deliveroo. This business model taps into the increasing preference of many people and families to minimize the time they spend preparing meals at home but who either do not want to eat out or are not realistically in a position to do so.

Deliveroo, benefiting from the pioneering work of Uber, provides an example of how disruptive innovation can spawn a variety of related opportunities for other businesses. Historically one of the problems with some fast food home deliveries was in the packaging. The 'containers' were often not very robust; sometimes they leaked (typically fat) and the food did not stay as warm as it might in transit. There have been improvements by individual businesses such as Domino's Pizza, but the emergence of businesses like Deliveroo and Just Eat, with serious growth potential, attracted the interest of specialist packaging businesses who have set out to design special cartons and containers for different types of fast food. What might be ideal for a pizza might not work particularly well with a meal from Wagamama.

Nando's

One restaurant chain with a very distinctive – and very successful – business model is Nando's. Nando's sells chicken, marinated in a peri-peri sauce, to a (largely) relatively young clientele, often families. The business is built around customer and employee satisfaction. The atmosphere is friendly and music plays in the background. Customer choice is wide and narrow at one and the same time. Chicken can be ordered as burgers, pieces, wings or whole or half chickens; and there is a range of both accompaniments and spicy and non-spicy (but tasty) sauces from around the world. The chicken can be fried, grilled or barbequed. There are over 200 Nando's in the UK – but this is a global chain that began in South Africa in 1987. Customers order and pay for their food at a serving counter but it is table-served. It arrives quickly – but there is no pressure to eat and leave quickly. Customers might be largely from younger age groups, but they are not stratified in any meaningful way. Celebrities and high-earners are just as enthusiastic about Nando's as are people looking for an affordable meal.

Leisure business models

London Zoo

In the case of London Zoo (featured in the next chapter), we can see evidence of difficult decisions concerning 'products' and customers. Without at least some retailing activities, London Zoo would be out of business. A part of the Zoological Society of London, the zoo has a key scientific purpose related to conservation and the preservation of endangered species. However, those animals that are particularly attractive to most paying visitors are often not the most endangered. Moreover, there is a duty to educate as a large proportion of the

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visitors are children. Many national animal collections around the world are much more heavily subsidized, but in recent years London Zoo has not been allowed to become grant-dependent. It has had to establish a revenue-generating business model without losing sight of its origins and fundamental purpose – within the constraint of its location in a Royal Park which seriously affects any possibility of expansion. London Zoo has, therefore, had to build a model which balances conservation, education and entertainment.

Cirque du Soleil

The big top travelling circuses of the type pioneered by show people such as the legendary PT Barnum – and which featured animals, typically lions, tigers and elephants, alongside acrobats and the ubiquitous clowns – still exist, but they cannot command the audiences they once did. And there are fewer of them. The main ones include the Ringling Brothers and the Russian and Chinese State circuses. Over time, leisure spending has increased and competition for the 'entertainment spend' has also increased – but at the same time consumer tastes have changed. Spectacular specialist acts featuring animals became popular in Las Vegas many years ago, although when a white tiger mauled one of the partners in the Siegfried and Roy Show in 2003, serious questions were raised about them. There were, of course, already many animal lovers who were critics of shows such as this one. Meanwhile, some claim that the circus industry had been 'reinvented' with a new business model and without needing animals.

Dubbed 'the New American Circus', Cirque du Soleil was started in Canada in 1984, the invention of a small group of street performers. By the end of the century, they had entertained some 30 million people with a range of innovative and daring production shows which combined circus acts with performing arts. They typically feature jugglers, trampolinists, trapeze artists and clowns – who work together rather than have individual feature spots. The shows are operatic as well as acrobatic, they are choreographed, they stretch the talents of the performers, they are visually impressive and they all have a clear theme or story. Music, opera, dance and acrobatics are combined into a holistic show. The shows are different and innovative – and relatively highly priced with few price concessions for children – and so Cirque du Soleil enthusiasts are likely to attend regularly, if they can get to where the shows are.

Originally, the focus was on a traditional moveable 'big top', but very quickly Cirque du Soleil moved into dedicated resident theatres, especially in Las Vegas, and also introduced some shows that worked in existing venues such as the Royal Albert Hall in London, which they visit regularly. Las Vegas seemed an obvious early target; now there are always several long running shows on offer in different Las Vegas hotels, including some built around music, namely 'Live' (The Beatles) and Viva Elvis. Walt Disney World Resort is another home; that said, shows can be seen all the time in various countries. Cirque du Soleil is clearly a success story, but not everyone agrees they have actually 'reinvented the circus industry'. It offers an opportunity to see at work the four Blue Ocean action themes of eliminate, reduce, raise and create in the search for a new value proposition and a distinctive competitive edge.

ELIMINATE: Star performers; animal shows
REDUCE: Fun and humour; thrills and danger
RAISE: Unique venues
CREATE: Themes; refined environment

> *This revamped value proposition allowed Cirque du Soleil to broaden its appeal to theatregoers and other adults seeking sophisticated entertainment, rather than the traditional circus audiences of families. As a consequence, it was able to substantially raise ticket prices.*

Osterwalder and Pigneur (2010)

The opera

Globally, opera can only survive if it is subsidized, so the business model must embrace this. The subsidy can be from government – in the UK the Arts Council accounts for some 30 per cent of the budget at The Royal Opera House – or corporate and private donors.

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Customers have typically been willing to pay very high prices for the best seats as long as the quality of the performance merits it. And many opera-goers are discerning. But high prices inevitably limit the appeal. In part, opera is expensive because it demands a large number of singers and musicians. It is possible to attract audiences in particular cities but not smaller, regional theatres – and there are very few extended runs. In the UK, 'ordinary' seat prices for The Royal Opera House Covent Garden rise to over £160 – although the cheapest restricted view seats can sometimes be bought for £3. The Metropolitan in New York has top prices of over US$300. But opera houses have to be maintained throughout the year and orchestras retained. They are not going to be full of customers every night of the year; the market is too limited for that.

Opera has long enjoyed an elitist image; opera-goers are so-called aficionados. And yet the reality has changed in recent years. The opera 'product' now extends well beyond the world's leading opera houses. The change began when *Nessun Dorma* was used as the theme music for the 1990 football World Cup and, on the back of this, the concert by 'The Three Tenors' was broadcast to the world on television, and the accompanying CD became the best-selling classical album of all time. Tickets for today's leading tenors, such as Roberto Alagna, Andrea Bocelli and Rolando Villazon, will quickly sell out. Recently, more populist singers like Lesley Garrett, Russell Watson, Alfie Boe and Katherine Jenkins have brought operatic arias to an ever-wider audience.

In other words, the opera 'product' now encapsulates CD and popular television as well as actual performances for a growing and changing market. The leading singers have been very carefully 'packaged' and marketed to give them a wider appeal. In addition, showing live opera performances in cinemas throughout the country – at prices not much higher than normal cinema tickets – has made opera houses too expensive such that people choose not to go because of the overall cost. The business model has certainly changed but there are still challenges.

The André Rieu Orchestra

Similar to the opera, classical music has been made more popular by such interventions as the launch of the Classic FM radio station, which typically features 'bite-sized' pieces of music rather the full works. In part linked to this, film music has been recognized as classical music, and this has effectively increased the market appeal and reach. Again, like the opera (and ballet), classical orchestras (and concert halls) rely on sponsorship and subsidies. By changing the perception that classical music can be fun entertainment – and not just for the elite and aficionados – André Rieu has created a multi-million dollar business which requires no external support. He has designed a product that has a wide appeal; he calls his orchestra 'The Johann Strauss Orchestra', but they play a much wider repertoire.

His concerts certainly feature traditional classical pieces, but he also includes light classics and orchestrations of popular songs and show tunes (many of which he arranges himself). Singers and dancers accompany the musicians. His orchestra comprises 55 players. He targets customers of all ages who simply enjoy music and musical theatre but who perhaps do not enjoy the 'gigs' where music is played loudly and the audience is more likely to stand than to sit. He can fill arenas as well as other concert venues; his 85 (or so) annual concerts attract a combined audience of some 700,000 people. His shows are also streamed to cinemas, and he has sold more millions of CDs. It is fun, lively entertainment executed very well. The musicians are all expert players; the shows are colourful. Rieu conducts from the front but also (for some pieces) plays lead violin. There is a family feel to the concerts, reinforced by the family feel of the orchestra, which contains some 13 couples among its 55 players. People who attend are encouraged to feel comfortable in casual dress – unlike certain classical and opera performances where formal dress is *de rigeur*. By exercising total control of both the music and the concerts themselves, André Rieu is an unusual combination of a leading composer/arranger such as Andrew Lloyd Webber and an impresario such as Cameron Mackintosh.

If we again use the Blue Ocean criteria, we can see how Rieu has *eliminated* any star soloists or conductors, *reduced* the orchestra to 55 players, *created* audience participation and *raised* audience sizes (and revenue) by playing in large arenas.

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Manchester United

Manchester United – like Barcelona and Real Madrid and certain other leading European clubs – has become far more than a successful football club. It has an estimated value of some £3 billion. It is a collection of diversified but related activities that can be associated with a distinctive brand – a brand which signifies success, such that association with it automatically implies being part of something that is successful. Manchester United may not be unique in what it does, but it still attracts fans and loyalty around the world. The Manchester United brand reflects high quality both on and off the pitch – and consequently customers expect to have to pay premium prices to buy this association. The 'core market' might be the 70,000 plus fans who turn up at Old Trafford for Premier League matches, but there are many more people all round the world who are interested in having some part of this success story. Some fans travel long distances to attend the home matches; support in parts of the Far East is fanatical. In Porter terminology, Manchester United is very clearly differentiated – and very profitable.

Social business models

Social ventures have social objectives, such as poverty reduction (Seelos and Mair, 2007). By citing Body Shop earlier in the chapter, we drew attention to the fact that some businesses and business models are value driven in the way they build value for customers. On the one hand, we have the values (and beliefs) that drive the design of the products and the way the business conducts itself; on the other, we have what it is that constitutes value for the customer. We mention elsewhere in the book that these two definitions or interpretations of 'value' are not exactly the same, but there is a relationship between them. The arguments are expanded in Chapter 3 when we discuss purpose. Here the featured case on Selco highlights the driving social purpose of some businesses and flags that they, like the opera, may well need subsidies.

The values held by the business owners and executives may themselves constitute value for some customers. But other customers may not concern themselves with the values held by the business owners; they may simply like the product or service for what it gives them. Some customers are attracted to Body Shop products because they use natural ingredients and focus on being environmentally friendly; others buy them for more functional and pragmatic reasons. They just like them!

For such businesses the revenue model needs to be expanded to embrace the social value element alongside the 'numbers' and the financial profitability.

Divine Chocolate

The main chocolate brands in the UK and elsewhere might be Cadbury's and Nestlé, but there are clear niche opportunities as well. Divine Chocolate is marketed as 'heavenly chocolate with a heart'. It is, though, a Fairtrade social enterprise, one of a number in this industry. The business was set up in 1997 by a farmer's co-operative in Ghana, and the farmers retain a 45 per cent share. The lead owner is a Dutch Fairtrade enterprise, but the business is based in the UK where there are around 20 employees. Manufacture is close to where the cocoa beans are grown. The European turnover is some £10 million per year, but the UK chocolate market alone is some £4.6 billion a year. But Divine Chocolate is available in leading supermarkets, including Tesco, Waitrose and Asda, and it provides own-label products to Starbucks. The cocoa bean growers are guaranteed a fair price for their beans, and they receive annual dividends; as a consequence, customers will generally be asked to pay a premium price. Divine Chocolate is examined in more detail as a short case in Chapter 14.

Coding Autism

Coding Autism is a specialist school in Los Angeles. One in every 68 people in the United States has some element of autism, the social effect of which ranges from very small to seriously significant. It is often not easy or straightforward to place (young) people on the so-called A-Scale. Of those actually diagnosed as

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autistic the unemployment rate is very high, and yet many autistic people thrive in the technology industry, where their attention to detail is very valuable. They enjoy and thrive on repetitive tasks that might annoy or bore many other people. The School focuses on helping people with autism to learn coding skills and thus creates genuine value for its pupils or clients. Its development has, though, relied heavily on crowd funding, which must call into question its (financial) sustainability.

Beyond Wireless

Beyond Wireless was started in South Africa in 2003. It provides remote temperature monitoring via probes that are programmed to transmit readings and alerts via a cellular phone network. The target usage and clientele has focused on vaccines and pharmaceuticals that need to be stored in cool places, which can be tricky in very hot climates. If the storage temperature is too high, then the efficacy of the products is destroyed. The wireless probes can thus save both waste and lives. The business model has been to target organizations such as the World Health Organization, UNICEF and the Red Cross, who are active in many developing countries.

Further examples we might cite in this section relate to products that have been developed for simple home use to help people who are diabetic to constantly monitor their blood sugar levels and thus alert them to when they might need sugar or even insulin. These products might be available through the National Health Service but they can be bought by individuals at affordable prices.

Comic Relief

The BBC in the UK typically hosts two charity fundraising evenings every year. In November there is Children in Need; in the early Spring, Comic Relief and Sports Relief take place in alternate years. All evenings feature celebrities from entertainment and sport – augmented with active support from the general public (such as the Marsh Family (2021), who went viral on YouTube, with their lockdown song *We Are Totally Fixed Where We Are*, a parody of *Total Eclipse of the Heart*); and all raise substantial sums of money. It is these features that make them both distinctive and privileged within the charity sector. Money is raised by others doing things ‘for the cause’, but a great deal comes from cash donations via text and phone pledges. Some might argue that, thanks to the wide publicity and high-profile support, these initiatives are diverting some attention and funding away from other important charities which cover a wider spectrum of need. Children in Need is an organization in itself; projects can apply for funding for their own initiatives. Comic Relief and Sport Relief have smaller infrastructures and they support disadvantaged people anywhere in the world. Much of the money they raise is distributed to worthy causes via other existing charities that, in effect, act as beneficiaries and subcontractors.

As the final example in this chapter, it is appropriate to cross-refer back to E–V–R congruence, introduced in Chapter 1 as a central analytical framework for the book.

Environment relates to needs among disadvantaged and ill people in the UK and around the world, demand which will inevitably always exceed the funding that is available. It will also embrace the many charities that are working hard to support this sector. The environment is also the ‘home’ of the people who donate time and money.

Resources is largely about people and money. Many people run activities and raise funds, but, in this case, recognizable personalities and TV support is a critical, defining influence.

Values is the commitment to help others. Without values, of course, the work of charities and the ‘Third Sector’ would be threatened.

There is a strong case that Comic and Sport Relief (like Children in Need) enjoy E–V–R congruence, but they are heavily reliant on the willingness of celebrities, the public and the BBC to support them, and the fact that people generally are influenced by the persuasive influence of celebrity. It is, actually, a very clever model.

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Research Snapshot 2.1

Extant literature on business models, as already hinted at in the main chapter text, reveals a lack of conceptual clarity and limited empirical research such that 'business model research continues to be plagued with problems' (Fjeldstad and Snow, 2018, p. 32), and Foss and Saebi (2018, p. 18) noting that it (and business model innovation research) is 'characterized by a striking lack of cumulative theorizing and an opportunistic borrowing of more or less related ideas from neighbouring fields in the place of cumulative theory'. Indeed, Lambert and Davidson (2013, p. 668) confirm that, 'there is no widely agreed upon definition and composition of the business model concept', (supported by Foss and Saebi, 2018), while it has been widely 'misinterpreted and misused' (DaSilva and Trkman, 2014, p. 379), and yet there is now evidence of 'a recently converging business model view' (Wirtz *et al.*, 2016). Significant advances have been made since the early 2000s in our understanding of this concept, the rationale for the business model, and good practice in terms of design and implementation (including typologies and exemplars). Avoiding failure of business models requires comprehension of both how they 'develop through predictable stages over time' and 'key decisions' (Christensen *et al.*, 2016) and by having an appreciation of identifying and overcoming 'tensions between new and existing business models' (Sund *et al.*, 2016).

Novel and distinct ethical business models include those that are ethical in social enterprises (Bull and Ridley-Duff, 2018), and social purpose organizations (Kullak *et al.*, 2021). There are also organizations that foster peace and reconciliation (Kolk and Lenfant, 2016), which are clearly not *les terribles*, or that are 'transformational', such that they can overcome so-called 'grand challenges' (Martí, 2018). In addition, there is a growing research agenda that examines sustainable business models (for example, Dentchev *et al.*, 2016; Freudenreich *et al.*, 2020; Joyce and Paquin, 2016; Palattella *et al.*, 2016; Rauter *et al.*, 2017; Schaltegger *et al.*, 2016; Sousa-Zomer and Miguel, 2018; Upward and Jones, 2016) and, in particular, business models and business model innovation in the circular economy or so-called circular business models (Ferasso *et al.*, 2020; Geissdoerfer *et al.*, 2020; Linder and Williander, 2017; Vermunt *et al.*, 2019). Freudenreich *et al.* (2020), for example, suggested that by applying the underpinning thinking behind stakeholder theory, including that 'stakeholders are both recipients and (co-)creators of value in joint value creation processes', that more sustainable business models could be achieved. Further, Yunus *et al.*'s (2010) social business model framework is based on Grameen Bank and offers five key lessons: 'challenging conventional wisdom', 'finding complementary partners', 'undertaking continuous experimentation', 'favouring social profit-oriented shareholders' and 'specifying social profit objectives clearly'. However, more recent research questions the benefits of the microfinance business model vis-à-vis the costs due to high levels of subsidy (Cull *et al.*, 2018), as well as on the business models deployed in financial technology (fintech) more generally (Lee and Shin, 2018). Innovative business models are also required so that Western firms can compete effectively with firms from Brazil, Russia, India and China (BRIC) (Aggarwal, 2013). Sectoral examples include innovative sustainable business models in the water industry, as noted above (Sousa-Zomer and Miguel, 2018), as well as television content (Parry *et al.*, 2018), electronic vehicles (Nieuwenhuis, 2018), and in the context of corporate innovation management (Trapp *et al.*, 2018), for information technology (IT) entrepreneurs (Ojala, 2016), and for the creative industries (Li, 2020). One promising business 'decentralized' model involves the application of blockchain (Chen and Bellavitis, 2020). In terms of the creative industries (Li, 2020), that is exactly what is suggested in new music start-ups as financial intermediaries to enable new entrants to break into a market that is highly dominated by a small number of incumbent music labels (O'Dair and Owen, 2019), thus potentially offering disruption (Chen and Bellavitis, 2020) and disruptive innovations by recalibrating business models and shifting competitive dynamics radically.

The new economy, gig economy, sharing economy and platform economy, including the Internet of Things (IoT), are all types of business models that have been thoroughly reviewed and noted to be highly 'gendered' (Poutanen and Kovalainen, 2017). Dot.coms, digital platforms transforming labour and product markets, crowd funding, the IoT, gamification, e.g. a case study of Linda Liukas' Kickstarter-crowdfunded game 'Hello Ruby' whose lead character is a six-year-old girl (Poutanen and Kovalainen, 2017). The influence of the IoT upon business models, in which physical products (particularly devices such as household appliances) have internet connectivity, has also been recently studied (Arnold *et al.*, 2016; Ehret and Wirtz, 2017; Engel and Ladid, 2016; Leminen *et al.*, 2020, Metallo *et al.*, 2018). As a recent phenomenon, it is clear that much future research will explore the business model innovations that the IoT is

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fostering, such as the recent concept of the Internet of Everything (IoE) which focuses on the connectivity of the IoT smart devices, people and even organizations (Langley *et al.*, 2021). Similarly, platform business models, like Airbnb and Uber that are key elements of the gig economy, have been researched (Täuscher and Laudien, 2018; Zhao *et al.*, 2020), and digital business models (Bouncken *et al.*, 2019; Caputo *et al.*, 2021; Kohtamäki *et al.*, 2019; Kraus *et al.*, 2019; Parry *et al.*, 2018; Vendrell-Herrero *et al.*, 2018), although there is perhaps less current research than might be expected that focuses directly on their business models. Nonetheless, a wider and growing body of studies does explore and explain the gig economy, platform economy and these other related business models. Zhao *et al.* (2020) found that, 'platform business models evolve in a context of fierce competition' through a 'combination of complexity in the business model design, and the simultaneous use of innovation and imitation to create highly intricate systems of activities'. Curtis and Mount (2020), for example, suggest that sharing business models can support sustainability. Big data and its usage is another phenomenon that impacts upon business models including in start-ups (see Hartmann *et al.*, 2016, thus contributing to the emergent phenomenon of digital entrepreneurship (Kraus *et al.*, 2019). Kohtamäki *et al.* (2019) explain how digital servitization actually transforms other firms' business models within the entrepreneurial ecosystem of the firm that is digitalizing its business model. Overall, however, it is clear that digital business models and digitalization have helped many firms to overcome the challenges created by the COVID-19 pandemic, by enabling working from home (WFH), contactless takeaway food and coffee, and much else (for a comprehensive initial review, refer, for example, to Ritter and Pedersen, 2020). There is also some emergent research on resilient business models (Niemimaa *et al.*, 2019; Liu *et al.*, 2020) which is relevant to the COVID-19 crisis and pandemic and which no doubt these authors are now applying to that specific context.

Although introduced at an earlier time, the concept of an open business model has been more recently extensively documented and justified (Chesbrough, 2013; Colombo *et al.*, 2016), including in entrepreneurial firms and with some evidence of improved outcomes in innovation and new product development (Alcalde and Guerrero, 2016; Visnjic *et al.*, 2018). It has also been suggested that incorporating a dynamic capabilities perspective would assist the design of business models (Teece, 2018). Building on their concerns raised at the start of the current research snapshot, Fjeldstad and Snow (2018, p. 32) have suggested that organizational design is a promising avenue for future theory on business models and that it should consider what they term 'value configuration', i.e. how value is configured. They, therefore, highlight how 'the elements[1] of a business model are affected by a firm's value configuration depending on whether the firm is a value chain, value shop, or value network'.[2]

Furthermore, the concept of co-opetition, where rivals collaborate (Ritala *et al.*, 2014) to create value, has been exemplified by a detailed, long-term case study of Amazon.com (refer also to Bouncken *et al.*, 2018, 2020; Crick and Crick, 2019, 2020; Crick *et al.*, 2020; Czakon *et al.*, 2020; Kraus *et al.*, 2018; Lascaux, 2020; Pattinson *et al.*, 2018). The role of discovery and experimentation is also important (Achtenhagen *et al.*, 2013; McGrath, 2010). Exemplars of business models can be replicated by other businesses and may be considered as taxonomies or typologies (Baden-Fuller and Morgan, 2010). There is particular interest in business models from the e-venture and electronic business field, and Suarez *et al.* (2012) have demonstrated how business models in the software industry contribute to performance. Business models have also been identified to be highly relevant to the entrepreneurial context, to their subsequent performance (Lambert and Davidson, 2013) and to 'sustained value creation' due to their capabilities (Achtenhagen *et al.*, 2013).

It is beyond the scope of this commentary to review these particular general empirical studies or specific exemplars in any further detail, but suffice to say that there are many case study examples in a number of industries that provide additional insight and illumination into the diversity of business models that exist.

This brief review has uncovered a developing and emergent literature on business models in just over a decade, with a number of varied definitions and a clear rationale for a business model in terms of improved performance. Furthermore, there are various studies indicating the key elements of the design of business models – or in terms of business model innovation (refer to the more recent Casadesus-Masanell and Zhu, 2013; Desyllas and Sako, 2013). Markides (2013) suggests the need to be ambidextrous when 'managing two different and conflicting business models simultaneously': universities, take note! Meanwhile, Foss and Saebi (2018, p. 32), building on their earlier

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cited criticism, note that, as per Teece (2010), 'the BM and BMI constructs are fundamentally about the architecture of the firm's value creation, delivery and capture mechanisms; theoretically the key aspect of BMs is complementarity between activities underlying these mechanisms; BMI means novel changes of such complementary relations'. As a still immature concept within the strategic management and innovation fields, there are opportunities for research into the business model, in terms of clarifying the concept and building theory, but also empirical research into what makes a good business model and how it contributes to performance and firm strategy (also in terms of social enterprises and not just commercial businesses).

Students will find these articles particularly useful in developing a comprehensive understanding of the concept and its practical application, and in critically challenging the conventional wisdom about business models.

1 In their reckoning these elements are: 'customers, value propositions, product/service offerings, value creation mechanisms, and value appropriation mechanisms'.

2 'the **value chain** models the activities of a long-linked technology, while the **value shop** models firms where value is created by mobilizing resources and activities to resolve a particular customer problem, and the **value network** models firms that create value by facilitating a network relationship between their customers using a mediating technology' (Stabell and Fjeldstad, 1998, p. 414).

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Summary

Drawing upon this introduction to the business model, we can restate strategy as a set of four visions or articulated pictures for:

- the businesses and industries the organization should be in – its corporate strategy.
- how it will compete in each one in its search for advantage – which takes in its targeted customers.
- how every activity which supports these strategies can be linked effectively to create synergy and avoid fragmentation.
- how and when to change strategies.

It will be appreciated that all of these support the essential purpose of the organization.

At this point, it would be useful to revisit the section in Chapter 1 on functional, competitive and corporate strategies.

The revenue model examines revenue and costs and thus evaluates business performance. It deals with financial implications and the implementation of the business model.

Finally, the following conclusions from Collins (2001) can be used to draw together a number of our early themes. Collins had been examining what characterized companies that had achieved and sustained high performance. The three main conclusions, which can be seen as essential tests of a sound business model and can also be related directly to the E–V–R framework we introduced in Chapter 1, are:

- They seek to be seen as 'the best in the world' at what they do, which gives them a serious competitive advantage they could exploit – *environment*.
- They exercise control over the 'economic engine'. In other words, they manage their resources efficiently and have a robust revenue model – *resources*.
- They are passionate about what they do – *values*.

We will revisit this material on the business model when we look at issues relating to problem-solving, sense and decision-making, and judgement (Chapter 8) and lean start-up (Chapter 10).

Strategy activity

The business models for Dell Computers and Enterprise Cars

Dell

This case story outlines the original business models for two very successful organizations. You are invited to investigate how much the business models have changed in order to stay relevant.

It has been said that Michael Dell, founder and CEO of Dell Computers, became the Henry Ford of the information age – as a mass producer of standardized products. Dell assembles and sells PCs and laptops and, more recently, servers and storage hardware. The company began when Dell was a university student in the 1980s. In the early days Dell sold only to the business market, and, although this remains important, home consumers have been a vital growth area. The business model was simple and powerful – and unusual for the industry.

Dell buys in standardized components in order to minimize the need for any expensive research and development. The company has relied extensively on Intel chips. Sales are direct to customers, typically over the internet or telephone. Together with a telephone helpline, this alleviates the need for intermediaries and the consequential distributor margins. Dell builds to order and carries very little inventory of finished products. This cannot happen effectively without strict attention to detail and constant process re-engineering. The assembly time for a PC was reduced to 4 minutes, with a further 30 seconds allowed to fix the holograms and logos for Microsoft and Intel.

Dell, now the second largest computer maker in the world, never set out to be a high-technology company, but instead relied on sales and logistics, driven by low costs. Dell then adopted a very aggressive pricing policy in order to seize market share from any competitor who had 'taken its eye off the ball' and let its costs increase. The assumption was that this business model could be used for other consumer electrical products such as digital music players and flat screen televisions.

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Some critics always argued that the model has to be limited as a substantial proportion of consumers would be unwilling to buy without being able to inspect a model in a store. But the logic of this argument becomes thinner as more and more of us know people who have bought a Dell – we can inspect theirs.

However by 2005 it was apparent that the sales growth was slowing down. New products – servers and printers, which amounted to two-thirds of sales – were not as successful as PCs, where Dell was selling one in every three bought in the United States.

It was less successful with notebooks, which were being supplied direct from manufacturers in Taiwan. Competitors, especially Hewlett Packard and Acer, had narrowed the price advantage. Between 2000 and 2005 Dell's cost advantage reduced from 20 per cent to 10 per cent and its price advantage more dramatically from 25 per cent to just 5 per cent. In addition it was developing a reputation for inadequate service when something was wrong with a product.

In 2006 the CEO resigned. Kevin Rollins had worked as an external management consultant for Dell prior to joining the business full time in 1996. He was number two to Michael Dell and replaced him as CEO in 2004. He had been responsible for much of the manufacturing efficiency and cost saving. But the organization was accused of 'tunnel vision with its sales model', and Michael Dell felt it necessary to take over again.

Alongside job cuts, the company soon announced a renewed emphasis on product design, confirmed it would increase sales through third-party vendors, including systems installers, and seek to acquire other businesses which had more of a customer services focus. In 2009 Dell bought into IT services (essentially consulting) believing this would help revenues in unpredictable economic cycles.

Enterprise Cars

Enterprise Cars was founded in St Louis, Missouri, in 1957 as a car leasing business. Rentals began in 1963. Today, with a turnover of multi-billion US dollars, it is the largest car rental business in the United States and growing in Europe. It is still a private business controlled by the founding family. The company has over 500,000 vehicles, making it the largest buyer of cars in the United States. The real growth has occurred in and since the 1990s when the market began to realize the value of the Enterprise business model – which is different from the other majors like Alamo, Avis and Hertz.

The product and the demand

Whereas most car rental businesses specialize in the travelling public, Enterprise focuses on those car owners who have been parted from their own vehicles. This segment has generally been avoided by the other leading competitors. Enterprise customers' cars might be in a garage for service; more likely they have been subject to accident or breakdown. Enterprise staff collect customers from whichever garage they leave their car and drive them to their own compound. That said, Enterprise does also rent cars to people who just want to hire a vehicle.

The customers

Some customers can plan and book in advance, but most are making an inevitable late booking. Consequently they are often people experiencing some sort of distress and agitation because of the uncertainty. In addition, the actual customer might be an insurance company rather than the car owner themselves.

Operational aspects

Enterprise is decentralized into over 5,000 individual offices with an average of 10 employees each. They are all profit centres. There is extensive monitoring and tracking of cash, profit and customer satisfaction. The stated intention is to make every office feel like a local family business with staff who are 'passionate about service'. There is an extensive graduate recruitment programme to find able young people to work alongside mature, experienced front-line staff. Coffee and doughnuts are provided while customers fill in their paperwork.

Activity and questions

1. How would you assess these two business models?
2. Update the Dell story and assess whether the renewed strength has been maintained.
3. Given the nature and strength of competition, does Enterprise have a defensible and sustainable model? Is it inevitable Enterprise has to compete more directly if it is to maintain any growth ambitions?

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Chapter 3

Strategic purpose

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- explain the terms purpose, vision, mission, values and objectives **(Section 3.1)**
- identify and summarize how stakeholder theory and economic theories of the firm impact on objectives and decisions **(Section 3.2)**
- discuss the significance of profits in for-profit and not-for-profit organizations **(Section 3.3)**
- differentiate between policies, and official and operative objectives, and assess the impact of personal objectives **(Section 3.4)**.

Introduction

Strategies are means to ends, and organizations have a purpose (a reason why they exist) which ideally will be understood, shared and supported by everyone in the organization, leading to a clear, if broad, direction for its activities and strategies. **Strategic leaders** must establish the organization's purpose and direction, as well as the more detailed **objectives** and performance targets for individual managers and employees. While there can often be internal conflicts over these, what individual people actually do and achieve affects organizational performance. Hence, this chapter looks at the idea of purposeful activity by considering the organizational **mission** and objectives, which, as we saw in Chapter 2, need a clear business model.

A number of economic and behavioural theories influence strategic purpose, such as the potentially conflicting expectations of different stakeholders, the role of institutional shareholders and whether the profit motive should be the key driving force, including within certain **not-for-profit organizations**.

Before we develop these themes, Strategy in Practice 3.1 likens the 'life' of an organization to a journey of discovery.

Strategy in Practice 3.1

Strategies are means to ends. This very statement implies organizations 'do things' with an end point in mind. These actions can be evaluated in terms of (relatively short-term) measurable milestones or against a much broader (and generally longer-term) purpose. The relevant actions might all be seen as part of an organizational **strategic journey**. This is, though, more a journey of discovery than it is a (normally more straightforward) journey from Point A to Point B.

If you are an avid reader of J.R.R. Tolkien, you can think of why Bilbo Baggins (in *The Hobbit*) set out on his journey, and also why Frodo Baggins (in *The Lord of the Rings*) set out on his journey. They encountered surprises, setbacks and challenges – but they were both resourceful and, at times, found assistance from unexpected sources.

Explorers, both historically and contemporarily, set out with hope and intent rather than clear insight into exactly what might happen and what they might find. That said, they would typically have a good idea of why they were going and what they would hope to achieve from the investment of their time and energy. They might well know something of the potential hazards (from the experience of others), and they would typically wish to begin their journey with adequate resources – always accepting they may have to find new resources as unexpected events and circumstances intervene. You might wish to see your time at university as such a voyage of discovery; and if, for example, you took a gap year before your studies and set out to see different parts of the world, it would be very unusual if you had been in a position to plan everything before you set off. You will be looking for positive outcomes; at the end you will hope to be a 'better person', however you might choose to define this, from what you have done, achieved and learned.

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Individually we spot (and sometimes seize) different opportunities. These opportunities are affected by various factors, including our personal awareness and alertness, together with the network of contacts we have. The relevant resources we use relate to our attributes, experiences and skills as well as our background and circumstances. The risks involved relate to all of these and are influenced by our reasons for doing what we choose to do, our ambitions and our expectations. These same themes can all be related to organizational decisions.

When any organization launches a new strategy (or a new product) it will have probably carried out some research and some testing. From this it will have gleaned knowledge. It should be able to capture this insight such that 'it knows what it knows'. Where it hasn't asked enough questions, for whatever reason, it may well 'know what it doesn't know'. Of course, as will invariably be the case, there will be other things 'it doesn't know it doesn't know'. In both of these two instances, the knowledge gap may prove to be inconsequential or significant. What it fails to appreciate might prove to be critical. That said, if you try to find answers to everything you will probably never set off in the first place.

The secret, then, is to remain vigilant and be always on the lookout for opportunities and threats. As the journey progresses people (and similarly organizations) will review their progress and make decisions about both carrying on with the journey (or abandoning the current journey and instead doing something different) and about changing tactics. Here we take tactics to mean specific actions within the context of the same broad journey. Experiences and new knowledge can cause you to question whether your initial purpose is still realistic or whether it is, and maybe always was, misguided or misjudged. Simply, a lot might need changing, but equally only minor tweaking is really required.

As the journey progresses towards achieving the purpose, things become clearer and, with change, things evolve as a consequence of the emergent changes, which can be dictated by both seized opportunities and forced reactions. Organizations sometimes have to change what they do when competitors experiment with something different and take them by surprise.

To put this in the context of the terminology we use in this chapter, the journey begins with a purpose, a reason. There will be a reason for undertaking the journey and some idea of what success would mean and why it is important to someone (represented by the notions of vision and mission). Various decisions and actions will be taken (strategies and tactics) and progress measured (milestones); these will be evaluated against expectations (objectives). What happens will rarely be planned in fine detail, neither will things happen in a metaphorical straight line. There will be some planning and some changes of direction, but hopefully genuine progress will be made and, in the end, there will be some degree of real satisfaction for those involved and affected.

If you don't know where you are going, any road will take you there.

Raymond G. Viault, when Chief Executive Officer,
Jacobs Suchard, Switzerland

A voyage of a thousand miles begins with a single step. It is important that that step is in the right direction.

Old Chinese saying, updated

Life can only be understood backward, but it must be lived forward.

S. Kierkegaard

3.1 Vision, mission and objectives

Organizations are established because someone has a reason to start them. This reason is a purpose, which may change over time or never really change. After all, if a purpose has been fulfilled, what is the justification for the organization to stay in existence? That person has spotted and decided to act on an opportunity. That person may well have had personal ambitions, but to fulfil these ambitions the organization they start will need to create relevant, recognized and perceived value for its customers or clients. As time goes on and the organization grows, both the purpose and value must remain relevant. The broader the purpose is stated, the

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more likely it is to stay relevant; the narrower it is stated, the greater the likelihood that it will need reviewing in a changing world. The purpose, then, must embrace two core requirements. First, and in order for the organization to thrive, there is a requirement to create relevant value, something we see represented in the business model. Second, and to enable the first, the underlying need to survive; this necessity is demonstrated in the revenue model.

Even though the purpose may stay intact, the means of fulfilling it will almost certainly need reviewing and amending. Simply, in strategic language, the desired end might or might not stay relevant; the means is certainly likely to change in a dynamic and competitive world. And the ability of any organization to stay relevant in this dynamic can also change, especially when there are shocks to contend with. All the time elements of the external environment are placing pressure on the organization, to which it must respond. At the same time, of course, the organization should be seeking to influence and mould the environment to reinforce its position. We cannot escape the reality that once-successful organizations can and do disappear, even though the need they are addressing remains. The need is relevant; the organization is not. The demise of one will present an opportunity to another.

D'Auria *et al*. (2020), therefore, argue that strategic attention and vigilance must always be placed on a number of key 'means' variables, including:

- The ability of people to be flexible and to respond speedily to change pressures (Chapters 5, 7, 15 and 17) and competition (Chapter 6).
- The ability to satisfy all key stakeholders (whose expectations may differ and even conflict), and especially customers, employees and financiers, who themselves are subject to their own change pressures and demands (this chapter).
- The need, sometimes, to reposition the organization (Chapter 4).
- The ability to demonstrate relevant values (this chapter).
- The willingness to see every activity and process as something to review – and maybe sacrifice in favour of something more relevant (Chapters 8 and 16).
- The willingness to accept that sometimes collaboration and undertaking a merger makes strategic sense, even if some independence has to be sacrificed (Chapters 8 and 12).
- The desire to innovate and improve (Chapter 10).
- The willingness to accept new ways of working, such as working from home, meeting via Zoom rather than face-to-face (Chapter14).
- The need to review which performance metrics are most relevant and essential (Chapter 11).

In effect, organizations should always be seeking new opportunities, new things to do, new ways to save costs, new ways to work smarter, new customers, new suppliers and new talent. All while their competitors are on the same journey!

We can summarize these points with a new presentation of E–V–R Congruence, shown in Table 3.1. You will see this table suggests a high reliance on people, their learning, their sense-making and sharing and the decisions they reach. It is process oriented.

Table 3.1 The organizational challenge: E–V–R restated

Values	*Environment*	*Resources*
The organization	**Growth potential & routes to growth**	**Operational issues**
Purpose	Learning and sense-making	Talents and abilities
Values	Technology platforms used	Collective learning and sharing – and the decisions that emerge
Value creation	External collaborations	
Organization culture		

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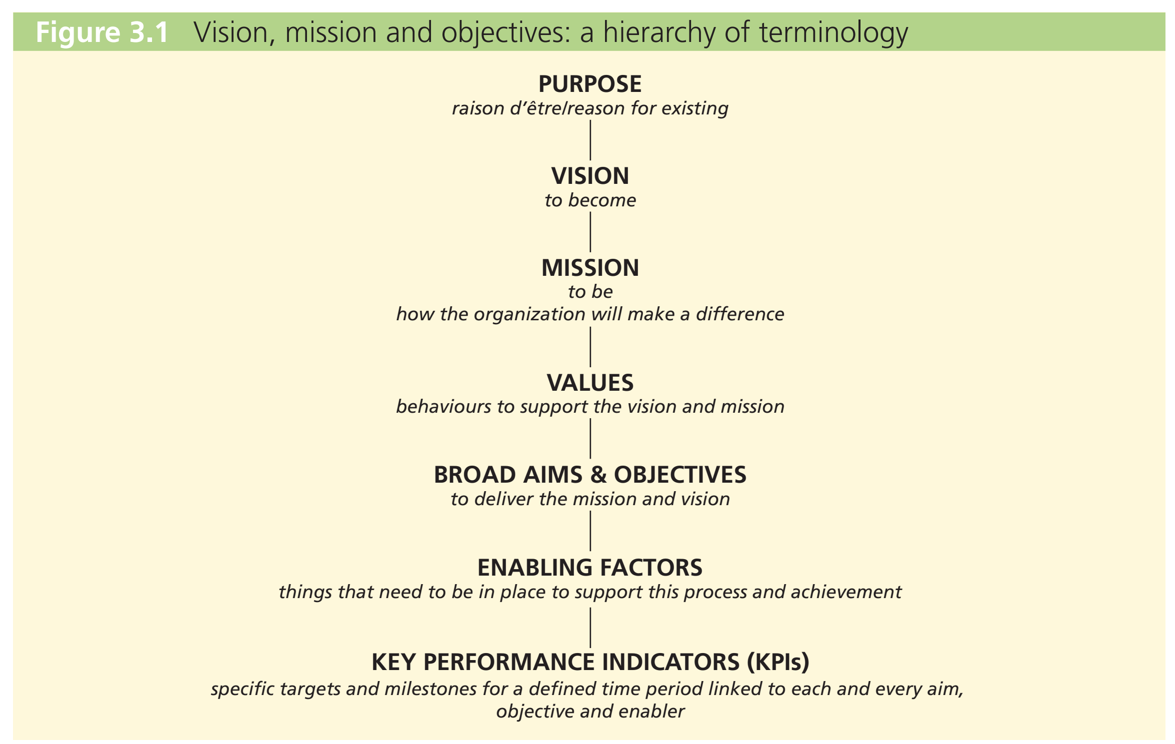
This chapter, then, is about strategic direction and objectives. Contextually, it is about what constitutes success or 'winning' for an organization. The ambitions and targets people set for themselves and their organizations should, on the one hand, be realistically attainable, but ideally, on the other, stretching and challenging. The phrase 'not too little; not too much' is relevant here.

Figure 3.1 defines the terms purpose, **vision**, mission and objectives, provides a range of examples from the private and public sectors, and shows the relationships between these terms. It shows how the overall purpose ultimately drives measurable key **performance indicators** which relate to specific objectives that have been derived from the high-order vision.

Figure 3.1 Vision, mission and objectives: a hierarchy of terminology



Based, in part, on themes from Kaplan, R. and Norton, D. (2000) *The Strategy Focused Organization,* Harvard Business School Press

The three terms purpose, vision and mission share a basically similar meaning and, therefore, there has to be some overlap. Academics have chosen to separate them; some organizations have done the same but many have opted to use just one. What matters is that from a customer's perspective it captures the value the product or service provides to them, and for employees it captures the reason why they go to work for the organization. Strategy in Action 3.1 illustrates the relevant points, not because of comparative superiority or inferiority.

Examples of vision (as well as those below) include IKEA and its 'revolutionary' vision and use of 'experimentation and adaptation to market circumstances rather than through preplanned strategy formulation', or so-called 'logical incrementalism', which involves refinement, ongoing experimentation with potential errors, conversion of 'problems into opportunities' and also learning from 'other people's ideas' (Barthelemy, 2006). Indeed, reflection and models can be used to construct vision (Mumford and Strange, 2002). Recent literature includes those which prescribe how a vision can be written and communicated – for example, as a 'corporate story' – and executed (Marzec, 2007). The relationship between vision and goals, on the one hand, and firm performance, on the other, has been examined in relation to behaviour (e.g. Kantabutra, 2009), as well as on the level of innovation within an organization (Bart, 2004). Although it is difficult to establish whether mission statements directly influence their businesses' performance (Desmidt *et al*., 2011), they have various advantages for customers and the respective businesses which should be clear from reading the examples and narrative below.

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Strategy in Action 3.1 Examples of Vision, Mission and Objective Statements

Vision statements

A vision statement describes what the company is to become in the (long-term) future.

The Sony Spirit

Sony doesn't serve markets; Sony makes markets. Sony is a trail blazer, always a seeker of the unknown. Sony will never follow old trails. Through this progress Sony wants to serve mankind.

Sony **www.sony.com**

British Airways

The world's favourite airline.

Comment: This vision, first adopted in the 1990s, focused on employees and customers; and the related mission emphasized BA's desire to be the world's first truly global airline. In turn, the corporate strategy focused on carefully selected alliances, which required BA staff to believe in the vision and act accordingly. In recent years, staff trust and morale have declined as costs have been cut dramatically. The strapline has effectively been abandoned.

British Airways **www.britishairways.com**

The Girl Guides Association

To help a girl reach her highest potential.

Comment: These eight words cut straight to the heart of the movement and its clear and direct statement of purpose.

Girl Guides Association **www.wagggs.org/en/**

Mission statements

The mission statement *reflects* the essential purpose of the organization and ideally captures why it is in existence, the nature of its business(es), the customers it seeks to serve and satisfy, and how it will do so.

Google

Google set out to *'organize the world's information and make it universally available'*.

Comment: Pithy and to the point, the statement allows considerable flexibility in the way strategies would emerge and evolve.

Financial Times Conferences

The mission of the FTC is to organize conferences on subjects of interest to the international business community, using the highest calibre speakers and providing attending delegates with the finest service, thereby providing a low-cost and time-efficient means of both obtaining impartial quality information and making senior-level industry contacts.

1990s Conference brochure

Comment: Here, we can see a clear definition of the business, a formulation of objectives, delivery strategies, means of differentiating the service and stakeholder relevance.

Ben and Jerry's

Our Product Mission drives us to make fantastic ice cream – for its own sake.

To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.

Our Economic Mission asks us to manage our Company for sustainable financial growth.

To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders and expanding opportunities for development and career growth for our employees.

Our Social Mission compels us to use our Company in innovative ways to make the world a better place.

To operate the Company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally and internationally.

Ben & Jerry's website (and factory walls)

Values

To be, rather than to seem.

Motto of the State of North Carolina, US

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Long-term objectives

Objectives are desired (and measurable) states or results linked to particular timescales and concerning the size or type of organization, the nature and variety of the areas of interest and levels of success. Measurement can be straightforward – for example, 'a minimum return of 20 per cent of net capital employed in the business'; or it could be less specific – for example, 'continued customer satisfaction, a competitive return on capital employed and real growth in earnings per share next year', requiring a comparison of competitor returns and the monitoring of customer satisfaction through, say, the number of complaints received. We can distinguish between clearly and typically finance-based measurable objectives ('closed') and those that are less specific and essentially continuing ('open') (Richards, 1978).

Shepherd Neame ('Britain's oldest brewer' based in Faversham, Kent): Strategic objectives (to deliver investor returns)

Provide a distinctive range of complementary products (this includes pubs and restaurants as well as a wide range of drinks products, naturally with a focus on beer).

Create demand and build awareness for SN brands

Drive footfall to SN pubs

Attract, retain and develop the best people.

Shepherd Neame Annual Report, 2015,
www.shepherdneame.co.uk

WH Smith

The WH Smith Business Model specifies goals for the two main divisions of the business. For Travel, the goal is 'to be the leading retailer of travel essentials for the travelling customer'. For its High Street stores, it is 'to be Britain's most popular stationer, bookseller and newsagent'. It then goes on to specify how the company will seek to pursue these goals and what it will do.

You will see that the stated ambition for one division is 'leading' and for the other it is 'most popular'.

Further information on WH Smith – elaborating on this discussion – can be found in the Strategic Activity at the end of Chapter 14.

The Coca-Cola Roadmap

This 'roadmap' has been summarized from the company's website and it shows how the mission and vision can be used to drive further layers of detail.

Mission

- To refresh the world
- To inspire moments of optimism and happiness
- To create value and make a difference.

Leading to
A vision for each of the following:

- Profit
- People
- Products
- Partners (especially bottlers and distributors)
- the Planet
- Productivity.

This then leads on (for each one of these six) to

Goals

Priorities for strategies and tactics

Measurement metrics

All of this is rooted in the Coca-Cola culture *spelled out as:*

- Live our values
- Focus on the market
- Work smart
- Act like owners – in other words, be responsible and accountable
- Be the brand.

Kaplan and Norton (2000) have emphasized the significance of enabling factors, resources and support that ensure targets are attainable. Their published work draws attention to the notions of:

- **Strategy statements** – which basically are summaries of the business model we explained in Chapter 2
- **Strategy maps** – which essentially comprise the ideas captured in Figure 3.1, together with a summary of what key stakeholders can expect from the business and also a broad summary of the activity priorities
- **Performance scorecards** – an elaborated version of key performance indicators.

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These various themes can be captured in modified ways, of course. For example, when the Leeds City Region Enterprise Partnership (a UK-based local enterprise partnership (LEP)) was set up, it published a strategy document that essentially sought to answer four questions:

- Why was the Leeds LEP established and why should other interested stakeholders engage with its activities? The LEP may see this as its vision for how businesses and other institutions can drive economic and social development.
- What is the Leeds LEP seeking to achieve? This encapsulates its mission, key priorities and headline targets and relates specifically to economic wealth and jobs.
- How is the Leeds LEP funded? It utilizes national and European funds it can bid for and local money it can generate.
- How will the activities be delivered? It has strategies and plans in place. These are built around four pillars: growing businesses, a skilled and flexible workforce, energy efficiency and an enabling infrastructure.

While a **mission statement** captures how an organization will create and add value for its customers, '**values**' (see below) are important as they relate to the corporate values that should be held by employees, be visible to the outside world and support the organization in pursuing its mission.

The term *aims* is sometimes used interchangeably with mission, and goals with 'objectives'. Often, though, objectives are regarded as quantifiable and measurable, with goals being somewhat vaguer – but both are clearly directional. While it has been argued that objectives overall define the specific kinds of performance and results that the organization seeks to produce through its activities, the *long-term objectives* relate to the desired performance and results on an ongoing basis; *short-term objectives* are concerned with the near-term performance targets that the organization desires to reach in progressing towards its long-term objectives (Thompson and Strickland, 1980). Accordingly, these performance targets can be agreed with individual managers, who are responsible and held accountable for their attainment. Similarly, Gerber (2008) theorizes an entrepreneur creating a new business with growth potential having four differently ordered themes or elements descending from higher to lower order: (i) the *dream*, a mental conceptualization of the ultimate outcome for the customers being targeted; (ii) the vision, a statement of what the business seeks to achieve; (iii) the purpose, a clarification of why they are doing the planning activity; and (iv) the mission, an explanation of what they (and the business) are going to create. While worded differently, the 'direction of travel' is the same.

Values: Corporate social responsibility (CSR), business ethics and business sustainability

The 'values' that underpin strategic decisions relate, but are not confined, to corporate **social responsibility** and **business ethics**, and what many people now term 'sustainability'.

Profits that can be taken out of a business by its owner-stakeholders, or indeed, reinvested, constitute financial value creation. When a business demonstrably 'does good' by adding social value in the form of, say, helping employees, customers or the local community, it is often because key decision-makers have a commitment to do this. Implicit or explicit organizational values often capture this intent. Earlier we talked about organizations that have similar values as far as the environment is concerned. There is, though: (i) a difference between writing a statement of values and actually delivering on this stated intent and (ii) a distinction between personal values and organizational values. Sometimes corporate owners possess particular personal values and require their organizations to behave this way; on other occasions these values are kept separate. The message in this can be complex. How, for example, would we explain a business that is a successful but ruthless competitor by not being generous to its customers (high prices and margins) or employees (modest wages and conditions at best) but its owners then give large sums of their own money to charitable causes?

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We do not propose reviewing CSR, business ethics and sustainability substantially here because it is too wide a field that is developing separately from strategic management and other disciplines and functional areas of business, and there are a number of textbooks focusing on this area (such as Brooks and Dunn, 2020).

We provide a variety of relevant references and leads in the Research Snapshot. We return to this discussion in Chapter 7 (Culture). Some organizations will, deliberately or accidentally, create value by destroying value elsewhere. Palm oil is a desirable product and has many uses, but clearing space for its cultivation typically involves serious deforestation with a big impact on the global carbon footprint. Sole Rebels (Chapter 8 case) looks at how a business can be built to use products that would otherwise constitute a major disposal problem. How responsible a firm may choose to be, and why – simply, firms can be socially responsible (proactive) or socially responsive (reactive to pressure) – can embrace, for example, product safety, working conditions, honesty, environment, discrimination, community relations, and so forth. Social responsibility and profitability can be improved simultaneously (The Performance Group, 1999). Many companies mistakenly see environmental legislation as a threat, but should perhaps see regulation as an indication the company is not using its resources efficiently (Porter, 1995). Case 3.1 on Selco demonstrates what is possible when true entrepreneurs get to work. Similarly, Masdar (Chapter 11 case) shows how sustainability can be a strategic driver but not necessarily a straightforward challenge.

Case 3.1 Selco — India

Selco is short for the Solar Energy Light Company, which is a declared 'for-profit social enterprise' based in Bangalore, India. Its activities are concentrated in the poor rural areas away from but relatively close to the wealth-creating software businesses in that part of India.

Selco was established to help improve the living conditions of poor rural households, many of whom are local farmers growing a few crops or producing milk they can sell to yield some income. Annual incomes of around US$1,000 would be typical. The company provides solar 'interventions' for lighting and heating water, and also low-smoke cooking stoves. When solar panels appear on houses in the developed world they are normally placed flat to the tiled roof to attract the sun's rays. But these rural farmers are more likely to have thatched roof houses and so the panels are raised above the roof and mounted on a post which protrudes through the roof itself. They look rather like television aerials. They are not a replacement for electricity, which is available in some places but from a system that is likely to crash at any time, especially if there is peak demand. Instead, kerosene burners are more popular.

Dr Harish Hande was a PhD student in the United States – an engineer – when he imagined what Selco could become. The conceptual model was part of his thesis. In 1994, he returned to India and persuaded Tata-BP Solar to let him have a single solar panel on credit to sell to and install on a wealthy small farmer's land. Once he had a customer and a sale and was paid for the installation, he carried on in the same vein to prove the concept. The problem was that his target market would not be able to pay in full for the solar installations.

Hande got to know Neville Williams, founder of a non-profit solar energy business in the United States and he agreed to co-found Selco with a modest personal investment. This got the business off the ground in 1995 and, in 1997, they received a loan of US$130,000 from USAID. Later, some US$1.5 million of equity capital was provided by five social investors.

Hande's business revenue model was based on the premise that a customer would be expected to pay between 15 and 25 per cent of the installation cost, ideally at the higher end of this range. A basic installation would cost US$450 and so, for many, this amounted to a month's income. The intention would be that the rest would be paid in monthly instalments at an agreed affordable level. It has been said that the prevailing borrowing philosophy among local farmers was that '300 rupees a month is expensive; 10 rupees a day is affordable'. Loans and repayments were not something they were necessarily used to – in large part, because nobody was willing to lend them money.

Hande set out on a charm offensive with local banks and suggested they see loans to fund the down payments as a

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form of well-intended micro financing – even though it was really directed at improving lives, rather than supporting a business. But he did succeed and millions have been lent. The default percentage has generally been under 10 per cent. The banks were not being commercially negligent – the local people would actually be able to save on their energy costs with solar power and so be in a position to pay the interest on the loans as well as pay Selco. Over 2 million systems have been installed. The investment in Selco and the local bank finance have circulated well.

It was 2000 before Selco broke even – but the ambitious Hande was drawn to establish a franchised dealer network in the state. This did not turn out to be a sound strategic move and it proved expensive for Selco, which lost money. The problem was that the global cost of solar panels was increasing and the opportunity for franchisees was less than forecast. Selco managed to get emergency funding from the International Finance Corporation, part of the World Bank, and this kept the business going.

Selco now employs some 400 people who work through 45 service centres, each with a dedicated rural area.

Questions

1. How would you summarize the business model for Selco?
2. How important was it, for the success of this venture, to build a network of committed stakeholders?
3. Can you think of any similar 'win–win' opportunities?

Meanwhile, dissenting voices include Friedman (1979), the economist, arguing that 'the business of business is business . . . the organization's only social responsibility is to increase its profit', and Drucker (1974) advocating that businesses' role is, 'to supply goods and services to customers and an economic surplus to society . . . rather than to supply jobs to workers and managers, or even dividends to shareholders'. Moreover, issues of business ethics and CSR can be particularly distinctive for entrepreneurs and self-employed people who may face especially challenging ethical issues, such as those relating to sustainability or the gig economy, but may also have more scope to be socially responsible.

Disasters such as the explosion at the chemical plant in Bhopal, India, in 1984 have long raised the question of how far companies should go in pursuit of profits. More recent cases, such as Tyco and Enron, have raised different but related issues of ethical behaviour. Houlden (1988) suggests that business ethics encompasses the views of people throughout society concerning the morality of business, and not just the views of the particular business and the people who work in it. Issues such as golden handshakes, pensions, insider dealing and very substantial salary increases for company chairpeople and chief executives are topical and controversial. But is it ethical for large companies to pursue high-risk strategies which could leave several small suppliers financially exposed? Another ethical concern is individual managers or employees who adopt practices which senior managers or the strategic leader would consider unethical; for example, phone hacking in the UK newspaper industry led to the humiliation and, in some cases, prosecution of their strategic leaders. Badaracco and Webb (1995) also highlight how internal decisions can be influenced by unethical practices, quoting instances of invented market research findings, and altered investment returns which imply, erroneously, that the organization is meeting its published targets.

Because ethical standards and beliefs are aspects of the corporate culture, they are influenced markedly by the lead set by the strategic leader and their awareness of behaviour throughout the organization. If a proper lead is not provided, managers will be left to 'second guess' what would be seen as appropriate behaviour. Power, then, can be used ethically or unethically by individual managers.

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Vision statements

Despite the increasing popularity of organizational mission statements, vision statements are less prevalent – which does not necessarily indicate a lack of vision – but, when present, they reflect the company's vision of some idealized and achievable future state. Terminology and themes such as a 'world-class manufacturer', a 'quality organization', a 'provider of legendary service' and a 'stimulating, rewarding place to work' may well appear. The essential elements focus on: those values to which the organization is committed; appropriate standards of behaviour for all employees, along with possible improvement paths; employee development programmes; and measures or indicators of progress for each element of the vision.

> *Strategy development is like driving around a roundabout. The signposts are only useful if you know where you want to go. Some exits lead uphill, some downhill – most are one-way streets and some have very heavy traffic indeed. The trick is in picking the journey's end before you set out – otherwise you go around in circles or pick the wrong road.*
>
> Gerry M. Murphy, when Chief Executive Officer, Greencore Plc, Ireland

Mission statements

While often seen as the organization's over-riding *raison d'être*, many corporate mission statements, according to Ackoff (1986), still resonant today, prove 'worthless', consisting of loose – and, essentially, indeterminable – expressions, such as 'maximize growth potential', or 'provide products of the highest quality'. Primarily, the mission statement 'should not address what an organization must do in order to survive, but what it has chosen to do in order to thrive' (Ackoff, 1986). He suggests that a good mission statement has five characteristics: (i) a formulation of objectives enabling progress towards them to be measured; (ii) differentiating the company from its competitors; (iii) defining the business(es) that the company wants to be in; (iv) is relevant to all stakeholders in the firm, not just shareholders and managers; and (v) is exciting and inspiring.

Campbell (1989) argues that effective mission statements must reflect corporate values and thus be pursued visibly by the strategic leader and the organization as a whole, and identifies four key issues involved in developing a useful mission. These are to: (i) clarify the purpose of the organization – that is, why it exists; (ii) describe the business and its activities, and the market position it seeks to achieve; (iii) state its values – that is, how it will treat its employees, customers and suppliers; and (iv) ensure that the organization behaves as promised, thus inspiring trust within employees and other stakeholders.

In successful companies, middle and junior managers know where the strategic leaders are taking the company and why, while confusion may abound in less successful organizations.

Mission statements, as with vision statements, can easily 'state the obvious', thus having little real value, whereas they should clarify what makes a company different and a more effective competitor. A generic mission (or vision) statement is, simply, of no great value. Companies that succeed long term create competitive advantages and sustain their strong positions with flexibility and improvement, as supported by the vision and mission.

While such statements facilitate external and internal communication, organizations benefit from the forced thinking in order to establish sound statements. And yet, many are still worded poorly. Mission (or vision) must be more than a plaque in a foyer – given that employees must translate the words into actions to achieve the desired outcomes, and so must feel and *trust* that the organization actually means what it is saying.

Ideally, the mission statement will underpin a genuine sense of mission which employees buy into and support in a manifest way. In this context, we could reflect on the potential value of the approach taken by Ben & Jerry's ice cream, whose triple mission statement is included in Strategy in Action 3.1. This approach clearly draws direct attention to customers, shareholders and society, and is featured on large posters in their factories, where employees will see the words every day.

The mission clearly corresponds to the basic philosophy underlying the business and, if it is sound, will derive strategies that generate success.

The points we have covered so far are illustrated in Case 3.2 on The Republic of Tea.

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Case 3.2 The Republic of Tea US

The Republic of Tea is a relatively new business derived from the old regime of tea drinking, given that tea has allegedly been drunk in China since 2737 BCE. It was founded in California in 1992 to market organic and exotic teas from all round the world. There were three founders: Mel and Patricia Ziegler, who had earlier started the Banana Republic fashion store chain which they had sold to Gap, and Bill Rosenzweig, an academic at the Haas Business School, University of California, Berkeley. They wrote a book on how the business started after an exchange of letters discussing their perception of a need and a possible business model. It is clear that, in their own words, the founders 'delight in drinking tea'.

The business was sold after just two years to an entrepreneur, Ron Rubin, who has grown it from, essentially, a 'fun idea' into a sizeable and profitable venture – but retained many of the founders' idiosyncrasies. The emergence and growth of the company has happened roughly parallel to the very rapid growth of the modern coffee bar, led by Starbucks. The persuasive argument would be that both tea and coffee benefit from using the best quality raw materials, and preparing the drinks carefully and properly. In the UK, the number of cups of tea drunk every day continues to exceed the number of cups of coffee, although the gap has been closed in the last 20 years.

The Zieglers and Rosenzweig had set out to 'create a tea revolution', and their early letters to each other postulated a mythical country – hence the business name. Employees are still described as ministers; customers are citizens; and retail outlets are embassies. There is, however, a strong focus on mail order sales; tea can be couriered to anywhere in the United States in two working days and anywhere in the world in 10–14 days.

The Republic of Tea sells only full leaf tea, not the ground tea leaves that most of us buy as loose tea or tea bags. Tea bags (unbleached round bags with loose tea leaves), decaffeinated teas (manufactured with a natural CO_2 process), herbs, brewed iced teas and tea-related gift items have all been added systematically to the product range since Rubin acquired the business. In 20 years, he grew the turnover to US$20 million and now distributes the products via 20,000 gourmet retailers and restaurants, as well as by mail order. Very recently, he acquired what he sees as a complementary business, an 'ultrapremium' winery in California.

The Republic of Tea argument is that full leaf tea provides a better taste and aroma, as well as being healthier. The company works closely with its growers and uses only young leaves. Its supply chain provides red, black, green and white varieties, as well as certain specialty teas, such as Moroccan Mint. Most branded tea consumed is black tea. Some varieties are very scarce and limited edition and there is also a wide range of herbal infusions. Generally, different tea leaves are not blended.

Company documentation proclaims the following:

The *purpose* is 'to enrich people's lives through the experience of fine tea'– there is a key balance between health and well-being.

The *mission* is to become 'the leading purveyor of fine teas and herbs in the world' and 'to be respected for unsurpassed quality'. These aims will be achieved by providing 'outstanding products delivered in innovative ways'. There is a strong emphasis on a 'sip by sip' experience as distinct from a 'gulp by gulp' approach to drinking tea.

Questions

1 Do you believe these statements of purpose and mission capture the spirit of the business effectively?
2 Do you believe this is a sustainable business model?

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3.2 Objectives: The influence of economic theories and stakeholder theory

A full consideration of objectives incorporates three aspects:

- an appreciation of the objectives that the organization is actually pursuing and achieving – where it is going and why
- the objectives that it may pursue, and the freedom and opportunity it has to make changes
- specific objectives for the future.

This section considers the issues that affect and determine the first two of these, while decisions about specific future objectives feature later in the book. We begin, though, by looking briefly at a number of theories of business organizations, and considering the role and importance of stakeholders.

Basic micro-economic theory states that firms should seek to maximize profits, which is achieved where marginal revenue is equal to marginal cost. It is underpinned by assumptions such as firms' clear understanding of the nature of the demand for their products, and why people buy, and that they are willing and able to control production and sales as the model demands. In reality, decision-makers do not have perfect knowledge, and production and sales are affected by suppliers and distributors.

In markets which approach pure competition (pure competition, as such, is hypothetical), firms will only make 'normal' profits, the amount required for them to stay in the industry. Products are 'commodities', not differentiated, and so premium prices for certain brands are not possible. There are no major barriers to entry into the industry and so new suppliers are attracted if there are profits to be made. Competition results and, if supply exceeds demand, the ruling market price is forced down and only the efficient firms survive.

In monopolistic competition, there are, again, several suppliers, some large, many small, but products are differentiated. However, as there are, once more, no major barriers to entry, the above situation concerning profits applies. Newcomers increase supply and, although those firms with distinctive products can charge some premium, they will still have to move in line with market prices generally, having a dampening effect on profits.

Only in **oligopoly** and monopoly markets, where a small number of large firms is dominant, is there real opportunity for 'supernormal' profits, in excess of what is required to stay in business. However, in oligopoly the small number of large firms tends to be wary of one another and prices are held back to some extent for fear of losing market share. Suppliers are interdependent and fear that a price decrease will be matched by competitors (thus reducing profits) and price increases will not (hence, market share will be threatened). There are two types of oligopoly, depending on whether opportunities exist for significant differentiation.

Stakeholder theory

Profit-maximizing theory by early theorists, identifying owners and managers as synonymous, assumed that the first priority in decision-making is held by shareholders. Later thinking on strategic management rejects this assumption, however, and demonstrates the important role played by competitors and by government as a restraining force, as well as considering the concerns and impact of external market forces, such as suppliers and distributors, and internal forces – for example, employees and managers (Newbould and Luffman, 1979). For instance, managers' decisions create incremental changes that are influenced by the objectives and values they believe to be important while, as employees, they also regard growth and their own security as important. In Cyert and March's (1963) behavioural theory of the firm, organizational goals are compromises between members of an internal coalition (production, inventory, sales, market and profit), linked to relative power and inevitable conflicts of interest, with the perceived importance of the short term, as opposed to long term, because these issues are more tangible and decisions

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have to be taken as situations change. In Simon's (1964) theory of satisficing, managers seek courses of action (although not necessarily optimal courses) which are acceptable in the light of known objectives, because of internal and external constraints such as time pressure, a lack of information and the vested interests of certain powerful groups or individuals. He also argued that some of the ends that strategies are designed to achieve are not freely set objectives, but constraints imposed on the organization by powerful stakeholders or agencies. For example, due to government reluctance to fund expensive drugs and treatments, many of the world's leading drug companies have been forced to close plants, relocate to lower cost regions and to focus research on treatments that are most likely to receive funding, arguably at the expense of potential breakthroughs.

These are all *stakeholders*, defined by Freeman (1984) as 'any group or individual who can affect, or is affected by, the performance of the organization'. Hence, its objectives will consider stakeholders' needs, virtually representing an informal coalition, with their relative power being a key variable. Therefore, the organization occasionally 'trades off' one against the other, effectively prioritizing them into a hierarchy. Table 3.2 illustrates the importance of different aspects to different stakeholders.

Table 3.2 Examples of stakeholder interests

Shareholders	Annual dividends; increasing the value of their investment in the company as the share price increases. Both are affected by growth and profits. Institutional shareholders may balance high-risk investments and their anticipated high returns with more stable investments in their portfolio.
Managers	Salaries and bonuses; perks; status from working for a well-known and successful organization; responsibility; challenge; security.
Employees	Wages; holidays; conditions and job satisfaction; security – influenced by trade union involvement.
Consumers	Desirable and quality products; competitive prices – very much in relation to competition; new products at appropriate times.
Distributors	On-time and reliable deliveries.
Suppliers	Consistent orders; payment on time.
Financiers	Interest payments and loan repayments; like payment for supplies, affected by cash flow.
Government	Payment of taxes and provision of employment; contribution to the nation's exports.
Society in general	Socially responsible actions – sometimes reflected in pressure groups.

Stakeholder interests may be consistent or conflicting, such as investment in new technology improving product quality and thus profitability, benefiting customers and shareholders respectively; but employees, possibly managers and their trade unions, may be dissatisfied by job losses and, consequently, if any related redundancies result in militant resistance, the government may become involved.

Stakeholders are not affected in the same way by every strategic decision. Therefore, their relative influence will vary from decision to decision. Government policies on certain issues and/or specific customer requirements can place demands on organizations. Meeting these external stakeholder demands may well be presented as objectives for the organization, when really they are constraints.

Building on Freeman's (1984) stakeholder theory, some of the academic literature on the subject has focused on the various definitions, the interaction between firms and their stakeholders, and whether engaging with stakeholders improves performance (Laplume *et al*., 2008). Furthermore, there is some evidence of a

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clear link between engaging with stakeholders and businesses behaving in a corporate socially responsible way (Munilla and Miles, 2005). Nonetheless, there are some issues and debates about stakeholders that we explore further below.

Waterman (1994) contends that, by prioritizing employees and customers (and not shareholders), successful companies perform more effectively than their rivals, leading to superior profits and wealth creation for their shareholders. While many organizations fail because they do not incorporate the important motivational concerns of key stakeholders (Simon, 1964), small businesses in particular may neglect their larger suppliers and, if they do not pay their accounts on time, they will find their deliveries stopped. Similarly, if new products or services fail to provide consumers with what they are looking for, however well produced or low priced they may be, they will not sell.

Figure 3.2 shows that organizations must satisfy shareholders, employees and customers but, if they fail with any group long term, they will place the organization in jeopardy through a spiral of decline.

Figure 3.3, alternatively, presents a virtuous circle of growth and prosperity with satisfied, perhaps delighted, customers (on the left) enabling high financial returns, used in part to reward employees (with a perception of fairness motivating employees to keep customers satisfied); and (on the right) showing how customer needs can sometimes conflict with the demands of some shareholders, especially those who are willing to trade off long-term achievement for short-term financial returns. Competitors are always trying to persuade customers to switch allegiance and, thus, impact on an organization's success.

Figure 3.2 Satisfying stakeholders

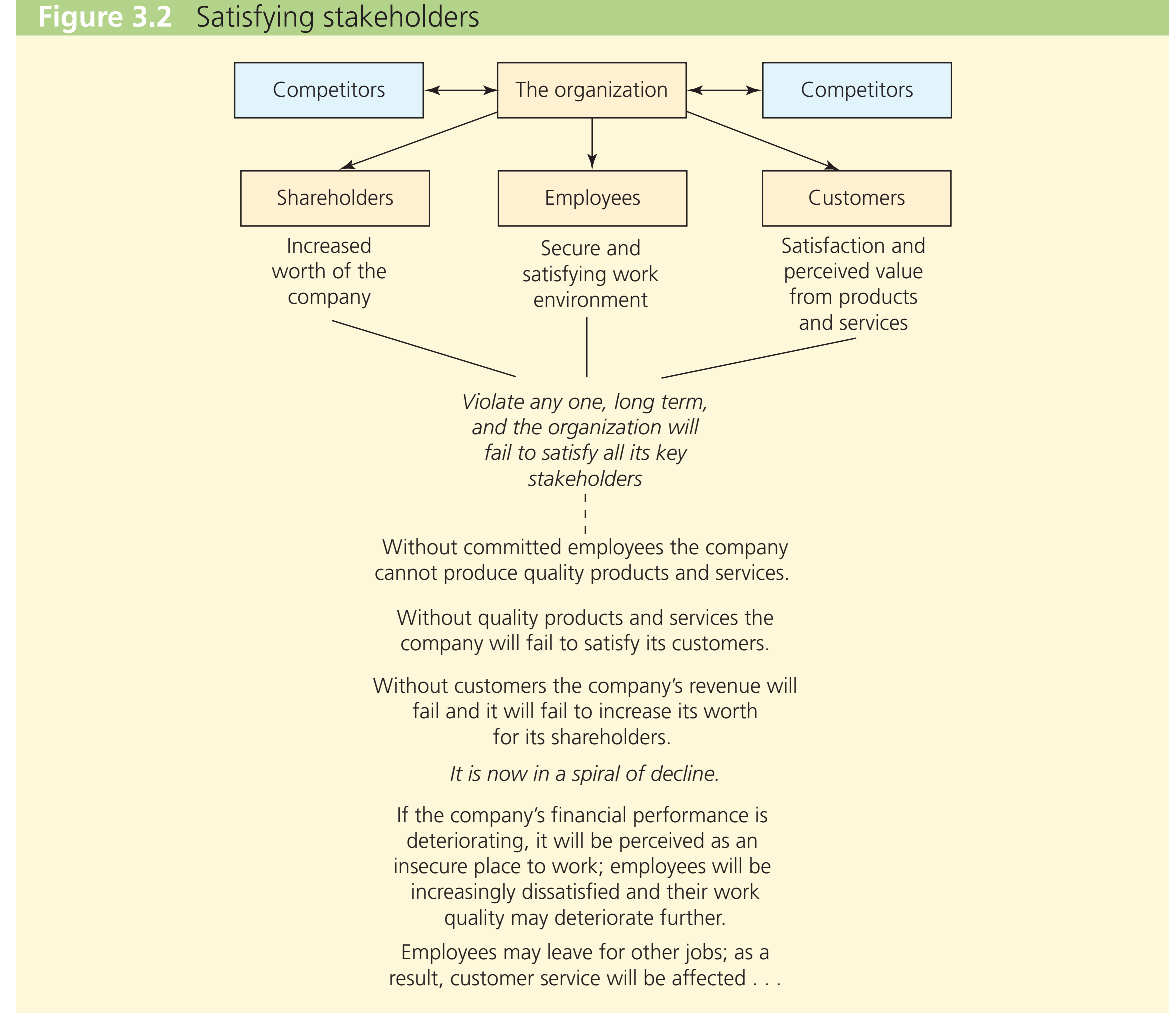

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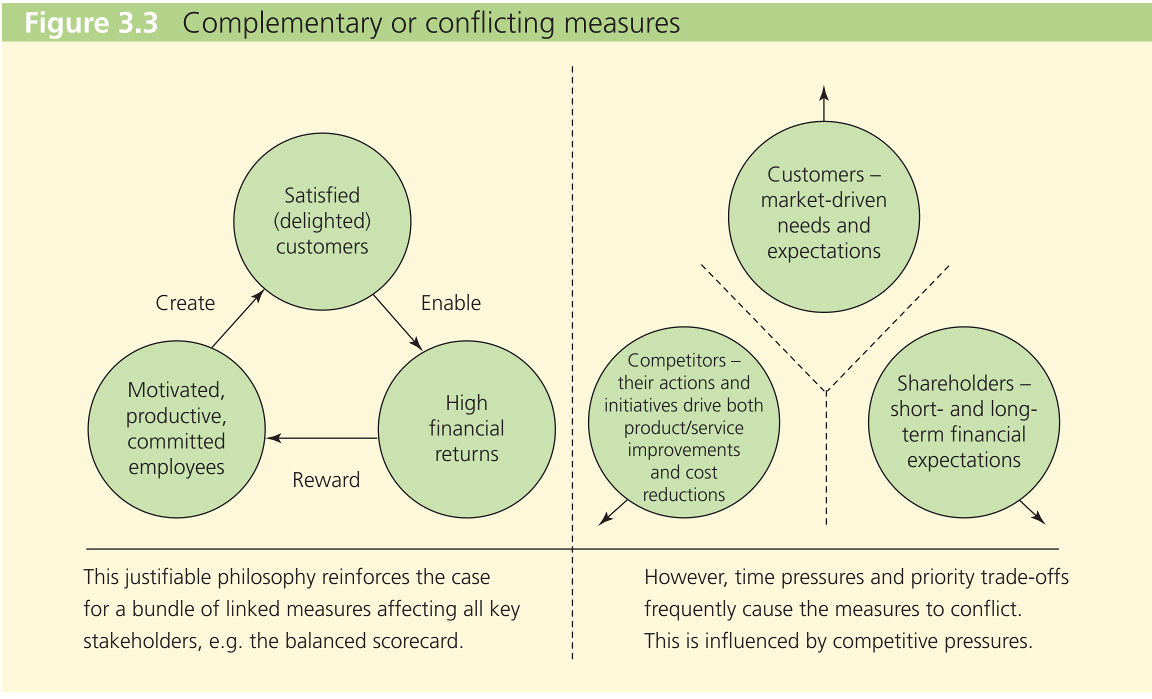
Figure 3.3 Complementary or conflicting measures



3.3 Profit as an objective: For-profit versus not-for-profit

Critical Reflection 3.1 discusses whether profit is the ultimate objective of profit-seeking business organizations, or whether it is merely a means to other ends, which themselves constitute the real objectives. Ackoff (1986) argues that profit is necessary for the survival of a business enterprise, but is neither the reason for which the business is formed, nor the reason why it stays in existence.

Critical Reflection 3.1 Profit

A business school is likely to teach that an organization must be good to people because then they will work harder; and, if they work harder, the business will make a profit.

They will also teach that a firm should strive to produce better products and services, because with better products the firm will make greater profits.

What if they told the story the other way round?

What if they taught managers: you have to make a profit, because if you do not make a profit, you cannot build offices that are pleasant to be in. Without profit, you cannot pay decent wages. Without profit, you cannot satisfy many of the needs of your employees.

You have to make a profit because, without a profit, you will never be able to develop a better product.

The profit would still be made. People would still get decent wages. Most employers would still make an effort to improve their products as they do now.

But you would have a whole new ball game.

It is clear that these approaches will lead to organizations that 'feel' different; that manifest different cultures.

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Harvard Business School www.hbs.edu

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Instead, Ackoff (1986: 85) contends:

Those who manage organizations do so primarily to provide themselves with the quality of work life and standard of living they desire . . . their behaviour can be better understood by assuming this than by assuming that their objective is to maximize profit or growth.

Although the quality of life of investors (shareholders), customers, suppliers and distributors must be considered, it is non-decision-making employees who are the major stakeholders because, if the firm fails, they incur the greatest losses. Ultimately, it is irrelevant whether profit is an objective or a means of providing service and satisfaction to stakeholders, as long as both are considered and not seen as mutually exclusive. However, the 'feel' and culture of an organization will be affected. In simple terms, an organization will succeed if it survives and meets the expectations of its stakeholders.

But how it prioritizes its objectives can have a marked effect. For example, in the UK, banks have always borrowed from individual savers (in return for interest payments) and use a proportion of this money for lending (at a higher rate of interest). More recently, mutual building societies became banks and risked sub-prime lending to people with little collateral; these loans were passed on to the wholesale market. High street banks merged with investment banks, and the savings of the 'general public' became at risk of being gambled by professional bankers whose life is spent taking short-term risks on fluctuating future commodity and stocks prices, in return for very generous performance bonuses. Banks have since seemed more reluctant to lend as they did in the past, even after the government supported them with taxpayers' money. As a consequence, many small businesses claim that they find it more difficult to obtain funding; some, of course, have turned to more innovative methods, such as crowd funding.

The responsibility of business is not to create profits but to create live, vibrant, honorable organizations with a real commitment to the community.

Anita Roddick, Founder, The Body Shop

While some commentators argue that too many companies are still encouraged to seek short-term profits in order to please their major institutional shareholders (Constable, 1980), and that it is only by considering the long term and the interests of all stakeholders that companies will become more effective competitors in world markets, institutions such as pension funds effectively control the UK's largest companies through the sizeable blocks of shares that they own. These managers have a remit to earn the best returns that they can obtain for their members. Since the mid-1990s, there has been a drive to increase the transparency of these large shareholder blocks, and companies have been required to publish more information.

Objectives, strategies, tactics (OST) and the strategic leader

We can think in simple terms of 'objectives' relating to desired ends and, so, a 'why?' theme. Strategies, then, concern 'what' to do (the means) to achieve the desired end. Tactics break strategies down further and address 'how', given that activities are what organizations do. We can see the America's Cup (a series of yacht races, explained in detail in the Chapter 5 case on Team New Zealand) as an example of these OST themes in action. The *ultimate* objective of every team entering the competition must surely be to win the series of races, but this does not require the team to win every race, but rather to win enough at every stage. More realistic objectives would – and will, of course – be relevant for the weaker teams that do not have the financial and technical resources of the leading competitors. The teams' strategy includes how they will deal with the challenges of the weather and wind, and perform better than their rivals; it is thus focused on winning. Tactics embrace dealing with everything that is thrown at you!

Different people in the same organization will be able to relate to activities that are happening, activities for which sometimes they are responsible and accountable. A particular activity, though, can be one person's objective but a strategy carried out by someone else. Take the following list of activities:

1 achieve a higher value (and, hence, price) for my property
2 improve the appearance of my house

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3 paint my house
4 do the painting myself
5 buy some paint.

These are deliberately listed as a hierarchy. Our question to you is: which of these is an objective, a strategy, a tactic? Number 1 easily makes sense as an objective, making 2 a strategy and 3, 4 and 5 are, therefore, tactics. But 2 could be seen as an objective – and maybe so, too, could 3 – at a lower order. If the key influencer decides number 1 is important, they may delegate the required tasks to one of us. That is their strategy for making sure something happens; it is now our objective! These arguments are extended in Strategy in Practice 3.2.

Strategy in Practice 3.2

The list of do-it-yourself activities linked to house painting presupposes strategic intent. The implication is that a higher order objective (or purpose) has led to a broad strategy and, subsequently, tactical actions. But why does this necessarily have to be the reality?

Conceptualize a quite different scenario. A neighbour and close friend has recently been treating his garden fence and it looks fantastic. Because he was not really sure what he was doing, he bought far too much wood treatment and, rather than just store it in the back of his garage, he offers it to you to treat your fence. You take him up on his kind offer.

When your fence looks really good, it becomes obvious you should also paint your garage door – which also looks weather-beaten. Naturally, as soon as the garage is painted, the house exterior looks drab in comparison and in need of freshening up. Soon, the house is looking far more attractive. The outcome – were it to be offered for sale, the value of the house would have increased. It is conceivable that improving the house and its value opportunistically could even persuade someone actually to move property.

In this scenario, strategy creation is emergent, rather than intended. Activity builds on activity in an incremental way – but through opportunity and circumstance, rather than clear intent with a specific outcome in mind. It is for this reason we argue that all managers are potential strategy-makers and that when people try out something – linked to either an opportunity or a competitor tactic – it can lead on to subsequent actions and 'changing our plans'.

In Chapter 1, we explained that strategies are means to ends, and, with the intentional approach to strategy, actions are created and executed with specific ends in mind. Here, the argument is that people are more like explorers – they draw the map as they go along but remain always mindful of the impact of their actions. What they do and what they achieve is assessed for its value. If things are seen as positive and progressive, they will be continued; if the evaluation is more negative, they are likely to be abandoned in favour of an alternative. *These issues will be explored further in Chapter 8 when we examine strategy creation and strategy selection.*

The strategic leader – and their values – establishes the main objectives and the direction in which they take the organization. Personal ambitions to build a large conglomerate or a **multinational company** may fuel growth; a determination to be socially responsible may restrain certain activities that other organizations would undertake; a commitment to high quality will influence the design, cost and marketing approach for products. These points are illustrated in Case 3.3, 21st Century Leaders.

Case 3.3 21st Century Leaders Int

The 21st Century Leaders initiative was effectively spun out of a social enterprise, Trade Plus Aid. It uses the strapline, 'Whatever it takes', which realistically explains how it has set out to fulfil its purpose. Trade Plus Aid recognizes that millions of people around the world, particularly in developing and economically deprived countries, have extensive skills in traditional crafts but no feasible route to markets where they can sell in viable numbers. It began more by chance than design, in 1992. Charlotte di Vita, then aged 25, was in Ghana when drought ruined thousands of farms – something she realized when she was waiting to see a doctor for treatment for the severe dysentery she had contracted and had witnessed the death of a baby in its mother's arms. Wanting to help in some way, she had

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an idea when the local elders refused her offer of money to buy seed. She suggested to local tribal chiefs that she would spend her £800 savings on seed for them if they would make her 800 pendant-size carvings. The deal was struck. Back in London, and calling on her friends to help her out, she began selling the pendants at Camden and Portobello Markets, plucking a price of £3.99 each out of thin air. Somewhat to her surprise, the carvings sold quickly and easily. The risk she took had paid off, and she was encouraged to want to do more. She envisioned a seed bank from which local farmers could borrow seed without any payment until they harvested their crops. To progress her idea, she negotiated an alliance with an established mail order business in Japan – and pendant sales were strong once the infrastructure and supply chain were in place. Her seed bank was started in 1995. The venture grew rapidly with a comprehensive Japanese mail order catalogue, which included jewellery, clothing and toiletries from various countries in Africa and South America. Unfortunately, the 1995 earthquake at Kobe, in Japan, destroyed the warehouse that di Vita's partner owned; the mail order company was in trouble and the Japanese market disappeared overnight. Exhibiting courage in the face of setbacks, she managed to survive and rescue the business by spending considerable time and effort searching out new mail order buyers in the United States and Germany – but they would only buy her supplies at cost.

Many of the Third World village supply groups she helped establish are now trading independently; they no longer need her help. 'A good year is seeing my groups become self-sufficient, not increasing my turnover.' The ever creative Trade Plus Aid, however, continued to experiment with new initiatives. Charlotte di Vita was able to raise money from business people around the world – who believed in what she was doing – to establish a 140-employee factory in China for producing hand-enamelled teapots. She started selling these at the Victoria and Albert Museum and various up-market department stores. Underestimating demand forced her to resort to airfreighting. A similar venture was started to produce wind chimes in South Africa. Altogether, some 500 employees were employed in her factories in China and South Africa. In the UK, Trade Plus Aid always relied more on volunteer helpers than it did on paid employees, and di Vita herself took only a limited salary from the operation. In 2003, Charlotte di Vita agreed a worldwide licensing deal for her Collection (as it is now called) of gifts with leading giftware company Goebel – this guaranteed a minimum revenue of US$1.3 million over four years.

By 2005, and in 13 years, di Vita's efforts had enabled over US$5 million to be returned to producer communities around the world – Africa, South America and the Far East – in payment for their handicrafts. Her charitable trust (founded in 1997) had also funded special projects in various countries.

Charlotte di Vita's energies and talents were then channelled into a related and more ambitious initiative, which was developed with the encouragement of Nelson Mandela. The intention was to raise money to help tackle key global issues: poverty, child abuse and environmental conservation. This charity has grown in prominence and now has a base in the United Arab Emirates. Entitled '21st Century Leaders', her first new project under this umbrella invited famous people – leaders, sports stars, musicians and actors – to provide a simple design that reflects their message of hope for the world, together with a stick diagram self-portrait. These were then used as designs for plates, mugs, t-shirts and any other relevant product where she could secure a licence agreement with a suitable manufacturer. In the case of the plates, the illustrated message was on the front, the stick diagram on the back; they were sold as limited edition collectibles. In the case of wristbands and other smaller items, the production runs were unlimited. The surpluses from all sales of every item are 'handed back' to their designers, who can choose which charity will receive them. This merchandise is now branded 'Whatever it Takes' and its visibility raises awareness, as well as generating revenue. Other activities include guidance for corporate leaders on sustainability and social impact (branded '21st Century Leadership') and annual (global) awards for community leadership, which seeks to identify 'unsung heroes'. Some 750 celebrities and leaders have committed to the initiative, which has raised over US$100 million.

Footnote

More recently (in 2006) a similar social enterprise has been established in Afghanistan, named Turquoise Mountain. The British MP, Rory Stewart, was approached by politicians in that country to help with (much needed) urban regeneration. The purpose was to renew traditional arts and architecture and then act as a spur for the sustainable development of traditional craft industries. Jobs, skills and pride would be the desired outcomes. In 12 years, this has been activity valued at $6 million. Craft products are now sold internationally and agreements having been forged with various retail organizations.

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Questions

1. How would you apply the Gerber themes of dream, vision, mission and purpose (Section 3.1 Introduction of this chapter) to this case?
2. To what extent has the success of this organization been dependent on Charlotte di Vita?
3. Is a high level of dependency on a leader driven by a personal cause good or bad?
4. Use the internet to find out more about Turquoise Mountain. How would you evaluate their success? How much more of a challenge do you think it has been to develop such an enterprise in Afghanistan than in Africa?

While it is possible for small firms to enjoy competitive advantage by providing products or services with value added to appeal to local customers in a limited geographical area, many are not distinctive in any marked way. Where this is the case, and where competition is strong, small firms will be price-takers, and their profits and growth will be influenced substantially by external forces. Some small firm owners will be entrepreneurial, willing to take risks and determined to build a bigger business, whereas others will be content to stay small. Some small businesses are started by people who essentially want to work for themselves, rather than for a larger corporation, and their objectives could well be concerned with survival and the establishment of a sound business which can be passed onto the next generation of their family.

Objectives of public sector and not-for-profit organizations

Stakeholders are important for not-for-profit organizations, particularly providers of financial support. Not-for-profits have a number of potentially conflicting objectives, some of which are financial (i.e. quantitative and easily measurable) but these are not the most essential in terms of the mission, and many are likely to be qualitative and less measurable. Therefore, the efficient use of resources becomes an important objective. These points will now be examined in greater depth.

While organizations may focus on the aspects that are most easily measured, these measures of the *efficient use of resources* may be perceived as the most important objectives, whereas what should be paramount is more aligned to the real needs of the community – that is, the *effectiveness of the organization*. Hence, objectives that are perceived to be important and are pursued at any time are dependent on the relative power of the *influencers* and their ability to exercise power – for example, where not-for-profit organizations have advisory bodies, or boards of trustees.

Tourist attractions such as London Zoo (Case 3.4) and leading museums have a potential conflict of objectives concerning their inevitable educational and scientific orientations and the requirement that they address commercial issues. Museums can earn money from shops and cafeterias, and they receive some private funding, but to a great extent they are reliant on government grants.

Cathedrals face a similar dilemma, with the costs of repairs and maintenance forcing some to charge visitors fixed amounts rather than relying on voluntary donations. Although their mission is concerned with religion (if not the gospel) and charity, they are not immune from commercial realities.

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Case 3.4 London Zoo UK

The core purpose of London Zoo is conservation. To fulfil this purpose, it needs to raise money by providing an educational experience for visitors (many of them children on school trips) that increasingly needs to be entertaining. Because many visitors are international travellers, London Zoo must also be able to 'hold its own' against the best zoos in the world.

London Zoo, in Regent's Park, is one of two zoological gardens which are controlled and administered by the Zoological Society of London (ZSL), which has global research partners and a world-leading reputation for its work and publications. The second zoo is Whipsnade Park, in Bedfordshire, and this covers 600 acres compared with just 36 acres in London. Opened in 1828, London Zoo is the world's oldest scientific zoo; Whipsnade opened in 1931. To put them into context, there are some 300 licensed zoos of 'various shapes and sizes' in the UK. Visitors can drive around Whipsnade, parking in various places en route, but it is not a safari park. It is near Luton and would take some 90 minutes to drive from Central London.

ZSL's original charter laid down its primary purpose as 'the advancement of zoology and animal physiology, and the introduction of new and curious subjects of the animal kingdom', but this has been modified in the current mission. ZSL now exists to 'promote and achieve the worldwide conservation of animals and their habitats'. 'Living conservation' is a key strapline. Its vision is 'a world where animals are valued, and their conservation assured'. These are pursued by:

- keeping and presenting animals at the two zoos
- prioritizing threatened species
- helping people become more aware of animal welfare and conservation issues
- maintaining an education programme
- undertaking both conservation work and serious zoological research
- publishing activities.

However, ZSL must generate revenue from visitors to supplement its other sources of income. While it costs £1 million every month to feed and care for the animals in London, another £1.3 million is spent on research and conservation, much of which visitors will not see. Therefore, from the stated purpose must stem a fundamental dilemma. How much is a zoo a place of entertainment, fun and relaxation, with customers being paramount, and how much is it an organization with primarily educational and scientific purposes? Some 70 per cent of ZSL's income is from visitor admissions, gifts from supporters and accompanying merchandising from the shops and restaurants. The finances have over the years been helped by a 'healthy increase' in voluntary income and donations. Publishing and conference activities provide additional revenue and there are important research grants. But there is no public funding as such, which sets London apart from many of the world's leading zoos. Public funding stopped over 30 years ago.

All of this means that when London Zoo was forced to close to visitors during the COVID-19 lockdown, it faced major financial challenges. After all, the animals still needed to be cared for and fed every day. While some staff might be furloughed, many could not be. The UK government did introduce a £100 million fund where any zoo could apply for a grant of up to £750,000. However, to qualify, a zoo needed to have reserves amounting to less than three months' working capital. Many complained that at this level a zoo would have already begun to rehouse animals. Much of the fund was not taken up.

There are other dilemmas. Zoos attract critics who claim the basic format is outdated and others (such as People for the Ethical Treatment of Animals (PETA)) who argue that the animals are imprisoned or, we might say, in a perpetual lockdown. However, much effort might be made to build enclosures that represent a natural habitat and provide space for the animals, so that they are perhaps unaware of being captive. There is a parallel debate about 'breeding for captivity' as distinct from conservation. Many of the most popular animals for visitors are not threatened species – and they are well researched. Many visitors are attracted by big animals, as evidenced by the commercial success of safari parks, but these can be costly and dangerous. Critics have sometimes argued that London Zoo's management has failed fully to exploit the zoo's conservation work by featuring it in informative displays, and that much of the Zoo's important and scientifically renowned research is not recognized by the general public. This may be correct, but the fact remains that much of the important conservation work involves species which are relatively uninteresting for many public visitors.

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Whipsnade is regarded as more ideal for big animals. London Zoo, for many years, has had no hippos (since the 1960s – although there are pygmy hippos in the collection) – and no bears (since 1986) but, more recently, some large animals have been brought back to counter visitor criticism. There are, for example, giraffes, lions, tigers and leopards. However, in 2001, and following an incident with a visitor, London Zoo's elephants were moved to Whipsnade. There are some 750 species at London Zoo, of which over 100 can be classified as 'threatened'. There are breeding programmes for 130 species.

London Zoo has, however, created new, more spacious facilities for gorillas and pandas, among others. The new Penguin Beach that opened in 2011 is the largest penguin pool in England and it is used to inform visitors about ZSL's conservation work in Antarctica. Another recent development has been with lemurs. When the successful Tiger SOS appeal was launched in February 2011 to help protect and conserve Sumatran tigers, it was the zoo's largest ever fund-raising campaign. After that, ZSL turned its attention to a campaign to secure the survival of Asiatic lions.

In 2016, the zoo opened a new £5 million exhibit which recreates a village located in a forest in India where visitors can see lions in an unusual but still natural habitat. Over 1,000 props have been brought over from India – including rickshaws, bicycles and genuine posters; railway tracks have been laid, and there is a mock railway station. A live-action adventure is enacted, where visitors can see park rangers and vets come to the rescue of lions threatened in an emergency. The 'Land of the Lions' is home to London Zoo's four Asiatic lions. There are now some 500 Asiatic lions left in the world and, in the wild, they survive only in one forest (Gir) in India. This makes them particularly vulnerable to some potential catastrophic event, although, thanks to dedicated conservation work, a decimated population of just 20 has been increased to 500 in 120 years. It is still a fact, though, that in the Gir Forest, lions and people live alongside each other, but at London Zoo there are protective fences!

The reality is, of course, that only so much can be done in 36 acres while still retaining a collection that is attractive to visitors. Ultimately, London Zoo has to find a business model that attracts sufficient visitors and revenue in the face of competition from a wide range of other tourist attractions if it is to maintain its research and conservation work and fulfil its purpose.

London Zoo **www.londonzoo.co.uk**

Questions

1 'Zoos are arguably important because of their role in conservation, but, in the face of other educational and entertainment options, they are becoming less relevant for today's young people.' Do you agree with this claim? Why? Why not?
2 What should be the objectives of London Zoo?
3 Who are the major stakeholders, and how important are they?
4 If you were in charge (and remembering the constraints), what strategies would you recommend?

Charities frequently have sets of interdependent commercial and non-commercial objectives. Oxfam's mission concerns the provision of relief and the provision of aid where it is most needed throughout the world, as well as teaching people to be self-sufficient through irrigation, better farming techniques and so forth, and publicizing the plight of the needy. Their ability to pursue these objectives is constrained by resource availability, and they have fund raising objectives, and strategies (including retailing through Oxfam shops) to achieve them, and it is not clear which is more prioritized, given their interdependence.

While the coverage of not-for-profit organizations in this section has been partial, as many other organizations – such as schools and universities – are fundamentally non-profits, the points are representative of the sector.

Quantitative performance indicators are relatively easily carried out and measurable, with the surplus from the efficient use of resources replacing profit as the commercial objective, which, though perhaps not an

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essential aspect of the mission, will be seen as important by certain stakeholders. Attention has shifted from evaluating outputs and outcomes (the real objectives) to measuring inputs (resources), because it is easier to do, and major sponsors, such as government, will insist on cost effectiveness. Many non-profits are managed by people trained and naturally oriented towards arts or science, leading to feelings of conflict with regard to objectives. Hence, the organization will pursue certain objectives for a period of time, satisfying the most influential stakeholders in the coalition, and then change as the preferences of stakeholders, or their relative power and influence, change.

While profit-seeking and not-for-profit organizations have essentially different missions, the issue of profit-making is complex, with some organizations relying on subsidies enabling low prices. Customer service has been seen to be important in nationalized industries, with prices controlled, or at least influenced, by the government, and an independent regulator appointed when nationalized businesses have been privatized. However, unless the providers of grants and subsidies are willing to bear commercial trading losses and, at the same time, finance any necessary investment, there is a necessity for the organizations to generate revenue at least equal to the costs incurred. Where investment finance also needs to be generated, a surplus of income over expenditure is important. This, basically, is profit. While profit may not, therefore, be an essential part of the mission, it is still required.

> *The objectives pursued by organizations frequently differ from those proclaimed. Some years ago I assumed that the principal objective of universities was the education of students. Armed with this assumption I could make no sense of their behaviour. I learned that education, like profit, is a requirement not an objective and that the principal objective is to provide their faculties with the quality of work life and the standard of living they desire. That's why professors do so little teaching, give the same courses over and over again, arrange classes at their convenience, not that of their students, teach subjects they want to teach rather than students want to learn and skip classes to give lectures [elsewhere] for a fee.*
>
> Russell Ackoff, 1986

Hopefully, Ackoff would not be able to make quite the same arguments today! Yet the critical balance between publishable research and teaching remains an issue.

3.4 The impact of personal objectives

Organizations, due to their size and complexity, set or change several objectives due to: (i) decisions by the strategic leader, (ii) influence from managers, and/or (iii) influence or constraints from external stakeholders – with varying degrees of relative importance. With *emergent strategy* the decisions made by managers determine the actual strategies pursued, and revised, implicit objectives come to replace those that were previously declared as intended objectives. The culture of the organization, the relative power bases of managers, communication systems and the rigidity of **policies** and procedures (or more informal management processes allowing managers considerable freedom) are key determinants. In such instances we still see broadly set strategies as the means to desired ends. These take the form of a 'directional plan'. Policies are then put in place as principles to guide the (subsequent) devolved decisions, actions and tactics that will emerge. While Key Terms 3.1 defines policies and discusses their role in strategy implementation, this topic is exemplified by a multiple store (such as WH Smith) that sells books as one of its products and a nearby smaller independent bookstore competitor appealing to different customers. If the smaller independent store closed down, there could be new opportunities for the manager of the multiple store if they changed their competitive strategy for books by changing their displays, improving their stock levels and supporting these moves with window displays promoting the changes. Head office merchandizing policies concerning stocks and displays may or may not allow them this freedom. To illustrate this point, if you have the opportunity, examine the front window displays of two different H. Samuel (or a similar chain) jewellery stores – how similar are they?

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In the case of *intended strategy*, the strategic leader – influenced by their style and values and by the culture of the organization – determines and states the objectives, strategies and proposed changes for the organization. They may be influenced to some extent by external stakeholders and internal managers may be consulted. To ensure their implementation (and achievement of objectives), they will design and build an organization structure, either restricting or empowering managers, and will determine policies which may be mandatory or advisory.

Key Terms 3.1 Policies

You must provide a framework in which people can act. For example, we have said that our first priority is safety, second is punctuality and third is other services. So if you risk flight safety by leaving on time, you have acted outside the framework of your authority. The same is true if you don't leave on time because you are missing two catering boxes of meat. That's what I mean by a framework. You give people a framework, and within the framework you let people act.

Jan Carlzon, when President and Chief Executive Officer, SAS (Scandinavian Airlines System)

- **Policies** are guidelines relating to decisions and approaches which support organizational efforts to achieve stated and intended objectives.
- They are basically *guides to thoughts* (about how things could or should be done) and *actions*.
- They are, therefore, *guides to decision-making*. For example, a policy which states that, for supplies of a particular item, three quotations should be sought and the cheapest selected, or a policy not to advertise in certain newspapers, or a policy not to trade with particular countries, all influence decisions. Policies are particularly useful for routine repetitive decisions.
- Policies can be at corporate, divisional (or strategic business unit – SBU), or functional level, and they are normally stated in terms of management (of people), marketing, production, finance, and research and development.
- If stated objectives are to be achieved, and the strategies designed to accomplish them implemented, the appropriate policies must be there in support. In other words, the behaviour of managers and the decisions that they make should be supportive of what the organization is seeking to achieve. Policies guide and constrain their actions.
- Policies can be mandatory (rules which allow little freedom for original thought or action) or advisory. The more rigid they are, the less freedom managers have to change things with delegated authority, and this can be good or bad depending on change pressures from the environment.
- It is vital to balance consistency and coordination (between the various divisions, SBUs and departments in the organization) with flexibility.
- Policies need not be written down. They can be passed on verbally as part of the culture.
- Policies must be widely understood if they are to be useful.
- Finally, it will be appreciated that policies are influenced by key corporate values.

Footnote

For governments, *policies* have a slightly different meaning. Government policy relates to what government 'intends to do' regarding specific issues and priorities.

Although the types of policy and the authority and freedom delegated to managers guide, influence and constrain decision-making, also influential are the motives, values and relative power of individual managers; the relative importance of particular functions, divisions or strategic business units in the organization; and the system of communications. The stated or *official objectives* may or may not be achieved; there may be appropriate incremental decisions which reflect changes in the environment; or managers may be pursuing personal objectives, which Perrow (1961) has termed *operative goals* when the behaviour taking place cannot be accounted for by official company objectives and policies. The aggregation of these various decisions determines the emergent strategic changes, the actual objectives followed and the results achieved.

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Operative goals may complement or conflict with official goals, i.e. *complement* them if a stated objective in terms of a target return on capital employed was achieved through operative goals of managers and decisions taken by them regarding delivery times, quality and so on; or *conflict* with them if a sales manager was favouring particular customers with discounts or priority deliveries on low-profit orders, or a production manager was setting unnecessarily high quality standards (as far as customers are concerned) which resulted in substantial rejections and high operating costs, thus threatening profits. In such cases, operative goals would conflict with official goals.

We conclude Chapter 3 with Case 3.5, The Steam Railways Heritage, which allows you to consider a number of the themes discussed in the chapter. You may like to reflect on the personal objectives of the various individuals who have invested both time and money in an endeavour to make sure one particular icon of steam railways is preserved and available both to see and experience. The financial challenge facing the National Railway Museum is a relevant issue. From time to time, the Flying Scotsman will make appearances on various heritage railways, where visitors can still experience trains pulled by steam locomotives. They are an important tourist attraction; also, they preserve an important element of the UK's past. Their survival is very largely affected by the commitment of large numbers of volunteers; in fact, there is an argument that a major element of their (significant) social impact is the opportunity they provide for enthusiasts to contribute something of value while really enjoying what they do. The purpose and objectives of such organizations – and the people involved – seems clear in a number of ways, but it is certainly multi-faceted.

Heritage railways naturally seek to generate a surplus from the various activities, money which can be ploughed back to make sure the organization remains viable. There will certainly be a profit motive underpinning the books and films on Thomas the Tank Engine, but their existence entertains children and generally maintains a fascination in steam engines. There is a similar outcome from the activities of railway model enthusiasts, whose hobby also provides ongoing commercial opportunities for businesses such as Hornby.

Case 3.5 The Steam Railways Heritage — UK

Railways have played a vital role in the economic development of many countries. In the United States they opened up the country and allowed people to travel from east to west safely, or, at least, relatively safely; and they allowed cattle to be moved faster than they could in cattle drives to the big cities. In the UK they provided an efficient and affordable means for moving manufactured goods to ports (from where they could be exported) and raw materials to the factories. The original locomotives were steam driven; and for many enthusiasts, steam locos are the true railways – and they must be preserved. The resulting heritage railways, which have been preserved all round the world, and not just in the UK, have provided pleasure for both the people who ride on the trains and the volunteers who keep them running. This case explores three different but complementary ways in which the heritage has been preserved.

Officially an A3 Class locomotive, Number 4472, and designed by the renowned railway engineer, Sir Nigel Gresley, ***The Flying Scotsman*** is arguably the most famous locomotive in the world. It was built in Doncaster in 1923 for the London and North Eastern Railway (LNER). Its main task was to pull passenger express trains from London to Edinburgh – hence its name. It would haul the train non-stop for the 392 miles involved, picking up water from troughs along the line. Its coal tender had a small corridor so that a second crew (comprising a driver and a fireman) could be on the train.

The Flying Scotsman was the first steam locomotive officially to record a line speed in excess of 100 miles per hour (in 1934); and, in Australia in 1989, it managed the longest ever recorded non-stop run of 422 miles as part of a journey between Alice Springs and Sydney. When it was taken out of official service in the UK in 1963, as diesel systematically replaced steam power, it was the only A3 Class locomotive still operating.

At this time, it was sold to businessman and entrepreneur Alan Pegler for its scrap value of £3,000.

Pegler (1920–2012) was a lifelong railway enthusiast. Born into a Nottinghamshire business family, he

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attended university in Cambridge before joining the Fleet Air Arm as a pilot. After an illness, his main service was in the Royal Observer Corps; and, after the war, he took over the family rubber business. In 1951, he rescued the redundant narrow gauge Ffestiniog Railway and turned it into an early and successful heritage railway, targeted largely at tourists. In 1961, he sold the rubber business to the owners of a valve business that his grandfather had started years previously.

The Flying Scotsman was allowed to haul special trains on mainline British Rail tracks for a further five years, but this was not earning enough to cover its running costs. Pegler had it shipped to the east coast United States, where it earned money as a Buy British exhibition attraction. Sometime later, it was moved from Boston to San Francisco, where it appeared as a carnival attraction with accompanying bands. It was still failing to earn enough for the maintenance charges; in 1972, Pegler was declared bankrupt. He became an entertainer and actor, and was well known as a host on restored Orient Express journeys. Two more millionaire owners would be attracted by the prospect of owning The Flying Scotsman.

In 1973, Sir William McAlpine (of the building family) paid £25,000 and took on all the creditors. He had the locomotive returned to the UK via the Panama Canal and it was restored in Derby. He owned and ran the train for some 20 years, but the maintenance costs became 'ferocious'. In part, this explained why McAlpine moved the train to Australia to generate income; he declared his motivation was 'to hold the engine in trust for the Nation'. In 1996, Tony Marchington became the third private owner; he invested over £1 million in the project. He ran it for four years – before he, too, was declared bankrupt. During this time, he received some financial support from Pete Waterman, the music entrepreneur who was largely responsible for the music success of Kylie Minogue. Marchington formed a dedicated business and raised funds; his idea was to build a Flying Scotsman Village near Edinburgh – but he was refused planning permission.

In 2004, the National Railway Museum became involved and started what would become a ten-year project to rebuild the engine completely. The general public contributed £415,000, Sir Richard Branson donated £365,000 and £1.8 million was gifted from the National Heritage Memorial Fund.

The restoration was the most expensive ever for a railway locomotive. The Flying Scotsman was given its 18th new boiler, as well as many specially built new parts. It was repainted in its original (and distinctive) green livery. When it was completed in 2016, there was a global media event. The engine was described as a 'national treasure', a 'memory machine', a 'legend' and 'an icon of British technology'. The project was justified in a variety of ways. It is important for the UK industrial heritage. It helped preserve important skills and provided valuable apprenticeships. Jobs were preserved in a number of small specialist engineering businesses. These matter as there are locomotives around the world for which these skills remain rare but relevant. In addition, specialist crafts were supported; the engine was painted entirely by hand and given multiple coats and varnishes.

The lead author of this book was travelling south when the Scotsman hauled a northbound train from Kings Cross to York; every station was crowded with enthusiasts; photographers lined the whole trackside. The desire to see the engine was phenomenal; the journey to York took five hours (typically the current journey time to York is under two hours) and there were two crews. The media played a prominent role; people who had had a major role in the restoration were given free seats; 'real passengers' paid handsomely for the privilege of travelling on this one-off journey. Afterwards, two special weekend events in East Lancashire attracted 25,000 paying passengers. Although The Flying Scotsman will be used for special commercial trips and guest appearances on some of the UK's restored heritage railways, it will largely become an exhibit at the National Railway Museum. Its maximum allowed speed has been reduced to 75 miles per hour.

The National Railway Museum

The National Railway Museum in York is the leading railway museum in the UK and home to over 1,000 locomotives, some of them iconic, and thousands of items of railway memorabilia. The archive contains 20,000 books and 1.75 million photographs. The Flying Scotsman is often set alongside Mallard (the A4 Pacific loco also designed by Sir Nigel Gresley) and Olton Hall, which doubled as the Hogwarts Express. Some of the engines are operational and used or loaned out from time to time. The Museum was used to launch the stage version of *The Railway Children* (in 2008). As a national museum, entry is currently free of charge and some 750,000 visitors attend every year. The National Railway Museum was created in 1975 when a number of existing collections were consolidated on a single site. British Rail had preserved a huge number of artefacts, but it had been decided this was not something the then nationalized business could continue to support.

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Thomas the Tank Engine

The original *Thomas* stories were written many years ago by the Reverend W. Awdry for his children in his spare time. The books became very popular, but this popularity had waned considerably until the entrepreneurial Britt Allcroft, a producer of children's programmes for UK television, bought the right to the name in the 1980s. She produced new versions of the original stories and animated versions using celebrity voice-overs. Suddenly Thomas was popular again, and not just in the UK. There have been various other developments. Britt Allcroft ended her involvement some years ago, and the brand is now owned by leading toy company Mattel. Steam railway events have sprung up in various countries where existing heritage railways (under licence) attach masks of the faces of the various Thomas characters to other (real) steam engines and thus effectively transform their railways into a 'Thomas railway' for a day. Brand new characters – with both an international and a gender-neutral element – have been created, new stories written to feature them and new animated films made for children's television channels. The contribution of Thomas to the steam railways heritage is that it excites children from an early age – and for many the interest is retained.

Hornby models

Hornby is a name that readily springs to mind in the context of model electric railways and 'train sets', although as a business it is much more than that. The company dates back to the 1920s, and its early success was with two brands that are now largely (but not altogether) confined to history: Meccano and Dinky Toys (cars and vans). Today it still produces Hornby Railways, Scalextric and Airfix (model airplanes and ships). The actual production is in China, with design and distribution based in Margate, Kent. However, Hornby's main target customers are no longer (just) children; they are model enthusiasts. Parents will certainly still buy 'train sets' for their children, attracted by, for example, Eurostar and The Hogwarts Express, as well as other steam engines only found now running on heritage railways. Some of today's models will produce and pump out real steam. Hornby, though, is particularly interested in enthusiasts who want to build a 'proper model railway' (perhaps in their loft or garage) with lines, stations, signal boxes and a whole infrastructure – investing serious time and money in something semi-permanent. These hobbyists, who may well be members of model railway societies, are determined to preserve memories of steam railways to pass on to future generations. As time passes, of course, many of these enthusiasts rely on videos of steam railways for inspiration; they were not born when steam disappeared from mainstream use in the 1960s. In addition, model railway museums, paid visitor attractions, are to be found around the world. In a similar vein, some Airfix kits have over 500 parts (to individually paint and then assemble), which can 'take months to build'.

Questions

1. It is sometimes joked that racehorses and football clubs are two excellent opportunities for wealthy business people to squander their fortunes. Is there perhaps an argument that steam railways are another? How would you summarize the (multiple) motives of the key individuals in this case?
2. Now The Flying Scotsman is fully rebuilt – and no longer quite so dependent on wealthy benefactors – do you think it may have a sustainable future? If the National Railway Museum started to charge an entry fee, could you see its popularity waning and its own future in threat?
3. Why do you think heritage railways (that run steam locomotives on restored lines) are as popular as they are as family tourist attractions? Do you agree with the suggestion that they may well have been influenced positively by an interest in Thomas the Tank Engine?
4. Using the internet, do you feel the new characters have added value to the Thomas stories from a customer perspective, or are they more driven by commercial and political motives?

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Research Snapshot 3.1

A relatively large body of recent literature relating to strategic purpose has built on the earlier studies, and, in particular, vision and mission have been widely researched, as has literature that draws on Freeman's (1984) seminal stakeholder theory. Furthermore, recent research has also examined a growing area of interest: ethics, corporate responsibility and values. Inevitably, these three elements, *strategic purpose* (objectives, vision and mission), *values* (ethics and social responsibility) and *stakeholders* are inextricably intertwined and, indeed, a number of articles have made linkages between them, including in *SMEs* and social enterprises.

In the healthcare sector vision statements have been found to improve US hospitals' 'financial performance' (Gulati *et al.*, 2016). Indeed, it has been demonstrated that strategic vision influences internationalization (Singal and Jain, 2013), and that it also has a clear link with sustainability, e.g. universities (Yáñez *et al.*, 2019) and energy companies reorienting from fossil fuels to renewable sources (Madsen and Ulhøi, 2021). In the latter article Madsen and Ulhøi (2021) explain how 'sustainable visioning' supports both business growth, facilitates cost-saving technological innovations, and enables access to finance. In terms of SMEs, several studies have emphasized the importance of strategic vision. Arfi and Hikkerova (2019) found that high-growth Gazelles deployed their social capital and their strategic vision to discover and exploit opportunities in the difficult business environment of Tunisia. Strese *et al*. (2018) reported that SMEs produced radical innovations when their CEOs had a 'passion for inventing', and that having a 'a shared vision' among employees was vital to ensure that these innovations were achieved. In a sense, then, strategic vision could ensure the dynamic capability in terms of alignment between resources (such as knowledge) and strategy (vision) (Teece, 2018) – which relates to the radical innovation capability being supported by shared vision in the Strese *et al*. (2018) study – for such SMEs. Finally, there is some evidence on the link between vision and firm performance, i.e. in creating competitive advantage through shared vision and 'collective engagement' within organizations (Eldor, 2020) and also by how well CEOs articulate the vision of the firm (Ashford *et al*., 2018).

While organizational vision (and its link with firm performance) has been widely researched, there is much less literature on mission statements. Even the extensive recent research has only established a tenuous link, though recent research suggests that mission statements can enhance the performance of non-profit organizations (Pandey *et al.*, 2017). Alegre *et al*. (2018) have systematically reviewed the literature on mission statements over 35 years and offered an almost definitive guide to what should be incorporated into a mission statement. Rey and Bastons (2018) offer three dimensions of mission statements in terms of their implementation and they term these 'formal', 'dynamic' and 'motivational'. They, therefore, state that mission statements should be authentic, coherent and have integrity. Other recent research has examined how strategy and mission can be implemented (Gagné, 2018).

Universities have offered fertile ground for research into mission statements. The mission statements of marketized universities in the UK are driven by more 'economic' motives, with distinctive differences between the older, research-intensive Russell Group and the modern, post-1992, former polytechnics (Morrish and Sauntson, 2013). Fitzgerald and Cunningham (2016) find that mission statements appeared to contribute to the effectiveness of university technology transfer offices in terms of patents being granted. Furthermore, Seeber *et al*. (2019), adopting a neoliberal view of universities, analyzed mission statement content and reported a tension between differentiation (i.e. against competitors primarily in their own regions) and proving their 'legitimacy' by spinning their missions that external stakeholders would believe while being plausible internally.

Building on Freeman's (1984) stakeholder theory, literature has examined, among other themes, its 'fundamental normative implications' and its 'range of application' (Hasnas, 2013). Although its definition and its conceptualization are highly 'contested' (Miles, 2017) and, indeed, it has been seriously critiqued (e.g. Weitzner and Deutsch, 2019), stakeholder theory is at 'the crossroads' at a juncture when there are various tensions that need to be addressed (Barney and Harrison, 2020; refer also to Freeman *et al*., 2020). However, stakeholder theory has recently been defended and clarified by its originators (e.g. Freeman, 2011; Freeman *et al*., 2018; Freeman and Laasch, 2020; Freeman and Moutchnik, 2013; Hörisch *et al*., 2014; Strand *et al*., 2015). In particular, Freeman and co-authors have examined the link between stakeholder theory and CSR (Freeman and Moutchnik, 2013), alliances between stakeholders

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(Fassin *et al.*, 2017), sustainability management (Hörisch *et al.*, 2014, 2020; Schaltegger *et al.*, 2019) and sustainability more generally, the latter being in the Scandinavian context (Strand *et al*., 2015), and – as alluded to earlier – the tensions in stakeholder theory (Freeman *et al.*, 2020). In terms of sustainability, Freudenreich *et al.* (2019) suggest that value can be created by business models, and they offer a stakeholder value creation framework (see Research Snapshot 2.1). Stakeholders are an important aspect of the link between gender diversity on company boards and financial performance, because 'women on boards' attunement to stakeholder interests leads them to influence firms' prosocial actions, which results in higher levels of corporate social responsibility (CSR)' (Galbreath, 2018, p. 863). Junghagen (2018) examines tensions between a football club, Malmö FF, and its stakeholders because of conflicting objectives. Some recent examples of theories that have been introduced or applied with regard to stakeholders include constructive stakeholder theory (Ketokivi and Mahoney, 2016), stakeholder synergy (Tantalo and Priem, 2016), instrumental stakeholder theory and sustainable competitive advantage (Jones *et al.*, 2018) and the role of trust in collaboration or cooperation between different stakeholders (Crane, 2020; Jones *et al.*, 2018), and finally paradox theory (Pinto, 2019). Woermann and Engelbrecht (2019) present the Ubuntu, a moral way of thinking and acting that originates in Africa, as an alternative to stakeholder theory and, therefore, they refer to relationholder theory instead.

In summary, there is continuing interest in strategic purpose, values and stakeholders. The articles below provide deeper understanding of strategic purpose and stakeholder theory, and their relationship with values, ethics and corporate responsibility (though, see Chapter 7 for further references on culture and values). The further reading from this literature will help you to develop your perception and critical awareness of the utility and value of mission and vision, and also to highlight the developing thinking in relation to stakeholder theory and wider ethical considerations.

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Summary

The corporate *mission* represents the over-riding purpose for the business and, ideally, it should explain why the organization is different and set it apart from its main rivals. It should not be a statement that other organizations can readily adopt. Its main purpose is communication.

It is useful to separate the mission statement from a statement of corporate vision, which concerns 'what the organization is to become'. Both can provide a valuable starting point for more specific *objectives* and strategies. Shorter-term objectives will usually have timescales or end dates attached to them and, ideally, they will be 'owned' by individual managers.

Issues of *social responsibility* and *business ethics* are important for all organizations. They will be seen by some organizations as a threat or constraint and encourage a strategy of compliance. Other organizations will perceive them as an opportunity to create a difference and, in turn, a positive image. They are becoming increasingly visible – issues which organizations should take seriously and not ignore.

It is, therefore, feasible to argue that organizations (as a whole) have a purpose and individual managers have objectives. Mission, vision and objectives all relate to the *direction* that the organization is taking – the ends from which strategies are derived.

It is not, however, feasible to assume that the organization will always be free to set these objectives for its managers: there may be constraints from key stakeholders. A number of theories and models, mainly from a study of economics, can help us to understand why organizations do the things they do. In addition, individuals will have *personal objectives* that they wish (and intend) to pursue, which should not be allowed to work against the best interests of the organization.

External *stakeholders* also have expectations for the organization. These will not always be in accord with each other, and important trade-offs and priorities must be established. There is always the potential for conflicts of interest. As a result, the organization will be seen to have a multitude of objectives, but all contributory to a single purpose.

Profit is necessary for profit-seeking businesses; a positive cash flow is essential for not-for-profit organizations. Profit (or cash) can, however, be seen as either a means or an end, and this will impact on the 'feel' or culture of the organization.

Regardless, there is a virtuous circle of financial returns, motivated employees and satisfied customers.

Online cases for this chapter

Online Case 3.1: New York's Yellow Cabs
Online Case 3.2: National Theatre
Online Case 3.3: Nike
Online Case 3.4: The Co-operative Bank
Online Case 3.5: BAE Systems

Questions and research assignments

1 Using a case from this chapter, clarify what you think the business model is. How would you define that company's vision and mission?

2 Think of any organization with which you have personal experience. Do you believe that profit (or cash, in the case of a non-profit organization) is seen as a means or an end by the key decision-makers? Do they all agree on this?

3 What key issues do you believe should be incorporated if a company opts to publish a statement on ethics?

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Internet and library projects

1. From the Beauhurst website, pick a rapidly growing business of your choice from the top ten businesses listed. In 400 words or less, can you identify the business objectives of that business?

   Beauhurst: www.beauhurst.com/blog/fastest-growing-companies-uk/

2. When Tottenham Hotspur became the first English Football League club with a stock exchange listing (in 1983), the issue prospectus said: 'The Directors intend to ensure that the Club remains one of the leading football clubs in the country. They will seek to increase the Group's income by improving the return from existing assets and by establishing new sources of revenue in the leisure field.'

   a. Research the strategies followed by Tottenham Hotspur plc since 1983. Do you believe that the interests of a plc and a professional football club are compatible or, inevitably, conflicting?
   b. Which other clubs have followed Tottenham? Have they chosen similar or different strategies? How have they performed as businesses?
   c. Do you think the announcement – quickly rescinded – in 2021 by six Premier League clubs to participate in a new European league run by the clubs themselves confirmed how significant the profit motive had become in a game that (arguably naïve) fans believe is about sporting competition and entertainment?

3. Have the objectives (in particular, the order of priorities) of the Natural History Museum changed since the introduction (and later abandonment) of compulsory admission charges in April 1987?

4. In March 2009, it was announced that Cadbury was 'to become the first mass-market chocolate brand to adopt the Fairtrade certification mark'. How significant was this? Do you see this as reactive to changing consumer views, or a very smart proactive move – or both? What has been the impact?

5. In January 2009, an investigation by the BBC found that clothes sold in Primark stores were being made in factories in the UK where workers were being paid less than the official minimum wage – and also working very long hours in poor conditions. How did the company deal with this revelation? Some ten plus years later, do you think the situation has really changed? Does rhetoric sometimes remain rhetoric, rather than provoke genuine action?

Strategy activity

Ben and Jerry's Ice Cream

This idiosyncratic business was founded and developed by two partners, both entrepreneurs but, at face value, unlikely businessmen. Ben Cohen was a college dropout who had become a potter. His friend from his schooldays was Jerry Greenfield, a laboratory assistant who had failed to make it into medical school. They had become 'seventies hippies with few real job prospects'. They decided they wanted to do something themselves and 'looked for something they might succeed at'. They 'liked food, so food it was'! They could not afford the machinery for making bagels, their first choice, but ice cream was affordable. In 1977, they opened an ice cream parlour in Burlington, Vermont, where there were 'lots of students and no real competition'. They fostered a relaxed, hippy atmosphere and employed a blues pianist. Their ice cream was different, with large and unusual chunks.

They were instantly successful in their first summer, but sales fell off in the autumn and winter when the snow arrived. They realized they would have to find outlets outside Vermont if they were to survive. Ben went on the road. Always dressed casually, he would arrive somewhere around 4.00 am and then sleep in his car until a potential distributor opened. He was able to 'charm the distributors' and the business began to grow. The success of Ben and Jerry's provoked a response from the dominant market leader, Häagen-Dazs, owned by Pillsbury. Their market share was 70 per cent of the luxury ice cream market. Häagen-Dazs threatened to withdraw their product from any distributors who also handled Ben and Jerry's. The two partners employed a lawyer and threatened legal action, but their real weapon was a publicity campaign targeted at Pillsbury itself, and its famous 'dough boy' logo. 'What's the Dough Boy afraid of?', they asked. Their gimmicks generated massive publicity and they received an out-of-court settlement.

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More significantly, the publicity created new demand for luxury ice cream, and the company began to grow more rapidly than had ever been envisaged. A threat had been turned into a massive opportunity. Soon, Ben and Jerry's had a segment market share of 39 per cent, just 4 per cent behind Häagen-Dazs. The company has expanded internationally, with mixed success. They have enjoyed only limited success in the UK 'because there was only limited marketing support'.

Perhaps not unexpectedly, given their background, Ben and Jerry have created a values-driven business; some of their ice creams have been linked to causes and interests they support and promote. Rainforest Crunch ice cream features nuts from Brazil; the key ingredients for Chocolate Fudge Brownie are produced by an inner-city bakery in Yonkers, New York; and they favour Vermont's dairy-farming industry. When the business needed equity capital to support its growth, local Vermont residents were given priority treatment. Ben and Jerry argue they are committed to their employees, who 'bring their hearts and souls as well as their bodies and minds to work', but acknowledge that their internal opinion surveys show a degree of dissatisfaction with the amount of profits (7.5 per cent) given away every year to good causes.

The two realists with an unusual but definite ego drive later dropped out of day-to-day management: 'the company needed a greater breadth of management than we had', and they were content to be 'two casual, portly, middle-aged hippies'.

In early spring 2000, the business was acquired by Unilever, the multinational foods, detergents and cosmetics business. Unilever already owned the UK market leader, Wall's ice cream. Unilever and Wall's had recently been investigated by the UK competition authorities because of their strategy of insisting that retailers only stock Wall's ice cream if Unilever provide them with a freezer cabinet on loan.

Ben and Jerry's **www.benjerry.com**

Questions

1. Do you think the objectives of Ben and Jerry's will have needed to change after this acquisition?
2. Do you think it will now feel like 'a different place to work', with different priorities?

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Part 2

Analysis and positioning

In Part 2, we see how the concept of environmental fit and a political, economic, social and technical **(PEST) analysis** illustrate the presence, absence or loss of strategic positioning, competitiveness and strategic effectiveness. We believe that culture and values hold the key to the existence and sustenance of positioning, competitiveness and effectiveness. This part looks in detail at positioning and competitiveness, and useful techniques for carrying out the appropriate analyses are explained.

There are three distinct approaches to strategy and strategy creation. They should not be seen as opposing approaches, however, but as complementary approaches to opportunity finding. The entrepreneurial organization will certainly take account of all three, placing an appropriate emphasis on each one. They are:

- Market-driven. The market-driven approach implies an active search for new products and marketing opportunities in the external environment. These may be found either in industries in which the organization already competes, or in new ones.
- Resource-based. Here, the organization clarifies its distinctive core competencies and strategic capabilities – perhaps technologies and processes – which set it apart from its competitors in ways that customers value. It then seeks to build on these competencies and capabilities to build new values for both existing and new customers. This approach has the advantage of encouraging the organization to focus on what it can do well – as long as there is a market for it.
- **Competitor-influenced strategy**. This is a more tactical approach which implies short-term vigilance. While seeking to build the future, an organization must never lose sight of the present day. Its existing positions must be protected against active competition. This requires an ability to react to competitor moves and proactive initiatives designed to surprise competitors. Of course, it is important not to become over-reliant on this tactical approach, as this is likely to make the organization more reactive, rather than proactive.

Organizations should be looking for ways to be different from their competitors. This is unlikely to come from imitation, from monitoring and copying what rivals do – although this approach can be

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seen in many organizations. In the end, such mimicry will make all competing organizations look remarkably similar, making it difficult for customers to distinguish between them and placing too much emphasis on price competition. Instead, organizations should be looking to innovate to achieve two purposes – one intention is to always be ahead of rivals with new ideas; the second intention is to draw apart from competitors with radical differences that they find hard to imitate in the short term. There are two important provisos. First, the differences should mean something positive to customers; it is not simply a question of being different for the sake of being different. Second, it should never be assumed that any gap or advantage is anything but temporary; all ideas can be copied eventually, and all good ones will be!

We look at these approaches in Part 2 before developing our understanding of culture and values in Chapter 7 (Part 3) to complete our study of the E–V–R congruence themes.

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Chapter 4

The business environment and strategy

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

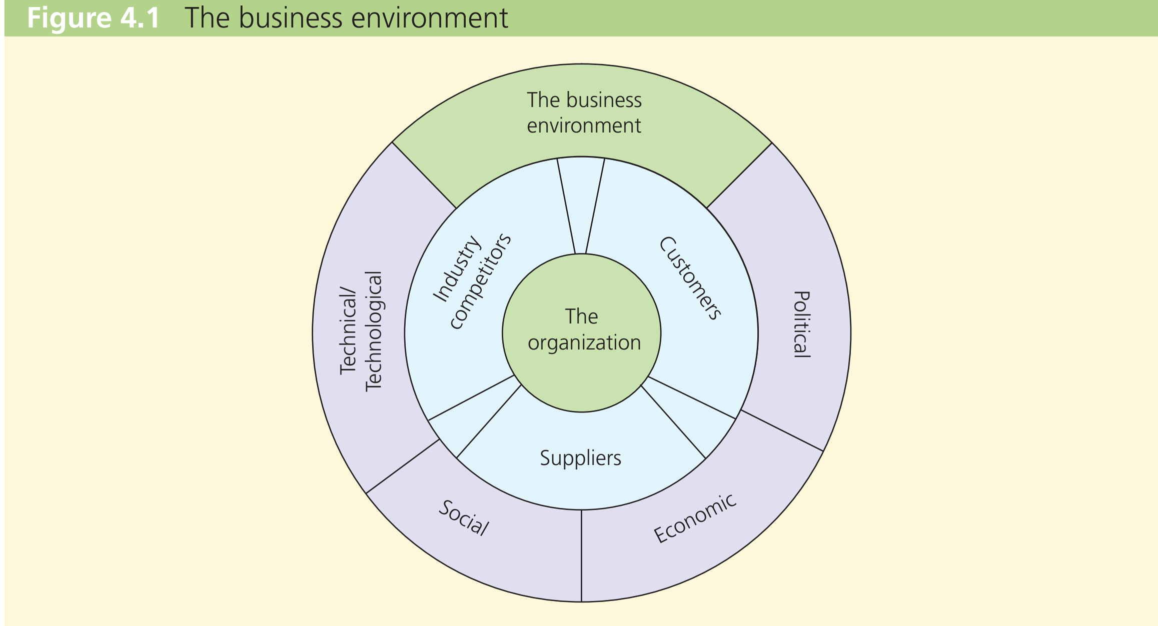
- assess the impact of a number of environmental forces and analyze the attractiveness of an industry **(Section 4.1)**
- summarize the important role of government policy and regulation on competition **(Section 4.2)**
- appreciate the significance of key success factors, effective strategic positioning, adding value, and Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis **(Section 4.3)**
- identify how changes might be forecast **(Section 4.4)**.

Introduction

Matching, exploiting and changing the linkages between resource competency and environmental opportunity is an expression of organizational competitiveness and the presence (or absence) of competitive advantage. Chapter 6 later illustrates how it is essential for organizations to seek competitive advantage for every product, service and business in their portfolios.

Figure 4.1 illustrates the organization in the context of its external environment, showing how its suppliers and customers, on whom it depends, and its competitors – both existing and new-in-the-future – have an immediate impact. Wider environmental forces (shown in the outer circle as political, economic, social and technological or PEST forces) affect all the 'players' in the industry. Note: Sometimes legal and environmental forces are incorporated to make this a **PESTLE analysis**. The forces and influences have been deliberately shown in concentric circles. Often, an organization is conceived as a group of activities (and/or functions) with everything and everyone else, including suppliers and customers, in a so-called 'external **business environment**'.

Figure 4.1 The business environment



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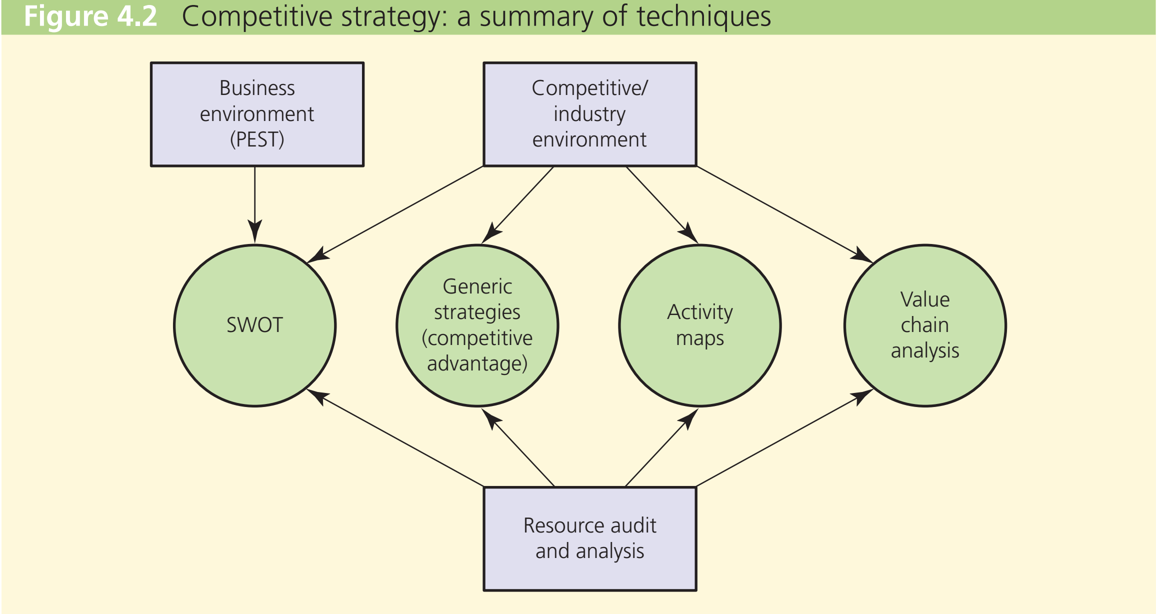
Increasingly, it makes considerable sense for the organization to see itself working in partnership with its suppliers, distributors and customers. When this perspective is adopted, then only competitors from the middle ring would be placed in the external environment, together with the general forces which impact on the whole industry.

Figure 4.2 illustrates the various concepts and techniques discussed in this part of the book.

Figure 4.2 Competitive strategy: a summary of techniques



4.1 Analyzing the business environment

Commentators today might claim that the world has never changed as fast as it is doing now. While agreeing, others might add: 'Yes, and it will never be as slow again!' Really, it is all about perception. And, regardless, it is the implication that matters. Organizations and managers must seek to understand and make sense of the world in which they operate and compete, and adjust accordingly if they are to survive and, ideally, thrive. To explain the fit between an organization and its external environment, strategic positions are related to the organization's ability to create and add value, which can be examined in relation to a SWOT analysis. This chapter continues by examining the nature of the business environment, followed by a consideration of the impact of competition regulations on industry and company strategies. Positions have to be changed, which may be either a continuous and incremental process or, alternatively, be more dramatic or discontinuous.

One thing is clear. Even if you're on the right track, you'll get run over if you just sit there!

Sir Allen Sheppard, when Chairman, Grand Metropolitan PLC (now Diageo)

Managing in an increasingly turbulent world

We now examine in detail the environment in which the organization operates and consider how the forces present in the environment pose both opportunities and threats. Several such forces affecting the organization have a stake in the business and are, therefore, stakeholders (as discussed in Chapter 3) who have power and must be satisfied, especially if they are also interested in the activities of the organization (Freeman, 1984). Competitors constitute a major influence on corporate, competitive and functional strategies, and they are the subject of Chapter 6, thus allowing us to better understand the strategic situation and also to build relevant **scenarios**.

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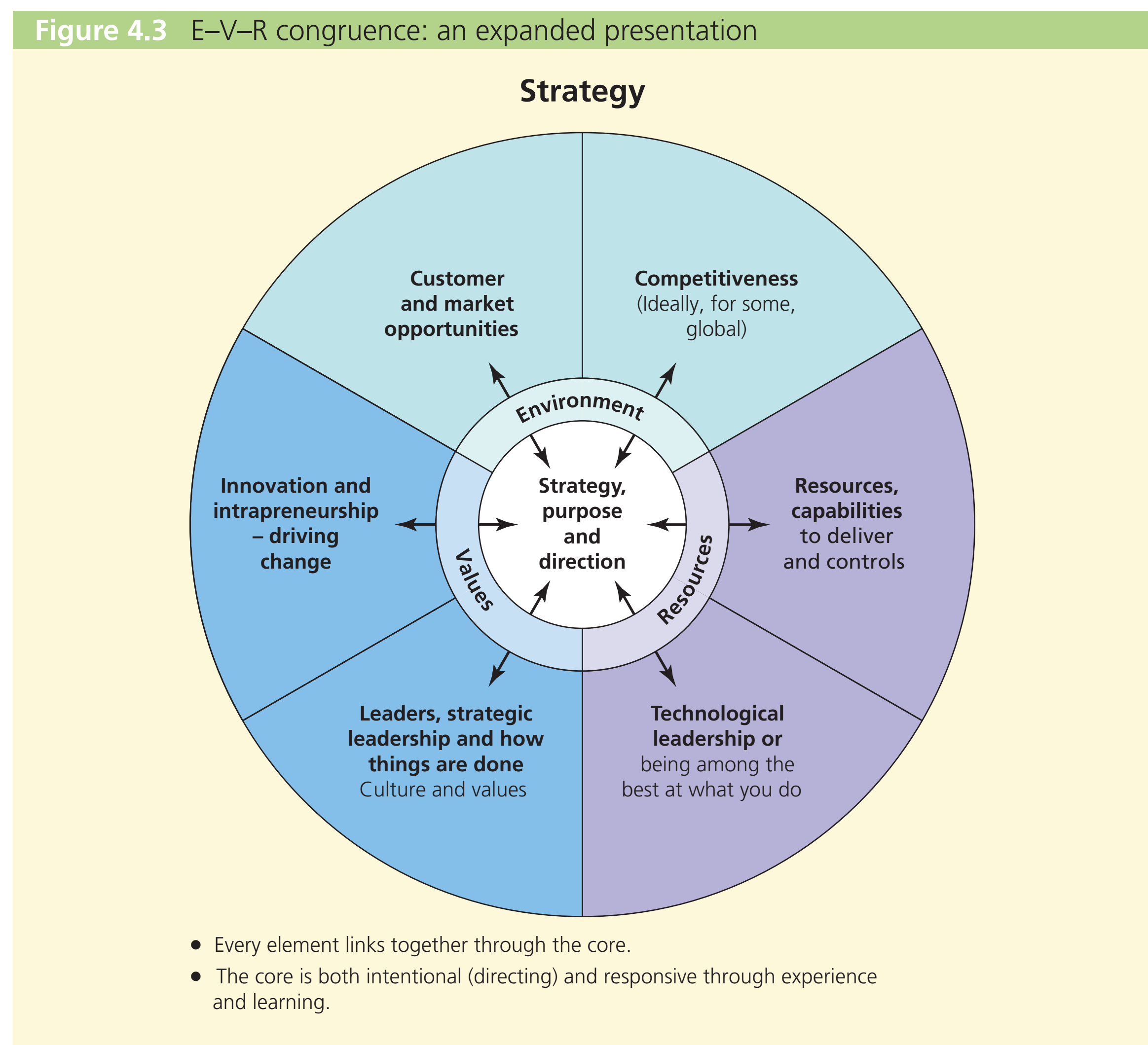
A firm must control the forces that influence its growth and, therefore, needs to be aware of environmental forces and environmental change, thus managing the organization's resources to take advantage of opportunities and counter threats. In turn, the strategic leader should lead this process, ensuring that the values and culture of the organization are appropriate for satisfying the key success factors – and, given that the environment delivers shocks to an organization, the way in which resources are deployed and managed determines the ability to handle these shocks. Such actions relate to E–V–R (Environment–Values–Resources) congruence. In Figure 4.3, we present an extended version of the concept we introduced in Chapter 1 to summarize these points.

Figure 4.3 E–V–R congruence: an expanded presentation



- Every element links together through the core.
- The core is both intentional (directing) and responsive through experience and learning.

The long-term impact of the COVID-19 pandemic will become clearer over time, but Critical Reflection 4.1 examines a number of relevant issues. Strategic leaders need to act 'now', using their strengths and based on their predictions of relevant opportunities and threats.

Case 4.1 on the Glastonbury Festival summarizes how an entrepreneurial farmer created an opportunity for adding value and harnessed the resources needed to make something significant happen. As well as music fans, charities and good causes have benefited. It is an ideal case for applying E–V–R.

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Critical Reflection 4.1 Future Uncertainties Beyond COVID-19

This Critical Reflection discusses uncertainty in the face of a major global shock. The term 'black swan' is sometimes used metaphorically to describe an event that comes as a surprise, has a major impact, and is often later, and with the benefit of hindsight, described as predictable, in part because it has become understandable. The event might have been predictable, but the likelihood of it happening was not. The term is derived from an ancient saying that black swans did not exist, and Taleb (2007) used it for the 'disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations'. Similarly, Evans and Elphick (2005) describe short, sharp, intense crises as 'cobras' and more prolonged and draining ones as 'pythons'. Commentators have suggested that COVID-19 started as a potential cobra but quickly became a python when it was spread by international travellers.

COVID-19 in 2020–21 can be seen as a 'black swan' event. In many ways, what happened was unknowable and unpredictable; it had a huge impact; and, in large part because of the contribution from the science community and the funding provided by governments, it became clearly understood with the benefit of hindsight. But there had been a high price to pay. Many people died; many others suffered for long periods with so-called 'long Covid'. Jobs were both furloughed and lost. Schools closed. Universities switched from in-class to online learning. Overseas students returned home and stayed at home. Non-essential shops closed. People bought more and more online. Delivery businesses thrived and recruited new drivers. Social activities and hospitality venues were forcibly closed. Visitors were not allowed into hospitals and care homes. Large numbers of people became home workers – and got used to it! Some declared they would like to maintain this routine for the long term and shun their offices. Others demonstrated symptoms of stress and depression from this forced change. Public transport, once full of commuters, ran empty. Overseas travel largely disappeared. The numbers of people waiting for routine hospital procedures not linked to COVID-19 grew and grew. But eventually populations became resilient as a result of vaccines, developed faster than might have been anticipated. Different people reacted in different ways. Those most vulnerable and/or fearful isolated themselves – and some had their self-confidence shattered. A minority assumed they were safe, regardless, and tried to continue 'as normal'. Governments had borrowed extensively to fund it all; at some point this money would need paying back. As countries systematically came out of lockdown, commentators speculated on the legacy of all this disruption. There seemed little doubt that the future would be a 'different normal'.

The future, then, was undoubtedly uncertain in many ways, and there was little precedent to call upon. There was no guarantee there would not be further 'spikes' in cases, as a result of new variants. Opportunities would clearly arise for those entrepreneurial people willing to take risks. New business models, new revenue models and new supply chains seemed inevitable. The potential rewards for those who were willing, and who 'called it right', might be substantial. Calling it right implied understanding customer preferences and expectations in the future and how value might be added, possibly, but not necessarily, quite differently from in the past. A further uncertainty would be the speed at which demand (which for many organizations had dropped dramatically) would return. Supply chains would need to be restored, which would involve new order commitments linked to an assumption that 'all would be well'. In spring 2021, for example, it became clear that, for a variety of reasons, there was a shortage of computer chips across the globe, which would affect, for example, car manufacture and the production of many electronic products, and for an uncertain time period.

At the same time, there would undoubtedly be 'losers' who struggled to deal with the consequences. Moreover, might governments be expected to become more interventionist? That said, of course, we might query whether governments would have the financial capability to support interventionist policies … might it be better to encourage less restricted entrepreneurship? Could workers with key skills be found to fill the gaps that needed to be filled? What did the future hold for people who had lost their jobs? To what extent would the backlog in treatment for routine medical procedures continue to be a real issue because of resource shortages (an inability to 'simply' find new doctors, nurses and hospital beds) – or might this challenge be made into an opportunity to rethink health and social care?

For the UK, all of these adjustments needed to happen while the country was coming to terms with no longer being a member of the European Union (EU) (since 31 January 2020, with the subsequent 'transition period', when a trade deal was being negotiated, concluding on 30 December 2020). And all of these events were happening in a world where issues of energy conservation, air and water pollution and environmental sustainability were placing various constraints on decision-makers.

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These decision-makers, it was assumed, would need new mindsets and to be able to communicate their ambitions in ways that inspired people. Their relations with their key stakeholders would need revisiting and might well be different. Competition might not look or seem the same.

Summarizing a number of views and 'expert predictions', there seemed to be a likelihood that different sectors would see demand for their products and services returning at different times as consumer confidence rebounded. There was definitely pent-up demand for holidays and travel, but would these be permitted or constrained by (burdensome) testing requirements and the delays these might cause? At the same time, there was an expectation that innovation and fresh ideas would feature strongly in organizational responses. 'There will be no going back on technology developments'; a new digital revolution seemed a genuine possibility to some commentators. Interestingly, one key feature of the pandemic was the prominent role played by science and scientists, and the reliance placed by governments on evidence-led decisions. These features might influence consumer willingness to adopt new, imaginative ideas and products until there was clear evidence of their efficacy and relevance.

Linked to all of these trends were the new ways of working and communicating that people had discovered and become comfortable with. If people continued to prefer home working, there would be social implications. Also, what would happen to the empty offices, alongside the empty high street shop units, because, and building on a point we introduced in Chapter 2 and develop further in Case 4.7, online shopping had become more natural to many people?

During the pandemic, some companies would have redirected their energies and undertaken new activities; would these be retained or abandoned? Some industries and, in each one, some companies, would be declared 'winners' and some 'losers'. As we shall see later, there are 'winning strategies' for competitors in industries that are declining. Underpinning this aspect would be the role and contribution of venture capital to enable the acquisition and repositioning of struggling businesses.

Sometimes that well-used phrase 'your guess is as good as mine' seems truly pertinent!

The thoughts presented in this Critical Reflection allow discussion and debate on both the detail (linked to the relationship between organizations and their external environment) and the role of strategic thinking – in particular, how new strategies and new business models might be created and implemented.

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Case 4.1 The Glastonbury Festival UK

Some 50 years after it started, the music festival at Glastonbury has become a 'must go' event for many thousands of people. It has the potential to attract the 'biggest names' in popular music from around the world – although they are playing on a part-open stage to an audience in a field – very possibly a muddy field – and potentially in the rain.

The Glastonbury Festival was started by Michael Eavis on the family dairy farm in Somerset that he inherited in the 1950s. It has happened in an era when many farmers have sought diversification opportunities to help them survive, as the economics of farming have changed. That said, farm shops, bed-and-breakfast rooms, cottages and artisan cheese and ice cream have

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been the preferred choice for most farmers. Initially, Eavis had worked part-time off the farm, as a coal miner, to earn money. In a previous life he was a merchant ship's engineer.

In 1969, Eavis visited the Bath Festival of Blues, where he was particularly inspired by Led Zeppelin. In 1970, he experimented with a small and local pop, folk and blues festival on his farm – followed a year later by a bigger, free-to-attend festival. This experience developed his interest and he subsequently joined forces with other entrepreneurial people, who he allowed to run festivals intermittently. Eavis, essentially the host, insisted on having occasional fallow years to enable the land to recover from the tramping feet. Arabella Churchill, a granddaughter of Winston Churchill and a leading charity fund-raiser, played a key role. David Bowie was the headline act at one of the festivals. Michael Eavis took direct control of everything in the early 1980s.

Glastonbury has become a five-day event in June most years; there are still fallow years. The last pre-COVID festival was in 2019; 2020 and 2021 were ruled out because of the pandemic and the superspreading that would have inevitably followed. Pop music remains the main feature, but a wide range of different acts and performers appear on multiple stages. There are acts appearing throughout the day and evening. The main stage is the renowned Pyramid Stage, a one-tenth (open at the front) replica of the Great Pyramid of Giza. Some 200,000 tickets are sold for each festival, now 'within 30 minutes of them going on sale'. The price per ticket is around £250. Eavis proudly claims that Fleetwood Mac is the only band or performer who could routinely attract an audience of 60,000 yet to 'play Glastonbury'. As time has gone on, Eavis has purchased farmland bordering the original family farm to enable this size of festival. His family earns a 'comfortable salary' to supplement the farm income, and £2 million is donated to charity from every festival. Eavis is a lifelong Methodist with strong links to the Church. Oxfam, a major beneficiary every time, organizes 2,000 unpaid volunteers for each festival. These volunteers live on-site and get free food. They can also listen to the music when they are not on duty, of course.

Attendees live on site for the five days, most of them in tents – but camper vans can be parked not too far outside the festival boundary. This arrangement incurs an extra fee. Some people bring robust tents they will take home. Others have tried discardable – and not particularly environmentally 'sustainable' – tents they tend to just abandon when they leave, which has provided opportunities for small entrepreneurs to develop businesses selling disposable tents – as part of the so-called 'throwaway society' – and portable toilets. Disposal creates an extra challenge for the organizers after the festival, of course. Special local transport needs organizing. Everything needed has to be brought in each time – food, water, toilets, security fencing, electricity supply … the list is almost endless. Security is essential and drugs need controlling, as far as it is possible to do so. Cleaning up afterwards is a mammoth task and, actually, getting everyone away at the end can also be challenging. This task is made more complicated – as is 'everyday life' over the five days – if there is adverse weather, which is frequently the case, even though it is mid-summer. Extensive mud everywhere is not unusual and there have been cases of lightning strikes during summer storms. But this is all part of the experience! And it provides wonderful stories to share with your friends and post on social media. Almost a 'rite of passage'.

During the 1980s, when Eavis took over, around 30,000 people were attending each festival. By the 1990s the audience had grown to an all-time high number of just over 300,000 for The Levellers, but the sheer size of the crowd was seen to be dangerous and unmanageable. The fact that the Pyramid Stage burned down one year during the festival only reinforced this view. The festival was broadcast on mainstream television for the first time in 1994, which cemented its popularity and place in popular culture. It also helped to stimulate demand for raves generally and to enable other big festivals to become annual events. When crooner Tony Bennett was booked for 1998 – and hugely popular – his appearance started a trend of other international artists who were not naturally describable as 'pop stars' or 'pop groups' becoming a regular occurrence. In the early 2000s Shirley Bassey was another such artist – but also headlining were, as examples, David Bowie (again), Coldplay, Rod Stewart, Paul McCartney and Bruce Springsteen.

Around this time, Michael's daughter, Emily Eavis, became the co-organizer and she introduced silent discos, where people used headphones and 'partied through the night' without disturbing local residents unnecessarily.

Attendances by Dolly Parton and Kylie Minogue were mentioned in Case 1.1 earlier; and the Dalai Lama appeared and spoke a few years back. Since 2018 the sale of plastic bottles has been banned, although clearly not disposable tents, but people can bring their own refillable bottles which can be replenished from large water containers.

The 2022 line-up was extensive and included 'names from yesteryear' including Paul McCartney (again) and Diana Ross, and some of today's top attractions – Billie Eilish

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and Sam Fender being examples. The most cynical would say COVID-19 was also in attendance!

Questions

1 Why do you think Glastonbury and similar festivals are as popular as they are, given the obvious downsides?
2 Do you see this festival as an example of an entrepreneurial initiative shaping the external environment, as distinct from a business responding to demand?
3 Can you think of ways you might improve the Glastonbury Festival?
4 What are your views on the charitable donations?

If there is an opportunity for a class discussion, it might be useful to start by establishing which of your classmates have been to Glastonbury or similar festivals elsewhere – perhaps you have even volunteered? How would you describe your experiences?

In a turbulent environment, the organization must change its strategies – and, possibly, its beliefs – if it is to maintain E–V–R congruence, and a number of key themes underpin the issues discussed in this chapter. Traditional industries, such as manufacturing and mining, have given way to new, more technological industries which demand new labour skills and where 'knowledge workers' are of prime importance. New technologies can generate opportunities for substitutability: different forms of competition and the emergence of new competitors in an industry. In addition to changing skills demands, there have been other changes in the labour markets of developed countries, such as many families having joint wage earners with more women working, and more people working (partially or fully) from their homes. Many managers and employees are more time constrained, leading to less time for shopping (hence the potential for **e-commerce**), and demand has increased for convenient, time-saving products. People are living longer, and both the average age of the population and the number of retired people are increasing. The internet continues to change how we access information in a quite remarkable way.

Dobbs *et al*. (2015) summarize the four major disruptive forces that are affecting all industries and businesses today:

- the fast growing power and economic strength of new economies such as China, India and Brazil
- the accelerating speed of technological change
- an ageing population around the world
- lower barriers to both communications and trade.

Individual countries are affected by specific issues – the UK has been affected in various ways as a consequence of the decision to leave the European Union – Brexit.

Multinational businesses have grown in strength and significance, and they have become the norm for mining and manufacturing industries. Case 4.2 on Gemfields highlights the value of taking a responsible attitude when developing businesses abroad. Manufacturers from the UK, the United States, Germany, Japan and other nations with a long-standing tradition in manufacturing have relocated factories to developing countries with lower wage costs. Technology which allows increasing levels of output from the same size factory has facilitated these changes – for example, Hornby, mentioned in Case 3.5, switched its production to China, leading to visibly higher quality for the same market price. Consequently, the competitive arena has been changing with, until recently, the highest economic growth being enjoyed by the United States, although during the early and mid-1990s it was the Pacific Rim countries. Indeed, Brazil, Russia (despite a recent medium-term decline of the Russian economy due to sanctions), India, China and South Africa (the BRICS) have all experienced relatively strong economic growth and have initiated their own development bank to counteract the Bretton Woods Institutions (the International Monetary Fund and World Bank). In many industries, global supply potential exceeds demand, placing downward pressures on real prices.

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Case 4.2 Gemfields Africa

Diamonds are typically thought of when many customers are choosing high-end jewellery created around expensive gemstones; De Beers would perhaps be the most recognized name. Many important jewellery retailers, including Cartier, Tiffany and Harry Winston, all specialize in diamonds. But coloured gemstones also have an important place. Gemfields describes itself as 'the world's leading supplier of responsibly sourced emeralds, rubies and sapphires from Africa'. Gemfields also owns the Fabergé brand, often associated with the limited series of Imperial Eggs made between 1885 and 1917; and, using this iconic name, Gemfields now markets high end jewellery and watches through carefully selected routes to market. The basic business model is known as 'mine and market'. It is explained in the Chapter 7 case on Fabergé, which explores the importance of business history in corporate culture. The Fabergé brand, evoking beauty, quality and rarity, was seen as ideal for Gemfields, as it enabled a legendary name to be attached to the modern message of responsible sourcing.

Mining creates jobs and wealth – for someone. The mine owners can benefit, as can the businesses that cut the gemstones and make and sell the jewellery. Customers benefit from and enjoy owning and wearing the pieces.

Mining companies have not always had a 'good press' and there have been accusations of exploitation (for example, more recently, child labour in mining cobalt for lithium batteries in mobile phones and electric vehicles), whereas Australia's economy is booming due to exports of minerals to the People's Republic of China. Furthermore, the economic benefits do not accrue to the country of origin, and these countries also suffer social and environmental deprivation resulting from mining activity. To alleviate any such condemnation, Gemfields would have been faced with a key choice: how much should it invest in responsible mining activity and/or how much should be returned after-the-event to (help) offset the damage caused? Interestingly, the lifestyle portrayed in marketing high-end jewellery to the 'wealthiest people in the world' might seem 'a world apart' from the lifestyle of the miners at the other end of the supply chain, but this marketing activity can result in considerable economic benefit (and, in turn, social benefit) for the country of origin.

In this particular case, the main African countries involved are Mozambique (rubies) and Zambia (emeralds), together with Madagascar and Ethiopia. The mining is predominantly open pit (sometimes called open cast) where huge diggers create vast pits – that can easily cause land deprivation, water pollution, gas leakages and serious noise – as well as the need to take control of the land in the first place from any existing settlers or farmers. Mining can be a dangerous business – from the drilling, blasting, washing and cleaning potentially polluted materials, handling and hauling heavy loads. These activities are all inevitable if the natural resources are to be excavated, but both people and the natural environment can be in serious danger from mining. The environmental impact can be offset by, for example, minimizing water use and waste, actions to reduce pollution and proper reclamation. Waste material must go somewhere; it could just be dumped, or new farmland might be created – supported with help to use the land to grow food. The impact on people can be offset by safe working practices with proper training and equipment maintenance and 'decent' wages. There will always be practice guidelines and sometimes legislation; the option to the mining company is whether it meets or exceeds any minimum standards. Local communities can be further supported with schools and education provision, employee housing and health clinics. In addition, there have been instances of questionable and suspicious behaviour with the sales of uncut stones. Gemfields boasts that there is full transparency in its auction sales process.

Another problem will always be artisanal mining, where local subsistence miners will encroach (or trespass) and search for valuable deposits where the land has been excavated – mining by hand and with basic tools. They can put themselves in real danger. Sometimes this activity involves independent action by opportunists; but often it happens because deprived people are forced to do so because they have borrowed money from organized criminals. It will always be difficult to eradicate it completely, but investment in security and prevention can again be minimal or more extensive.

Gemfields declares that it is committed to sustainable livelihoods with zero hunger, good education, health and well-being, gender equality and effective life on the land. It seeks to exceed accepted practice, to be honest and transparent and to engage with stakeholders.

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Questions

This case has really been written to encourage a class discussion on sustainability and responsible business practices – and about managing the business environment and managing in the business environment, from the perspective of a business.

1 Who should benefit from the activities, and who should control the creation and distribution of these benefits? There is always potential for tension between the mining companies (and the, often global, businesses which own them) and the governments of the countries in which they operate. But should the affected local communities also be seen as serious influencers, or are they 'simply' potential beneficiaries?
2 How much power should be given to the mining companies, to allow them to develop the mines, using the procedures they prefer?
3 How much should national governments interfere?
4 How can trust be built and managed? There might be a strong argument that in today's world, with growing awareness of, and concern with, the issues, the consumer perspective should also be factored in. Do you agree?

Product and service markets, supply chains, capital markets and communication systems have become global in nature. The speed of change in most industries and markets has increased, and product life cycles have shortened. For some companies, success can be very transient, a classic example being the computer games industry for both hardware and software.

Governments have masterminded increasing degrees of deregulation. Other countries have followed the UK's lead and privatized public sector utilities; air travel and telecommunications markets have been opened up to more competition. Consumers are more aware and more knowledgeable; and environmental groups have begun to wield increasing influence. Changes in politics and regimes in different parts of the world, such as in Eastern Europe and the Far East, have introduced an element of chaos and greater unpredictability, while opportunities open up but carry a significant downside risk.

Simply, environments are more turbulent; managing them and managing in them both demand more flexibility and more discontinuity than in the past. Other relevant words are: volatile, uncertain, complex and ambiguous. The term 'new normal' has been popularized to emphasize that the only constant in today's business world is change. All companies must accept that circumstances and situations are fluid and likely to change quickly; and this new reality has serious consequences for strategic choices and flexibility – points we take up later in the chapter. Figure 1.9 in Chapter 1 separated directional and operational capabilities; in the 'new normal', organizations must be vigilant and check that they remain strong in both. Directionally strong organizations with a robust business model are not exempt from the forces of competition and sudden change pressures. Case 4.7 later shows how the fortunes of 'once-invincible' retailers have deteriorated in the recent past.

Now in the UK, most research and development investment is focused on the pharmaceuticals, automotive, aerospace and IT industries, while most jobs are to be found in retailing, construction and care. Retail jobs, like those in hospitality, were among the worst affected by the COVID-19 lockdowns.

In this dynamic environment, The United States became the most competitive nation by taking a lead in technically advanced industries, transforming itself into a service economy, generating the private sector finances required for investment in new and relatively high-risk sectors and ensuring that regulations did not inhibit labour force flexibility. The United States also has a compelling cultural will to win, the importance of which should never be underestimated. Europe is generally more restrictive, although practices do vary between countries, even within the EU.

The competitive future for any developed country does not lie in reducing wages to compete with the Far East and Eastern Europe; rather, it lies in finding new ways of innovating, **adding value**, differentiating

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and *leading* consumers. This aspect allows us to put into context the overall decline in manufacturing in the UK – which is now some 10 per cent of GDP – although there are clear pockets of global excellence in certain companies and industries.

There are several frameworks for studying the environment of an organization. In addition to considering the company's *stakeholders* in terms of their relative power, influence, needs and expectations, a *PEST analysis*, an objective and straightforward consideration of changing political, economic, social and technological influences, can prove useful (discussed in detail later in this chapter).

The nature of the stakeholders and the environmental forces are useful indicators of the most appropriate strategic approach for the organization to take, being (i) vigilant and speedily reactive where the environment is complex, turbulent and uncertain; (ii) carefully planning in stable and predictable circumstances; and (iii) maintaining a positive and proactive approach where the environment can be changed or influenced.

Uncertainty, complexity and dynamism

The environment is more uncertain the more complex or the more dynamic it is (Duncan, 1972) – for example, small rural village post offices historically faced a generally stable, non-dynamic and, hence, fairly certain environment, but their position became more uncertain and many closed. Meanwhile, their 'parent company', the UK Post Office (which has branches in many towns and cities that possess both spare capacity and a secure environment for handling cash), saw an opportunity some years ago and started to offer a new range of banking services. The window of opportunity opened as high-street banks consolidated and shut small branches, but the Post Office still required support and co-operation from these banks, only some of whom have co-operated, seeing this as competition. More recently, with privatization, some smaller Post Office branches have closed and become counters in stores such as WH Smith and Sainsbury's. Post Office parcel deliveries have been particularly affected by new competition. Consequently, this **strategy** enjoyed only limited success, especially as online banking became increasingly popular.

Dynamism can be increased by a number of factors – such as rapid technological change involving products, processes or uses – meaning that organizations must stay aware of the activities of their suppliers and potential suppliers, customers and competitors. Where competition is on a global scale, the pace of change may vary in different markets, competition may be harder to monitor and the future is likely to be uncertain. Risk-taking and creative entrepreneurial leadership may well be required because previous strategies, or modifications of them, may no longer be appropriate.

An environment is complex where the forces and the changes involving them are difficult to understand, and complexity and dynamism may occur together – for example, technology- and internet-based businesses. The structure of the organization, the degree of decentralization and the responsibility and authority delegated to managers throughout the organization, and information systems can render complexity more manageable. Managers will need to be open and responsive to the need for change and flexible in their approach if they are to handle complexity successfully.

Managerial awareness and the approach to the management of change are key issues in uncertain environments and, thus, managers can perceive the complex and dynamic conditions as manageable, while less aware managers may find the conditions so uncertain that they are always responding to pressures placed on the organization, rather than appearing to be in control and managing the environment. Hence, a crucial aspect of strategic management is understanding and negotiating with the environment in order to influence events – and, ideally, to control them.

Adams (1995) tries to explain why different organizations and managers adopt different approaches to the way they deal with the external environment, reflecting underlying beliefs and values held by the organization and the apparent nature of the environment. He uses the metaphor of a round ball.

When nature (the environment) is benign, the ball comes to rest in the bottom of a bowl and, if the bowl is moved, the ball returns to its position. The environment appears predictable, stable and forgiving, and managers tend to be relaxed and non-interventionist, given limited opportunities to grow, with change being unnecessarily disruptive. When the environment is ephemeral, it is a ball balanced precariously on an upturned arch – a position that is, fragile, precarious and unforgiving. Therefore, if

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managers make the wrong decisions they cause serious damage – for example, combinations of human and technical error in train, airplane and space shuttle disasters, where safety is compromised by the quest for speed and cost reduction. The appropriate style is one of caution and careful risk management, if not risk aversion.

If the environment is perverse or tolerant, the ball is in a valley and can roll around, so it behaves predictably but within limits, and modest shocks can be tolerated. The organization knows the other inhabitants in the valley (its customers and competitors), but the next valley may be more attractive, perhaps more fertile (potentially more profitable) or quieter (fewer competitors), but the complete picture is not fully visible and to climb out and change the valley requires courage and faith. It implies movement outside of a comfort zone. There is, though, generally a way back which reduces the risk and allows management of the downside, and is the measured way of some entrepreneurs and entrepreneurial managers. A capricious environment is represented by a ball able to roll freely on a flat surface, and it is very difficult to predict where the ball may come to rest again. Any change of position or direction involves a degree of risk, but staying put is also high risk since, if other balls are moving freely, the organization can get hit and be moved out of position by competitors. Vigilance is essential, but care must be taken with any change of direction.

Environmental influences

Typically, an organization is one of a number of competitors in an industry, with all being affected by the decisions, competitive strategies and innovation of the others. Given how crucial these interdependencies are, strategic decisions should always involve: (i) some assessment of their impact on other companies, and their likely reaction; and (ii) being fully aware of what competitors are doing at any time.

Furthermore, this industry will be linked to, and dependent on, other industries from which it buys supplies, or to which it markets products and services, relating to Porter's model of the forces that determine industry profitability (the subject of the next section in this chapter).

The relationships between a firm and its buyers and suppliers are crucial because they could be performing badly, perhaps threatening future supplies; equally, they may be working on innovations that will impact on organizations to which they supply. Buyers may be under pressure from competitors to switch suppliers. Firms must be strategically aware and seek to exert influence over organizations where there are (inter) dependencies.

These industries and the firms that comprise them are additionally part of a wider environment that is composed of forces that mutually influence each other, some of which are more or less important for individual organizations and in certain circumstances. Managers need to appreciate the existence of these forces, how they could influence the organization and how they could be influenced.

Mintzberg (1987) has used the term 'crafting strategy' – analogous to a potter moulding clay and creating a finished object – to explain how managers learn by experience and by doing, and by adapting strategies to environmental needs. If an organization embarks on a determined change of strategy, certain aspects of implementation will be changed as it becomes increasingly clear, with experience, how best to manage the environmental forces. Equally, managers adapt existing competitive and functional strategies as they see opportunities and threats, and gradually change things. In each case, the aim is to ensure that the organization's resources and values are matched to the changing environment.

External forces: A PEST analysis

A PEST analysis is merely a framework that categorizes environmental influences as political, economic, social and technological forces, and sometimes environmental and legal are added to make a PESTLE analysis.

P *Politics and government policy* influence economic conditions and vice versa. Either exported or imported goods can seem expensive or inexpensive, depending on currency exchange rates. Capital markets can be subject to government controls, or influenced by government spending, which can increase the money supply and make capital markets more buoyant, thus affecting shareholders' expectations with regard to company performance and their willingness to provide more equity funding or sell their shares. The rate of

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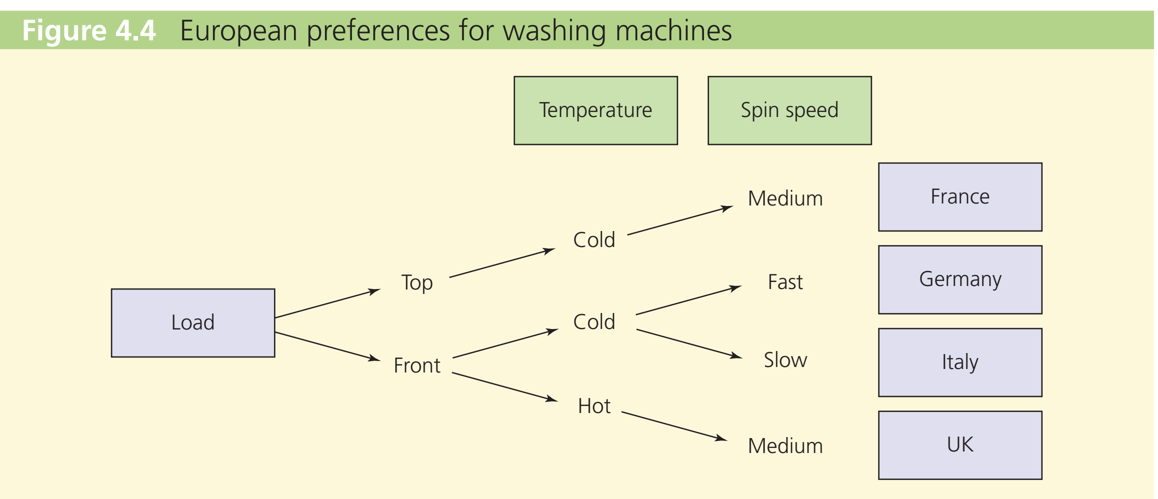
interest charged for loans, though affected by inflation and by international economics, may be fixed by a central bank. The labour market is affected by training, which is influenced by government and its agencies. Labour costs will be influenced by inflation and by general trends in other industries, and by the role and power of trade unions.

E *Economic conditions* affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand. If demand is buoyant, for example, and the **cost of capital** is low, it will be attractive for firms to invest and grow with expectations of being profitable. In a reversed situation, firms could find that profitability throughout the industry is low. The timing and relative success of particular strategies can be influenced by economic conditions – for example, a growing economy creates demand for a product or service, or the opportunity to exploit a particular strategy successfully, which would not be in demand in more depressed circumstances.

S *Sociocultural environment* encapsulates demand and tastes, varying with fashion and disposable income, providing both opportunities and threats for particular firms. Over time, most products change from being a novelty to a situation of market saturation and, as this happens, pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual. Figure 4.4 shows how designs for washing machines are different for different European countries in order to reflect consumer preferences. Organizations should be aware of demographic changes as the structure of the population – by ages, affluence, regions, numbers working, and so on – can have an important bearing on demand as a whole and for particular products and services. Threats to existing products may be increasing; opportunities for differentiation and **market segmentation** may be emerging.

Figure 4.4 European preferences for washing machines



T *Technology* is used for the creation of competitive advantage, and technology external to the industry can also be captured and used, and can be influenced by government support and encouragement. Technological breakthroughs can create new industries which may prove a threat to existing organizations whose products or services could be rendered redundant, and those firms which may be affected in this way should be alert to the possibility. Equally, new technology could provide a useful input, perhaps in both manufacturing and service industries; however, in turn, its purchase will require funding and possibly employee training before it can be used.

Table 4.1 provides a list of environmental influences and forces which managers need to appreciate in terms of how they affect their organization.

For any organization, certain environmental influences will constitute powerful forces which affect decision-making significantly – for example, customers for some manufacturing and service businesses, while for others it is competition or, for small businesses, suppliers who influence their cash flow by paying on time.

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Table 4.1 Environmental influences

Influence	Examples of threats and opportunities
The economy	The strength of the economy influences the availability of credit and the willingness of people to borrow. This affects the level of demand. Interest rates and currency fluctuations affect both the cost and demand of imports and exports.
Capital markets	This includes shareholders and their satisfaction with company success. Are they willing to buy more shares if offered them to increase equity funding? Would they willingly sell if someone bid for the organization? Also included are the banking system and the cost and availability of loan capital.
Labour market	Changes in structure with an ageing population and more women seeking work. Availability of skills, possibly in particular regions. Influence of trade unions. Contribution of government training schemes.
Technology	Robotics in manufacturing in industries, such as car assembly. Computers for design and manufacturing. Information technology such as electronic point of sale in retailing. Artificial Intelligence.
Sociocultural environment	Pressure groups affecting demand or industry location. Changing population – by age groups. Changing tastes and values. Regional movements.
The natural environment	Climate change pressures, and, in particular, the level of carbon emissions, is an issue of growing prominence and significance.
Government	Regional aid policies. Special industry initiatives, e.g. where high technology is involved. The legal environment is part of this, including the regulation of competition. Restraints on car exhaust emissions (pollution control) and labelling requirements would be other examples.
Suppliers	Availability and cost of supplies, possibly involving vertical integration and decisions concerning whether to make or buy in essential components.
Customers	Changes in preferences and purchasing power. Changes in the distribution system.
Competitors	Changes in competitive strategies. Innovation.
The media	Effects of good and bad publicity, drawing attention to companies, products and services.

Ansoff's model

Ansoff (1987) contends that, 'to survive and succeed in an industry, the firm must match the aggressiveness of its operating and strategic behaviours to the changeability of demands and opportunities in the marketplace'. The extent to which the environment is changeable or turbulent depends on six factors:

- changeability of the market environment
- speed of change
- intensity of competition
- fertility of technology
- discrimination by customers
- pressures from governments and influence groups.

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Ansoff suggests that firms need to pursue more aggressive competitive strategies, entrepreneurialism or change orientation to succeed in more turbulent environments. In an industry, a small number of firms will be insufficiently aggressive for the requirements of the industry, being unprofitable or going out of business; another small number will be above average in terms of success because they are best able to match the demands of the environment. Many will achieve results above average; and some others may also fail because they are too aggressive and try to change things too quickly through lack of awareness.

Where an organization is multiproduct or multi national, the various parts of the business are likely to experience some common environmental influences and some which are distinctive, which reinforces the need for managers who are closest to the market and to competitors to be able to change things.

Analyzing an industry

Porter (1980) argues that five forces determine the profitability of an industry. At the centre of his 'Five Forces industry analysis' framework are the competitive rivals and their strategies linked to, say, pricing or advertising. He contends that it is important to look beyond the business's immediate competitors as there are four other forces or determinants of profitability which impact on the central core of rivalry. He includes, as a second force, competition from substitute products or services, which may be perceived as substitutes by consumers even though they are part of a different industry. In the case of plastic bottles, cans and glass bottles for packaging soft drinks would be an example. Third, there may be a potential threat of new entrants, although some incumbent competitors will see new entrants as an opportunity to strengthen their position in the market by ensuring customer loyalty, insofar as they can. Additionally, companies purchase from suppliers and sell to buyers who, if they are powerful, are in a position to bargain profits away through reduced margins, by forcing either cost increases or price decreases (relating to the strategic option of vertical integration, where a company acquires or merges with a supplier or customer, thereby gaining greater control over the value chain of activities which leads from basic materials through to final consumption, which is considered later in the book). The relative power of suppliers and buyers are the fourth and fifth forces. You can easily download Porter's Five Forces diagram if you search online.

To achieve its objectives and to establish appropriate strategies, a firm must seek to understand the nature of its competitive environment and to be in a stronger position to defend itself against threats, and to influence the forces with its strategy. It must fully understand the nature of the five forces and, particularly, appreciate which one is the most important. As the situation is in flux, with the nature and relative power of the forces changing, the need to monitor and stay aware is continuous.

Rivalry among existing competitors

Porter terms rivalry among existing competitors 'jockeying for position'. Competition may take the form of price competition, advertising and promotion, innovation or service during and after sale. Where competitive firms are mutually interdependent, retaliation is a key issue. Before deciding on aggressive competitive actions, firms must attempt to predict how their competitors will react; when other firms are proactive, an organization must at least be defensive to protect market share and profitability.

Manufacturers of consumer electronics products must invest continually to maintain the technology required for the necessary product improvements. To generate revenues to fund further investment, they need volume sales; to create these sales, they price with low, competitive margins. Profits are very slim, but the sunk costs are such that the cycle continues; it is too costly to exit the industry. The cycle is reinforced by consumer purchasing behaviour. Consumers know which brands they are happy to consider, their shortlist depending on the quality and differentiation they are seeking. They then buy on price, seeing certain brands as interchangeable. Inevitably, the retailers also earn only low margins.

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The threat of product substitutes

The existence or non-existence of close substitutes helps to determine the elasticity of demand for a product or service. In simple terms, this determinant is price sensitivity. If there are close substitutes, demand for a particular brand will increase or decrease as its price moves downwards or upwards relative to competitors. Price changes can be initiated by any firm, but other competitors will be affected and forced to react. If products are not seen as close substitutes, then they will be less price-sensitive to competitor price changes.

For this reason, firms will seek to establish clear product or service differentiation in order to create customer preference and loyalty, and thereby make their product or service less price-sensitive. Where this is accomplished, industry profits are likely to rise – which, of course, may be attractive to prospective newcomers who will seek to create further differentiation in order to encourage customers to switch to them and enable them to establish a presence in the market.

Products and services can be substituted for something completely different, reflecting the ever present possibility that new competitors can change the 'rules of competition' in a market or industry.

The threat of new entrants: barriers to entry

Where barriers to entry are high, new entrants are likely to be deterred: if they do attempt entry, they are likely to provoke a quick reaction from existing competitors. Low barriers generally mean that responses will be slower, offering more opportunities. Several factors can create barriers, such as scale economies, product differentiation, capital investment requirements and any switching costs that would be incurred by existing customers.

Potential entrants, attracted by high margins in an industry and not discouraged by any of the above barriers, must try to gauge any likely retaliation by existing manufacturers. Existing firms may be prepared to reduce prices to deter entry and protect their market shares, especially if supply already exceeds demand. As a result, even in an oligopoly, profitability can be contained.

Case 4.3 illustrates the impact of the absence of any significant barriers to entry in the DVD rental industry. The outcome is that an innovative business model can be copied by powerful rivals; this case of Netflix highlights the positive gains from being vigilant and responsive, as well as pioneering.

Case 4.3 Barriers to Entry: Netflix and DVD Rentals — US

Netflix Inc. is (now) a US provider of on-demand internet streaming media everywhere (except for China, North Korea, Syria and the Republic of Crimea (the de facto Crimean Federal District of Russia)), and, in addition, DVD by mail in the United States. The story of the progress of Netflix should be considered in the context of people's preferences (see Fudurić et al., 2018). Catch-up television and binge viewing of box sets, as well as so-called cord cutting as consumers switch from (cable) television viewing to online streaming services (Strangelove, 2015) was already popular 'pre-COVID', and its popularity was reinforced during the lockdowns; and so the streaming services are now the dominant providers. People have also discovered they can watch programmes on their tablets and phones – and listen using earphones or innovative concealed earbuds – while they are on the move, say while sitting on a train or even when stationary, such as during a university lecture (for which earbuds are particularly useful).

Netflix was established as an online DVD rental site by the entrepreneur Reed Hastings in the United States in 1998. There was a monthly subscription which was initially US$19.95 but which was soon reduced as customer numbers increased. The fee enabled customers to borrow DVDs and keep them for as long as they liked. It was a simple model. Once people joined and subscribed, they selected many titles they would like to borrow. Three were sent out with return envelopes and, when these were returned, three more were dispatched from their list, based on prioritization and availability. Originally, there were

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about 12,000 titles to choose from but, after three years, this catalogue had grown to 50,000. Typically, customers had to wait between two and five days after emailing their order, but turnaround was speeded up by Netflix having distribution points across the United States. Operatives basically unpacked and repacked – the systems were driven by IT at a relatively low cost. By 2002, when 30 per cent of US households had a DVD player, Netflix had enrolled some 750,000 subscribers, and this number was growing at the rate of 100,000 every quarter. However, in 2002, a new and very powerful rival opted to enter the market and there was little that Netflix could do to stop it happening. Walmart, which already sold DVDs, set up a rival service, undercutting Netflix's price by 10 per cent. Amazon, partnering with other organizations for which it provided a marketing vehicle, also entered the market with an almost identical business model to that of Netflix. But, by 2009, Netflix was offering a collection of 100,000 titles on DVD and had surpassed 10 million subscribers. In February 2007, Netflix announced its one billionth DVD delivery. By 2011, the total digital revenue for Netflix reached US$1.5 billion from its customers around the world.

The leading competitor to Netflix for many years, although not offering the same service, was Blockbuster video, which rented videos to over 50 million customers through its ubiquitous retail outlets. Blockbuster would rent and even post out DVDs, but there was an individual item charge. Blockbuster has since gone into administration, but some of its original stores still trade under a new name but with a different business model. Netflix believed it had a competitive advantage because it could post summaries and reviews of all its DVDs on its website that all its customers were obliged to use.

Netflix, of course, has diversified and now streams products via televisions, computers and games consoles direct into people's homes. Streaming began in 2007 and, since then, Netflix has started to invest in original content production. The initial target was always 20 million subscribers by 2012; but this number was achieved years ahead of time. In 2015, Netflix had 60 million global subscribers. We can soon realize that this market penetration implies substantial revenues every year from a very simple business idea. The market value for the business now exceeds US$30 billion; the company has a higher valuation than leading broadcaster, CBS. In 2017, Netflix was closing in on 120 million subscribers. The US share of its subscriber base remains at below 50 per cent, as Netflix has targeted its content production at an international audience.

Competition demands vigilance – as Netflix now has other competitors. The growth in the power of Amazon through its Prime subscription service is a case in point. But YouTube is also popular, and Disney (with its ownership of Lucasfilm (*Star Wars*) and Marvel, as well as its own creations and productions) is also hungry for success with streaming. And, naturally, there is Sky, although it has a different business model. The keys to success include the quality, originality and appeal of the actual content, but perhaps the real key to success increasingly lies in appreciating viewing habits. The popularity of, and the associated publicity with, series such as *The Crown* have been hugely beneficial for Netflix. During COVID-19, however, Netfix saw subscriptions decline as well as evidence of subscribers sharing their passwords.

Project

Check out the performance of Netflix and evaluate how this entrepreneurial business dealt with the threat from the competitors cited in this case. What are their current offerings?

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The bargaining power of suppliers

The behaviour of suppliers, and their relative power, can squeeze industry profits. Equally, the ability of a firm to control its supplies by vertical integration (i.e. acquiring its suppliers) or long-term supply arrangements can be beneficial. Its relative power is affected by, for example, the size of the supplier (and how many products they might supply) and the number of alternatives available for buyers to choose from.

The bargaining power of buyers

Any competitive action by buyers will act to depress industry profits, but specific arrangements with distributors or customers can be mutually beneficial. Vertical integration is, again, a possibility. The major supermarket grocery stores with their multiple outlets nationwide are in a very strong bargaining position with most of their suppliers. This power has been strengthened by the success of private label brands, whose prices for 'basic ranges' can be up to 60 per cent below those of the recognized major brands. Private labels have grown to well over a third of UK retail food sales.

Table 4.2 provides a summary checklist of factors for industry analysis, and Strategy in Action 4.1 offers a commentary on the supermarket industry using Porter's model of five forces. This commentary should be reviewed in the context of the discussion on grocery retailing business models in Chapter 2.

The rivalry factors discussed above, and the rivalry strategies, can both be affected by any slowing down in the rate of industry growth, by acquisitions and by changes in the marketing strategy of any one competitor resulting from the perception of new opportunities for differentiation or segmentation.

To be an effective competitor, a company must:

- appreciate which of the five forces is the most significant (it can be different for different industries) and concentrate strategic attention in this area
- position itself for the best possible defence against any threats from rivals
- influence the forces detailed above through its own corporate and competitive strategies
- anticipate changes or shifts in the forces – the factors that are generating success in the short term may not succeed long term.

Much will depend on the strategic leader, the quality of management in the organization and the prevailing culture.

Table 4.2 A checklist for industry analysis

- How many firms are in the industry, and what size are they?
- How concentrated is the industry?
- To what degree are products substitutes?
- Is the industry growing or contracting?
- What are the relative powers of suppliers? Buyers? Competitors?
- What are the prevailing competitive strategies?
- What entry barriers exist?
- What economies of scale are present?
- What experience/learning curve effects are important?
- What exit barriers exist (if any)?
- What important external factors affect competition?

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Strategy in Action 4.1 Industry Analysis: Supermarkets

Existing rivalries

Grocery retailing is very competitive, with four chains competing for the family's main shopping budget in the UK. Tesco, ASDA, Sainsbury's and Morrisons (after their takeover of Safeway) have different competitive strategies (product ranges, pricing strategies, and so on) and have differing appeals, but they remain largely interchangeable. These companies must all invest to try to create differences, as well as pricing competitively. The recent growth of the new price-led supermarkets Aldi and Lidl and the relatively speedy demise of the once powerful Co-op to a predominantly niche role illustrate how intense the rivalry is.

Threat of substitutes: Barriers to entry

Small independent stores have a niche and a role, but the supermarkets have opened smaller local stores to reinforce their power. However, they are vulnerable on price to those products/brands offered by smaller, discount stores, especially where customers are willing to multi-shop. Home online shopping continues to be a sector of the market the supermarkets must develop, given the potential of Amazon to find a valuable niche.

Threat of new entrants

Barriers to entry are very high because of the necessary supply network and distribution infrastructure. The continual investment in electronic point-of-sale (EPOS) and electronic data interchange (EDI) systems creates further barriers. In addition, it is very difficult and very expensive to acquire new sites in prime positions. It is possible, though, given financial reserves, to build a position in selected market niches. Of course, powerful companies, able to command huge financial resources, can break in with an acquisition, as we saw when Walmart bought ASDA, which they have now divested.

Relative strength of suppliers

Supply agreements with major retail chains, using EDI, make the leading suppliers and supermarkets progressively more interdependent. Ownership of a leading brand yields power, but secondary and tertiary brands must be more vulnerable. Further interdependency exists with own-label supply agreements.

Relative strength of buyers

Invariably, buyers will have more than one supermarket that they can access, especially if they are car owners. The power of the internet to promote home deliveries also opens up choice. There will be some loyalty, but only if prices and service are competitive.

Authors' summary

Existing rivalries	Intense
Threat of substitutes	Medium
Barriers to entry	High
Power of suppliers	Medium
Power of buyers	Medium/high

The role of government

Rather than incorporation as a separate sixth factor, Porter maintains that the importance of government lies in an ability to affect the other five forces through changes in policy and new legislation. An example is the introduction of competition and an internal market in the UK National Health Service, a Conservative policy abandoned by the Labour government under Tony Blair and Gordon Brown. This Labour government, instead, agreed a number of Public-Private Partnerships (PPPs) for developing new hospitals, but this strategy was later stopped by the Conservative-Liberal Coalition on the grounds of cost.

Many industries in the UK – such as the main utilities of gas, electricity and water – were privatized. Their new structures were designed to prevent these (new) businesses becoming national or local monopolies in private ownership, with enormous potential to exploit their customers; industry regulators have been appointed in a number of cases. The regulators and the newly privatized businesses have, at times, disagreed over important **strategic issues**. Individual regulators are given freedom to establish specific guidelines within clear broad principles, and some would argue that this makes conflict between them and the regulated businesses inevitable.

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One of the reasons for the subsequent diversification strategies by privatized companies is that they create business activities which are outside the direct control of the regulator. Given a general trend away from diversification to a concentration on core businesses and competencies, this has sometimes proved to be risky. Perhaps the impact of the regulators also needs regulating.

High- and low-profit industries

Porter (2008) revisited his earlier work on industry analysis. He identified soft drinks, pre-packaged software, pharmaceuticals and spirits as attractive, with relatively high **profit** potential; and air travel, wines and hotels as more naturally unattractive – and, therefore, very competitive. Scattered throughout this book you will find cases on most of these industries. Porter based his conclusions on return on investment data.

He emphasized that high growth does not guarantee high profits – and neither does the presence of innovation and the latest technology.

In terms of using Porter's ideas to evaluate any 'industry', we must be clear on what the word 'industry' means, as there could be a very broad definition – such as public transport – or a very narrow one. An interpretation that is too wide will obscure the identification of opportunities to be genuinely different; or, if too narrow, it is possible to undervalue the potential to create synergy by linking different products and market niches.

4.2 Competition and the structure and regulation of industry

Readers who are familiar with the four economic models of pure or perfect competition, monopolistic competition, oligopoly and monopoly will appreciate the links to Porter's industry analysis model. The opportunity for substantial profits is most likely to be found in oligopoly and **monopoly structures**. Competition in the other models, resulting mainly from lower barriers to entry, has the effect of reducing profit margins. We consider which models are dominant in the UK and most other developed nations, as this influences the ways in which firms compete. Specifically, it affects the opportunities for differentiation and for the achievement of cost advantages which, as we discuss in Chapter 6, are major determinants of competitive advantage.

Monopoly power

As far as the regulatory authorities are concerned, a 25 per cent market share offers opportunities for a company to exploit **monopoly power**. Hence, although the model of pure monopoly assumes only one producer with absolute power in the marketplace, a large producer with a substantial share will be regarded as having monopoly power. Such power is not necessarily used against the consumer, but large companies with market shares in excess of their rivals may be able to produce at lower cost (and sell at lower prices) because of their ability to invest in high output, low unit cost technology; to buy supplies in bulk and receive discounts; achieve distribution savings; or improve productivity as progressively more units are produced (*economies of scale*).

Many industries have a limited number of large mass market competitors (perhaps three, four or five) with a broad product range, and a number of much smaller niche producers, with the largest companies possibly controlling their costs well, and a consequent reduction in margin as market shares decline. Alternatively, they may have competitors whose products are very specialist and have very limited market appeal to clearly defined niches or segments. These industries will enjoy higher margins than other niche producers whose products are less specialized, with margins declining as market share increases.

A cost advantage, then, can be a major source of competitive advantage, and this point will be developed in greater detail later. The producer who is able to produce at a lower cost than his/her rivals may choose to price very competitively with a view to driving competitors out of the market and thereby increasing market share. Equally, they may not, and by charging a higher price they can make a greater profit per unit and thereby seek profit in preference to market share. In the first case, the consumer benefits from lower prices; therefore, monopoly power is not being used against the consumer. However, once a firm has built up a truly dominant market share, it could seek to change its strategy and exploit its power more. At this point, governments will intervene in some way.

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Concentration

Concentration is the measure of control exercised by organizations. There are two types.

Aggregate concentration, which will be mentioned only briefly, considers the power of the largest privately owned manufacturing firms in the economy as a whole.

Sectoral or market concentration traditionally considers the percentage of net output or employment (assets, sales or profits can also be measured) controlled by the largest firms in a particular industry, be it manufacturing or service. High **concentration ratio** figures tend to encourage monopoly or oligopoly behaviour, most probably the latter, which implies substantial emphasis on differentiation and non-price competition, with rivals seeing themselves as interdependent.

Many industries worldwide are essentially oligopolistic in structure, with a limited number of major competitors and barriers to entry in individual countries. In general, competition will be non-price rather than price, but price competition will be seen in situations where supply exceeds demand and there is aggressive competition for market share.

There may well be marketing and distribution advantages for companies which belong to conglomerates, and this could increase their relative market power. Similarly, products which dominate particular market segments will yield advantages. Consequently, there is still opportunity for smaller companies to compete successfully in certain oligopoly markets, especially if they can differentiate their product so that it has appeal for particular segments of the market.

The regulation of monopoly power

Governments monitor the forces of competition to minimize any waste of resources due to economic inefficiency, to guard against any exploitation of relatively weak buyers or suppliers, and to ensure that powerful companies do not seek to eliminate their competitors purely to gain monopoly power.

Regulations are passed and implemented to police these issues (illustrated in this section by reference to the UK), but the principles and general approach apply elsewhere. The Secretary of State for Business, Energy and Industrial Strategy (BEIS) is the person in ultimate charge, but there are currently two relevant regulatory bodies that carry out investigations. The Competition and Markets Authority (CMA) has powers to carry out preliminary investigations of all proposed mergers that exceed a particular threshold and, with market studies, investigate certain specific concerns and operations that imply threats to the interest of consumers. The Financial Conduct Authority (FCA) is responsible for similar checks and balances in the financial services sector. These organizations were introduced in 2014; they supersede the Office of Fair Trading and the Competition Commission.

Each case is considered on merit, and the presumption is not automatically that monopoly power is against the public interest. High profitability is considered acceptable if it reflects efficiency, but not if it is sustained by artificial barriers to entry. The CMA also investigates cartels.

The delay involved in an investigation can be important strategically. The process is likely to take at least six months and, in that time, a company which opposes the takeover bid against it will work hard to improve its performance and prospects. If this results in a substantial increase in the share price, the acquisitive company may withdraw on the grounds that the cost has become too high. In order to try to prevent a referral to the relevant competition monitoring authority, companies may undertake to sell off part of the businesses involved in an acquisition if competition concerns are raised. Recently, the UK government has mused about legislation to make company executives personally liable for competitive misdemeanours, but this has not been passed.

Since September 1990, the European Commission has also been able to influence the growing number of corporate mergers and acquisitions in the EU. Mergers are exempted, though, if each company has more than two-thirds of its EU-wide turnover in any one EU country. Pre-Brexit the intervention of the European authorities has been controversial and some judgements have been criticized. There is a voice of opinion in the United States that the European Commission is hostile to US mergers where the companies enjoy substantial sales in Europe.

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Some historic examples of intervention

In February 2000, the Competition Commission in the UK ruled that Unilever should be banned from distributing its own Wall's ice cream direct to retailers. Wall's ice cream products hold the largest market share in the UK, in excess of 50 per cent. The argument was that a newly formed subsidiary, Wall's Direct, was undermining independent wholesalers and, as a consequence, competitors such as Nestlé and Mars were being squeezed out of the supply chain. The DTI (now BEIS) chose to water down the ban and recommended a capping of the scope and extent of the distribution operation. Unilever, however, concluded that a cap was not feasible and it began to wind down its distribution.

In parallel with this investigation, the Competition Commission had also examined Unilever's practice of providing retailers with free freezer cabinets, but insisting that they were used only for Wall's products. Small retailers, with room for just one freezer cabinet, were effectively prevented from stocking other brands. The Commission recommended that retailers should be allowed to fill up to half of the cabinet with rival products.

In July 2003, Manchester United, JJB Sports (the UK's leading sportswear retailer) and Umbro (sportswear manufacturer) were all fined for colluding to fix the retail prices of replica football kits. Those concerned all denied the allegations. In a case brought in 2003 and ruled on in 2004, Ryanair fell foul of the Commission for accepting unfair landing subsidies from municipal airports in Europe.

Highlighting the global nature of competition regulation, Microsoft, dominant in personal computer operating systems, has been judged by a US court to be exploiting its monopoly power. In early 2000, it was ruled that the basic operating systems (based on Windows) and the applications (Microsoft Office and Internet Explorer) should be separated into two separate businesses, and that Microsoft should also be required to give away to its competitors some of its operating systems code. The contention was that Microsoft had driven Netscape out of the internet browser market by tying its own browser, Explorer, to Windows. Inevitably, the company appealed against the ruling and, after a democratic president was replaced by a more sympathetic to business republican president in George W. Bush, this requirement was relaxed. Microsoft could stay intact. However, the European competition authority has also taken a very firm line, convinced that Microsoft has exploited its monopoly power. The *Financial Times* commented at one stage: 'Surely, most seriously of all, is that at a time Microsoft should be focusing all its talent on keeping up with technological innovation, it is hamstrung by this case.' In the same 'industry arena', speculation has emerged about whether Google (which owns the YouTube, Waze and Fitbit businesses), and Facetime, owner of Instagram and WhatsApp, might be too powerful. Linking back again to Chapter 2, in 2019 Sainsbury's and ASDA were refused permission to merge; together their combined market share would have rivalled Tesco and created two exceptionally strong market leaders.

4.3 Key success factors, strategic positioning, adding value and SWOT

Key success factors

Key success factors relate to underpinning competitive requirements that supplement individual ways for organizations to create value for customers. They can change over time. As music streaming replaced physical recordings (whichever format might be preferred), the financial returns to the recording artists fell. As a consequence, many leading artists needed to tour to maintain their incomes; they had more control over the revenue model. Touring thus became a key success factor. Of course, when COVID-19 restrictions prevented live concerts, their incomes were hit again. Firms must produce to high and consistent levels of quality and meet delivery promises to customers, with delivery times reducing gradually in very competitive industries. Suppliers and subcontractors expect regular orders and accurate forecasting when very quick deliveries are demanded from them or when **just-in-time (JIT)** production systems, which rely on regular and reliable deliveries from suppliers in order to maintain constant production without the need for high parts inventories, are impractical. A subsidiary of a national tyre and car servicing business used

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by the lead author has a constant stream of deliveries of tyres and spare parts from local distributors who are asked to respond very quickly (and certainly the same day) to demand, as requirements are often only realized when cars are being serviced, and the tyre business carries very little inventory.

Firms will try to minimize their stockholding to improve both cash flow and costs. Conglomerate subsidiaries will have to generate a positive cash flow in order to meet the financial expectations of the parent company who, in effect, acts as its bankers. Costs have to be controlled so that companies remain price competitive, although low prices are not always a marketing weapon.

These stakeholder requirements represent *key success factors*, those things that an organization must do well if it is to be an effective competitor and thrive. In addition, many companies have to be innovative and improve both their product range and their customer service if they are to remain a leading competitor in a changing industry.

Some key success factors will be industry and sector specific – for example, charities need skills in fund raising and public relations, given intense competition for donations, as they can only spend what they can raise. They must use their money appropriately, be seen to be doing so and be recognized for their efforts; this being so, the differing demands of fund raising and aid provision lead to complex cultures and organizations.

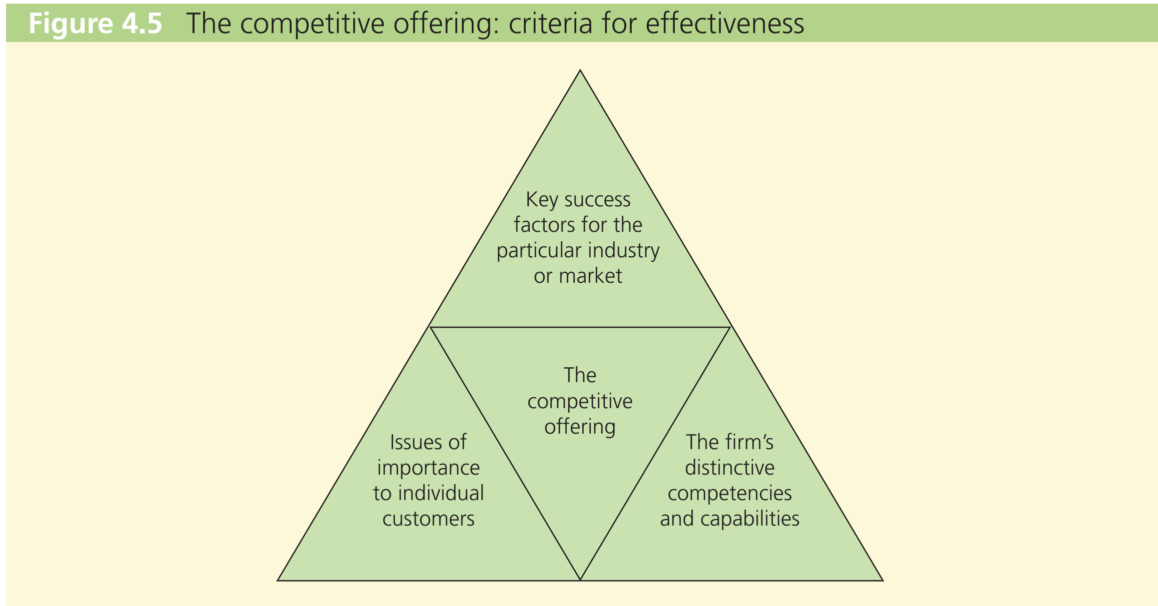
Resources must be managed with stakeholder needs in mind, with everyone in the organization recognizing and being committed to meeting key success factors, and being responsive to change pressures in a dynamic and competitive environment, without which firms will be unable to sustain a match with the changing environment.

Figure 4.5 illustrates that if organizations are to satisfy their stakeholders, especially their customers, while outperforming their rivals, their competitive offering should comprise:

- the ability to meet the recognized key success factors for the relevant industry or market
- distinctive competencies and capabilities which yield some form of competitive advantage
- the ability and willingness to deploy these competencies and capabilities to satisfy the special requirements of individual customers, for which a premium price can often be charged; or 'customerizing' rather than marketing, reflecting the importance of customers as individuals rather than as a generic group who constitute a market (Hall, 1992).

When establishing key performance indicators (KPIs) (Chapter 3), key success factors will be both relevant and important.

Figure 4.5 The competitive offering: criteria for effectiveness



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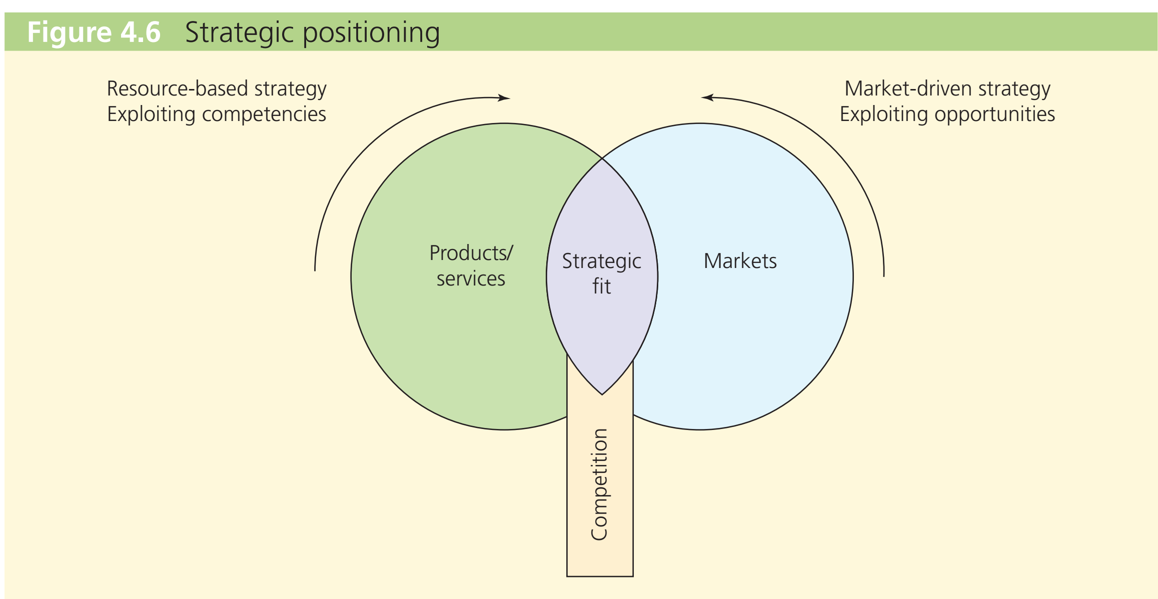
Strategic positioning

A SWOT analysis implies that an organization's resources (its strengths and weaknesses) should match the demands and pressures from its external environment (opportunities and threats) as effectively as possible and, with change, stay matched in dynamic and turbulent times. The overlap of products and services (the outcome of the use of the organization's resources) with market needs is shown as a strategic fit in Figure 4.6.

Here, we can see illustrated two different, but complementary, approaches to strategy creation and strategic change.

Figure 4.6 Strategic positioning



Market-driven strategy (or **opportunity-driven strategy**) reflects the adoption of the marketing concept and implies that strategies are designed – and resources developed and deployed – with customer and consumer needs in mind. Carefully and creatively defining the industry or industries in which an organization competes can influence its perspective on the products and services it supplies. Marketing students will always remember that railway companies are in the transportation business! The approach is market-pull, and the value of a distinct competitive advantage is clearly synonymous with this approach. It should, however, never be forgotten that different sectors of the same industry require different competencies, and that the demands of creating new competencies may be readily underestimated. Case 4.4 (Goody Good Stuff) looks at how a new market opportunity was spotted and seized.

Case 4.4 Goody Good Stuff UK

Check the shelves of any large supermarket and the chances are high that you will find a range of 'free from' products that have been developed specifically for people who have allergies – people who are dairy intolerant, gluten intolerant, or allergic to particular nuts, for example. As society has become knowledgeable and aware of these issues – and the potential dangers and risks involved for those affected – opportunities for new businesses and products have been found and taken by entrepreneurial individuals. Goody Good Stuff is one example. Alongside such allergy related opportunities are others linked to people who are not allergic as such but who choose to avoid certain products – often, but certainly not always, for religious reasons. This group includes vegans and vegetarians, as well as those who eat only

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halal or kosher foods. The products in question cover both everyday staple foods and various treats.

Goody Good Stuff was founded (in Bolton, Lancashire) in 2010 by Melissa Burton. Brought up in New York, Burton had come to England as a scholarship student some seven years earlier. After completing her studies and abandoning her original intention to become a lawyer, she founded a financial advisory business (in her early twenties) which focused on mortgage services, business rescues and large-scale property management. This proved successful and her experiences – and the proceeds from selling the business – allowed her to build a network of investors to start and grow what she called FTF Sweets. Some three years later, FTF was sold to Cloetta AB, but Burton stayed on to run the business. By this time, she was also a part-owner and partner in a beauty salon close to where she lived.

Burton is herself a vegetarian and she felt the choice of sweets available to people such as her was relatively poor; this was her trigger to act. Within five years, her products – essentially a range of gelatine-free sweets – have become a global brand; they can be found in Walmart, ASDA, Carrefour, Tesco, Waitrose, Selfridges, Holland & Barrett, WholeFoods and 7-Eleven stores across the United States. Her brand, Goody Good Stuff, had become one of the fastest growing brands in the world. Ironically perhaps, in some people's eyes, it would be a niche product. The sweets are basically a form of wine gum; they contain only natural ingredients and are suitable for vegan, vegetarian, halal and kosher customers. They are free from gluten, lactose, gelatine, milk, eggs, soya and nuts. There are eight varieties; all taste of fruit. The sweets are manufactured in Austria; some 30 per cent are sold in the UK and the rest overseas, especially in the United States, Europe, Australasia and the Middle East. 'The company was born to export' (Burton). They are all made with a plant-derived bio-gum technology which eliminates the need for animal-based gelatine, the traditional base for gummy sweets. There are no artificial colourings, only natural fruit and vegetable extracts.

Research into the Goody Good Stuff story brings out a number of key issues behind the success, and these include:

- extensive research and testing to get the taste of the sweets 'right'
- serious quality control during production
- distinctive branding, packaging and merchandising, featuring a cartoon koala, a vegetarian bear
- PR and promotion, driven by Melissa Burton personally
- Burton herself is dedicated and works long hours in the business; she is the brand and she is willing to pitch it anywhere that makes real business sense
- celebrity endorsements: singer Pixie Lott and comedian Alan Davies are both fans
- visibility from a series of awards.

Questions and tasks

1. Either using the internet or looking when you next go to a supermarket, can you see opportunities for other 'free from' products?
2. Would you advise Cloetta to keep Goody Good Stuff as focused as it is, or to widen the range of products on offer?
3. Can you identify any (obvious) threats to the business?
4. What do you think are the challenges for any entrepreneur who is running a new business that is growing really quickly?

It is convenient but too simplistic just to see resources as organizational strengths and weaknesses (which they very clearly are) and the environment as the source of opportunities and threats. Resources can also constitute opportunities if they are exploited in particular ways.

Resource-based strategy (covered in more detail in Chapter 5) implies that the organization clarifies its core strategic competencies and capabilities, and seeks to exploit these by finding new market opportunities

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where they can be used to create new value and competitive advantage. Such a strategy means that the organization can mould and develop its market with innovatory new ideas, sometimes changing the rules of competition in an industry and possibly creating new customer preferences and perspectives in the process.

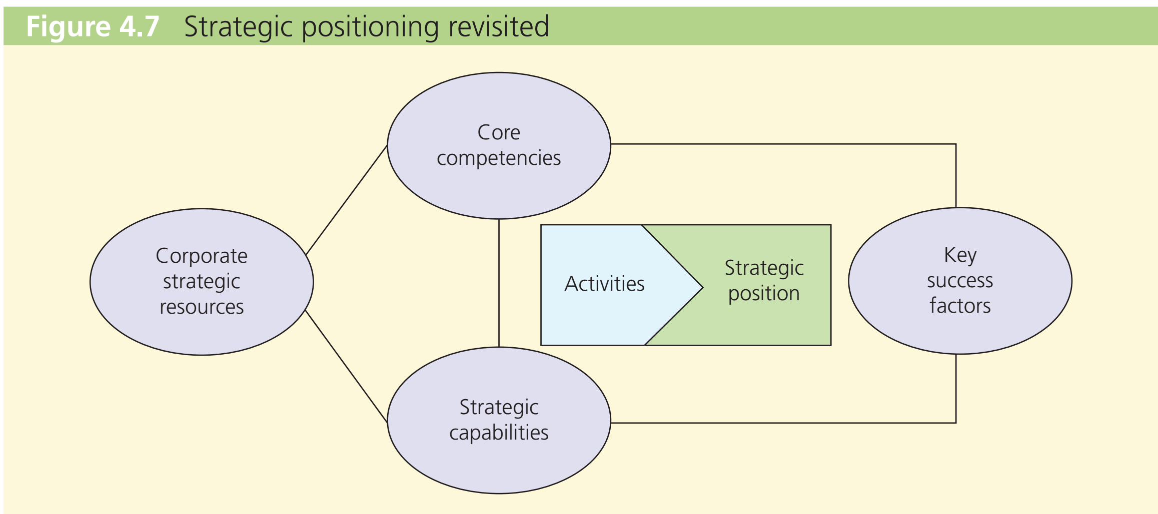
Competitors (Chapter 6) will continually be attempting to accomplish the same ends so that, while a company is trying to create a stronger fit between itself and its customers, its competitors will be attempting to force them apart by offering something superior which draws customers away and destroys fit. Hence, a third and more tactical approach to strategy is competitor influenced, which implies short-term vigilance to deal with any threatening competitor initiatives. While significant, it is important that an organization does not become over-reliant on this tactical approach. We can also see this reflected in the Online Case 4.1 on Sainsbury's.

Moreover, emerging opportunities can attract competitors with different backgrounds and motives – for example, developments in computer software and hardware (high-quality monitors, scanners and printers) opened up an opportunity for digital cameras, with Kodak, Canon and Hewlett-Packard all being interested – but the challenge for each rival was quite different. Only one of these three, Canon, was able to exploit the opportunity to the fullest extent.

Figure 4.7 emphasizes that effective strategic positions ensure that corporate strategic resources meet and satisfy **key (or critical) success factors** for customers and markets. Strategically valuable resources translate into core competencies and strategic capabilities (which are explained in more detail in Chapter 5), which are then manifest in a whole range of activities that the organization undertakes. Competencies and capabilities can be separated by thinking of core competencies being built around technologies and technological skills, and strategic capabilities referring to processes and ways of doing things. Capabilities thus exploit the competencies; technology must, however, be developed to a particular level for a company to be influential in an industry or market. Hence, while the real competitive strength of an organization can be built around either competencies or capabilities, both must be present for relative success, and both competency and capability must be improved with innovation over time. In Chapter 10, we learn that people, learning and information are critical elements of this innovation. In addition, companies can benefit markedly from exploiting the linkages and relationships they have with their suppliers and distributors.

Strategic positioning, *per se*, is not a source of competitive advantage because any relative advantage enjoyed by the organization comes from the resources and activities which establish and support the position, whether tangible or intangible in nature – that is, these are the ways through which it creates and adds value.

Figure 4.7 Strategic positioning revisited



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Added value

We saw in Chapter 2 on the business model that to be successful, a business must add value (value added technically being defined as the difference between the price of the outputs from an organization and the cost of the inputs or resources used), particularly as supply potential has grown to exceed global demand in the majority of industries.

The traditional paradigm, based on the accountancy measure, is that prices reflect costs plus a profit margin. Differentiation means that a higher price can be charged; lack of differentiation implies enormous downward pressures on costs. Performance measurement is then based on economy of scale (low input costs) and efficiency (minimizing the actual and attributed costs of the resources used for adding further value).

While all resources must be used efficiently and properly, firms must ensure that the potential value of the outputs is maximized by ensuring that they fully meet the needs of the customers for whom they are intended. This can be achieved by firms seeing their customers' objectives as their own objectives, enabling them to easily add more value or, in the case of final consumers, for customers to feel that they are gaining true value for money.

In the new paradigm, the key is value for the customer so that, if resources are used to provide real value for them, they will pay a price reflecting the worth of their choice to them.

The important elements in adding value are:

- understanding and being close to customers – in particular, understanding their perception of value
- a commitment to quality
- a high level of all-round service
- speedy reaction to competitive opportunities and threats
- innovation.

Organizations, for example the automobile industry, can seek to add value by, first, adding positive features, such as air conditioning, comfortable bucket seats, integrated SatNavs and Bluetooth connectivity; and, second, by removing any features perceived as negatives or drawbacks. Anti-lock braking systems and four-wheel drive gearboxes reduce the concerns that some people have about driving in bad weather, while extended warranty schemes remove the fear of unknown future repair costs. Each of these additions has a value for which some customers, but not all, will pay a premium. Spare tyres in some cars have been replaced by temporary (spray) inflators, to save space, weight and cost. Opinions vary on whether this is value creation or value destruction. Case 4.5, A Tale of Two Hotels, invites you to consider how two very different hotels each add value for their target customers; Case 4.6, PlayPumps, illustrates a creative way of adding value for communities.

It is quite conceivable that organizations are pursuing strategies or policies which make life harder for their customers. Minimum order quantities and, possibly, volume discounts may force or encourage customers to buy more than they need or can afford to stock, but obsolescence can then become an issue.

Organizations could evaluate the merit of discounts based on annual sales, rather than only on individual orders, and should be looking to ensure that they follow the top loop of Figure 4.8 and not the bottom one. Organizations that truly understand their customers can create competitive advantage and thereby benefit from higher prices and loyalty, so that high-capacity utilization can then help to reduce costs.

Opportunities for adding value which attracts customers must be sought and exploited. Numerous possible opportunities exist at corporate, competitive and functional strategy levels, so resources must be deployed to exploit these possibilities. Pümpin (1991) argues that multiplication promotes growth – that is, strategic consistency and performance improvement by concentrating on certain important strategies and learning how to implement them more effectively. The matching process is led and championed by the strategic leader, who is responsible for establishing the key values. While striving to improve performance with existing strategies, the organization must constantly search for new windows of opportunity. McDonald's (Case 6.5 in Chapter 6) provides an excellent example. Ray Kroc spotted an opportunity in the growing fast-food market and exploited it by concentrating on new product ideas and franchised outlets, supported by a culture that promoted 'quality, service, cleanliness and value'.

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Case 4.5 A Tale of Two Hotels Singapore, UAE

Raffles

Raffles is an iconic colonial-style luxury heritage hotel in Singapore; it was developed on the site of an 1830s beach house. It was established as a hotel in 1887 by two Armenian hoteliers, the Sarkies Brothers, and named after Sir Thomas Stamford Raffles, a British statesman and the founder of Singapore. It is now known for (among other things) afternoon teas and the Singapore Sling – a gin-based cocktail (that also features cherry liqueur, pineapple juice and 'various other ingredients') invented by one of its bartenders. Raffles was first built with 10 rooms; there are now over 100 rooms and 8 restaurants. Systematically, new wings were added and consolidated; the restaurants are all in a special arcade, which is also home to some 40 leading-brand boutiques. The grounds are gardened and well kept.

In 1899, Raffles was the first building in Singapore to feature electric lighting; in 1902, a live tiger was found in the billiard room. Stories have it that this tiger was the last to be shot in Singapore; there is a dispute concerning whether the tiger was actually wild or had escaped from a travelling circus. During its real heyday, long-stay residents included authors such as Rudyard Kipling (who perhaps ironically wrote *The Jungle Book*), Joseph Conrad and W. Somerset Maugham.

The Sarkies held on to the hotel until 1931, when they were declared bankrupt in the Great Depression. During World War II, Singapore (and thus Raffles) was occupied by the Japanese. At that time, it has been reported that the staff buried the hotel's main silver collection. Raffles was declared a National Monument in 1987.

After this, and between 1989 and 1991, there was a US$160 million refurbishment. Raffles is now part of the Fairmont Group of hotels, which is linked to the French group, Accor; at one time, the Qatari Sovereign Wealth Fund was a key investor.

The Burj Al Arab

The 'Tower of the Arabs' is a prominent feature of Dubai in the United Arab Emirates. At 180 metres, it was built as the third tallest hotel in the world. Its distinctive curved shape represents the sail of an Arab dhow, and some 39 per cent of its space is non-occupiable. It stands on 230 40-metre concrete piles on an artificial island (reclaimed land) some 280 metres offshore, accessible by a bridge. It was constructed for its local owners between 1994 and 1999 at a cost of US$2 billion. The first three years were spent building the island. There are 56 floors which amount to 28 double-floors of two-storey suites. Altogether, there are 202 suites; the smallest is 170 square metres (much bigger than many UK houses) and the largest is 780 square metres. The owners had insisted the Burj Al Arab be 'an iconic, symbolic statement'. A few years ago, it was the 12th most expensive hotel in the world and some 25 per cent of its visitors were wealthy Chinese.

There are two restaurants; one is at rooftop level. The other has a huge aquarium on one side, separated by 7-inch thick glass plating. The hotel has been described as being a seven stars enterprise – because of its features – although, technically, it appears that only one hotel (in Milan) officially holds a seven-star rating. A number of promotional events have been held on the rooftop helipad. Both Tiger Woods and Rory McIlroy have hit golf balls off the top. Andre Agassi and Roger Federer have played an exhibition tennis match. Ronan Keating was allowed to shoot a music video. David Coulthard performed 'donuts' with a Red Bull Formula 1 car.

Questions

1. Both of these hotels are iconic and designed to attract wealthy customers from around the world. Yet, they have very different histories and styles. How do they both add value?
2. Do you think there is an identifiable target market for each one, and are these targets different or overlapping?
3. How would you promote each hotel?

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Case 4.6 PlayPumps South Africa

PlayPumps is a South African social enterprise with a different perspective on children playing and having fun. It is based on the belief their energy can be captured and used to create community value.

In rural areas in developing countries, there is no piped water routinely available. The main source of fresh water is boreholes where springs, streams and rivers are missing or unsuitable. Water is raised using hand pumps, and many women and children invest hours of time fetching and carrying water for their family's needs. Individually, we each need a minimum of five litres a day. If petrol or diesel is available and can be afforded, motorized pumps can be used – as long as they can be maintained for a lengthy period of time – otherwise, communities have to rely on hand pumps. Typically, a hand pump will deliver 150 litres per hour to ground level, and that water will need to be used relatively quickly as there is unlikely to be anywhere to store it hygienically. Installing a hand pump costs in the region of 10,000 South African Rand, something over £600. For between three and five times that amount, a PlayPump could be installed.

The idea of the inventor was to build a special playground roundabout to be the main power source and encourage children to have fun spinning it round and round – which is something young children have always enjoyed doing! Clean borehole water is pumped up and collected in large above-ground storage tanks. Because there is no engine, maintenance is straightforward and relatively inexpensive. The equipment used is standard windmill equipment which is readily available and does not require special sourcing. Below the ground is a positive displacement cylinder using rising rods and pipes; this very simply converts the rotational movement of the roundabout into a vertical movement. Each rotation of the roundabout can pump up to 4 litres of fresh water, allowing for some 1,400 litres per hour to be raised into the storage tank if the depth does not exceed 40 metres. The system can support raising water 100 metres but, obviously, the capacity is substantially reduced. Storage tanks will typically hold up to 5,000 litres on a stand that is 6 metres high. Water is drawn by a simple tap arrangement. The outer skin of the storage tank can also be used for advertising, and the revenue from this will certainly pay for all the maintenance and may, over time, repay the cost of the installation. The advertising is seen by the people who come and collect the water.

People do not have to labour with hand pumps. Children have fun. Communities get fresh water. And the project is self-sustaining.

The South African government has funded a project in KwaZulu Natal to install PlayPumps in school playgrounds wherever this is appropriate and water can be harnessed and drawn. Clearly, this is an invention that has relevance for other countries in Africa and Asia.

Question

PlayPumps, as an organization, adds considerable value to African communities – but they are unlikely to be able to pay for the installation. The community benefits socially more than it does economically. Whose responsibility is it to fund such initiatives?

Project

Research the One Foundation – specifically, the branded product One Water – and its role in helping to fund PlayPumps.

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Figure 4.8 Adding value for customers

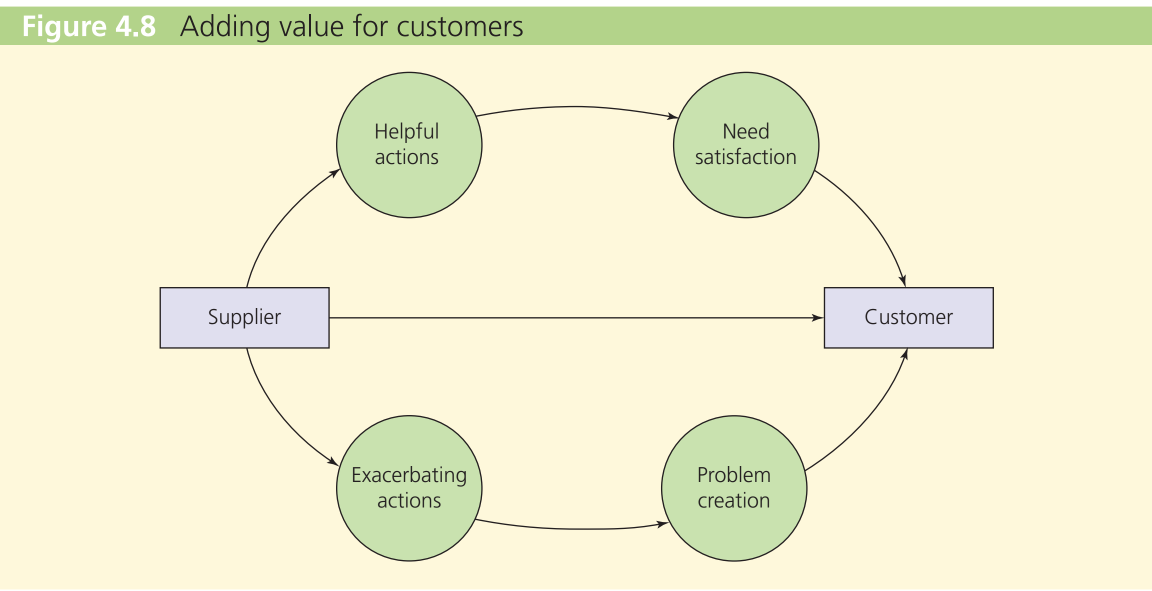
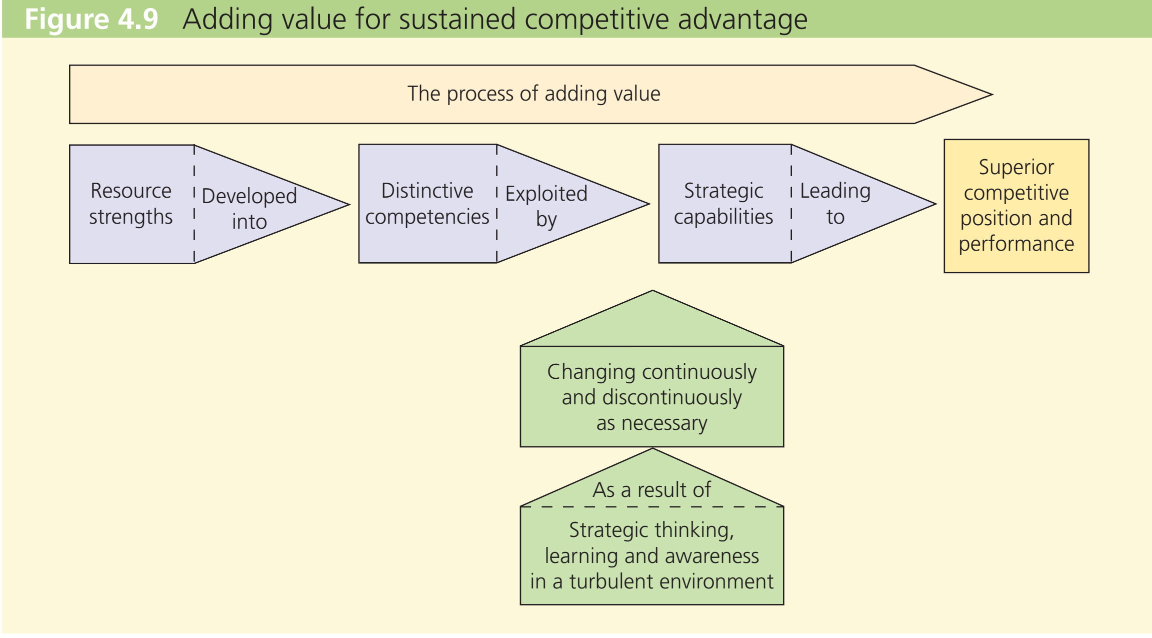


Figure 4.9 shows that organizations must add value and must continue to find new ways to add fresh value for their customers.

Figure 4.9 Adding value for sustained competitive advantage



This can be achieved by developing, changing and exploiting core resource-based technological competencies, involving organizational processes and capabilities, together with strong linkages with other companies in the supply chain (**strategic architecture**). This needs to be done in order to create differentiation and effective cost control and, thus, establish a superior competitive position. The situation is always fluid, though; organizations cannot assume that currently successful products, services and competitive strategies will be equally successful in the future, and they must be changed at appropriate times. In turn, this requires competency in awareness, thinking and learning, such that it is critically important for the strategic leader to

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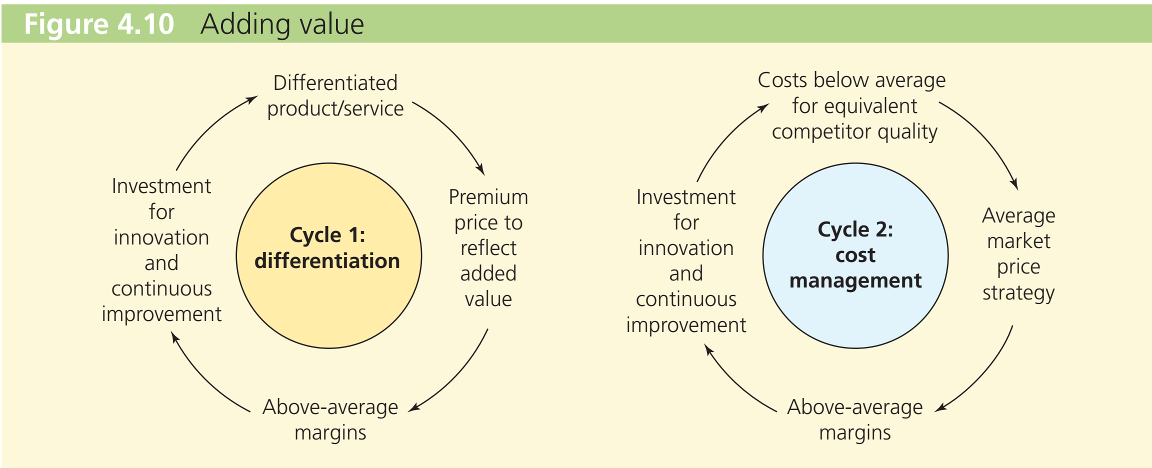
realize which competencies are most important for long-term success and to concentrate attention on them, developing them and measuring the desired improvements.

Companies should, at all times, carry out efficiently those activities which are essential for creating a distinctive or differentiated competitive position, and avoid incurring unnecessary costs by providing non-essential value. This implies that they clearly understand their markets, their customers and the key success factors that they must meet (their defined competitive strategy), and should constantly seek improvement by driving their operating efficiencies.

Firms use their various resources, both tangible and intangible, to create value so that customers who recognize and appreciate that value and who are happy with the price being asked are likely to buy, thereby influencing profit. Figure 4.10 delineates two value-adding cycles, both of which can establish superior profits and allow for ongoing investment and innovation. They are not mutually exclusive because, whatever the competitive strategy, strong cost management is essential.

Figure 4.10 Adding value



To be successful, products and services must fit into markets. Marketing and operations strategies are critical elements of competitive strategy. The markets could be global or local, mass or niche; products could be commodities or substantially customized; the market (or the relevant niche) could be growing, static or declining. Each one can be profitable – but in different ways, with different strategies. Companies which target new markets, segments or niches may find that they are hard to penetrate, unless they have developed something radically new and different which is seen as a valuable alternative by customers. Most successful companies have realized that it is more expensive to win new business than it is to retain existing customers and, as a result, look after their customers. While patents can provide a barrier to new entrants and new rivals, so, too, can loyal customers!

However, some markets may equally be difficult to defend, such as where the wider business environment is dynamic and turbulent, where the organization enjoys only a relatively weak strategic fit and where the service being provided is below the level expected. Hence, positioning and fit can be improved with customer care, product and service innovation, and improvement; and by developing new products.

All of this requires that companies take their competitors seriously, defend against any initiatives that they start and, on occasion, attack them, implying any or all of:

- finding and opening new windows of opportunity
- product and service development, improvement and enhancement
- direct attacks, such as price wars – either all-out and sustained, or short-term and guerrilla; special discount promotions would be an example of the latter

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- attempting to change the 'rules of engagement or competition' either openly (with genuinely new ideas) or more deviously (lobbying government for new regulations, or buying out a key supplier or competitor)
- a 'war of words', seeking publicity for your activities and carefully disparaging your competitors
- networking and collaborating with key partners in the supply chain.

To summarize this section, Markides (1999) provides a list of six factors for competitive and strategic success. These are:

1. Choose a potentially winning position. This requires understanding *who* your customers are, *what* they require and expect, and *how* they can be reached. This corresponds with Porter's (1996) view that it is essential to focus on certain activities and ignore others, rather than attempting to be 'all things to all people'.
2. Make this choice by a proper exploration of options.
3. Actively search for opportunities to be different in a meaningful way, rather than just adopt a strategy because it seems to work.
4. Ensure all the support activities work together effectively and synergistically.
5. Create a real strategic fit and position which links the organization with its customers.
6. Ensure there is flexibility in both the activities and the fit, so that innovation and change can sustain competitiveness.

Appropriability

Kay (1993) stresses '**appropriability**', whereby organizations must seek to ensure that they see the benefits of the value which they create and add, since few things cannot be copied and some positions of advantage will be transient without improvement.

Value can be provided for customers in a whole variety of ways but, unless they are willing to pay a premium price which at least offsets the cost of adding the value, then it is the customer and not the organization that benefits. Even if a premium price can be charged, if this is then used to reward suppliers and employees, additional profits may not accrue. Sometimes, higher profits are used primarily to reward shareholders, or owner–managers in the case of small organizations. All of these possibilities imply that the organization is not creating and sustaining a position where it makes superior profits and uses these (at least, in part) to reinvest and help to build new values through improvement and innovation. Quite simply, the ideal scenario is a virtuous one, where every stakeholder benefits.

SWOT analysis

Environmental opportunities are only potential opportunities unless the organization can utilize resources to take advantage of them and until the strategic leader decides that it is appropriate to pursue the opportunity – by evaluating environmental opportunities in relation to the strengths and weaknesses of the organization's resources, and in relation to the organizational culture. Real opportunities exist when there is a close fit between environment, values and resources. Similarly, the resources and culture will determine the extent to which any potential threat becomes a real threat – E–V–R congruence, which was explained in Chapter 1.

All of the resources at the disposal of the organization can be deployed strategically, including strategic leadership, and firms must evaluate the resources in terms of strengths and weaknesses to provide an indication of their strategic value. The evaluation should not be a list of absolute strengths and weaknesses seen from an internal perspective; rather, they should be seen only in relation to the needs of the environment and in relation to competition. The views of external stakeholders may differ from those of internal managers (who, in turn, may disagree among themselves) when evaluating the relative strength of a particular product, resource or skill. Resources should be evaluated for their relative strengths and weaknesses in the light of key success factors.

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Even though an organization may be strong or weak in a particular function, the corresponding position of its major competitors must also be taken into account. For example, a firm may have sophisticated computer-controlled machine tools in its factory. However, if its competitors have the same or even better equipment, the plant should not be seen as a relative strength – distinctive competencies are relative strengths which can be used to create competitive advantage. As any resource can be deployed strategically, competitive advantage can be gained from any area of the total business.

An evaluation of an organization's strengths and weaknesses in relation to environmental opportunities and threats is generally referred to as a **SWOT analysis**. SWOT analysis is useful, but its value must not be overestimated. It is a simple means of presenting data and capturing certain linkages between them. It will help reinforce where there are resource strengths to build on, resource shortcomings and external developments which must be addressed, and possible new opportunities to investigate. SWOT does not explain how organizations might subsequently direct their energies and select priorities.

Once all of the important *strategic issues* have been teased out from a long list of strengths, weaknesses, opportunities and threats, the following questions should be asked:

- How can we either neutralize critical weaknesses or convert them into strengths?
- Similarly, can we neutralize critical threats or even build them into new opportunities?
- How can we best exploit our strengths in relation to our opportunities?
- What new markets and market segments may be suitable for our existing strengths and capabilities?
- Given the (changing) demands of our existing markets, what changes do we need to make to our products, processes and services?

Finally, alongside a general SWOT analysis, it is essential to evaluate the relative strengths and weaknesses of the company's leading competitors.

We close this section with Case 4.7 and Critical Reflection 4.2, which is an annotated summary of McGrath (2013) and draws together several of the themes we have discussed. Case 4.7 illustrates how some leading retailers have been affected by the 'new normal'. These boxes act as an introduction to the next section.

Case 4.7 Retailing and the UK 'High Street' — UK

Traditionally, the UK high street has been where people have done their shopping. However, during the 2020–21 COVID-19 lockdown periods, only essential shops (mainly those selling any food and some drinks, together with pharmacies) were able to be open. Those selling other non-essential goods relied increasingly on online sales, which, inevitably, grew substantially. Prior to COVID-19, town and city centres had been changing, and an increasing proportion of customer spending has moved elsewhere, possibly irreversibly. In some cases, it has migrated to out-of-town shopping centres and malls, where parking is easier and cheaper; this shift has followed an international trend. In more recent years, people have switched to ordering online and having their purchases delivered to their homes, which, in turn, has opened up opportunities for local delivery services. The majority of 'big-name' retailers with a chain of high street stores will have an online ordering and delivery service. Online has the benefit of a complete range of items and sizes, whereas stores can only have a selection, sometimes a limited selection, available to see or try on. Customers can order without visiting a store at all or obtain something (such as their size of garment) that isn't available in a store when they shop; they can return goods if they are not happy. Online accounted for 18 per cent of all retail sales pre-COVID-19; as one example, online contributed 40 per cent of John Lewis's retail income. After the COVID-19 period, some John Lewis stores did not reopen; all had been closed. Online sales would 'take up the slack'. It has been suggested that high streets are in some danger of becoming non-trading product showcases for online retailers. Customers will visit stores, look at and perhaps try on products, and then buy online where prices are

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often cheaper. This is because the warehouses are cheaper to operate (per square metre) than prime retail space, and increasingly technology is replacing people in these warehouses. The winners among the online providers have been Amazon (which provides pretty much everything!), Asos and Boohoo (which specialize in fast fashion).

Customer preferences have also changed, with different segmentation emerging. We saw earlier how Aldi and Lidl (who have traditionally not sold online) have had an impact on food shopping habits. To put this into context, food shoppers can now be split into four broad groups. First, those who opt for (perceived) premium quality brands and stores and will accept higher price points, even though this may not always be the case. Farm shops and specialist food markets (where different stalls are collected together) would be included here; and these have grown in recent years. Second, those who are happy with the value for money stores with a wide choice of branded and own-brand alternatives. Included here are stores with extensive product lines and others with a more restricted offering. Third, those who are persuaded by the organic and natural message, and who prefer a specialist store even though some of these products can be found in the market leaders. Fourth, the increasing number of customers that will buy from a variety of different stores and also shop online – called mixed channel customers. This split opens up opportunities for new, small competitors who, when aggregated together, take market share.

The situation varies between different towns and cities for a variety of reasons, resulting in an 'unlevel playing field'. Parking policies and charges can be very different; business rents and rates are not always the same; the overall ambience of the place can be welcoming or discouraging. As for the high streets themselves, as retailers have not renewed their leases and relocated elsewhere, typically in shopping malls, they have not always been replaced by similar shops. Instead, there has been a growth of charity shops (which are exempt from business rates), 'pound shops' (although the growth of these has led to the downsizing of some chains), specialist coffee bars, fast-food restaurants and betting shops. But certain retail groups have also thrived; examples include Primark, Matalan, T.K. Maxx and H&M, with lower prices and fast fashion, and B&M Bargains and Wilco, which specialize in discounted household products. There have been various initiatives to restore distinctiveness to high streets, sometimes by subsidized initiatives to attract small, specialist boutique-style shops. Tongue-in-cheek, we might argue that fast fashion and rapid replacement for newer items means fast waste; the discarded items find their way into charity shops and these are helping the high street to survive. Given the increasing number of closures (or part-closures) of banks and post offices, there is a solid case to be made that the future of high streets will depend on whether they can be or become a key social destination.

Many 'big-name' chains have suffered. BHS (British Home Stores) and Arcadia (both owned by entrepreneur Philip Green) have disappeared, although many of the individual Arcadia brands involved have been acquired by Asos and Boohoo. Green was always a controversial character; he bought the Arcadia group and immediately sold it to his wife for tax reasons, for example. When BHS collapsed, there were substantial shortfalls in the pension fund. Green lived in Monaco and enjoyed a glamorous lifestyle. It has been said by his critics that he did not really understand fashion, was poor at taking advice and shunned online sales.

M&S was once seen as the store to emulate. All its products were own-brand; many were made by UK suppliers with whom M&S had close working links; the business was innovative and a trend-setter. It began to lose its way in the 1990s, and it had to fend off an acquisition bid by Philip Green. Its reputation for fashion has faded and its food halls have been a saviour; many M&S stores are now dedicated food stores; Ocado has been acquired to spearhead food home deliveries. Fashion brands such as Hobbs, Joules, Phase Eight and White Stuff can all be bought via the M&S website. Items are sourced from round the world. M&S is a good example of a retailer affected by Brexit. In September 2021, 11 of its stores in France (all franchised) were closed because of fresh food shortages and 'empty shelves' resulting from new regulations and paperwork requirements post-Brexit. 'The paperwork is a fandango of bureaucracy and is delaying the supply of ready meals and sandwiches by about a day … and that's not good if you're a sandwich' (M&S Chairman, Archie Norman, in a radio interview).

Debenhams, meanwhile, has closed down with all its 124 shops disappearing. Toys R Us and electronics retailer, Maplin, both went into administration. Mothercare closed its 50 stores, and Dixons CarPhone Warehouse closed 92 branches. There was a particular factor involved here. As the manufacturers of

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smartphones have continued to release new models every few years, certainly with new benefits, but not significant enough improvements to persuade as many people to update as in the past, increasing numbers of people are selecting SIM-only plans rather than fixed-term contracts that typically imply handset replacements every two years or so. House of Fraser went into administration and was bought by Sports Direct. The chain has so far survived, but with fewer stores. Department store chains typically contain a significant number of brand concession counters, which (on the positive side) allow for a wide selection to appeal to different customers and customer groups. That said, increasingly (at least in larger cities) many of these individual brands will also have their own small specialist stores, where they are able to offer a more dedicated personal service and also stock a wider range. The same brand, therefore, can be found in a specialist store and more than one department store, as well as online. There is wider choice but duplication, which may cease to be affordable. Moreover, some critics argue that too many concessions means that department stores have become cluttered and confusing. HMV has survived but with a number of changes of ownership. Argos was acquired by Sainsbury's; some smaller stores were closed and products were available from the nearest Sainsbury branch with click-and-collect. The issue seems to be finding the optimum number of stores and product ranges in the face of dynamic online provision and ruthless price competition.

At roughly the same time, many well-known restaurant chains, including Jamie's Italian, Carluccio's and Prezzo, have closed some restaurants. Nobody, it seems, has been immune. Job losses, especially among younger people, are substantial.

As well as the impact of COVID-19, a number of other factors have been in play:

- Several years of low growth in personal incomes has reduced discretionary spending power, persuading more and more customers to opt for lower priced alternatives or not even spend.
- The uncertainty over Brexit and the future of the UK in the EU affected the value of the pound and increased the cost (and sometimes the retail price) of imported goods.
- The increasing preference for online shopping for both convenience and lower prices – and sometimes more choice.
- The failure of some retailers to monitor changing tastes and fashion preferences among some customer groups. This failure typically means that some retailers still have loyal customers but too much floor space and, consequently, overheads that have to be reduced.
- As this failure has happened, many high street stores have arguably been insufficiently innovative in their responses. In part, this is because tighter margins and lower profits have made investment more difficult to justify.
- Retailing has traditionally been a low-wage environment for many employees, who are in part still attracted to the work because the working hours can be flexible and manageable when they have other commitments. The National Minimum Wage (and the National Living Wage), justifiable as they might be, have increased their costs.
- Business rates have continued to rise in many cases, despite the relative decline of high streets with the attached financial and social impact. The wage and overhead costs, when taken together, increase the break-even level for every store, meaning some simply become non-viable financially.
- The repayment of retailer debts has become harder and, in some cases, this could increase costs even further unless stores are closed to release funds.

It is certainly important for retailers (and product manufacturers) to review continually just what it is that customers want from both the products themselves as well as how and where they can be bought. While there are clearly opportunities for both groups in the 'new normal' world, there are also serious challenges and threats.

It seems likely that the future competitiveness of stores in UK high streets will be based on service rather than on price, including: product design and ranges, displays, expert advice available and customization opportunities.

Footnote

Online retailing was introduced in Chapter 2 (Case 2.5 on Asos and Boohoo) and is explored further with later cases on Amazon (Jeff Bezos) and Alibaba – Cases 10.3 and 10.5.

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Questions

1 Update the examples used in this case and see if you can find further instances of problems facing high street retailers in the recent past. Is the situation continuing to deteriorate or have things stabilized?
2 Which businesses do you think are best suited to the High Street; and what might be a 'winning' High Street business model?

Strategy in practice reflective question

Think of a product that is important to you and how you would like to see it improved. What is the 'problem' that this product helps you with? Do you believe you receive the help you need? Does face-to-face contact with someone in a store offer clear benefits to you?

Critical Reflection 4.2 The Challenges of the 'New Normal'*

McGrath highlights the volatility and uncertainty of the contemporary business environment (which we have chosen to think of as the 'new normal') and flags that strategic awareness and flexibility are critical. She does not dismiss the value of strategic concepts and tools (such as Porter's Five Forces, which we explained earlier in this chapter, and others which we discuss in later chapters), but rather emphasizes they only offer support and not answers.

One key problem we face in thinking about strategy is that a number of popular strategy frameworks and tools in use today are based on a single dominant idea: that the purpose of strategy is to achieve a *sustainable* competitive advantage. This belief in sustainability as the so-called 'holy grail' is no longer relevant for more and more companies. Porter argued that strategy was all about finding a favourable position in a well-understood and defined industry (and, to some extent, it still is – as long as we accept that this could only be temporary, as industries change rapidly in the 'new normal') and then exploiting a long-term competitive advantage. Innovation was all too often seen as something separate from the business's core set of activities, rather than an embedded way of behaving. In today's 'new normal', competitive advantage is still very important but it is transient, not sustainable, and innovation needs to become a way of life for people.

In the 'new normal', we can expect businesses to continue to start and to close. Some, of course, will be acquired by others – either because they are successful and attractive, or because they are underperforming and attractive in a different way; both relatively new and established businesses are affected by this reality. In this context, companies must learn how to exploit new opportunities to acquire, to grow and to defend; these opportunities, which may only be short-lived, must be acted on decisively and quickly. The core business model does not necessarily have to change (if it is directionally strong), but the execution and operationalizing may change relatively frequently. Here, the core themes are innovation and emergence. Change is, then, a fundamental theme of business sustainability. Companies (and their leaders) must be ambitious and willing to set stretching targets that are potentially achievable; complacency and a reliance on past success is a mistake. It is sensible to build on the past, of course, but it is also sensible to be willing to abandon the past and move on to new things.

Businesses must leverage their resources (such as their people, knowledge and technological expertise) in order to change what they do – in the process, either adding new value or bringing down costs, or both. In other words, while a distinctive competitive edge or advantage is valuable, it cannot be assumed that any advantage is anything but temporary and subject to the forces of competition from both established and new competitors. How resources are deployed and managed will, in turn,

*This box is the authors' version of key points in *The End of Competitive Advantage*, Rita Gunther McGrath, published in 2013.

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be affected by the strategic challenges that are being addressed. Any business with more than one product or service, or which competes in various territories or markets, is quite probably following a variety of approaches at any one time. The staff dedicated to each business and product must be flexible; this flexibility is a better alternative than switching people from one position to another. The people in a business may be required, simultaneously, to integrate a new acquisition, persist in driving down costs, develop new products and services (linked to innovation), and also improve the processes and customer service. The capabilities required – and the relevant mind set – vary from one to the other here.

One of the biggest changes (according to McGrath) is the need to stop thinking of 'within-industry' competition as the most significant competitive threat. This has become a rather dangerous way to think about competition, because, in progressively more markets, we are seeing industries competing with other industries, and business models competing with business models in the same industry. Moreover, (new) competition can come from anywhere. At one time, it was not unusual to see as the greatest threat cheap substitutes capturing low-end customers, and then gradually moving up-market to pick off higher-end customers. Now, entire product lines – whole markets – can be destroyed almost overnight with new technological breakthroughs. In the United States there are now examples of new start-ups receiving many millions of dollars as initial investments – something unheard of years ago.

It is, therefore, necessary to look for opportunities to attack existing competitors and businesses in a fast-moving world (where others are always looking for new opportunities at the same time) but also to be willing to defend against attack. The ability to switch from defence to attack and vice versa is also critical, and another example of the need for vigilance and flexibility. We could develop a number of sporting metaphors here, of course. Some teams are better at one than the other; some possess the ability to combine the two seamlessly. Entrepreneurial firms could be seen as attackers; more mature businesses may be more comfortable as defenders, but they must be able to break out and counter-attack when there are opportunities to do so. Successful businesses, therefore, are more likely to morph from one position and approach to another, rather than see dramatic restructuring as an answer to difficulties.

The underlying culture and values should never be overlooked or undervalued. Everyone must be ready to deal with ambiguity and uncertainty. People cannot realistically be expected to 'suddenly become imaginative, creative and innovative'; these themes must become natural and embedded within an organization.

4.4 Forecasting the environment

External events and competitor activities can trigger a chain reaction of responses and new scenarios; but Handy (1989) contends that 'those who know why changes come waste less effort in protecting themselves or in fighting the inevitable'. However, despite the difficulty of forecasting environmental change, organizations must: (i) attempt to stay strategically aware; (ii) reflect on their experiences and seek emerging patterns or trends in the industry and business environment; (iii) be vigilant in tracking technological and other developments which may affect, possibly radically, their industries and markets; and (iv) look for, and maybe even borrow, appropriate ideas.

Don't try to eliminate uncertainty . . . embrace it. Despite overwhelming evidence to the contrary many of us still view the future as an extension of the past.

Clem Sunter, Anglo American Corporation of South Africa (The World's Largest Mining Group)

Scenario planning

Scenario planning was first properly used in a business context by Shell in the 1970s; however, it still remains a fringe activity for many organizations.

Scenarios are often used in strategic management to explore future possibilities, which are considered by looking at potential outcomes from particular causes and seeking to explain why things might occur. The value is in increased awareness by exploring possibilities and by asking and attempting to answer 'what if' questions.

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Although scenario planning can be predictive and can be used to plan strategic changes, it can also help decision-making by providing managers with insight so that they can react more effectively when things happen or change, and can be helpful for conceptualizing possible new competitive paradigms.

Environments for many organizations have become – and continue to become – increasingly dynamic, turbulent and uncertain, featuring an element of competitive chaos, where companies continually thrust and parry with new ploys and stratagems in an attempt to, at the very least, 'stay in the game' and, ideally, get ahead of their rivals. Scenarios and scenario planning concern the medium- or long-term future and they embrace the possibility of real and dramatic change. Anticipation and creativity can be invaluable in dealing with the turbulence and uncertainty. By considering and evaluating future possibilities, organizations can put themselves in positions where they may be better placed to deal with the unpredictable challenges of the future. Put another way, simply engaging in the process of acknowledging and anticipating change enables managers to be less shocked by whatever change does occur. We might presume and generalize that the more curious, creative and imaginative people will be most comfortable in this 'white sky world'. Yet, chess players think more logically about 'what if' situations and how games will progress over several moves. Napoleon, meanwhile, is reported to have given his Generals algorithms concerning what actions they should take in the field in response to various possible situations they might find emerging.

Three central themes underpin effective scenario planning:

- Clarifying just what a business can and cannot change. Small farmers, for example, cannot enjoy the scale economies of large farms; neither can they affect the climate. They can, however, within reason, improve their soil and they can change their crops.
- What seems trivial or a pipe dream today could be crucial in the future. In 1874, Western Union in the United States turned down Alexander Graham Bell's prototype telephone! People have long talked and written about Martians and 'Life on Mars'. It was classified as science fiction. But in 2021 NASA landed an exploratory craft on Mars and started to explore the planet.
- Multiple scenarios need to be explored and then *held* as real possibilities. Shell, which pioneered scenario planning, is arguably ready to respond quickly to shocks which affect supply or prevailing prices.

The scenarios considered may involve modified versions of current competitive paradigms (the future is not the past, but at least the two are related) or radically new paradigms (everything changes in the end). The implications of the scenarios will tend towards one of two themes: first, there will be environmental changes, but organizations can learn to cope with these, and influence or manage events, thereby enjoying some degree of relative stability; second, the environmental turbulence will be so great that the competitive situation will become ever more chaotic in nature.

Readers may like to consider a number of issues that have emerged in the UK, evaluate their significance and implications and, where appropriate, consider how they could apply in their own countries. We deliberately omit pandemics from this list. Certainly COVID-19 (or something similar) was predictable – but the likelihood was under-estimated.

- In recent decades, UK residents have increasingly become home-owners, although it has more recently become harder for first-time buyers to purchase a property, thus increasing the rental sector. This general trend has, in part, been caused by the long-term growth in property values; in turn, however, it has helped to fuel rises and falls in house prices. Negative equity (having a mortgage that is greater than the price of the property) and repossessions have become a problem for some people at certain times. At the same time, progressively more people have been tempted to become owners of buy-to-let properties, many of them apartments. The availability of these properties and the inability of first-time buyers to afford the deposits required to secure a mortgage (particularly in certain economic conditions) have worked together. There is an argument that one outcome is a housing stock that is inappropriate for the future. The **credit crunch** of 2008 brought many of these issues to a head with record numbers of repossessions and significant increases in negative equity. The amount of deposit required to secure a new mortgage increased. The underlying problem of a housing shortage remains.
- This aspect can be considered in the context of there being a mismatch between the demand and supply of housing linked to a perceived shortage of house building. In turn, this shortage fuels various debates.

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What is the role of government? Should developers be allowed greater access to 'greenfield' sites which have never been developed? Is there a real risk that developers affect natural water courses and increase flood risks? What about redeveloping more 'brown fields' for housing, sites where businesses have closed but the ground might be contaminated? Should developers be allowed to buy and hold on to sites without developing them?

- People are living longer; there is an ageing population. But will the more recent trend of people retiring earlier, many on good pensions, continue? As people are healthier, is it not logical for them to work longer, as long as employers do not discriminate on the grounds of age? Of course, for some jobs, skills can become outdated and people do become less useful. There is also the key dilemma of pensions. If people retire relatively early and live longer, there are two implications: one is that they will have to accept lower pensions; the other is that those people still in employment will have to pay far higher contributions to build up and sustain the pension funds. Many employers have had to reassess the pensions they provide, as they cannot afford them.
- Supplementing this aspect, there is the issue of how a basically healthy ageing population might make best use of their time – and how society looks after those older people whose health has deteriorated but who are living longer.
- In part, thanks to television programmes such as *Dragons' Den* on the BBC, an increasing number of people seem attracted to the idea of self-employment and starting their own businesses. It is debatable whether our education and business support networks are truly effective in terms of providing the support they need.
- According to most published statistics, unemployment has been consistently coming down; yet, at the same time, there are growing skills shortages in trades such as plumbing. Developing one point above, raising the retirement age could help here, but only for some jobs. In a knowledge-based society, does the need for skill retraining and updating become more critical through a person's working life?
- There are some who argue that there is 'grade inflation' with school-leaving qualifications and many young people are inadequately prepared. At the same time as this – and at the same time as there is a shortage of people in skilled trades – the numbers attending universities have been increasing. As a consequence, the government has invested in apprenticeships in the further education sector. Adding to this point, the increase in university tuition fees may well make students more discriminating, while not deterring them from going to university.
- The NHS is stretched and private medicine is expensive. This could become more problematic as people live longer and, especially, if pensions are reduced. Hence, economically, people may need to work longer.
- However, if the relative balance between salaried and 'permanent' career posts and self-employed people who contract themselves to various organizations continues to change, this issue of the length of working lives could be exacerbated. In this context, the role and purpose of zero hours (no fixed agreement) contracts can be explored.
- In addition, it is becoming increasingly difficult for many families to prepare for retirement because of the increasing costs of educating their children. In turn, this increases the number of two-income families and creates a larger number of childcare positions.
- Workers from European (EU) countries are free to work in other EU member states without any visa requirements. Although regulations for workers from non-EU countries have been tighter, these freedoms created a number of tensions and were a factor in the UK referendum decision to leave the EU.

This list is not complete. Also relevant, of course, is the issue of net migration and ensuring a country has the skilled people it needs. In a wider context, it may also be valuable to look at the implications of global climate change, a debate growing in significance, the ever increasing power of computing technology and the implications of artificial intelligence, and the growth of new economies, such as China.

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Developing useful scenarios

Organizations should really be looking to develop a number of scenarios that can be used to provoke debate among managers and possibly generate new creative ideas in the process – ideas that can be used as a basis for new strategies and action plans. As Schwartz (2003) points out, most future predictions will prove to be wrong – the real test of scenario planning is whether or not it helps with sense-making and way finding, and this then changes how people manage their businesses, not whether the predictions are right.

The first step is to clarify the *key strategic issues*, mainly external, which will impact on the future that the company will face. Internally, many managers will already have formed views, which may not always accord, and which may be partial rather than comprehensive, but these preliminary views will have caused the development of current working assumptions about future trends. It is invariably invaluable also to consult outside experts.

There are three types of issue to consider:

- *Predetermined elements* – for example, *social* and demographic changes to the size and structure of the population, lifestyles and values.
- *Key uncertainties* – *political* changes and the inevitable *economic* changes which accompany them; the entry of new competitors; possible changes of corporate ownership.
- *Driving forces* – developments in *technology* and education.

The link to a PEST analysis will be clearly seen.

The next step is to examine a number of *plausible outcomes* from the various key issues, and debate issues of positive and negative synergy. Specific consideration should be given to the impact of interconnectedness, with discussions generating some consensus, or possibly, and more realistically, accommodation on priorities, in the form of *viable scenarios* to test further. These will often be presented as *stories*, illustrated creatively to generate interest and enthusiasm.

The *tests* against which they will be ultimately evaluated are:

- What has been left out? In effect, the extent of the comprehensiveness and the absence of key omissions.
- Do they lead to clearer understanding which informs future decisions and actions, while winning the commitment of everyone involved?

Yet, in our rapidly changing world, can even well-meaning scenario planning work?

Jensen (1999) predicted that we would ultimately be living in a 'dream society' where the stories attributed to products and services – their image and **reputation** – will be an increasingly significant aspect of competitive advantage. Examples may relate to free-range eggs, organic vegetables and celebrity-endorsed training shoes. Simply, the story adds value. Jensen provides a number of themes for those organizations interested in creating 'dreams':

- *Adventure.* Involvement in the 'great outdoors' or leisure activities – Manchester United branded clothing appears to combine both.
- *Networks.* BT (British Telecom) capitalized on this with its 'family and friends' name for a discounted call scheme.
- *Self-discovery.* This is linked to products which allow people to say something about themselves – this theme has been exploited by Volkswagen (VW) with advertisements for the Golf which claimed the only statement it needs to make is 'gone shopping'.
- *Peace of mind.* Security is often linked to the perceived safety of the known past – perhaps this explains why VW has been able to relaunch the Beetle model and BMW a new Mini (a model that it acquired when it owned Rover).
- *Caring.* Businesses that can exploit their community links and programmes.
- *Convictions.* Ethical and environmental concerns are prominent – The Body Shop built a successful business around this, as shown in Online Case 7.1.

We conclude this chapter with the exercise on scenario planning, Critical Reflection 4.3.

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Critical Reflection 4.3 Scenario Planning

Task 1

Outlined below are the skeletons for four quite different scenarios relevant for the 2020s. Expand each of these skeletons into a 150-word scenario and, either individually or in groups, assess or debate the implications of each one for you as an individual. Although there may be relevant elements in each one, which one of the four do you see as being the most realistic?

Scenario 1

- Green thinking and climate warming concerns are dominant forces in consumer purchasing and consumption.
- Sustainability is a 'mandatory' consideration for any new product.
- Healthy living and an outdoor lifestyle are prominent in most people's lives.

Scenario 2

- We live in a high-tech society.
- There is far more home working and online shopping than we used to have.
- Living rooms are entertainment systems with all needs met through one central processor.
- Our cars have technology that controls our speed and route.

Scenario 3

- Society has become much more violent with high levels of education drop-out and unemployment.
- There are more prisons and prisoners.
- People live in more segregated areas. Those who can afford gated and secure communities live in this way.
- More extreme political parties perform well at election time.

Scenario 4

- There has been a rebellion against all these three trends and people have become more spiritual and creative.
- People enjoy more leisure time and work less. They travel more and generally they are less materialistic as far as consumer goods are concerned.
- A demand for better transport has forced improvements.

Task 2

Taking as your themes 'international politics', 'religious differences', 'the continued emergence of the East' and 'global terrorism', create four scenarios of your own and consider the implications.

Note

This chapter does not include a Research Snapshot due to the general and introductory nature of its content.

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Summary

The external environment is perceptibly 'layered', with suppliers, customers and competitors comprising the inner layer; and the PEST factors are the outer layer as they affect the industry.

Organizations operate with external environments that spring surprises on them from time to time, with many industries and markets characterized by a form of 'competitive chaos' which arises from the natural dynamism, turbulence and uncertainty of both the industry and the environment.

A firm can visualize its boundary with the environment as relatively fluid, such that, while suppliers, distributors and customers can be seen as outside the organizational boundary, they can also be identified as partners in a collaborative network which, more holistically, bounds with a number of external influences and forces.

Organizations must be able to react to the change pressures imposed by their environment (potential threats) and, at the same time, take advantage of opportunities which seem worthwhile. And yet, leading organizations will create and sustain positions of strength by seeking to influence – and maybe even manage – their external environment.

A PEST analysis provides a valuable framework for analyzing relevant environmental forces.

All organizations should seek to understand the industries in which they compete since industry attractiveness affects profitability and it can be assessed by considering five forces: barriers to entry, the relative power of suppliers, the relative power of buyers, the potential for substitutability, and inter-firm rivalry – with governments affecting all five.

Over time, strong competitors create and seek to hold positions of power in markets and industries, while governments everywhere will seek to exercise some degree of control. Regulation is rarely clear-cut or black-and-white and, sometimes, the outcomes are not quite the ones desired.

To manage in its environment, an organization will need strong strategic positions, implying the need to find and exploit opportunities for adding value in ways that consumers value and for which they will reward the organization with prices that imply superior margins – finding an effective blend between the opportunity-driven approach to strategy creation and the resource-based approach.

As organizations seek to exploit their *core competencies* and *strategic capabilities* to add value in this way, the value must be appropriable. The benefits should not all go to shareholders (through high dividends), consumers (in, say, the form of relatively low prices) or employees (generous remuneration), leaving the organization with inadequate resources for investment to build new ways of adding value for the future.

A SWOT analysis is a second valuable framework for evaluating the position of an organization in relation to its environment, but it should be used to create ideas and not just be seen as a static statement of position.

Organizations should attempt to forecast their environment, however difficult this may prove, with *scenario planning* making a very valuable contribution here if well done!

Online cases for this chapter

Online Case 4.1: Sainsbury's
Online Case 4.2: Bidding for Safeway
Online Case 4.3: The Brewing Industry
Online Case 4.4: Britvic
Online Case 4.5: Deregulation and the International Airline Industry
Online Case 4.6: The English Premier League
Online Case 4.7: The European Drugs Industry
Online Case 4.8: Kellogg's
Online Case 4.9: Party Gaming
Online Case 4.10: Royal Bank of Scotland and the Bank of Scotland
Online Case 4.11: Recorded Music Industry
Online Case 4.12: Flying Brands
Online Case 4.13: eBay
Online Case 4.14: BHP Billiton
Online Case 4.15: Marks & Spencer

Web supplement related to this chapter

Finance in Action: The Experience Curve.

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Questions and research assignments

1. Draw a diagram incorporating the environmental influences and stakeholders for any pub, discotheque or nightclub with which you are familiar. From this evaluation, develop a SWOT analysis and consider the strategic implications.
2. One of the growth sectors in the UK economy has been in the area of call centres. Many thousands of people are employed in UK call centres. Many of these jobs have been threatened with removal to India and other cheaper wage areas. How have and how should the managers and workers of UK call centres respond?
3. Possibly in a group discussion, build a scenario relevant for the motor vehicle industry in 10 years' time. How will people be using their cars? What will they expect in terms of size, performance, and external and interior design? Will electric cars have made a significant impact?

Internet and library projects

1. How have changes in competition from around the world affected the UK footwear industry? What are the strategies of the leading, remaining manufacturers? You may wish to use a leading manufacturer such as C&J Clark as a key reference point. You should also look at a specialist such as Jimmy Choo, Grenson or Church's. You could also investigate the source of your personal wardrobe of shoes, boots and trainers.

   C&J Clark **www.clarks.com**
   Church's **www.church-footwear.com**
   Grenson **www.grenson.com**

2. From your own experience, and from newspaper and other articles you have read or seen, list examples of where monopoly power and restrictive practices have been investigated, and where proposed mergers have been considered by the Competition and Markets Authority (or one of its predecessors, the Competition Committee or the Monopolies and Mergers Commission). Evaluate the recommendations and outcomes. If you wish to follow up any of these investigations, all of the reports are published by Her Majesty's Stationery Office (HMSO).
3. Take an industry of your choice, perhaps the one you work for, and assess it in terms of:

   a. concentration
   b. Porter's model of five forces.

   From this, analyze one or more of the major competitors in terms of their chosen competitive strategies.

   As well as the internet, the following library sources could prove useful sources of information:

   - Business Monitors (PA and PQ series)
   - Annual Report of the Director General of Fair Trading (as a source of ideas)
   - Competition and Markets Authority (also Monopolies and Mergers Commission, and Competition Commission) reports, which usually feature a comprehensive industry analysis
   - McCarthy's (or similar) Index (press cutting service for firms and industries).

4. How could Porter's five forces model be applied to Camelot, the monopoly (current) supplier of the UK's lottery? On the one hand, Camelot operates under licence for a fixed period of years without any direct competition; on the other, it provides only one gambling opportunity among many. Why has Camelot needed to introduce several new games during the period of its licence?

Strategy activity

Cream o' Galloway

The ice cream business that is Cream o' Galloway was started by David and Wilma Finlay in 1992 with the realization that, if the family business was to survive it had to change. Rainton Farm had been started in 1927 by the Finlay family. Although they had a relatively comfortable existence running the dairy farm, David and Wilma realized that if they wanted a sustainable business they had to move away from their dependence on small-scale dairy farming. They investigated cheese, yoghurt and ice cream and decided to major in ice cream. Their decision was based on the farm being located in a popular tourism area for families, based

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as it is in the Dumfries and Galloway area of the south-west of Scotland; the luxury end of the ice cream market was growing; and the ice cream business did not seem an expensive business to enter.

The Finlays identified the following key success factors that needed to be in place to start their new business. They needed milk, land, office space, employees, product knowledge, equipment and market knowledge. In-depth product and market knowledge was missing, alongside some equipment. The farming side of the business was kept going as they spent the next two years on research and development. In 1994, they felt that they were ready to launch their new business and they did so at the Royal Highland Show in Edinburgh that year with ten flavours of ice cream. Customer feedback was so good they took the decision to move from small-scale dairy farming to making ice cream to sell in the UK market. As a couple, their skills were complementary. David provided the farming expertise, while Wilma provided the friendly and driven personality, and was the face of the business.

To support the development of their business, they decided to take advantage of the family friendly image of ice cream and turn their farm into a tourist attraction, creating an ice cream visitor centre out of their home. Initially, the centre was little more than a shed where you could buy ice cream with a few tables and a couple of swings for children. Over time, the visitor centre has grown to accommodate a total of 70,000 visitors each year. The Finlays have created an adventure playground on the farmland with, among other things, a 50-foot viewing tower, Scotland's only 3D maze, nature trails and much more.

Since that time, the business has developed and grown into one producing 30 different flavours of organic ice cream, smoothies and frozen yoghurts using only natural ingredients and organic milk with its 'Made Fair' product range Fairtrade certified. They were soon producing 200,000 litres of ice cream per year, with a turnover by 2007 of just over £1 million.

Their continued philosophy centres around being a sustainable business making a contribution to the local economy, at the same time minimizing the impact on the environment. Wilma explains:

> *Bets are currently being taken on what is having the biggest negative environmental impact from our business, whether it is the tourists travelling to our visitor centre; the distribution of our ice cream; the energy needed to make the ice cream; or the milk production.*
>
> Cream o' Galloway **www.creamogalloway.co.uk**

Question

What is the 'common' business model that Cream o' Galloway seems to fit?

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Chapter 5

Resource-led strategy

PART 1
Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning
4 The business environment and strategy
5 **Resource-led strategy**
6 The dynamics of competition

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- explain the resource-based view of strategy (**Introduction** and **Section 5.1**)
- discuss the critical strategic contribution of people, including employee empowerment and the learning organization (**Section 5.2**)
- appreciate the importance of information in strategic decision-making, the contribution of information technology and the internet (**Section 5.3**)
- describe and produce an organizational value chain and explain how it could be used for evaluating competitive advantage (**Section 5.4**)
- discuss the significance of branding and corporate reputation as an intangible organizational asset (**Section 5.5**).

Introduction

A successful and distinctive business model implies a compelling reason for customers to buy one product or service in preference to any competitive rival offerings. For the business involved, this feature implies that it has a competitive advantage – and it results from what the organization does. In turn, it is dependent upon the resources an organization has available and how these are utilized.

The resource-based view of **strategy** (RBV) gradually emerged during the 1980s and 1990s with a series of important contributions, as we discuss below, helping to explain why some *individual* organizations (not all competitors) succeed in creating **competitive advantage** and earning superior profits, while others do not, through an understanding of industries and markets leading to market opportunities being identified and satisfied individually and distinctively.

Organizations can grow by realizing and seizing opportunities and then dealing with the resource challenge, which hypothetically could imply serious transformation if what is proposed is radically different from current activities, such that the organization lacks the technology or the equipment needed, or the funding or the people skills, or a combination of these. Where resources are not in place but hope, faith and ambition take over, the risks can be huge – but not automatically insurmountable.

The alternative perspective is to start with the resources you have and build on this base through learning, improvement and innovation. This alternative RBV contends that relevant, distinctive, high-quality resources are instrumental for creating and sustaining competitive advantage (Barney, 1991; Wernerfelt, 1984). All resources are relevant for this argument, although in this chapter we focus mainly on people and information. Financial resources will, of course, always provide either an opportunity or a constraint. Resources create and provide competencies and capabilities; Prahalad and Hamel (1990) developed the basic arguments and highlighted the concept of core competencies as a source of distinctive competitive advantage – which we explore later in this chapter.

The RBV would suggest that organizations should focus on building and further exploiting their existing resource strengths and expertise, and to use these to innovate in order to stay competitive, rather than looking to turn relative resource weaknesses into strengths – unless, of course, they are relatively weak in terms of resources that are seen as critical for competitive success.

It must be accepted that growth opportunities for and from existing resources are sometimes limited and resource changes are going to be essential for survival, let alone growth. Bischoff *et al*. (2018) counsel that – if recruiting new (perhaps more ideal) resources is limited by, say, financial constraints – the existing

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(less ideal) resources will need to be redeployed if strategic priorities are (or have to be) changed. Strategic risks are thus accentuated if a decision is made to use existing (but inadequate or inappropriate) resources to carry out a particular activity which is seen as important because, perhaps, it is a requirement of an important stakeholder, a desire to mimic or keep up with what competing organizations are doing, or a wish to pursue fresh opportunities without a corresponding willingness (or ability) to invest in new key people. The outcome here is likely to be employee frustration and perhaps even stress, as well as disappointing outcomes.

Relevant to this point is the argument (offered in Critical Reflection 4.2) that people flexibility in their roles is a superior approach to people being required to actually switch jobs. In both cases, of course, there are implications for formal job descriptions, for agreed performance expectations and job satisfaction, and for the ways in which people are managed.

The key questions for any organization to ask are:

1 Do we possess the resources we need to pursue our goals and ambitions, and to compete effectively?
2 Are we successfully developing these key resources and innovating?
3 Will the prevailing values and culture support our ambitions?

There will be a strategic risk of under-achievement and/or below expectation performance if appropriate resources are neither present nor strong enough to support goals and ambitions.

In Chapter 7 we examine the relationship between organizational culture, the performance of firms and their sustained competitive advantage (Barney, 1986), by considering organizational culture as valuable, rare and imperfectly imitable. That leads us to introduce the Valuable, Rare, Imperfectly Imitable and Non-Substitutable (VRIN) model in the context of the resource-based view (Barney, 1991); an explanation of VRIN follows below. Furthermore, there is a clear link established in empirical research between strategic capabilities, the processes adopted by firms, and thus a contributing part of their competitive advantage (Ray *et al.*, 2004) and core competencies, (Prahalad and Hamel, 1990). The key point here, however, is that in the resource-based view of the firm these resources and capabilities are central to firms achieving their sustained competitive advantage and high levels of profitability. Indeed, it has been observed that resources and capabilities have a symbiotic relationship and, indeed, that there is a critical need to fully comprehend 'how they emerge, develop, and change over time' (Helfat, 2017). Barney's (1991) VRIN framework proposed four 'attributes' of a firm's resources that enable it to achieve sustained competitive advantage:

1 Valuable: 'enable a firm to conceive of or implement strategies which improve its efficiency or effectiveness'.
2 Rare: 'when it is implementing a value-creating strategy not simultaneously implemented by large numbers of other firms'.
3 Imperfectly imitable: 'if firms that do not possess these resources cannot obtain them' because of 'unique historical conditions', causal ambiguity between the resources and sustained competitive advantage (i.e. 'when [it] … is not understood or understood only very imperfectly'), or 'socially complex' (i.e. 'beyond the ability of firms to systematically manage and influence' resources).
4 Non-substitutable: where 'no strategically equivalent valuable resources that are themselves either not rare or imitable' exist, where strategic equivalency means 'they each can be exploited separately to implement the same strategies' and where such substitutable resources can either be similar or different resources.

Barney and Hesterly (2011) later offered an alternative to VRIN – namely VRIO, where O stands for Organization – is the business organized to exploit the resource capability? The VRIN/VRIO model is, therefore, a valuable framework that we can apply to help us to establish whether strategic resources can enable the achievement of a sustained competitive advantage, and it is a more sophisticated framework for doing so than a basic SWOT analysis or some of the other frameworks introduced in this book. Resource-led strategy is linked to a firm's performance (Clulow *et al.*, 2007), although one paper argues the case for a hybrid dynamic resources view (Helfat and Peteraf, 2003). The RBV of strategy builds on Penrose's theory of the growth of the firm (for reviews, refer also to Acedo *et al.*, 2006; Armstrong and Shimizu, 2007;

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Burvill *et al.*, 2018; Kraaijenbrink *et al.*, 2010; Lockett *et al.*, 2009). In addition to Helfat and Peteraf's (2003) capability life cycle concept, various studies have examined the relationship between the RBV and performance/ competitive advantage – for example, in manufacturing (Größler, 2007; Schroeder *et al.*, 2002), service firms (Ray *et al.*, 2004) and the impact of information technology (Rivard *et al.*, 2006) – and, indeed, how strategic resources influence firm performance has been analyzed comprehensively (Crook *et al.*, 2008). Research Snapshot 5.1 provides a more advanced explanation of the current literature that theorizes and empirically researches the RBV and the role of strategic resources in strategy and achieving competitive advantage.

To help explain the RBV in action, Case 5.1 on Dyson shows how innovation and new ways of creating and **adding value** through design can markedly change an industry by allowing a newcomer to establish a position of market dominance and force a reaction from established manufacturers. In contrast, and to put the issues into a wider context, Case 5.2 explores the challenge of exploiting scarce resources for 'best returns' in a developing country while taking sustainability seriously.

This chapter looks, first, at the idea of a resource audit before considering resource linkages and synergy through **architecture** and the notion of the **value chain**. The chapter includes a section on human resource strategies.

> *People feel the best about their work when they do a high-quality job! Getting a job done quickly is satisfying. Getting a job done at low cost is rewarding. But getting a job done quickly, at low cost and with high quality is exciting!*
>
> Robert C. Stempel, when Chairman, General Motors Corporation

Case 5.1 James Dyson — UK

James Dyson is an entrepreneur who challenged the industry giants, in his case with a revolutionary vacuum cleaner. His dual cyclone cleaner built a UK market share in excess of 50 per cent and international sales are booming. A Hoover spokesman has said on the *BBC Money Programme*: 'I regret Hoover as a company did not take the product technology of Dyson … it would have been lain on a shelf and not been used.' Dyson has been compared by Professor Christopher Frayling, Rector of the Royal College of Art, with 'the great Victorian ironmasters . . . a one-man attempt to revive British manufacturing industry through design'. Dyson is creative, innovative, totally focused on customers and driven by a desire to improve everyday products. His dedication and drive are reflected in the following comment: 'The only way to make a genuine breakthrough is to pursue a vision with a single-minded determination in the face of criticism', and this is exactly what he has done. Clearly a risk-taker, he invested all of his resources in his venture. Eventually, his rise to fame and fortune came quickly, but the preceding years had been painful and protracted, and characterized by courage and persistence. They reflect the adage that instant success takes time.

James Dyson's schoolmaster father died when he was just nine years old. The public school to which he was then sent made him a 'fighter'. At school, he excelled in running, practising by running cross-country on his own; and it was on these runs that he says he began to appreciate the magnificence of the railway bridges constructed by Brunel in the nineteenth century, an experience which helped to form his personal vision. An early leap in the dark came when he volunteered to play bassoon in the school orchestra, without ever having seen a bassoon! Naturally artistic, he won a painting competition sponsored by the *Eagle* comic when he was aged ten. Art became a passion and he later went on to complete a degree in interior design. Dyson may be an inventor, but he has no formal engineering background.

Dyson's first successful product and business was a flat-bottomed boat, the Sea Truck. At this time, he learnt how a spherical plastic ball could be moulded, an idea that he turned to good use in the wild garden of his new home. His wheelbarrow was inadequate, as the wheels sunk into the ground, so he substituted the wheel with a light plastic ball and thus invented the Ballbarrow. Backed by his brother-in-law on a 50:50 basis, Dyson invested in his new idea. Made of colourful, light plastic, the barrow was offered to garden centres and the building trade, both of whom were less than enthusiastic. With a switch to direct mail via newspaper advertisements, the business took off. A new sales manager was appointed but his renewed

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attempt to sell the barrow through more traditional retail channels was, again, a failure. The financial penalty was the need for external investors, who later persuaded Dyson's brother-in-law to sell the business. A second painful experience came when the sales manager took the idea and design to the United States, where Dyson later failed with a legal action against him.

Dyson's idea for a dual cyclone household cleaner came in 1979, when he was aged 31. Again, it was a case of a need creating an opportunity. He was converting his old house and becoming frustrated that his vacuum cleaner would not clear all of the dust that he was creating. Particles were clogging the pores of the dust bags and reducing the suction capability of the cleaner. He needed something to collect paint particles. For his plastic spraying operation for the Ballbarrows, Dyson had developed a smaller version of the large industrial cyclone machines which separate particles by using centrifugal forces in spinning cylinders. He believed that this technology could be adapted for home vacuum cleaners, removing the need for bags, but his partners in the Ballbarrow business failed to share his enthusiasm. Out of work when the business was sold, his previous employer, Jeremy Fry (for whom he had developed the Sea Truck), loaned him £25,000. Dyson matched this by selling his vegetable garden for £18,000 and taking out an additional £7,000 overdraft on his house. Working from home, risking everything and drawing just £10,000 a year to keep himself, his wife and three children, he pursued his idea. Over the years, he produced 5,000 different prototypes – typically, each time, changing one variable.

When he ultimately approached the established manufacturers his idea was, perhaps predictably, rejected. Replacement dust bags are an important source of additional revenue. A series of discussions with potential partners who might license his idea brought mixed results. Fresh legal actions in the United States for patent infringement – 'with hindsight I didn't patent enough features' – were only partially offset by a deal with Apex of Japan. Dyson designed the G-Force upright cleaner which Apex manufactured and sold to a niche in the Japanese market for the equivalent of £1,200 per machine, from which Dyson received just £20. At least there was now an income stream, but this had taken seven years to achieve. Finally, in 1991, Lloyds Bank provided finance for the design and manufacture of a machine in the UK. Several venture capitalists and the Welsh Development Agency had turned him down. Dyson was determined to give his latest version the looks of NASA technology, but further setbacks were still to occur. Dyson was let down by the plastic moulder and assembler with whom he contracted, and Dyson was eventually forced to set up his own plant. Early sales through mail order catalogues were followed by deals with John Lewis and, eventually (in 1995), with Comet and Currys. In this year, a cylinder version joined the upright. Dyson continues to improve the designs to extend his patent protection. By 1999, his personal wealth was estimated to be £500 million.

Dyson has always seen himself as more of an inventor than a businessman. He established two separate businesses, both in Malmesbury, Wiltshire, and he kept Dyson Manufacturing and Dyson Research (design and patenting) apart. The dress code for employees is perpetually informal and communications are predominantly face-to-face. Memos are banned and even emails discouraged. Every employee is encouraged to be creative and contribute ideas. Most new employees are young – 'not contaminated by other employers' – and early on they all begin by assembling their own vacuum cleaner, which they then buy for £20. Designers work on improvements to the dual cyclone cleaners as well as on new product ideas.

In early 2000, Dyson launched a robot version of the dual cyclone cleaner, which is battery-powered, self-propelled and able to manoeuvre itself around furniture. It retailed at some £2,500, which limited it to a select segment of the market; it was slow to take off. He has since launched 'The Ball', a version which has a large ball instead of wheels to make the cleaner more versatile. Later in 2000, Dyson launched a revolutionary super-fast washing machine with short wash cycles and an ability to spin clothes almost dry, presenting a challenge to the manufacturers of both washing machines and tumble dryers. This time, however, Dyson had his own resources to launch the product. He has also succeeded in penetrating the US and Japanese markets with his dual cyclone cleaners; he had to design a small version with a digital motor for Japan.

Another Dyson product is his own design for a wall-mounted hand dryer – rather than holding their hands under a hot air outlet, users place them between two flat plates. The machines are extremely powerful. More recently, he has launched what he calls the 'Air Multiplier' which is effectively a blade-free fan which blows cold air; a variant of this is his (warm air) room heater. Both look like rings – the secret lies in the way the air is circulated. He has also launched a distinctive hair dryer and a range of LED lamps. It has to be said there is a lengthy list of discontinued products and models, reinforcing his commitment to perpetual innovation and improvement – but also acknowledging that it is an effectual learning process with some failures. Dyson's interest in developing

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electric cars is documented in Case 2.4. In 2020 Dyson designed, manufactured and contributed without charge an agreed number of new ventilators for the UK NHS to help fight COVID-19. Dyson controls 100 per cent of the shares in his business. He has learnt some painful lessons but is now enjoying the rewards of his dogged determination. In recent years, Dyson has transferred the majority of his manufacturing to lower-cost plants in Malaysia and Singapore. Perhaps inevitably, this was opposed by the UK workforce and it has brought him adverse publicity. Before the transfer, there were 1,800 employees in the UK. This number was reduced to 1,000, but has since been increased again. None of them actually make any products and several hundred people work in research and development and in design.

Dyson himself has become a passionate spokesman for engineering and design, and has funded the Dyson School of Design Innovation in Bath. He believes the UK must focus on what it can do well and accept that the actual manufacture should take place in countries overseas where the labour costs are lower.

Dyson **www.dyson.com**

Questions

1. Thinking about the issues of core competency and strategic capability, what is the 'secret' of James Dyson's competitive advantage?
2. Has he been able to appropriate the rewards of the value he has added?
3. How does this case demonstrate incrementalism and emergent properties?

Case 5.2 Sustainability in Ethiopia — Africa

Ethiopia has limited natural resources and it struggles with a degree of economic and social deprivation. The country is the source of two important tributaries of the Nile. The challenge for Ethiopia (and the people who live there) lies in using the natural and other resources it has in a sustainable way, rather than opting for short-term solutions that can earn money now but make the future less sustainable.

Ethiopia's natural resources are largely land based; there are few minerals of any consequence to mine. There is a mixture of rainforest and wetlands, together with grasslands and land that has been cultivated; in and among are residential settlements. As the population grows, new areas have to be settled, perhaps at the expense of forests and of land that could be cultivated. Coffee grows wild in certain forested areas; indeed, Arabica coffee (the leading and superior quality coffee now cultivated around the world) originated in Ethiopia. Ethiopian coffee exports now account for only 3 per cent of the current coffee market, but this still yields some 60 per cent of the country's foreign income. Conserving wild coffee cultivation is important.

Ideally, these natural resources will be managed in a balanced and cohesive way. Water is an issue, but there is rainfall at certain times in the year and the possibility of collecting it for irrigation purposes. Financial resources are limited and the country needs foreign aid for development projects. Human resources can be seen as physical labour; an alternative perspective is to see a population of people with economic and nutritional needs who need to be trained and guided to take sustainability seriously.

The needs today are better land management and conservation schemes, which take into account water and irrigation issues, more secure food supplies and better nutrition – alongside generating export income that can be reinvested. The constraints on meeting these needs are market access, declining fish stocks, poor land management historically, a limited infrastructure in the country, acidic soil and a relative shortage of water.

It is easy to understand why individuals would be tempted by short-term fixes at the expense of longer-term sustainability; yet, we could logically assume the search should be for the best long-term returns (both

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economic and social) from using the least water … an argument that may be relevant for all drought-ridden regions. Around 100 years ago, much of the forested land was taken from local communities by the government and made 'open access'; over time, this has led to some forest degrading. Some believe that there can be genuine benefits if the communities take back control of the forests and manage them. They argue the importance of using natural resources to generate income, rather than cutting down forests and converting them into farmland. The main products to benefit from such a strategy would be coffee, honey and spices.

One specific example to illustrate the challenge faced by Ethiopia is frankincense, for which Ethiopia is a leading commercial producer. Frankincense is the resin from the Boswellia sacra tree, which grows naturally in dry woodland areas in sub-Saharan Africa. It is obtained from trees over around eight years old by cutting into the bark and allowing the sap to bleed out ('tapping'). It is collected over several weeks, following which the hole is enlarged and deepened to allow more sap to bleed out. It is generally acknowledged that nine taps per tree is an optimal number.

The significance of frankincense really dates from the story of the Three Wise Men in the New Testament – they brought gifts of gold, frankincense and myrrh (which is not threatened in the way that frankincense is). The Christian Church – but largely the Roman Catholic Church around the world – has always used, and continues to use, the vapour from heating the frankincense resin. Frankincense is, therefore, rich in religious history and symbolism, but the quantity required each year is not huge. Neither is it in massive demand for other uses, although there are other markets. Neglect, in part resulting from this limited demand, has resulted in claims that the product could be extinct within the next 50 years. Of course, economics would suggest that as supply declines, the cost and perhaps the price, may rise; this may or may not prove to be sustainable.

The surviving trees have been over-exploited; there are over 20 tapping points on some of them. Old trees have not been replaced with new planting and, instead, the land has been given over to more profitable crops such as sesame and cotton. In addition, the trees are infested with a damaging beetle which gets underneath the bark.

Ethiopia now supplies some 5,000 tonnes of commercial resin each year, much of which is sold to China for use in medicines and perfume. The demand from the Catholic Church is around 50 tonnes per year.

Questions

1 How could you argue the case for maintaining production of frankincense in Ethiopia?
2 In the context of sustainability, is there perhaps a persuasive argument that it should be a low priority?
3 Ethiopia is 'one of the best places in the world to go bird watching'; it has, therefore, significant tourist potential. How may this opportunity be exploited in the context of resource management?

5.1 Strategic resources, core competency, capabilities and adding value

Environments spring surprises on organizations, sometimes either opportunities or threats. The most vigilant and aware organizations are better placed to respond by predicting opportunities and responding in some individual way, ideally genuinely different, appreciated by customers and inimitable – due to individuals, specific to the organization's competencies and capabilities, emanating from the organization's *resources*. In this chapter, this argument is explored in greater depth, and frameworks are provided which can help us to audit and evaluate strategic resources.

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There are many ways to study strategic resources. We can, for example, look at key resource drivers – such as labour, the need for investment in technology, supplies (i.e. their cost as a proportion of total costs, their role in creating and adding value for customers, and their scarcity), and knowledge. We can consider **tangible resources** (e.g. capital equipment, physical supplies and technology) and **intangible resources** (often the hardest to copy or replicate, e.g. organizational processes, networks, alliances, corporate **reputation** and strategic thinking).

Auditing strategic resources

Not every organizational resource is strategically significant, but they can be evaluated by:

- *competitive superiority*, the relative value when compared to rivals, since a resource is not a competitive strength if possessed by every competitor
- *barriers to replication*, which can stop rivals from imitating or replicating any valuable resources
- *durability*, a time advantage relating to competitive superiority and barriers to replication
- *substitutability*, whether competitors neutralize the value of a resource by substituting an alternative
- *appropriability*, whether the organization, rather than a supplier or distributor, genuinely benefits from the resource it possesses (Kay, 1993) and which we first mentioned in Chapter 4.

This framework, of course, is an alternative to VRIN. The case on Spotify (Case 5.3) explores the implications for resource appropriability; and here we see a danger that the real benefits from creating new music could migrate from artists to content distributors.

Case 5.3 Spotify — Sweden, Int

This case explores the management, exploitation and appropriation of resources in the music industry. Spotify has succeeded by focusing on the distribution of popular music rather than the actual content (the song) or artefact (such as a CD or a record). A case could be made that there has been a switch in power in this industry – those organizations who control access have more influence over customers and their listening choices than the artists who create the music. This comment is a holistic one on the industry; it would not apply to the leading big-name artists.

The case considers whether all stakeholders are benefitting appropriately and fairly – namely the artists (the singers and songwriters), the music producers (those who create the recording), distributors and, of course, listeners and customers. The customer group is made up of people who just enjoy listening (and who may be happy to rely on particular radio stations), people who are happy to spend money on something they enjoy, whatever that might be, and people who might be described as collectors, who are very targeted in their listening and buying. Some people are quite happy for others to choose the music they listen to. At the same time, some artists have felt they have not been receiving the rewards to which they believe they are entitled. Those who pay to attend their concerts (especially if they have to buy their tickets on the secondary market) must sometimes wonder what constitutes a fair return for creative talent. It is a complex and tricky issue with no clear-cut answers.

Spotify has in part been successful because it launched its service when illegal downloading was estimated to be costing the music industry some US$12.5 billion per year in lost revenue; sales of CDs, the core artefact, had been falling.

Spotify was started in Stockholm in 2006 by Daniel Ek (who remains in charge) and Martin Lorentzon. The company's head office is now located in London but much of the research and development work remains in Sweden. The founders spent two years experimenting with possibilities and pleading with record companies to release their products for their proposed new streaming service – which was actually launched in 2008. At the very beginning, the service – streamed access to recorded music via an internet-enabled device – was by paid subscription and available only by invitation. This soon became open access, but still paid for. Customers could download and save (and also share) as they wish. Free access (to listen but not download) was introduced in 2009 – but, of course, it remains 'free with limitations'. Listeners cannot escape

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advertising on the site before they listen to the music they request; albums are not played in full and there is a forced element of shuffling. Apple customers, meanwhile, could buy downloaded music via Apple Music to play on their devices. Spotify developed an app that linked to the Apple Store, but the two were still rivals. During the early years, the focus was on PCs and tablets; smartphone access came later.

In 2011 Spotify was able to raise money to launch a service in the United States, allying with Facebook. Music videos were added in 2015 and in 2016 Spotify began preparing for a flotation. Originally planned for 2017, it was 2018 when Spotify was floated on the New York Stock Exchange. In 2017 the company had earned US$5 billion in revenues but traded with a US$1.5 billion loss. Yet to record any profits, it was valued at US$25 billion. It had established some 170 million active users around the world. Some 70 million were paid subscribers and the other 100 million made use of the free access service. Spotify offered access to 30 million songs – nearly 90 per cent of these were provided by the world's four leading record companies.

The current Spotify service package is essentially music downloads – on demand, by choice and through PCs, tablets and phones. The subscription service (but not the free service) can also be accessed by Amazon Echo, where you can simply 'ask Alexa'. Alexa, of course, as with Spotify itself, offers predetermined playlists if listeners ask for something relatively generic. Playlists can be sponsored, so you might question who determines what music will appear on different playlists and how the process works. Spotify is called a 'Freemium Service' because of the options it offers. The Premium service (for paying subscribers) continues to allow unlimited access to listen, download and share and there is no advertising. The main rival remains Apple, whose service is entirely paid for. Apple has some 36 million paying customers, roughly half the number Spotify can boast. There are several others, including Amazon, who make an extra charge for customers to download music via their Prime viewing service.

Spotify makes money from subscription customers and advertising. Its royalty agreements are with the record companies and not the artists who create the content. Spotify pays the record company between US$0.006 and US$0.0084 for each track or song that is streamed – this is less than one cent (and, therefore, less than one penny) for each track. The record companies are then free to decide how much of this royalty payment they will keep and how much they will pass on to the relevant artists. The amount of advertising money that Spotify earns does not pay for the royalties that must be paid to cover the free listens.

A number of criticisms have been levelled at Spotify, although it is clearly a popular service that has reduced the extent of illegal downloading very significantly.

'The Joe Rogan Experience' is a regular podcast exclusive to Spotify – for which Spotify pays Rogan a substantial fee. There are some 11 million listeners. After Rogan featured people who discourage COVID-19 vaccination for young people, he was accused of spreading misinformation. As a result, Neil Young, Joni Mitchell and Nils Lofgren were among the artists who withdrew their recordings from Spotify – which was unrepentant. A major criticism has come from certain big-name artists who can earn far more (per track bought) from iTunes downloads (from Apple Music) than from Spotify. But this issue is not a straightforward one. Major artists (whose new albums are going to be popular) will suffer from free downloads – but the Spotify service is good for lesser-known artists who might have individual songs that people like (but not automatically whole albums) and it also provides customers with ready access to songs from years back. It therefore exploits what is known as the 'long tail'. The most prominent complainant about Spotify has been Taylor Swift, who withdrew all her music from the service in 2014. She was demanding that, at the very least, free access to her material should not be provided to anyone resident in the United States. She relented three years later after Spotify agreed that artists could stipulate (if they so wished) that their material had to be limited to paying subscribers only. While this might seem like a simple solution, the challenge for Spotify was not to unleash something whereby various world-leading artists would all make separate and different demands such that control of the service would become unmanageable. Other high profile artists, including Jay Z and Beyoncé, have not been happy with the Spotify package.

Other criticisms include:

- Album sales (largely on CDs) have been affected dramatically.
- There is insufficient (strong) competition.
- Spotify has not expressed any interest in creating original content of its own and, consequently, is not investing in artists.
- Radio is also being affected, and some fear that music radio (which relies on playing music rather than featuring music as part of a wider entertainment forum) will be 'killed'.

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If we go back in time to the 1960s, 1970s, 1980s and 1990s, then artists relied on their record companies to sign them up, produce their work and distribute the records, cassettes and CDs. The record companies employed people who worked hard to secure radio play for new recordings; indeed, the constantly changing playlists for BBC Radios 1 and 2 were important and significant targets. This aspect has not disappeared completely, but artists now benefit from social media access and from YouTube. High profile artists have huge followings. While newer artists might have access to the same opportunities, they are much less likely to be noticed. Attend any concert today, well-known or lesser-known artist, and you will find their CDs on sale. Emerging artists have to do much more to promote themselves.

As for the future, it has been suggested that Spotify might look to develop a rival product to Amazon's Alexa/Echo. If they were to succeed with this would it make the company even more powerful and influential? And how significant is it that it has yet to make a profit? In this context, of course, and as we discuss in the Chapter 10 case, the same development curve applied to Amazon.

Questions

1. When it comes to music and recorded music, what are the actual products and services, who owns what, and how are people rewarded for their contributions?
2. Do you believe there is proper and fair appropriability, such that people 'earn what they are entitled to'? How has power and influence been changing?
3. Even when people pay a subscription, might it feel like free access because consumers can listen to anything they want on demand? Will this perception affect the perceived value of the actual content?
4. How do you see this industry developing in the future?

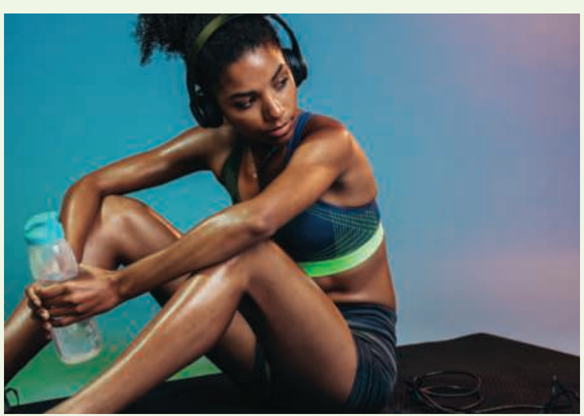

Figure 5.1 shows: (i) corporate objectives which are manifested as selected products, services and markets (which are environment-driven); (ii) the competitive environment, stakeholders, resources and values as key strategic elements (these can be changed, but often not readily and not quickly, and consequently they are reasonably fixed) which determine whether or not the corporate objectives are achieved; and (iii) six operating elements (or *functional areas)* – marketing, manufacturing, finance, research and development, human resources and the organizational structure (these areas are affected to varying degrees and in quite different ways by different stakeholders). The impact of these six operating elements on the whole organization is influenced by the organizational structure and the relative power and influence within the firm, thus highlighting the strategic value of functional managers taking a more holistic view of the organization and their role and contribution (Kelly and Kelly, 1987). The McKinsey 7S Framework (Strategy in Action 5.1) offers an alternative approach to these issues.

To audit and evaluate the six operating elements or strategic resources in Figure 5.1, an internal analysis should be a three-stage process:

1. an evaluation of the profile of the principal skills and resources of an organization
2. a comparison of this resource base with the requirements for competitive success in the industry
3. a comparison with competitors to determine the relative strengths and weaknesses and any significant comparative advantage.

As we mentioned in the Introduction, the two key questions for any organization to ask are: Do we possess the resources we need to pursue our goals and ambitions, and to compete effectively? Are we successfully developing these key resources and innovating? There will be a strategic risk of under-achievement and/or below expectation performance if appropriate resources are neither present nor strong enough to support goals and ambitions. Refer to Strategic Reflection 5.1.

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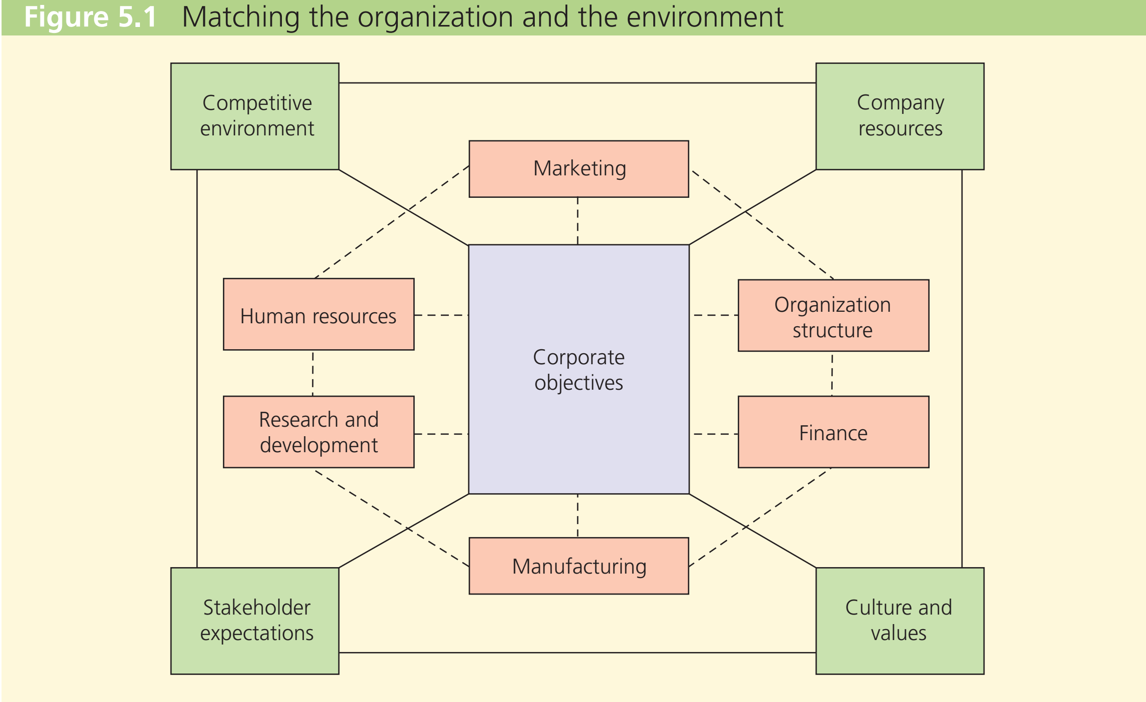
Figure 5.1 Matching the organization and the environment



Based on ideas in Kelly, F.J. and Kelly, H.M. (1987) *What They Really Teach You at the Harvard Business School, Piaktus*

Strategy in Action 5.1 The McKinsey 7S Framework

Created by the global management consultancy, McKinsey, the 7S Framework was designed to help organizations 'check their health' and determine whether they have the resources required to meet their current objectives and their aspirations for the future. It also helps different parts of a complex, multi-activity business to check how well everything is aligned. The consultants credited with the design are Tom Peters and Robert Waterman, who wrote the book *In Search of Excellence* (1982), which was extremely popular at the time.

The relevant seven mutually reinforcing elements are listed below. The first three are described as 'hard' elements and the other four as 'soft' elements. Hard elements are more easily defined and quantified, and presented as, say, strategy statements, strategy maps or organization charts. Soft elements are defined more by the culture and are, consequently, harder to capture; yet, they remain critically significant.

1. Strategy – the intended 'means' and way forward designed to make sure the organization is, and remains, competitive and on course to achieve its targets and objectives
2. Structure – job and reporting roles (*Chapter 14*)
3. Systems – and policies which guide people in respect of what is expected and how it can be done (*Chapter 3*)
4. Shared values – the core values which define the company and which ideally will be recognized, understood and supported; the framework is generally presented with shared values in the centre, binding and integrating the other six elements (*Chapter 7*)
5. Style – of leadership (*Chapter 10*)
6. Staff – capabilities, but taking a macro view which looks for any gaps between required and available resource capabilities (*Chapter 5, Section 5.2*)
7. Skills – and individual competencies (*Chapter 5, Section 5.2*).

Reference

Peters, T.J. and Waterman, R.H. Jr (1982) *In Search of Excellence: Lessons from America's Best Run Companies,* Harper & Row.

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Strategic Reflection 5.1

Think about any organization with which you are familiar – it could be an organization you work (or have worked) for, somewhere you 'know' from, say, your parents, a University Society you support – and think about the following questions:

- Does this organization have adequate technical knowledge and expertise?
- Is it financially robust?
- Does it have sufficient capabilities for organizing and managing what needs to be done?
- Are there obvious leaders?
- Do those involved have effective networks of contacts to obtain expertise when it is required?
- Do you have confidence in the decisions that are taken and implemented?
- Do you feel there is growth capacity?
- Is the organization innovative and entrepreneurial?

It is inevitable that internal managers, when carrying out this analysis, will have some subjective judgement, influenced by their position in the organization. For example, a SWOT analysis of resources must consider them in relative, rather than absolute, terms – that is, whether they are managed, controlled and used effectively as well as efficiently (influenced by control systems, such as production and **financial control**), not purely whether they exist. In addition, the functional areas of the business are considered – that is, where the human, financial and physical resources are deployed. And yet, for example, although a successful marketing manager may seem to represent a strength, if there is no adequate cover for them and they leave or fall ill, it is arguable that the firm has a marketing weakness.

Table 5.1 provides a sample – but not a comprehensive list – of key resource considerations. For example, efficiency measures of the salesforce may include sales per person or sales per region, but salesforce effectiveness relates to their ability to sell the most profitable products, or those products or services that the organization is keen to promote at a particular time, perhaps to reduce a high level of inventory. Other relative strengths and weaknesses relate to competition, marketing, production/operations management (i.e. innovation and quality), human resources management and financial management. In terms of the latter, organizations must control costs so that profit is achieved and value is added to products and services primarily in areas that matter to consumers. While lower costs and **differentiation** are important themes in competitive strategy, they relate to both an awareness of consumer needs and the management of resources to satisfy these needs *effectively* and, where relevant, profitably.

Functional and competitive strategies are important for an understanding of strategic management in all types of organization, and they are especially important for a large proportion of small businesses and many not-for-profit organizations. Corporate strategic changes such as major diversification and acquisition, divestment of business units which are underperforming, or international expansion may not be relevant for small firms with a limited range of products or services and a primarily local market, or for not-for-profit organizations with very specific missions. However, these organizations must compete effectively, operate efficiently and provide their customers and clients with products and services that satisfy their needs; hence, competitive and functional strategies are highly relevant issues. Success depends on understanding and linking with customers, and these points are explored further throughout the remainder of this chapter.

Core competencies and strategic capabilities

Organizations must develop core competencies – distinctive skills which yield competitive advantage and help them meet their key success factors – which ideally: (i) provide access to important market areas or segments, (ii) make a significant contribution to the perceived customer benefits of the product or service, and (iii) prove difficult for competitors to imitate (Prahalad and Hamel, 1990). Once developed, they should be exploited (e.g. Honda's engine design and technology skills have been utilized in different markets and products), but they must be flexible and responsive to changing customer demands and expectations (e.g. Canon's precision mechanics, fibre optics and microelectronics – these are spread across a range of products, including cameras, calculators, printers and photocopiers, and constant product innovation is required).

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Table 5.1 Aspects of the resource audit

Resource/function	Key considerations
Marketing	Products and services: range, brand names and stage in life cycle Patents Strength of salesforce Distribution channels Market information
Operations	Location and plant Capital equipment Capacity Processes Planning and manufacturing systems Quality control Supplies
Research and development	Annual budget Technology support Quality of researchers Record of success and reputation Spending in relation to industry norm
Information	Organizational knowledge and extent of sharing Information systems Problem-solving capabilities and procedures
Finance	Capital structure Working capital Cash flow Costing systems and variances Nature of shareholders Relations with bankers
Human resources	Numbers and qualifications Skills and experience Age profile Labour turnover and absenteeism Flexibility Development and training record and policies Motivation and culture Managerial competencies and capacity

Successful and competitive products and services are manifestations of important, underlying core competencies, of which there are three strands: technologies, processes (or capabilities) and strategic architecture. Different competitors in the same industry may emphasize different key competencies and, while the particular expertise may be different, they all need to be competent in a number of key activities or success factors.

Strategic success is, arguably, based on **strategic capabilities** – processes that enable the company to be an effective competitor. These are capabilities such as distribution networks that achieve both high service levels (effectiveness) and low costs (efficiency), and which cut across whole organizations, rather than being product specific, relying heavily on information systems and technology (Stalk *et al.*, 1992). In many respects, Stalk's capabilities are the processes embedded in Hamel and Prahalad's core competencies, but a valuable distinction can be made between competencies that are largely rooted in technologies and process-based capabilities which, although delivering similar outcomes, are very different conceptually.

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Retailers such as Boots in the UK (which has encompassed high-street department stores, specialist pharmacies and optical retailing) operate a number of different formats, sometimes co-located, capitalizing on their expertise in supply chain, information and service management.

Understanding processes should generate intelligence that can be used to create added or greater value from resources, in order to strengthen or enhance competitiveness, or **stretching resources** (Hamel and Prahalad, 1993), while both core competencies and strategic capabilities must be capable of exploitation and be *appropriable* by the firm, rather than rivals, suppliers or customers (Kay, 1993). Indeed, Kay proposed a three-strand framework for evaluating or auditing strategic resources: (i) *strategic architecture*, internal and external relationships and links; (ii) reputation, including **branding**; and (iii) innovation, by continually improving the organization's products, services and processes, partially in response to competition and partially to drive competitiveness in the industry. For example, M&S's functional competencies and brand technology create both an image and a capability which enable it to trade in clothes, foods, cosmetics, household furnishings and credit. These competencies also bestow on the company the power to demand and obtain from its suppliers, worldwide, both a strict adherence to M&S technological specifications and very keen prices. At this point you might usefully refer back to the section on value networks in Chapter 2 (Presentation 2: Creating value). The important themes in architecture are *internal* – including 'systemic thinking' leading to synergy from the fostering of interdependencies between people, functions and divisions in organizations; and *external* – that is, the establishment of linkages or even alliances between organizations at different stages of the added value chain (Kay, 1993). Successful internal architecture requires that managers think 'organizationally', rather than put themselves first or promote their particular part of the organization to the detriment of other parts. Successful internal architecture also depends on the ability of the divisions or businesses in a conglomerate to support each other, transferring skills, competencies and capabilities, and sometimes sharing common resources. This success, in turn, is partially dependent on the ability of the organization to learn and to share learning; this is affected by the actual portfolio of businesses managed by a corporation, with Goold *et al*. (1994) using the term '**heartland**' to describe that range of businesses to which a corporate head office can add value, rather than see value destroyed through too much complexity and diversity.

Case 5.4 on piano manufacturing in China illustrates these points.

Case 5.4 Piano Manufacturing in China — Int, US, China

Playing, performing and listening to classical music is important in China among the middle and upper classes. YoYo Ma (cello) and Lang Lang (piano) are internationally renowned performers, for example. But instrument manufacture has also grown in significance. In the 1970s, the United States was the dominant force in piano manufacture; Steinway (a US business with factories in the United States and Germany) was the leading name. But Japan was becoming increasingly important (and it would become very powerful in electronic keyboards), as was Korea – but as time went on, their relative costs increased, providing an opportunity for China. China was able to become a low cost, low price competitor. By strategically using key parts imported from the West, it manufactures high quality instruments, although there are many at lower price points, as well. Chinese manufacturer, Pearl River, for example, produces the Essex brand for Steinway. Today, there are just three recognized US manufacturers. Now, also, Western manufacturers buy parts from China and some Eastern European manufacturers are competing at the 'top end'. This case describes two quite different Chinese piano manufacturers.

Pearl River Piano

Pearl River Piano was started in 1956 in Guangzhou, China, and now boasts the largest piano factory in the world, with 3 million square feet of manufacturing in a single location. Pearl River Piano has become the fastest seller in the United States and Canada, with over 300 dealers selling the products. This success, together with the recent development of a new state-of-the-art woodworking facility, has given Pearl River Piano the ability to produce over 100,000 pianos per year which it exports to over 80 countries. This achievement has required heavy investment in both technology and people.

Pearl River pianos feature hardwood rims, sandcast plates and lower tension scales. These are features found in the world's best pianos, such as those produced by Steinway and Bösendorfer. Pearl River Piano was the first Chinese piano manufacturer to market pianos under its own name and to distribute them directly to dealers through opening (in 2000) its own distribution business. The company not only manufactures pianos; Pearl River Piano is one of the world's largest guitar and

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violin manufacturers, as well as selling drums, brass and woodwind instruments around the world.

One of the crucial elements of the success of Pearl River Piano is its strategic alliances with Yamaha (Japan) and Steinway. In 1995, Yamaha formed a joint venture with Pearl River Piano to establish a factory to build Yamaha branded pianos for the Chinese market. This factory is located east of Guangzhou in an economic development zone some 35 miles from the Pearl River Piano factory. In turn, Pearl River Piano produces a line of pianos which Yamaha distributes, and benefits from the exchange of expertise between the two manufacturers. Pearl River Piano also manufactures three designs of pianos for Steinway – a true 'heavyweight' in this industry. Pianos branded Pearl River Piano are not, and do not pretend to be, the best available, but they are good quality and good value for money.

Gibson Guitar and Dongbei Piano

In December 2006, the Gibson Guitar Corporation of America announced that it had acquired 100 per cent ownership of the Dongbei Piano Co. Ltd, another of the largest piano producers in China. Dongbei Piano is based in Yingkou, a city in north-east China's Liaoning Province. Gibson was a much older company; it started out making mandolins in 1902 but has become a leading and world-renowned manufacturer of guitars and other musical equipment. This acquisition was declared an important and significant strategic move for Gibson, which had acquired the US piano maker, Baldwin, a few years earlier. However, inward investment (into China) of this nature is relatively unusual. Dave Berryman, President of Gibson, said: 'As a major producer in the Chinese mainland, Dongbei Piano boasts a great reputation the world over. Gibson will fully bolster Dongbei Piano's development by introducing advanced manufacturing and marketing concepts to upgrade its competitiveness in global markets.'

Dongbei Piano was founded in 1952, shortly ahead of Pearl River Piano, and, prior to the acquisition by Gibson, it employed more than 2,000 workers and produced 30,000 upright pianos and 10,000 grand pianos every year, making it the third largest piano producer in China. It sells its products to more than 20 countries. According to Zhang Daming, General Manager of Dongbei Piano: 'There was little doubt that joining Gibson was the right choice. Cooperation with an industry leader like Gibson greatly enhances our strengths, and we are expecting Dongbei Piano's continued and further success in both the domestic and overseas markets.'

Questions

1 Identify the main elements of the Pearl River Piano strategy and business model.
2 What do you think should now be the tactics of Pearl River Piano going forward?
3 What is the competitive strategy of Gibson?
4 How is Gibson trying to achieve competitive advantage?

The value and constituency of these networks and partnerships may be hard to quantify or even explain, since they owe much to people and to their history. Also, they are relationships which emerge and strengthen over many years and are dependent on personal relations and interactions; as they are difficult to replicate, they are even more powerful. Internal and external networks, then, are built by individuals from all parts and all levels in organizations, based on personal relationships, respect and trust. 'Who you know' matters. These soft skills create valuable social capital. There is, though, an important need to appreciate just which contacts and networks can be helpful in particular circumstances. Knowing who has the knowledge and expertise you need – and how best to approach them – determines their strategic value to the organization. Some small organizations gain real value from appointing certain individuals as non-executive directors. All of this said, networks and relationships are unlikely to thrive without mutual benefit for all concerned. Consequently, architecture can be a vital element of competitive advantage. Some organizations have chosen to **outsource** their manufacturing: Dyson's (Case 5.1) switch to Malaysia to reduce costs; Hornby Hobbies also

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switched production to China but their motivation was the opportunity to devote two labour hours for every one used in the UK (thus producing models of much higher quality and detail at the same total cost without changing its prices, while being highly innovative with new products, e.g. the Eurostar, the Hogwarts Express from the *Harry Potter* stories); Royal Doulton (china and tableware) now focuses on design and marketing, and outsourcing production to Indonesia; and Dr Martens boots and shoes are being made in China.

Buckingham and Coffman (1999) draw attention to the importance of architecture in their delineation of four levels of customer service. Levels 1 (accuracy) and 2 (availability) are relatively easy and generally taken for granted, but are required to win repeat business. Levels 3 (working partnerships) and 4 (provision of advice and support) relate to strategic architecture. Before taking an indepth look at Porter's value chain framework, which helps us to identify valuable differences and manage cost drivers, we next consider two critically important strategic resources – *people* and *information*. These are the key drivers of change and are crucially important in the implementation of chosen strategies. As an introduction to these issues Case 5.5 on Stitch Fix illustrates a business which depends on its people and its information management.

Case 5.5 Stitch Fix — US

When Stitch Fix received a NASDAQ listing in New York in late 2017, the entrepreneur who had started it, Katrina Lake, was the youngest female to accomplish this achievement. Her business had started as a Harvard Business School project seven years earlier. The idea was for a customized box of clothes (including underwear) posted out for a customer to try on at home – people keep what they like and return what doesn't fit or they don't fancy. The service provides, in effect, an online personal shopper. At the time of the listing, there were nearly 6,000 employees, including 340 personal stylists; the business was being valued at US$2 billion.

The concept is simple but complex to implement. Customers input their personal data online, answering questions about their size and measurements, their style preferences, their budget and their desired frequency of box deliveries. Their personal company stylist (who, of course, could be based anywhere and be working from home) selects a set of clothes for each customer, which are collected together and posted out, and then subsequently either bought or returned. The keys to success are the company being able to post out the selected items within a particular time frame and the customer wanting to keep them. Assuming a relationship builds between the stylist and the customer, then both will be learning about the other's tastes and preferences all the time; it is, after all, a collaborative process.

Customers pay a modest charge for the service (on top of the price of the clothes) but there is a greater risk for the business than there is for the customer. Customers invariably want to try on clothes before they commit to buying; here, and unlike online shopping generally, it is the stylist and not the customer who has made the important first decision. Some customers will be very fashion conscious; their tastes will change each year. Others will be more predictable. Some will be motivated by their stylist introducing them to products and designs they would never find for themselves; they will really value the expert advice they receive. Others will be more interested in the option to avoid going into shops – once the stylist understands them then their task is simpler for both parties.

Lake believed that many women genuinely want to buy clothes online because it is convenient, and they also find it challenging (to say the least) to explore the myriad options and opportunities that are available to them from different suppliers and brands. 'There are millions to choose from.' And when someone is looking at an online image, there is no guarantee a particular stated size will fit them; a female 'size 10' in one brand may not be an identical fit to a size 10 from another. Similarly, some men will be comfortable in a slim fit shirt from one manufacturer while needing a regular fit from another. At least, in store, someone has narrowed down their options and they can often 'tell at a glance' whether they might be interested in trying something – even if that means just holding a garment up against themselves and looking in a mirror.

Lake understood the problem that she was addressing; her idea for a solution came from businesses which deliver fresh fruit and vegetable boxes to customers. Her challenge would be in building the business to deliver her aspirations.

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She easily identified over 700 relevant brands, with their various products and size and fit options. She would have to carry significant inventoryas well as establish links with suppliers to obtain clothes quickly – very much the same challenge that Amazon faced when it started selling books online. As well as building a database of customers – and customers who would become 'regulars' and not people who just tried the service once – she would need a database of good stylists. Of course, once established, the business would have international growth potential – and it could readily be extended to male customers – but if successful it would be one that would attract rivalry. Like Lake, any rivals would need to be able to fund the infrastructure, but the idea itself was not one that could be protected.

Her priorities, therefore, included: (i) recruiting people who could make the idea work, people who had relevant experience and shared her vision, and who would commit to an unproven embryonic business run by a first-time entrepreneur with a corporate background; and (ii) attracting sizeable venture capital. How should she pitch the idea? Is this fundamentally a disruptive fashion business, dependent on its ability to read its customers' minds and predict fashion trends, or is it a sophisticated tech company, dependent on its data management? To what extent would backers see it as a business that depended fundamentally on its creative people or one that was dependent on its data management capability? For the business to grow, it would need to generate word-of-mouth recommendations and build a powerful and effective social media presence.

Questions

1. Research the business online and track its development. Use this research to help answer the question about pitching the business in the last paragraph. How many serious rivals can you identify?
2. In the context of rivalry, how might any organization adopting this basic business model differentiate itself and stand out in a way that is valuable for customers? Are you thinking more about: styles and ranges, product quality, service quality, pricing strategy? Or something else?
3. If you engaged a personal stylist, what would you want to say about yourself that would help them to 'create a personal playlist' for you?

5.2 People as a strategic resource

Human resource strategies: The 'people contribution'

In Chapter 1, we explained that understanding strategy demands that we can describe **who does what**, **why** and **how**. Figure 5.2 illustrates the underpinning themes to this aspect. The key point is that strategy in action, strategy in reality – rather than strategy on paper – is about people. What they decide and what they do, why and how. If we refer back to Figure 3.3, we can see an argument that essentially happy employees lead to happy customers and in turn successful organizations. In this chapter, we expand this point in the context of **empowerment**, to which we also return later when we discuss **servant leadership** in Chapter 10. Policies (Key Terms 3.1), together with practices, procedures and reward structures (discussed in this chapter) are important variables, but what really counts is what goes on. If people are to lead and implement change - particularly relevant in intrapreneurship (Chapter 10) - they must possess **agency**. They must be responsible for, and have control over, their actions, and be accountable for the outcomes and their consequences.

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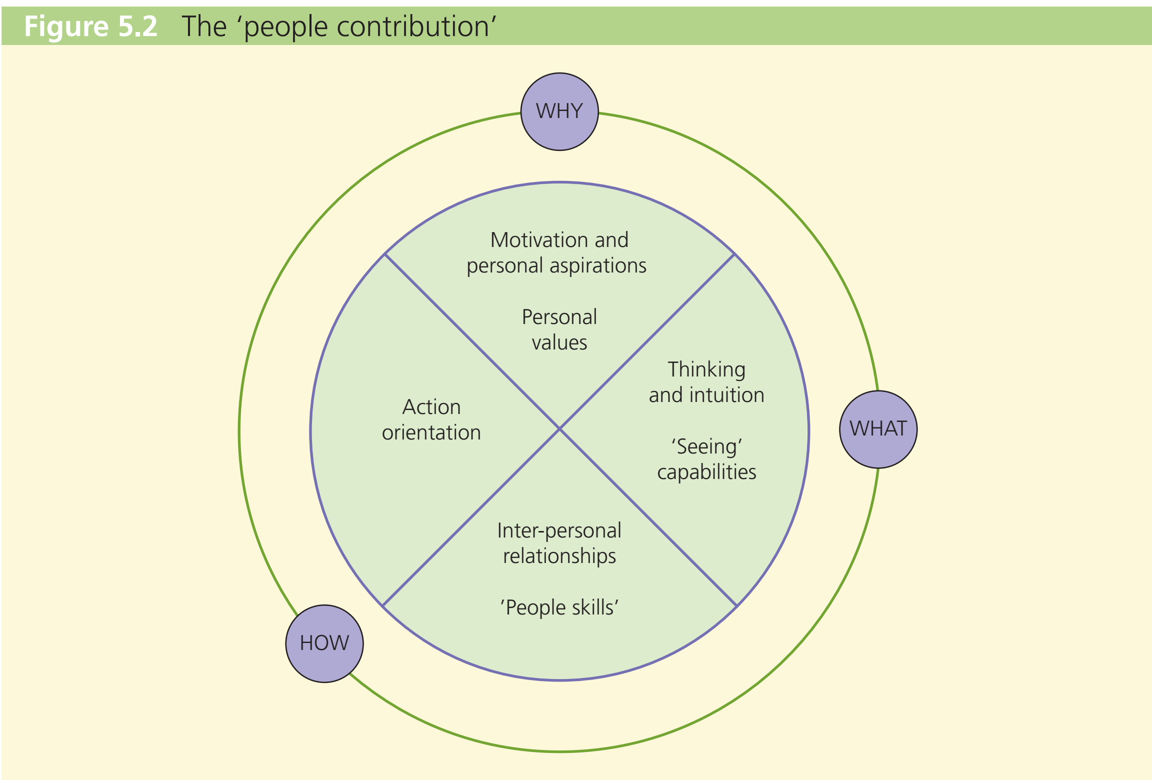
Figure 5.2 The 'people contribution'



To meet the needs and expectations of their customers more effectively than their competitors and to generate acceptable financial returns, successful organizations need to attract, motivate, develop, reward and (in lean periods) retain skilled and competent managers and other employees. Such employees are critically important strategic resources who can create and implement strategic changes in a supportive culture in which they share the values of the organization. Although technology and IT can make a major strategic impact, it is people who exploit their potential, and managers and employees who are needed to implement strategies must be committed to the organization and must work together well. At the same time, where an organization is decentralized and operating in a turbulent environment, the strategic leader will rely on people to spot opportunities and threats, to adapt and create new strategies. Consequently, it is people who ultimately determine whether or not competitive advantage is created and sustained. Adding new value with innovation, they can be an opportunity and a source of competitive advantage. Equally, unenthusiastic, uncommitted, untrained employees can act as a constraint. People's capabilities are infinite and resourceful in the appropriate organizational climate. The basic test of their value concerns how much they – and their contribution – would be missed if they left or, possibly worse, left and joined a competitor, and could take customers with them and not be easily replaced. Achieving the highest level of outcomes that people are capable of producing will, therefore, depend on the human resource practices adopted by the organization. One issue here is whether the business is being driven by a small number of identifiable, key decision-makers or by the employees collectively. Case 5.6 (Ricardo Semler and Semco) illustrates an unusual approach to people management in a Brazilian family business. This case is also relevant for Chapter 7.

To bring out the best in people, they have to be managed well, which requires leadership. For example, in an orchestra every member (manager or employee) is a specialist, with some making a unique contribution. This, on occasions, can take the form of a solo performance, but all the contributions must be synthesized to create harmony (synergy), which is the role of the conductor (strategic leader). A single musician (weak link) can destroy a performance, since a chain is only as strong as its weakest link.

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Case 5.6 Ricardo Semler and Semco — Brazil

Ricardo Semler was just 21 years old when he took over as chief executive of his family's business, Semco. This (relatively small at the time) Brazilian company grew to manufacture pumps, food mixers, meat-slicing equipment and dishwashers. Brazil was and still is a country characterized by high inflation and a massive relative wealth gap between the rich and the poor. His father believed that, if he handed over the reins when Ricardo was still young, he could make his mistakes while he (his father) was still around to fix them! His father had run the business along traditional and autocratic lines. Ricardo was to change everything, and the company would thrive and prosper.

Although he has an MBA from Harvard, Ricardo Semler's stated business philosophy is: 'follow your intuition'. He inherited a company where people did not want to come to work, and managers watched everything and everybody constantly, 'trusting nobody'. He transformed it into one which was 'ultimately democratic' and based on 'freedom, respect, trust and commitment'. Things did not happen instantaneously; many new approaches and experimental methods were tried and abandoned. However, in a ten-year period from the mid-1980s, Semco achieved 900 per cent growth.

Ricardo's approach was not to have a reception area, no secretaries and no offices. Managers walked around constantly to provide help and assistance when requested; the workers organized their own flexible working time arrangements. Employees worked in small clusters, and they could also rearrange their working space and environment as they wished. Semco came to believe that clusters of no more than ten were required, if this approach was to work effectively. Twelve layers of a management and supervisory hierarchy were reduced to three. The appointment of any manager had to be approved by the workforce, and managers were subjected to regular assessment by their subordinates and shop-floor employees. People talked openly and 'when someone said they would do something, they did it'. Consequently, managers also felt that they could spend time away from the plant, with customers and suppliers.

Profit sharing was by consultation and negotiation – 23 per cent of after-tax profits was available for the workforce – and all employees were trained to ensure that they could read the company accounts. Eventually there was no longer a formal chief executive post for Ricardo, who became 'President'. Instead, there was an informal board of six associates (the most senior managers) who elected a nominal chief executive for a six-month period. Ricardo sometimes attended their meetings as an adviser. Much of his achievement had been about demonstrating what was possible and what could work when employees (at all levels) 'bought in'. Continued success would then come down to them and whether they truly shared the same values.

Ricardo later took his ideas further, encouraging employees to consider starting up satellite supply companies and subcontracting for Semco. Those who opted for this entrepreneurial route have been allowed to take Semco machines with them, leasing them on favourable terms. One advantage for Semco was the fact that it was no longer responsible for the maintenance and safety of the equipment. In addition, there was an opportunity for the machinery to be used more effectively, as the satellite companies were free to work for other organizations; their efficiency gains could be passed through in the form of lower prices. If the venture failed, Semco could always take back the equipment and the people. It was a relatively low and managed risk for all concerned.

Semco continued to thrive; what had been a 90-employee business when Ricardo took over was employing 3,000 people in a more diversified organization. Semler himself opted to remain at a relative distance from strategic decisions – and ultimately a decision was made to withdraw from various manufacturing activities. Ricardo was interested in testing out his ideas in different types of organization. He started a school, a luxury hotel and a consultancy business in which he remained active – all run on similar democratic principles, which, it has to be said, remained unusual for Brazil.

Ricardo Semler has not been a man who has hidden his achievements! He has written the story of his role at Semco with the title *Maverick*. He became a recognized member of the management guru circuit around the world. He has also campaigned against corruption in Brazil, and he has exposed government officials who have been demanding bribes for domestic planning permission. As a result, he has generated hostility from certain prominent people in his country.

'Successful companies will be the ones that put quality of life first. Do this and the rest – quality of product, productivity of workers, profits for all – will follow.'

Ricardo Semler

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Questions

1. A 'maverick' is defined as someone who is unorthodox and independent minded. Is Ricardo Semler really a 'maverick'?
2. Do you believe such changes are sustainable: (i) in general terms and (ii) in a country such as Brazil?
3. Using the internet, has the smaller and more focused Semco stayed 'maverick', or has it returned to more traditional values?

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A successful organization, therefore, needs people with appropriate skills and competencies who can work together effectively, who must be committed, competent, cost-effective, and who must be in sympathy with the aims of the organization. At this point, it is worth reflecting on how organizations have changed – and often have had to change – to cope with the demands and challenges of the 'new normal' business environment. More employees are on fractional contracts than has typically been the case in the past; many have what are called 'portfolio careers' and work (part-time) for more than one employer. Some of these portfolio-career employees may well be self-employed and simply commit a number of hours or days every week to an organization. In addition, 'zero-hours contracts' are popular with some employers – if not their employees. Under such contracts, people are not guaranteed any fixed number of hours of work in any week or month, but rather are offered work when there is a need to be met. While these may result in a relatively consistent pattern, they provide employers with an opportunity to reduce hours easily if demand is fluctuating or uncertain. With these types of development, we could question whether the challenge of maintaining commitment and loyalty is a growing challenge.

Where people grow, profits grow.

Dr Alex Krauer, when Chairman and Managing Director, Ciba-Geigy

There are two recognized approaches to human resource management: the 'hard' approach (**centralization** for control) and the 'soft' approach (**decentralization** for greater empowerment), which imply contrasting styles, but they can both be appropriate in certain circumstances. Indeed, companies can be hard on certain aspects and soft on others. When times are difficult and a company must rationalize and downsize, a hard approach may prove to be appropriate for driving through the changes quickly, whereas a softer, more empowered style may be required to rejuvenate the company and bring new sources of competitive advantage. This can be cross-referenced to McGregor's (1960) Theory 'X' and Theory 'Y' styles.

Soft human resource management argues that people are different from other resources (and, often, more costly) but they can create added value and sustainable competitive advantage from the other resources and, therefore, this approach places greater emphasis on control through review and evaluation of outcomes, such that employees are led rather than managed. Empowerment means freeing employees from instructions and controls, and allowing them to take decisions themselves. As empowerment is increased, employees must be adequately informed and knowledgeable, must be motivated to exercise power, and must be rewarded for successful outcomes. In flatter organization structures, there are fewer opportunities for promotion. For many organizations, empowerment implies that the core organization strategies are decided centrally, with individual managers delegated a discretionary layer around the core (as shown in Figure 5.3). It is crucial, first, to find the right balance between the core and discretionary elements; second, to ensure that managers support and own the core strategy. With extensive empowerment can come the notion of an inverted pyramid structure, with leaders focusing on a nurturing, supporting, mentoring style (Figure 5.4). This has been described as 'servant leadership' by, for example, Greenleaf (1998).

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Figure 5.3 Manager's discretionary layer

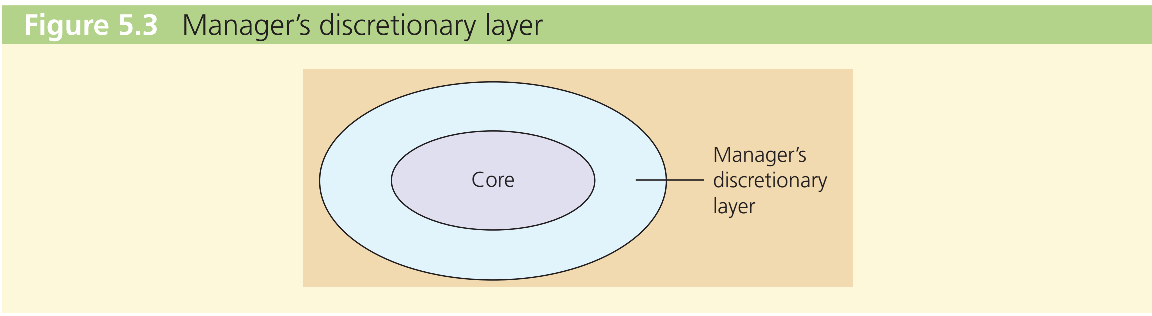
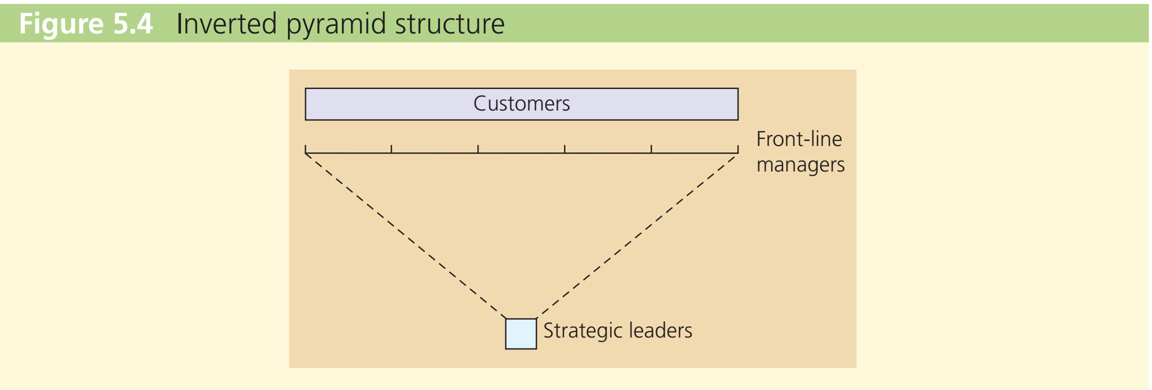


Figure 5.4 Inverted pyramid structure



The deciding factors are:

- competitive strategies and the relative importance of close linkages with customers in order to differentiate and provide high levels of service
- putting the 'right' people in place and ensuring that they are able to do their job, which they understand and own, and making them feel important
- the extent to which the environment is turbulent and decisions are varied, rather than routine
- the expectations and preferences of managers and employees, and their ability and willingness to accept responsibility, with a coaching style of management
- linking in monitoring systems together with rewards and sanctions.

Finally, resources must be made available to support those who will embrace empowerment.

Some companies seek to develop their employees and managers, invariably promoting from within, and a strong culture and vision should foster both commitment and continuous, emergent change – with necessary new competencies being *learned* – and team-working and networking likely to be prominent. The challenge for companies growing from within is that they need to become and stay very aware strategically if they are to remain ahead of their rivals; they will actively benchmark and look for new ideas that may be helpful. Other organizations prefer to search for the best people who may be available and willingly recruit outsiders by *buying in* the new competencies they require. But people may feel less committed to such organizations in the long term, hence the inevitable greater reliance on individualism and individual contributions. Indeed, if the competencies are available and can be bought by any competitor, how can they ensure that they find the best ideas and people, and how can they generate some unique competency and competitive advantage?

Some companies will look to do both to find an appropriate balance – for example, a leading football club which buys expensive, talented players in the transfer market, while simultaneously nurturing young players. Also, experienced players may not fit in at a new club and, when several arrive at once, it can be very disruptive until they are moulded into an effective team.

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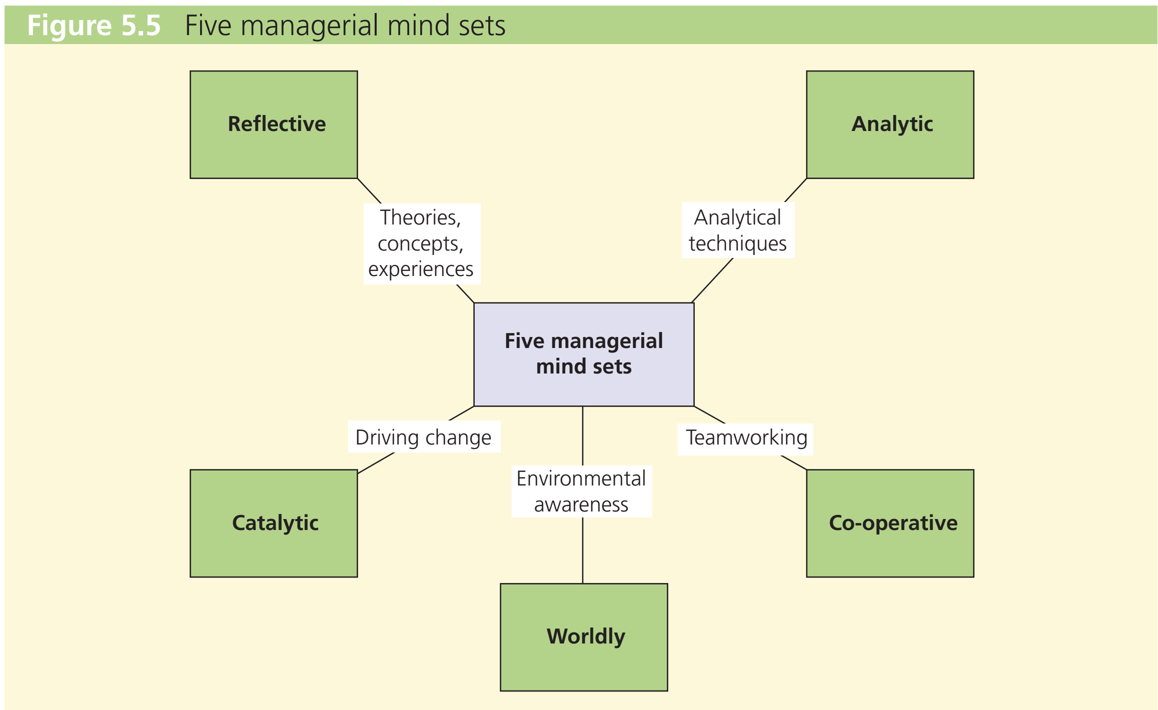
Companies may either compete by moving quickly, perhaps by necessity, responding speedily to new opportunities, typically finding it more appropriate to recruit from outside; or they may develop a more sustainable advantage in a long-standing market, a strong internal and external architecture and new competencies internally, which may make them too slow to gain early advantage from new opportunities (Capelli and Crocker-Hefter, 1995). In general, industries and markets are becoming more dynamic and turbulent, demanding that companies develop new product and market niche opportunities – thus implying an increasing reliance on recruiting strong, competent people from outside. In turn, this means that internal relationships and the culture may be under constant pressure to change. Companies are recruiting and rewarding individual experts; at the same time, synergistic opportunities demand strong internal architecture and co-operation. Those that succeed in establishing a strong, cohesive and motivating culture while developing new competencies flexibly and quickly are likely to be the future high performers. Reinforcing points from other chapters, this demands effective strategic leadership and a shared, understood vision for the organization. The extent to which an organization can become a '**learning organization**', discussed later in this chapter, is of great significance.

Empowerment and 'learning organizations' are both instrumental themes in promoting effectuation and emergent strategy creation.

Figure 5.5 repackages the notion of manager competency in the form of five distinct mind sets – all of which managers, to different degrees, will and must possess. Some managers may be extremely competent in certain areas, but their profile, approach and style may not be appropriate for the demands placed on them, and they may find it difficult to find time to think, reflect and challenge. Short-termism and 'more-of-the-same' can all too readily be the result. Critical Reflection 5.1 then explores the notions of mindsets appropriate for today's 'post-pandemic new normal'.

Figure 5.5 Five managerial mind sets



Because these questions are complex, some organizations will adopt and build human resource practices that help to create and sustain a competitive advantage that is peculiar to that organization's environmental matching challenge. Such organizations enjoy strong E–V–R congruence, and the competitive value of their competencies lies in the general approach being transferable, but the specifics are not.

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Critical Reflection 5.1 Mindsets in a Post-COVID 'New Normal'

Commentators began to speculate in 2020 about organizations and the challenges they might/would face after lockdowns ended and demand surged, as people dealt with new opportunities in a world where some businesses had disappeared, while new ones would be starting up. Certain products/brands would no longer be available; alternatives would replace them. Some employees would be redeployed. Operations, work patterns and habits would be different. Productivity would be 'high on the agenda'. Speed and flexibility would certainly be important competitive themes. New forms of team working, new structures and new styles of leadership were likely to emerge as everyone learned how to deal with the new 'new normal'.

In and among the various ideas, relevant themes were that:

1. Curiosity would be essential to deal with the speed and magnitude of change.
2. Experimentation and a focus on trial-and-error *(particularly cross-referenced in this book in sections on 'effectuation' and 'lean manufacturing')* would be vital as new ideas were tested and modified.
3. It would no longer be appropriate for people to 'believe they had all the answers' because perhaps nobody does, as a new world with changed values is emerging. It was being realized, for example, that young people view environmental and sustainability issues differently from many of their elders, and it is their views (with the consequences these will have, given that 'everything comes with a cost') that will become more prominent over time and require considerable thought.
4. The entrepreneurial trait of 'tolerating ambiguity' would, therefore, be valuable; people might well have to be more accepting of imperfection in an uncertain world.
5. Considerable attention would need to be given to 'what happens in real time', rather than what might have been expected or predicted. Uncertainty is ubiquitous. An entrepreneurial mindset – together with an open mind – would be valuable.
6. The ability to use a variety of lenses and adopt new perspectives would be similarly valuable; it would be essential to accept that people are changing all the time; and their priorities, motives and aspirations would be different. That said, people would need to be flexible and open-minded.
7. Sharing ideas across industries would make sense, in the search for novel solutions to problems. For example, mining corporation Rio Tinto, experiencing major problems with changing tyres in huge trucks in the remote outback of Australia, sought ideas from Formula One.

As Simon (1969) claimed, 'solving a problem simply means representing it so as to make the solution transparent'.

Story telling (perhaps using social media and other similar forms of dissemination) would thus be more relevant.

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Organizations, then, need the appropriate people with the required and desired competencies, and/or the potential for growth and development, if they are to foster effective emergent strategy. Such people require clear objectives to give them both direction and performance yardsticks. These should be backed by training and development opportunities, with outcomes which should be measured, performance reviewed and rewarded as appropriate, leading to action against underperformance or failure where appropriate. Organizational success and performance are affected by the congruence between the objectives of managers and those of their subordinates, such that the organization can only accomplish its objectives if those managers and subordinates are supportive of each other and of the organization (Hersey and Blanchard, 1982). Moreover, people need objectives to direct their efforts, or they will create their own (McGregor, 1960), whereas managers are oriented towards economic goals and see profit as being important (Schein, 1983). Personal objectives are likely to be allowed greater freedom if managers are not given clear objectives; objectives pursued by managers are likely

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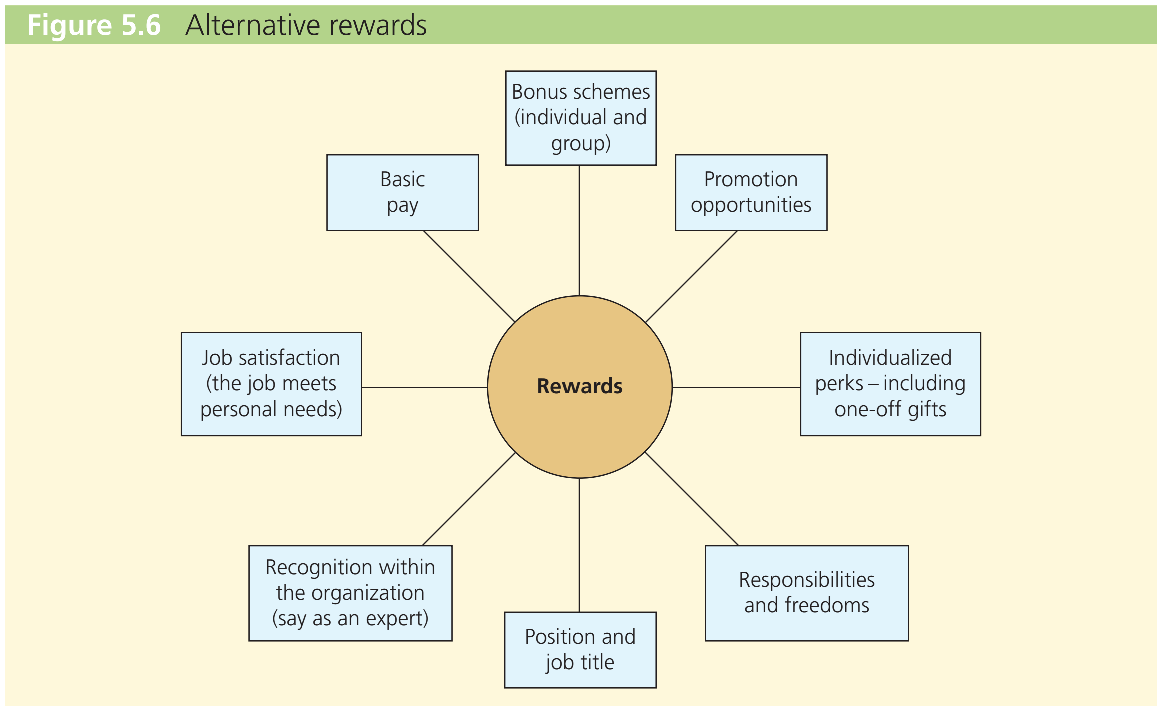
to be dependent on personal motives, their understanding and perception of what the strategic leader and their colleagues expect them to contribute, and the organizational culture (Porter *et al*., 1975). This can lead to situations such as when, in recent years, bankers and investment traders took high levels of risk to generate profit and personal rewards. Figure 5.6 summarizes an array of different ways of rewarding people.

Figure 5.6 Alternative rewards



At times, a number of organizations – including (as pioneers) BP, WH Smith and Federal Express – have experimented with formalized upwards and sideways feedback, as well as manager/subordinate appraisal. This is sometimes called '360 degree appraisal'. Although not easy to implement successfully, as these companies have all found, such systems can be very useful for increasing managers' awareness concerning their style and effectiveness. Any performance evaluation systems which influence or determine rewards should be open and fair, and be perceived as such.

Rewards depend on the success of the organization as a whole, as well as individual contributions to that success. Employees at the so-called grassroots level are likely to know the details of the business and what really happens better than their superiors and managers. If they are involved and encouraged to contribute their ideas for improvements, the result can be innovation or quality improvement. Moreover, if managers and other employees are to make effective strategic contributions, it is important that they feel motivated. This can be felt in achievement, recognition, promotion, interesting work and responsibility (Hertzberg, 1968). The need for achievement, power and close or friendly working relationships can be manifested, say, by not working in isolation (McClelland and Winter, 1971). When organizations are **downsizing**, and people are being made redundant, it is both essential and difficult to maintain the commitment of those remaining. They are the people on whom new competitive advantages will depend, without which the company cannot successfully rejuvenate. Indeed, research by Roffey Park Management Centre (1995) established that, while there is considerable enthusiasm among authors, consultants and senior managers for team-working, empowerment and flexibility, many employees remain 'cynical, overworked, insecure and despondent' about the impact of flatter organization structures and the consequent reduction in promotion prospects. Employees frequently perceive **delayering** to be a cost-cutting exercise which actually reduces morale. When such rationalization is essential – and it often is – the real challenge comes afterwards, in encouraging the

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remaining managers to look for innovative new ways of adding value and to take risks, albeit limited and measured risks; reinforcing the importance of the most appropriate reward systems; and involving, managing and leading people to achieve superior levels of performance.

Furthermore, succession problems can concern both strategic leadership and managerial positions throughout the organization. For example, small firms, whose growth and success have been dependent on the founder, often experience problems when the founder retires, especially where there has been a failure to develop a ready-made successor. Similarly, some very large organizations also experience problems when particularly charismatic and influential strategic leaders resign or retire; subsequently, there may be unsuccessful changes to the strategy and/or culture. Succession problems are evident with key people in any specialism and at any level of the organization.

Both formal and informal teams exist within organizations. Formal teams may comprise sections or departments of people who work directly together on a continuous basis and in pursuit of particular specified objectives, and teams of senior managers who meet on a regular basis with an agreed agenda. Informal teams may comprise managers from different departments, or even divisions, who agree informally to meet to discuss and deal with a particular issue, or who are charged with forming a temporary group to handle an organization-wide problem. In both cases, relationships determine effectiveness; all members should contribute and support each other, with synergy resulting from their interactions, as opposed to simply being a group of people put together in a meeting. Of course, people working from home in 2020–21 and constantly 'meeting' other people on Zoom and Microsoft Teams (thankfully not McTeams) calls, rather than in person, affected team effectiveness in both positive and negative ways. Some people thrived; others became distracted. Fortunately, technology 'stepped up to the plate' and enabled new ways of working to develop.

A successful team needs shared and agreed objectives, a working language or effective communications, and the ability to manage both the tasks and the relationships. Individual contributions to the overall team effort are determined by personal growth needs (for achievement and personal development) and social needs – that is, perceived benefits from working with others to complete tasks, rather than working alone (Cummings, 1981). A good team of people will have complementary strengths and weaknesses. These may relate to the provision of ideas, leadership, the resolution of conflict, the gathering and analyzing of data and information, carrying out certain detailed work, organizing people to make their most useful contributions and developing relationships within the group. These complementary strengths and weaknesses will enable a team to perform a series of necessary and related tasks (Belbin, 1981), with the strategic leader and their team of senior or departmental managers considering these, dealing with missing areas and seeking to develop the team into an effective and cohesive unit.

The 'learning organization'

Building strong, cohesive and integrated teams suggests small groups of employees, and yet the same themes can be scaled up to the whole organization, such that where the parts can be integrated effectively, share with each other and learn from each other strategically and synergistically in a 'learning organization', a self-reinforcing process develops in which managers objectively review their progress (Senge, 1991). This is shown in Figure 5.7. The basic arguments concerning learning organizations are as follows:

- When quality, technology and product/service variety are all becoming widely available at relatively low cost, speed of change is essential for sustained competitive advantage.
- If an organization, therefore, fails to keep up with, or ahead of, the rate of change in its environment, it will either be destroyed by stronger competitors, or lapse into sudden death or slow decline. The ideal is to be marginally ahead of competitors – opening up too wide a gap could unsettle customers.
- An organization can only adapt if it is first able to learn, and this learning must be cross-functional, as well as specialist.

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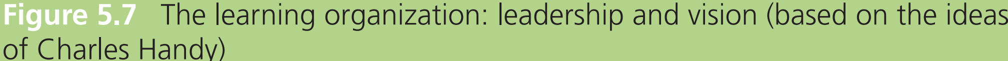
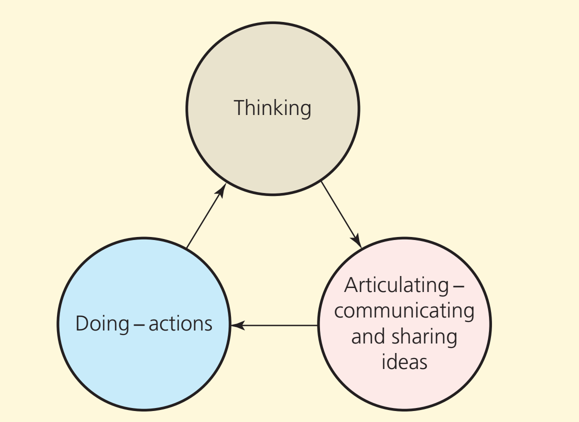


Figure 5.7 The learning organization: leadership and vision (based on the ideas of Charles Handy)



> *Hence a learning organization encourages continuous learning and knowledge generation at all levels, has processes which can move knowledge around the organization easily to where it is needed, and can translate that knowledge quickly into changes in the way the organization acts, both internally and externally.*
>
> Senge, 1991

Strategically important information, together with lessons and best practice, will thus be circulated and ideally protected from competitors.

The essential requirements are:

- Systemic thinking, such that decision-makers will be able to use the perspective of the whole organization – and there will be significant environmental awareness and internal co-operation; for many organizations, the systemic perspective will be widened to incorporate collaboration and **strategic alliances** with other organizations in the added value chain.
- Management development and personal growth – to enable effective empowerment and leadership throughout the organization and, in turn, allow managers to respond to perceived environmental changes and opportunities.
- A shared vision and clarity about both core competencies and key success factors; changes should be consistent through strategic and operational levels.
- Appropriate values and corporate culture – to exploit core competencies fully and satisfy key success factors.
- A commitment to customer service, quality and continuous improvement.
- An appropriate culture – one which is capable of constant adaptation as the needs of customers, shareholders and employees change (Kotter and Heskett, 1992).
- Team-learning within the organization through problem-sharing and discussion.

These points have been used to develop the matrix presented in Figure 5.8, which draws together a number of issues discussed in this chapter and relates them to key issues of change management.

Case 5.7 looks at the attributes of a learning organization in the context of Team New Zealand, the relatively small team of sailors who took the America's Cup from the United States. Creating a learning organization in a large company is no easy task, but, if achieved to some creditable degree, there are likely to be substantial benefits. This case illustrates a situation where people, design and technology together determine success. It also shows that one outstanding and successful individual can engineer improvement in a team but not necessarily guarantee the same level of team performance when they join a new team.

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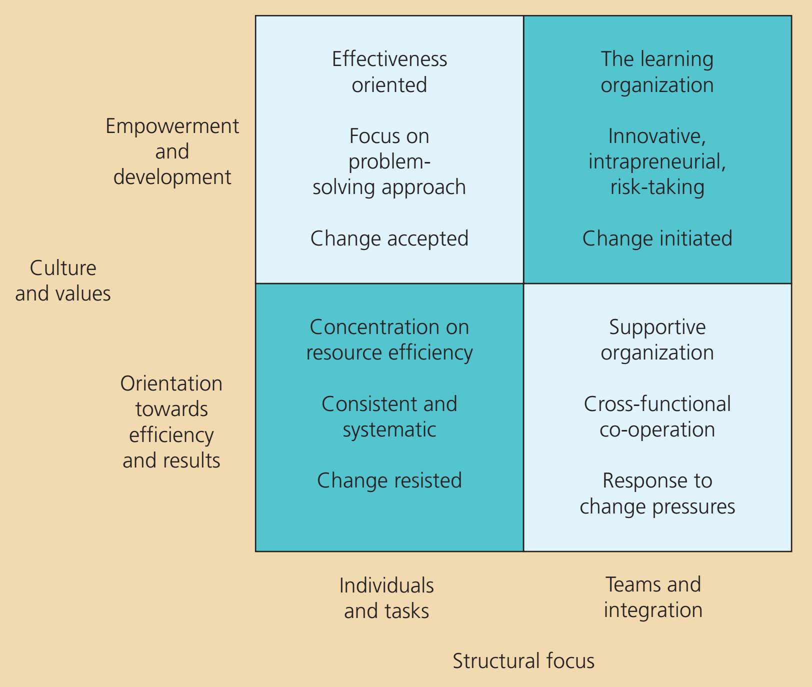
Figure 5.8 Learning organizations



Case 5.7 Team New Zealand — NZ

The America's Cup series of yacht races, between the current holder and a pre-selected challenger, lasts over several weeks and requires considerable preparation and dedication. When New Zealand won in 1995, it was only the second time a team from outside the United States had won in 144 years – the first being Australia, in 1985. Moreover, in the final races New Zealand won 41 races and lost just 1, an incredible margin of victory. The team had 'continually expanded its ability to create its destiny'. There had been a driving vision throughout the preparation and the race series: 'to build, modify and sail the fastest boat on any given day'. This vision had brought together the (technical) designers with the sailors, and had created synergy where often there is conflict. The designers were working within parameters and protocols that acted as constraints and change all the time – these applied to every competitor and effectively set the rules of competition. The changes affected the cost of competing and therefore dictated the extent of corporate sponsorship that would be required. Their respective perspectives were, quite simply, different. Team New Zealand was successful in defending the trophy in 2000, but then events would take an unexpected turn.

There are 17 sailors on board an America's Cup boat. The skipper has overall responsibility and is the leader while the team is at sea. They rely on their tactician (who keeps the boat on course which, in racing conditions, involves risk and judgement) and navigator (who looks after the sophisticated electronic tracking instrumentation). A helmsperson drives the boat and a strategist monitors the slightest changes of wind speed and direction. Decisions to alter course or rigging are often made very quickly and they need implementing instantaneously. There are then 11 sailors with specific roles mainly related to the deployment of the huge sails. The 17th person is really something of a spectator and is often a team sponsor.

Several factors, all characteristic of a successful learning organization, have been put forward as important contributors to the success of Team New Zealand in 1995 and 2000: an inspirational leader, a strong sense of community, open communications, a

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sustained record of improvement, strong commitment and a carefully selected team.

There was an *inspirational leader* in the form of Sir Peter Blake who, while an experienced sailor, was not the skipper of the actual crew. Neither was he an experienced boat designer. Blake, really an enabler, convinced everyone that winning was possible, and he then made sure that happened. The skipper was Russell Coutts. Blake had built his reputation as a round-the-world challenge sailor and he has been described as a 'meticulous planner and gifted leader who inspired loyalty'. Coutts, aged 33 in 1995, was an Olympic gold medallist for sailing (in 1984) and a previous winner of many leading races. He was obsessive about detail and technically very skilled. Blake and Coutts became a formidable partnership who provided leadership onshore and at sea.

There was a *strong sense of community* in the team. Blake was visible in driving this, leading from the front. He ensured that the designers were not allowed to drive the agenda without challenge from the sailors.

Open communications were sponsored, in the form of free-flowing ideas. No hidden or undeclared agendas were permitted. Resources had to be shared. Blake held meetings between the designers and sailors at regular intervals during the build-up period and ran them without ceremony or hierarchy. He encouraged people to be creative in their search for different and unusual answers to problems and issues. It was noted that the secretary at one meeting felt comfortable contributing an idea that turned out to be really valuable.

There was a *sustained record of improvement* in product design and racing skills right through to the end of the race series. Team New Zealand did not stop searching for improvements even when they were winning every race! They built on their successes to reinforce their advantage. There was a willingness by the sailors to accept design modifications if they made the boat go faster, even where it made their task of sailing it more difficult or uncomfortable. During the pre-race trials, Team New Zealand sailed two identical boats, rather than two different designs in competition. Their choice of design had been made by simulation. Because the two boats began as identical, any successful modifications to the design of one could be copied by the team sailing the other. As a result, considerable emphasis was placed on improving sailing skills as well.

There was clear evidence of a very *strong commitment* by the individual team members, who were convinced that winning the America's Cup mattered immensely to the whole country, which was drawn behind the team in a positive and supportive way.

The *team* was *carefully selected* to ensure that they were people who would 'own' what they were taking on. They needed to have individual sailing skills and experience, but they had to be able to interact well with others. They also had to demonstrate they were able to handle disappointment and quickly put it behind them. Outstanding individuals who may be reluctant team players, however good they were personally, were rejected by Blake, who built his team around the tasks. (Interestingly, and in contrast, it sometimes appears that certain footballers are selected for the England football team because of their individual skills, and then asked to play out of position. Right-footed players play on the left of the field, for example, and then do not play to their potential.)

Could this successful combination defend the America's Cup for a second time in 2003 and make it three in a row? After the victory in 2000, both Russell Coutts and tactician Brad Butterworth 'defected' to Alinghi, a team bankrolled by Swiss billionaire and yachting fanatic Ernesto Bertarelli, who would sail as the navigator. A disagreement and falling out with the non-sailing directors of Team New Zealand was given as the reason by Coutts. The final Alinghi team for 2003 would include seven New Zealanders and just two Swiss sailors. Its successful challenge was devastating for New Zealanders, as really it was the core of the previous winning teams that won the America's Cup for the third time in a row – but, this time, not for New Zealand. Blake, unfortunately, was unable to contribute to either team. In December 2001, he was shot on board his boat by people described as pirates while sailing up the Brazilian Amazon.

Alinghi would go on to defend the Cup successfully in Europe. Coutts left Alinghi in 2004, and he was replaced by Brad Butterworth. In 2007, Alinghi again defeated Team New Zealand (but only by the narrowest of margins in the final deciding race). Coutts was later recruited by Larry Ellison, a co-founder of Oracle, entrepreneur and racing enthusiast, to lead his Oracle team in a serious US bid for the 2010 America's Cup – and they were successful. Subsequently, Oracle recruited Ben Ainslie, the outstandingly successful British Olympic sailor. In the 2013 final against Team New Zealand, Ainslie was not selected to sail in the early races. Only when defeat looked inevitable was he brought in as replacement tactician. Oracle went

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on to win. Ainslie, credited with achieving this success, subsequently left to develop a new UK team, with substantial sponsorship from Ineos. This new UK team was unable to make the final races in either 2017 or 2021. Team New Zealand won back the Cup in 2017 and then defended it successfully against Italy in 2021 in then zero-COVID Auckland.

Questions

1. Do you agree that Team New Zealand met the criteria to be called a learning organization?
2. How important do you think individuals are in building such a team?
3. How significant is it that their behaviour is transferable?
4. Ultimately, how reliant is a team on its leader, and why is it that while strong, effective leaders can sometimes move and build new winning teams this will not always be the case?

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5.3 Information and information technology

The strategic value of information

People make decisions, with information being the fuel they use in decision-making and an important source of competitive advantage in certain circumstances. It must be stressed that information technology (IT), *per se*, is rarely a source of advantage, but information management can be. We have already seen elements of how information and technology have affected development in the retail industry. Supermarkets use till sales records to track customer behaviour, which they follow up with special offers. In some supermarkets customers can use hand-held devices and scan their items as they pick them off the shelves. In this section, we define 'information' and how it may be exploited. Organizations and individuals use information (captured from various sources, including network contacts and past experiences) in their learning to help them make sense of the 'new normal' world. The organizational information challenge is to capture the knowledge held by those who work there.

Information has been defined as 'some tangible or intangible entity that reduces uncertainty about a state or event' (Lucas, 1976), such that information increases knowledge in a particular situation and, when received, some degree of order can be imposed on a previously less well-ordered situation. The more information managers and other employees have about what is happening in the organization and in its environment, the more strategically aware they are likely to be – with information about other functional areas and business units being particularly helpful. But they have to be able to make sense of it.

Ackoff (1967), however, suggested that management information systems can easily be based on three erroneous assumptions:

- Managers are short of information and may have too much irrelevant information.
- Managers know the information they require for a decision but they play safe and ask for all information which could be relevant, thereby contributing to the over-abundance of irrelevant information.
- If a manager is provided with the information required for a decision, he/she will have no further problem in using it effectively. How information is used depends on perceptions of the issues involved. If any additional quantitative analysis or interpretation is required, many managers are weak in these skills.

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While the right information available at the right time can be extremely useful, the real value of information relates to how it is used by decision-makers, particularly for generating and evaluating alternative possible courses of action. In designing and introducing IT and management information systems into organizations, the likely reaction of people and the potential benefits that can accrue from having more up-to-date and accurate information available are important. Information gathering should never become an end in itself; the expertise and experience in people's heads can be more useful than facts on paper.

Moreover, it is important to evaluate who actually needs the information – rather than who may find it useful for increasing awareness – and to ensure that those people receive it. Although information technology and information systems can be expensive to introduce, those organizations that receive information, analyze and distribute it to the appropriate decision-makers more quickly than their competitors can achieve a competitive edge, particularly in a turbulent environment. Hence, the structure and culture of the organization should ensure that managers who need information receive it, and at the right time. However, it can also reduce decision-making effectiveness if potentially useful information is withheld, either negligently or deliberately, by political managers pursuing personal objectives.

Information is used through a filter of experience and judgement in decision-making, and its relative value varies between one decision-maker and another. Information may be accurate, reliable and up-to-date to some, but to others it may already be biased due to being someone's subjective interpretation of a situation. Some managers, perhaps those who are less experienced, will rely more heavily on specific information than others; for some, experience, general awareness and insight into the situation are more important.

To complicate matters further, Day (1996) argues that organizations do not know what they know, being awash with data that do not get translated into valuable information and, hence, real organizational knowledge. They also fail to realize the value of some of the information that some people in the organization possess. Consequently, they also do not know what they do not know. They thus remain unaware of certain opportunities (or perhaps certain threats) that others will seize on that they would have found valuable had they known of their existence.

The strategic information challenge

Being close to customers and being in touch with new developments in a dynamic and possibly chaotic marketplace requires information, intelligence and learning. Successful organizations monitor the activities of their customers, suppliers and competitors; they ask questions, test out new ideas and express a willingness to learn and to change both their perspective on competition – their mind set concerning which factors determine competitive success – and the things they actually do. Sophisticated analyses and models of behaviour patterns, past and current, make an important contribution. However, as Day (1996) argues, it is also necessary to think through how a market could respond to actions designed to retain existing customers and win new business, while outflanking and outperforming competitors. One of the reasons for Canon's continued success has been its ability to spot new market opportunities for its advanced technologies and exploit them early; hence, the company has managed to remain a force in digital cameras and accessories.

In order to become and remain strategically successful, organizations must create and sustain competitive advantage by continuing to enjoy E–V–R congruence, frequently in a dynamic and turbulent environment, by gathering and sharing information. But it is not merely a question of designing a new information system.

The important elements for strategic success are:

- Tracking events in the market and the environment, choosing responses (both proactively and reactively) and monitoring the outcomes of the actions which follow; competitor initiatives must be dealt with; **benchmarking** best practices and general awareness can suggest new ideas.
- Making sure that important information from the questioning and learning from these emergent changes is disseminated effectively.
- Reflecting on outcomes in the context of E–V–R congruence to ensure that the organization can sustain an effective match with its environment.
- Where appropriate, adapting policies and procedures to better guide future decisions.

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Therefore, they need a constant willingness to be flexible and to change as necessary, and to work from the twin perspectives of opportunity and threat. Strategically successful organizations **leverage** their innovative competitive ideas with speed and act quickly by obtaining continuous and rapid market feedback. This allows them to adapt to the feedback ahead of their rivals and exploit the potential of strategic systems, as well as competitive and operating information systems (Gilbert, 1995).

There are three levels of information systems: operating, competitive and strategic.

- *Operating information systems.* Cost accounting systems, sales analyses and production schedules are essential for efficiency and control. Used creatively as, for example, is the case with airline reservation systems, they can create competitive advantage, but they are not designed to drive strategic change.
- *Competitive information systems.* Important elements of the various operating systems need to be integrated and synthesized to ensure that the organization is using its resources efficiently and effectively, and meeting the needs and expectations of important external stakeholders. Competitive information systems, therefore, relate to competitive advantage and E–V–R congruence, requiring managers to think and work across functional boundaries and to consider the total service package provided to customers, encapsulating all the ways in which an organization can add value in a co-ordinated way. However, Gilbert (1995) argues that managers will not always be aware of or understand the information they have used to make a competitively successful formula; thus that success may be fragile.
- *Strategic information systems.* While competitive information systems will typically focus on existing competition, organizations must also be able to learn about the business environment in order that they can anticipate change and design future strategies. Marchand (1995a) stresses that strategic information management should not be confined to the level of the strategic leader, but rather it should be dispersed throughout the whole organization, implying an innovative culture and an organization structure which facilitates the sharing of information – one essential element of a learning organization.

Hence, as we move up these three levels of decision-making, the contribution of IT and information systems to decision-making changes. Once operating systems are established, they can be used to make a number of decisions and drive the operations. By measuring performance, the systems can, again, make a valuable contribution and highlight when things are going wrong. For strategic decisions, however, IT is primarily an aid to decision-making. Systems cannot realistically make the decisions; consequently, interpretation and meaning systems are particularly important. For such decisions, the systems should be designed to provide information in a form that is useful to decision-makers. Expanding this point, Marchand (1995b) distinguishes four important and distinct uses for information at these three decision-making levels:

- *Command and control.* This is the formal gathering of information to allow centralized control and decentralized accountability, including budgeting and resource allocation. Command and control is valuable for managing resources efficiently but, used in isolation, it does not drive rapid change.
- *Improvement.* Here, the emphasis is on integrating the functions to improve both efficiency and effectiveness through better all-round service.
- *Opportunities for organizational synergy.* If complex multi-business organizations can find new opportunities for internal synergy, sharing and interdependency, they can clearly benefit.
- *Environmental opportunities.* Market intelligence, competitor monitoring and benchmarking best practice can generate new ideas and opportunities, as we have seen.

Figure 5.9 illustrates that an organization must be able to manage all four information needs simultaneously and harmoniously if it is to benefit from improved efficiencies and manage change both continuously and discontinuously. Herein lies the real strategic information challenge: where the deployment of organizational resources, the corresponding style of management and the cultural implications vary between the four information needs and the decision-making processes they support.

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Figure 5.9 The strategic information challenge

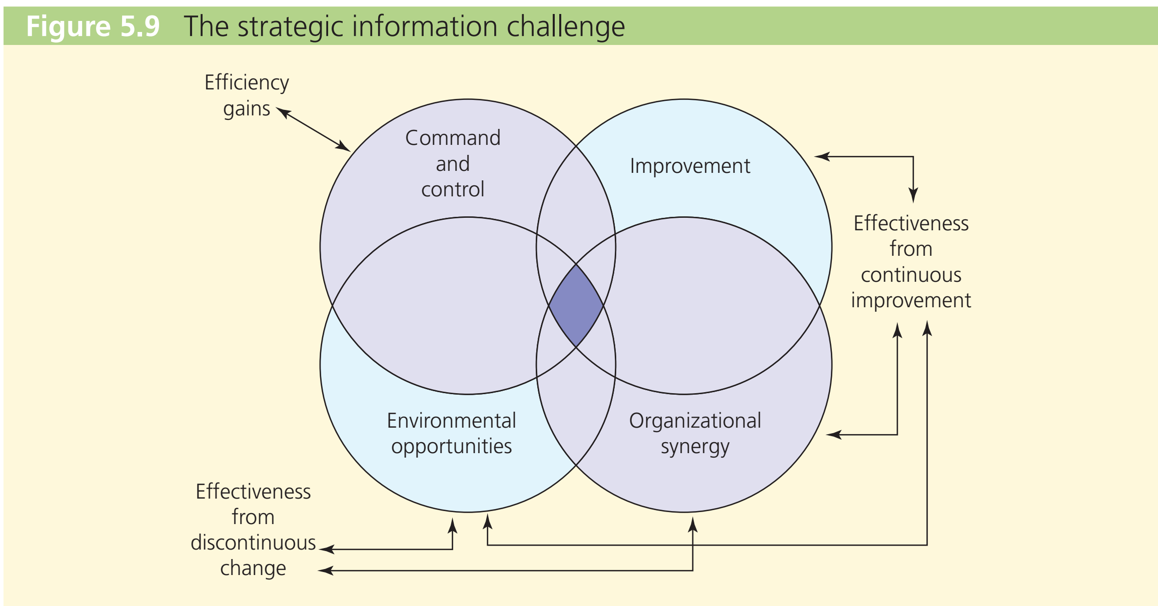
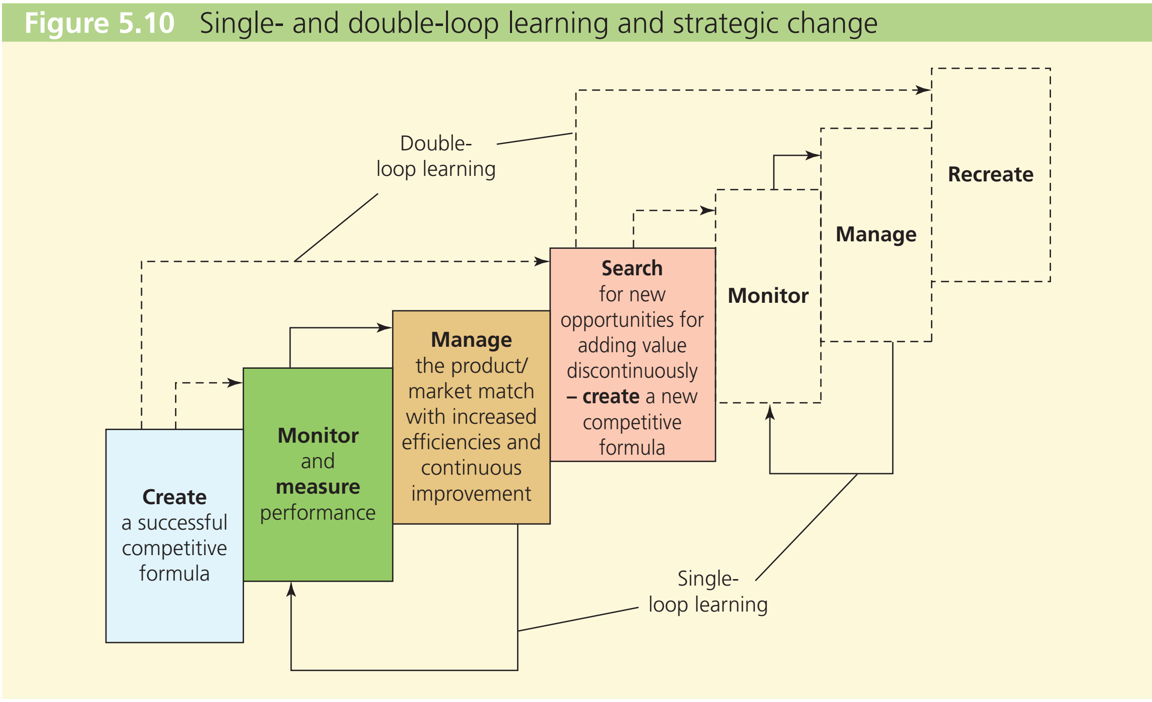


Figure 5.10 illustrates how organizations need, first, to develop a perspective on how they can add value and create competitive advantage. Through monitoring, measurement, continuous improvement and innovation, they should seek to become increasingly efficient and effective, which represents **single-loop learning** – essential if competitive advantage is to be sustained in a dynamic environment. However, organizations must always be looking for new competitive paradigms, looking for new ways of adding different values, ahead of existing competitors and potential new entrants, looking for an opportunity to break into the market. Effective strategic information systems – relying on informality, networking and learning – are required for this **double-loop learning**.

Figure 5.10 Single- and double-loop learning and strategic change



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Organizations that invest in strategic planning, research and development and new product/service programmes are locked into the process. However, the real benefits cannot be gained if these activities and the requisite learning are confined to head office departments and specialist functions, since they must permeate the whole organization and become embedded in the culture. This reflects a key organizational tension and dilemma: the paradox of stability (running existing businesses efficiently and effectively, exploiting strategic abilities and continually looking to create higher returns from the committed resources) and instability (the search for the new competitive high ground ahead of the business's rivals).

Information, however, as well as being a vital element in decision-making, can also be a source of competitive advantage, as shown in the next section.

The online British Airways case offers an example of this section's theory in practice.

Information, information technology and competitive advantage

Although IT offers many potential strategic opportunities, harnessing these opportunities involves changes in attitude and culture among managers. McFarlane (1984) claims that IT strategies should relate to how dependent the organization is on IT systems which are constantly reliable, and whether IT is crucial if the organization is to meet its key success factors.

Rayport and Sviokla (1995) argue that competition is now based on two dimensions: the physical world of resources and a virtual world of information. IT clearly supports and enhances every activity in an organization, but can itself be a source of added value – and, consequently, competitive advantage – as long as organizations are able to extract that value. Porter (1985) had earlier suggested that technological change – and, in particular, IT – is among the most prominent forces that can alter the rules of competition because most activities in an organization create and use information. Porter and Millar (1985) contend that IT could affect competition in three ways: it could change the structure of an industry, create sustainable competitive advantage, and generate development from within a company's existing activities.

- *IT can change the structure of an industry and, in so doing, alter the rules of competition.* IT could influence the nature of Porter's (1980) five forces, thereby changing the attractiveness and profitability of an industry, particularly where the industry has a high information content – for example, airlines and financial and distribution services. Firms that are either slow or reluctant to upgrade IT may be driven out of the industry, because they would be unable to offer a competitive service. Where the cost of the necessary IT, both hardware and software systems, is high, it can increase the barriers to entry for potential new firms.
- *IT can be used to create sustainable competitive advantage by providing companies with new competitive weapons.* If costs are reduced to a level below competitors' costs and this advantage is maintained, above-average profits and an increased market share can result. Porter and Millar (1985) suggest that, while the impact of IT on lower costs has historically been confined to activities where repetitive information processing has been important, such restraints no longer apply. IT can lead to lower labour costs by reducing the need for certain production and clerical staff, so there should be both lower direct production costs and reduced overheads. Differentiation can be created in a number of ways, including quality, design features, availability and special services that offer added value to the end consumer. IT has been utilized by Ocado to help build a highly sophisticated 'huge' warehouse where robots pick and pack customer food orders. These developments save both costs and time. An investment of millions saves pennies on every order. Pop-up grocery stores have been able to operate at music festivals because of the ability to track customer purchases and replenish shelves overnight even in a location without (always) easy road access.
- *As a result of IT, new businesses can be developed from within a company's existing activities.* Telecommunications led to the development of facsimile services; later micro-electronics made personal computing possible; and IT created demand for high-speed data communications networks that were previously unavailable. In addition, organizations have diversified into software provision stemming from the development of packages for their own use, while the internet has spawned a number of new and very entrepreneurial businesses such as comparison and hotel booking sites – every organization must now develop a strategy for harnessing its potential.

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It has become essential for many organizations to offer online sales as well as those instore. The case of banks is also interesting. Many banks offer 'online only' current and savings accounts – with higher interest rates than branch accounts; online only banks with no branch network have proved less successful. In many surviving bank branches, machines are replacing counter staff.

In summary, implementing IT for competitive advantage requires:

- an awareness of customer and consumer needs, changing needs, and how IT can improve the product's performance or create new services
- an awareness of operational opportunities to reduce costs and improve quality through IT
- an appreciation of how the organization could be more effective with improved information provision, and how any changes could be implemented. The impact on people is very significant.

The argument is that competitive advantage can stem from any area of the organization.

We conclude this section with a brief reflection. Computing power continues to grow and artificial intelligence (AI) systems continue to develop. To some extent they will be 'the future'. Asked whether he feared the power of AI and its potential impact on humanity, Elon Musk (Pay Pal, Tesla) simply commented: 'I hope they are kind to us!'

5.4 The value chain

Developing his earlier work, which highlights the significance of the relative power of buyers and suppliers (Porter, 1980), Porter (1985) argues that, in the search for competitive advantage, a firm must be considered as part of a wider system:

suppliers > firm > distributors > consumers

Thus, a firm should assess the opportunities and potential benefits from improving its links with other organizations – for example, the marketing and selling activities of its suppliers; and the purchasing and materials handling activities of its distributors or customers. Prahalad and Krishnan (2008), instead of conceptualizing 'chains', emphasize the critical links between suppliers, manufacturers and customers, arguing that managers should seek to build 'constellations' of suppliers that can be reconfigured in different patterns to meet different needs; this can only work if people are flexible and IT is harnessed. Similarly, and reinforcing points from earlier in the chapter, Davenport and Harris (2007) argue that organizations – for example, Walmart, and also FedEx and Amazon – have more information than ever before about their environment and their competitors, thanks to IT. But they must use it to become more effective strategic thinkers, understand what makes them different, and exploit what they term 'analytics'. The supply chain is a process; managing it is a key strategic capability to achieve cost savings and service differentiation.

Organizations can create synergy and enjoy the appropriate benefits if they can successfully link their value chain with those of their suppliers and distributors. Just-in-time (JIT) deliveries integrate a supplier's outbound logistics with the organization's inbound logistics. Stock and costs can be reduced for the manufacturer, whose delivery lead time and reliability should also be improved. An effective JIT system can enable suppliers to plan their work more effectively and reduce their uncertainty. This approach requires an open exchange of reliable, up-to-date information and medium- to long-term supply arrangements. When Nissan was developing the supply chain for its UK manufacturing plant in Sunderland, it deliberately forged links with its suppliers' suppliers in its search to control costs without sacrificing quality and service. A retail bookseller, taking orders for non-stock items, needs to be sure of the delivery lead time from its publishers or wholesaler before quoting a date to the customer. This, again, demands accurate information, supported by reliable supply.

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Preece *et al*. (1995) used the value chain to explain how Levi Strauss created value and used its value-creating activities carefully to establish a distinctive corporate reputation. This is a form of competitive advantage, due to established links with global suppliers, team manufacturing, global advertising and branding, alliances with retailers who exclusively stock Levi's jeans, and a programme of 'marketing revitalization' designed to reduce lead times and improve the availability of the products.

Strengthening the processes involved in managing the supply chain relates to the level of service that companies are able to offer their customers and to total quality management. Some years back, managers in ICI's explosives manufacturing division also developed expertise in detonating explosions. Since quarry managers (who buy the explosive products) really want stones and rocks on a quarry floor, ICI offered to produce a three-dimensional map of a quarry for their customers. This would indicate where the charges need to be placed; then, when suitable holes had been drilled in the quarry face (by the quarry owners), controlled explosions could be carried out, thus adding value for their customers and linking the two value chains. The key word, of course, is value. The linkages are designed to create something valuable – something that reduces costs or establishes difference in a way that customers regard as valuable for them. Either of these can be the 'compelling reason to buy' in the business model. It will be appreciated that here we are talking about the operational details of resource management and how strategic ideas are executed, as well as the ideas (opportunities) themselves.

We next look at two frameworks that might be used for capturing how and where value is created.

The organization's value chain

While strategic success depends on the way in which the organization behaves as a whole, and the ways in which managers and functions are integrated, competitive advantage stems from the individual and discrete activities that a firm performs. A cost advantage can arise from low-cost distribution, efficient production or an excellent salesforce that succeeds in winning the most appropriate orders. Differentiation can be the result of having an excellent design team, or being able to source high-quality materials or high-quality production.

Value chain analysis is a systematic way of studying the direct and support activities undertaken by a firm, thus providing greater awareness concerning costs and the potential for lower costs and for differentiation. Competitive advantage is created and sustained when a firm performs the most critical functions either more cheaply or better than its competitors (Porter, 1985).

Porter (1985) developed his value chain framework, which is now used extensively. The same basic outline can be shown in a number of different formats, which can be seen by carrying out a simple online search for it. There are five primary activities in the value chain: inbound logistics, operations, outbound logistics, marketing and sales, and service. These are illustrated as a chain moving from left to right, and they represent the activities of physically creating the product or service and transferring it to the buyer, together with any necessary after-sales service. They are linked to four support activities: procurement, technology development, human resource management and the firm's infrastructure. These are drawn laterally, as they can affect any one or more of the primary activities, although the firm's infrastructure generally supports the whole value chain. Every one of the primary and support activities incurs costs and should add value to the product or service in excess of these costs. It is important always to look for ways of reducing costs sensibly; cost reductions should not be at the expense of lost quality in areas that matter to customers and consumers. Equally, costs can be added justifiably if they add qualities that the customer values and for which they are willing to pay. The difference between the total costs and the selling price is the margin. The margin is increased by widening the gap between costs and price. An application of the value chain is provided in Strategy in Action 5.2. You might also revisit Case 5.6 and consider Semco's decision to allow employees to leave and set up dedicated and specialist supply businesses.

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Strategy in Action 5.2 YKK: The World's Leading Manufacturer of Zips

The Japanese zip manufacturer YKK, the world market leader, has grown to enjoy a superior competitive position, and the company's strategy is analyzed against the value chain in this box. The underlying philosophy of YKK is the Cycle of Goodness, whereby employees 'deposit' part of their wages and bonuses with their employer. This money is reinvested in the business to fund innovation and new equipment, aiming to lead to lower costs and lower prices. As the business thrives and grows then long term the employees will also benefit.

YKK succeeded in creating both cost leadership and substantial differentiation with its corporate, competitive and functional strategies. These have resulted in effective barriers to the entry of competitors into the industry and close relationships with customers. The conceptual idea is illustrated in Figure 5.11.

The essential components of the strategy, summarized in outline here, are illustrated in Figure 5.12, which places them in the context of the value chain and highlights the linkages.

Figure 5.11 YKK's competitive advantage

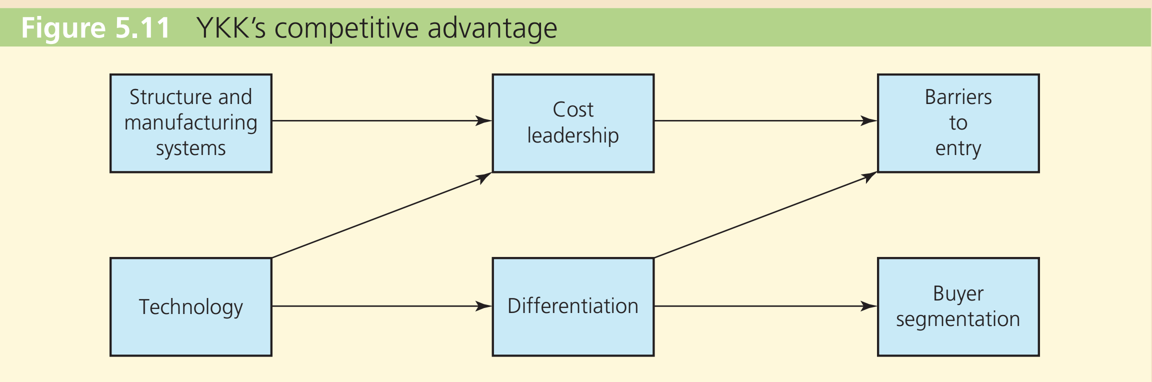
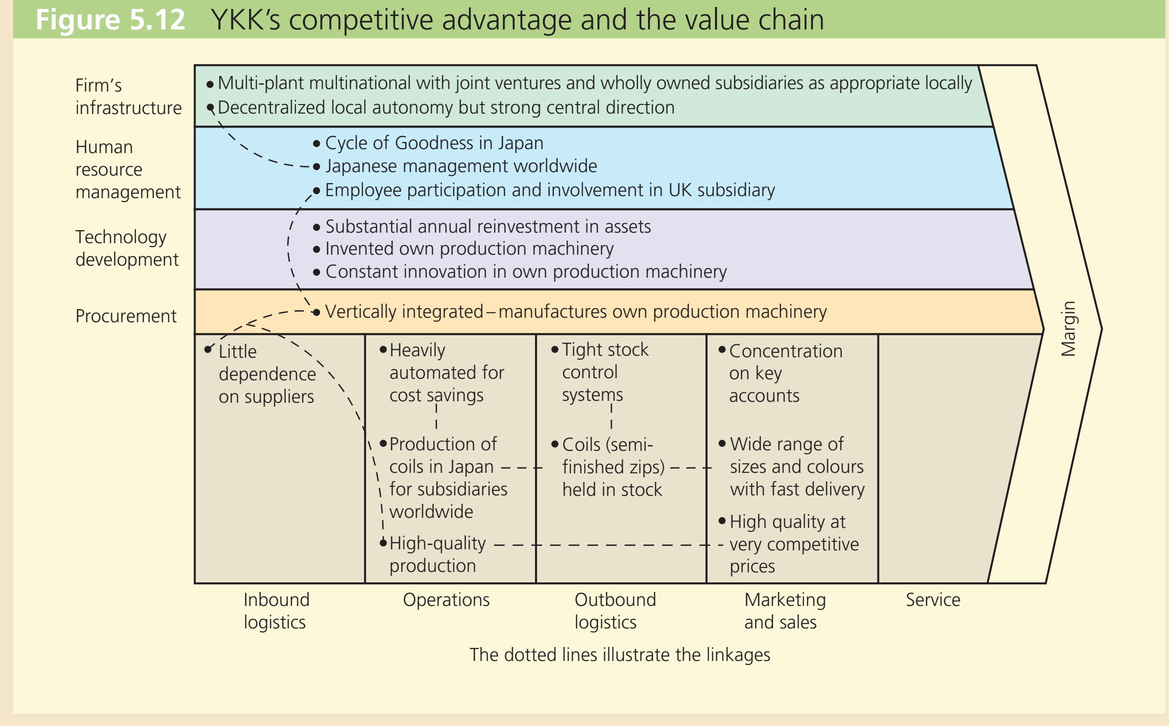


Figure 5.12 YKK's competitive advantage and the value chain



Based on ideas in Channon, D.F. and Mayeda, K. (1979) 'Yoshida Kogyo KK "A" and "B" case studies', available from the case centre

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YKK was structured as a multi-plant multinational company with both wholly owned subsidiary companies and joint ventures throughout the world. The latter organizations were primarily the result of local politics, particularly in countries offering low labour costs in the Far East. While the subsidiaries were decentralized and enjoyed some local autonomy, they were often managed at the top by Japanese executives on a period of secondment. Consequently, there was substantial influence from the Japanese parent.

YKK invested a significant percentage of after-tax profits back into the business; as a result, the business became heavily automated and was able to enjoy the benefits of the experience/learning curve. Moreover, YKK priced its finished products very competitively both to generate customer satisfaction and to create barriers to entry. The company was vertically integrated, designing and manufacturing its own production machinery, and this gave it a unique competitive edge. It was also particularly innovative as far as both machinery and finished products were concerned.

Coils of semi-finished zips were produced in the Far East, particularly Japan, and exported to such countries as the UK, where they were cut to size and finished in response to customer orders. This resulted in both cost advantages and speedy deliveries from semi-finished stocks. A wide range of colours and sizes was kept ready for finishing. In the UK, the key garment manufacturers and the retail outlets that they serve were targeted by YKK and given special service.

The 'Cycle of Goodness' philosophy was not exported in its complete form, but employee relations were an important aspect of the human resources strategy. Participation and involvement were essential features, and total quality management was a key feature.

The value chain and competitive advantage

Cost leadership and differentiation strategies. In Chapter 6, we introduce Porter's **generic strategies** built around **cost leadership** and differentiation (Porter, 1985). Let us now examine how these themes relate to the value chain framework. **We could think of this as relating to a resource-based strategy of 'buy (or manufacture) for less and sell for more' in a comparative sense**.

Cost leadership

Porter (1985) argued that the lowest cost producer in either a broad or narrow competitive scope (the broad market or specialist segments):

- delivers acceptable quality but produces the product or service with lower costs than competitors
- sustains this cost gap
- achieves above-average profits from industry-average prices.

This cost advantage will be achieved by the effective management of the key determinants of costs.

The differentiation strategy

Similarly, Porter argues that the successful application of a differentiation strategy involves:

- the selection of one or more key characteristics which are widely valued by buyers (there are any number of opportunities relating to different needs and market segments)
- adding costs selectively in the areas perceived to be important to buyers, and charging a premium price in excess of the added costs.

Firms aim to find strategic opportunities for differentiation which cannot be matched easily by competitors, and to be clear about the costs involved and the price potential. For example, costs in areas not perceived to be significant to buyers must be controlled and be in line with competitor costs – otherwise above-average profits will not be achieved.

The successful implementation of both of these strategies, therefore, requires an understanding of where costs are incurred throughout the organization and the search for appropriate cost reductions, which involves

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an appreciation of how costs should be attributed to the various discrete activities which comprise the value chain. Table 5.2 compares a possible cost breakdown for a manufacturing firm with that of a firm of professional accountants. For an analysis of the value chain to be meaningful, the costs must be genuinely attributed to the activities that generate them and not simply apportioned in some convenient way, however difficult this may prove in practice. The figures in Table 5.2 (which are only indicative and should not be seen as targets for any particular firm) suggest that the manufacturing firm may not be spending enough on human resources management and marketing, while the accountancy practice may be spending too much.

Table 5.2 Indicative cost breakdown of a manufacturing and a service business

	Manufacturing firm (% of total)	Professional firm of accountants (% of total)	
Primary activities			
Inbound logistics	4	8	(Data collection for audits)
Operations	64	26	(Actual auditing)
Outbound logistics	1	5	(Report writing and presentations)
Marketing and sales	7	21	(Getting new business)
Service	1	3	(General client liaison)
	77	63	
Support activities			
Procurement	1	1	
Technology development	10	8	(IT development)
Human resources management	2	16	
Firm's infrastructure	10	12	
	100	100	

Cost drivers

The following cost drivers, some of which may be more significant, can all influence the value chain:

- Economies of scale, and potential experience and learning curve benefits can bring about cost savings.
- Capacity utilization, linked to production control and identifying the existence of bottlenecks can identify areas for efficiencies.
- Time spent liaising with other departments can incur costs but, at the same time, create savings and differentiation through inter-relationships and shared activities.
- Inter-relationships and shared activities, possibly a shared salesforce, shared advertising or shared plant can generate savings by increasing quality and ensuring that the needs of customers are matched more effectively.
- The extent to which the organization is vertically integrated can influence costs and differentiation (e.g. manufacturing its own component parts, instead of assembling bought-in components, or designing and manufacturing its own machinery). Strategy in Action 5.2 (YKK) illustrates this.
- Buying and selling at the appropriate time are vital – for example, investing in stocks to ensure deliveries when customers want them; but also stockholding costs must be monitored and controlled.
- Policy standards for procurement or production may be wrong and, if set too low, quality may be lost and prove detrimental; if set too high in relation to the actual needs of the market, costs are incurred unnecessarily.
- Location issues include wage costs, which can vary between different regions, and the costs of supporting a particular organization structure.
- Institutional factors comprising specific regulations concerning materials content or usage, for example, can impact costs.

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Porter argues that sustained competitive advantage requires effective control of the cost drivers, and that scale economies, learning, linkages, inter-relationships and timing provide the key opportunities for creating advantage. The cost advantage in a cost leadership strategy is relative to the costs of competitors and, over time, these could change if competitors concentrate on their cost drivers. Consequently, it is useful to attempt to monitor and predict how competitor costs may change in the future linked to any changes in their competitive and functional strategies.

Common problems in cost control through the value chain

While it can prove difficult to assign costs to activities properly, Porter contends that there are several common pitfalls in managing costs for competitive advantage:

- misunderstanding of actual costs and misperceptions of the key cost drivers (*Strategy in Action 5.3*)
- concentrating on manufacturing when cost savings are required – often this is not the area to cut if quality is to be maintained, especially once a certain level of manufacturing efficiency has been achieved (*Strategy in Action 5.3*)
- failing to take advantage of the potential gains from linkages
- ignoring competitor behaviour
- relying on small incremental cost savings when needs arise, rather than introducing a long-term, permanently installed cost-management programme.

Strategy in Action 5.3 Cost Drivers: An Application

A key challenge for motor car manufacturers is one of reducing new product development times and costs while increasing the number of models they offer their customers. To succeed, a car must look and feel different from its rivals, but the manufacturers have found they can save both time and cost if they share components *which are hidden from view*. Examples would include floor pans (or platforms), engines and chassis. As a consequence, in recent years, there has been a tendency for new partnerships to emerge, as well as a number of important mergers.

Fiat, for example, owns the Alfa Romeo and Lancia marques, and uses the same platforms for similar-sized models with the Fiat, Alfa Romeo and Lancia names.

Similarly, Volkswagen has acquired Audi, Seat and Skoda, and adopts similar strategies. The platforms account for one-third of the costs incurred in designing a new car. Manufacturers trade engines. Ford, for example, sells engines to other companies, as well as sharing components across the businesses it owns or has owned, which include Jaguar, Land Rover, Volvo and Mazda. In the same way, Peugeot diesel engines are common to Citroën and Peugeot cars.

Differentiation opportunities

Competitive advantage through differentiation can arise from any and every area of the business – either primary activities or support activities. Both the product and the accompanying service offered are relevant.

Primary activities

- *Inbound logistics* – careful and thoughtful handling to ensure that incoming materials are not damaged and are easily accessed when necessary, and the linking of purchases to production requirements, especially important in the case of JIT manufacturing systems.
- *Operations* – high quality; high-output levels and few rejections; delivery on time.
- *Outbound logistics* – rapid delivery when and where customers need the product or service.

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- *Marketing and sales* – advertising closely tied to defined market segments; a well-trained, knowledgeable and motivated salesforce; and good technical literature, especially for industrial products. Branding is a relevant inclusion and discussed separately in Section 5.5.
- *Service* – rapid installation; speedy after-sales service and repair; and immediate availability of spare parts.

Support activities

- *Procurement* – purchasing high-quality materials (to assist operations); regional warehousing of finished products (to enable speedy delivery to customers).
- *Technology development* – the development of unique features, and new products and services; the use of IT to manage inbound and outbound logistics most effectively; and sophisticated market analyses to enable segmentation, targeting and positioning for differentiation.
- *Human resources management* – high-quality training and development; recruitment of the right people; and appropriate reward systems which help to motivate people.
- *Firm's infrastructure* – support from senior executives in customer relations; investment in suitable physical facilities to improve working conditions; and investment in carefully designed IT systems.

In searching for the most appropriate means of differentiating for competitive advantage, one must look at which activities are the most essential to consumers and isolate the key success factors. It is a search for opportunities to be different from competitors in ways which matter and, through this, the creation of a superior competitive position.

The value chain can provide an extremely useful framework for considering the activities involved in producing products and services, and for considering their significance for customers.

Activity mapping and strategy mapping

Porter (1996) later developed activity maps as an adjunct to the value chain, in order to produce a framework of the critically important activities, together with those that support them, and to show how they all link together.

Activity mapping, described here in outline only, provides a useful framework to explain how all the selected activities and resources fit together, add value and complement the corporate and competitive strategies in order to yield uniqueness and synergy. Porter (1996) uses the metaphor of a comparison of two people who may have functionally similar eyes, hands and feet, but between whom the real difference is in the way all the parts combine into a whole, and where individual differences in parts – such as colour blindness, or arthritis in a hand – do not, in themselves, explain different behaviours and outcomes. Thus, we need to understand more about the workings of the brain and, if we are to understand organizations and organizational differences, we must understand how different organizations acquire and use knowledge – which is frequently related to the synergy created by the interactions of the functions and activities.

Figure 5.13 is an example of Porter's activity mapping idea based on Lilliput Lane, a manufacturer of plaster cottages and other collectable items which, along with Border Fine Arts (best known for resin models of wildlife), was owned by the US collectables business Enesco. Enesco derives synergy from distributing different collectable products from suppliers around the world through common retail channels. Using innovative moulding technology, much of it invented by founder David Tate, Lilliput Lane cast intricate figures and models out of plaster, a cheap and readily obtainable commodity. Individual painters then transformed a relatively bland model into a unique finished article. Production stopped in 2016, shortly before the death of David Tate, but there is an active second-hand market among serious collectors.

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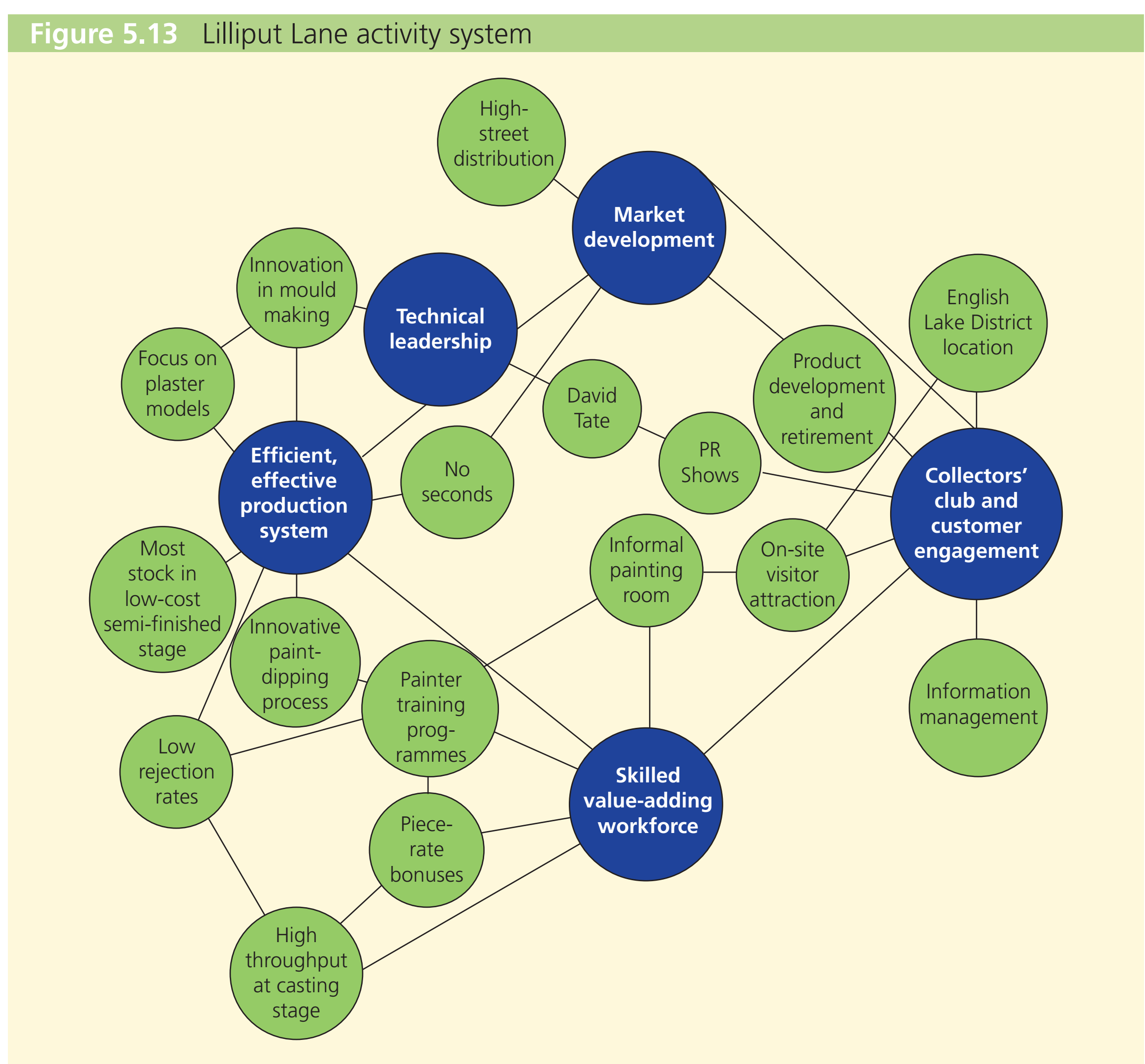
Figure 5.13 Lilliput Lane activity system



The five larger circles in Figure 5.13 represent the key activities in terms of difference and competitive strength, while the smaller circles are important support activities, with the key activities all linked and complementary, and the other activities supporting often more than one key activity. As time progresses, activities will be abandoned, added or changed to affect the competitive position. How activities are carried out by people is important, and so the culture and style of management in the organization is a major determinant of the organization's ability to change and find new opportunities for creating different values for customers.

Another relevant framework is **Strategy mapping** developed by Kaplan and Norton (2000) from their earlier work on the balanced scorecard, which is explained in Chapter 11 (Kaplan and Norton, 1992). This framework has been shown to be particularly useful when applied to the public sector (Irwin, 2002).

Since financial performance measures alone are inadequate for evaluating performance, the balanced scorecard includes measures relating to customers, internal processes and improvement that give an all-round view on the extent to which the organization is progressing towards its vision and long-term purpose. Strategy mapping works in the opposite way, demanding that managers question what is going to be required (in terms of activities) to progress systematically and synergistically towards the vision, and then set targets for performance against these activities. In other words, one starts with the vision and then questions what needs

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to be done, how and when. While the balanced scorecard measures activities and reviews outcomes, strategy mapping starts with desired outcomes and then seeks to make sure the necessary activities are in place – with performance targets attached – and it embraces how activities can be used to create competitive advantage.

The framework developed by Kaplan and Norton (1992) can be found readily online (as a blank or an annotated example). Basically, it takes a tabular form. The vertical axis is separated into four perspectives: financial, customer, internal (operations), and learning and growth. Horizontally, these themes are then separated into (shorter-term) operational strategy and (longer-term) growth. The framework is completed with identifiable opportunities for adding value and for saving costs.

5.5 Reputation and branding

Reputation and branding are clearly linked but are not synonymous, since a brand is a label that is attached to an organization's reputation. Kay (1993) sees reputation as a key element of differentiation and that both reputation and branding are key intangible resources in determining how customers perceive the difference and its meaning. Reputation and branding are, therefore, qualitative indicators of quality – where quantitative measurement may be difficult – enabling decision-making and choice.

The reputation of particular brands can allow certain organizations to diversify into a wide range of activities, with customer confidence in the brand providing reassurance and even allowing them entry into areas where they have little previous experience or expertise. However, they must never disappoint customers in ways which tarnish a reputation; thus, there can be a huge downside risk for companies with the strongest reputations if they make strategic errors of judgement.

In a similar vein, a strong reputation provides a safe choice for customers who are new entrants to a market, helping to sustain and build a strong position in a market, and even sometimes being used to justify a premium price. Famous name endorsements provide an ideal opportunity for enhancing a company's reputation, as they make a statement about a person who is held in very high regard by the public – whether or not they actually use the products and services that they endorse!

Branding

Brand is only important when two products are identical. It is not important if one of the products has better technology or a better design than the other.

James Dyson

Many differentiated products and services are identified by brand names which, possibly along with the identity of the companies that own them, convey an image to customers by reflecting reputations. Advertising is often used to create and reinforce this image and reputation. As competition intensifies, more products are perceived as commodities and sold essentially on price, and so differentiation and branding become increasingly significant. The product needs a clear brand identity; a supportive corporate image, a company brand, is also valuable. Brands add value, possibly the promise of some particular satisfaction or experience, a 'guarantee' of a specific level of quality or reliability. Also, a brand can be seen as an actual product or service augmented by some additional added value. The drive to establish and maintain a recognized brand image can bring about differentiation and innovation – for example, Nescafé instant coffee has had several variants and improvements over the years. However, the value added must be real, as informed customers today will quickly see through any marketing hype; also, distinctiveness will not be achieved without investment, in both research and development and advertising, as discussed later.

Ideally, successful branding will generate customer loyalty and repeat purchases, enable higher prices and margins, and provide a springboard for additional products and services. Customers expect to find the leading brand names widely available in distribution outlets, but supermarkets will typically only offer the number one and number two grocery brands alongside their own-label brand. Strong branding has been essential for enabling the leading manufacturers to contain the growing power of the leading supermarket chains,

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but it has not exempted them from tight pricing strategies. Edwin Artzt, until the mid-1990s a powerful and renowned chief executive of Procter & Gamble, stated that 'winning companies offer lower prices, better quality, continuous improvement and/or high profits to retailers'.

The quality of own-label products has increased and, consequently, the magnitude of the premium that customers will pay for the leading manufacturer brand has declined in recent years. Procter & Gamble, which is not alone in this strategy, has adopted perpetual 'everyday low prices' for all of its products. In the competitive food sector, product innovation, quality, specific features and, to a lesser extent, packaging are seen as the most effective means of distinguishing brands from own-label alternatives.

Examples of leading brands

- *Persil* and *Pampers*: brand names are not used in conjunction with the manufacturer's name – they are produced by Unilever and Procter & Gamble, respectively.
- *Coca-Cola*: the manufacturer's name is attributed to a product.

- *Levi's*: derived from Levi Strauss – an online case on Levi's looks at how a company with a significant brand and image has changed tactics in a dynamic and competitive environment.
- *Cadbury's Dairy Milk* and *Barclaycard Visa*: the first is a combination of a company and a product name, the second a combination of an organization (Barclays) and a service provided by a separate business.
- *St Michael*: the personalized brand name used historically on all products sold by M&S to signify UK manufactured – now no longer a viable cost concept and replaced with clothing-related brand names such as Per Una.
- *Hugo Boss* – a designer's name applied to a range of luxury fashion products. Once established and recognized, the name helps to command a premium price and up-market image. The emphasis of the business is likely to be on design and not manufacture.

Several large organizations have, through strategic acquisitions and investments in brands, established themselves as global corporations. Examples include:

- *Unilever*: now owns a variety of food (Birds Eye, Batchelors, Wall's, John West, Boursin, Blue Band, Flora), and household goods (Shield soap, Persil, Lux and Surf detergents) brands. Historically Unilever was also active in cosmetics (Brut, Fabergé and Calvin Klein) brands.
- *Nestlé*: including Chambourcy and Perrier (France), Rowntree and Buxton Water (UK), and Buitoni and San Pellegrino (Italy).

These companies can afford substantial investments in research and development to innovate and strengthen the brand by extending the range of products carrying the name. They are able to develop new opportunities (e.g. Mars Bars ice cream with its price premium over normal ice cream bars) and to transform competition in the market (e.g. Pampers disposable nappies' segmented products in the United States and Europe). Strong brand names are clearly an asset for an organization, and the value of the brand – the so-called 'brand equity' – relates to the totality of all the stored beliefs, likes/dislikes and behaviours associated with it. Customer and distributor attitudes are critical.

A brand commanding a certain amount of shelf space in all leading stores carries a value. However, creating and maintaining the image is expensive, and manufacturers spend on average 7 per cent of sales revenue to support the top ten leading brands, covering all product groups, increasing as the brand recognition factor decreases. Because of this, manufacturers need to control the number of brands they market at any time; Procter & Gamble withdrew over 25 per cent of their brands in the 1990s. Similarly, new product launches need to be managed effectively.

However, not all brand names are strong and effective. Prudential, best known as an insurance business, launched its internet bank in 1999 – calling it 'Egg', partly to provide a distinctive and unusual launch platform. The business developed successfully and, in 2004, Egg had between 3 and 4 million customers.

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Recognizing that Egg needed investment at a level that would stretch its own resources, Prudential attempted to find a buyer for the business, but none was forthcoming at the right price. This provided wonderful ammunition for some to criticize the name 'Egg', with phrases such as 'egg on its face', 'half-baked' and 'gone off the boil' all appearing in the press. Changing brand names is not always for the better, such as the UK's Post Office changing its corporate identity to Consignia, with some design team creating a clever play on the word 'consignment'. However, the public reaction was hardly supportive and the name was changed back!

Branding helps to establish, build and cement relationships among manufacturers, their customers and their distributors. The term 'relationship marketing' is used to reinforce the argument that marketing should be perceived as the management of a network of relationships between the brand and its various customers. Marketing, therefore, aims to enhance brand equity and thus ensure continued satisfaction for customers and increased profits for the brand owner. Implicit in this is the realization that it is harder, and more expensive, to find new customers than it is to retain existing ones. This potent mix of brand identity and customer care is clearly related to the whole service package offered by manufacturers to their customers, and to total quality management.

The Fabergé case in Chapter 7 explains how a luxury jewellery brand (built originally in Russia) was able to survive a series of devaluing interventions and is now being revived. The case on Russian Standard vodka in Chapter 6 emphasizes the value of a particular brand identity which 'explains' the product and the business.

Research Snapshot 5.1

Articles on resource-led strategy are linked to a firm's competitive advantage (Chen *et al.*, 2021; Hinterhuber, 2013; Hoskisson *et al.*, 2018; Orr, 2019) and performance (Chatzoglou *et al.*, 2018; He *et al.*, 2013), including its growth (Nason and Wiklund, 2018), focusing on: (i) the resource-based view (RBV); and (ii) strategic resources, including in terms of human resources (HR). Other key elements – such as core competencies, strategic architecture, networks, stakeholders and IT – are also covered briefly in the more recent literature, but to a more limited extent. Overall, the RBV still holds, although it has been somewhat eclipsed by Teece's dynamic capabilities perspective (see his more recent work, such as on multinational enterprises and enterprise performance in Teece, 2014a and 2014b, respectively). Scholars have suggested various novel additions to the concept, which include, for example, the need to 'unify *the field'* (Peteraf *et al.*, 2013), assisting access to and commercial development of, resources (Stadler *et al.*, 2013), resource reconfiguration (Karim and Capron, 2016), discovery and resource mobilization (Michael *et al.*, 2017), and managerial cognitive capabilities (Helfat and Peteraf, 2015). More recently, Helfat has emphasized the symbiotic relationship between resources and capabilities, noting (Helfat, 2017, p. 1) that: 'we cannot fully understand the nature and impact of firm resources and capabilities without understanding the underlying dynamics of how they emerge, develop, and change over time'. Guesalaga *et al.* (2018) suggest that key account management (KAM) is based on specific resources and capabilities to enable competitive advantage for business to business (B2B) firms.

For students, these papers provide a deeper insight into modern thinking and development in the RBV – building, of course, on the Penrosian origins of the theory and the other classical (e.g. 1980s and 1990s) literature covered in this textbook (e.g. Hershey and Blanchard, 1982; Prahalad and Hamel, 1990). Building on the discussion in the main text on the link between the RBV and performance and competitive advantage, more recent studies include those on the impact of information technology (Lioukas *et al.*, 2016) or big data (Dubey *et al.*, 2019), and how firms' competitive advantage can be enhanced by 'strategic openness' where their resources are open access (Alexy *et al.*, 2018), or even the way in which firms can circumvent the potential disadvantage of being resource constrained to outperform 'large firms endowed with substantial resources' (Mosakowski, 2017). Key studies include a review of the performance of diversifying firms (Hauschild and zu Knyphausen-Aufseß, 2013). Indeed, Villasalero (2017) also confirms that 'related diversified' firms can improve their competitive position and thus their performance by exploiting their 'knowledge relatedness'. Networks – specifically, networking capability – and strategic orientation contribute to new product development (Mu *et al.*, 2017).

Human resources management (HRM) and human capital have been clearly linked from a resource-based perspective (Collins, 2021; Nyberg *et al.*, 2014;

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Shaw *et al.*, 2013), with 'microfoundations' (what more junior members of firms do and also how they engage with each other in the strategy implementation process) focusing on HR and, in particular, on employee motivation (Foss and Lindenberg, 2013), and the influence of 'microfoundations' on firm performance (Foss and Pederson, 2016). Institutional logics are also conceptualized as strategic resources because of the way in which they enable strategies to be chosen (Durand *et al.*, 2013), including in an international development organization supporting women and their families in northern India (Venkataraman *et al.*, 2016). Various types of strategic resources, categorized as either 'ordinary' or 'junk' resources, are considered to be contributory to superior firm performance and competitive advantage (Warnier *et al.*, 2013). Resource-based theory has also been applied to operations management research, which helps to inform us how strategy is implemented at an operational level (Hitt *et al.*, 2016), which is perhaps related to some of the microfoundational issues identified above (Foss and Lindenberg, 2013; Foss and Pederson, 2016). Additionally, given the symbiotic relationship between stakeholder theory and the RBV (acknowledge by Freeman *et al.*, 2021), the investments by stakeholders, such as customers, suppliers and workers, ought to be protected (Hoskisson *et al.*, 2018), or by adopting a more stewardship type perspective (Bacq and Eddlestone, 2018). Finally, the RBV provides insight into strategy and strategic management in crises (Flammer and Ioannou, 2020; Wenzel *et al.*, 2021) or through strategic renewal (Pettit and Crossan, 2020) or by implementing an approach known as strategic flexibility (Brozovic, 2018).

These papers provide a key understanding of the link between strategic resources, capabilities, strategy, competitive advantage and performance, as they focus on more recent thinking on the theory and its link to practice. The dynamic capabilities view has gained quite a deal of traction and, yet, does not have to be contradictory to the RBV.

Further reading

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Summary

The resource-based view of strategy looks at how organizations acquire, deploy and exploit resources in an individual and effective way, and at how their core competencies and strategic capabilities determine their competitive advantage.

A simple *resource audit* is an attempt to assess the strengths and weaknesses of an organization and can be carried out in conjunction with an assessment of opportunities and threats. However, this resource audit should be relative and be in the context of, first, the key success factors for the markets and industries in question and, second, the comparable strengths and weaknesses of competitors for the same customers.

Strategic architecture refers to the linkages inside the organization (between different divisions, departments and managers) and the relationships – possibly partnerships – that an organization has with other members of the relevant value chain, such as suppliers and distributors. Synergy, mutual dependency and trust are key issues in the relationships.

People in organizations must be in a position where they feel stretched and rewarded. For some organizations, *empowerment* is a wonderful idea, but they find it difficult to create the appropriate climate and culture; their employees may not wish to be empowered to some considerable degree. Emergent strategy possibilities are enhanced where people work well together and collectively. There is a team spirit, sharing and learning. *Synergy* is the outcome. Extended to the level of the organization, this constitutes a learning organization. As with empowerment, this can seem attractive as a theoretical idea and ideal but be difficult to implement effectively.

The information that feeds the whole process of decision-making comes from a variety of internal and external sources, both formal and informal. Formal information systems and *information technology* can both make a valuable input, but information is more than information technology. However much information they have, managers are still not 'seeing reality'; rather, they are put in positions where their perception of events can be more informed and, hopefully, more insightful. As well as informing decision-making, information and information technology can be a source of competitive advantage in its own right. The emergence of the internet has spawned a host of new businesses and requires every company to formulate a strategy.

Professor Michael Porter has provided a useful value chain framework for helping to understand where differences are created, where costs are incurred and how synergy could be generated through linkages. His value chain comprises:

Five primary activities:	Inbound logistics
	Operations
	Outbound logistics
	Marketing
	Sales service
Four support activities:	Procurement
	Technology development
	Human resource management
	The firm's infrastructure.

Organizations must understand and manage their cost drivers. They should not attempt to cut corners with things that really matter to customers; at the same time, they should not incur unnecessary costs with things that do not add value for customers.

The value of a strong reputation must not be underestimated. A sound corporate reputation reassures customers. It generates sales and, very significantly, repeat sales; it can enable price premiums, is an important intangible resource, and is frequently manifested in a strong, visible and readily identified brand name.

Online cases for this chapter

Online Case 5.1: British Airways
Online Case 5.2: Benetton
Online Case 5.3: Britt Allcroft
Online Case 5.4: The UK Holiday Travel Industry
Online Case 5.5: Tesco (IT case)
Online Case 5.6: Betfair
Online Case 5.7: Burberry
Online Case 5.8: Levi's
Online Case 5.9: Hornby Hobbies

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Questions and research assignments

1. What are the opportunity-driven and resource-based views of strategy? Where and why are they different? Why is it important for organizations to embrace both views simultaneously?
2. Think about your own buying habits and choices. Where do you specifically choose high-profile branded items, and where are you less concerned? Why? What do you think this behaviour is saying about you?
3. Consider how strategic changes in one retail sector – from an emphasis on hardware stores that specialize in personal service and expert advice to customers from all employees, to a predominance of do-it-yourself supermarkets and warehouses – could have affected issues of staff motivation, personal development needs and appropriate reward systems.
4. Albeit by rule of thumb, take a team of people with whom you associate closely and evaluate their behaviour characteristics. Where is the team strong? Where is the team weak? Do you believe it is balanced? If not, what could be done to change things?
5. Consider how the increasing utilization of information technology in retailing has affected you as a customer. Do you feel that the major retail organizations who have introduced and benefited from the greater utilization of IT have attempted to ensure that the customer has also benefited and not suffered?
6. Consider why it is argued that the increasing utilization of IT by organizations is a cultural issue. How could managers be encouraged to make greater use of the technology which is available?
7. How do you personally use social media and the internet? Do you feel you are exploiting its potential?
8. Do you think there is a trade-off between self-scanning in supermarkets and the risk of shoplifting? Is it a worthwhile trade-off for retailers?

Internet and library projects

1. Use the internet to look at the current status of Dyson and the other main manufacturers of vacuum cleaners. To what extent has James Dyson transformed an industry? How has he now extended the product range of the business?

   Dyson **www.dyson.com**
2. Select an organization of your choice, ideally one with which you are familiar, and carry out a resource audit. Make sure that you take account of industry key success factors and competitors' relative strengths in your evaluation.
3. Using the same organization, apply Porter's value chain. As far as you are able, and accepting that there may be elements of subjectivity, allocate the costs and consider whether your breakdown matches your initial expectations. Where are the all-important linkages?
4. For an organization of your choice, ascertain the range of products and services offered and answer the following questions:
   - What are the essential information needs from outside the organization (the environment) for managing these products and services both now and in the future?
   - Where are the limitations in availability?
   - What role could IT play in improving availability?
5. Using the internet (maybe starting with www.statista.com), ascertain the world's most valuable brand names. Do you think it is predictable and justifiable that in 2021 only Walmart (in sixth place) was the only non-IT brand in the top seven? How different were the leading brands ten years ago?

Strategy activity

Lagardere

Lagardere is France's largest media company, but not a 'world leader' in the industry. Its magazines include *Elle*, *Paris Match* and *Psychologies*, all of which are published in different language editions. It owns the Europe 1 radio station and two television stations in France. It also publishes *Le Journal de Dimanche*, one of two national

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Sunday newspapers. It promotes live concerts and has developed into internet advertising. Since 2006, it has been divesting unprofitable regional newspapers.

In 2008, Lagardere was seeing a downturn in the advertising spend on which it depends for most of its activities. As a consequence, it sought to build on its existing competencies and seek out growth opportunities in China and Russia, as well as increasing its internet presence. Perhaps these could even be combined?

These ideas presented some interesting challenges. China is well established as a provider of both typesetting and printing – but this is different from penetrating the 'reading industry' in China. Lagardere was also thinking about possible scale economies and synergies across its range of activities. Did shared content offer an opportunity? Could advertising packages be constructed?

Questions

1. Does this resource-based approach make strategic sense? Are the possible synergies realistic or very ambitious? How did things turn out?
2. Lagardere has become a leading travel retailer with a number of shops at airports and railway stations. Was this also resource-based strategy? Do you see it as a logical development – and has it been successful?

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Chapter 6

The dynamics of competition

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- explain the notion of dynamic, tactical change in a competitive environment **(Section 6.1)**
- define product (service) differentiation and cost leadership, and explain their role in the creation and maintenance of (sustainable) competitive advantage in the context of Porter's generic strategies **(Section 6.2)**
- show how an organization can evaluate its competitive strategies against those of its competitors **(Section 6.3)**.

They say: 'Do you sleep well at night with all the competition?' I say: 'I sleep like a baby.' They say: 'That's wonderful.' I say: 'No, no. I wake up every 2 hours and cry!' Because it's true, you know. You have to feel that restlessness.

Roberto Goizueta, late Chief Executive, Coca-Cola Corporation

Introduction

To stay resilient, organizations must remain competitive – continuing to create and deliver perceived value for their customers and clients. This chapter focuses on positioning and competitive tactics; we return to the contextual challenge in Chapter 13 (where we examine changing fortunes) and Chapter 15 (leading change). Few companies enjoy the luxury of having no serious competitors or little likelihood of any need to change their **competitive strategy**. Companies must seek opportunities to create – and sustain – a competitive edge over their rivals and build customer loyalty that provides something of a comfort zone, which logically should lead to superior profits.

Yet, some organizations easily misunderstand **competitive advantage** as a term and clearly believe, and thus delude themselves, that a clear competitive strategy constitutes advantage – whereas advantage comes from being better or different in some meaningful way. Competitive strategy, since the seminal work of Porter on generic strategies and the five competitive forces in the 1970s and 1980s, has been prevalent in the field. Porter defines strategy in distinctly competitive terms: 'what makes one unique, gives one a distinct competitive advantage, provides direction, builds brand reputation, sets the right goals, adds superior performance, defines a market position and creates a unique value proposition' (Porter, 2005, p. 14). Indeed, regarding the vital link between competitive strategy and **firm performance** (Parnell, 2002; Parnell *et al*., 2006), there is a debate about whether firms should mix and match generic strategies or not, and it has been found that 'strategic purity' – that is, choosing one and only one strategy – leads to enhanced performance (Thornhill and White, 2007). Brown and Blackmon (2005) also suggest that, due to 'strategic dissonance' – which occurs because of tensions between strategies that are either resource or market based – the new concept of strategic resonance is, therefore, required, where resources (or manufacturing strategy and operations) and markets (or competitive strategy) are aligned. Weerawardena (2003a) also suggests that innovative firms need to have particular marketing capabilities – hence contributing to the firm's competitive strategies and, thus, sustainable competitive advantage. It is further suggested that they need a market-learning capacity (Weerawardena, 2003b). Knowledge, as a resource, can also assist competitive strategy through effective knowledge management (Halawi *et al*., 2006). Furthermore, networks and alliances can support competitive strategies, particularly in terms of the structure of these networks and the influence of geography (Tracey and Clark, 2003) – networks being confirmed as important to competitive strategy by other authors (Ehrhardt, 2004; Rajasekar and Fouts, 2009).

Even the strongest companies cannot afford to stand still: Nintendo (Online Case 6.1) has been successful because: (i) it understands its industry, (ii) it found a winning opportunity, and (iii) it surprised

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both Sony and Microsoft. A cynic, of course, would argue that a company must change more rapidly than its rivals can steal its ideas!

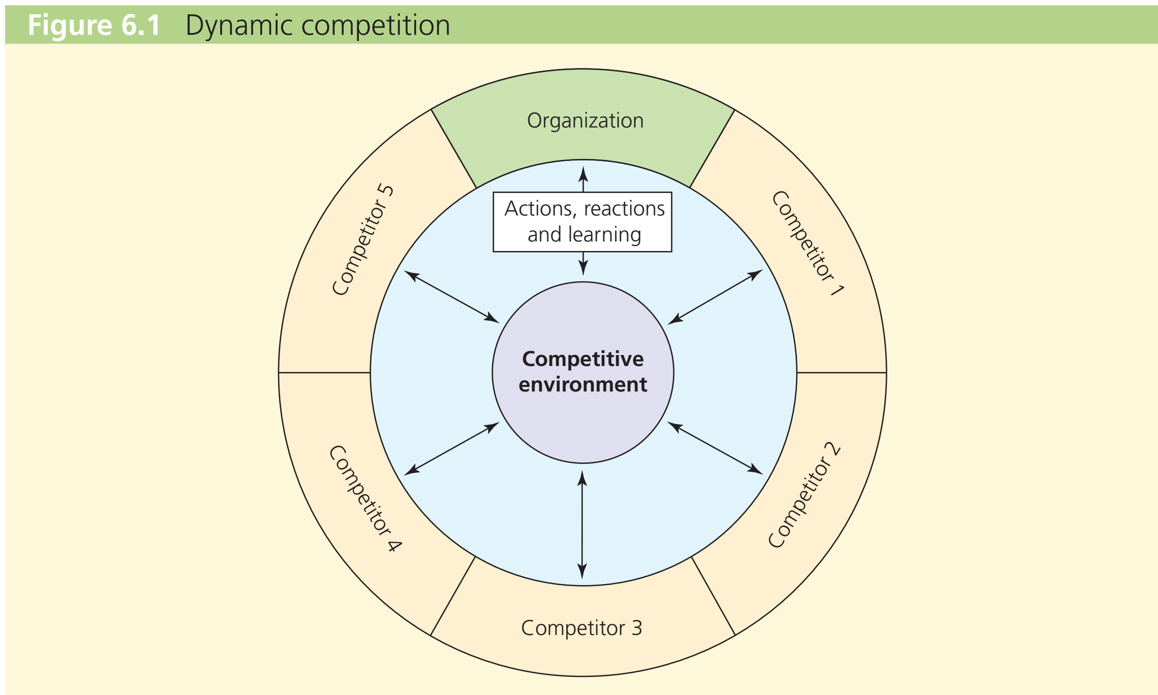
This chapter examines the nature of competition in general, before discussing models and frameworks that help us to understand competitive strategy, competitive advantage and competitive dynamics.

The Online Case 'Nintendo's Rise from the Ashes' provides an extended example of this section's theory in practice.

6.1 Competition and competitive advantage

Causes generate effects, actions lead to outcomes, such that companies introducing an innovation affect the relative success of rivals, possibly provoking several reactions, depending on the extent of the impact and the general nature of competition. Each reaction, in turn, further affects the other rival competitors in the industry, and new responses will again follow. What we have in many markets and industries, as illustrated by Figure 6.1, is a form of *competitive chaos* – that is, a competitive **business environment** which is permanently fluid and unpredictable. BT, for example, continues to face competition from cheap telephone calls and internet service providers, as well as competition from satellite streaming companies such as Sky and Virgin. BT also faces demands that it should provide free and open access to its network, leading to falling telephony revenues (which have been approximately £500 million per year) as business drifts to other fixed line rivals and mobile companies. With its broadband services, BT has realized it must adapt and respond to defend its place in the market, or eventually the government may force further regulatory changes, resulting in a weakened business. As a consequence, it acquired Everything Everywhere (EE), which was a merger of Orange (previously owned by France Télécom) and T-Mobile (formerly owned by Deutsche Telekom) mobile networks.

Figure 6.1 Dynamic competition



There are two sets of similar, but nevertheless different, competitive decisions. First, some actions are innovatory: one competitor acts on a perceived opportunity ahead of its rivals and opens up a gap; other actions constitute reactions to these competitive initiatives. Second, some decisions imply incremental strategic change to existing, **intended strategies**; on different occasions, companies are adapting their strategies

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(**adaptive strategic change**) as they see new opportunities which they can seize early, or possible future threats which they are seeking to avoid. The process is about *learning and flexibility*. Often, as we see later in Chapter 10, they involve an *intrapreneur*, an internal (or 'intra-corporate') entrepreneur. Organizations, therefore, need to be able to discern patterns in this dynamic environment and competitive chaos, and spot opportunities ahead of their rivals; to anticipate competitor actions and reactions; and to use this intelligence and insight to lead customer opinion and outperform competitors.

Cases 6.1 and 6.2 document two examples of disruptive competitor interventions. Case 6.1 (Russian Standard Vodka) shows how one entrepreneur saw and successfully seized an opportunity in the changing (and growing) market for spirits. Case 6.2 (The Tato Nano) examines the less successful attempt by an established and diverse Indian conglomerate to create a new position in the very competitive global car industry.

Case 6.1 Russian Standard Vodka — Russia

The most successful lifestyle brand from the Brazil, Russia, India, China and South Africa (BRICS) countries in recent years.

Russian Standard vodka was launched in 1998 by Roust Holdings, which also opened the Russian Standard bank. The entrepreneur behind Roust is Roustam Tariko, who had become successful as an importer and trader. He had made a fortune from importing and distributing spirits (in Russia) – he emerged as the country's leading distributor. He had the vision to create an international umbrella brand (much in the same way as Virgin) associated with Russia's heritage, rich history and traditions, and for the brand to reflect premium quality. He meant Russia before the revolution and subsequent Soviet era. Vodka was an ideal product for Roust; as a drink, it is associated firmly with Russia. Globally, it is the second most popular spirit after whisky (in all its varieties); the respective market shares are 20 per cent and 30 per cent. Grey Goose vodka had proved, some years earlier, that new premium brands could enter the market successfully. Vodka is manufactured by fermenting natural products such as potatoes, beets and grains. Because 'natural' vodka has relatively little taste, it is frequently mixed with other flavours. Although it is possible to do this at the fermentation stage, it mostly happens later on and at the point of consumption – and so branding is essential and powerful as a product differentiator.

Russian Standard vodka is produced by Liviz, located in St Petersburg and one of Russia's oldest distributors. The success of the new product has enabled Liviz to build a US$60 million state-of-the-art distillery. Annual production is now some 3 million 9-litre cases.

The distinctive bottles are slightly bell-shaped (wider at the base) partly to reflect the Kremlin's onion dome. The labels are black and feature Cyrillic lettering, as well as a 'translation'. They were designed in London. Advertising is focused on simple messages reflecting heritage, quality and pure (uncontaminated) taste. Vodka as it should be. A comparison with some competing brands is insightful. Smirnoff, in particular, has been producing more colourful advertising with semi-hidden – and, sometimes, tongue-incheek – messages for at least 40 years. Russian Standard vodka is cheaper in Russia than imported premium brands but more expensive than standard home-produced vodkas.

The leading competitor is clearly Smirnoff, which is available in a range of alternative qualities and strengths. Smirnoff has Russian origins and a Russian association, but it is not only distilled in Russia. For example, it is manufactured in America for the American market. Skyy is a leading American vodka. The most popular standard home brand is Stoli (short for Stolichnaya), but this has something of a Soviet association and is bottled in Latvia. Three of the most successful non-Russian premium vodkas are Absolut (Sweden), Finlandia (Finland) and Grey Goose (France).

The main consuming countries are (in order) Russia, Ukraine, America and Poland. It is popular across Eastern Europe and also in the UK. Russian Standard has become the leading premium brand in Russia in 15 years, enjoying a 40 per cent market share of the premium market; it is also exported to some 80 countries worldwide. In the UK, it has overtaken Absolut to take second place behind Smirnoff. It has been particularly successful in duty free shops.

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Questions

1. Evaluate the growth and development of Russian Standard vodka. Does it represent innovation? Entrepreneurship?
2. Visit a local supermarket (or similar) and examine the various vodkas on the shelves. Use the internet to compare different advertising approaches and messages – in particular, look at Smirnoff, Stolichnaya, Absolut and Grey Goose, as well as Russian Standard. How distinctive is Russian Standard?
3. Do you think it has achieved what we described in the text as 'buy (produce) for less, sell for more'?
4. How much has this business been affected by the economic sanctions imposed on Russia by (in particular) the UK, United States and Europe, as a consequence of the conflict between Russia and the Ukraine in 2022? How has the company responded?

Case 6.2 The Tata Nano: A Low-Cost, No-Frills Car — India

While we typically associate 'low-cost and no-frills' with the airline industry, it might be relevant as a competitive strategy elsewhere as this case explores.

Passengers on airlines such as easyJet and Ryanair opt to sacrifice certain standards of service to obtain low prices, but the seats are comfortable enough, the safety records stand scrutiny and the planes generally fly on time. This business model and strategy is different from those based on low quality which might well lead to unreliability.

Historically, certain cars have been sold as 'relatively low quality and low price', which, of course, is not quite the same message – Eastern European brands such as Lada, Trabant and Skoda (before its acquisition by Volkswagen) would be included as examples of this approach. The Lada and Trabant are now 'confined to history', and the Skoda has been repositioned. Renault is a long-established French car manufacturer with a defendable reputation. In 2007, it chose to enter the 'global emerging markets' sector with a new car, the four-door Renault Logan saloon. The car was launched in India, where it was manufactured in a joint venture with Mumbai-based car manufacturer Malindra & Malindra – which now controls production in India. Renault continues to market a variant of the Logan model, using the modestly priced Dacia brand. This Romanian company – Dacia being the name of the Roman province covering much of modern-day Romania – is part of the Renault Group, and the car is manufactured in various countries, including Brazil.

Priced at around £5,000 on its launch, the Logan was certainly not ultra-cheap, but it was undoubtedly competitive. It was not described as 'stylish' and it dispensed with frills. Costs were contained by certain design features: almost flat windscreens, which are cheaper to make; identical wing mirrors for both sides of the vehicle, for example. It used interior parts designed for other Renault cars and it had the Clio engine. Development costs were shaved by relying on computer modelling, rather than actual mock-ups.

The Tata Nano was different. The diversified Indian conglomerate Tata is perhaps best known as the world's leading tea company, but it is involved in steel making and it previously bought Jaguar and Land Rover from Ford.

The Nano was designed to be – and has, accordingly, been marketed as – the world's cheapest car. It was again manufactured in India and, at its launch, priced at just (the equivalent of) £1,275. The Nano was offered as a five door, four-seater car with a rear mounted 624cc engine. It achieved 50 miles per gallon of fuel. Air conditioning, electric windows, airbags and power steering are all features that were simply not included. There was a single windscreen wiper, just three (instead of four) nuts securing each wheel, very thin-width

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tyres, and a simple dashboard all-enclosed in a central attachable unit. It was designed to be affordable to less affluent buyers in the developing world and thus make cars more widely available. It was offered as basically 'safe, affordable and all-weather transport'. In this respect, it could be seen as the (successful) Model T Ford story all over again – which, on the face of it, seemed a positive development.

There were, however, problems with quality and reliability, and criticisms regarding its relative lack of power. In addition, some vehicles were reported to have caught fire. Moreover, while the Nano did meet minimum standards, its emissions were higher than other small cars. One question, therefore, was whether increasing the number of cars on the planet and adding to the carbon footprint in a relatively inefficient way was genuine progress or a mixed blessing. Sales never met all of Tata's expectations. The target had been to achieve annual sales of 250,000 units; but, in the event, 75,000 was the maximum sold in any single year. After peaking in 2011–12, sales started to fall, prompting the launch of a new model. The GenX Nano was available in 21 different versions (and price points) but this was not enough to rescue the business. Production stopped in 2018. It was concluded that (as with many products, to be fair) 'the public never appreciated it'. Perhaps, though, car buyers will not flock to the cheapest car that is available; a car can be seen as 'too cheap'. Nevertheless, the Nano won awards for its design.

Questions

1 Is the Tata Nano 'Blue Ocean' or had Tata more realistically (simply) discovered a new niche which it believed could, in time, be potentially very valuable? *Remember here the missive that, while there is a gap in the market, there might not be a market in the gap.*

2 Is being described as the 'world's cheapest car' potentially more of a detriment than an advantage? Or could the niche grow into something very substantial given patience and investment?

3 Perhaps using the internet, why do you think the Logan has proven to be more successful?

Ocean Spray was identified by Kanter (1990) as a US company which spotted a potentially lucrative competitive opportunity – in this case, 'paper bottles' for soft drinks that were being used in Europe. This was an opportunity which its leading US rivals did not spot; neither were they enthusiastic about it. Ocean Spray, which manufactures a range of products from cranberries, including drinks (sometimes mixed with other fruits), had empowered a middle manager from their engineering department to look for new ideas for the company – an aspect of their planned strategy. He saw the potential, resulting in an 18-month exclusive rights agreement and a packaging concept that proved attractive, substantially increasing the popularity of cranberry juice drinks. Simply, children liked the package and came to love the drink. His foresight proved very valuable for his employer. This story shows how competition can come from unexpected sources, so any organization is playing dangerously if it assumes that future competitive threats will only come from rivals, products and services that they already know and understand. In reality, the unrecognized, unexpected newcomers may pose the real threat because, in an attempt to break into an established market, they may introduce some new way of adding value and 'rewrite the rules of competition'.

Bill Gates' view of the future, based on personal computers on every desk, was radically different from that of long-time industry leader IBM, enabling Microsoft to enter and dominate the computer industry. Direct Line, with its telephone insurance services at very competitive prices, provoked a response from competitors, and price comparison websites emerged, forcing Direct Line to change its pricing offer – both have changed and improved the nature of their service dramatically for customers.

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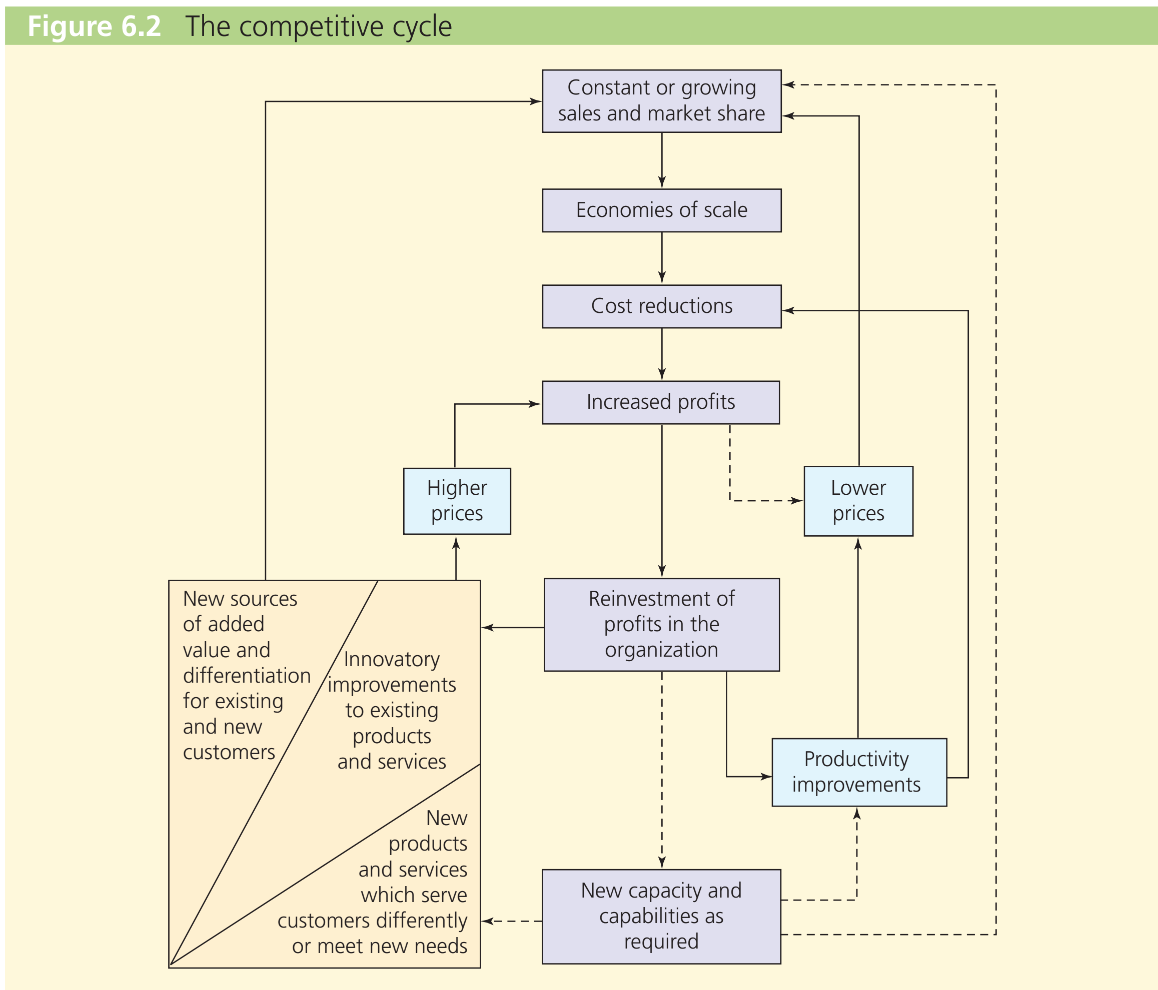
Figure 6.2 shows how organizational resources need to be used to drive the competitive cycle, as constant – or, ideally, growing – sales and market share can lead to economies of scale and learning. In turn, these lead to cost reductions and improved profits. The profits could, in a particularly competitive situation, be passed back to customers in the form of lower prices, but, more typically, they will be reinvested in the organization, improving productivity, adding new capacity, lower prices and/or further cost reductions.

Figure 6.2 The competitive cycle



The investment can also bring about new sources of added value and **differentiation**, possibly allowing higher prices and further profit growth. The improved competitiveness should also increase sales and market share, and drive the cycle round again. These changes could take the form of gradual, continuous improvements, or radical changes to establish new rules of competition.

In this regard, the market for DVD players (and more recently MP3 players) grew dramatically and experienced massive price reductions. When first introduced, a DVD player was a premium item; now, they are being sold in supermarkets for a fraction of the initial entry price – and the same is true for MP3s. Having experienced rapid growth, the switch by customers to streaming impacted demand for both DVDs and DVD players.

With future uncertainty, changes in popularity and different competitors tomorrow from those of today, Sull (2006) argued that all organizations competing in an industry, as well as those thinking of entering the industry, have the opportunity to look for trends and signals and to search for competitive opportunities. He contends that the winners are 'actively waiting', and: (i) *anticipate*, perhaps using scenarios; ii) *prepare* for opportunities and threats that they can neither fully predict nor control, remaining vigilant and prepared; and (iii) *screen* and *evaluate* the significance of potential opportunities and threats (Sull, 2006).

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Competitive advantage is achieved not from simply being different, but also if and when real value is added for customers, often requiring companies to stretch their resources to achieve higher returns (Hamel and Prahalad, 1993). This requires the successful harnessing and exploitation of their core competencies and *capabilities*, perhaps leading to improved productivity and employees generating innovations (new and better ways of doing things for customers). This could be followed by lower costs, differentiation, or a faster response to opportunities and threats. Such employees must be empowered in a decentralized organization, allowing them to make their own decisions, making them able and willing to look for improvements, possibly changing the rules of competition. Organizations, therefore, should seek to encourage 'ordinary people to achieve extraordinary results' by rewarding and recognizing achievement. While people are naturally reticent about taking risks, 3M (which developed Post-it Notes), Sony, Hewlett-Packard and Motorola are highly creative and innovative, and all actively encourage their employees to look for, and try out, new ideas. In such businesses, the majority of products in the corporate portfolio will have only existed for a few years, while effective empowerment can bring continual growth to successful companies and also provide ideas for turning around companies in decline.

Competitive advantage is also facilitated by good internal and external communications, achieving one of the potential benefits of linkages, and enabling businesses to share and learn best practice. Information is a fundamental aspect of organizational control, such that they can learn from suppliers, distributors, customers, other members of a large organization and competitors. Companies should never overlook opportunities for communicating their achievements, strengths and successes, given that image and reputation are vital intangible resources which also help to retain business.

Competitive themes and frameworks

Porter (1980) and Ohmae (1982) are two authors who contend that business strategy is all about competitive advantage, because they believe its sole purpose is to enable the company to gain, as effectively as possible, a sustainable and strong edge over its competitors in the most efficient and cost-effective way. For example, a company can undertake actions improving its health (value engineering or improved cash flow which improve profitability), thus widening its range of alternative strategies in comparison with its competitors. This section explores competitive advantage, but, before you read further, think about the comments above on competitive dynamism and re-read Critical Reflection 4.2 in Chapter 4. McGrath (2013) flags that sustainable advantage may well be an unrealistic dream, but that does not mean competitive advantage can be ignored.

There are basically four ways to create competitive advantage, according to Ohmae (1982):

- Identify the key success factors in an industry and concentrate resources in a particular area with, potentially, the most significant competitive advantage.
- Exploit any area where a company enjoys relative superiority – for example, using technology or the sales network developed elsewhere in the organization for other products or services.
- Aggressively attempt to change the key success factors by challenging the accepted assumptions concerning the ways in which business is conducted in the industry or market.
- Innovate: open up new markets or develop new products.

Therefore, by avoiding doing the same thing, on the same battleground as the competition, the company's competitive situation will enable it to: (i) gain a relative advantage through measures that its competitors will find hard to follow, and (ii) extend that advantage further. Accordingly, he offers a framework for studying competitive advantage focusing on three Cs:

- *Customers* ultimately determine a company's success by buying or not buying the product or service, but they cannot be treated *en masse* and specific preferences should be sought and targeted, with products differentiated to appeal to defined market segments.
- *Competitors* similarly differentiate their products, goods and services, incurring costs, with competition based, for example, on price, image, reputation, proven quality, particular performance characteristics, distribution or after-sales service.
- *Corporations* are organized around particular functions (production, marketing, and so on) and their structure, and how they are managed determines the cost of the product or service.

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Competitive advantage can be created by differentiating in several areas of business – such as product design, packaging, delivery, service and customizing – but they can increase costs, which must be related to the price that customers are willing to pay based on the perceived qualities of a product, again in relation to competitors. A clear understanding of market needs and of specific segments, together with targeting customers more effectively and profitably than competitors, leads to strategic success.

Prahalad and Ramaswamy (2004) argue that the best way to create new value is by proper co-operation with customers, rather than assuming it is best created from within the organization. It implies a level of engagement that extends beyond either consultation or test marketing; it involves real listening and collaboration. The focus is 'meeting requirements', rather than 'delivering a great experience'. They cite allowing customers to put fuel in their own cars at service stations (providing them with greater freedom of choice and lower prices) and automatic teller machines (ATMs), 'holes in the wall' outside banks and in other convenient locations, as examples where requirements have been met. Asking customers to do more for themselves is, though, not always going to be universally popular and successful – as was the case with asking people to weigh their own fruit and vegetables in supermarkets. In the same way, many customers find self-checkout in a supermarket to be a slower option than queuing for a trained member of staff, unless it is a very small basket of items. It is useful to cross-reference the business model (Chapter 2) and lean start-up (Chapter 10) here, where the point about asking the 'right' questions and identifying customers' problems is emphasized.

According to Porter (1980), effective strategic management is the positioning of an organization, relative to its competitors, in such a way that it outperforms them. Marketing, operations and personnel, and all other aspects of the business, are capable of providing a competitive advantage, leading to superior performance and profits.

Two aspects of the current position of an organization are important:

1. *The nature and structure of the industry* in terms of the number of firms, their sizes and relative power, the ways they compete and the rate of growth. A company may or may not be attracted to a particular industry. How attractive an industry is depends on that industry's prospects in terms of profit and growth potential, and the contribution to achieving the firm's objectives. The firm's objectives are, in turn, influenced by the nature of the industries in which it does compete. The flow chart illustrated in Figure 6.3 reinforces the basic principles.
2. *The position of the firm within the industry*, involving its size and market share, how it competes, whether it enjoys specific and recognized competitive advantage and whether it has particular appeal to selected segments of the market. The extent of any differentiation is crucial here.

Earlier, in Chapter 2, we stressed that it is vitally important to consider how business models link to a firm's competitive advantage and showed that the adoption of a Blue Ocean approach, for example, can enable firms to create novel strategies that enhance their competitive advantage in several key ways. The Tata Nano case (Case 6.2) demonstrates this point; Tata was offering a car which was both less costly to purchase but also had 'low frills' (fewer of the features that make traditional cars more expensive). It thus mimics the no-frills airlines we discussed earlier and relates to the discussion on open and new business models. By adopting such a business model, Tata was seeking to achieve superior performance and sustainable competitive advantage by offering a new car to customers who do not wish to – or cannot for financial reasons – pay (what many would see as) the 'full price' for a new car. Seen with hindsight, Tata clearly misunderstood the potential attractiveness of such a car.

The most successful competitors will create value, create competitive advantage in delivering that value and operate the business effectively and efficiently. For above-average performance, all three are required. A business could be run well – that is, efficiently – but never create competitive advantage. An effective and superior organization will be in the right industry and in the right position within that industry. Size can matter – refer to Figure 6.4 – such that the largest of the mainstream competitors, as long as it is run effectively and efficiently, will be able to enjoy superior margins in comparison with its nearest rivals because it can generate scale economies. And yet, the small competitor with a very carefully defended niche can also enjoy superior margins.

A good new product may offer the consumer something new, something different and thus add value; but, if it is easily imitated by competitors, there is no sustainable competitive advantage. For example, Freddie Laker pioneered cheap transatlantic air travel but went out of business in the face of competition and management weaknesses.

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Figure 6.3 Industry growth prospects

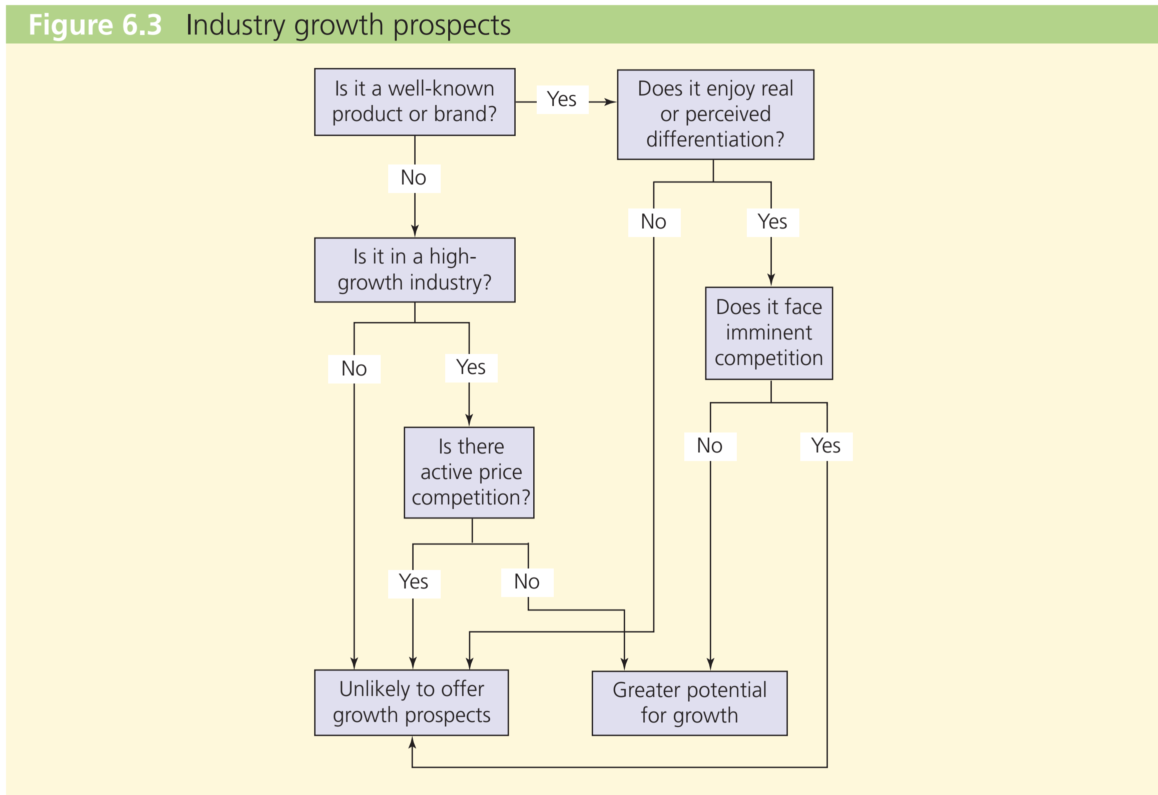
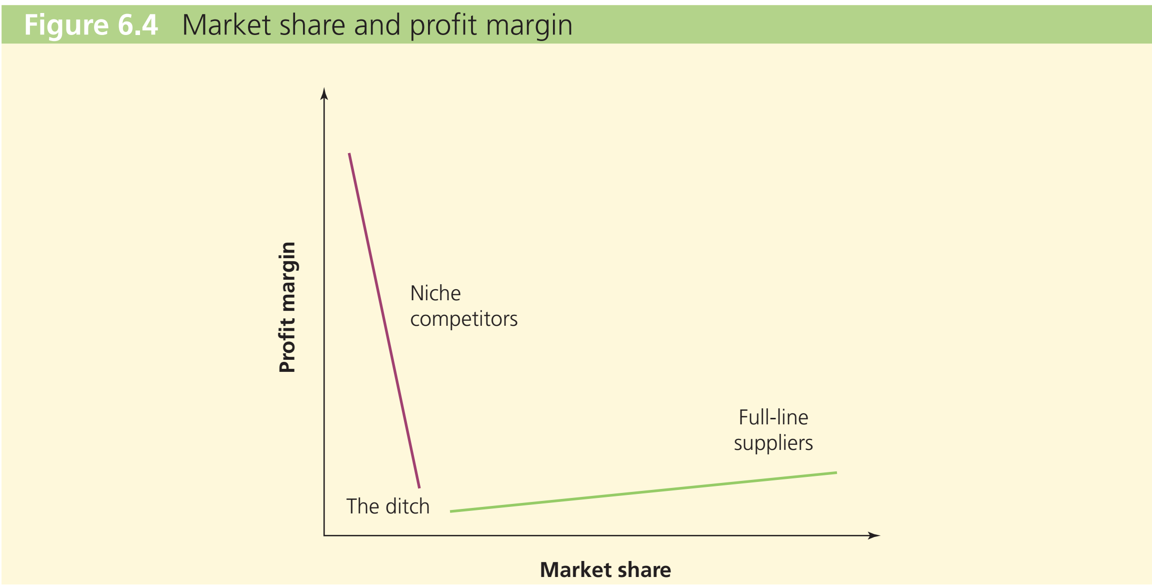


Figure 6.4 Market share and profit margin



Developed from ideas provided by George Buckley, when CEO, Brunswick Corporation

Sustaining competitive advantage, rather than creating it initially, presents the real challenge. The imperative is, therefore, for constant innovation – given that people's tastes change; the size of markets is limited, not infinite; and competitors will seek to imitate successful products, services and strategies. Constant innovation demands changes in products, services and strategies which take account of market demand, market saturation and competitor activity. In this context we might ask how Coca-Cola retains global leadership of the soft drinks market.

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Heller (1998) has suggested that organizations which sustain competitive advantage over time will be addressing seven questions effectively:

1. Are we supplying the 'right' things?
2. Are we doing it in the most effective way?
3. Are we doing it at the lowest possible economic cost?
4. Are we as good as – and ideally better than – our strongest competitor?
5. Are we targeting and serving the widest possible market?
6. Do we have a unique selling proposition – something which will persuade customers to buy from us rather than anyone else?
7. Are we innovating to make sure the answer to all these questions will remain 'yes'?

6.2 Competitive strategy

For customers, the link between price and perceived quality must make sense – that is, products and services should be neither over-priced (resulting in a loss of goodwill and, often, lost business), nor under-priced (leading to lost profits and lost orders due to lower perception of the relative quality).

As an activity, we suggest you run a quick online search to discover Porter's generic strategy framework and view his simple matrix. His original framework is the basis for both Figures 6.5 and 6.6.

Figure 6.5 Simple competitive strategy matrix

Based on an idea found on the Abram Hawkes PLC website

Porter (1985), building on earlier work on industry analysis, identified how he believed a firm could create sustainable competitive advantage through **generic strategies** of **lower costs** or **differentiation**, as illustrated in Figure 6.6. While sustainability may be a real challenge, the thinking behind his work is worthy of serious study. Competitive strategy and competitive advantage, although clearly linked, are not synonymous: the former concerns the way in which organizations choose to compete and position themselves; the latter may or may not be an outcome of this. To achieve true advantage, an organization must find opportunities to be different in ways which are meaningful for customers, and thus the activities which create the position are the key to advantage.

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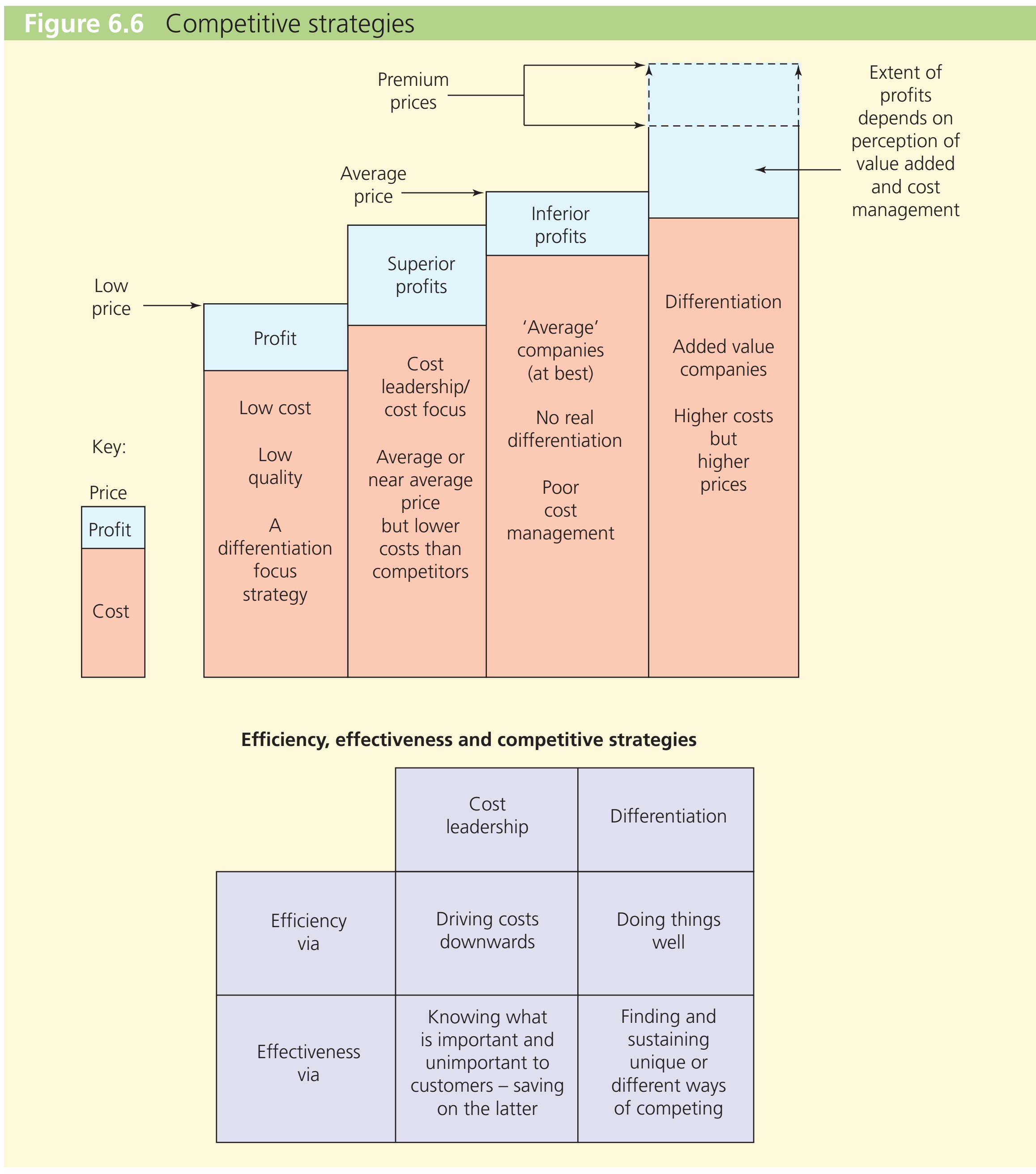
Figure 6.6 Competitive strategies



	Cost leadership	Differentiation
Efficiency via	Driving costs downwards	Doing things well
Effectiveness via	Knowing what is important and unimportant to customers – saving on the latter	Finding and sustaining unique or different ways of competing

When pursuing 'cost leadership', Porter (1985) argues that the organization must be *the* cost leader and be unchallenged in this position, and that if there is competition for market leadership based on this strategy there will be price competition. Cost leadership does not imply that the company will market the lowest price product or service in the industry, because these are often perceived as inferior, appealing to only a proportion of the market – so low price related to lower quality is a differentiation strategy. Low-cost companies can have up-market rather than down-market appeal. Equally, low cost does not imply lower rewards for employees or other stakeholders, as successful cost leaders can be very profitable, aiming to secure a cost advantage over their rivals, price competitively and relative to how their product is perceived by customers, and achieve a high profit margin. Where this applies across a broad range of segments, turnover and market share should also be high for the industry. They are seeking above-average profits with industry-average prices.

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Cost focus strategies can be based on finding a distinct group of customers whose needs are slightly below average – saving costs by meeting their needs specifically and avoiding unnecessary additional costs.

Figure 6.6 illustrates the above points and relates the generic strategies to efficiency and effectiveness. The advantage lies not in being only one of a number of low-cost producers but, instead, in superior management, concentrating on cost-saving opportunities, minimizing waste – in any and every area of the business.

Porter (1985) argues that, in the motor vehicle industry, Toyota became the overall cost leader, and the company remains successful in a number of segments with a full range of cars; its mission is to be a low-cost producer. Strategic Reflection 6.1 (towards the end of this section) summarizes how Toyota became recognized as a cost leader. In contrast, in the United States, General Motors (GM) competes in most segments of the market, seeking to differentiate each of its products with superior styling and features, and by offering a wider choice of models for each car in its range – but its cost of production is not in line with its overseas rivals. Hyundai became successful around the world with a restricted range of small and medium-sized cars which it produced at relatively low cost and priced competitively. Neither Toyota nor Hyundai (now partnered with Kia) markets the *cheapest* cars available.

Differentiation adds costs in order to add value for which customers are willing to pay premium prices, and the market must be capable of clear segmentation. Firms, therefore, serve customer needs differently – ideally, uniquely – so the more sustainable is any advantage which accrues. Differentiation inevitably adds costs, but only in areas that customers perceive as important *in any area of the business*. Examples are the quality of materials used (related to purchasing), superior performance (design), high quality (production, inspection), superior packaging (distribution), delivery (sales, production), prompt answer of queries (customer relations, sales) and efficient paperwork (administration).

Furthermore, it is insufficient merely to add value; customers must recognize and appreciate the difference. The differentiation strategy can be easily misjudged, however, for a number of reasons, including:

- choosing something that buyers fail to recognize, appreciate or value
- over-fulfilling needs, thus failing to achieve cost-effectiveness
- selecting something that competitors can either improve upon or undercut
- attempting to over-charge for the differentiation
- thinking too narrowly, missing opportunities and being outflanked by competitors.

Case 6.3 illustrates five distinct differentiation strategies.

Case 6.3 Five Differentiation Strategies Int

BMW, Miele, Bang & Olufsen, Coach and James Purdey

BMW

BMW follows a number of strategies designed to protect its market niche, especially from Japanese competition. Notably, these cover both the cars and the overall service package provided by BMW for its customers.

- Cars can be tailored and customized substantially. If they wish, customers can choose any colour they want, a benefit normally restricted to Rolls Royce and Aston Martin; and there is a wide range of interior options and 'performance extras'.
- Safety, environment, economy and comfort are featured and stressed in every model.
- National BMW sales companies are wholly owned, together with strategically located parts warehouses. The independent distributors place their orders directly into BMW's central computer.
- There are fleets of specially equipped cars to assist BMW motorists who break down.
- In 1994, BMW became the first European car manufacturer to produce in the United States.
- Historically, BMW chose to ignore sports cars and hatchbacks, which it saw as down-market from luxury saloon cars. However, market trends and preferences brought a change of heart. The 1994 BMW Compact was launched as a hatchback version of the successful 3-series; a BMW sports model was used for the James Bond film *Goldeneye*.

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The acquisition of Rover gave BMW a range of successful, smaller hatchbacks, along with Land Rover recreational and multi-purpose vehicles. But the two companies, with their very different histories and cultures, were not easily integrated. In 2000, Rover was bought back by a financial consortium and Land Rover was sold to Ford.

When BMW divested Rover, it retained the rights to the Mini, which it has redesigned and successfully relaunched. It is quite normal for demand to exceed supply, such that there is a waiting list for new models. It is significant that, although they may be adjacent on the same site, mainstream BMW and Mini models are typically sold from separate showrooms.

BMW **www.bmw.com**

Miele

The German company Miele is a global leader in high-quality domestic appliances – washing machines, vacuum cleaners and dishwashers. The business was formed in 1900 and it is still run by two great-grandsons of the founding partners. Around 90 per cent of the sales are in Europe, where the company has a 6 per cent market share. The other 10 per cent of sales are in the United States. Miele does not look to compete on price – indeed, the price of a Miele can be up to 70 per cent higher than some rival branded products. The brand stands for quality. The typical life of a Miele machine is 20 years, and the company enjoys a tradition of loyal customers and repeat purchases.

Most of the products are manufactured in Germany, regarded as a country with relatively high wages. Miele even manufactures its own motors at a plant near Cologne. However, as a result of the German recession at the end of the 1990s/early 2000s, Miele established a small production plant in the Czech Republic – where wages were one-quarter of those it was paying in Germany. It already had one plant in Austria and a joint venture in China. Some 12 per cent of revenues are reinvested in product development, a figure much higher than the industry average. The company has around 700 different patents to protect its designs. There is a strategy of rigorous and lengthy product testing.

Innovation is simply seen as routine and significant. The drums in large front-loading washing machines, for example, have some 4,000 holes for letting the water in and out. Miele reduced this to 700 without reducing performance, thus making the drums both stronger and easier to manufacture at the same time. Interestingly, Miele has not copied the principle of the Dyson vacuum cleaner – it continues to believe dust bags are superior.

Miele **www.miele.com**

Bang & Olufsen

Now nearly 100 years old, Bang & Olufsen is a Danish manufacturer of hi-fi equipment and televisions, and enjoys an elite reputation and status worldwide for the quality of its products. Its customers tend to be very loyal.

The company has adopted sleek, tasteful designs, clever technologies and high standards of manufacture for many years. During the 1980s, its performance deteriorated because it was seen as too much of a niche competitor. As a response, ranges of slightly less expensive products were launched – but these were still of exceptionally high quality. From this, a new philosophy has emerged – that the products are about lifestyle and technical excellence is more of a 'given'.

Company advertising uses the slogan 'a life less ordinary' to suggest that 'distinctiveness is a value in itself'.

Bang & Olufsen never asks its customers about future designs and products. Instead, its 'freethinking designers plant their ideas in the marketplace'. The company sees itself as a fashion leader. In addition, the company is very concerned to maintain control over who retails its products and how they are displayed in stores.

The company's niche must be potentially under threat if its rivals are able to improve the quality and reliability of their designs and to exploit the manufacturing competencies of lower-cost labour countries. However, it is probably the case that only poor decision-making by Bang & Olufsen can threaten their niche.

Bang & Olufsen **www.bang-olufsen.com**

Coach

Coach, based in New York, is best-known for its leather bags and accessories for women. However, when the company was started – with six leather workers in a New York loft in 1941 – the focus was on hand-made leather wallets and billfolds for men. After an employee buy-out in 1950, the company expanded into baseball gloves and,

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subsequently, handbags. Driven by a high-profile female artistic director, Bonnie Cushin, through the 1960s and into the 1970s, the business grew rapidly with goods – especially for the female market – that were colourful as well as 'fun, fashionable and functional'.

After she left in 1974, growth continued but then later slowed down. In 1985, the business was sold to Sara Lee Corporation – but, some years later, it was sold again to venture capitalist investors. By the late 1980s, Coach was selling through department stores across the United States and opening progressively more of its own stores. Competition from Louis Vuitton and Gucci, which were positioned more up-market, was, however, beginning to tarnish its image in a relative sense. A new designer, Reed Krakoff, who joined in the 1990s, set out to reposition Coach as a modern lifestyle brand with a series of new designs.

Sales grew from US$550 to US$5 billion over the next 15 years; and, in its market segment, Coach was seen as number one in the United States and number two in Japan. Its products – now expanded to bags, wallets, shoes, watches and belts, for men and women – sell throughout the United States, Europe and the Far East. Bags accounted for a little over half the total sales. However, in recent years, competition has grown and Coach now has Michael Kors, Kate Spade, Ralph Lauren and Marc Jacobs as significant rivals. Its price point is expensive, but it is not 'super luxury' and rivalling Louis Vuitton. The prolonged global recession after 2008 trimmed sales for luxury items and this inevitably had an impact. However, and significantly, Coach enjoys superior profitability. In no small part, this is due to high sales per square metre from its retail outlets. The business is owned by Tapestry, which has also acquired Kate Spade. Inevitably, Coach was affected by COVID-19 with sales of US$3.4 billion in 2020, already declining with stronger competition, rising to just over US$4 billion in 2021.

Coach **www.coach.com**

James Purdey

Purdey firearms can be classified as a super-luxury product; they retail at 'prices more normally associated with small houses'. Started in London in 1814, and where it is still based, the company manufactures something in the order of 60 guns per year, over 85 per cent of which are sold abroad. The United States and, in recent years, Russia are the main markets. Purdey is an iconic up-market British brand but the company is now owned by Richemont, a leading conglomerate of luxury brands.

There is close attention to detail, and quality control is incredibly tight. Every order is perceived as a special; nothing is seen as standard. The Turkish walnut stocks are polished several times in linseed oil and beeswax, rather than varnished in what is a lengthy, labour-intensive process; and buyers can choose almost any special, idiosyncratic feature as long as they are happy to pay the appropriate premium. It takes some 650 hours to make a basic side-by-side 12-bore rifle and 750 hours to make the more complicated 'up and under', where the barrels are one above the other. The basic prices of these hover below and above £50,000, respectively, for each rifle. Once refinements and customizing are factored in, the bill for a pair (they are always sold in pairs) will be in the region of £250,000. Typically, orders are placed two years in advance of delivery.

Because they appeal to a very limited market segment, and because they literally last a lifetime (and frequently longer!), growth potential for James Purdey, without diversification, is clearly limited. Despite the special market position it holds, Purdey struggles to make a profit from rifles and, in recent years, has divested into related outdoor clothing and accessories.

James Purdey **www.purdey.com**

Question

To what extent are these companies successfully defending their differentiation focus strategies?

BMW and Mercedes have both succeeded historically by producing a narrow line of more exclusive cars for the price-insensitive, quality-conscious customer. Both companies have widened their ranges in recent years without fundamentally changing their basic strategy. There are several cars available from both companies, but they are clearly targeted at people who are willing to pay premium prices for perceived higher quality.

Critical perspectives on Porter's generic strategies, and recent developments

In addition to McGrath (2013), other researchers have expressed reservations about aspects of Porter's work, without necessarily diminishing its value for providing insight into the realities of competition.

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Porter (1985) argues that successful organizations select and concentrate their efforts on effectively implementing one of his generic strategies, and will avoid being 'stuck in the middle'. However, while cost leadership and differentiation may be seen as mutually exclusive, successful strategies can be based on a mix of the two.

Hendry (1990) has suggested that, as there can be only one cost leader, cost leadership is not so much a strategy as a position that one company – which is almost certainly differentiated – enjoys. Toyota may have been overall cost leader, but it still differentiates all of its cars, with different models for different market segments, as well as the associated Lexus range.

Similarly, differentiation may be concerned with adding value and, therefore, costs – but these must still be managed. We must understand the cost drivers of any business, and incur and add costs only where they can be recouped in the form of premium prices. Yet, where a company is particularly concerned with issues of size and market share, it may deliberately choose to charge relatively low prices and not attempt to recover the extra costs it has added in its search to be different. It sacrifices superior profits, at least in the short term, while it builds a power base.

The ideas of Porter (1985) can be questioned and debated, but they nevertheless provide a useful framework for analyzing industries and competitive strategy. One must not assume that the idea of generic strategies is the key which unlocks the secret of competitive advantage.

Strategic Reflection 6.1 shows: (a) how Toyota became recognized as a cost leader, and (b) how Volkswagen grew larger than Toyota through a series of acquisitions – although, of course, being the producer of the largest number of cars does not automatically make a company the cost leader in the industry.

Strategic Reflection 6.1

Elements of competition in the global car industry

For a number of years, Toyota has been acknowledged as the world's leading car manufacturer, with plants in Japan and elsewhere, including both the United States and the UK. Not only did it manufacture more cars than rivals, it was perceived to enjoy cost leadership through its operations strategies.

Historically, Toyota has enjoyed over a 40 per cent market share in Japan, supplemented by a growing percentage of the US and European markets; it followed Nissan in manufacturing in the UK. The approach was clearly long term, as it took Toyota 17 years (1989–2006) to become profitable in the UK. It 'spent this time wisely':

- Toyota focused on organic growth and avoided the acquisition and alliance strategies of its major rivals. It invested in local plants in key countries around the world. Its European plants, however, have traditionally been less profitable than those in the United States and Japan.
- Toyota has sought to sell a range of cars at prices marginally below those of comparable Ford and General Motors cars. Historically, Ford and GM have both sold more cars than Toyota worldwide, but Toyota now appears to be Number One, followed closely by Volkswagen. However, Toyota's operating profits have exceeded those of its rivals because it has ruthlessly controlled its costs.
- Production systems, based on Just-In-Time (JIT) supply of components, are very efficient. Toyota claims fewer defects than any other manufacturer, resulting from the vigilance of each worker on the assembly lines. The Lexus range of top-quality cars requires one-sixth of the labour hours used to build a Mercedes. At one point in time, the best Toyota plant was assembling a car in 13 person-hours, whereas Ford, Honda and Nissan all required 20. Its sophisticated assembly techniques seek to eliminate waste at every stage and are driven by strong JIT delivery systems.
- Toyota has traditionally spent 5 per cent of sales revenue on research and development (as high as any major competitor), concentrating on a search for continuous improvements 'to inch apart from competitors', rather than on major breakthroughs.
- This approach has worked alongside a policy of fast new model development. However, critics have argued that many cars tend to be a refinement of previous models rather than revolutionary designs. Some have argued that this strategy has led to a perception that some (certainly not all) Toyota models lack character and passion.

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One-time Chairman Hiroshi Okuda described Toyota as a 'clever engineer that is quick to spot consumer trends and which captures customers with high-quality products' – yet Honda and Subaru were beating Toyota in quality surveys. We might ask whether there is a danger that cost leaders – by slicing through the competitive middle market – risk failing to produce distinctive, differentiated products that justify their near-market-average pricing policy. Problems can be exacerbated if, as happened with Toyota, there is a series of recalls because of incidents blamed on faulty parts – even if the actual number of those cars recalled for inspection was actually misleading. Reputations matter. In 2018, BMW, which promotes its technology and quality in its advertising, experienced the same dilemma.

In 2017 it was reported that Volkswagen (VW) had overtaken Toyota as the world's largest car manufacturer – despite VW being embroiled in scandals linked to emissions testing cheating in various countries, including America. Tellingly, VW has been particularly successful in selling into China. VW's global market leadership did not last.

VW, like Toyota (and Ford), has a long car-making history. Certain VW models have been particularly popular, the Beetle and the Golf being two of these. Unlike Toyota (which boasts the Lexus marque and owns Daihatsu), VW has pursued an acquisition strategy to create manufacturing capacity. It is linked to Porsche, although in part this is due to owner-family crossover. It acquired Audi, Seat, Skoda, Bentley, Bugatti and Lamborghini, yielding a diversified model portfolio which stretches to the top end of the market. It has models that can appeal to the vast majority of car buyers. Another obvious benefit is scale economies in design (shared platforms and parts), manufacturing, supply chains and distribution.

Ford and GM have consistently been the two leading US manufacturers, and remain so. Ford grew organically and was generally reluctant to acquire, but this approach did change. However, many Ford acquisitions – including Jaguar, Land Rover, Aston Martin and Volvo – were sold. GM has also slimmed down. It closed its Pontiac and Saturn plants, sold Saab, sold Hummer to a Chinese manufacturer, and (in 2017) sold Opel and Vauxhall to the French group, PSA, which also owns Peugeot and Citroën. GM focuses on three US brands – Chevrolet, Cadillac and Buick – and, in Australia, Holden.

You might wish to reflect upon these developments in the light of the text commentary. In particular, you should refer to the Porter arguments on generic strategies, as well as the themes of branding and positioning and, particularly, Figure 6.4. Here you might think about the precariousness of the 'ditch' and the potential value to niche brands of access to scale economies from a large corporate parent as long as the exclusivity of the brand can be protected. If you were in a senior position in Toyota, would you be happy with your strategy and competitive position or concerned about VW? In relation to the ditch, you might also think about whether there is genuine advantage from being number one or number two in terms of market position – as opposed to being, say, third, fourth or fifth – and whether being first really matters that much if the gap to second place is small.

While competitive strategies are *built around* differentiation and cost leadership, competitive advantage is *reflected in* and accrues from perceived differences and real cost advantages, both of which are relative to competitors. Hence, competitive advantage is *dependent on* strategic positioning (not the same thing), and usually, at least in the long term, results in superior margins. Table 6.1 shows that any individual functional area, or a combination of several functions, can be the actual source of the advantage.

Porter (1996) later reinforced these points and attempted to answer some of the criticisms of his generic strategy approach. He restated that competitive success is based on one of two alternatives. First, an organization can aim to be better than its rivals and focus on operating efficiencies to achieve this. Second, it can seek either to do different things, or to do things differently. He identified three broad approaches to positioning in which a firm can:

- focus on a particular product or service – or an identifiable and limited range – and sell it to every customer who is interested, which is the approach favoured by BMW.
- target a segmented group and provide a wider range of products which can serve a variety of their needs, which is the IKEA approach – we feature IKEA as a case in Chapter 7.
- identify and focus on a carefully defined niche with a single product or service. Case 6.4 examines how Nespresso was created to fill an identified niche.

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Table 6.1 Functional strategies and competitive advantage

Functional strategy	Competitive strategy	
	Low cost	Differentiation
Marketing	Large companies can obtain media discounts	Image – reinforced by well-known strategic leader
Operations	Efficient plant management and utilization (productivity); re-engineered processes which reduce costs	Low defect rate and high quality; and re-engineered processes which add extra value
Human resources	Training to achieve low rejections and high-quality; policies which keep turnover low	Incentives to encourage innovation
Research and development	Reformulated processes which reduce costs	New, patented breakthroughs
Finance	Low-cost loans (improves profit after interest and before tax)	Ability to finance corporate strategic change, investments and acquisitions
Information technology	Faster decision-making in flatter organization structure	Creative use of information to understand customer needs, meet them and outperform competitors
Distribution logistics	Lower stock-holding costs	Alliances with suppliers and/or distributors which are long term and mutually supportive

This list of examples is indicative only, and not an exhaustive set of possibilities.

Case 6.4 Nespresso Int

This story is about the successful creation of a niche product (home-brewed high-quality espresso coffee) by an established business seeking to expand its presence in a global industry. It involves a distinctive business model; and it happened in the mid- to late-1980s, around the time Starbucks was starting to revolutionize coffee drinking outside the home.

Nespresso is a Nestlé brand and business. One of the world's leading food businesses, Nestlé (established in 1897), commands a 20 per cent share of the global coffee market but is probably best known for its range of instant coffees, and, in particular, the Nescafé brand which was first launched in 1938. Instant coffee is popular in the UK but not everywhere in the world; in the United States, for example, where people traditionally 'brew' their coffee, it represents only 10 per cent of the coffee market. Instant coffee simply requires hot water to be poured over freeze-dried granules. Traditionally coffee is brewed using either filter machines (where water is heated and dripped through ground coffee) or cafetières (which rely on a pressing process, also using ground coffee). People can buy ready-ground coffee or beans to grind themselves. Home grinding might take longer (hand-ground or power-ground), but beans are only ground when they are about to be used. Manufacturers of the machines used are generally completely separate from the companies that sell coffee. In recent years, high quality espresso coffee made in domestic machines – and using single-serve sealed capsules – has become increasingly popular, despite being a relatively expensive alternative at a premium price.

Nespresso was set up as a wholly owned subsidiary of Nestlé and is not linked directly to Nescafé. Nestlé realized that people were becoming more affluent and discerning in their tastes and wanted to produce something innovative and different. At the same time, they were seeking to widen their range of instant coffees with superior quality alternatives with better taste. The Nespresso experience requires initial investment in a dedicated coffee-making machine, followed by a

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willingness to seek out the coffee capsules which are deliberately not available in high street supermarkets where people can readily find beans, ground coffee and instant varieties. The real breakthrough was in the machines; and, for many wavering customers, advertisements featuring George Clooney (the appointed brand ambassador) would tip the 'to buy or not to buy' decision. It is acknowledged that the price per cup is five times that of coffee brewed at home from ground beans. That said, it is still considerably cheaper than a cup made by a barista in a specialist coffee shop.

Nespresso machines use high pressure and try to replicate as far as is possible the larger machines used by baristas in coffee shops. The process, although quite different from dripping or hand-pressing water through ground coffee, is still simple. A single-sealed aluminium capsule is popped into the machine and a hatch closed; the seal is broken; water is pumped in under pressure. The Nespresso machines (and the growing range of alternatives) are produced by a specialist Swiss supplier; the manufacturer offers service and maintenance.

The capsules would only be supplied directly by Nespresso (either with online or telephone ordering) or through approved specialist boutiques, which tend to be located in upmarket shopping centres in relatively select locations. They are not 'everywhere'. Online orders account for over half the market. Amazon has, however, become a popular supplier of both Nespresso and rival brands. The boutiques can be found in various countries; they reflect a luxury brand and style, and customers can order different varieties.

Sales of Nespresso capsules reached the 20 billion (units) mark in 2011, a little over 20 years after its introduction, and the market was still growing strongly. The capsules are sold in multi-packs (with a minimum order size of 50) – which can be of a single type or a mix of the two dozen different tastes and strengths. The approximate price is 50 pence per capsule. The argument used for this approach was that it guaranteed both freshness and an assurance that the coffee had always been stored within a specific temperature range. The Fairtrade logo was attached in 2007.

The original target market was high-income households of consumers aged between 35 and 49, but obviously anyone could buy Nespresso. As soon as someone buys a Nespresso machine, they are enrolled in a Loyalty Club and are kept informed of new developments. It was never assumed that customers would only ever drink Nespresso; for many, it would be an occasional treat.

It was perhaps inevitable that competitors would be attracted, especially when they were able to successfully challenge Nespresso's claim that the technology was unique and patentable. These include Senseo (from the Dutch company Douwe Egberts) and Tassimo (Kraft). With the Nescafé Dolce Gusto brand, Nestlé sought to widen its reach. Typically, Nespresso's competitors have adopted a less specialist approach, offering machines (and capsules) that make coffees other than espresso. Their capsules are more widely and readily available. Nespresso has chosen to retain its 'exclusive' position and strategy, but some compromises have been made. In 2014 it added the Nespresso Vertuo line, which allows people to make larger cups of weaker coffee. In addition, rivals have started to market capsules that can be used in Nespresso machines. Moreover, the success of Nespresso and its home-brewed espresso has driven the invention of small espresso machines that brew espresso coffee from select beans without requiring individual capsules. One rival (another Swiss company, Jura) does so with Roger Federer as its brand ambassador – but these are very expensive machines. Today you can buy a machine that will brew from Nespresso capsules from around £50.00; Nespresso's own machines are more expensive.

Questions

1. Having read this story, what do you think Nespresso 'got right'?
2. What would you have done differently?
3. Does the 'exclusive' niche strategy continue to make sense?

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Porter (1996) pointed out that it is activities – what the organization actually does both directly and indirectly for its customers, its functional strategies – that create and build value and, in turn, advantage. Together, these activities determine the strategic position that an organization enjoys, and competitive advantage comes from the strength of the position. While being able to do something better or differently is essential, the way in which the activities are combined to generate synergy is also critical. Most individual activities can be copied, but it is much more difficult to replicate what may be a unique combination of activities, and so Porter (1996) developed activity maps, which we explained briefly in Chapter 5.

Consequently, organizations must choose what to do and what not to do, which activities to undertake and which to ignore, and how they could be fused into a powerful mix. Activities that affect the value proposition must not be neglected, but those that have little impact should not consume resources. Critical trade-offs must be made in an attempt to find a unique position. It can be expensive, even self-destructive, to try to do too much and not focus on what does make a difference.

IKEA has chosen to trade off in a number of ways – for example, it sacrifices being able to offer a wide range of bought-in products by designing and manufacturing its own. By choosing to hold stock in all of its stores and warehouses, IKEA sacrifices: (i) the low inventory costs some of its competitors enjoy by only delivering against orders; (ii) the use of the highest quality materials in favour of function and affordable prices; and (iii) sales assistance in favour of self-service, also opting for out-of-town locations only.

We conclude this section with Case 6.5 (McDonald's). McDonald's clearly illustrates both differentiation and sound cost management.

Many companies spend a lot of time and money researching customers' views, but most spend nothing like enough on observing competitors. The main reason for change is to keep ahead of competitors or to catch up on the complacent market leaders. Companies must invest in development – it's a case of 'duck or no dinner'.

Sir Simon Hornby, ex-Chairman, WH Smith PLC

Case 6.5 McDonald's — US

McDonald's, built by a visionary, the late Ray Kroc, has become a very successful international company, with outlets in over 120 countries. Its products are popular with large numbers of customers, and certainly not just children. In 1996, according to Interbrand consultants, McDonald's ousted Coca-Cola as the world's best-known brand. But later the company would record its first ever trading loss.

Ray Kroc has been described by *Time Magazine* as 'one of the most influential builders of the twentieth century'. Few children refuse a McDonald's burger – and its golden arches logo became a symbol of US enterprise. Kroc was a truly opportunistic and focused entrepreneur who built an organizational network of dedicated franchisees. Yet his entrepreneurial contribution began late in life, and the McDonald's chain of hamburger restaurants was certainly not his own invention. Instead, he saw – really he stumbled on – an opportunity where others missed the true potential for an idea. Once he had seen the opportunity, he rigorously applied business acumen and techniques to focus on providing value for his customers. By standardizing his product and restaurants, he was able to guarantee high and consistent quality at relatively low cost. Kroc was also wise enough to use the expertise that his franchisees were developing. Seminal products, such as the Big Mac, Chicken McNuggets and Egg McMuffins, were all created by individual franchisees and not by a central product development centre. The golden arches brand and the Ronald McDonald character became ubiquitous.

In 1955, at the age of 52, Ray Kroc completed 30 years as a salesman, mainly selling milkshake machines to various types of restaurant across the United States, including hamburger joints. His customers included the McDonald brothers who, having moved from New Hampshire to Hollywood (but failing to make any headway in the movie business), had opened a small drive-through restaurant in San Bernardino, California. They offered a limited menu, paper plates and plastic cups, and guaranteed the food in 60 seconds. When their success drove them to buy eight milkshake

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machines, instead of the two that their small size would logically suggest, Ray Kroc's interest was alerted and he set off to see the restaurant. Kroc's vision was for a national chain which could benefit from organization and business techniques. He bought out the McDonald brothers and set about building a global empire. After he officially retired from running the business, and until his death in 1984, Ray Kroc stayed on as President and visited two or three different restaurants every week. He saw himself as the 'company's conscience', checking standards against his quality, service, cleanliness, value (QSCV) vision – quality food, fast and friendly service, clean restaurants and value for money.

The McDonald's empire has grown to exceed 36,000 restaurants worldwide serving over 69 million people every day; the United States always remains the biggest market. At one stage, up to 3,000 new McDonald's restaurants were being opened in a single year. A large proportion of those restaurants that are not located in congested city centres offer a drive-through option. Although the number of Subway branches grew to surpass McDonald's – with Kentucky Fried Chicken (KFC) being the third largest fast food restaurant chain – Subway's global revenue remained behind McDonald's income. The basic formula has worked as well in Moscow and Beijing as it has in the United States. Although the products available are broadly similar in the United States and Europe, menus are seen as flexible in various parts of the world. Japanese stores, for example, feature Teriyaki Burgers, sausage patties with teriyaki sauce. Indian restaurants offer McCurry Pans, Egypt McFalafels, China chicken wings and chicken sandwiches, using the preferred dark meat, and the Eastern Provinces of Canada have McLobster Rolls. The McPlant is a healthier option vegetarian version. Many of the stores are franchises; the rest are mainly joint ventures. The company operates 8,000, and the recent trend has been for this proportion to decline in favour of more franchises. An 'ideal' franchise partner runs between 10 and 15 restaurants. The company itself employs some 200,000 people directly, with over 1.7 million employed (indirectly) in the various franchises.

The growth and success in an industry where 'fast food is a by-word for low wages and an unskilled temporary workforce' is not accidental. It has been very carefully planned and managed, although McDonald's relies greatly on the people at the sharp end. Employees are often young; they work a closely prescribed system, operating internationally established rules and procedures for preparing, storing and selling food. Various incentive schemes are practised. In recent years, McDonald's has been quick to embrace IT, installing (for those customers who want to use them) instore order points to avoid queueing at a till point. This technology has been extended to some drive-throughs. Regardless of how people order, everyone is given an order number and electronic displays show when food is ready to collect. The operation seems slicker than in the past – but it has always worked. Labour turnover is relatively high, however, as many employees are temporary, casual and part-time, and consequently McDonald's has its critics as well as its supporters. It has also received criticism from environmentalists and others concerned with the links between fast food and obesity. And when McDonald's allowed new branches to open in locations close to existing branches, some of its franchisees were less than happy!

Nevertheless, it is obvious that some competitors seek to emulate McDonald's in a number of ways: products, systems and employee attitudes.

> *Our competitors can copy many of our secrets, but they cannot duplicate our pride, our enthusiasm and our dedication for this business.*
>
> Company claim

McDonald's has been profitable because it is efficient and productive; and it has stayed ahead of its competitors by being innovative and seeking new opportunities.

The company became an industry leader and contends that there were six main reasons behind this position:

- Visibility: substantial resources are devoted to marketing. The golden arches symbol is instantly recognizable.
- Ownership or control of real-estate sites: McDonald's argues that this factor differentiates it from its competitors who lease more.
- It is commited to franchising and supplier partnerships.
- It is worldwide, with restaurants in over 120 countries, and uses local managers and employees.
- The structure is very decentralized, but lines of responsibility and accountability are clear.
- It is a growth company – or at least it has been for most of its existence.

Perhaps ironically in some respects, consumer taste test research has shown burgers produced by rivals – including the less successful Burger King and Wendy's chains – to be deemed better. Moreover, perhaps the popularity of McDonald's and its burgers has been instrumental in creating the opportunity for the successful 'high-end'

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burger restaurants that offer restaurant service and a limited range of specialist 'high quality' burgers at premium prices. There are chains, such as Five Guys and Byron's, but also many independents. Inevitably, McDonald's was affected by COVID-19 lockdowns, when seating indoors was prohibited. But sales continued, and drive-through sales became particularly popular – so much so that it was possible to see queuing cars stretching out onto main roads as they waited in line.

Questions

1 How does McDonald's create value for its customers?
2 How might it create new values in the future?
3 What are its important competencies and capabilities?
4 To what extent do you think the culture might have influenced its growth and prosperity?

Sustaining competitive advantage

Few positions are defensible long term against rivals – who will copy good ideas and, perhaps, even improve on them. Having created a competitive advantage, companies should strive to stay ahead by innovating and looking for improvements on a continuous basis. At the same time, they should be looking for discontinuous opportunities to effect change on industries and markets.

Figure 6.7 combines a number of the points made here, emphasizing that successful companies create advantage and success by being committed to their customers through careful positioning and managed change. The differences and cost advantages which create a position must be supported by high levels of service in strategy implementation and, ideally, by a strong reputation and brand, as discussed in Chapter 5.

Figure 6.8 shows that competitive advantage can be rooted in technology, organization and people, but people and people-driven processes are most likely to be the real source of any *sustained* advantage. This is because these are the most difficult for rivals to copy – and, significantly, because they are the drivers of innovation. In other words, a state of advantage can be sustainable with improvement, innovation and change. The position itself is much less likely to be a sustainable advantage. People must be convinced that they are important and that their contribution is valued – logically, through an appropriate reward system – as, otherwise, they may not deliver and improve the all-important service. This will always prove difficult in a culture where cost management and resource savings have become dominant.

There are many examples where companies that were once powerful and prominent have lost their edge and failed to sustain their competitive advantage.

With the clothing retailer Next, George Davies opened a niche for stylish clothing for slightly older age groups. However, once such a niche has been opened, it is relatively easy for rivals to copy the broad strategy, and they did. When Next failed to defend its position by improvements and, instead, committed resources to the acquisition of other retail brands and formats, its early advantage was lost. Davies was a corporate casualty. However, as a designer, George Davies has proved much more resilient than many retailers, with successful retail clothing developments within both ASDA and M&S. His Per Una range of fashionable clothing designed exclusively for M&S provided one of the few welcome highlights for the embattled retailer in 2003. In October 2004, M&S bought Per Una from George Davies for £125 million. However, in 2005 Davies walked out after a row with Sir Stuart Rose, the then chief executive – only to return. From this, Per Una surged ahead and, in 2007, Per Una accounted for 25 per cent of M&S womenswear sales of £500 million. In December 2008, Davies stepped down as chairman of Per Una at a time when M&S had suffered a 34 per cent decline in pre-tax profits. Per Una is seen by some business analysts as having lost its edge, especially in failing to cater for the younger element among M&S customers, but Per Una is still a featured range in most M&S stores.

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Figure 6.7 Competitive advantage through customer commitment

Value-for-money price – driven by efficiency and cost management

High levels of service; general and customer specifc

Commitments to customers through positioning and change

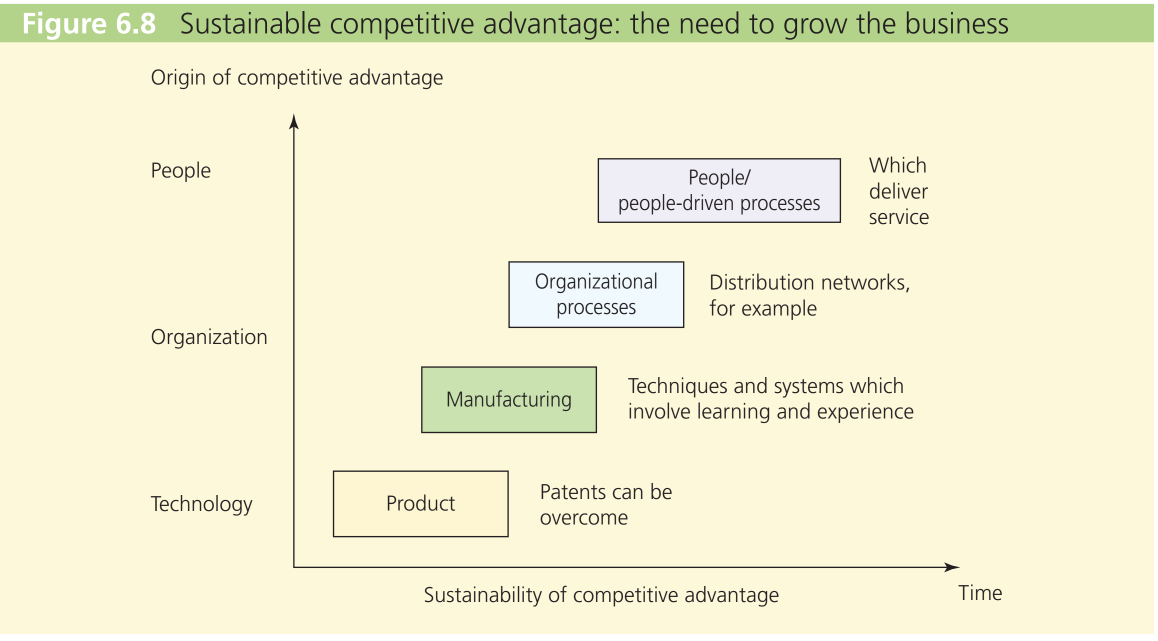
Image; the hidden values from branding and continuous improvement

Product/ service performance

Quality, reliability, speed of change

Developed from material in Silver, M. (1997) *Strategy in Crisis,* Macmillan

Figure 6.8 Sustainable competitive advantage: the need to grow the business



Based on ideas in Simon, H. (1996) *Hidden Champions,* Harvard Business School Press

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Toys R Us was the US toy superstore chain which grew at the expense of independent retailers; it suffered at the hands of Walmart, which used its purchasing power to compete on price and to gain a significant market share. Walmart simply focused on the best-selling toys, which it offered at rock-bottom prices. Toys R Us had a wider choice but that, clearly, was not what every customer wanted. According to Tomkins (1998), 'the company's big mistake was complacency . . . they stopped renewing and refreshing their stores' and thus provided a way in for Walmart. Toys R Us became 'stuck in the middle'. The remaining high-street independents are often more convenient and the discounters are cheaper. Their demise was exacerbated by a reputation for relatively poor in-store service. That said, it was 2018 before Toys R Us finally collapsed.

Competitive platforms

Building on issues incorporated in Figure 6.8, George Buckley (2003), when chairman and chief executive of the Brunswick Corporation (although he moved on to become CEO of 3M), contended that costs, technology and people provide the three key **competitive platforms** for strong competitors to build on, but suggests that six platforms should always be considered:

- The best (not the lowest) cost manufacturing when set alongside direct competitors – cost, after all, is the ultimate competitive weapon as it becomes increasingly significant in the toughest trading conditions.
- Technology, innovation and styling – good design and style does not have to cost a great deal but it can be an ideal differentiator.
- Customer service.
- Brands, marketing and reputation.
- Distribution – the best products in a design sense will be wasted opportunities if their manufacturers cannot put them in front of potential customers where and when they expect them.
- People – competitors can acquire equivalent technology and tooling and can copy processes, but it is much harder to replicate the contribution made by people.

6.3 Competitor benchmarking

All companies should continually search for opportunities for innovative differentiation and for ways of improving their cost efficiencies. As seen in earlier chapters, leveraging resources and setting targets that will stretch employees can help to bring about innovation and savings. **Benchmarking** against good practice in other organizations (a process of measurement and comparison) can provide new ideas and suggestions for reducing costs and improving efficiency. Organizations from different sectors and industries can be a useful source of ideas if they have developed a high level of expertise. This process is a search for ideas that can be customized for a different organization, rather than being a copying exercise. Managers should be open-minded and inquisitive, and look *everywhere* for ideas.

At the same time, it is vital for an organization to have a clear understanding of its position relative to its competitors and in the context of customer expectations. Mapping the ability of different competitors to customer expectations is sometimes described as a 'strategy canvas' and it is an integral theme in Blue Ocean Strategy, which we discussed in Chapter 2 and which we revisit here. Table 6.2 provides a general framework for considering competitive strategies, and Table 6.3 looks at the relative ability of two competitors to meet customer expectations.

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Table 6.2 A framework for evaluating competitive strategies

Scope	Global; industry-wide; niche Single or multi-product/service Focused or diversified Vertical linkages with suppliers/distributors
Objectives	Ambitions for market or segment leadership Market presence just to support other (more important) activities
Success	Market share Image and reputation Profitability
Commitment	Aggressive – willing to acquire to grow Passive survivor Willing to divest if opportunity arises
Approach	Offensive – attacking other competitors Defending a strong position – note that the same strategy (new products, price cuts) can be used both offensively and defensively Risk-taking or risk averse Teasing out new segments or niches
Strategy	High quality – perhaps with technological support High service Low price
Position	Cost advantage, or even cost leadership, enjoyed Clearly differentiated
Competitive resources	High-technology base; modern plant Location relative to markets Quality of people (ability to add value) Reputation

The examples provided for each of the eight criteria are not offered as an exhaustive list.

Table 6.3 Example of strategy canvas

	Priorities (*Top = 1st; Least = 10th*)		Test driver scores	
Key success factors	**Family people carrier**	**Sports convertible**	**Family people carrier**	**Sports convertible**
Range and extras available	6	4	6.0	7.0
Perceived value for money	1	7	9.0	2.0
Driving experience	10	1	3.0	9.0
Size, space and versatility	2	8	9.0	3.0
Image and desirability	9	2	5.0	9.5
Safety features	5	3	8.0	9.0
Environmental issues	7	10	6.0	2.0
Availability – waiting time	8	9	5.0	2.5
Service costs	3	5	8.0	1.0
Ability to hold value	4	6	7.0	4.5

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Figure 6.9 Competitor analysis and benchmarking

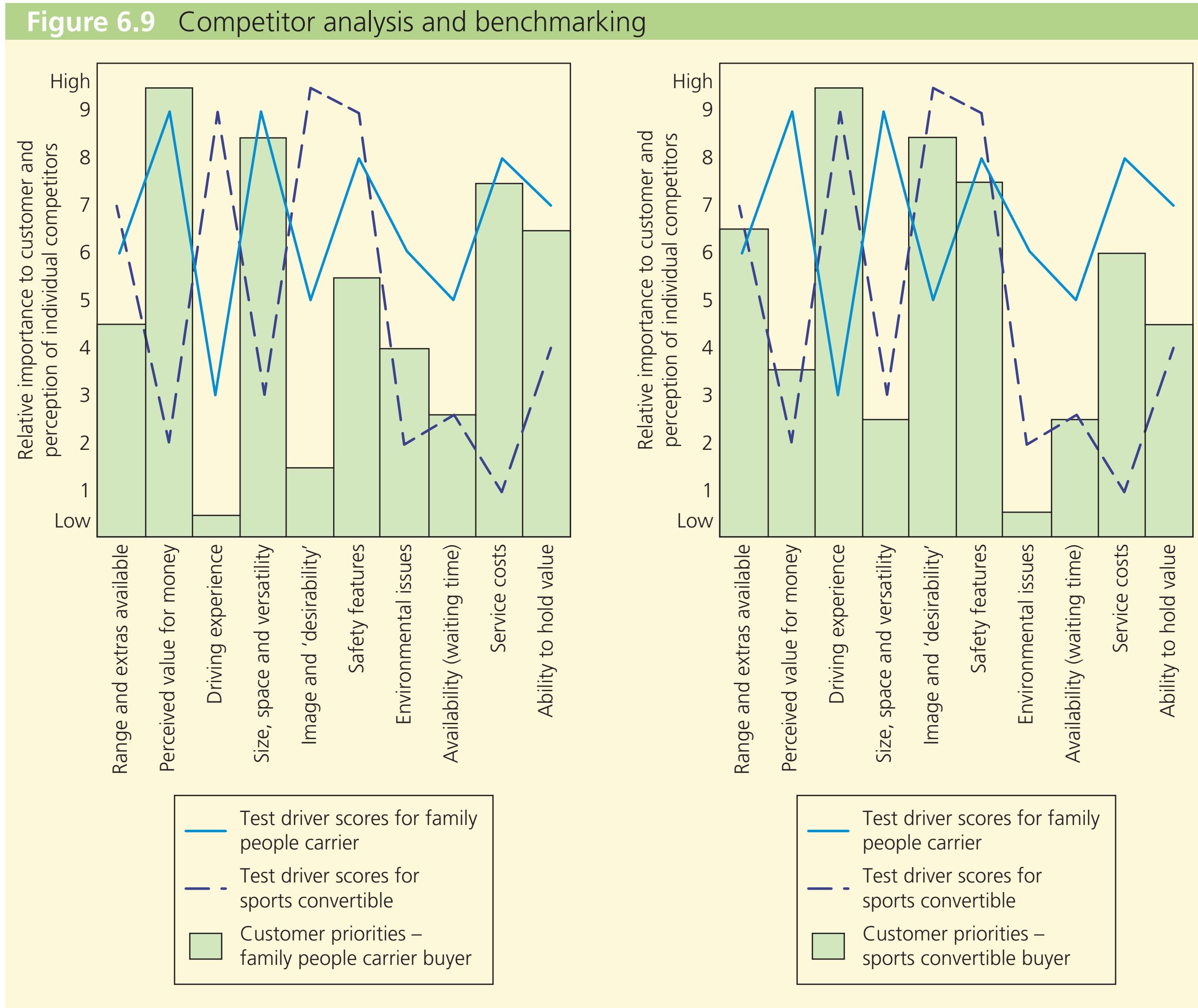

Figure 6.9 illustrates the figures from Table 6.3 in graphical form. Ten key success factors relevant for cars are listed along the horizontal axis. The shaded area of the graph on the left shows how these can be prioritized (first to tenth) for a family-sized people carrier. The graph to the right shows a different list of priorities, this time for a sports convertible. The (hypothetical) scores attributed by test drivers for two specific cars – one a people carrier and the other a sports car – are superimposed. In each case, we can see how one car fits one set of priorities much better than the other. Simply, in the left graph, the test scores for the family people carrier (solid line) relate better to the customer preferences illustrated; in the right graph, the dotted line (test scores for the sports convertible) are more aligned with the relevant customer priorities. Blue Ocean Strategy would use such strategy canvases to search for possible improvements that would strengthen the match between a particular car model and customer demands.

How would our customers rank our products/services in relation to those of our competitors?

- *Not as good as. We must improve!*
- *No worse than. This implies a general dissatisfaction, so there must be real opportunities to benefit from improvement and differentiation.*
- *As good as the others, no better, no worse. Again opportunity to benefit if new values can be added and real differentiation perceived.*
- *Better than. We must still work hard to retain our lead.*

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I subscribe absolutely to the concept of stealing shamelessly! Wherever you come across a good idea, if it's likely to work, pinch it. There's nothing wrong with that. There is a quite respectable word – benchmarking – which is the same thing if you think about it.

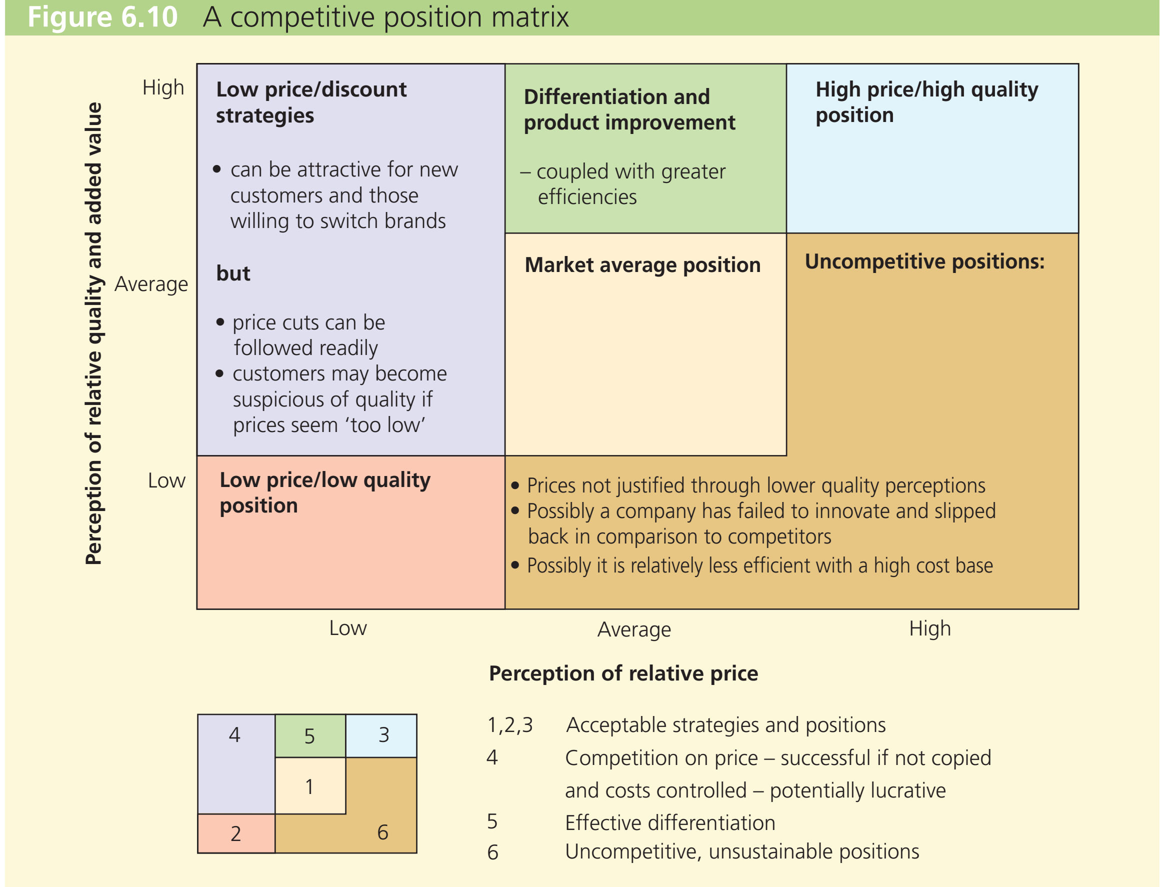
Bill Cockburn, when Group Chief Executive, WH Smith PLC

Changing competitive positions

A successful competitive position implies a match between customers' perceptions of the relative quality or value of a product or service and its price, both in relation to the prices of competing products or services. **Competitor gap analysis** can be conducted in the segment or segments in which an organization chooses to compete; in addition, the total price should be used for comparison purposes. Customers, for example, may willingly pay a premium purchase price initially for a particular brand of, say, an electrical good or car if they believe that, over its life, it will incur lower maintenance and service costs than competing brands. Products offered at initially lower prices may be perceived to be more expensive overall.

Figure 6.10 (which develops Figure 6.5) features a competitive positioning grid. Three basic positions are shown by sectors 1, 2 and 3. Sector 6, high perceived prices but only average (at best) quality, is an untenable position in the long run. Sector 4 illustrates a company competing on price, which can be a successful strategy, but it can provoke competitive responses; in which case, it may only serve in driving down all prices and making all competitors less profitable. Do-it-yourself chains, such as B&Q, have come to believe that the key to survival in a crowded market is to offer permanently competitive prices, as well as developing a unique identity. Sporadic high discounts are being replaced by 'everyday low prices' and success is more dependent on volume sales than the actual margins on individual products.

Figure 6.10 A competitive position matrix



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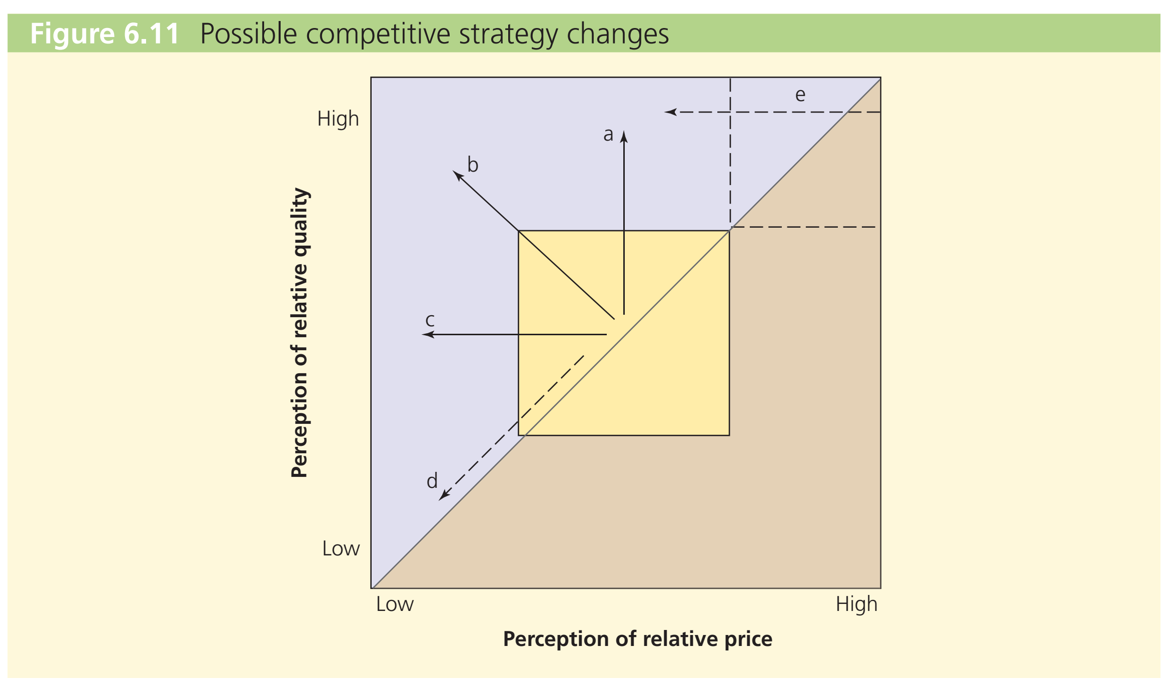
Effective differentiators, commanding premium prices and earning superior profits with high margins, are shown as Sector 5. Their success is partially dependent on sound cost management.

Figure 6.11 illustrates a number of optional/improvemental competitive strategy changes for companies in selected positions in the matrix. Change to 'something better' is hardly optional for companies towards the bottom right of the diagram. Companies placed here need something more radical.

Figure 6.11 Possible competitive strategy changes



Strategic groups

The argument about strategic groups – see, for example, Hunt (1972) and Leask and Parker (2007) – is that organizations must be able to identify and stay fully aware of developments with those competitors who are in the same 'group'. These are the companies closest to you, competing with similar products and services for the same customers. Some may be located close by in a so-called 'cluster'; some may sell through the same retail outlets. They may not all be the same size and they may not overlap fully in terms of price, quality and niche appeal – but they are still very close rivals. When competition 'heats up', some organizations will seek to reposition themselves in a different group, while more entrepreneurial organizations could even try to start a new group.

The rivals in strategic groups may well find themselves converging as they compete – some mimic and copy but, logically, without any formal collusion which could be illegal. Prices and/or packaging become similar. This is perhaps based on a fear that rivals cannot be allowed to do something too individual which may set them apart. The logic: if it matters to customers and it works, we must do it, too. Of course, this is the opposite of differentiation.

Such tendencies and behaviour will drive the industry leaders to innovate further – in part, because there is reinforcement that what they are doing already is powerful. Rivals can become increasingly reactive, rather than proactive. At the same time, leaders will seek to find ways to protect what they are introducing from being copied.

The core issue for any organization, then, is appreciating just what you cannot afford not to do if you are to be an effective competitor. Once sorted, and from that base, you can seek to build defensible differentiation.

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6.4 Concluding comments

This chapter has concentrated on how an organization can gain a deeper understanding of its competitive environment with a view to becoming a stronger, more effective competitor through creating and sustaining competitive advantage. The closer a business is to its customers, the more it will understand the market and the industry. Competitive strategy, essential for every product and service that the organization makes and markets, involves a vision about how best to compete. There are a number of ways to generate competitive advantage, and the process is both logical and creative. The choice will also be influenced by the strategic leader and by the organization's culture. However, every employee contributes in some way to both lower costs and uniqueness; therefore, it is important that the competitive strategy is communicated and understood throughout the organization.

In the end, the most successful companies will be those with:

- differentiated products and services which are recognized for their ability to add value, and are:
  – produced efficiently
  – upgraded over time through innovation and improvement
  – proven relevant for international markets.

Porter (1985, 1996) contends that competitors can be viewed as good or bad. Good ones differentiate, innovate and help to develop an industry; bad ones just cut prices in an attempt to drive others out of business.

New windows of competitive opportunity are always opening as identified by Drucker (1985):

- Products and services can be improved to open up new markets and segments, as was the case with palmtop computers or, as they were called, 'personal digital assistants' (PDAs), which competed for the market pioneered by Filofax. In a different way, 'free from' food products have been a response to our greater awareness of food allergies.
- New technologies change behaviour and demand – for example, mobile phones, personal computers and MP3 players such as the iPod.
- Changes in attitude – for example, concern for the environment – created the opportunity for unleaded petrol and the more recent acceptance of organic food.

Research Snapshot 6.1

Competitive strategy has been researched extensively by scholars. Recently Huo *et al*. (2014) found that, while cost leadership and differentiation improved the delivery of supply chain integration, these Porterian competitive strategies did not necessarily improve performance. Whether Porter's generic strategies are relevant to online businesses has been explored by Firoz Suleman *et al*. (2019), though including larger firms, corporate entrepreneurship or intrapreneurship (as discussed further in Chapter 10) can be enhanced by differentiation and configuring resources (Olson *et al*., 2020).

Re-manufacturing, where already manufactured products are enhanced and resold, as a competitive strategy has also been explored (Mitra, 2016). Knowledge management – specifically what they term knowledge integration capacity in Australia and the United States – enables innovation and thus sustainable competitive advantage for business to business (B2B) firms in services (Salunke *et al*., 2019), and Desyllas *et al*. (2018) suggest that more value can be captured from innovation in knowledge-intensive business services (or KIBS) by adopting competitive strategy. Instrumental stakeholder theory (Jones *et al*., 2018), human capital (Kryscynski *et al*., 2021) and networks (Goyal *et al*., 2019) have been confirmed to be important to competitive strategy, including in international joint ventures (Merchant, 2014).

Bel (2018) has linked competitive strategy to property rights – an important ethical dimension. Several others emphasize the importance of supply chains for competitive strategies, such as manufacturers engaging in 'servitization', whose products include integral service components (Lee *et al*., 2016) and a reverse supply chain (Larsen *et al*., 2018). An important aspect for

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supply chains (and competitive strategy more generally) is sustainability and corporate social responsibility (CSR) strategies. Competitors' adoption of CSR strategies may force some firms to implement CSR strategies themselves (Dupire *et al*., 2018). Some additional evidence suggests a link between sustainability (or being green in general) and competitive advantage (Laari *et al*., 2018; Papadas *et al*., 2019; Singh *et al*., 2019) and/or financial performance (Cantele and Zardini, 2018; Danso *et al*., 2019).

New concepts have been introduced, such as: (i) bargaining ability (Grennan, 2014), focusing on price, explaining why firms in certain industries (e.g. medical devices) achieve competitive advantage; and (ii) strategic forbearance where firms ignore rather than defend against competitors (Andrevski and Miller, 2020). On the other hand, in addition to Porter's three seminal generic strategies and his additional 'variety-based, needs-based and access-based strategies', Moon *et al*. (2014) proposed 'capturing the core' and 'broadening without diluting', thus revealing eight generic strategies by investigating automotive firms. Other authors have applied generic strategies to other particular sectors, including primary industries – such as agribusiness in Latin America (Brenes *et al*., 2014, 2020) and natural resources (Casarin *et al*., 2020) – and innovating manufacturing firms in Turkey (Bayraktar *et al*., 2017), and the telecommunications sector in Canada, in the latter case introducing the concept of complexity into the realm of generic strategies (Gould and Desjardins, 2015).

The role of capabilities in competitive strategy has been extensively researched recently, for example in the context of uncertainty or turbulence (Parnell, 2018; Parnell and Brady, 2018) which is now increasingly relevant. Organizational agility as a competitive strategy has recently been combined with dynamic capabilities (see Research Snapshot 5.1) in the context of innovation and risk (Teece *et al*., 2016) and is also observed in terms of 'ambidextrous diversification strategy' (Lin *et al*., 2020).

Small firms have been evidenced to use competitive strategies which hence contribute to their performance (Bamiatzi and Kirchmaier, 2014; Lechner and Gudmundsson, 2014) and competitiveness (Tudisca *et al*., 2014). Similarly, dynamic capabilities have been found to enhance SMEs' sustainable competitive advantage (Rashidirad and Salimian, 2020) with entrepreneurial orientation playing an important role due to the firms' innovativeness and creativity (Ferreira *et al*., 2020). Other studies have considered competitive strategy for SMEs and/or entrepreneurs, including export performance in internationalizing small firms (Rua *et al*., 2018; see also Chapter 12, focusing on international strategy). Guggenheim (2016) applied Porter's five forces framework to illustrate the distinctiveness of smaller and more entrepreneurial firms.

In terms of more international perspectives, and though many studies pre-date the COVID-19 pandemic, various specific examples of competitive strategies in the tourism, events and hospitality sector (which comprises many small but also larger firms) are salient (for some detailed but pre-COVID practical case examples, see Evans, 2014). This sector has, more recently, faced multiple crises from reduced overseas tourist flows to being shuttered or having staff furloughed in lockdown and/or switching from seated indoor/outdoor dining to takeaway/online delivery business models as a consequence of draconian 'stay-at-home-orders'. Prior studies include those within holiday resorts such as South Africa's Sun City (Ezeuduji *et al*., 2014) and hotels (Espino-Rodríguez and Lai, 2014). Finally, several studies examine airlines' competitive strategies – whether full service, such as Singapore Airlines (Heracleous and Wirtz, 2014), or 'airlines-within-airlines', such as Jetstar, a subsidiary of Qantas Airways (Homsombat *et al*., 2014) – and including one using Porter's five forces framework to analyze budget airlines' pricing strategies (Moreno-Izquierdo *et al*., 2016). Emerging research will doubtless confirm much of what we know already about the unprecedented impacts on aviation of the COVID-19 pandemic, but also provide some fascinating insights into the (competitive) strategies adopted by them.

Retailers have also been affected by the pandemic on the back of online rivalry, such as the phenomenon of showrooming, where customers view products in-store but then buy it from an online retailer, to which physical stores can respond by adopting a competitive strategy of price-matching (Mehra *et al*., 2018).

The use of strategic tools – such as SWOT, PEST and so on – in the contemporary development of competitive strategy has been critiqued. However, Jarratt and Stiles (2010, p. 28) found that, 'methods and tools are adapted as they are contextualized in alternative practices', while others have proposed the utilization of 'evidential reasoning' to enhance SWOT (Ramooshjan *et al*., 2014). Some exemplars of competitive strategy tools include combining scenario planning and wargaming (Schwarz *et al*., 2018) and how corporate foresight enhances performance (Rohrbeck and Kum, 2018).

The articles in the Further reading section provide a deeper understanding of competitive strategy,

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particularly its link with firm performance and the role of networks. This literature will help students to develop their perception and critical awareness of the role of different competitive strategies, in relation to the dynamics of competition covered in this chapter. This will reveal that there is no 'one-size-fits-all' or automatic response strategy, hence highlighting the complexity of competitive strategy and strategic choice.

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Summary

Many industries and markets are characterized by competitive 'chaos' – they are dynamic and uncertain. Rivals may consistently be trying out new initiatives which cannot be ignored. To succeed in the long term, organizations must be able to manage both continuous and discontinuous change pressures, achieved with a mix of incremental and more dramatic changes to competitive and corporate strategies.

In an endeavour to manage their competitive environment, organizations must understand the nature and attractiveness of their industry, and their relative position in it.

Positioning can be examined against a framework of generic strategies, which are based on differentiation and cost leadership. The issue of a broad or narrow market focus is another important consideration.

Porter (1985, 1996) has provided two useful frameworks to help with these assessments.

However, competitive positions, *per se*, do not yield competitive advantage. Advantage is a reflection of a strong position, but it is the result of the activities which create the position and, in particular, the synergistic links between them. Successful organizations achieve a unique mix which is hard to replicate, although the individual activities, at a basic level, can be copied.

While competitive advantage comes from technologies, organization and people, it is the people-driven processes that have some potential to enable a state of advantage to be sustained and extended with innovation.

The pace of change and competition is constantly speeding up in many markets and industries. To deal with this, it is essential for organizations to benchmark both their competitors and other high-performing organizations in a search for good ideas and best practice. Specifically, they are looking for new opportunities to add or build value in ways that are meaningful for customers.

Understanding rival behaviour in strategic groups can help organizations to identify just what it is they cannot afford not to do.

Online cases for this chapter

Online Case 6.1: Nintendo's Rise from the Ashes
Online Case 6.2: Schick versus Gillette
Online Case 6.3: Toyota's Cost Leadership Strategy
Online Case 6.4: Barbie & Mattel

Questions and research assignments

1. What is the difference between competitive strategy, competitive advantage and strategic positioning?
2. Study Porter's generic strategy framework and consider where you would place British Airways and other major carriers such as Air France, as opposed to easyJet and Ryanair.
3. Apply Figures 6.10 and 6.11 to this industry.

Internet and library projects

1. Take an industry of your choice and analyze one or more of the major competitors in terms of their chosen competitive strategies. As well as the internet, the following library sources could prove useful sources of information:
   - *Business Monitors* (PA and PQ series).
   - *Annual Report of The Office of Fair Trading* (as a source of ideas).
   - Competition and Markets Authority (formerly Monopolies and Mergers Commission and before that the Competition Commission) reports, which usually feature a comprehensive industry analysis
   - McCarthy's (or similar) Index (press-cutting service for firms and industries).
2. How successful has Porsche been since the introduction of 4×4s to its sports car range? Do you believe that the size of its niche is viable, or may the company have to extend its range?
   Porsche **www.porsche.com**

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3 Explore how the UK's oldest brewer (Shepherd Neame) has reacted to the growth in popularity of small craft brewers by developing its own 'heritage' range. Is this a justifiable attempt to protect its flank from these more specialist niche products?
4 How did this business respond to pubs being closed during the COVID-19 pandemic? How long might it take (or did it take) for Shepherd Neame to regain lost sales?
5 In 2022, McDonald's pulled out of Russia because of the conflict in Ukraine. A Russian businessman re-opened the shops – but soon experienced supply chain problems. He could not source the 'right' potatoes for the fries. What is the situation now?

Strategy activity

The Fiat 500 (Cinquecento)

The Fiat Cinquecento is similar to two other iconic cars – the BMW Mini and the Volkswagen Beetle. It is a relatively old brand, but one with enduring qualities. Although it would be categorized as a supermini, it also competes in the same sector of the market as the Mini and the Beetle.

The Italian family-dominated Fiat organization (owner of the Alfa Romeo brand and allied to Ferrari) had lost some of its shine and popularity, but with a series of new models, including the Panda and the Punto, it was able to restore some of its past glory. In 2007, the Fiat 500, the Cinquecento, was proclaimed European Car of the Year. Made in Poland, demand exceeded supply.

The original Cinquecento was launched in 1957 (exactly 50 years earlier) and it was soon popular, especially in certain Hollywood movies. It predated the original Mini by a few years. It lasted almost 20 years before it was seen as unfashionable and withdrawn.

With a completely fresh design and improved technology, this car carries a premium price and, in this respect, the strategy is the same as BMW has for the Mini. The car can be customized in various ways and Fiat claims that 500,000 permutations are possible. It has a high rating in crash tests and is a relatively safe car; it offers effective fuel consumption and is energy efficient. In a world of high fuel prices and carbon emission concerns, one can see logic in Fiat's strategy.

Fiat set out to develop a sports version for the American market, which it would promote alongside Alfa Romeo models when these were relaunched in 2009. The Abarth brand is used for a performance range of the car – remember that Fiat is linked to Ferrari – and there is also a sport utility vehicle (SUV) version, the Fiat 5000.

Questions

1 Do you see this as effective differentiation by Fiat?
2 Do you think the 2008 link between Fiat and Chrysler would have improved the prospects for the US market?

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Part 3

Strategy development

In Part 2, we examined the techniques for conducting an analysis based on positioning and competitiveness. We examined the following approaches: market driven, resource based and competitor influenced. Part 3 looks at how organizations can – and, in reality, do – generate new ideas for future strategies. Chapters 7–10 cover: culture, alternatives and choice, planning in strategy, strategic decision-making, and entrepreneurship and strategic leadership.

- Culture – Chapter 7. We believe that culture and values hold the key to the existence and sustenance of positioning, competitiveness and effectiveness. They influence the decisions that are made, the ways in which they are made and the actions that follow. We develop our understanding of culture and values in Chapter 7 to complete our study of the E–V–R congruence themes.
- Alternatives and choice – Chapter 8. Organizations will change their directions and strategies, and they do not always pursue the same strategy in the same way. We cannot finally judge the worthiness of a particular choice until we take account of the organization's ability to implement the strategy that it has chosen. This chapter outlines the various strategic alternatives that may be available to an organization in thinking and deciding where it wants to go, and for helping to close the **planning gap** as well as how the actual decisions are made in practice and reality.
- Planning in strategy – Chapter 9. Strategic planning using techniques and formalized procedures (which take many forms) is just one of the ways in which strategies are created. Strategies can also be provided by the strategic leader and be decided by managers in real time. Intended strategies – say, those selected by the leader or through a formal planning system – have to be implemented and, during implementation, they may well be changed incrementally. In addition, flexible organizations will adapt all the time by responding to new opportunities and threats. Our contemporary approach to strategic planning is based on a mixture of planning techniques, intellectual input and action plans for implementing strategies; and current strategic issues are central to the whole process.

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- Entrepreneurship and strategic leadership – Chapter 10. As well as leading from the front, it is also important for a leader to create a climate that facilitates emergent change – appropriate employees should be empowered, encouraged and energized. Intrapreneurs, then, lead the emergent change initiatives. Leadership is both a role and a process – a process concerned with influence and change. It requires both personal characteristics and leadership skills. The skills can be learned, but effective leaders need to possess certain attributes in the first place. Successful leaders also tend to build effective teams to support them. In exploring these issues, this chapter also looks at how some leaders are perceived to fail, and at the vital issue of leadership succession. Strategic leaders are ultimately responsible for the opportunities and risks taken by organizations. These are core themes of entrepreneurship. We argue, however, that not every leader is instinctively entrepreneurial, resulting in some organizations being more entrepreneurial and opportunity driven than others.

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Chapter 7

Introducing culture and values

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

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Learning objectives

Having read to the end of this chapter, you should be able to:

- explain organizational culture and use the culture grid to explain the manifestations and determinants of culture and its impact on the organization, its managers and other employees **(Introduction and Section 7.1)**
- distinguish how different organizational structures, philosophies and styles are influenced by – and, in turn, influence – organizational culture **(Section 7.2)**
- list and define different sources of power **(Section 7.3)**
- compare different national cultures **(Section 7.4)**.

Introduction

In Part 2 we discussed two of the three E–V–R themes: environment and resources. We now examine in depth the third theme, culture and values. All three are important for any organization, but often one is most prominent. Where E is dominant, then opportunity, change, dynamism and competition are key drivers. Where R is dominant, capability, excellence, distinctiveness and scarcity are among the drivers. When we talk about a values-driven organization, we imply the organization, its products and its people – as well as those associated with it – represent and 'stand for something' that defines what happens.

E and R together determine an organization's strategic position. If there is a genuine opportunity, then there is potential demand. To fulfil this demand, the organization needs to have the appropriate resources. It is the deployment and management of these resources (in the context of customer expectations) – which is the practice of strategy – that determines whether the organization has a relatively strong or a relatively weak strategic position. It is, though, the quality of the people involved, together with their behaviour, that ultimately affects how well an organization performs against its competitors. Their commitment and effort can be a 'deal breaker'. While it can be relatively straightforward to change activities (i.e. what people are asked to do), it is much less straightforward to change how they do it and the values people hold. It is possible – and important – to influence this cultural element, while accepting it may not be possible to control it. Strategic leaders and managers should, therefore, be clearly aware of what they are seeking to control and what they aim to influence – realizing that, in reality, they are not in full control of a critical 'deal breaker'.

There is always likely to be tension if the relative balance between E, R and V is misaligned. This misalignment can be especially relevant when social, artistic and aesthetic values are particularly significant for customers and employees, and perhaps are in conflict with economic constraints, as, for example, is sometimes the case with charities – a point we discussed in Chapter 3.

Case 7.1 (The Burning Man) examines an annual event that is primarily about an experience – rather than anything we might conventionally describe as a product or service – and what it means for all who participate. It is an extreme example that shows just how 'broad a church' an organization can be.

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Case 7.1 The Burning Man US

The Burning Man was born in the summer of 1986, when Larry Harvey, then employed as a gardener in San Francisco, built a 2.4 metre tall effigy of a man and set it on fire – on a whim. Together with a friend, he selected a beach close to the Golden Gate Bridge. People walk across the bridge and so his burning man was seen by 'a few dozen people' who afterwards started to talk about it. This whim, in time, and after being repeated on roughly the same day in the same place for a few years, became a free-spirited event which attracted large numbers of people from all walks of life, some wealthy and successful, but others less so. Working together, the attendees built the 'sculpture' which they afterwards destroyed in a fire. For many, it was a 'sort of utopian wellness retreat'. As the popularity grew, the San Francisco Police intervened and banned the event because of crowd control issues. The Burning Man subsequently became established as a week-long event in the Black Rock Desert in Nevada, where it continues to take place every year.

Some 70,000 people now attend – and pay for the privilege. There is no electricity available or provided on the site; there is no running water supply; it is a rule and requirement that people take away everything they bring (that has not been destroyed or consumed during their stay), including all waste. No trace of 'anything unusual' must be left – other than, perhaps, ashes! Several well-known celebrities continue to attend and relax and (forgiving the pun) chill out. The Burning Man enables 'radical self-expression' as people are free to organize their own activities, including yoga, music and other forms of performance entertainment. There is now an element of an ongoing 'rave' about Burning Man. At the same time, others, who feel able to withstand the desert heat, set off on hikes into the desert. People are, thus, 'free to be themselves' for a few days; it amounts to escapism from 'normal life'. Firearms are prohibited and volunteers provide a security force. It has been described as 'frivolous but safe', and for many it has become addictive.

The Burning Man site is built around a central plaza. There are tents (of all forms and sizes) and many motorhomes. Cars and motorhomes will typically be hauling trailers. The site is not small! It is generally reckoned you should allow 20 minutes to cycle from one extremity across to another. Pop-up shops of any form are discouraged. Given it is the desert and there is no electricity provision, once it gets properly dark 'everything is black and lit only by the stars'.

Attendees are free to contribute to building the statute, which now is huge and takes a (different) form of its own every year; there is no design, as such. Sculptures up to 30 metres tall have been built (and burnt). Simply, people intending to engage in this central activity bring with them everything they will need – and remove their debris. Readers who have attended a typical music festival (in the UK at least) might reflect on this attitude and behaviour. The sculpture is lit on the penultimate night of the event. Keen participants apparently spend some considerable time preparing for their time at Burning Man, collecting and storing everything they intend to bring.

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When Harvey died in 2018, the event was generating annual revenues in the order of US$30 million (averaging over US$400 per head). Seventy people were employed full-time before and during The Burning Man. There are similar ‘copy-cat’ events in other countries; one of the authors is familiar with one in Western Australia, inland of Perth.

Not everyone would be, or could be, comfortable and enjoy such an event; and, over the years, many opinions and reactions have been heard. ‘It was like spending a week on Mars’ – *the author of this comment would know, of course*. ‘Akin to an adventure that only existed before the introduction of computers, televisions, phones and GPS’. *For some people, this might even well be welcome nostalgia.* ‘A genuine escape; no contact with people back home’. ‘This [event] has been restorative; I did not want to return to my normal life’. *And, in a more sinister vein:* ‘a form of social engineering’.

Harvey wanted people to embrace ten principles:

1. Radical inclusion
2. Radical self-reliance
3. Radical self-expression
4. Gifting
5. Decommodification
6. Communal effort
7. Participation
8. Immediacy
9. Civic responsibility
10. Leaving no ‘trace’ (removing all litter (or trash) and other physical evidence of the event).

Questions

1. Would you personally see The Burning Man as a short-term escape or a demonstration of a lifestyle? If the latter, how would you describe the lifestyle?
2. Organizations create and add something that customers perceive to be valuable for them. How would you summarize the value offered by The Burning Man? How might anyone place an economic value on this?
3. Would you (could you) enjoy The Burning Man? Why? Why not? Would it provide you with value? What do you think this might say about you? *Do you attend music festivals?*
4. What do you think should happen to any surpluses generated?

We begin our exploration of the meaning of organizational culture with a challenge. If you were asked to define or explain or just talk about any organization (and here you could include a sports team for which you play) that you know (or know anything about), think about which of the following themes might feature and how you would naturally prioritize these?

- Strengths – in the form of attributes and characteristics (resources) which make the organization in some way distinctive.
- Activities that are prioritized and explain how the organization focuses its energy and effort. These are the ‘means to ends’ which also reflect the challenges the organization faces.
- Beliefs and values that help drive the purpose, as we discussed in Chapter 3.
- The ‘spirit’ or ‘feel’ of the organization (assuming you believe there is one) that gives it an edge and makes it special.

As you progress down this particular list – bearing in mind that these are all relevant themes to include in a discussion but that this is not being offered as an exhaustive list – you have started to discuss elements of ‘how’ and ‘why’ as well as ‘what’ the organization does. You have started to consider the important and significant role and contribution of **culture** and values.

This chapter examines the manifestations, impact and determinants of culture (and cultural differences), which influence strategic positioning, strategic choices and the feasibility of change and, in turn, help to determine success. While culture varies between organizations, some elements will be common and transferable, with the relative competitiveness of industries and organizations in different countries being influenced by cultural variations. While we discuss an organization’s culture in the singular, it is important to realize that, especially in the case of those that are large and diverse, they invariably exhibit different cultures across different parts of the organization.

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Culture (and the associated values) is affected by what the organization is, what its purpose is, and the relative power and influence of different stakeholders. We might begin by asking which of the following best describes any particular organization:

- A shareholder business, with multiple stakeholders, including owners, shareholders, employees, suppliers and customers, and where financial success in the form of profits is a paramount consideration.
- A responsible business, again with shareholders, but with a declared intent to be ethical and responsible.
- A social business, which goes further and actively distributes some of its profits to social causes.
- A social enterprise, which may have charitable status, and which invests its surplus profits back into the business.
- A charity.

These are all different in various ways; their underlying cultures will be key to these differences. To help explain this, Case 7.2, Qhubeka features a charity and explores issues of culture and values.

Case 7.2 Qhubeka — South Africa

Qhubeka is a values-driven South African not-for-profit organization that sources (or acquires) and distributes bicycles to the remoter communities in South Africa. Some of the bicycles are bought from new, while others are acquired (often in really poor condition) and rebuilt, mainly utilizing a local partner network that it has established. Qhubeka is supported by the Team Qhubeka ASSOSS South African World Tour Cycling team, and so far it has distributed over 90,000 bicycles. This world tour team races in the Tour de France and other major cycling races.

The name Qhubeka means 'to progress' or 'to move forward' in the Nguni language. The organization was founded in 2005 by Anthony Fitzhenry. His goal for the organization was to help change the lives of one million people in South Africa – specifically, 1,000 people in each of 1,000 regions. A successful businessman, he had earlier founded and developed the largest IT distribution business in South Africa – where he became committed to employee ownership.

Fitzhenry realized that many people live in relatively remote communities and have to travel for education and for work, often using roads that are less than ideal for motor vehicles – even if they have access to a car, which many obviously do not. He wanted to help – but as an enabler rather than a benefactor. People would also have to show willing and become committed to helping themselves. Bicycles supplied by Qhubeka can help children get to school and adults to travel to jobs further away from their homes, invariably faster than any available public transport. Every recipient has to take and pass a course in bicycle safety and maintenance. Some agree to plant trees and collect rubbish as a form of payment – known as 'work-to-earn'. It is quite normal to also require recipients to agree targets for school attendance and hours worked in order to keep the bicycles. In addition, it can be easier for people to access medical support; and some medical practitioners are given a bike to help them travel to patients who struggle to access treatment centres. In return, these health workers will pledge to see more patients. Other recipients who ask for a bicycle to help with general health and fitness will be targeted with proven improvements. Some bicycles are always held available in case of an emergency such as the after-effects of fires, floods, earthquakes or tidal surges. When these disasters happen, roads tend to be affected badly and bicycles can be an ideal solution for getting around.

Qhubeka acquires the funding to source the bicycles by a variety of means, with corporate sponsorship important in a number of ways. There are direct donations; the sponsored world tour team raises money from spectators and supporters; employees at the sponsoring organizations often help with fund raising. In addition, many other organizations – not confined

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to South Africa – run events (usually cycling events) to raise money. Some of these might be cycle races, but other events feature bungee jumping while still sitting on a bicycle being one! Not unusually, individuals have climbed mountains for Qhubeka.

Recently, revenues amounted to around US$2.5 million with a declared surplus of over US$400,000. Some 81 per cent of the revenue has come from donations, with 3 per cent from government grants and 16 per cent from social enterprise activities in the form of sales of bicycles and equipment. A substantial sum is held in cash and ready-to-disperse inventory, an indication that Qhubeka was not operating with a 'hand-to-mouth' philosophy and was resilient enough to be able to respond to future needs.

Questions

1. Evaluate the Qhubeka business model. Do you agree with the statement that it is a values-driven organization?
2. How would you explain the value created by Qhubeka? Would recipients of bicycles and supporters of the charitable cause summarize this value in the same way?
3. Create and design an event that would either raise money for Qhubeka or support a similar initiative in a different country with similar needs and for which you have direct insight and understanding.

7.1 The manifestations and impact of culture

When any group lives and works together for any length of time, certain views and beliefs about what is right and proper (typically, called 'organizational values' and *norms*) are formed and shared, along with behaviour patterns based on their beliefs, and actions that are matters of habit which are followed routinely – these are their culture.

Terminology in this area may not always be consistent but, here, we offer our perspective. Individuals have personal beliefs about many things; sometimes these are 'taken with them' into their work environment, but it may not always be the case. When an individual's beliefs are accepted and adopted by others in an organization – as is often the case with a charismatic strategic leader or a visible entrepreneur – then these beliefs can be seen as organizational values once they become embedded behaviour. For this really to happen, the values have to be (in order) acknowledged, accepted, shared, perceived to matter, valued and espoused by staff.

In organizational settings, culture is reflected in the way in which people perform tasks, set objectives and administer resources to achieve them. Culture affects the way that they make decisions, think, feel and act in response to opportunities and threats. Culture also influences the selection of people for particular jobs which, in turn, affects the way in which tasks are carried out and decisions are made. Culture is so fundamental that it affects behaviour unconsciously. Managers do things in particular ways because it is implicitly expected behaviour.

To summarize, the culture of an organization is related to the people, their behaviour and the operation of the structure, and it is encapsulated in beliefs.

In a nutshell, attitudes and assumptions form the core of the organization's culture. Values represent implicit aspects of the culture; and behaviour is the explicit element.

The formation of, and any changes to, the culture of an organization is dependent on the leadership of, and example set by, particular individuals – and their ability to control or influence situations, which is dependent on a person's ability to obtain and use power.

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Online Case 7.1, The Body Shop, shows how the values of the founder, Anita Roddick, inspired employees and attracted customers. The distinctive culture enabled The Body Shop to grow and prosper; however, ultimately, it was not totally appropriate for the large, international business that The Body Shop became. Critics would argue that financial performance deteriorated and that elements of 'survival' were being sacrificed in favour of pursuing higher-order themes. Eventually, in 2006, The Body Shop was sold to L'Oreal as a way of making sure that the business could survive and prosper as part of a large multinational. Anita Roddick died in September 2007, leaving a legacy of a lifetime of philanthropy and of campaigning for environmental and ethical issues. There is definitely a case to be made that these higher levels of consciousness are important for businesses generally, but this 'social agenda' cannot be at the expense of a healthy financial performance. Case 7.3 on Lush explores similar themes.

Case 7.3 Lush UK

Lush has become a very successful business and brand because of its products and values. The business we see today on the high street really began in the early 1980s in Poole (Dorset) when a herbal trichologist (hair therapist) and a beauty therapist (Mark Constantine and Liz Weir) got together and started making all-natural, cruelty-free cosmetics products. Initially, their main business was as an independent supplier of bath and beauty products to The Body Shop. This arrangement meant they were unable to sell their products directly to the public. This business (which traded as Constantine & Weir) was sold to The Body Shop, which was wanting to gain control and ownership of the formulas used in Body Shop branded products. This created one slight problem: Constantine and Weir were now tied by a five-year agreement that stopped them from marketing directly competitive products. Instead, they formed a new mail-order business (Cosmetics to Go) which ultimately went into administration.

After the collapse of Cosmetics to Go, Mark and Liz (together with Mark's wife and other friends and colleagues) found shop premises in Poole. They spent the money they had available on fresh fruit and vegetables which they used to make products upstairs and then sold downstairs. The business name, 'Lush', was suggested by a customer – on the grounds that it meant fresh, green and verdant. The partners were keen to produce ethically clean hair and beauty products that excluded any ingredients which had been tested on animals. For example, they systematically phased out of their products any ingredients sourced from trees that were popular with critically endangered orangutans. From the beginning, this new business has engaged with charitable activities and has, in fact, raised over US$10 million for grassroots charities around the world. They campaign actively and visibly for causes they support. In 2018, and based on employee ratings and reviews, it was placed seventh in a leading recruitment website's register of best private sector employers in the UK.

The best-known Lush product is bath bombs. There is a wide range of creams, soaps, shampoos, shower gels, moisturizers, solid shampoos and solid toothpaste tablets. In addition Lush offers its 'Emotional Brilliance' make-up. One hundred per cent of the recipes are vegetarian, with 80 per cent vegan. Some include eggs, honey and beeswax. The shops can be recognized by their pervading rich smells. There are now over 950 of these around the world – with 100 in the UK. Lush employs 22,000 people and pre COVID-19 had a turnover in excess of £1 billion. Before the high street problems of 2018 (featured in Chapter 4), annual pre-tax profits were £75 million.

Lush does not advertise. (For a long time, and until it was a public company, this was also true of The Body Shop.) Again taking a lead from the original Body Shop, there are rewards (discounts) for bringing empty pots back to the stores for refilling. Lush avoids using celebrity endorsements, in contrast to many leading perfume retailers. Instead it has been able to rely on word-of-mouth endorsement and customer-generated social media postings. The target customer is an adult woman between 18 and 45. Most of its stores are located in densely populated urban areas, but there are also online sales. The products are now made in various European countries and in Canada and Australia. Lush is an international business and an international brand.

As well as these positives, there have been some (often minor) controversies. For example, in 2018, 5,000 employees in Australia complained that they were owed back pay. More seriously, Lush have used their store windows for their Spy-Cop campaign to criticize the media-alleged relationship abuses by undercover police officers – which has engineered a positive as well as negative reaction.

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Questions

1 Either find a Lush store you can visit (or use the internet as a fallback) and assess how significant a contribution values might have played in the success of the brand. How did you react to the instore aroma, typically busy-ness and product range?
2 Research Spy-Cop and decide whether you support this campaign. If you do not share their values, would this deter you from being a customer?
3 Read the online case on The Body Shop and its early successes. The Body Shop grew rapidly (as did Lush) and attracted serious competition, which ultimately meant it needed external finance which, in turn, has led to some compromise on the founders' values. Can you see parallels? How might Lush preserve its individuality and strong ethical values as it grows further (assuming, of course, that it does)?

Culture and power affect the choice, incidence and application of the modes of **strategy creation**, which will also reflect the values and preferences of the strategic leader. The preferred mode must, however, be appropriate for the organization's strategic needs, which are affected by competition. Moreover, culture and power are such strong forces that, if the prevailing culture is overlooked, implementation may not happen. Strong cultures can obstruct strategic change, particularly if companies are in decline and people feel vulnerable.

Quite simply, culture is at the heart of all strategy creation and implementation. Organizations are seeking to respond to perceived strategic issues. Resources must be deployed and committed, but successful change also requires the 'right' attitude, approach and commitment from people. This mind set – which may, for example, reflect a strong customer and service focus – could imply further empowerment and, consequently, cultural change.

Berry (1983) claimed prematurely that the focus of strategic management had switched from analytical models (the marketplace!) to a softer aspect of culture (how managers can resolve internal problems): by using culture, companies could become more strategically effective. The perspective of this book is, though, that both hard and soft aspects of strategy have important roles to play in strategic management. In many ways, this aspect restates the point McGregor (1960) made when he justified the relevance (in certain circumstances) of the hard 'Theory X' style of management alongside the more favoured and softer 'Theory Y' style.

Strong cultures can be an important strategic asset, with internalized beliefs motivating people to achieve exceptional levels of performance. An effective strategic leader will understand and mould the culture to pursue a vision and implement intended strategies. Although the most successful companies develop strong cultures, the major doubt concerns an organization's ability to change its culture.

Moreover, large organizations formed by a series of acquisitions, especially internationally, will frequently exhibit different cultures in the various divisions or businesses. Therefore, the challenge for corporate headquarters is to ensure that certain critically important values are reflected in all branches of the corporation and cultural differences do not inhibit internal architecture and synergy.

The culture grid

Figure 7.1 illustrates the culture grid that can be used to explain key aspects of an organization's culture. It comprises three themes: manifestations, people and power. Note that the figure deliberately features these as discrete but overlapping layers. Power underpins people who are at the heart of the manifestations. Each layer is discussed below and then a case on IKEA shows them all in action.

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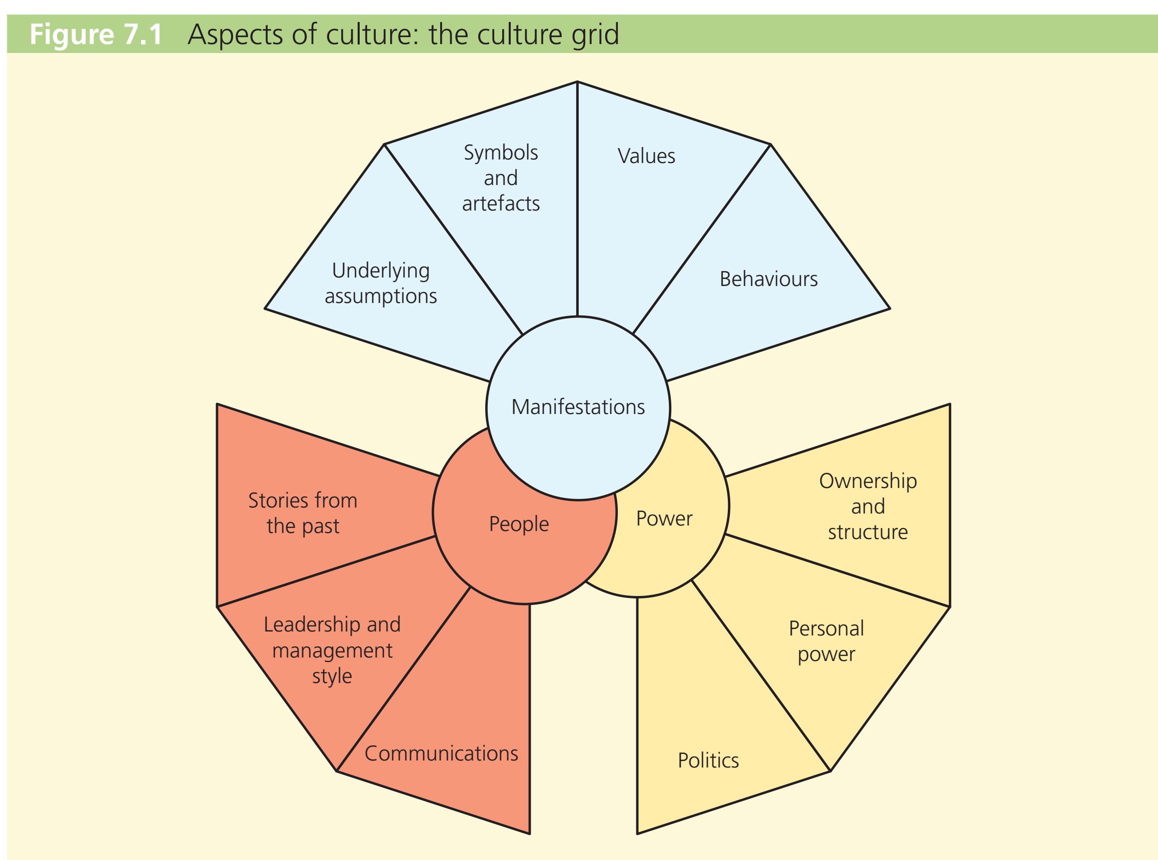
Figure 7.1 Aspects of culture: the culture grid



Manifestations of culture

Schein (1985) contends that culture has a number of levels, some of which are essentially manifestations of underlying beliefs:

1. *Artefacts* include the physical and social environments and the outputs of the organization, including written and social media communications, advertisements and the reception received by visitors.
2. *Values* represent a sense of 'what ought to be' based on convictions held by certain key people – for example, if an organization has a problem such as low sales or a high level of rejections in production, decisions (based on the values of the decision-maker or strategic leader, though debatable or perhaps questionable) may be made to advertise more aggressively, or to use high-quality but more expensive raw materials.
3. *Underlying assumptions* are the taken-for-granted ways of doing things or solving problems – that is, if the alternative is successful, it may be tried consecutively until it becomes common practice, such that the personal value becomes an organizational value and, ultimately, an assumption about organizational behaviour.

One underlying belief accepted by employees within a bank could be that all lending must be secure, whereas a football team could be committed to always playing attractive, open football. A university may be expected to have clear beliefs about the relative importance of research and teaching, but this is likely to be an issue where employees 'agree to disagree', leading to a fragmented culture. Examples of *behaviour* include speedy new product development; long working hours; formal management meetings and regular informal meetings or contacts with colleagues, suppliers and customers. Certain organizations may state that they have particular values but, in reality, these will be little more than verbal or written statements or aspirations for the future.

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Schein argues that cultural paradigms are formed which determine how 'organization members perceive, think about, feel about and judge situations and relationships' and these are based on a number of underlying assumptions.

People and culture

Stories from the past

For Schwartz and Davis (1981), culture is: 'a pattern of beliefs and expectations shared by the organization's members, and which produce norms that powerfully shape the behaviour of individuals and groups in the organization'. Such beliefs are key elements of corporate policy, being developed from interactions with – and, in turn, forming policy towards – the marketplace. As a result, rules or norms for internal and external behaviour are developed and, eventually, both performance and reward systems will be affected: aspects of the culture which are often transmitted through stories of past events, glories and heroes.

Success is measured by – and culture, therefore, becomes based on – past activities, which reflect the organization's heritage. Current decisions by managers reflect the values, beliefs and norms that have proved beneficial in the past and in the development and growth of the organization, reinforcing the organization's corporate culture and expected behaviour. Table 7.1 lists various elements that might be included. This non-exhaustive list builds on the question we posed at the beginning of this chapter. Heritage is a tacit resource that might be exploited as a strength, but it should not be seen as something that should be used to resist change.

Table 7.1 Strategic heritage

Factors that have emerged over time that can help define an organization
Technical expertise
Experience and expertise in dealing with problems and challenges – *always assuming the implicit knowledge has been captured and shared*
Established products and brands – and how these are perceived and rated
Key people – past and present – *again, assuming those from the past have left a legacy*
Key stories from the past
Established networks and links with key customers and suppliers – *especially where these can be used as testimonials*

Note: this is an indicative but not exhaustive list.

Culture affects the all-important suppliers and customers who will feed back impressions about the organization. Successful organizations will ensure that there is congruence between these environmental influences and the organization culture, such that key success factors can be achieved if resources are administered, controlled and developed appropriately.

The Fabergé story (Case 7.4) provides an excellent example of how the history of a business affects and influences the contemporary situation. The Fabergé (family) name became prominent in the nineteenth century, and the organization established heritage brand equity which has stood the test of time. We saw in Case 4.2 (Gemfields) how a new owner (in 2007) was willing to invest to buy the Fabergé name (and what the name represented) and reassociate it with fine, high-end jewellery and watches featuring coloured gemstones. The equity was largely built around the limited number of Fabergé Imperial Eggs created for the Romanov family before they were all executed during the Russian Revolution in July 1918, but many more high-quality pieces had been created and have survived. The original Fabergé business closed in 1917. Some of the Imperial Eggs have since been available for serious collectors to buy at auctions; in parallel, many other less expensive pieces (all manufactured before 1917) have been sold through specialist dealers. But between 1917 and 2008 there were several parasitic 'attacks' on the brand as it became attached to a series

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of different and far less expensive products. These realities, created by various 'rent-seeking' entrepreneurial interventions, have all combined to generate stories that have influenced the Fabergé reputation and the heritage value of the brand. But, and unusually, fictional stories have also made an important contribution. The first key intervention here was a James Bond short story, written by Ian Fleming, that (years later) provided the foundation of the Bond movie *Octopussy*. Some years after this, the 2004 movie *Ocean's Twelve* (featuring George Clooney, Brad Pitt, Catherine Zeta-Jones and Julia Roberts among others) features the theft of a Fabergé egg as its core storyline. The various stories – and the history of both the brand and the various products with which it has been associated – have combined to build a reputation that stands for quality, excellence and desirability, which certainly provides an opportunity, but also a constraint, for the new owners and the strategic position they have sought to re-establish.

Case 7.4 Fabergé: From 1842 to the Present Day — Russia, UK, Int

This case traces the history of a brand. It begins with a family jewellery business that disappeared. But the products the business created did not; in fact, the value of some of them escalated over time and through scarcity. The brand, however, was acquired and then traded by a number of entrepreneurs, who all made money by attaching it to other unrelated products, before it was bought (in 2007) by new owners who were interested in 'taking it back to its roots' and creating a new high-end luxury jewellery business. Once one of the most valuable brand names in the world, its inherent value became tarnished, but it was never destroyed. Could that original value now be revived? What would be involved?

The original business was started in Saint Petersburg (Санкт-Петербург) in the mid-nineteenth century by the German entrepreneur Gustav Fabergé, but, really, it was his son, Peter Carl Fabergé, who built what would become recognized as the leading jewellery business in the world during the time it existed. Originally persecuted Huguenots (French Protestants), the Fabergé family had migrated east from France – via Germany – and settled originally in the Russian Empire (in modern day Estonia). Their original name of Favri was changed several times to actually become Fabergé. When Gustav changed the final e to é, to give his business something of a Western European association, he created a unique surname – hence no other family could legitimately lay claim to that surname. Exquisite pieces were sold to the wealthy élite across Europe and also to successful Russian merchants. A real opportunity came when Peter Carl was invited to create what became the first of a series of unique Imperial Eggs that each took around a year to make. Voluntary restoration work on jewellery and other valuable *objéts* at the Imperial Palace had opened the door to this invitation. These eggs were all individual pieces and every one opened up to reveal surprises. Something spectacular was inside. The pieces invariably featured exquisite enamelling work that others struggled (and largely failed) to rival. While the mystique and value of the Fabergé brand is built around these 50 eggs, many other (less expensive and less valuable) pieces from the 200,000 in total also survived the Russian Revolution and have always been available second hand. Peter Carl proved to be an entrepreneur and an entrepreneurial marketer. He built a significant business (with sales around the world). He built what today would be described as a network or 'gig economy' organization where many of the craftsmen he 'employed' were, in reality, independent freelance contractors (with employees of their own) who committed to work for him. He was also creative in how he attracted his customers – including catalogue selling, rare in the 1800s for jewellery of this quality.

Peter Carl and his four surviving sons (having lost an infant child) all managed to escape Russia either before or after the 1917 Revolution, but their business was lost, and all recovered stock was seized by the government. The family fortune, too, was largely lost and so the business was never revived. The new Russian government needed money to rebuild the country and set out to obtain funds using various means. Certain Americans, including the entrepreneur Armand Hammer (whose parents were Jewish immigrants from Odessa in the Russian Empire), who would later make a fortune by starting Occidental Oil (among other business ventures), were allowed to acquire Fabergé pieces for sale in the United States. He was modestly successful by selling through department stores. Hammer was not an expert in jewellery – unlike other active dealers in Fabergé pieces, such as the London-based antiques specialist, Wartski (founded by a Jewish immigrant from Poland).

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They understood better what price to pay for the pieces they were allowed to buy. Later, the wealthy US publisher Malcolm Forbes became a serious buyer and collector, especially of Imperial Eggs – when any of these were, in fact, available for purchase. The brand, the products and their inherent value were all being preserved without them ever being seriously visible until the author Ian Fleming wrote a James Bond story featuring a Fabergé egg. This became the movie *Octopussy*. Another film, *Ocean's 12*, based on a storyline about stealing a Fabergé egg, later contributed to the growing notoriety. Some years after his death in 1990, Forbes' collection of nearly 200 pieces, including nine eggs, was bought (in 2004) for around US$100 million by a Russian billionaire (Viktor Vekselberg), who sometime later (and almost 100 years after the Russian Revolution) created a Fabergé museum in Saint Petersburg, arguing that Fabergé pieces held such value that they should be displayed so people could realize the quality of Russian artistry. The heirs to the Forbes collection had not shared the collector's passion.

Meanwhile, the Fabergé brand had continued with a completely separate life and identity. It had actually been 'acquired' by others who, basically, in the 1930s, simply registered it in the United States for use with quite different products. The Fabergé family did not find out immediately, and, when they did, they did not have the resources to challenge ownership in the court; they settled out of court (in 1951) for around £270,000 (at today's value). The original suggestion to replicate the business and use the name came from Armand Hammer, although he was never actively involved in any of the deals or businesses that emerged. During the next 70 years, the ownership of the brand changed on a number of occasions – and its value grew as the relevant businesses prospered. Most of the original products involved were cosmetics and toiletries; and when the name was acquired by the Rayette Corporation in the 1960s, the owner of that business, George Barrie, who was also a musician and film maker, created a male perfume that he christened Brut, and which he marketed as Fabergé Brut. In part thanks to advertising endorsements from high-profile sports celebrities, including Muhammad Ali, it became the world's best-selling aftershave product. A subsequent owner of the brand merged Fabergé with other businesses including Elizabeth Arden cosmetics, which also offered the Chloe, Lagerfeld and Fendi labels. This much larger business was, in turn, acquired by Unilever in 1989 for US$1.55 billion. Unilever then increased the number of licences to other businesses – Franklin Mint produced replica Fabergé eggs, for example, and there was also a porcelain Fabergé Barbie doll. A German jeweller, Victor Mayer, was the only licensee to produce quality jewellery products. As part of a divestment strategy, Unilever had already sold several of the brands and labels involved when it agreed to sell Fabergé in 2007.

Perhaps, inevitably, there would be a further unexpected twist running through the story. By chance, Peter Carl's youngest son, Nicholas, the only son to come to England, had a son, Theo, who was born in 1922. Nicholas was married; Theo's mother was his mistress. Nicholas did not have any children with his wife and, consequently, Theo grew up with a different surname – but, in his mid-forties, he was told by a family member to search out his birth certificate, which confirmed he was really a Fabergé. Theo had been running his own engineering business; he had a natural flair for design and was an excellent precision craftsman.

After selling his engineering business, Theo started restoring antique furniture and clocks and making *objéts d'art* – not dissimilar to the route that his grandfather Peter Carl had taken. He soon started working with precious metals and gemstones and experimenting with enamel work. In many respects, he turned out to be 'a natural'. A magazine feature on his work attracted the attention of Philip Birkenstein (a UK businessman and entrepreneur), who saw the potential for creating a company with designs by, and approved by, Theo Fabergé. The pieces could not be branded and sold as Fabergé. Thus in 1984, The Saint Petersburg Collection was established. Theo's designs were being manufactured by specialist craftspeople from the UK and Europe – a not dissimilar approach to the business run by Peter Carl. Theo was persuaded to design eggs that were similar to those created by his grandfather; and he was, in fact, the first member of the Fabergé family to oversee the production of men's wristwatches. Unable to visibly brand them Fabergé, he simply attached a miniature egg to the enamelled dial on his watches. Eggs designed by Theo Fabergé follow the same principles as those created by Peter Carl; they all open to reveal surprises. But this time they are typically not individual pieces.

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They are produced in strictly limited editions of up to 750 to allow for more modest prices without losing interest for collectors. A typical price might be £2,500. Some (more expensive) pieces are in limited editions of as few as six. Theo died in 2007, but pieces he designed for Saint Petersburg are still available. They are sold on some cruise ships and online.

The new Fabergé business was effectively born when venture capital company Pallinghurst Resources (Pallinghurst), run by Brian Gilbertson, bought the Fabergé name from Unilever in 2007 at a cost of US$38 million. Gilbertson had a background in mining (mainly in Africa) and he had a vision: a mine and market business model for emeralds, rubies and sapphires to rival that of De Beers in diamonds. Gilbertson and others had an underlying belief that an appropriate high-end luxury brand name would be critical, and the name Fabergé could provide that. The stated intention for the new jewellery was to recreate the style of Peter Carl for a contemporary global market. Brian's son, Sean, was CEO of the 'new' Fabergé, although he also had other roles with Pallinghurst. In the next few years the Fabergé jewellery business would be merged with another company in which Pallinghurst was involved – Gemfields, which owns a number of mines and specializes in emeralds and rubies.

The challenge they faced was significant. The competitors are bigger (at least at retail level) and internationally recognized and successful businesses, such as Cartier, Bvlgari, Graff, Tiffany and Harry Winston. Indeed, Cartier dates back to the time of Gustav Fabergé – and Cartier has never ceased to trade. When Fabergé decided to introduce a range of luxury watches, this introduced another set of high-end brand competitors, such as Rolex.

In 2007, Sarah Fabergé, the daughter of Theo, together with her cousin Tatiana Fabergé, were invited to help form a Fabergé Heritage Council to provide advice and guidance. The brand and the family had been brought together again 90 years after the original business had disappeared.

There have since been several collections of jewellery and watches and the designs have won several prestigious international awards. Watches were seen as a desirable option because the value of the global sales of high-end watches exceeds the value of high-end jewellery. In London the main route to market is a dedicated boutique and a concession in Harrods. There are similar opportunities in various other countries, but most retail sales are made through concessions in appropriate independent retailers. The products are also sold via Net-a-Porter, the online business for the sale of high-end luxury products; the target is to have a third of total sales online by the mid-2020s. There is also a reliance on private bespoke sales from salespeople who will visit potential customers anywhere in the world. Here: 'where money is no object, the limit is the client's imagination'.

In one respect, the new Fabergé was a start-up business; it was new to the market and had to establish its presence and reputation from scratch. At the same time, it was a business that had – and, indeed, had to have – significant resources and financial backing. After all, acquiring the brand had cost US$38 million. Is it possible, for example, to enter the global luxury goods market without some serious investment in marketing and, particularly, stock? The number of customers is likely to be low – and not readily found because of a prevalence of many serious and active competitors – but able to spend significant amounts of money for something they genuinely desire. But they must find out about it and cherish the brand as well as the jewellery. The brand had to be rebuilt, and there was no automatic guarantee this would be possible. Pallinghurst was able to provide that financial support – but it would expect to be paid back. At the same time, Pallinghurst was run by people whose background was in mining – they were not experienced at the final customer end of the chain. A new creative team had been recruited and they too were on a learning curve.

The entry level price for contemporary Fabergé jewellery collections is as low as £1,000 for a simple bracelet or ring; charm bracelets with a single egg charm are priced upwards from £3,200; £7,500 minimum is needed for a necklace with a miniature egg in homage to the Imperial Eggs; and watches range generally from £13,000 to £240,000. Some pieces can rise into millions of dollars or pounds for bespoke items that could be called 'high jewellery'. The challenge has been to find a contemporary niche – using business school jargon, 'love of the brand is one thing, but you need to create long-term loyal customers'. While needing to build and reposition the brand, it was first necessary to recreate awareness of the brand, to rebuild word-of-mouth marketing and find business and retail models that would deliver across social classes and price points. Learning about the most appropriate price points is constant and ongoing.

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Those involved realized they needed to play on the story and the history to make Fabergé fabulous again, but this was not retro marketing. The original designs would not sell today – and, apart from the Imperial Eggs, they were still available in near-perfect or perfect condition from Wartski and other high-end antique dealers. The brand, then, must be relevant and positioned within today's culture and marketplace. So far, it has been necessary for Gemfields to support the Fabergé business financially.

Questions

1. Why do you think the Fabergé brand has been so resilient over the years that the Pallinghurst strategy is even imaginable?
2. Can you see the logic in the Pallinghurst mine and market business model?
3. Were you to be involved, where would you try to position the jewellery? Would you have introduced a range of watches? There has to be a genuine revenue-generating opportunity, but the competition is 'serious'! What strategies might you consider for creating new value and for rebuilding a brand such as Fabergé?
4. If you were Pallinghurst, would you be willing – at least for some years – to subsidize the jewellery and watches end of the chain to support sales of precious gemstones?
5. Would you see an opportunity such as this one as an ideal option for a venture capitalist – or is this business idea about something much more complex?

The illustration is of the Coronation Egg, created in 1897. The coach is the 'hidden' surprise contained inside the egg. It was later bought at auction by Malcolm Forbes. The egg is now displayed in the Fabergé Museum in Saint Petersburg. This illustration is reproduced with permission from the Forbes Collection.

Leadership and management style

Organizations need a cohesive blend of the philosophies introduced earlier. A cohesive culture would exhibit strong leadership, whereby the strategic leader is sensitive to the degrees of decentralization and informality necessary for satisfying customer needs efficiently, and managing change pressures, in order to keep the business strong and profitable. At the same time, a centralized information network will ensure that communications are effective and that managers are both kept aware and rewarded properly for their contributions. A fragmented culture, in contrast, would suggest that the needs of certain stakeholders were perhaps not being satisfied adequately, or that strategies and changes were not being co-ordinated, or that managers or business units were in conflict and working against each other, or that the most deserving people were not being rewarded.

Communications

Linked to this is communication, an essential aspect of culture, as the organization may be seen as open or closed, formal or informal. Ideally, employees from different parts of the business, and at different levels in the hierarchy, will feel willing and able to talk openly with each other, sharing problems, ideas and learning. 'Doors should be left open.' Employees should also be trusted and empowered to the appropriate degree. Good communications can stop nasty surprises. If employees know how well competitors are performing, where they are particularly strong, they can commit themselves to high levels of achievement in order to outperform their rivals.

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Communication is clearly essential for creating effective internal and external architecture. Indeed, Hampden-Turner (1990) argues that culture is based on communication and learning. The strategic leader's vision for the organization must be communicated and understood; events and changes affecting the organization also need to be communicated widely. Managers should be encouraged to seek out new opportunities by learning about new technology and customer expectations, and to innovate; and the organization should help them to share their experiences and their learning.

Power and culture

Power is reflected in the *ownership* of the business, which may be a family company with strong, concentrated power, or a small group of institutional shareholders could control the business – in which case, it is conceivable that short-term financial targets will dictate strategies. *Structural issues* include the extent to which the organization is centralized or decentralized, the role and contribution of corporate headquarters, and control and reward systems. Personal power is discussed later in this chapter (Section 7.3); politics refers to the ways in which managers use power and influence to affect decisions and actions.

Case 7.5 analyzes IKEA, a low-cost competitor with its complex supply chain network, with its ability to be flexible in response to local opportunities, which could easily add costs as well as value. The company is product and production driven, but is able to capture and use ideas from customers and employees.

Case 7.5 IKEA — Europe

IKEA was started in Sweden by the late Ingvar Kamprad, who died in 2018 at the age of 91. He had pioneered the idea of self-assembly furniture in handy packs and built a hugely successful business. Kamprad's vision of 'a better, more beautiful, everyday life for the many' had led to 'a wide range of home furnishings, of good function and style, at low prices, for mass consumer markets'. Kamprad began with a mail-order business in 1943; the first IKEA store was opened in 1958 in his home town of Almhult, a small town of some 9,000 residents. Its success was based on blending creativity and commercialism. Now, and every year, IKEA prints over 200 million catalogues in 35 languages – this is by far the single largest print run of any comparable item anywhere in the world. IKEA devotes nine months each year to preparing its new catalogue, placing great emphasis on the cover, which must represent values that have a relevance all around the world. Kamprad never ceased to be involved with IKEA, but the CEO at the time of his death was Jesper Brodin, who was not a direct family member.

Growth has been carefully regulated. IKEA waited seven years before opening a second branch; the first branch outside Sweden was in the early 1970s; the first US store opened in 1985, with typically one new store being added every year. This approach allowed IKEA to establish local supply networks and ensure that it did not become stretched financially. IKEA does not have a large market share in any single country; instead, it has a global brand and an intriguing reputation which draws customers from substantial distances away. Once demand began to grow (as the brand became recognized) it also forced many customers to make an effort and drive to access the stores; they then had to make a further effort and assemble their furniture. In many cases stores were expanded (wherever possible) rather than new stores being built. Kamprad always stressed the importance of 'building up resources' and the expansion programme has always been funded from cash generated by the retail activities.

In 2018, IKEA had some 411 stores in 49 countries. Of these, 49 are franchised stores; the other 362 are company owned. There are 20 stores in the UK and one in Ireland. IKEA's strategy has always involved high-quality merchandise at prices which undercut the competition. In the mid-1990s IKEA's annual turnover passed the US$5 billion mark; after-tax profits were estimated to be 8 per cent of revenue. Sales have risen in every year of its existence, and by 2001, revenues had doubled to US$10 billion. By 2017 this had risen to over US$40 billion. A private company, IKEA has always been reticent about the financial data it releases. Moreover, as IKEA has only really started to target Russia and China in recent years, growth prospects appear to remain healthy. In 2006 IKEA returned to Japan, a country it had abandoned in 1994 after being there for 20 years. South America is a relatively new priority.

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IKEA stores focus on sales of self-assembly packs which customers take away themselves. IKEA will, however, deliver fully assembled pieces for a premium price. The stores have a wide range of facilities, typically including restaurants (where Swedish meatballs are a favourite dish) and games and video rooms for children; these are normally on the top floor, which is where customers come in. People are then routed carefully through a series of display areas to the downstairs purchase points which resemble a typical discount warehouse.

The furniture packs are commissioned from well over 2,000 suppliers in over 70 countries, many of them low-labour-cost countries in the Far East and Eastern Europe. Many of the supply factories are dedicated 100 per cent to producing for IKEA, which also has an equity stake in several of them and insists on tight stock control to reduce costs through the whole supply chain. IKEA designs virtually all its own products and aims to lead customer taste. There is just one range of products for the global market, but not every country and store stocks the full range. IKEA chooses not to have mini ranges for specific countries and prides itself on an ability to respond to local fashion and opportunities by quickly adjusting the range in any one store. The main product group is bedrooms – wardrobes offer flexible interior designs for people to choose from and there are some 200 different wardrobe doors in the range. Sales per square foot invariably exceed industry averages. However, and in response to contemporary demand and expectations, IKEA is beginning to trial new store formats and online selling.

IKEA's culture grid

Manifestations of IKEA's distinctive culture

Artefacts – These clearly include the stores, the products and the prices. Kamprad argued the products should 'seem typically IKEA in Scandinavia and typically Swedish everywhere else'. There are no brands other than IKEA's own. There are no annual or seasonal sales; prices stay valid for a whole year in line with the printed catalogue. There is a plethora of instore information and communications, but no commissioned sales people. In addition, we might see Almhult as an IKEA artefact as it is the home of the IKEA Museum and Kamprad's house. For many years a tax exile in Switzerland, he returned 'home' in his later years.

Values – It is not at all unusual for IKEA to be described as a values-led business; Kamprad issued a summary of values and beliefs in 1976 and few of these have changed materially. The mission statement emphasizes 'functionality, good design, low price and good quality'. The company uses the word 'prosumers' to imply that value is added by both IKEA and their customers in partnership. Employees are empowered to be innovative and helpful and challenged to 'dare to be different'; they should always be on the lookout for something new and/or better. Simplicity (of both products and systems), togetherness (among staff and with customers) and leading by example (in all things) are stressed. Employees are urged to show their enthusiasm and always strive to 'go the extra mile'. IKEA recognizes that always offering prices substantially below those of its competitors places considerable pressure on its staff. IKEA also expects, and gets, some complaints about busy stores and slow checkout service – a price they claim that has to be paid for low prices. Even though IKEA prices could easily have been increased, Kamprad has stuck with his original approach and mission.

Underlying assumptions – These stem in part from these values and can be summarized in the following quotes from Kamprad:

> 'We do not need to do things in traditional ways' (window manufacturers have been approached to make table frames; shirt manufacturers for seat cushions, for example).
>
> 'Break your chains and you are free; cut your roots and you die; IKEA should look for constant renewal.'
>
> 'Experiments matter; mistakes (within reason) will be tolerated.'
>
> IKEA also emphasizes the shared experience – 'if we contribute 50 per cent and you [the customer] contributes 50 per cent, we both save'.

Behaviours – Kamprad wanted every IKEA manager to fly economy class on business and use taxis only when there is no suitable alternative. In the Netherlands, from where IKEA is now really managed, managers have been encouraged to stay with typical IKEA customer families to learn more about their needs. Kamprad himself, despite his enormous wealth (estimated at US$58 billion), drove an aged Volvo car and used budget airlines, especially easyJet. In this respect he can be likened to the late Sam Walton of Walmart who opted for a pick-up truck. It has also been reported that he was prone to buy second-hand clothes and that he liked to cut out and use discount coupons. That said, he did also own and drive a Porsche!

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People

Stories – A variety of stories permeates the IKEA culture. Initially customers in US stores were simply not buying any beds – there had been no market research into US tastes; it was IKEA's global product. Eventually, it was realized that Americans sleep in bigger beds than Swedes and prefer softer mattresses. Similarly, ovens were too small and had to be adjusted to handle extra-large pizza plates; and drinking glasses were 'so small people bought vases as an alternative'. In the early days, in Austria, when regulations governing trucks restricted IKEA, Kamprad hired (small) trains to move his stock around the country. In the 1990s, when product managers from around the world were called together, they thought they were being asked to present their new ideas; instead Kamprad insisted they focus only on mistakes that had been made. 'It's only through mistakes that you learn.'

Kamprad denies that there is any truth in the story that his parsimony stretched to him buying cans of Coca-Cola from local supermarkets to replenish hotel room mini-bars because he was reluctant to pay hotel prices for soft drinks.

Leadership and management style – Kamprad described himself as a 'bad decision maker and bad organizer with a low IQ but considerable common sense' to a Swedish television audience but rarely showed his face to the public. At one stage there was some adverse publicity concerning alleged wartime allegiances, but no lasting damage. The lack of published financial information reinforced this hidden aspect of IKEA.

Communications – Customers as well as employees are encouraged to provide ideas and suggestions, which may be translated into new products. Information enters the system from several points. When Kamprad visited stores he encouraged staff to use his Christian name and he spent time with them and IKEA customers receiving feedback.

Power

Ownership and structural issues – IKEA remains a private company which owns all of its sites, paying for new sites in cash. 'We don't like to be in the hands of the banks.' Kamprad has criticized the short-term interests of many investors and consequently IKEA has never planned to become a public limited company. To support these views and intentions, the IKEA 'empire' operates as three distinct activities, something one commentator described as 'a fiendish network to make IKEA sustainable after Ingvar Kamprad died'. Much of it is based outside Sweden because Kamprad felt the taxes were too high. The core retailing business is a Dutch-registered charitable foundation. The profits of the retail operations are subjected to a top slice of 3 per cent (for permission to use the IKEA brand) in order to fund a separate business (also based outside Sweden) which has responsibility for managing the brand and new product developments and overseeing IKEA's franchisees. This is again a foundation with five trustees; Kamprad's three sons (and descendants) can fill two of these posts but not control it. The third arm is a banking and finance business, established to protect the family fortune. One son works somewhere in each of the arms but none of them has what you might call 'serious executive power'. There are multiple companies in the network, especially in the brand management arm; it is this arm that is the real locus of power.

Power – At the same time, the organization is structured as an inverted pyramid and based on managers and co-workers. 'Employees are there to serve customers.' Kamprad was always concerned that IKEA should not become inflexible as it grew in size. There are no directors, no formal titles and no dining rooms or reserved parking spaces for executives. Managers are quite likely to switch between functions and countries. The organization is fundamentally informal with few direct instructions. Every year there is an 'anti-bureaucracy week' when everyone dresses casually. It is expected that employees take responsibility – 'the fear of making mistakes is the root of bureaucracy and must be avoided'.

Perhaps the legacy of Ingvar Kamprad might be summarized in his own words: 'We are always at the beginning, and most things remain to be done.'

IKEA **www.ikea.com**

Questions

1. IKEA believes that fashionable and modern furniture and furnishings can be affordable for most families. It need not be prohibitively expensive. How does it achieve this?
2. Do you believe IKEA enjoys E–V–R congruence? If so, what are the key congruency themes? If not, in what way is it incongruent?

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Strategy in action question

1 Get your hands on an IKEA catalogue and look through it. What are your impressions? Do you think the cover is relevant for a global audience? How well does the catalogue convey the IKEA 'message' and its corporate values?

Either now or when you have read the material on India in Section 4 later in this chapter, research how Ikea created a range of products that would be relevant for India when it decided to enter this market in 2018 – a country where houses are furnished differently and price points are relatively lower.

Determinants of culture

Deal and Kennedy (1982) argue that employees must be rewarded for complying with the essential cultural aspects if these values are to be developed and retained over time, concluding that people who build, develop and run successful companies invariably work hard to create strong cultures within their organizations.

Deal and Kennedy (1982) isolated five key elements or determinants of culture:

- The *environment* and key success factors which the organization must do well to be an effective competitor – for example, innovation and fast delivery.
- The *values* that the strategic leader considers important and wishes to see adopted and followed in the organization, and which should relate to the key success factors and to employee reward systems.
- *Heroes* are the visionaries who create the culture and can come from any background; they could be, for example, product or service innovators, engineers who build the appropriate quality into the product, or creative marketing people who provide the slogans which make the product or brand name a household word.
- *Rites and rituals* are the behaviour patterns in which the culture is manifest – for example, employees helping each other out when there are difficulties, the way in which sales people deal with customers, and the care and attention that go into production.
- *The cultural network* is the communications system around which the culture revolves and which determines just how aware employees are about the essential issues.

When the culture is strong, people know what is expected of them, they understand how to act and which decisions to make in particular circumstances, and they appreciate the issues that are important. When the culture is weak, time can be wasted in trying to decide what should be done and how. Moreover, employees may feel better about their companies if they are recognized, known about and regarded as successful – aspects reflected in the culture.

The various separate strands to the culture in any organization should complement each other – for example, relating to the strategic leader, the environment and the employees. There could be a strong power culture related to an influential strategic leader who is firmly in charge of the organization and whose values are widely understood and followed. This could be linked to a culture of market orientation, which ensures that customer needs are considered and satisfied, and to a work culture, if employees feel committed to the organization and wish to help in achieving success.

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Implications and impacts of culture

Pümpin (1987) suggests that seven aspects comprise the culture of an organization and that the relative significance of each of these will vary from industry to industry. The seven aspects are:

1. The extent to which the organization is marketing orientated, giving customers high priority.
2. The relationships between management and staff, manifested through communication and participation systems, for example.
3. The extent to which people are target oriented and committed to achieving agreed levels of performance.
4. Attitudes towards innovation, with the risks associated with failure being perceived as acceptable by all levels of management.
5. Attitudes towards costs and cost reduction.
6. The commitment and loyalty to the organization felt, and shown, by staff.
7. The impact of, and reaction to, technology and technological change and development – for example, whether or not the opportunities offered by information technology are being harnessed by the firm.

Many of these aspects are developed further in later chapters of the book.

Hampden-Turner (1990) believes that the culture is a manifestation of how the organization has chosen to deal with specific dilemmas and conflicts. Each of these can be viewed as a continuum, and the organization needs a clear position on each one. As shown earlier, one dilemma could be the conflict between, on the one hand, the need to develop new products and services quickly and ahead of competitors and, on the other, the need for thorough development and planning to ensure adequate quality and safety. Another dilemma is the need for managers to be adaptive and responsive in a changing environment, but not at the expense of organization-wide communication and awareness. Such change orientation may also conflict with a desire for continuity and consistency of strategy and policy.

Tables 7.2 and 7.3 take this idea further. Table 7.2 highlights how every apparent virtue also has a 'flip side' and, consequently, something which is positive at one point may suddenly prove disadvantageous. Table 7.3 examines the advantages and drawbacks of three business paradigms (market-orientation, resource efficiency and growth driven). Taken together, these confirm that there can never be one best or ideal culture since the culture needs to be flexible and adaptive as circumstances change. The cultural factors that bring initial success may need to be changed if success is to be sustained. Similarly, it is not enough simply to analyze what other successful organizations are doing and copy them. Benchmarking and teasing out good practices is both important and beneficial but, again, these practices need customizing and adapting to the unique circumstances facing an individual organization.

Table 7.2 Every coin, every virtue, has a flip side!

Team players	May be indecisive and avoid risks
Customer focus	Can lead to reactivity and lack of innovation
Action orientation	Can become reckless and dictatorial
Analytical thinking	Can result in paralysis
Innovation	Innovation which is impractical, unrealistic, or ill thought-through and wastes time and money
A global vision	May mean valuable local opportunities are missed
Being a good 'people manager'	May allow someone to become soft and walk away from tough decisions

Developed from ideas in McCall, M.W. (1998) *High Flyers*, Harvard Business School Press.

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Table 7.3 The imperfect world of organizations

A market-driven business is likely to be:	An efficient operations-driven business is likely to be:	A growth-oriented business is likely to be:
Resourceful	Efficient	Competitive
Entrepreneurial	Strong on team working	Strong on targets and achieving results
Risk oriented	Good at executing plans	Full of hard-working people
Pragmatic in terms of getting things done	Sophisticated with its systems and procedures	Flexible
		Changing quickly
But it may not be:	*But it may not be:*	*But it may not be:*
Consistent	Responsive to customers	Taking a long-term perspective
Disciplined in what it does	Good at managing change	Offering a balanced lifestyle for its employees
Adhering to systems and procedures	Able to see 'the big picture'	Sensitive to people's needs
Strong on teamworking		

Developed from ideas in McCall, M.W. (1998) *High Flyers*, Harvard Business School Press.

Culture, strategy creation and its impact and outcomes

We have already seen that the essential cultural characteristics will dictate the preferred mode of strategy creation in an organization; all the modes are likely to be present to some degree.

The culture will influence the ability of a visionary strategic leader to 'sell' their ideas to other members of the organization and gain their support and commitment to change. The planning mode is most relevant for a conservative, risk-averse, slow-to-change organization, or is most suitable in a reasonably stable and predictable environment. In a more unstable situation, it can lead to missed opportunities. Where environmental opportunities and threats arise continuously in a situation of competitive chaos, an organization must be able to deal with them in order to survive. It is the culture, with its amalgam of attitudes, values, perceptions and experiences, which determines the outcomes and relative success. The structure must facilitate awareness, sharing and learning; people must be willing and able to act. People 'learn by doing' and hopefully 'learn from doing'. Ideally, they will be able to learn from mistakes and, indeed, Peters (1988) states that 'managers have to learn how to make mistakes faster'. This point is also discussed in the IKEA case. The reward system is critical, such that managers and employees should be praised and rewarded for exercising initiative and taking risks which prove successful; failures should not be sanctioned too harshly, as long as they are not repeated!

Berry (1983) argues that if a strategic leader really understands the company culture, they must, by definition, be better equipped to make wise decisions. They may conclude that 'cultural change will be so difficult we had better be sure to select a business or strategy that our kind of company can handle well', which is just as valid as – and, perhaps, more useful than – believing that one can accomplish cultural change in order to shift the firm towards a new strategy.

If business strategies and culture are intertwined, the abilities to analyze and construct strategies and to manage and inspire people are also intertwined. Hence, a good strategy acknowledges, 'where we are; what we have got; and what, therefore, managerially helps us to get where we want to be', which is substantially different from selecting business options exclusively on their product/market dynamics. In other words, developing and implementing strategy is a human and political process that starts as much with the visions, hopes and aspirations of a company's leaders as it does with market or business analysis. Ideas drive organizations.

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With ever shortening product life cycles, intense global competition, and unstable economies and currencies, the future is going to require organizations that are ready to commit themselves to change. Strategy will be about intertwining analysis and adaptation, with the challenge being to develop more effective organizations.

Miles and Snow (1978), whose research has been used to develop Table 7.4, have suggested a typology of organizations in relation to culture and strategy formation. The typology distinguishes organizations in terms of their values and objectives, and different types will typically prefer particular approaches to strategy creation. Defenders, prospectors and analyzers are all regarded by Miles and Snow as positive organizations; reactors must ultimately adopt one of the other three approaches or suffer long-term decline. But reality is complex!

Miles and Snow argue that, as well as being a means of classification, their typology can be used to predict behaviour. For example, a defender organization, in a search for greater operating efficiency, could consider investing in the latest technology, but reject the strategy if it has high risk attached.

The power of 'corporate culture' should not be underestimated, both for a company's success and, if it is inappropriate, in frustrating change. Values, strategies, systems, organization and accountabilities – the components of culture – are a very strong mix which can either make a company successful or, alternatively, lead to its decline. The task of corporate leadership is to apply energy and judgement to the corporate culture to ensure its relevance.

Sir Allen Sheppard, when Chairman, Grand Metropolitan PLC

Table 7.4 Organizational values and strategies

Type	Characteristics	Strategy formation
Defenders	Conservative beliefs Low-risk strategies Secure markets Concentration on narrow segments Considerable expertise in narrow areas of specialism Preference for well-tried resolutions to problems Little search for anything really 'new' Attention given to improving efficiency of present operations	Emphasis on planning
Prospectors	Innovative Looking to break new ground High-risk strategies Search for new opportunities Can create change and uncertainty, forcing a response from competitors More attention given to market changes than to improving internal efficiency	Visionary mode
Analyzers	Two aspects: stable and changing *Stable*: formal structures and search for efficiencies *Changing*: competitors monitored and strategies amended as promising ideas seen (followers)	 Planning mode Adaptive/Incremental mode
Reactors	Characterized by an inability to respond effectively to change pressures Adjustments are therefore forced on the firm in order to avert crises	Adaptive mode

Based on ideas in Miles, R.E. and Snow, C.C. (1978) *Organization Strategy*, *Structure and Process*, McGraw-Hill.

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7.2 Culture, structure and styles of management

Handy (1976), building on earlier work by Harrison (1972), has developed an alternative classification of organizations based on cultural differences, as illustrated in Figure 7.2. These are best thought of as 'directions of travel' rather than absolutes. Organizations will often develop their own hybrid style.

The club culture or power culture

Work is divided by function or product and a diagram of the organization structure would be quite traditional. There would be departments for sales, production, finance and so on; there may possibly be product-based divisions or strategic business units if the organization were larger. However, this structure is mostly found in smaller firms.

These functions or departments are represented in Handy's figure by the lines radiating out from the centre, but, notably, there are also concentric lines representing communications and power – the further away from the centre, the weaker is the power and influence. This structure is dominated by the centre and, therefore, is typical for small entrepreneurial organizations. Decisions can be taken quickly, but their quality is dependent on the abilities of managers in the inner circle.

Figure 7.2 Handy's four cultures

Culture	Diagrammatic representation	Structure
Power or club		Web
Role		Greek temple
Task		Net
Person or existential		Cluster

Based on ideas in Handy, C.B. (1976) *Understanding Organizations*, Penguin.

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Some large organizations have (at times) been led by strong and dominant individuals. In its heyday, Hanson, a large, successful and diverse UK/US conglomerate, was described by a former director as a 'solar system, with everyone circling around the sun in the middle, Lord Hanson' (see Leadbeater and Rudd, 1991). This analogy suggests both movement and dependency; succession after the retirement of a strong and dominant leader is often traumatic, and performance can be seriously affected.

Decisions depend a great deal on empathy, affinity and trust, within the organization and with suppliers, customers and other key influences.

People learn to do instinctively what their boss and the organization expect and require. Consequently, they will prove reliable even if they are allowed to exercise a degree of initiative. Foreign exchange dealers provide an illustration of this point.

For this reason, the culture can be designated as either 'club' or 'power'. Employees are rewarded for effort, success and compliance with essential values; and change is very much led from the centre in an entrepreneurial style. A culture such as this may prevent individual managers from speaking their minds, but decisions are unlikely to get lost in committees.

The role culture

Here, the culture is built around defined jobs, rules and procedures, rather than personalities. People fit into jobs and are recruited for this purpose. Hence, rationality and logic are at the heart of the culture, which is designed to be stable and predictable. The design is the Greek temple because the strengths of the organization are deemed to lie in the pillars, which are joined managerially at the top. One essential role of top management is to co-ordinate activity; consequently, it will be seen that both planning systems and incremental changes can be a feature of this culture. Although the strength of the organization is in the pillars, power lies at the top. As well as being designed for stability, the structure allows continuity and changes of personnel; for this reason, dramatic changes are less likely than more gradual ones.

High efficiency is possible in stable environments, but the structure can be slow to change and is, therefore, less suitable for dynamic situations.

Prevalent in many public sector organizations, aspects of this culture can prove beneficial for transport businesses such as railways and airlines, where reliability and timekeeping are essential. Unfortunately, it is not by nature a flexible, service-oriented culture. Intrapreneurship or elements of the task culture are also required for effectiveness.

The task culture

Management in the task culture is concerned with the continuous and successful solution of problems, and performance is judged by the success of the outcomes: the challenge is more important than the routine. The culture is shown as a net because, for particular problem situations, people and other resources can be drawn from various parts of the organization on a temporary basis. This can be achieved both formally and informally. Once the problem is dealt with, people will move on to other tasks – thus flexibility and discontinuity are key elements of this culture. Expertise is the major source of individual power and it will determine a person's relative power in a given situation. Power basically lies in the interstices of the net, because of the reliance on task forces.

The culture is ideal for consultancies, advertising agencies, and research and development departments – and, within the role culture, for tackling particularly difficult or unusual problem situations.

A major challenge for large organizations operating in dynamic environments is the design of a structure and systems which allow for proper management and integration without losing the spirit and excitement typical of small, entrepreneurial businesses. Elements of the task culture superimposed over formal roles can help by widening communications and engendering greater commitment within the organization. However, this culture is expensive, as there is a reliance on talking and discussion, experimentation and learning by trial. Although Handy uses the expression 'problem-solving', there can be problem resolutions or moves towards a solution along more incremental lines, as well as decisions concerning major changes. If successful changes are implemented, the expense can often be justified.

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The person culture or existential culture

The person culture is completely different from the other three: here, the organization exists to help the individual, rather than the other way round – for example, groups of professional people: doctors, architects, dentists and solicitors. The organization – offering help with necessary administrative tasks – provides a service for individual specialists and reduces the need for costly duplication. If a member of the circle leaves or retires, they are replaced by another who may have to 'buy in' to the partnership. Similar but different groups of self-employed consultants have different skills and agreed 'territories' but benefit from being part of an umbrella organization with greater visibility and geographic coverage. Elements of this approach are features of the franchise model (Chapter 12), and similarly many small charities (as one example) can form a cluster with other like-minded organizations to share the cost of basic administrative work provided by a specialist organization.

Some professional groups exhibit interdependencies and collaboration, allocating work among the members, although management of such an organization is difficult because of individual expertise and because the rewards and sanctions are different from those found in most other situations.

However, in an environment where government is attempting to increase competition between professional organizations (in some cases, to reduce barriers to entering the profession), it is arguable that effective management, particularly at the strategic level, will become increasingly necessary. Efforts will need to be co-ordinated and harnessed if organizations are to become strong competitors.

Management philosophies

Press (1990) suggests that the culture of an organization is based on one or more philosophies (Figure 7.3), which relate to the various stakeholders in the business, and are determined by two intersecting axes. One relates to whether the business is focused more internally or externally, and the other is based on performance measures. Do they concentrate more on resource management and efficiency, or outcomes and effectiveness? This creates four discrete philosophies:

- The resource focus, which concentrates on internal efficiencies and cost management.
- The shareholder focus, which sees the business as a portfolio of activities which should be managed to maximize the value of the business for its shareholders.
- The people focus, which emphasizes the skills and contribution of employees, and their needs and expectations.
- The market focus, which stresses the importance of satisfying customers by adding value and differentiating products and services.

All of these are important and none can be ignored. The culture can be analyzed in terms of how these four philosophies are perceived and prioritized. As pointed out earlier, the philosophy may have to change if success is to be sustained. It is important to consider the relevance of these philosophies in the context of the broad themes of Chapters 4, 5 and 6 where we discussed strategy being driven by opportunities, resources and competition. While Press may not specifically mention competition, we might argue that a need to be competitive will underpin everything and help determine the extent to which an organization's philosophy is relevant for the circumstances it faces.

A complex company which relies heavily on formal strategic planning, for example, is likely to appear to concentrate more on shareholders and resources. General Electric (GE) of America, on the other hand, is a diversified conglomerate which is perceived to focus on people empowerment and decentralization, and its style and culture has proved more enduring. That said, this did not prevent GE being accused of being bottom-line oriented. Japanese companies, discussed later in this chapter, exhibit a particular and distinctive blend of people, markets and resources.

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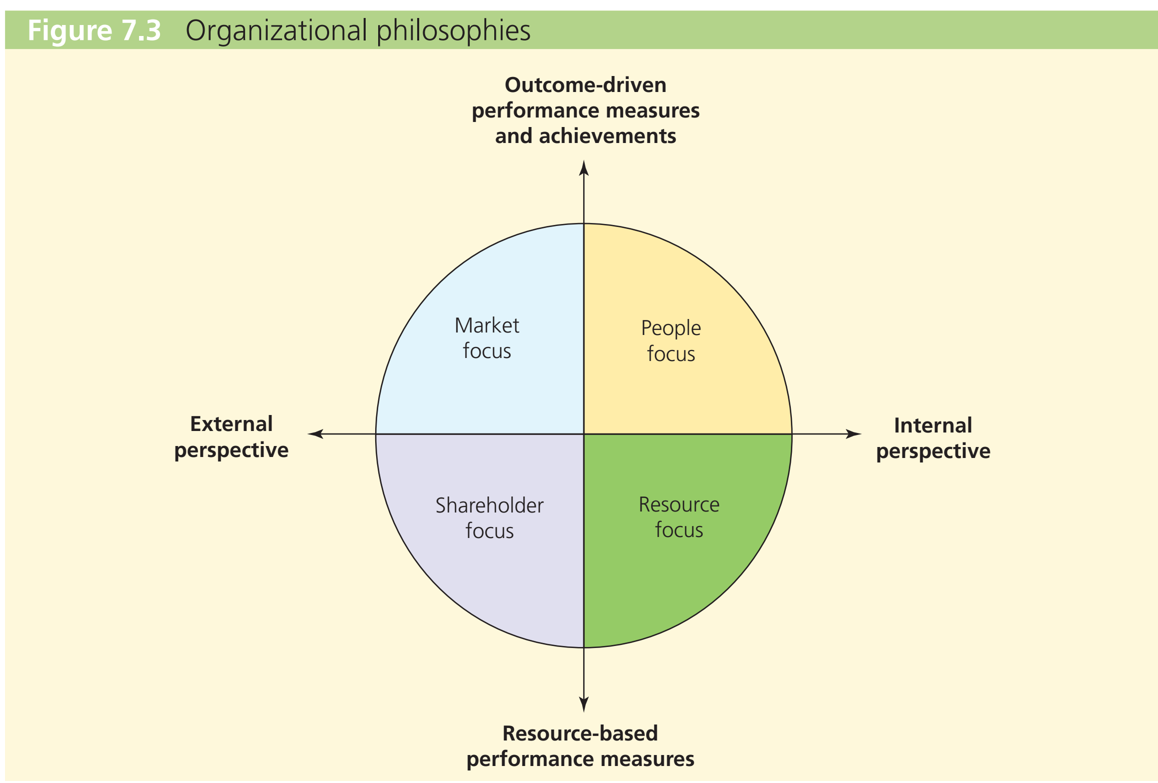
Figure 7.3 Organizational philosophies



Developed from ideas in Press, G. (1990) 'Assessing competitors' business philosophies', *Long Range Planning*, Vol. 23, No. 5.

Styles of management

The style adopted by the strategic leader – whether autocratic or democratic, visionary or 'champion of the past', oriented towards markets more than towards financial controls – can have a strong influence on the culture of the organization, and is also related to power, as discussed in Section 7.3.

Styles which differ from the 'normal and traditional' can prove to be very effective in particular circumstances. The John Lewis Partnership, Britain's largest department store chain, is employee-owned and has also diversified into supermarkets with its Waitrose chain. The company has a chairman, a board of directors and a management structure, as do most companies but, parallel to this commercial structure, stands a second structure which represents the interests of the ordinary worker who is also a partner in John Lewis. In terms of power, while a partner working in a department in a store cannot directly influence management decisions, they are nonetheless in ultimate control of the company for which they work – and this collective power is supplemented by a profit-sharing scheme. Decision-making and communications within the organization must be affected by high levels of participation. John Lewis's motto of 'never knowingly undersold' is based on value for money which is helped by employee involvement.

> *Everyone in the business feels (and is) involved. Everyone also feels (and is) accountable, especially those at the top. Top management are given lots of freedom to determine and change strategy, but they can be questioned on anything by the rank-and-file partners . . . this . . . makes people think ahead and consider the consequences of their actions.*

Stuart Hampson, Chairman, John Lewis Partnership speaking in 1993. Hampson was only the fourth chairman since the Partnership was formed in 1929.

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7.3 Culture and power

In Handy's classification of organizations in terms of their culture, power is an important element which needs further consideration. While an introduction to the topic is included here, the subject of power is explored more fully in Chapter 15, when its impact on strategy implementation and strategic change is considered.

Power is related to the potential or ability to do something. Consequently, strategic change will be strongly influenced by the bases of power within an organization and by the power of the organization in relation to its environment.

Internal power

Change is brought about if the necessary resources can be harnessed and if people can be persuaded to behave in a particular way. Both of these require power, which results in part from the structure of the organization; it needs exercising in different ways in different cultures in order to be used effectively. At the same time, power can be a feature of an individual manager's personality, and managers who are personally powerful will be in a position to influence change.

The ways in which managers apply power are known as 'power levers'. The theorized classifications of power bases differ only slightly. Critical Reflection 7.1, identifying seven major sources of power, has been developed from a classification by Kakabadse (1982), who has built on the earlier work of French and Raven (1959).

Critical Reflection 7.1 Power Levers

1. Reward power is the ability to influence the rewards given to others. These can be tangible (money) or intangible (status). Owner managers enjoy considerable reward power, managers in larger public sector organizations very little. For reward power to be useful, the rewards being offered must be important to the potential recipients.
2. Coercive power is power based on the threat of punishment for non-compliance, and the ability to impose the punishment. The source can be the person's role or position in the organization, or physical attributes and personality.
3. Legitimate power is synonymous with authority and relates to an individual manager's position within the structure of the organization. It is an entitlement from the role a person occupies. The effective use of legitimate power is dependent on three things: access to relevant information; access to other people and communication networks inside the organization; and approaches to setting priorities – this determines what is asked of others.
4. Personal power depends on individual characteristics (personality) and physical characteristics. 'Charm', 'charisma' and 'flair' are terms used to describe people with personality-based power. Physical attributes such as height, size, weight, appearance and strength also affect personal power.
5. Expert power is held by a person with specialist knowledge or skills in a particular field. It is particularly useful for tackling complex problem areas. It is possible for people to be attributed expert power through reputation, rather than proven ability.
6. Information power is the ability to access and use information to defend a stance or viewpoint – or to question an alternative view held by someone else – and is important, as it can affect strategic choices. There were several examples of this during COVID-19 as politicians chose to rely on their scientists.
7. Connection power results from personal and professional access to key people inside and outside the organization, who themselves can influence what happens. This relates particularly to information power.

To understand organizational change and how it is managed, we must consider where power lies and which managers are powerful, and identify their sources of power. While a visible, powerful and influential strategic leader is often a feature of an entrepreneurial organization, the nature and direction of incremental change will be influenced by which managers are powerful and how they exercise their power.

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A power culture has strong central leadership as a key feature, and power lies with the individual or small group at the centre who controls most of the activity in the organization. In contrast, role cultures are based on the legitimacy of rules and procedures, and individual managers are expected to work within these. Task cultures are dependent on the expertise of individuals; their success, in some part, depends on the ability of the individuals to share their power and work as a team. Managers are expected to apply power levers in ways that are acceptable to the predominant culture of the organization and, at the same time, the manner in which power levers are actually used affects what happens in the organization. Power is required for change, which itself results from the application of power. Hence, the implementation of desired changes to strategies requires the effective use of power bases, while other strategic changes will result from the exercise of power by individual managers. It is important for the organization to monitor such activity and ensure that such emergent changes and strategies are desirable or acceptable.

The relative power of the organization

The ability of an organization to effect change within its environment will similarly depend on the exercise of power. A strong competitor with, say, a very distinctive product or service, or with substantial market share, may be more powerful than its rivals. A manufacturer who is able to influence distributors or suppliers will be similarly powerful. The issue is the relative power in relation to those other individuals, organizations and institutions – its stakeholders – on whom it relies, with whom it trades, or which influence it in some way.

Culture and competitive advantage

Barney (1986) has examined the relationship between culture and 'superior financial performance', using micro-economics for his definition of superior financial performance, arguing that firms record either below normal returns (insufficient for long-term survival in the industry), normal returns (enough for survival, but no more) or superior results, which are more than those required for long-term survival. Superior results, which come from some form of competitive advantage, attract competitors who seek to copy whatever is thought to be the source of competitive advantage and generate the success – which, in turn, affects supply and margins and can reduce profitability to only normal returns and, in some cases, below normal. Therefore, sustained superior financial performance requires sustained competitive advantage. We debated the challenge and feasibility of sustained competitive advantage in Chapter 4 when we examined the 'new normal' business environment. Barney (1986) concluded that culture can, and does, generate sustained competitive advantage – and, hence, long-term superior financial performance – when three conditions are met:

- The culture is valuable – the culture must enable things to happen which themselves result in high sales, low costs or high margins.
- The culture is rare.
- The culture is imperfectly imitable – that is, it cannot be copied easily by competitors.

Peters and Waterman (1982) – in a study that was, in part, discredited because some apparently successful companies later experienced declining fortunes – identified a number of factors which appeared to explain the success of a number of large US businesses by focusing on corporate culture and its impact on corporate performance. At the time, the question raised was whether, if the cultural factors identified by Peters and Waterman (1982) were, in fact, transferable easily to other organizations, they could be the source of superior financial performance. Barney (1986) contends that valuable and rare cultures may be difficult to imitate – if not impossible. Indeed, it is difficult to define culture clearly, particularly in respect of how it adds value to the product or service; culture is often tied to historical aspects of company development and to the beliefs, personality and charisma of a particular strategic leader.

Online Cases 7.1 (The Body Shop) and 7.2 (Club Méditerranée) provide examples of companies which have gained success and renown with a culture-based competitive advantage. While maintaining the underlying principles and values, both companies have had to rethink their strategies to remain competitive. Club Méditerranée highlights how difficult it can be to sustain competitive success when values are core but the competitive environment changes, also demonstrating the use of power by external shareholders to change the strategic leader when the strategy is proving unsuccessful.

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The limits to excellence

Although some firms do appear to obtain superior financial performance from their cultures, it does not follow that firms who succeed in copying these cultural attributes will necessarily also achieve superior financial results. Organizations which pursue the excellence factors must surely improve their chances of success but, clearly, there can be no guarantees. Ignoring these issues may increase the chances of failure.

The need to maintain E–V–R congruence in a dynamic, competitive environment must never be forgotten. During the early 1980s, Jan Carlzon turned around the struggling Scandinavian Airlines System (SAS) by focusing on improvements in service and communications. Profits were restored with improved revenues, but costs later increased as well. As a driving philosophy, the service culture had to give way to a focus on strategy and rationalization. Passengers who fly with SAS today are unlikely to feel disappointed but, equally, are unlikely to feel that the service is a contender for the 'best in the world'.

Changing culture

The culture of an organization may appear to be in need of change for any one of a number of reasons – for example the culture does not fit well with the needs of the environment or with the organization's resources, or the company is not performing well and needs major strategic changes, or, even, the company is growing rapidly in a changing environment and needs to adapt.

Ideally, the culture and strategies being pursued will complement each other and, again ideally, the organization will be flexible and adaptable to change when it is appropriate. But these ideals will not always be achieved.

The culture of an organization can be changed, but it may not be easy. Strong leadership and vision are always required to champion the change process. If an organization is in real difficulty, and the threat to its survival is clearly recognized, behaviour can be changed through fear and necessity. However, people may not feel comfortable and committed to the changes they accept or are coerced into accepting. Behaviour may change, but not attitudes and beliefs. When an organization is basically successful, the process of change, again, needs careful management – changing attitudes and beliefs does not in itself guarantee a change in behaviour. It is not unusual for a team of senior managers to spend time, frequently at a location away from the organization itself, discussing these issues and becoming excited about a set of new values that they proclaim are the way forward. After the workshop, any commitment to the new values and to change can be easily lost once managers return to the daily grind and they become caught up again in immediate problems and difficulties. Their behaviour does not change and so the culture remains largely untouched.

The potential for changing the culture is affected by:

- the strength and history of the existing culture
- how well the culture is understood
- the personality and beliefs of the strategic leader
- the extent of the strategic need.

Lewin (1947) contends that there are three important stages in the process of change: unfreezing existing behaviour, changing attitudes and behaviour, and refreezing the new behaviour as accepted common practice.

The first steps in changing culture are recognizing and diagnosing the existing culture, highlighting any weaknesses and stressing the magnitude of the need to change.

One way of changing behaviour would be the establishment of internal groups to study and benchmark competitors and to set new performance standards, which would lead to wider discussion throughout the organization, supported by skills training – possibly including communication, motivation and financial awareness skills. People must become committed to the changes, which requires persistence by those who are championing the change and an emphasis on the significance and the desired outcomes.

Unless the changes become established and part of the culture, there will be a steady drift back to the previous pattern. While critical aspects of the culture should remain strategically consistent, it must not mean that the organization becomes resistant to change without some major upheaval. Competitive pressures require organizations to be vigilant, aware and constantly change-oriented, not change resistant.

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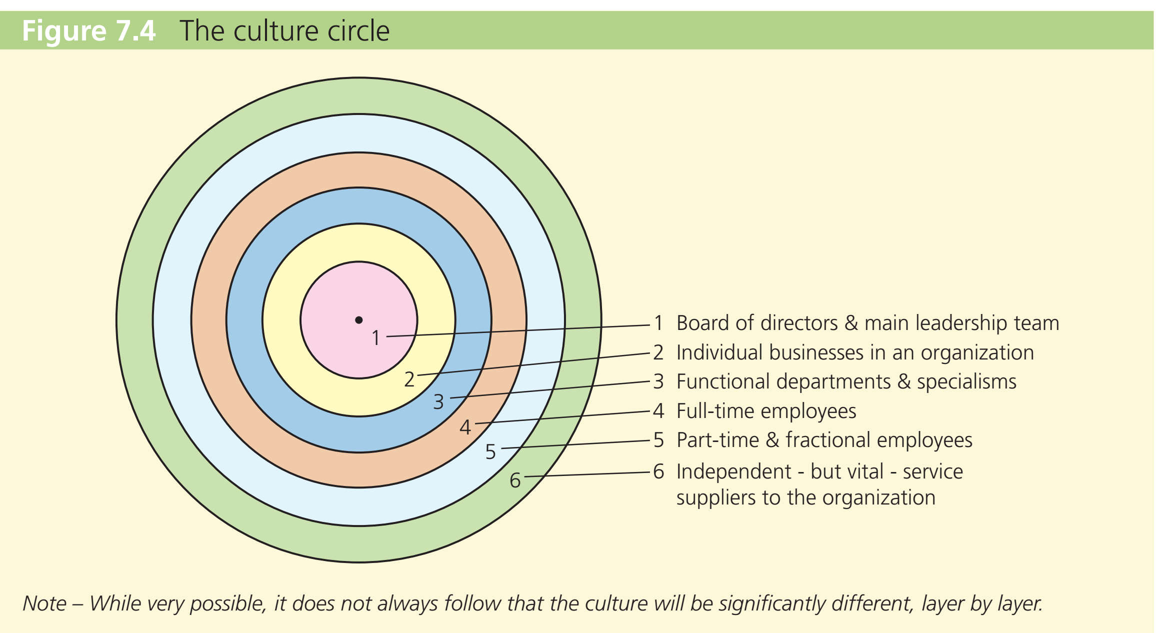
Resistance to change should always be expected. People may simply be afraid because they do not understand the reasons behind the proposed changes; they may mistrust colleagues or management because of previous experiences; communications may be poor; motivation and commitment may be missing; internal architecture may be weak, causing internal conflict and hostility; and the organization may simply not be good at sharing best practice and learning. We return to this theme in Chapter 11 with a section on improving organizational competency, to which Figures 11.2 and 11.3 will refer.

The culture circle

We conclude this section by developing a point made in the Introduction to the chapter – the culture may be and/or feel different at various levels or in different parts of an organization. Figure 7.4 illustrates (possible) layers and parts that *might* be prevalent in an organization and responsible for such variations. We emphasize 'might'. In the authors' experience, IKEA stores (Case 7.5) all feel similar; we can talk about the pervading 'IKEA culture'. But some organizations are complex and the result of various mergers and acquisitions. While there can be expected to be commonalities across the various businesses, it would not be unusual to see disparities and distinctiveness. Relating this point to E–V–R, in some instances it would make sense to look at the extent of the congruency/non-congruency for each business, division or product as well as for the organization as a whole.

Figure 7.4 The culture circle



Note – While very possible, it does not always follow that the culture will be significantly different, layer by layer.

There are many possible causes for this potential disparity. The following *might* contribute:

- in a multi-business organization, each business might have a very different history
- individual values relating to, say, work habits or customer service that have developed
- individual personal management styles – say relatively 'hard' or relatively tolerant
- the products themselves might demand particular approaches
- key success factors may require distinctive approaches.

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These will all be affected by the approach of the relevant strategic leader:

- Ways of working – such as ‘chilled’, ‘full-on’, ‘always going the extra mile’, working long hours rather than ‘to the clock’.
- Styles and approaches might be expected to vary between functional roles, say between finance and marketing departments.
- The leaders involved may be long-serving and loyal to the organization and the staff, or more ambitious and likely to move on. Which of these might be more likely to try and hide any personal shortcomings?

In summary, people with quite different values, personalities and management styles can find themselves in positions of power and influence. We cannot escape this reality and the implications on organizational culture.

7.4 Comparing national cultures

Cultural differences between nations and ethnic groups mean that what constitutes acceptable behaviour in one country (for example, communal nakedness in gender-segregated saunas in Finland) would be totally unacceptable in others. Ways of conducting discussions and deals vary; for example, Indians always like and expect to negotiate. Some countries, such as France, have a high respect for tradition and the past; others, such as the United States, are more interested in future prospects. National (and ethnic) cultures influence the extent to which individuals and organizations are judged on their track record and on their promise, and such differences are important because business is conducted across frontiers and because many organizations have bases in several countries. Organizations, therefore, have to adjust their style for different customers and markets, and accept that there will be cultural differences between the various parts of the organization; this affects the ability of the strategic leader to synthesize the various parts of the organization and achieve the potential synergies.

Differences in international cultures have been examined by various authors (including Hofstede, 1991; Trompenaars and Hampden-Turner, 1997). Although general conclusions may be drawn about cultural differences between nations, certain organizations in the same country do not automatically fit the national picture in every aspect. In some respects, for example, Sony is typically Japanese while, in other respects, it behaves more like an American company, such that research has confirmed that many American citizens think that Sony is American!

Case 7.6, Kungkas Can Cook, discusses an Aborigine business in Australia’s Northern Territory which has a strong cultural underpinning.

Case 7.6 Kungkas Can Cook — Australia

Kungkas Can Cook is the trading name of an indigenous outback catering business based in Alice Springs in the centre of Australia. ‘Kungka’ is an Aboriginal word for women – and, indeed, the business was started in 2000 by two Aboriginal mothers who between them had seven children. It has become a successful business – but there is far more to the story.

One of the co-founders, Rayleen Brown, has been the sole owner since her friend Gina Smith relocated to Tennant Creek, some 315 miles due north of Alice Springs on the main road to Darwin, in 2006 – too far to commute to work. She moved to help look after family, something quite normal among the Aboriginal people.

Rayleen and Gina both worked – Rayleen already ran a cafe that served healthy and less healthy (too much fat, sugar and salt) dishes – but they envisioned a business that focused on natural bush foods which would: (i) enable local people to eat more healthily, given diet is a key part of a lifestyle; and (ii) introduce non-Aboriginals to tasty Aboriginal delicacies. Rayleen herself had spent a nomadic childhood ‘living in nearly every town in the Northern Territory’. Her family sheltered in a bus when the notorious cyclone devastated Darwin in 1974. She learnt to be independent; one of six children, she had to. She was steeped in the culture of her people and determined to preserve key aspects of it.

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Both she and Gina were disappointed with the number of unhealthy options they saw on offer at catered functions they attended and believed passionately that food from natural sources could be tasty, nutritious and healthy all at the same time. While they have succeeded with both objectives, it wasn't an easy road.

The two women spent a year discussing the concept and drawing up a business plan that would allow them to apply for a relevant loan. They believed they needed a clear story, a clear direction and full compliance within the strictly regulated catering industry. Using a popular Aboriginal term, they spent time 'dreaming'. They also wanted to be ready for the hurdles and barriers they knew they would have to face; they were seeking to understand the inherent risks in the business. In 2001, and while waiting for the loan decision, Rayleen and Gina decided to tender for the contract to provide catering for 1,400 people at a Dreaming Festival in Alice Springs, to which Aboriginals from across Australia would be coming. This was really a huge risk for them but they took it. They were awarded the contract but 'had nothing to use'. They had to 'gather, beg and borrow' and even persuaded someone in Sydney to send them a large warmer. At the end of a successful but very fraught venture, they declared 'Now we could do bloody anything!'

The publicity they received and the subsequent loan was all they needed to get the business off the ground properly, and they started catering for progressively more events, with indigenous and non-indigenous customers becoming keen fans of their cooking. They used the money to establish a fully equipped commercial kitchen in dedicated premises. The business remains largely focused around Alice Springs and the surrounding communities.

Their dishes would include slow-cooked (in a fire pit) kangaroo tails and honey extracted from honey ants; but, even though the infamous witchetty grubs may be a delicacy and a treat for Aboriginal people, they are not ubiquitously popular! They rely extensively on natural products from trees and bushes but always offer a mix of bush tucker and Western food. People can 'try the real thing' when they feel ready to do so; when they try it, they quickly become fans.

Today, there are six full-time employees and others brought in as and when necessary. Family members are often involved and Rayleen has said (maybe quite seriously) that it is 'easier to fire members of your family if they don't perform'.

Suppliers from the Aboriginal community are preferred; young women are trained and mentored, and offered opportunities many would not otherwise have. Rayleen has become an accomplished networker and is often heard on the radio and seen in schools 'telling her story'. Recipes are willingly shared. As a consequence, Kungkas Can Cook plays a valuable community role, adhering to the Aboriginal culture, helping to preserve this culture and showing that entrepreneurial people are to be found among the Indigenous people. This is not a widely held view. Some in the Aboriginal community were openly critical – some would say this is an example of the Australasian 'tall poppy syndrome', where successful people are vilified for standing tall and independent. Not all non-Aboriginals would see Indigenous people as naturally entrepreneurial. Rayleen now wants Alice Springs to become the centre for bush tucker food in Australia – what she calls the 'first foods of the first Australians'. She is an entrepreneur and an enabler.

And what about the future? Maybe for her own ambitions Rayleen has done enough, but there must be growth opportunities, albeit with greater risks. Perhaps she could look to widen the territorial reach, but, given the distances in that part of Australia, it would be hard to do this direct from Alice Springs. She may look to gather, process, package and distribute some of the foods she uses – in much the same way that some successful Asian restaurants in the UK have done with limited ranges of their own meals and sauces. However, she would need a route to market, and the local market is very dispersed with a very thinly spread population.

Questions

1. How have aspects of Aborigine culture and values driven the strategy for this business?
2. Kungkas Can Cook appears to have developed E–V–R congruence – at least, for a limited market in the Northern Territory. How transferable might this be? Would it be fair to assume that there actually are market opportunities but resource constraints?

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Japan rose in the second half of the twentieth century to become a major global economic force, with some Japanese companies extremely prominent in certain industries. The Japanese style of management is different from that found in most Western countries and, while it cannot simply be copied – largely because of cultural differences – it offers a number of important and valuable lessons. Today Japan is the fourth leading economy in the world. China and the United States vie for leadership. Culturally they are all different. Consequently, this chapter continues with a section on Japanese culture and management style, and follows this with a brief and contrasting summary of China. In recent years, China's economy has grown rapidly as China has emerged as a leading global manufacturer. One key difference is that the Chinese (despite large numbers of PhD graduates of Chinese origin from Western universities) have not – as yet – provided the technological inspiration that has come from Japan. We also include a short discussion on the Indian and Brazilian ways of doing business. India and Brazil are fast developing economies. Both countries have been affected massively by COVID-19.

Without question, Japanese companies have become formidable and innovative competitors in several industries. In recent years, Toyota and Sony have been two of the very few non-US businesses to appear in the world's top ten most respected companies. For many years, they have been the principal challengers of Western firms serious about world markets. More recently, domestic recession, a fluctuating yen and intensifying competition from other Pacific Rim countries (many with lower wages) have restrained Japan's global expansion. Woodford (2012) demonstrated that top-level corruption had been discovered in one of the leading Japanese businesses. However, a study of the philosophies, strategies and tactics adopted by Japanese companies will yield a number of valuable insights into competitive strategy, even though it is impractical to suggest that Western businesses could simply learn to copy their Japanese rivals. One key structural feature historically has been the *keiretsu*, or corporate families, whereby a unique mix of ownerships and alliances makes hostile takeovers very unlikely. At its height, for example, the powerful Mitsubishi *keiretsu* represented 216,000 employees in 29 organizations as diverse as banking, brewing, shipping, shipbuilding, property, oil, aerospace and textiles. The companies held, on average, 38 per cent of each other's shares; directors were exchanged; and the fact that 15 of the companies were located together in one district of Tokyo facilitated linkages of various forms, including intertrading wherever this was practical. The *keiretsu* influence is fading as Japanese companies are locating progressively more production overseas in their search for lower manufacturing costs. In Japanese companies, managers are happy to take a supervisory rather than a 'leader' role. Information is shared and employees are consulted to encourage 'buy-in'. Historically, lifelong employment has been a feature, generating loyalty.

Individual Western companies have proved that it is possible, with determination and distinctive products, to penetrate Japanese markets successfully, but contenders can expect fierce resistance and defensive competition.

Although they are relatively close neighbours in the Far East, China and Japan are very different in their approach and culture.

Research evidence suggests – and, obviously, there are some generalizations here – that Chinese workers will strive very hard to solve crises and they take direction well. They are hungry to learn and very committed to their organizations, which have clear hierarchical structures. Managers are perceived as 'father-figures' who deserve loyalty; in turn, they feel responsible for 'their family'. Chinese businesses are more risk oriented than is the case with Japan. While Japanese companies are very innovative, they are not as intuitively entrepreneurial.

On the other hand, the Chinese are not as natural at teamworking as their counterparts in Japan – where a team culture is endemic – and their punctuality can sometimes be questioned. They do not readily share their knowledge and insights – and they are unlikely to challenge and question strategic direction; rather, they will obey instruction. There is some evidence of resistance to change. Chinese businesses are strongly affected by political influencers and expectations. China remains a communist society with a dominant and hierarchical party dominance.

India is another developing country that has been enjoying above average economic growth (in global terms). Software development is one example where India has been able to develop and sustain a strong competitive position. The ability to work naturally in the English language and the instant electronic

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transfer of data files have been valuable – as we see later (in Chapter 12) in the case of Infosys. At the same time, there is still considerable poverty in India, and the gap between the wealthiest and the poorest remains immense.

Capelli *et al*. (2010) show that behind this success lies an innovative and exportable (replicable) way of doing business. As with Japan, there are serious lessons to be learned. India has the advantage of low labour costs but many educated people understand and speak English. Traditional values of respect (for, say, government and family) have been retained – some aspects are a legacy from the years of colonial control – and, yet, Indian employees can be intuitive in their search for competitive advantage. Structures are, again, hierarchical; employee behaviour is largely deferential – we would describe India as more Theory X than Theory Y. There are also some very large and powerful conglomerates, such as Tata, which, as we saw earlier, is a large steelmaker and now the owner of Jaguar and Land Rover. Case 6.2 described the development of the Tata Nano car. In conceiving this car, Tata took a different perspective on competitiveness and asked 'How much can we realistically leave out?' They designed a small and very basic car which could be produced at low cost and, thus, marketed as the cheapest car in the world. When thinking about production, they worked on a 'kit' approach such that semi-assembled car sections could be moved around India for final assembly close to local markets in this huge country. However, they appear to have misunderstood potential demand.

Capelli *et al*. (2010) argue that the 'India Way' is about focusing on the long-term and not short-term shareholder expectations; and that the combined prosperity of company, employees and community matters. It helps develop valuable trust among the workforce. They emphasize four themes:

- A holistic engagement with employees – where people are seen as assets which should be developed and not 'costs to be reduced'; their knowledge and innovativeness must be harnessed – we can again see evidence of this in another later case, the one of the Dabbawallas of Mumbai in Chapter 9.
- Improvisation and adaptiveness – in a sense, instinctive entrepreneurship, but reacting to opportunities rather than creating opportunities.
- Constantly sharing information and knowledge to create new value for customers – always embracing the reality that many Indian customers will have only relatively modest spending power.
- Shared corporate values that embrace a social and community purpose.

Brazil's business culture has been influenced by the past. For a very long time Brazil was a Portuguese colony, and the main spoken language remains Portuguese. At the same time, until its industrial and urban economies grew, Brazil had a largely rural focus. Colonial rule has been replaced by strong and sometimes autocratic political leadership, and as a consequence there is an apparent preference for rules, order and centralization; the availability of data to support decision-making is seen as desirable. This is why Semco (Case 5.6) stands out as being radically different in style and approach. Employees are not naturally assertive, but still much of what happens is based on networks and personal relationships. Strategically the preferred time horizon for decisions and priorities is 'the here and now' – which will encourage short-term priorities and tactical pragmatism – rather than preparing well in advance for an uncertain future. It will be interesting to track how much this culture and approach might need to change as Brazil grows to play an increasingly significant role as an economic power.

Note

We do not offer a Research Snapshot in this chapter because culture is a generic theme.

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Summary

Culture is the way in which an organization performs its tasks; the way its people think, feel and act in response to opportunities and threats; the ways in which objectives and strategies are set and decisions made. Culture reflects emotional issues and it is not easily analyzed, quantified or changed. Nevertheless, it is a key influence on strategic choice, strategy implementation and strategic change – until we understand the culture of an organization, we cannot understand strategic management in that organization.

A large organization is unlikely to be just one single, definable culture, as it is more likely to be a loose or tight amalgam of different cultures.

It is quite normal for culture to be influenced by a strong strategic leader and their beliefs and values.

In a very broad sense, we can think of culture as a mixture of behaviour (the manifestations of culture) and underlying attitudes and values, such that it is easier to change one of these rather than both simultaneously.

There is no 'ideal culture' as such, because key elements typically have a flip side, and, therefore, a style and approach that is appropriate at a particular time can quickly become out of date and in need of change.

A useful grid for analyzing the culture of any organization would comprise:

- manifestations – artefacts; values; underlying assumptions; behaviour.
- people – stories; leadership; communications.
- power – ownership and structure; personal power; organizational politics.

Handy (1976) proposes four cultural types which help to explain the culture, style and approach of different organizations. These are the power culture (typical of small, entrepreneurial organizations), the role culture (larger and more formal organizations), the task culture (the complex organization seeking to achieve internal synergies through effective linkages) and the person culture (built around the individual managers' needs).

In an alternative and equally significant contribution, Miles and Snow (1978) differentiate *defenders* (conservative and low-risk organizations), *prospectors* (innovative and entrepreneurial), *analyzers* (limited change with measured steps) and *reactors* (followers), which can be readily linked to styles of strategy creation.

We can only understand culture when we understand power inside an organization. Who has power, how do they acquire it and how do they use it?

A number of books on the general theme of 'organizational excellence' have highlighted how it is culture that is at the heart of success. Although general themes and lessons can be teased out, an organization cannot simply replicate the culture of another successful organization and become successful itself.

There are important cultural differences between nations. This has implications for businesses which operate or trade globally.

Online cases for this chapter

Online Case 7.1: The Body Shop
Online Case 7.2: Club Méditerranée
Online Case 7.3: Hewlett-Packard
Online Case 7.4: Aiptek

Questions and research assignments

1. Use the text in Case 7.5 (IKEA) to complete a culture grid (Figure 7.1) for IKEA.
2. Take an organization with which you are familiar and evaluate it in terms of Handy's (1976) and Miles and Snow's (1978) typologies.
3. List other organizations that you know which would fit into the categories not covered in your answer to Question 2.

   For Questions 2 and 3, you should comment on whether or not you feel your categorization is appropriate.

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4 Considering the organization that you used for Question 2, assess the power levers of the strategic leader and other identifiable managers.

5 Thinking of the identified cultural priorities for Japan, Germany and the United States listed in the text, what do you think the cultural priorities of your own national businesses are?

Internet and library projects

1 The National Health Service

British Prime Minister John Major announced a new Citizen's Charter in July 1991. This implied a change of attitude for the NHS: patients should be seen as customers with rights, rather than as people who should be grateful for treatment, however long the wait. From April 1992, hospitals would have to set standards for maximum waiting times.

This followed on from the 1989 NHS White Paper, Working for Patients, which was designed to achieve:

- increased performance of all hospitals and general practitioners (GPs) to the level of the best (significant differences existed in measured performances).
- patients receiving better health care and a greater choice of services through improved efficiencies and effectiveness in the use of NHS resources.
- greater satisfaction and rewards for NHS staff.

In subsequent years, how did this impact on NHS strategies? How has COVID-19 affected waiting times and what has (and will still) need to happen to sustain them at pre-COVID-19 levels? How much are the changes you propose resource-focused and how much are they cultural?

2 In 1997, a Labour government was elected. It set about changing the Conservative philosophy and dismantled and replaced a number of strategies. What was the Labour approach? Did it change the culture in any way? Indeed, did the culture need changing? The new Coalition government (elected in 2010) decided it did and introduced new legislation in 2012 where, in essence, GPs became more influential and competition from the private sector more evident. What impact did this have on the NHS culture and employees? 'Today', is the NHS culture still appropriate?

3 Can the relative success of the NHS ever be evaluated effectively without imputing political and cultural concerns?

4 Research how profitable John Lewis and Waitrose have been in comparison with their major competitors in the last five years. What conclusions can you draw?

John Lewis Partnership **www.johnlewis.com**
Waitrose **www.waitrose.com**

5 Find out where your nearest John Lewis or Waitrose store is and, if possible, visit it. Can you detect any differences in attitude between the John Lewis staff and those who work in similar mainstream department stores?

John Lewis Partnership **www.johnlewis.com**
Waitrose **www.waitrose.com**

Strategy activity

BP and Shell: cultural roots

BP and Anglo-Dutch Shell are two of the leading oil companies in the world. The US ExxonMobil and Chevron, and the amalgamation of Total and Elf (both French) are among the others. They are all involved in exploration, drilling, refining and transporting oil and its derived products.

The industry has been characterized by mergers and consolidation in a search for scale and critical mass. The oil companies are pressurized by the countries where oil is located (who, not unexpectedly, want to control both access and prices) and governments in consumer countries who are worried about escalating oil prices. The powerful Organization of Petroleum Exporting Countries (OPEC) acts as a cartel to regulate commodity prices.

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In recent years, both BP and Shell have had to deal with crises, some of them self-created. Shell was found to have misreported its assets by overestimating reserves. BP had to deal with the fallout when its highly acclaimed chairman, Lord Browne, resigned following published details about his personal life. The company was also in trouble: first, after a fatal explosion at one of its refineries in Texas and, second, after it was deemed culpable when oil was spilled into the Gulf of Mexico. BP's commitment to safety was in question.

In the context of the supply chain, BP is seen as primarily a downstream business. Started over 100 years ago in what is now Iran, BP began in exploration. Year-on-year, it replaces in reserves at least as much as it takes out. It is currently developing fields in Azerbaijan, Egypt, Angola, Libya and Oman. But, in recent years, its upstream refineries have not been operating at full capacity.

In contrast, Shell is more upstream, having started as a shipping company. Shell pioneered bulk oil tankers. Having been caught out for overestimating its reserves, it is seen to be weaker than BP in terms of future supply potential; however, its refineries deliver three times the profits of those owned by BP. Shell is investing heavily in different sources of energy, such as liquefied natural gas.

Before the Gulf crisis, one analyst commented that BP looked strong in the short term but that Shell could be a better long-term prospect.

Question

How much do you think cultural roots will affect strategy and culture?

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Chapter 8

Strategy formulation: Strategic alternatives and decision-making

PART 1
Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- describe the planning, visionary and emergent approaches to strategy, and how emergent strategy includes adapting to new opportunities and changing intended strategies incrementally as they are implemented **(Section 8.1)**
- identify and describe a number of possible strategic alternatives, separated into limited growth, substantive growth and **retrenchment** clusters, with additional focus on innovation and temporal differences **(Section 8.2)**
- define the key criteria for evaluating the appropriateness, feasibility and desirability of a particular strategic alternative, and discuss why there may be a trade-off between these factors **(Section 8.3)**
- explain the underpinnings of strategic decision-making in practice and 'reality', summarize a number of alternative theories of decision-making and explain why subjectivity can sometimes result in poor decisions – hence the importance of judgement **(Section 8.4)**.

Introduction

The following chapters show why it is the case that every manager can be a strategy-maker, although it should be said that not every manager would be seen as either a leader or an entrepreneur. This chapter outlines the various strategic alternatives that may be available to an organization in thinking and deciding where it wants to go, and in helping to close the **planning gap**. The appropriate **strategy** always matches the environment, values and resources congruently. Football or any professional sport, for example, provides a useful metaphor for understanding **strategy creation**. Planning, vision, emergence, competition, team and individual contributions, setbacks and unexpected events are all relevant. The extent of the significance of each will vary with the sport and the level at which it is played. Teams or, in the case of sports such as tennis, individuals will begin all important matches with a game plan. They will have studied their opponents, assessed their relative strengths and weaknesses, thought about their natural game and about how they could approach this particular match, and worked out how they may be beaten. In a football game, coaches will have helped the players with the analysis and the tactics. Normally, the objective is to win. In some instances, it can be about not losing (a subtle difference), or winning may be qualified by adding a 'means' objective related to approach and style. These game plans will undoubtedly *inform* the players, but it may be impossible to carry them out to the letter, due to unexpected tactics from their opponents.

Once the game is under way, the intended plans and strategies will be adjusted through incremental changes. Broadly, however, they will be implemented, certainly as long as the game is being won and not lost. At the same time, new and unexpected opportunities will be presented during the game, and good teams will be able to adapt.

Of course, and keeping with the literary flavour of this introduction, 'The best laid schemes o' Mice an' Men, Gang aft agley' (Robert Burns). The opponents may prove stronger and more disciplined than predicted and may take the lead in the first minute, seizing control of the game. In this case, there will be a need to adapt to the threats and change the tactics; thus, the ability to remain cohesive and disciplined as a team is essential. In football pundit terminology, this scenario is usually described as 'keeping your shape'. In other words, don't panic.

At any time, there is an opportunity for individuals to show initiative and to shine. A strong, experienced and maybe visionary team manager (the strategic leader, in this example) can act as a master tactician and an inspiration beforehand and from the sidelines during the game. Talented players – with individual goals, spectacular saves, or important tackles at key moments – will often make important contributions and, by doing

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so, encourage their colleagues also to make the extra effort that tips the balance. As commentators always say, a game is not lost until the final whistle: teams often do go one or two goals down before recovering to win. In addition, how often do you hear reporters and pundits talk about 'leaders on the field'?

Elbanna and Child (2007a) have developed and tested (in Egypt) an 'integrated model of strategic decision-making rationality', which incorporates variables related to the decision itself, the environment and the firm. The study found that these aspects influence strategic decision-making to differing extents but that the national cultural context also must be taken into account (Elbanna and Child, 2007a), lending support to the argument that context needs to be borne in mind when researching strategic decision-making and the process thereof in particular (Shepherd and Rudd, 2014). In the same light, Elbanna and Child (2007b) reported that strategic decision-making effectiveness was more likely to be enabled by 'rational and political processes', rather than intuition, with both the process and context being important.

Also important to context, key top management (so-called 'upper echelons' of organizations) factors influencing strategic choice and performance (the latter indicated by * whereas other factors which are not directly shown to thereby influence performance are shown as [§]) include, for example:

1. Their diversity,* including their age and 'functional heterogeneity', in terms of strategic choices including innovation and acquisitions (Olson *et al*., 2006).
2. How they utilize social capital,* 'a vital operative mechanism through which links between executive characteristics, strategic choice, and performance occur' (Shipilov and Danis, 2006), or with regard to external social capital in 'late movers' (Yoo *et al*., 2009).
3. Their other characteristics,[§] including those of their CEOs, such as their 'aggressiveness' (Papadakis and Barwise, 2002).
4. The top manager's 'core self-evaluation' (CSE),[§] including 'self-esteem, self-efficacy, locus of control and emotional stability', or even more so 'hyper-CSE', who exhibit hubris, i.e. 'self-confidence, self-potency and conviction that they will prevail' (Hiller and Hambrick, 2005), which are characteristics also of more entrepreneurial individuals.
5. Their 'cognitive diversity, task conflict and competence-based trust'[§] (Olson *et al*., 2007).
6. The use of advisers[§] by CEOs and top management teams (Arendt *et al*., 2005). If managers completely comprehend their 'competitive environment' and the 'competitive dynamics' of their firm, they can then make effective strategic decisions that enhance performance – in this case, profitability (Ketchen *et al*., 2004).

Amason and Mooney (2008, p. 407) found that: 'organizations that perform well sometimes squander their success subsequently through poor decision-making' due to 'a defensive mindset that may lead to dysfunctional outcomes'. Strategists' prior experience in strategy formulation, transmitted through a process of 'analogical reasoning', can similarly enable more effective strategies and strategizing (Gavetti *et al*., 2005). Strategists, indeed, may have particular personalities and traits that influence the way in which they formulate strategy – for example, with the 'charismatic entrepreneur' types in SMEs adopting 'a more rational, planned approach' (McCarthy, 2003).

Subsequent research has helped to establish further the distinctiveness of strategy formulation in SMEs and more entrepreneurial contexts (Mazzarol and Reboud, 2006; Vos, 2005), or in the context of smaller non-profits (Krug and Weinberg, 2004). Particular strategic options have been explored with, for example, Leavy (2003) suggesting that managers adopt a hybrid of the Porterian market-position oriented approach, and Prahalad and Hamel's core competence methods of strategic choice, and not just one. Performance measurement can also be linked to strategy formulation, with an extensive number of performance measurement 'systems' or 'initiatives' that could be utilized (Pun and White, 2005). Andrews *et al*. (2009), furthermore, attempted to establish the influence of both strategy formulation and content on performance, finding that performance is exacerbated by 'logical incrementalism' and 'strategy absence', whereas the strategy content variables of 'prospecting' and 'defending' improve performance. Noy and Ellis (2003) observed that, within strategy formulation, risk is a 'neglected component', with relatively little use of 'risk-assessment models', with the notion of risk being a key element supported elsewhere (Parnell and Lester, 2003). Moizer and Tracey (2010) use a 'causal-loop' to illustrate the trade-off between the allocation of resources to their commercial and social activities.

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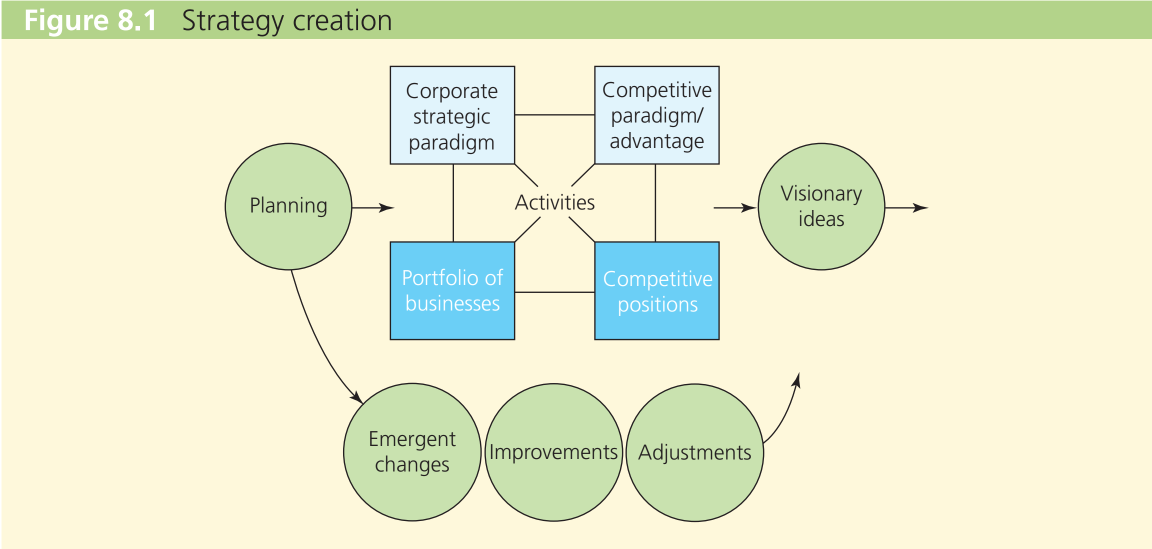
8.1 Strategy creation

Chapter 1 explained how strategy creation involves three strands:

- *Planning*, both systematic and formal strategic planning systems, and informal cerebral planning.
- *Vision* and visionary leadership.
- *Emergent strategies*, incremental, adaptive changes to predetermined **intended strategies** involving learning and responsiveness to opportunities and threats.

Strategy and strategic management embrace the corporate portfolio of businesses and the search for competitive advantage, which arises from the functional activities that an organization undertakes (Figure 8.1). Visionary ideas *pull* the organization forward and, where these result in significant changes, they will often be associated with the strategic leader. Planning *pushes* everything forward. Emergent intrapreneurial changes initiated and implemented by individual managers throughout the organization *support* and complete the process.

Figure 8.1 Strategy creation



If all strategies were planned formally, then organizations could look back and review the decisions that they had made over a period of time, since they would have had a clear recorded statement of intent which matched these events closely. In reality, stated plans and actual events are unlikely to match closely because, in addition to strategies that have emerged and been introduced entrepreneurially, there are likely to have been expectations and planned possible strategies that have not proved to be viable. However, broad directions can be established and planned, and then detailed strategies emerge as part of an ongoing internal learning experience.

Idenburg (1993) distinguishes between formal planning systems, learning or real-time planning (a 'formal' approach to adaptive strategy creation), incremental change and logical incrementalism (with flexibility for managers to experiment), and emergent strategies (where the organizations do not create objectives, but are very flexible). Mintzberg and Waters (1985) and Bailey and Johnson (1992) have also shown how the simple three-mode categorization can be extended, but the underlying implications remain unchanged. A number of points should be noted:

- Although it is not made explicit, some strategies, especially those formulated by a visionary entrepreneur, attempt to shape and change the environment, rather than react to changing circumstances.

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- The organizational structure and the actual planning process will affect the nature of planned objectives and strategies. Wherever a group of managers is involved in planning, their personal values and relative power will be reflected. See Cyert and March's behavioural theory, and Chapter 3, stakeholder theory.
- Adaptive changes also reflect the values, power and influence of managers.
- Some large and diverse private sector organizations, as well as many public sector bodies, often employ management consultants to help with the process, the advantages and drawbacks of which we discuss in Strategy in Practice 8.1.

Strategy in Practice 8.1 Strategy Consultants

It has become relatively commonplace for large organizations in the private and public sectors to employ the services of management consultants. The leading consultancies operate globally and employ people with genuine knowledge and expertise, and they have been influential in developing many of the conceptual and analytical frameworks that are used widely in strategic management.

Some consultants specialize in aspects of strategy implementation rather than strategy development. Cost-saving initiatives and quality improvement programmes would be examples. They can also help identify new suppliers or acquisition targets and they support the subsequent actions. Sometimes they are asked to provide assistance with a planning exercise designed to help clarify what the future corporate strategy might be (identifying the preferred option from a number of alternatives), and which products and services should be the priority investments (generally based on forecast financial returns). In the latter case, they have sometimes been criticized for being too analytical and not thinking through the implementation implications for the actual organization and management team in place. They have failed to give enough credence to the people issues. In some cases (when it comes to criticism), consultants have been accused of reporting and then disappearing before their recommendations are actioned, such that they avoid (some of) the responsibility if decisions fail to deliver on expectations. Of course, their terms of reference might well have focused on an analytical support role.

Schein (2018) argues that the most effective strategy consultants will provide 'thought leadership, deep and relevant insight and hands-on support to managers'. Organizations, he believes, are too 'messy' and complex to rely on analysis-driven solutions using the prescriptive frameworks favoured by some consultants. The argument that they are applying what they have learnt on their MBA programme sometimes seems appropriate! If they are to be effective, Schein (2018) argues, they must work in partnership rather than appear to be an expert adviser who is set aside from the actual implementation. It all comes down to relationships, with the organization and the consultant undertaking a shared journey of learning and discovery.

The points being made here are explored further in Strategy in Practice 8.5 at the end of the chapter.

The three modes described above are not mutually exclusive, and one mode frequently leads on from another. The implementation of visionary ideas and strategies typically requires careful planning, for example, which will invariably bring about incremental changes. In Chapter 1, it was confirmed that all three modes will be found in an organization simultaneously, but the mix and prioritization will be particular to an individual company. This key point is illustrated in Figure 8.2. It was also emphasized that individual managers, depending largely on their position within the organization, will not necessarily agree on the relative significance of each mode, but they must understand and support the processes.

The mixed approach is both sensible and justifiable. In some manufacturing industries, the time taken from starting to plan a substantive **innovation** to peak profit performance can be ten years – and needs planning, although the concept may be visionary. Throughout the implementation, there has to be adaptive and incremental learning and change. Where strategies are being changed in a dynamic environment, it is also useful on occasions to evaluate the current situation and assess the implications, which could be part of an annual planning cycle.

Case 8.1 (Sole Rebels) illustrates a mix of roles.

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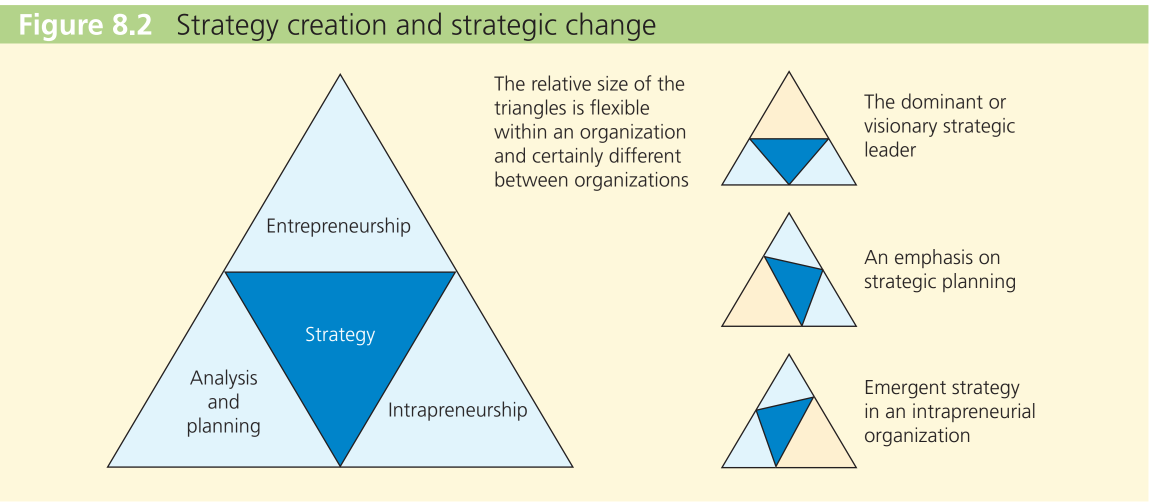
Figure 8.2 Strategy creation and strategic change



Case 8.1 Sole Rebels — Africa

Sole Rebels is a story about innovation and how an innovative young African company has found opportunities to reach international markets. As a case, it demonstrates the value of trade, as distinct from aid or charity, for developing African countries. Trade provides an economic boost and a sense of pride from involvement and achievement. Sole Rebels is based in Addis Ababa, Ethiopia. As a country, Ethiopia is heavily dependent on foreign aid; while micro businesses such as this are not at all unusual, successfully accessing foreign markets is.

Sole Rebels was founded in 2004 by a local entrepreneur, a young accountant, Bethlehem Alemu; she was in her mid-20s when she saw an opportunity to create jobs for local people. She saw a *business* opportunity in something people, particularly soldiers, had been doing for some while. She started making shoes largely, or even entirely, from recycled materials. She cut up old truck tyres to make the soles and, initially, used old camouflage jackets and trousers for the tops. Because she wanted something more fashionable, she found some people who would use traditional spinning methods to produce hard-wearing cloth (in attractive designs) for the uppers – again, using locally sourced materials. These suppliers lived in a leprosy area and so, again, there was a strong social element underlying the decision. Local strips of leather were also used.

Many of her shoes are casual – sandals, boat shoes, loafers and flip-flops. For one design, she reinforces the toecaps (on the outside) with inner tube rubber. She is constantly trawling the internet to find ideas for new designs and improving her range – which boasts names such as 'Night Rider', 'Pure Love', 'New Deal', 'Class Act', 'Gruuv Thong' and 'Urban Runner'. The phrase 'Walk Naked' is linked to the brand and explains the feeling of natural comfort associated with the shoes.

The shoes can be bought online from Amazon, as well as direct from the business itself, and through physical outlets in the United States, Canada and Australia, as well as in Africa. There are now some 18 standalone stores – including one in Silicon Valley. Amazon buys bulk orders from her and expects quick delivery after placing orders. This widens her market reach dramatically. While Bethlehem made good use of internet opportunities, she also bombarded potential distributors with emails and samples. Retailers include Whole Foods (because of the materials used) and Urban Outfitters. The African Growth and Opportunity Act (AGOA) is really useful, as it allows businesses in certain African countries (Ethiopia is one) to import into the United States tariff free. An Ethiopian government line of credit also helps with the cash flow for large orders.

The business is successful; it provides jobs; it uses discarded materials that are notoriously difficult to dispose of or recycle. Production is based in a local workshop but Sole Rebels remains, in large part, a family-run business. There are around 90 full-time staff and they produce hundreds of pairs of shoes each day. The business now exceeds annual sales of US$10 million. Daily wages range from £1.50 for a trainee to £7.00 for a skilled worker. In a global context, this is competitively low; in Ethiopian terms it is relatively generous. Customers can scan in the outline of their sole and have shoes hand cut to size. Retail prices range from £21.00 to £40.00.

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Bethlehem sees her shoes as the 'Timberland or Skechers of Africa' and always seeks to offer uniquely designed products that have international appeal at affordable prices. She does not want Sole Rebels to look too African. She wants people to buy because they are good shoes that they will enjoy wearing and not because, by buying from her, they are helping Ethiopia's poor.

Questions

1. Evaluate Sole Rebels against the framework in Figure 8.2.
2. Can you think of additional ways in which Sole Rebels could seek to innovate?

Table 8.1 further relates these themes to the three levels of strategy: corporate, competitive and functional. In large organizations, much of the responsibility for corporate strategic change will be centralized at the head office, although the businesses and divisions can be involved or consulted. Competitive and functional change decisions are more likely to be decentralized but, again, not exclusively. Corporate policies can require or constrain changes at these levels.

For a more detailed analysis of strategic planning, refer to Chapter 9.

Table 8.1 Levels of strategy and modes of creation

Modes of strategy creation	Levels of strategy	
	Corporate strategy	Competitive and functional strategies
Planning	Formal planning systems	Planning the detail for implementing corporate strategies
Visionary	Seizing opportunities – limited planning only	Innovation throughout the organization
Adaptive/incremental	Reacting to environmental opportunities and threats, e.g. businesses for sale: divestment opportunity	Reacting to competitor threats and new environmental opportunities. Learning and adjustment as planned and visionary strategies are implemented.

The adaptive and incremental modes

Strategies are formed as managers throughout the organization learn from their experiences, adapt to changing circumstances, and also respond to pressures and new strategic issues. They perceive how tasks may be performed and how products and services may be managed more effectively, and they make changes. There will, again, be elements of semi-consciousness and informality in the process. Some changes will be gradual, others spontaneous, and they will act collectively to alter and improve competitive positions, as individual decisions will often involve only limited change, little risk and possibly the opportunity to change back. It is the approach a squirrel (**squirrel approach**) takes as it moves from branch to branch in a tree; each fork is a new decision. Managers learn whether their choice is successful or unsuccessful through implementation.

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Hence, this mode implies limited analysis preceding choice and implementation, which are intertwined and difficult to separate. A proper analysis follows in the form of an evaluation of the relative success:

Analysis (limited) → Choice and implementation → Analysis

Adaptive strategic change requires decentralization and clear support from the strategic leader, who also aims to stay aware of progress and to link the changes into an integrated pattern. It may be based on setting challenges for managers – to hit targets, improve competitiveness and stretch or exploit internal systems and policies to obtain the best possible returns – and the greater the challenge, the more care needs to go into establishing a suitable reward system. When the structure enables effective adaptive change, then intrapreneurship (as addressed more fully in Chapter 10) can be fostered throughout the organization and individual managers can be allowed the necessary freedom. However, if adaptive changes are taking place in a highly centralized organization, despite rigid policies, there is a problem which should be investigated. The major potential drawbacks concern the ability of the organization and the strategic leader to synthesize all the changes into a coherent pattern, and the willingness and ability of individual managers to take an organization-wide perspective. This latter point is examined later in Chapter 12.

Figure 8.3 provides a short summary of the processes with planning shown at the top as a 'closed funnel' activity. The entrepreneurial, visionary style is about diverging and opening things up, widening the scope of the ideas considered. Adaptive strategy (responding to new opportunities) is, conversely, illustrated as a convergent process where learning and synthesis are required to form cohesive patterns which bind the emerging strategies. In the entrepreneurial mode, planning is required during implementation, and, in the adaptive mode, individual managers are doing their own planning – sometimes informally, sometimes more formally.

Figure 8.3 Strategy creation processes

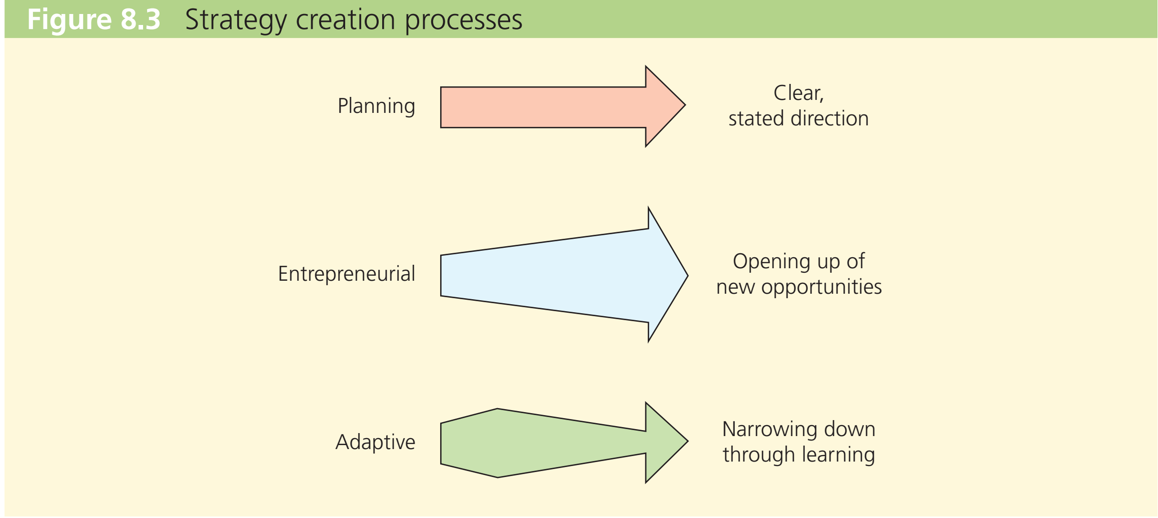

Figure 8.4 considers the alternative ways in which strategies are created in the context of approaches to strategy that were introduced in Chapter 1.

Changing strategies

Two important strategic pressures can leave the unprepared organization weakened: competitive and other environmental pressures, and focusing too much on controls at the expense of flexibility. Yet these are natural forces in an organization's life cycle.

Hurst (1995) found that management and control become increasingly necessary as organizations grow and become more complex, but that this development contains the seeds of potential failure. Figure 8.5 shows that organizations often start life with an *entrepreneurial vision* but that the significance of this vision soon gives way to learning and emergence as the entrepreneur and the organization learn to cope with the pressures of a dynamic and competitive environment.

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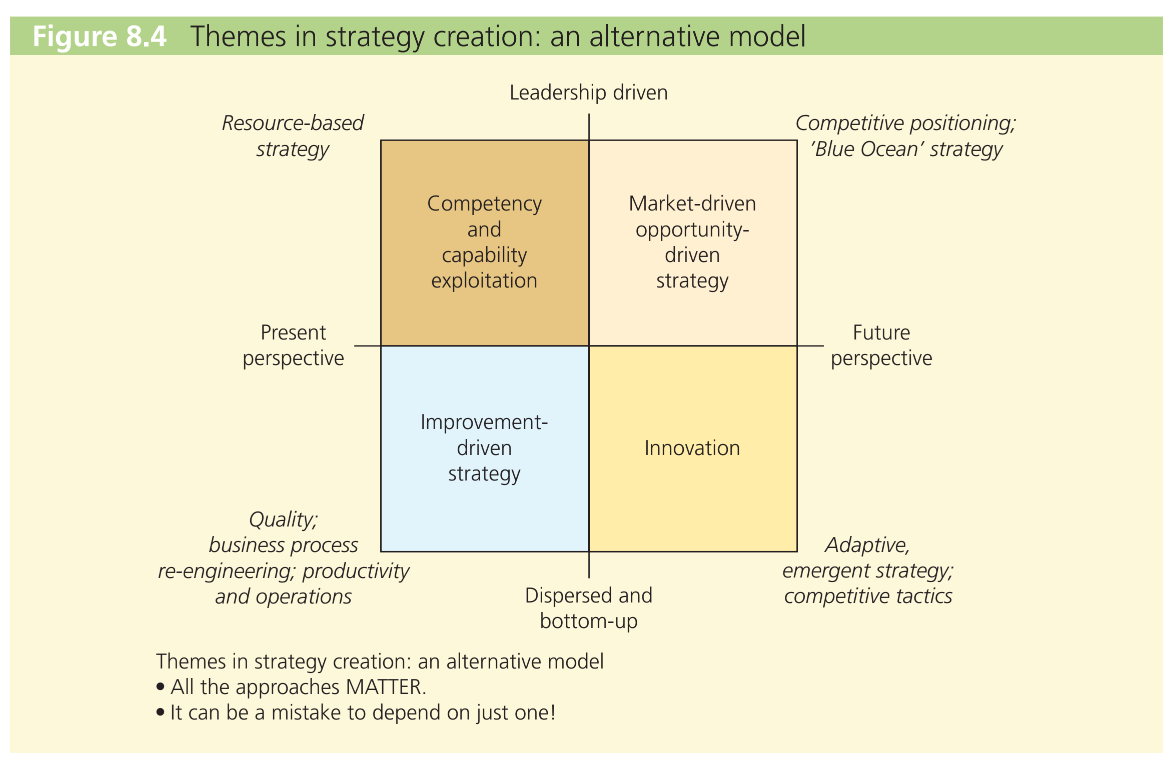
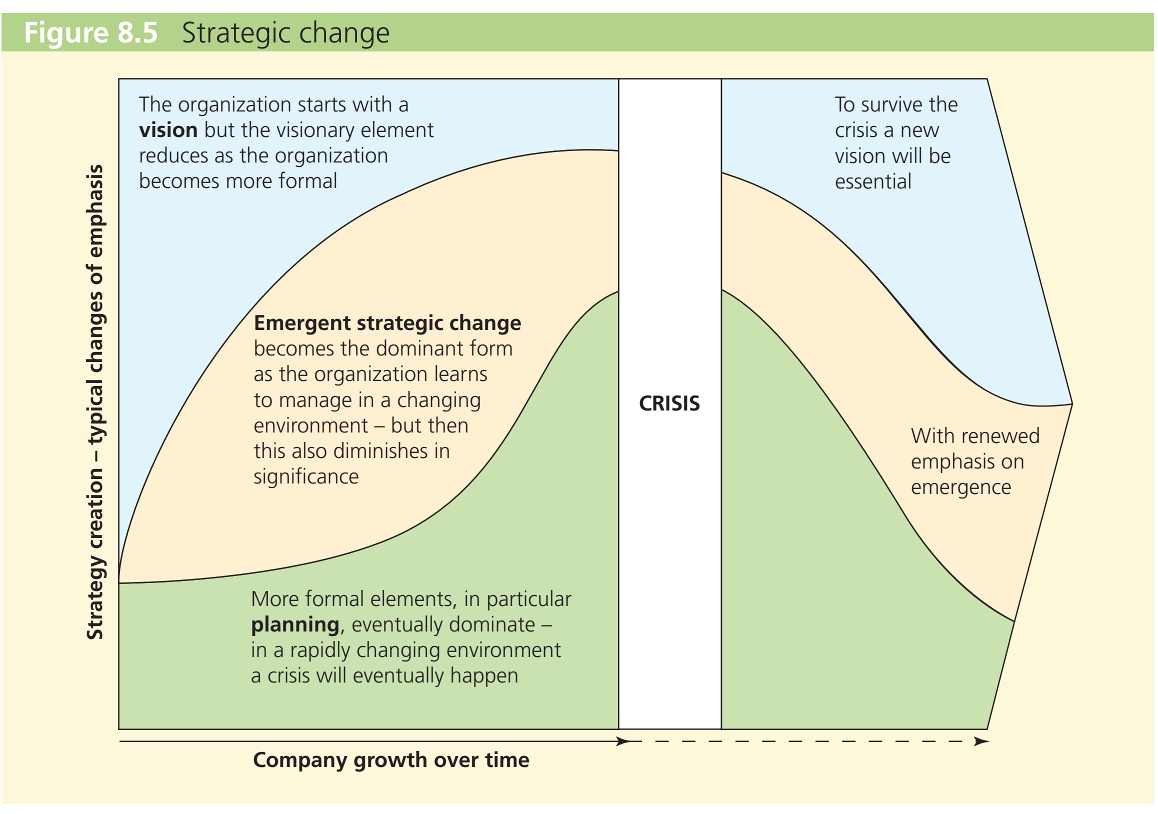
Figure 8.4 Themes in strategy creation: an alternative model



Based on ideas in Kiechel, W. (2010), *The Lords of Strategy*, Harvard Business Press; and Mainardi, C. and Kleiner, A. (2010) *The Right to Win Strategy and Business*, Issue 61, Winter 2010

Figure 8.5 Strategic change



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This flexibility means that the momentum is maintained and the organization grows and prospers. To ensure that the organization is managed efficiently, planning and control systems run by specialist professional managers become increasingly prominent, but this often reduces the flexibility which has proved so valuable. If the flexibility is lost, and hence the organization fails to address what it is doing wrong while it is still succeeding, the momentum for innovation subsequently slows. Unless the entrepreneur and the organization foresee the impending problem and find a major new initiative, a crisis is likely to happen. For the organization to survive the crisis, it needs a substantial new opportunity, together with a renewed reliance on innovation and learning. **This scenario is the key determinant of long-term survival in business**.

Businesses hit these crisis points when they run short of money, usually because they have failed to remain competitive and to attract sufficient resource contributions from customers and other important resource suppliers. **Turnaround** may be possible, with a change of strategic leader to input the new vision and inspiration; but, on other occasions, the intervention is too late and so the organization either collapses, or is taken over as a means of providing the necessary new leadership and resourcing.

Businesses in trouble, then, may be realistically irrecoverable, recoverable but only to a level of survival, or capable of genuine renewal. The immediate need is to stop any financial haemorrhaging before new opportunities are sought and pursued. The first step, being largely based on technique backed by a willingness to take tough decisions, does not need someone with entrepreneurial talent and temperament – but the second stage does.

Hurst further argues that, on occasions, it can be valuable to engineer an internal crisis and upset – say, by dismissing a chief executive officer (CEO), the strategic leader of the business, and replacing them with someone with fresh ideas and a willingness to take action – in order to drive through major changes in an organization that has lost its dynamism and become too resistant to change. A controlled crisis is better than one resulting from external events as it can be used for positive change, rather than constitute a more desperate reaction. Sometimes it is difficult for strategic leaders to make radical changes to strategies they introduced and which were once successful.

Stasis is less likely to happen if the company employs and encourages creative people who drive innovation and intrapreneurship. But, if momentum is lost, the company may need more than creative people: it may need a 'maverick', perhaps someone who is normally ill-at-ease in a typical organization, or a new strategic leader who will come in for just a short period. The maverick manager is unorthodox, individualistic and outspoken, and will challenge mediocrity and existing ways of doing things and will be someone who is not afraid to upset others in the drive for change.

Another way of presenting these arguments is the following four-stage model of organizational progression and development:

- The first stage is a *creative* one, when new ideas are put forward.
- The second stage, *reflection* and *nurturing* involve ideas being crafted into winning opportunities, but the idea generator may not exploit it in the most opportune way.
- The third stage is an *action* stage as the organization grows by developing a business from the opportunity. As the business takes off and progressively more products are sold, some element of order becomes vital if the organization is to control events, manage its cash flow and deliver on time.
- The fourth stage is one of *management* and administration, with clear policies and procedures which deliver smooth running and efficiencies, but can become a dangerous stage if new, creative ideas are not forthcoming.

Clearly, each stage has a downside. A constant stream of new ideas may not constitute entrepreneurial opportunities, too much deliberation may inhibit action, and an overemphasis on 'doing' and competitiveness may mean that inadequate attention is given to structural necessities. Finally, too much bureaucracy can mean missed opportunities. The organization begins to need a fresh input of creative ideas. Individually, we are all different, and our affinity and fit with each of these stages varies – some of us are not able to switch styles. While the most successful and habitual entrepreneurs will ensure that there is a constant flow of activity between these stages and the potential downsides do not materialize, other strategic leaders will need to recognize their relative strengths and weaknesses, and recruit other people carefully to ensure that there is a

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balance of skills and constant progression. Moreover, the positive organization implied here will be in a better position to exploit and retain its most talented intrapreneurial managers (refer also to Chapter 10).

Changing strategies and strategy drivers

So far we have seen how opportunities, resources and competition are key drivers of strategy – and we have also seen that an organization's culture can be either a facilitator or an inhibitor of change. These themes are drawn together in Figure 8.6. In reality, we may think of resources and competition as 'push' forces and opportunities and aspiration as 'pull' factors.

Figure 8.6 Strategy drivers

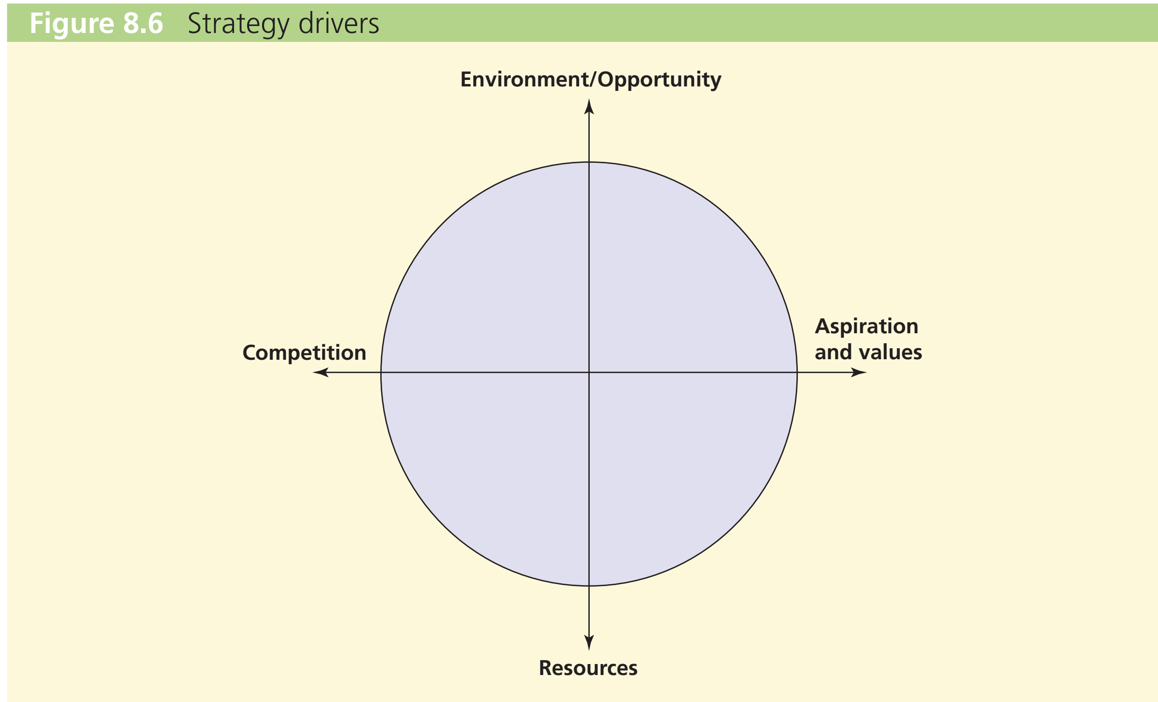

Figure 8.7 presents these themes in an alternative form. It again uses the market- and resource-based views of strategy, this time with the analytical (planning in a competitive environment) and aspirational (visionary and emergent) approaches to strategy creation that we also introduced and explained in Chapter 1. You might wish to review Figure 8.7 alongside Figure 8.4 earlier.

The market-based approach can be manifest in either an analytical insight into the competitive environment, or an endeavour to envision new opportunities for building value through an instinctive understanding of customers and their needs. The resource-based approach can build analytically on core competencies and capabilities. At the same time, real breakthroughs in processes or technologies can help to rewrite the rules of competition in an industry.

In their consideration of strategic alternatives, some organizations will be entrepreneurial and actively search for opportunities for change. Others will only consider change if circumstances dictate a need. Some organizations will already have sound and effective strategies that are producing results with which they are satisfied. Others may ignore the need to change. The essential criteria for strategy evaluation and selection are appropriateness, feasibility and desirability. These involve a mixture of objective and subjective factors. Not every strategic decision will be objective and, consequently, we need to understand how managers (and, in turn, organizations) make decisions, and the impact of uncertainty and judgement on these decisions.

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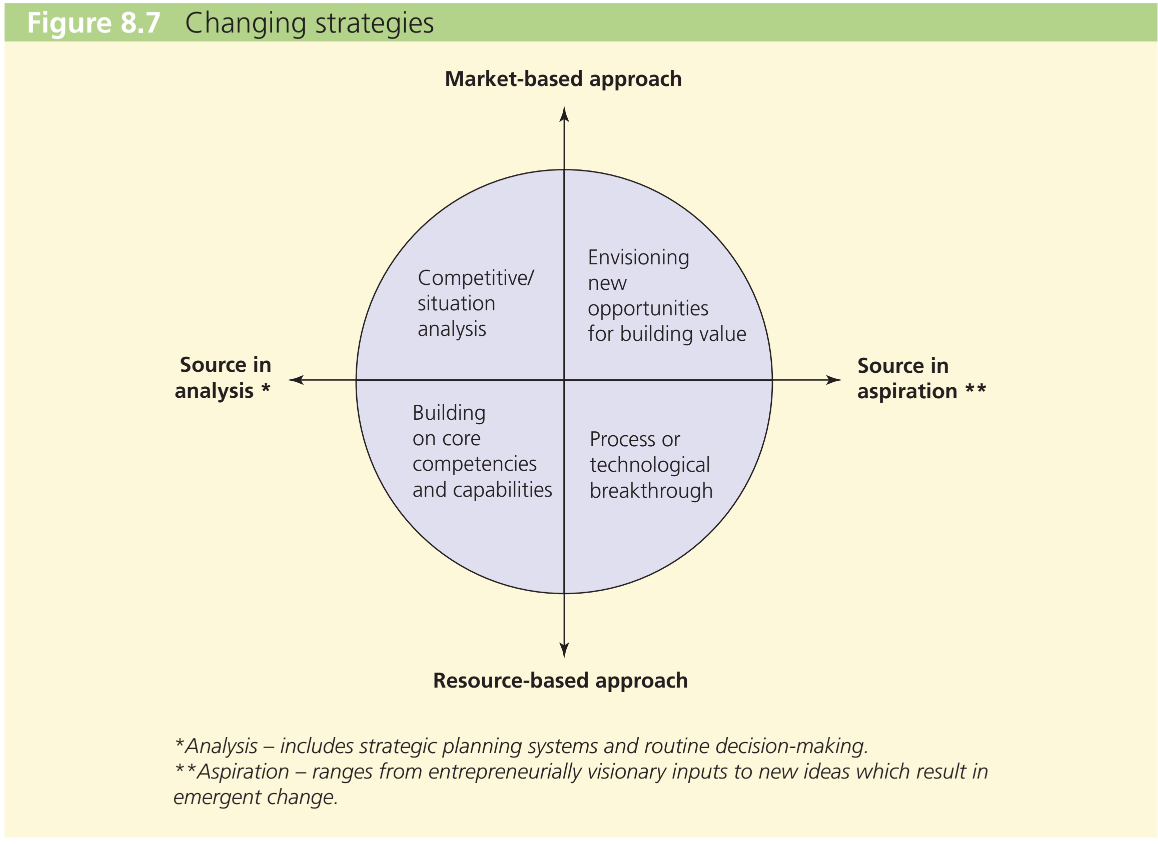
Figure 8.7 Changing strategies



8.2 Strategic alternatives

Figure 8.8 provides a summary of the main strategic alternatives, which are separated into three clusters: *limited growth*, *substantive growth* and *retrenchment*. In addition, an organization can opt to do nothing and, on occasions, the whole business will be sold or liquidated.

From origins in a single business concept, **market penetration**, and product and **market development** are shown as limited growth strategies as they mainly affect competitive strategies, rather than imply major corporate change, but invariably they involve innovation. The focus of these strategies could be summed up as 'better not bigger'. The substantive growth strategies imply more ambitious and higher risk expansion which is likely to change the corporate perspective or strategy. Substantive growth should not be allowed to become 'bigger but not necessarily better', which is a genuine danger because of the degree of upheaval involved. These options, explained below, may involve either a strategic alliance or an **acquisition**, and these *strategic means* are discussed later in the chapter. It was established in Chapter 1 that it is important for organizations to seek competitive advantage for each business in the portfolio. Consequently, once an organization has diversified, it should then look for new competitive opportunities, or limited growth strategies, for the various individual businesses. Ideally, then, the outcome can be 'bigger AND better'.

The bottom section of Figure 8.8 shows the main strategies for corporate reduction – turnaround and divestment; these are discussed in detail in Chapter 13.

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Figure 8.8 Strategic alternatives

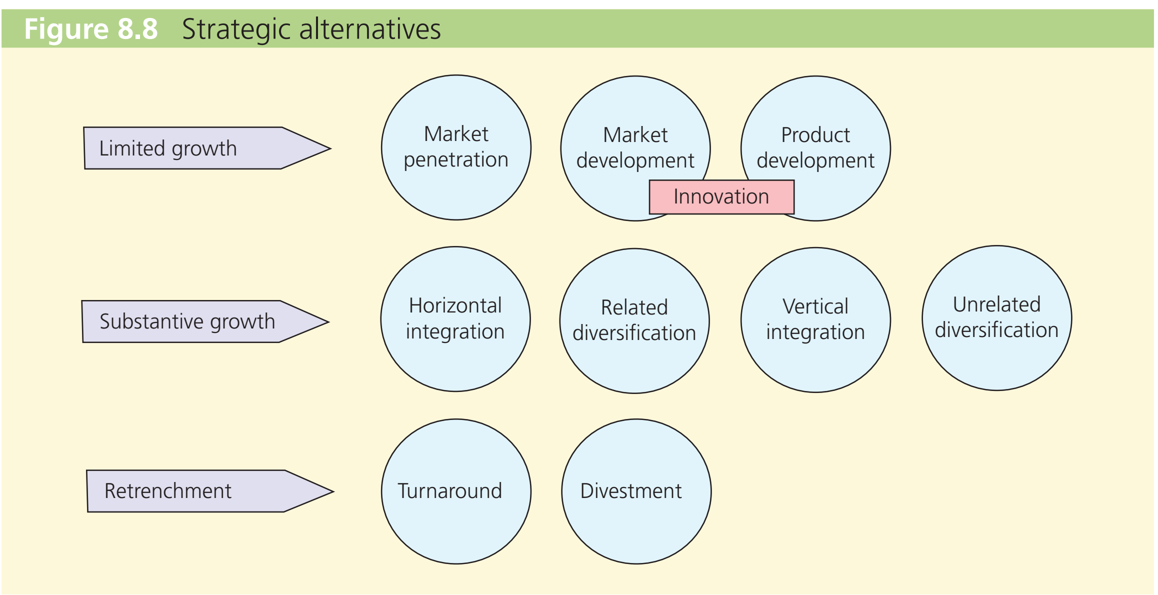
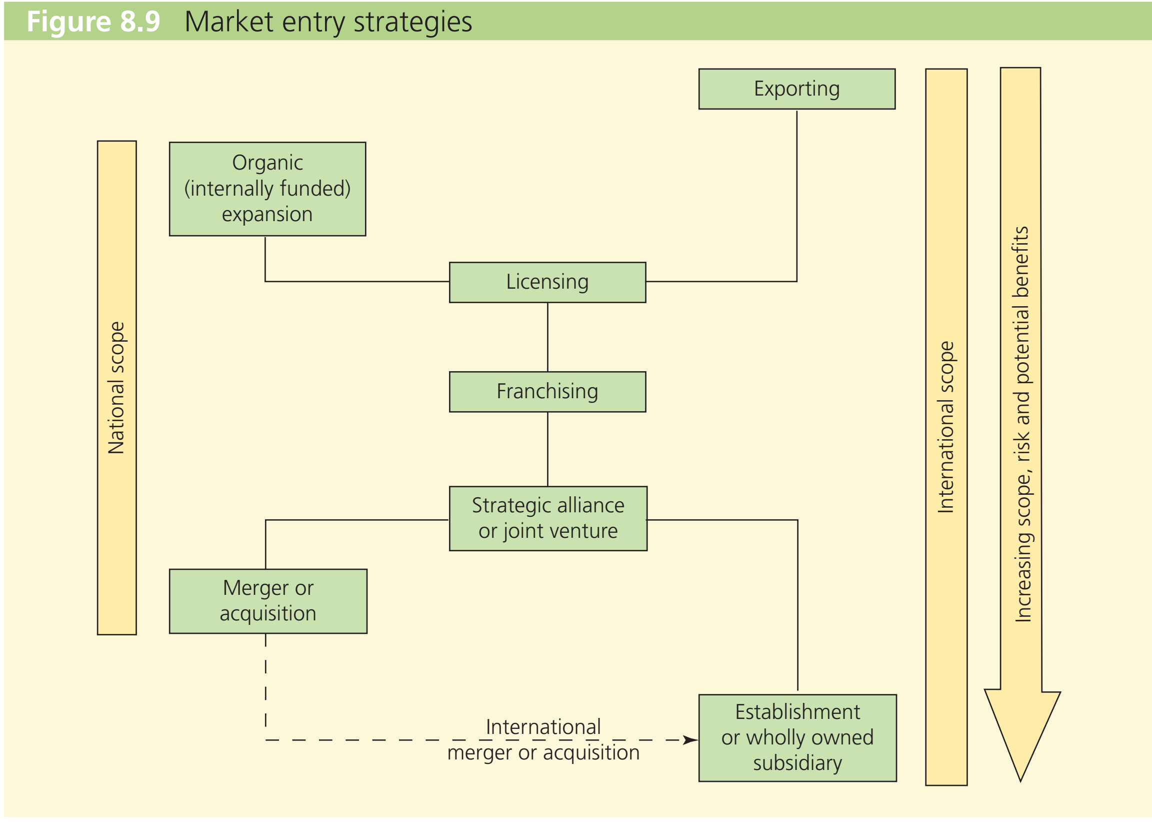


Figure 8.9, market entry strategies, summarizes the various ways in which an organization could implement its chosen strategies. Any strategic alternative can be international in scope, rather than focused on a single country or market; as we move from the top to the bottom of the chart, the inherent scope, risk and potential benefits all increase. Case 8.2 (Haier) looks at the international growth strategy of an ambitious Chinese manufacturer.

Figure 8.9 Market entry strategies



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Case 8.2 Haier China, Int

Haier is one of the largest white household appliance manufacturers in the world. In terms of employment, its global workforce now exceeds 70,000. It owns more than 200 subsidiary companies – of which the significant US brand Fisher & Paykel is one – and has established design centres, manufacturing bases and trading companies in more than 30 countries. In 2011, turnover was around US$23 billion. Since that time, this figure has increased by another 50 per cent. A crucial role in the development of Haier has been played by one man – Zhang Ruimin, the chairman and CEO of the Haier Group. Born in 1949, he graduated from the Chinese University of Science and Technology and obtained an MBA in 1995. In 1984, Zhang Ruimin was appointed as a director of Haier's Qingdao Refrigerator Factory; at that time, the company's products were perceived to be relatively shoddy and the workers poorly paid. The business had started in the 1920s and become state-owned in around 1950. Zhang Ruimin was the fourth new director of the factory appointed that year; none of the others had been able to make serious improvements. It appeared to some observers that nobody in authority really cared about the quality of the product and this was giving rise to a large number of defects. Customers did not trust Haier; in 1984, losses of RMB1.47 million were incurred. This almost led to bankruptcy. When a number of defective refrigerators were discovered, Zhang Ruimin ordered the workers to destroy the defective products in public using sledgehammers. From then on, he stated, there would be 'no more defects'. As the company became progressively more successful under Zhang, Haier was encouraged to take over even more Chinese manufacturing businesses and change their cultures. It now manufactures domestic electrical products (TVs, microwaves), as well as white goods.

Major changes in attitude and product development have taken place. In 2006, the Haier Group developed a dual power washing machine which washed clothes without the need to use soap powder. The 'natural cleansing' dual power washing machine has 32 technological patents, and it exceeds international standards in saving water and electricity.

Under Zhang Ruimin, the Haier Group successfully implemented a brand strategy, a diversification strategy and an internationalization strategy, before moving on to what it described as the fourth stage of development – that of a globalization strategy. In 2008, Haier was one of the major sponsors of the Beijing Olympic Games.

The competitive strategy of Haier is now based largely on product quality – every employee is educated into the Haier culture of product quality. Sub-standard products are simply not acceptable. The second competitive strategy is one of constant product development. Haier has also developed what it calls its '24 hours strategy', where service support for Haier products is available 24 hours a day.

In seeking to enter the European market, Haier first chose to enter the German market because it believed it was the most difficult to penetrate. It set itself a challenge. Initially, it began with a strategic alliance with Liebherr, and then it went on its own once the products were seen to meet the German VDE Quality Certificate.

Because the strategy is based on their reputation for quality and after-sales support, Haier has avoided participating in price wars. It is the perceived view that Haier customers are willing to pay a higher price for a higher technology, premium product with built-in quality and reliability. Haier regards research and development as very important and, between 1997 and 2007, the amount invested in research and development doubled from 4 per cent to just over 8 per cent of sales revenues. In a typical year, Haier will apply for 800 patents, of which half will be classed as inventions.

Additionally, Haier has opted to spend heavily on marketing. Overseas, Haier directly uses foreign partners with existing distribution market and service networks. Haier has also grown through what it terms its 'stunned fish' strategy, looking to acquire white goods companies who have good products, facilities and distribution channels but poor senior management. Companies it can turn around.

Question

How does Haier illustrate the key themes of this chapter?

Follow-up

As you read the next part of this chapter, in particular the section on innovation, reflect on the following addition to the Haier story and consider how Zhang Ruimin's

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actions could enable innovation and help to embed it as natural behaviour.

Zhang Ruimin started to dismantle the existing corporate structure of Haier in 2009 and replace some of the formality with self-managed teams; some 2,000 in all have since emerged. All employees are encouraged to come up with new ideas – either for an improvement to an existing model, or for a new design – utilizing customer feedback and generic market information. If their idea is approved by senior management, the employee in question is then encouraged to build their own internal team to take the idea further and to the launch stage. Specialist expertise can be called on when required. All team members receive a share of the profits generated down the line. As a follow-up to this, the number of people in supervisory roles was reduced to grant employees more freedom and to encourage them to take more initiatives.

The choice must take into account the risk that the strategic leader considers acceptable given any particular circumstances, and the ability of the organization to deal with the risk elements. Some organizations will not select the most challenging and exciting opportunities because they are too risky.

The options should not be thought of as being mutually exclusive – two or more may be combined into a composite strategy and, at any time, a multi-product organization is likely to be pursuing several different competitive strategies.

Table 8.2 combines the themes of this chapter by providing examples, many of which are discussed in greater detail throughout the book, of seven growth directions related to three alternative means of pursuing each of these strategic alternatives. This table deliberately includes examples of strategies that have worked and been successful, and others that have been more disappointing.

Limited growth strategies

The do-nothing alternative

A continuation of the existing corporate and competitive strategies – which may be highly appropriate, considered and justified – but this approach can result from managers lacking awareness, being lazy or complacent, or deluding themselves into believing that things are going well when, in fact, the company is in difficulties. Doing nothing when change is required is a dangerous strategy.

It has been suggested (as a throwaway comment) that 'if you always do what you always did, you will always get what you always got'. This situation might seem like an opportune situation for a lifestyle business which provides someone with a comfortable life. However, if circumstances change, it will no longer apply. That said, such businesses do exist, and many have little desire to grow to a point where they are 'too busy' or needing to employ others. Nevertheless, they still have to be alert to opportunities, threats and risks. As with every business, it is important to realize when something needs to change, why, and how this might be expedited.

A company may appear to an outsider to be doing nothing when, in reality, it is holding back its innovation while a competitor introduces its version into the market, thus allowing the initial reaction of consumers to be monitored and evaluated, and competitive and functional strategies reviewed before eventual launch.

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Table 8.2 Examples of strategic growth and change

Means of growth	Direction of growth						
	Inventing a new way of doing business	Market penetration/ development	Globalization	Vertical integration/ diversification	Related diversification	Unrelated diversification	Focus by divestment
Organic/ internal	Southwest Air Amazon.com Hotmail	Toyota (with Lexus)	McDonald's Canon	Exxon (with refineries) Disney (with stores)	Sony Disney (with cruise ships)	Tata* (India) Virgin Atlantic Airways	Hanson Burton/ Debenhams
Strategic alliance	Benetton and IKEA (with their supply chains)	General Motors and Saab	Star Alliance† Coca-Cola and its bottlers	MBNA/Co-op Bank credit cards	Nokia and 3 Com (internet mobile phones)	Siam Cement‡ (Thailand)	Yorkshire Water's onion outsourcing strategy
Merger, acquisition takeover	Royal Bank/ Direct Line	Ford with Jaguar, Land Rover, Volvo, Daewoo	Astra/Zeneca	Merck with Medco, a distributor	Disney/ABC Television; Walmart and ASDA	General Electric (GE) and NBC Television	ICI's sale of non-core businesses after splitting from Zeneca

* Tata: steel, construction machinery, engineering, locomotives, tea (where it has global leadership).

† Airline code sharing alliance: includes United Airlines, Air Canada, Air New Zealand, Singapore Airlines, Lufthansa, SAS.

‡ Siam Cement: also pulp and paper, construction materials, machinery and electrical products, marketing and trading.

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Timing is the key to success with this strategy, so that the company can be sure that its approach is likely to prove successful, while reacting sufficiently quickly so that it is not perceived to be copying a competitor. In general, the rather more theoretical than realistic do-nothing alternative could conceivably be viable in the short term but is unlikely to prove beneficial or plausible in the long term, as environmental factors change. Case 8.3 on Fever-Tree shows how a new and valuable opportunity can open up when an established market leader fails to spot a trend and to innovate. This is really a case of an established business 'not doing enough' in the face of change pressures.

Case 8.3 Fever-Tree — UK

Fever-Tree is an innovative challenger brand which proved that disruptive outsiders can topple established market leaders. In under 15 years, Fever-Tree has become Britain's best-selling mixer brand. The name is a colloquial term in certain African countries for the cinchona tree, from which the core ingredient in tonic water (quinine) is derived. Previously, Schweppes (bought from Cadbury's by Coca-Cola in 1999) dominated the mixer soft drinks industry, and it was happy to consolidate with minor improvements; Fever-Tree showed how a new perspective could affect customer choice dramatically. Interestingly, Starbucks had done the same in the United States with bought-out coffee drinks; in the UK, Costa Coffee followed their lead, became market leader and was eventually bought by Coca-Cola in 2018 (Case 11.4).

In 2003, a former Managing Director of Plymouth Gin (Charles Rolls) and a marketer of luxury food brands (Tim Warrillow) joined forces to develop a new business idea and opportunity which had been spotted by Warrillow. Warrillow was 28 years old; Rolls was 46 – but he rode around on a Ducati motor cycle. The idea was predicated on changing drinking habits and tastes, especially with younger people. Craft spirits were becoming increasingly popular, as were craft ales. These are both premium-priced products. Warrillow correctly foresaw a resurgence in the popularity of gin, and when this new growth really took off in 2011, he was ready. The industry has seen the emergence of new (often small and specialist) gin distillers, new blends and new brands; gin sales increased by over 60 per cent between 2011 and 2017. The main markets are the UK, the United States and Spain. His idea – if people are preferring more distinctive and more expensive gins, why not offer them a 'better' tonic water to mix with them? One of the advertising slogans sums up the proposition: 'If three-quarters of your gin and tonic is the tonic, make sure you use the best'. He was proven right; for many customers, flavour is more important than price. At the same time, there was an acknowledgement that many younger people were also becoming health-conscious about certain things.

Initially, Rolls and Warrillow prepared by studying the ingredients of tonic water and experimenting with different (but always fresh and natural) ingredients. They 'searched the world' for the best quinine. Their first (tonic) products were launched in 2005 and these were soon available in Waitrose supermarkets. Serendipity then intervened. A leading Spanish restaurateur discovered Fever-Tree tonic water in the UK and wanted it in Spain. At that point, there were no importers or distributors involved – and so he used his connections to open up the supply chain. By 2007 Fever-Tree was actively exporting to Spain and the United States. It was in all the main markets. After five years of trading, sales and profits were very healthy. In 2014 the business was floated (with the founders earning over £100 million) and in 2017 Fever-Tree sales exceeded those of Schweppes. This challenger brand has attracted other new (premium product) rivals, but these are not (yet) threatening their market leader position – in part, because Fever-Tree has developed and produces a range of different tonics to mix with different gins, another new initiative. It also produces lemonade, various ginger ales and a cola – which are popular mixers for darker spirits such as whisky and rum.

Fever-Tree sales exceed 60 million bottles per year. Of these, 75 per cent are sold outside the UK – in around 50 different markets. It has been reported that it is the preferred tonic water in seven of the world's top ten restaurants. It is more expensive than Schweppes; and more expensive than supermarket own-label alternatives. In a pub in the UK, you might expect to be charged £2.00 (or more) for a small bottle. The business reports a gross margin of 50 per cent and a net margin of 30 per cent.

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Questions

1. How would you explain the Fever-Tree business model in an elevator pitch? How is it creating value? Diagnose the proposition in the context of E–V–R congruence.
2. What are the main lessons in this case for someone looking to launch a new brand in an established market?
3. Schweppes appeared to be complacent, and it seems as if they 'took their eye off the ball'. How easy is it for this to happen? And how difficult is it then to deal with the successful challenger brand?

Market penetration

This *organic growth* strategy can either seek assertively to increase market share or, more defensively, to retain existing customers by concentrating (perhaps by investing in brands and brand identity), specializing and consolidating, which implies what Peters and Waterman (1982) designated 'sticking to the knitting'. Growth is an objective and there is an implicit search for ways of doing things more effectively. Because market environments are dynamic, it overlaps with the ideas of market and product development described below. This strategic alternative is particularly applicable to small businesses which concentrate their efforts on specific market niches.

Resources are directed towards the continued and profitable growth of a 'single' product in a 'single' market, using a 'single' technology, accomplished by attracting new users or consumers, increasing the consumption rate of existing users and, wherever possible, stealing consumers and market share from competitors. The word *single* needs careful interpretation, in the context of the limited growth strategies, as companies such as Kellogg's (breakfast cereals) and Sony (music) would be classified as organizations which have succeeded with specialization strategies based around a core brand identity. An extensive product line of differentiated brands designed to appeal to specific market segments would periodically have new additions and withdrawals. Productivity and more effective cost management can make significant contributions, perhaps by investing in new technology at the expense of labour.

The two main advantages are, first, that the strategy is based on known skills and capabilities, and is generally low risk. Second, because the organization's production and marketing skills are concentrated on specialized products and related consumers, and not diversified, these skills can be developed and improved to create competitive advantage. The company has the opportunity to be sensitive to consumer needs by being close to them, and may build a reputation for doing so. Market penetration strategies are likely to succeed, more so than most other alternatives, but have limitations such that they may be inadequate for closing an identified planning gap.

While market penetration is a growth strategy, the long-term growth is likely to be gradual – which, on the positive side, can be more straightforward managerially. Any firm pursuing this strategy is susceptible to: (i) changes in the growth rate or attractiveness of the industry in which it competes and, therefore, the strategy can become high risk if the industry goes into recession; and (ii) competitors' innovations which may become a major threat, so competitors must be constantly monitored. Consumer behaviour has been affected by new supply opportunities that have provided market penetration opportunities – for example, buying products online, watching television programmes 'on demand' using innovative devices and the internet. Although the traditional product life cycle suggests that sales of new products take off slowly and then grow rapidly before flattening out and then declining, innovation means that the life cycle can

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be extended and extended yet again, delaying the ultimate decline for possibly many years. Some fashion and fashionable products thus have a very short lifespan, while others can continue for decades (e.g. see the 'retro' clothing that many academics, particularly professors, wear), albeit with changes and improvements at various intervals (the products, not the academics, that is). While the theory would imply a 'tipping point' of the type outlined by Gladwell (2000) – that once a product is experiencing a decline in popularity, it should be scrapped (given the expense of production, storage and distribution), and that products sell if they are available where and when people expect to find them (at appropriate prices) – Anderson (2006) contends that, for some products, these principles no longer apply, as much as anything because of changes in distribution and channel preference. In this context, Anderson quotes one Amazon employee as saying, 'We sold more books today that didn't sell at all yesterday than we sold today of all the books that did sell yesterday.' A breakdown of sales would perhaps reinforce the Pareto principle, even if it is not strictly 80:20 – that is, a limited number of current bestsellers would amount to X per cent of total sales, but very small individual sales of a very **long tail** of almost-forgotten-about but previously popular items would constitute Y per cent – and Y would be greater than X. Although persuasive, new products which do have a chance of high sales over a short period of time are still needed, but opportunities now exist to continue to sell them and buy them, and some new books and music that would previously have been a 'miss' rather than a 'hit' can make money over their life, albeit an extended life. Hence, it allows producers more freedom to release products they are less convinced about and give them a chance to see if they find favour.

Market development

Together with product development, this organic growth strategy is closely related to a strategy of specialization by building on existing strengths, skills, competencies and capabilities. It is a relatively low-risk strategy of marketing present products, with possible modifications and range increases, to customers in related market areas, perhaps by a product range to increase its attractiveness to different customers in different market segments or niches. Clearly, therefore, this strategy is about modifications to strategic positioning, typically supported by changes in distribution and advertising.

In summary, the key themes are:

- modifications to increase attractiveness to new segments or niches
- new uses for a product or service
- appropriateness for different countries with particular tastes or requirements.

One example of a market development strategy, therefore, would be a firm which decided to modify its product in some minor way to make it attractive to selected export markets where tastes and preferences are different, supported by advertising and new channels of distribution.

China, after the implementation of its 'One Child Policy', became an increasingly attractive market for specialized children's products, including nutritional supplements and certain up-market toys. Two parents and four grandparents for each child amount to significant purchasing power, given that 20 million babies are born in China every year. The one child limit has now been abandoned.

Product development

This organic growth strategy implies substantial modifications or additions to present products in order to increase their market penetration within existing customer groups, perhaps by attempting to extend or prolong the product life cycle. An example would be the second (or, in this case tenth) and revised edition of a successful textbook, or the relaunch of a range of cosmetics with built-in improvements which add value. As product life cycles contract and time becomes an increasingly important competitive issue, this strategy becomes more significant.

Case 8.4 shows how IMAX found opportunities to develop a successful niche business.

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Case 8.4 IMAX US

This case on IMAX should be analyzed in the context of other developments in cinema and film viewing habits. Cinema attendances have improved generally as multiplex cinemas (with several screens, more choices of film at any time and an all-round improved ambience) have grown and improved their offer. Moreover, concerts and live stage shows are now also available to see in cinemas, which is especially valuable if the show is a sell-out or geographically challenging for certain customers. But various entertainment streamers such as Sky, Netflix and Amazon have offered more and more movies – at the same time as television sets have become bigger, sharper and also available with separate sound boxes – basically enabling people to build a cinema in their homes and, as a result, save money. Some other cinemas (sometimes regarded as community cinemas) have thrived by showing new movies in older buildings and more traditional conditions – often with discounts for certain customers such as pensioners in the daytime. Outdoor cinemas (in selected locations) are successfully mimicking the drive-in movies from the past.

IMAX is short for **I**mage **Max**imum and, basically, it is a niche cinema product. IMAX films are produced in a much larger format than the standard 35 mm and, therefore, offer a much higher resolution. The approximate frame size of 35 mm is 22 × 18 mms; IMAX is 70 × 48, well over eight times as big.

Originally, IMAX films were produced for special cinemas in museums and similar visitor attractions, such as large aquariums and the Space Centre at Cape Canaveral in Florida. The films are projected onto screens that are up to eight storeys high and ten times the size of a typical cinema screen. The typical size is 120 feet wide and 88 feet high. Sometimes, visitors stand rather than sit down. Coupled with 'sound immersion', the experience is dramatic.

The first IMAX film appeared in Japan in 1970 and the business developed gradually until 1995, when the original founders sold it. The new owners were interested in finding development opportunities that involved relevant innovation but did not imply diversification or losing sight of what IMAX stands for. The growth in quality and the popularity of 3D and also high definition (HD) have both boosted IMAX. The most successful IMAX films were made soon after the acquisition of the business: *Everest* (the most popular, made in 1998), *Space Station 3D* (2002) and *T-Rex* (1998). The typical film is around 30 minutes, much shorter than a standard cinema film, which is rarely shorter than 90 minutes and sometimes a good deal longer.

In the United States, the peak year for movie attendance was 2002; this subsequently fell but has stabilized again. Because prices have risen, revenues have been relatively stable. During this period, IMAX saw opportunities to remake past classic films directly for their format. Disney favourites, *Fantasia* and *Beauty and the Beast*, have been very successfully converted. In addition, certain full-length movies have been made directly for IMAX, the first being a story based around Nascar racing.

In 2014, Dolby entered the market with a rival offering. A 'digital IMAX' product is available, but it uses a smaller screen because of resolution issues. Digital has, of course, now replaced 35 mm film for cinemas.

Questions

1. Do you see these changes as positive moves by IMAX?
2. Do you believe they will have made the organization stronger?
3. How might IMAX be developed further without losing sight of its core business activities?

Innovation

Linked to the three strategies described above, innovation often involves more significant changes to the product or service (see Critical Reflection 8.1). As a strategy, innovation can imply the replacement of existing products with ones which are really new, as opposed to modified, and which imply a new product

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life cycle. Handy (1994) used a sigmoid curve to show how successful products (or ideas, or businesses) start off slowly and then grow in popularity, sometimes very quickly, before flattening off and then declining – the classic product life cycle shape – and then superimposed a second sigmoid curve to highlight that the replacement needs to start its life before the product (idea, business) it is going to replace has peaked. If this does not happen, too much momentum is lost. This theme is expanded in various chapters – in Chapter 10 in the section on intrapreneurship; in Chapter 13, when we examine decline and failure; and in Chapter 17, with a discussion of sustainability and resilience.

Critical Reflection 8.1 Innovation

Innovation takes place when an organization makes a technical change – for example, produces a product or service that is new to it, or uses a method or input that is new and original. If a direct competitor has already introduced the product or method, then it is imitation, not innovation. However, introducing a practice from a different country or industry, rather than a direct competitor, would constitute innovation.

Innovation implies change and the introduction of something new. Creating the idea or inventing something is not innovation but a part of the total process. While at one level it can relate to new or novel products, it may also be related to production processes, approaches to marketing a product or service, or the way in which jobs are carried out within the organization. The aim is to add value for the consumer or customer by reducing costs or by differentiating the product or total service in some sustainable way. In other words, innovation relates to the creation of competitive advantage; to summarize, there are four main forms of innovation:

- New products, which are either radically new or which extend the product life cycle.
- Process innovation leading to reduced production costs and affected partially by the learning and experience effect.
- Innovations within the umbrella of marketing, which increase differentiation.
- Organizational changes, which reduce costs or improve total quality.

Where the innovation reflects continuous improvement, product or service *enhancement*, and only minor changes in established patterns of consumer behaviour, the likelihood of success is greater than for those changes that demand new patterns of usage and consumption. Examples of the latter include personal computers and compact disc players. Discontinuous innovations such as these are more risky for manufacturers but, if they are successful, the financial pay-offs can be huge. By contrast, continuous improvements – which, realistically, are essential in a dynamic, competitive environment – have much lower revenue potential.

Innovation can come about in a variety of ways. Ideas can come from:

- Research and development departments, where people are employed to come up with new ideas or inventions. Some would argue that there is a risk that departments such as this are not in direct touch with customers; however, while customers may sense that a product or service has drawbacks, they may have no idea how it could be improved. This requires a technical expert.
- People from various parts of an organization working on special projects.
- Employees being given freedom and encouragement to work on ideas of their own – for example, the 3M approach.
- Everyday events as people interact and discuss problems and issues.

There is a mix of routine, structured events and unstructured activities.

Changes in the service provided to customers and the development of new products and services imply changes in operating systems and in the work of employees, and some of the proposed changes may well be the result of ideas generated internally. However, many of the ideas for innovations come from outside the organization, from changes in the environment. This emphasizes the crucial importance of linking together marketing and operations, and harnessing the contribution of people. For example, Ford in the United States realized some years ago that a number of its engineers had a tendency to 'over-engineer' solutions to relatively simple problems. As a result, its costs were higher than those of its rivals, particularly Japanese and Korean companies, and its new product development times were considerably longer. Instead, the company needed 'creative engineers' with a fresh perspective and greater realization of customer expectations.

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The underlying theme is 'start changing when you are still doing well', accepting that some will feel this approach is premature. In effect, never become complacent. In the last 20 years, Apple has grown into a huge global business; new product has followed new product. Each time Apple has been ready with something new and different to make sure that growth never falters when existing products become more mature and their natural growth slows down, even though their own success can be maintained with product improvement. This story illustrates different levels of innovation and the strategic use of innovation to drive a business forward.

The line which differentiates a really new product from a modification is difficult to quantify. In the case of cars such as the Ford Focus or Ford Fiesta, for example, which have appeared in new forms every few years, the changes for each new model were typically marked differences, rather than essentially cosmetic. Each new model was very different from the existing model; it was simply the name that was the same.

Similarly, you should consider which product life cycle is being addressed. The Sony Walkman and similar personal cassette players enjoyed their own successful life cycle and they extended the product life cycle of cassette players in general far beyond their technical life. As shown earlier in Table 8.2, invention and innovation can be behind the inception of a new way of doing business. Case 8.5 shows how Lego has largely (but not exclusively) stayed focused on building bricks but has innovated constantly.

Case 8.5 Lego — Europe, Int

In a volatile and competitive environment we have concentrated and used our strength to go deeper into what we know about.

Kjeld Kirk Kristiansen, Deputy Chairman and grandson of the Founder

Lego, the brightly coloured plastic building bricks, was launched in 1949 and has always proved popular in an industry renowned for changing tastes and preferences and for innovation. The company embraces IT in some of its specialist kit models, but the principle of 'hand-built' has never changed. The core themes, then, are creativity and construction. The name was derived from *Leg Godt*, which is Danish for 'play well'. Ironically, 'Lego' in Latin means 'I put together'. On the strength of this one product, Lego has become Europe's largest and the world's fourth-largest toy maker. It is one of the world's most powerful brands. Lego is Danish, family-owned and based on strong principles. For example, no toys will be developed that have a military theme. Lego has five stated values: creativity, innovation, learning, fun and quality. Historically, it has been relatively secretive, hiding its actual sales and profit figures.

Lego made record trading losses in 2000 and set about restructuring. Jobs and plants were lost. There was a new logo – with a new strapline, 'Play On' – and new packaging. Diversification trials for clothing, bags and accessories were abandoned. In 2001, the company was profitable again. Unfortunately, this would only last two years before Lego plunged into loss again. Many believed it had been over-ambitious with its licensing agreements, as many of these were only short-term windows of opportunity. There has been further restructuring 'in a drive to remain independent'.

Kjeld Kirk Kristiansen, grandson of the founder, stepped down as CEO, but remained as deputy chairman. Sales revenues had fallen some 20 per cent from their 2002 high point of DKK10 billion.

In 2011, turnover was reported to be DKK 9.13 billion (£972 million) and net profit DKK2.02 billion (£215 million). By 2015, turnover had reached DKK28.6 billion; the business had been growing at some 15 per cent per year. In the preceding five years there had been no product recalls.

The basic strategy is one of product development, with Lego developing an enormous number of variations on its basic product theme. Wheels and electric motors were added in the 1960s. By the mid-1990s, some 300 different kits (at a wide range of prices) were available worldwide. There were 1,700 different parts, including bricks, shapes and miniature people; children could use them to make almost anything from small cars to large, complex, working space stations with battery-operated space trains. Brick colours were selected to appeal to boys and girls, and the more complex Lego Technic sets were branded and promoted specially to make them attractive to the young teenage market. Well over 200 billion plastic

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bricks and pieces have been produced since Lego was introduced.

In a typical year, Lego has replaced one-third of its product range, with many items having only a short life-span. New ideas are developed over a two- to three-year period and backed by international consumer research and test marketing. Lego concentrates on global tastes and buying habits. The Pacific Rim was perceived to offer the highest growth potential during the 1990s. 'If you differentiate too much you start to make difficulties for yourself, especially in manufacturing.' Competition has forced Lego to act internationally and aggressively. One US company, Tyco, markets products that are almost indistinguishable from Lego. Lego has attempted unsuccessfully to sue for patent infringement and now views this competition as undesirable but stimulating. More recently, new competition has come from another rival construction product, K'Nex – again from the United States.

In the mid-1990s, sales were being affected adversely by changing tastes and by the growing popularity of computer games. In 1997, Lego opted for a new range extension. Using technology as an enabler, Lego began to market construction kits with microchips and instructions on CD-ROMs. In 1998, the company introduced a new Mindstorms range, built around a brick powered by AA batteries, which could be incorporated into a variety of different models that could then be instructed to move with the aid of an infra-red transmitter and a typical personal computer. Lego had had the technology for some while but had been waiting until it could reduce costs to a realistic level. More recently, Lego has ventured into the computer games market with CD-based products enabling users to 'build' train sets, vehicles, and so on, on-screen. 'Design by Me' allows children to design their own finished Lego model and then have the required parts shipped to them. It has also agreed licensing deals for kits based on *Bob the Builder, Star Wars* and *Harry Potter*.

When Lego launched Serious Play in 2002, a corporate training package, it was capitalizing on Lego-based activities developed by independent trainers over many years. Vision Lab is a research centre built in 2002 to develop scenarios on future families and play.

Lego has manufactured in Switzerland, the Czech Republic, South Korea and the United States, as well as Denmark, making its own tools for the plastic injection moulding machines. Bricks were only moulded in Denmark and Switzerland, but there were finishing factories in other countries. Tool-making could easily be concentrated in one plant, but took place in three to engender competition and to emphasize quality. Lego deliberately maintained strong links with its machinery suppliers. In this and other respects, Lego sees itself as being closer culturally to a Japanese company than to a US-style operation. Investments in production and improvements are thought to have been in the region of at least £100 million per year. In 2006, production was outsourced to Flextronics, a Singapore-based company – manufacture would take place in Mexico and eastern Europe.

Some years ago, in 1968, Lego diversified with a theme park in Denmark, featuring rides and displays built with Lego bricks. This was followed with a similar development on the site of the old Windsor Safari Park in the UK, a third in San Diego, USA, and a fourth in Gunzburg, Germany. In the late 1990s, the UK theme park was attracting 1.5 million visitors every year. Recently, Lego has opted to outsource the management of the theme parks – and, at the same time, opened eight discovery centres where children can learn about the opportunities. In addition, there are now 90 specialist Lego stores – the majority are in the United States, but there are 13 in the UK.

In recent years, Lego has enjoyed genuine success from a new range of products designed for girls. Jorgen Vig Knudstorp became CEO in 2004; his background was consultancy with McKinsey after graduating in the United States. He was convinced a large proportion of children were missing out on Lego because it was too boy-focused. The 'Friends' series comprises around 30 miniature dolls which are sold with storybooks and kits to make 'sets' where the dolls can be deployed and played with. Extensive use is made of pink Lego bricks. Knudstorp has also streamlined the number of different parts that Lego will use and supply.

In 2006, Lego employed 1,500 people in Denmark (it had once been as high as 5,000) and 3,000 worldwide (down from 8,300). But there was no corporate debt. The number of employees is now up to 15,000. Another shining light was the range of robot toys, including Spike, AlphaRex, TriBot and RoboArm – all part of the Mindstorms range. With packs selling for as much as US$250, the appeal was to older children and even some adults.

Some believe Lego brought problems on itself by taking some focus away from traditional bricks and experimenting with other products and activities. In 2009, for example, Lego was reported to be planning the launch of a mobile phone with a casing that looked like Lego bricks. Parts could be removed and replaced to allow for colour changes to suit different moods. The target market would be children in the United States

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and Asia. There were also reported plans for a Lego MP3 Player and digital camera. All these ideas did come to fruition but with mixed results.

Lego is not a lifestyle brand.

Jorgen Vig Knudstorp, the new CEO

LEGO **www.lego.com**

Questions

1. Can Lego realistically anticipate further growth and prosperity if it relies on its focused strategy, or will it become increasingly vulnerable to competitive threats?
2. What would you recommend?
3. Should Lego consolidate or continue to seek to grow?
4. In recent years, Lego has opened its own high street stores to sell mainly Lego kits to people of various ages. These stores and what they sell are related to the core business, but it is still a strategic change as it demands new capabilities. How would you justify it – and how well are the stores doing?

It can be risky not to innovate in certain industries as a barrier against competition. Innovative companies can stay ahead by introducing new products ahead of their rivals and by concentrating on production and marketing to establish and consolidate a strong market position. All the while, they will search for new opportunities to innovate and gain further advantage by limiting the market potential for retailer own-brands.

Combination strategies

A firm with a number of products or business units will typically pursue a number of different competitive strategies at any time – such as product development, market development and innovation. The organic growth strategies discussed in this section are primarily concerned with improving competitive strategies for existing businesses, but may not prove adequate solutions to closing the planning gap (which we discuss in the next chapter). Consequently, higher-risk growth strategies may also be considered, which may involve a new strategic perspective.

Substantive growth strategies

While this section provides an overview of four substantive growth strategies – **horizontal integration**, **vertical integration**, related and unrelated **diversification** – many of the key issues are discussed in more detail in Chapter 12. Substantive growth strategies are frequently implemented through acquisition, merger, joint venture or franchising, rather than through organic growth.

Non-organic growth can involve the purchase of, or an arrangement with, firms that are behind or ahead of a business in the added value chain, spanning raw material to ultimate consumption. Similarly, it can involve firms or activities that are indirectly related businesses or industries, those which are tangentially related through either technology or markets, and unrelated businesses. The key objectives are additional market share and the search for opportunities that can generate synergy. The outcome from this will be larger size and increased power and, ideally, improved profitability from the synergy. In reality, as will be explored in greater depth in Chapter 12, the outcome is more likely to be increased size and power than improved profitability.

Horizontal integration

When a firm acquires or merges with a major competitor, or another firm operating at the same stage in the added value chain, one that possibly appeals to different market segments rather than competing directly,

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market share will increase, and pooled skills and capabilities should generate synergy. Horizontal integration is, therefore, concerned with issues of **critical mass**, which are discussed later in this chapter.

In 2015, the renowned corporate investor Warren Buffett – who had earlier joined forces with a Brazilian investment business, 3G Capital, to acquire US food producer, Heinz – engineered a merger with another high-profile food producer, Kraft. Heinz shareholders held 51 per cent of the new business; Kraft shareholders 49 per cent. Kraft, of course, had acquired Cadbury's in 2010. A case can be argued that Heinz's product range and Kraft's brands are complementary more than they are competitive; the key benefit is that they share the same distribution channels. For an update to this story, see Strategic Reflection 8.1.

Strategic Reflection 8.1

Kraft Heinz

In February 2017 Kraft Heinz made a surprise takeover bid for the Anglo-Dutch conglomerate Unilever, valuing the business at £115 billion.

Unilever is diversified into (mainly) foods and household goods. Its main brands include Walls, Dove, Flora, Hellmann's and Knorr, together with Fairy, Lynx and Domestos. A few years before, Unilever had consolidated by divesting a number of products, including some other cosmetics brands.

Combined, the two businesses would become the world's largest food giant; this merger would be the second largest in history.

Unilever was successful in fending off the bid, but two months later announced that it was planning to sell off the Stork and Flora brands.

Did this merger proposal have strategic logic? Was Unilever correct with its defensive reaction or might a case have been made to be part of such a dominating conglomerate? Which stakeholders do you think might have benefited most, and which lost most, from the outcome?

Brewing, motor cars, banking and insurance are all industries where there has been extensive horizontal integration, where it has been allowed by competition authorities. For example, the competition rules were 'relaxed' to allow the 2009 creation of the Lloyds Group from the old Lloyds TSB and Halifax Bank of Scotland (HBOS). The outcome was partial state-ownership of Lloyds for a period of time, and the subsequent divestment of TSB as an independent bank. In the oil and gas industry, in recent years, there have been mergers between Exxon and Mobil, Fina and Elf, BP and Amoco, Texaco and Chevron, and, most recently, Shell and British Gas.

The online case on Electrolux is an example of international horizontal integration and it shows how difficult it can be to pull everything together and achieve synergy, despite broadly similar competencies and products. Adidas, Nike and Umbro, another online case, also looks at horizontal integration but incorporates the role of a 'spoiler' determined to stop others merging.

Vertical integration

This strategy involves the acquisition of a company which supplies a firm with inputs of raw materials or components, or serves as a customer for the firm's products or services (a distributor or assembler). If a shirt manufacturer acquired a cotton textile supplier, this acquisition would be known as **backward (vertical) integration**; if the supplier bought the shirt manufacturer, its customer, this would constitute **forward (vertical) integration**.

At times, firms will reduce the extent to which they are vertically integrated if they are failing to obtain the appropriate benefits and synergy from the fusion of two sets of skills and capabilities. In 1988, the UK clothing retailer Burton Group – which once had been one of the leading clothing manufacturers in Europe (before made-to-measure suits were substantially replaced in popularity by ready-made suits) – sold the last of its suit-making factories in order to concentrate on retailing. The UK textiles industry has both declined and specialized, and the Burton story is one example of what has happened. Huddersfield, for example, where one of the authors teaches, was once a leading manufacturer of high-quality woven wool and worsted cloth; there are still successful weavers (who largely sell their cloths overseas, where they are made into suits).

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But now there are also producers of specialist wool yarns – who also sell overseas, where their yarn is woven into cloth. Huddersfield also has textile businesses that use modern technologies to create and produce new cloths and materials. Such new innovations include those that are stain- and water-resistant, wool suits that can be washed in household washing machines rather than being dry-cleaned and others that 'breathe' (i.e. with tiny pores that 'wick' moisture rather than retaining it) and are, therefore, cooler to wear.

Backward vertical integration aims to secure supplies at a lower cost than competitors but, after the merger or acquisition, it becomes crucial to keep pace with technological developments and innovation on the supply side, or competitive advantage may be lost.

Forward vertical integration secures customers or outlets and guarantees product preference; it can also give a firm much greater control over its total marketing effort. At the consumer end of the chain, retailers generally are free to decide at what final price they sell particular products or services, and their views may not always accord with those of the manufacturer. However, greater control over distribution could mean complacency and a loss of competitive edge through less effective marketing overall. In addition, manufacturing and retailing, if these are the two activities involved, require separate and different skills; for this reason, synergy may prove elusive.

Many benefits of vertical integration can be achieved without merger or acquisition. Joint ventures, discussed later, are one option. In addition, there may simply be agreements between companies who appreciate that there can be substantial gains from proper co-operation. M&S provides an excellent example. Historically, M&S has benefited from long-term agreements with its suppliers with whom it has worked closely, while many suppliers of a wide variety of products sold by M&S came to rely very heavily on them as their major customer. For many years, M&S favoured UK suppliers, but this strategy was abandoned and M&S now sources from around the world to obtain the prices and quality it requires. Alongside this, M&S has always set exacting standards for cost, quality and delivery, and guarantees to buy only when these standards are met continuously; hence, suppliers are aware that they will always have competitors who would like M&S as a customer.

The effect of vertical integration can be created organically, without merger or acquisition. This is likely to be more risky because, for example, new skills have to be developed from scratch (such as a manufacturer deciding to make components, rather than buying them from specialist suppliers; or starting to distribute independently, rather than relying on external distributors).

Related (or concentric) diversification

Any form of diversification involves a departure from existing products/services and markets, which may be related through either technology or marketing, and is known as **concentric** (rather than conglomerate) diversification. An example would be a specialist manufacturer of ski clothing who diversified into summer leisure wear to offset seasonal sales. Potential consumers may or may not be the same, distribution may or may not change, and the existing production expertise should prove beneficial. Similarly, when retailers such as WH Smith add different new lines and products, they are seeking to exploit their resources and their retailing skills and expertise (core competencies) more effectively. Realistically, WH Smith is a 'high-street survivor' because it has been willing to drop products and add new products and ranges as necessary in the face of ever changing competition. At one time, WH Smith largely sold newspapers and magazines, books and stationery; later, music became a major line. Now music has all but disappeared and books are less important than they once were – a consequence of the power of Amazon.

It is often assumed that synergy can be created from the two businesses or activities such that, ideally, the new, diversified company enjoys strengths and opportunities which decrease its weaknesses and exposure to risks.

Any organization seeking concentric diversification will look for companies or opportunities where there are clearly related products, markets, distribution channels, technologies or resource requirements with related benefits that are clear and genuinely capable of generating synergy. However, diversification could be adopted as a means of covering up weaknesses or previous poor decisions. Benefits will not be expected immediately, and the change involved may divert interest and attention away from existing problems or difficulties.

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Unrelated (or conglomerate) diversification

In this strategy, there is no discernible relationship between existing and new products, services and markets, since the diversification is justified as a promising investment opportunity. Financial benefits and profits should be available from the new investment, and any costs incurred will be more than offset. Financial synergy may be obtained in the form of greater borrowing capacity or acquired tax credits.

The strategy is regarded as high risk because the new technologies, new skills and new markets involved constitute unknowns and uncertainties. Moreover, because the change is uncertain and challenging, it can be tempting to switch resources and efforts away from existing businesses and areas of strength, and this compounds the element of risk involved.

Conglomerate diversification is often linked to **portfolio analysis**, and sometimes the search for businesses which could remedy any perceived strategic weaknesses. A company with reserves of cash to invest, because it has a number of cash-cow businesses, may seek to buy businesses with growth potential in new industries. Some acquisitive and financially oriented companies adopt this strategy to rationalize businesses they buy, retaining parts which add value and divesting other parts. In such cases, the critical issue is the opportunity cost of the money involved – that is, the long-term return on capital employed should exceed alternative uses for the money, including simply keeping it banked. While some companies hoard substantial capital reserves to survive future recessions, others will use the cash to buy back equity. Shareholders wish to see a company enjoying sound financial health but may prefer a 'cash mountain' to be used to pick up 'bargains' in a recession. Hence, it can be a difficult balance. Referring to points made earlier, where a company is anxious to grow, it could initially look for closely related acquisitions but find such routes blocked by competition authorities who are convinced that customers may be disadvantaged. When such companies opt for unrelated acquisitions, they are likely to argue that there is more relatedness than there is in reality!

Unrelated diversification became less popular in the 1990s, especially under the onslaught of management guru thinking that favoured focus strategies. We develop this later in this chapter, as well as in Chapter 16. The real issue concerns whether the strategic leadership can deliver value for all key stakeholders from the diversification. At this point, it would be useful to read the online case on Granada.

Some companies diversify to build a bigger business, reducing the likelihood of being acquired, but, if they do not achieve synergy, they may look attractive to an outside bidder who sees value in buying them to split them up.

Corporate entrepreneurship

Strategic management scholars have contributed greatly to research studies on **corporate entrepreneurship**, a term used when established organizations behave in an entrepreneurial way. In this chapter we have already covered innovation, which is one of two options which Guth and Ginsberg (1990) explored, the other being **strategic renewal**. The following are examples of corporate entrepreneurship:

- Organizations actively seek ways in which they can be intrapreneurial, a term used to describe entrepreneurship in existing firms; this concept is one that we discuss in depth in Chapter 10. There is a clear link between innovation and intrapreneurship.
- Organizations look outside for opportunities to acquire new businesses, which bring with them new resources, new products and new opportunities – as well as new risks.
- Organizations seek to renew their strategies – or engage in strategic renewal – in an entrepreneurial way and may engage in some radical changes to their business model in doing so.
- Venture capital (or similar) organizations with money to invest acquire a majority shareholding in an organization, most typically one that is seen to be underperforming, with a view to turning it round and then selling it again (in a relatively short number of years) for a profit. The sale may be to another parent organization or to the company's existing management team, who borrow the money to fund what is called a 'management buy-in'. The money returned to the venture capital business is then normally reinvested in a similar turnaround business.

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Diversification or 'focus' as growth strategies

As Figure 8.10 demonstrates, the growth challenge is to find opportunities for developing and deploying technologies, processes and competencies in ways that generate a more effective and beneficial match between the organization's products and services and its customers and markets. Some of the key themes include potential synergy from internal and external linkages and alliances; the diversification/focus dilemma; opportunities for, and abilities in, transferring skills and competencies; and opportunities emerging from the exploitation of a successful corporate brand name.

Figure 8.10 The growth challenge

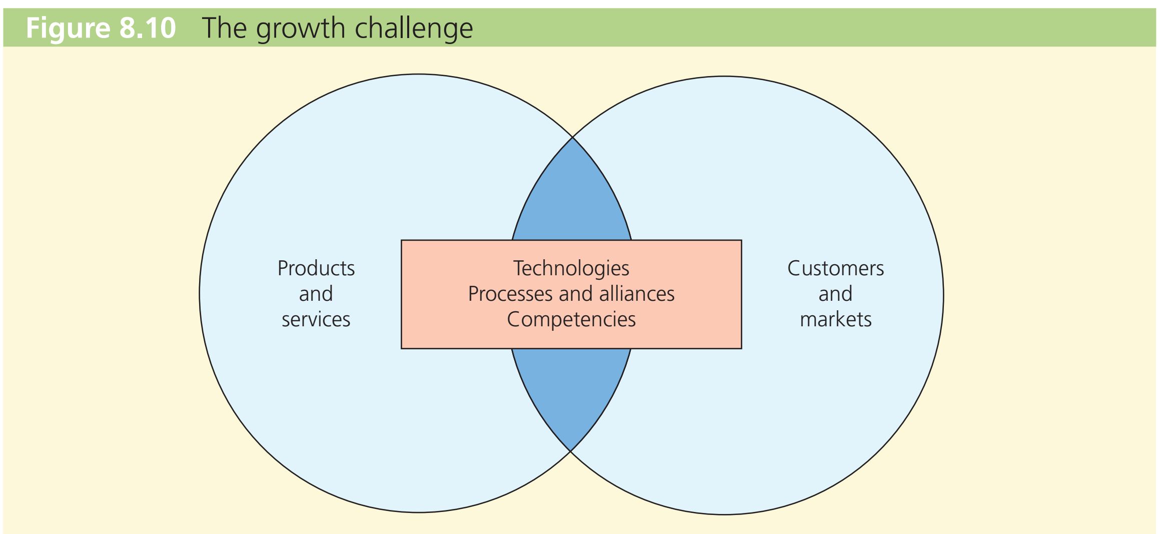

Table 8.3 provides a brief summary of the advantages and drawbacks of *organic growth* (from within, utilizing the organization's own resources and developing new competencies as required), acquisitions (including the friendly purchase of one company by another, an unfriendly purchase (a *takeover*), a straightforward merger of the assets of two or more organizations), strategic alliances (an agreement between two or more companies), or joint ventures (alliances, plus the exchange of minority shareholdings between the companies involved or the establishment of an independent company, jointly owned by the organizations who start it).

Table 8.3 Alternative growth strategies

	Advantages	Possible drawbacks
Organic growth	Lower risk Allows for ongoing learning More control	Slow Lack of early knowledge – may be misjudgements
Acquisition	Fast Buys presence, market share and experts	Premium price may have to be paid High risk if any misjudgement Preferred organization may not be available May be difficult to sell unwanted assets
Strategic alliance	Cheaper than takeover Access to market knowledge Useful if acquisition impractical	Possible lack of control Potential managerial differences and problems
Joint venture	As for strategic alliance plus: • greater incentive and closer contact • can lock out other competitors more effectively	As for strategic alliance

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Although not all acquisitions aim to do so, the majority appear to represent either related or unrelated diversification. Furthermore, when a business is acquired by another, be it in a friendly or hostile manner, the assets of the acquired business are revalued before they are absorbed into the balance sheet of the acquirer. Any difference between the new valuation and the price paid to buy the business would be reflected in the value of goodwill such that, wherever they can, businesses will seek to treat any form of acquisition as a merger on the balance sheet.

As markets and industries become increasingly global, a certain minimum size and market share – known as critical mass – is often thought to be necessary for competitive viability, and explains the growing incidence of mergers and alliances between related and competing organizations. Critical mass, discussed in detail in Critical Reflection 8.2, ensures sufficient investment in research and development to keep pace with the market leader; that the important cost benefits of the **experience curve** can be realized; and that marketing activities achieve visibility and a competitive presence.

Because of competitive requirements and regulatory and cultural issues, which can inhibit 'full' merger and acquisition activity, many links between businesses are between existing competitors and often take the form of joint ventures and strategic alliances as an alternative to mergers or acquisitions. On occasions, there will have been clear strategic arguments in favour of linking two organizations – but pressure from shareholders, managers or governments may mean that the acquisition is not feasible. However, joint ventures and alliances should not be regarded as 'second best' choices; indeed, they can be the preferred alternative, as we will discuss later.

Critical Reflection 8.2 The Significance of Critical Mass

The reality: the recent trend has been for horizontal and cross-border integrations:

- to establish critical mass and
- as industry rationalization to create global players.

Examples:

- Airbus (combining the relevant British, French, Italian and German interests to create a single business that can compete with Boeing)
- oil companies (as mentioned earlier and driven by scale economies)
- pharmaceuticals companies (prompted by high research costs)
- banking
- telecoms – Vodafone/Mannesmann – for European/world power and economies.

Points of debate

Is there clear evidence that 'big can be best'?

Dominant companies such as Shell, Exxon and Coca-Cola, for example, are long-term survivors. For instance, at the end of the 1990s, the powerful Lloyds TSB bank *was* the best performing British bank. But do they always stay the best? Are they more vulnerable to the external rule changer? After all, size is no protection against lost competitive advantage. The share price of the new Lloyds Group since early 2009 tells an interesting story.

Glaxo grew from semi-obscurity to become the top pharmaceuticals company in the world on the back of a single new drug, Zantac, but arguably the rules in this industry have changed since then. Governments are cutting back their spending, generic drugs are becoming more popular all the time, and smaller, entrepreneurial biotechnology companies are having an impact on the industry giants.

On the other hand, privatization and the splitting up of the utilities has improved efficiencies – although these improvements may sometimes have resulted in higher profits, rather than lower prices.

At the same time, many dominant industry leaders do falter and fail. United Steel was once the world's largest company and is now 'nowhere in sight'.

Sometimes an industry declines, but sometimes large organizations become sluggish with power. Others diversify and get it wrong strategically, and then get taken over and possibly split up.

What goes wrong?

- loss of control
- lack of co-ordination and communication
- lost momentum/motivation/hunger.

The key issue

Big must think and behave small! Because:

- speed is critical as product life cycles are getting shorter
- information can be dispersed quickly and electronically.

The final question

Do alliances make more sense than mergers?

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Although their popularity waned in the 1990s, *research evidence* confirms that successful diversified conglomerates have been very profitable at certain times and in certain circumstances. Generally, these conglomerates succeeded because they carefully targeted their acquisitions, avoided paying too much (usually); adopted an appropriately decentralized structure and control system; and corporately added value. Much akin to the concept of core competency discussed in Chapter 4, and in keeping with the theme of a **focus strategy** as an alternative to diversification, Goold *et al*. (1994) use the term *heartland* to describe a range of business activities to which a corporation can add value, rather than destroy value by trying to manage a conglomerate which is too diverse, including:

- common key success factors – often market-driven related core competencies and strategic capabilities
- related technologies.

While we discuss some of these strategic alternatives in Chapter 16, it should not be forgotten that a strategy of focus is not immune from the risk of over-dependency.

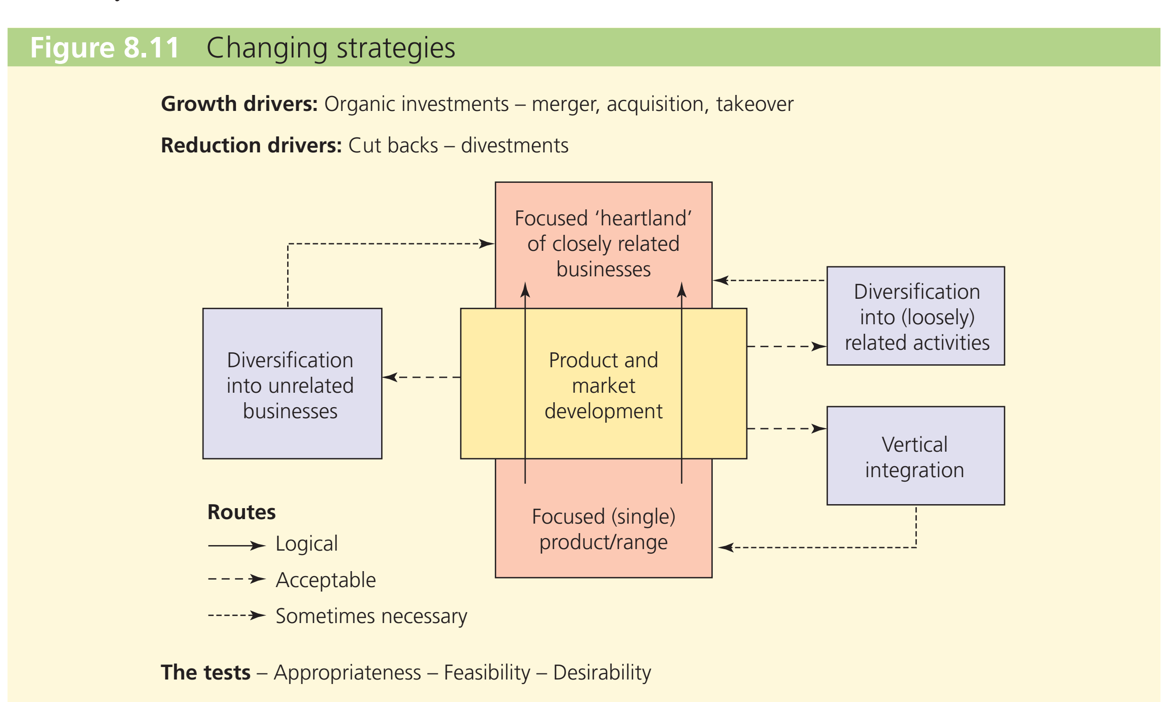
> *As soon as things go wrong, companies start talking about focus. Focus is the crutch of mediocre management . . . If you are trained in the techniques of management . . . you should be able to apply them across a range of companies. Diversified companies possess both defensive qualities in recession and a springboard for new ventures in more expansive times.*

A comment in defence of conglomerate diversification by Sir Owen Green, previously a successful Chairman of BTR. Source: *Management Today*, June 1994

Diversification and acquisition strategies, and tests to establish whether or not a proposed diversification seems worthwhile, will be considered further in Chapter 12, while an online case explains how Kodak has had to shift its focus as the demand for 'traditional' film has dropped significantly. Interestingly, Polaroid (in 2015) launched a small printer that would immediately produce a print from either a smartphone or a tablet, using wireless technology. The argument is that prints are still very relevant, but immediacy is critical. The secret is to find the right innovation opportunity.

Figure 8.11 tracks alternatives, with the most logical strategic choices built around relatedness and the consequent synergy, and product and market development being used to extend a single product range while retaining a clear focus. Acceptable diversification strategies may be followed but are later reversed as the organization returns to a more focused alternative. The three evaluative tests – appropriateness, feasibility and desirability, at the bottom of the chart – are considered next.

Figure 8.11 Changing strategies



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8.3 Introducing strategy evaluation

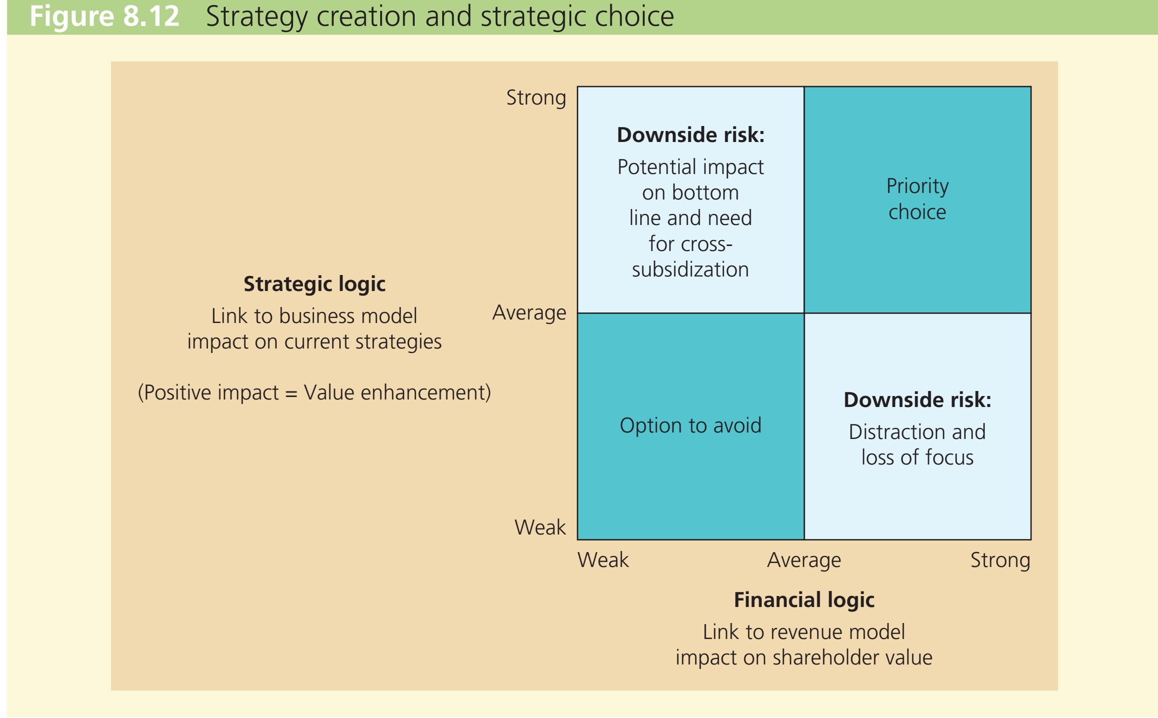
No single evaluation technique or framework will provide a definite answer to which strategy or strategies a company should select or follow at any given time, but particular techniques will prove helpful in particular circumstances.

A sound choice will always address four issues:

1. competitiveness, competitive advantage and added value for customers
2. strategic logic and synergy
3. the financial returns, which should normally exceed the cost of capital
4. the ability to implement.

Figure 8.12 (which is a reproduction of Figure 2.4) links this argument back to the key topics of the business and revenue models which we discussed in Chapter 2. An ideal choice will make a positive impact on both the business and revenue models; and where a choice needs to be made between an option that would benefit either the business or the revenue model but not the other, there is an identifiable downside risk to factor into the decision. When you read the next section, you will appreciate that in such cases desirability on the part of the decision-makers will be an important force.

Figure 8.12 Strategy creation and strategic choice



Several frameworks and techniques which are often classified as means of analyzing strategy have been discussed in earlier chapters and are listed to the left in Box 8.1, together with a number of additional financial considerations on the right. These are explained and discussed in the Finance in Action supplement which is provided on the online platform.

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Box 8.1 The Main Strategy Evaluation Techniques

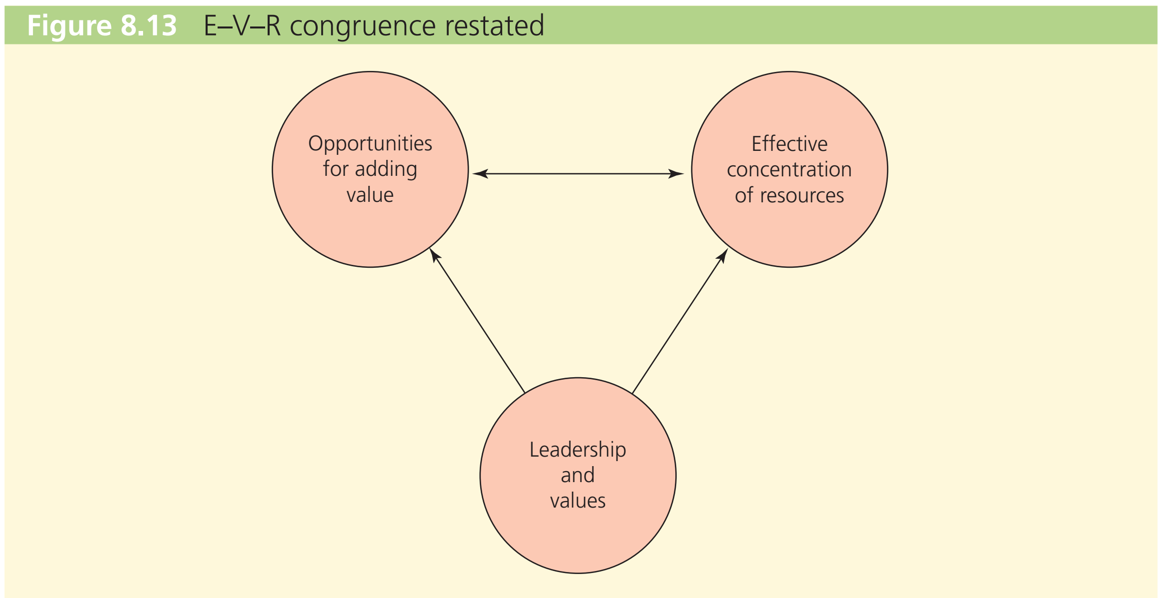
- SWOT analysis
- E–V–R congruence
- Planning gap analysis
- Porter's industry analysis and competitive advantage frameworks
- Portfolio analyses
- Scenario modelling
- Investment appraisal techniques using **discounted cash flows (DCF)**
- Net present value
- Internal rate of return
- Payback
- Cash flow implications
- (The public sector often also uses cost-benefit analysis).

Certain essential criteria, however, should be considered in assessing the merits and viability of existing strategies and alternatives for future change. This section considers how one could assess whether or not a corporate, competitive or functional strategy is effective, or likely to be effective, in terms of *appropriateness*, *feasibility* and *desirability*. Some of the considerations are likely to conflict with each other and, consequently, an element of judgement is required in making a choice. The most appropriate or feasible option for the firm may not be the one that its managers regard as most desirable, for example.

In many respects, the key aspects of any proposed changes concern the *strategic logic*, basically the subject of this book so far, and the *ability to implement*. Implementation and change are the subjects of the final chapters.

Strategic logic relates to four elements: first, the relationship and fit between the strategies and the mission, or the purpose of the organization; and the current appropriateness of the mission, objectives and the strategies being pursued (in which synergy is an important concept). The second element is the ability of the organization to match and influence changes in the environment; third, its competitive advantage and distinctiveness; and, finally, the availability of the necessary resources. Figure 8.13, which recrafts the earlier model of Environment–Values–Resources (E–V–R) congruence, shows that organizations must seek and exploit opportunities for adding value in ways that are attractive to customers at the levels of both **corporate strategy** (to establish a heartland of related businesses and activities) and competitive strategy (to create and sustain competitive advantage). Indeed, resources must be deployed to exploit the new opportunities, and this is driven – or, in some cases, frustrated – by strategic leadership and the culture of the organization.

Figure 8.13 E–V–R congruence restated



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When evaluating any corporate, competitive or functional strategy, it is worth considering ten strategic principles; these are listed in Box 8.2 and all are discussed in detail elsewhere in the book. Where these principles are evident, and particularly where they are strong and powerful forces, the likelihood of strategic success and effectiveness is enhanced. In addition, the financial returns should always exceed the costs involved, unless there is a defensible strategic reason for cross-subsidization.

Box 8.2 Ten Principles of Strategy

1 Market orientation, customer relevance and added value
2 Innovation
3 Distinctiveness – relating to differentiation and competitive advantage
4 Timeliness (appropriate for the current situation)
5 Flexibility (capable of change)
6 Efficiency – relating to cost control and cost efficiency, particularly in production and operations
7 Building on strengths and competencies
8 Concentration and co-ordination of resources (rather than spreading them too widely) to achieve synergy
9 Harmonization of strategy creation and implementation
10 Understanding – remembering that, if a strategy is to be supported by employees who are motivated and enthusiastic, it must be communicated and understood.

Corporate strategy evaluation

Rumelt (1980) argues that corporate strategy evaluation at the widest level involves seeking answers to three questions:

- Are the current objectives of the organization appropriate?
- Are the strategies created previously, which are currently being implemented to achieve these objectives, still appropriate?
- Do current results confirm or refute previous assumptions about the feasibility of achieving the objectives and the ability of the chosen strategies to achieve the desired results?

It is, therefore, important to evaluate, retrospectively, the outcomes and relative success of previous decisions, and also to look ahead to future opportunities and threats. In both cases, strategies should be evaluated in relation to the objectives that they are designed to achieve, which can be facilitated by a quantitative chart along the lines of Table 8.4.

In this illustration, and in order to evaluate current and possible future strategies and help to select alternatives for the future, the objectives are listed at the top of a series of columns, some with clear and objective measurement criteria, while others are more subjective. The alternatives, listed down the left-hand side, could be ranked in order of first to last preference in each column, or given a numerical score. In making a final decision based on the rankings or aggregate marks, it may well prove appropriate to weight the objectives in the light of their relative importance. This table could simply be used as a framework for discussion without any scoring or ranking, if this approach is preferred. In terms of assessing the suitability of strategic alternatives in particular circumstances, Thompson and Strickland (1980) suggest market growth and competitive position as key elements.

Table 8.5 summarizes their argument. Concentration, for example, is seen as an appropriate strategy where market growth is high and the existing competitive position is strong. By contrast, where market growth is slow and the competitive position is weak, retrenchment may be the most suitable strategy for the organization. Where 'not material' is listed in a column, the contention is that the strategy is appropriate for either high or low growth, or strong or weak competitive positions.

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Table 8.4 Evaluating strategies in terms of objectives

	Objectives*					
Strategic alternative	Ability to achieve specific revenue or growth targets	Ability to return specific profitability targets	Ability to create and sustain competitive advantage	Synergy potential – relationship with other activities	Ability to utilize existing (spare) resources and skills	and so on
Existing competitive strategies for products, services, business units	Score out of say 10					
And Possible changes to corporate and competitive strategies	*Or* Rank in order of preference					

* For evaluation purposes, each objective could be given a relative weighting.

Table 8.5 Strategic alternatives: their appropriateness in terms of market growth and competitive position

Strategy	Market growth	Competitive position
Concentration	High	Strong
Horizontal integration	High	Weak
Vertical integration	High	Strong
Concentric diversification	Not material	Not material
Conglomerate diversification	Low	Not material
Joint ventures into new areas	Low	Not material
Retrenchment	Low	Weak
Turnaround	High	Weak
Divestment	Not material	Weak
Liquidation	Not material	Weak

Developed from ideas in Thompson, A.A. and Strickland, A.J. (1980) *Strategy Formulation and Implementation*, Irwin

Criteria for effective strategies

When assessing current strategies and evaluating possible changes, there is no such thing as a right or wrong strategy or choice in absolute terms. However, certain factors will influence the effectiveness of strategies and the wisdom of following certain courses of action. A number of authors, including Tilles (1963) and Hofer and Schendel (1978), have discussed the factors that determine the current and future possible effectiveness of particular strategies.

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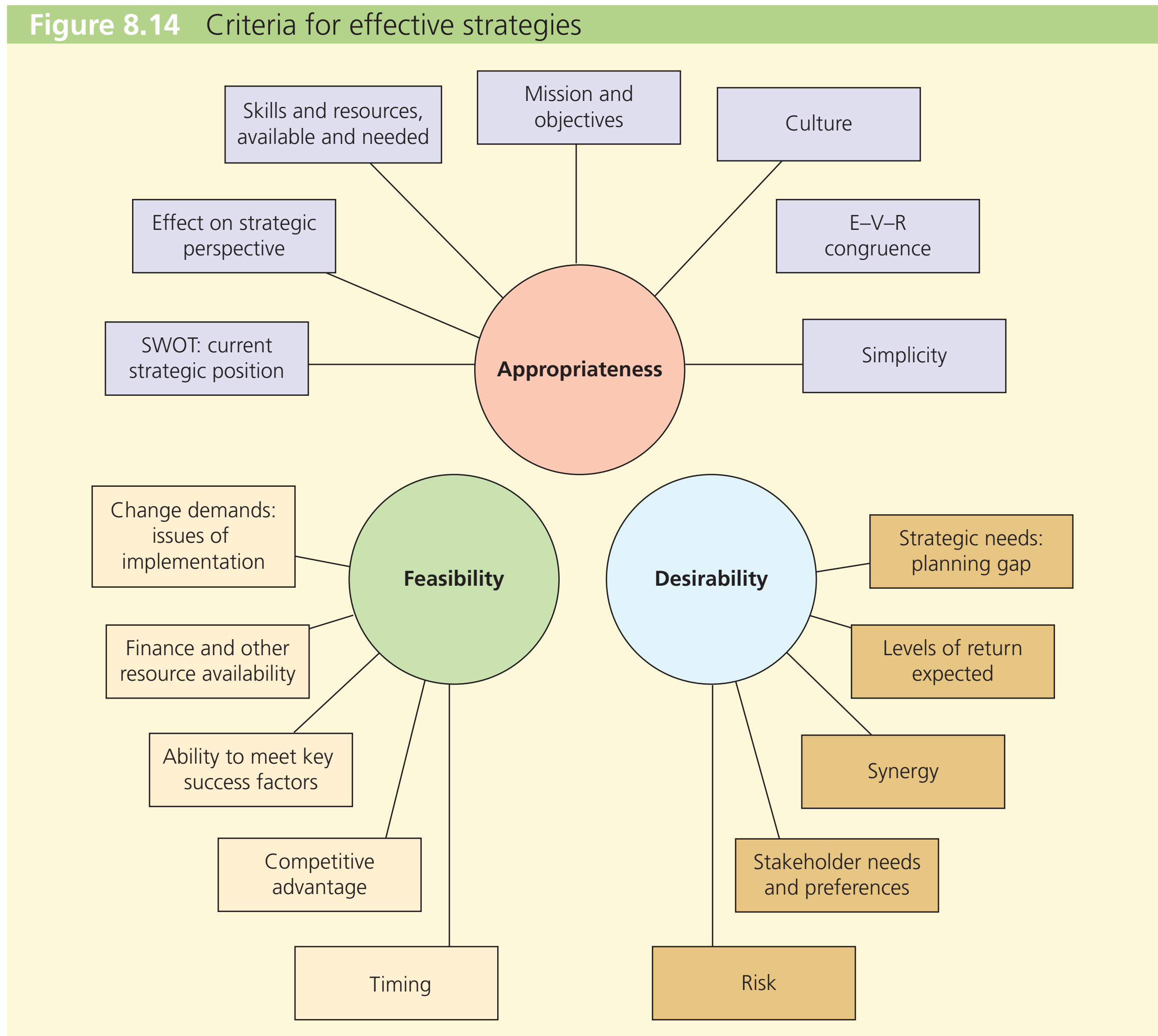
The factors that they suggest, and others, are summarized in Figure 8.14 and considered in three criteria or categories – *appropriateness*, *feasibility* and *desirability* – which have been selected, and factors linked to each of them, for convenience. Although there is some overlap between the sections and some of the factors clearly impact on more than one criterion, they are simply linked to the criteria to which they have the strongest link. The term 'the strategy' refers to each particular current strategy or future proposed strategic alternatives being considered.

Figure 8.14 Criteria for effective strategies



Appropriateness

In reviewing 'the strategy', we must gauge that strategies are consistent with the needs of the environment, the resources, values and mission of the organization. In addition, is it acceptable to the strategic leader and other influential stakeholders?

Does the strategy proposed have the potential to improve the strategic perspective and general competitive position of the organization? In other words, will the individual business not only have a strong competitive

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position (possibly drawing on strengths and competencies from elsewhere in the organization) but also be able to make a positive and synergistic contribution to the whole organization?

The company, therefore, must be responsive to changes in the environment, and it may wish to be proactive and influence its market and industry. It should seek to become and remain an effective competitor at all times.

Is the strategy appropriate for the current economic and competitive environment? Is the strategy able to capitalize and build on current strengths, competencies and opportunities, and avoid weaknesses and potential threats? To what extent is the strategy able to take advantage of emerging trends in the environment, the market and the industry?

Are the strategies being pursued and considered sufficiently consistent that skills, competencies and resources are not spread or stretched in any disadvantageous way? Does any new proposal exploit key organizational competencies? For current businesses and strategies, can the organization effectively add value, or would a divestment strategy be more appropriate? It will be appreciated that this consideration embraces both the opportunity-driven and resource-based perspectives on strategy.

Does the strategy fit the culture and values of the organization? If not, what are the implications of going ahead?

Is the strategy simple and understandable? Is the strategy one which could be communicated easily and about which people are likely to be enthusiastic? These factors are also aspects of desirability.

Feasibility

Is the strategy feasible in resource terms? Can it be implemented effectively? Is it capable of achieving the objectives that it addresses? Can the organization cope with the extent and challenge of the change implied by the option? A lack of any key resource can place a constraint on certain possible developments. The cost of capital is explained in the Finance in Action web supplement accompanying this chapter.

A strategic alternative is not feasible if the key success factors dictated by the industry and customer demand – such as quality, price and service level – cannot be met. The effectiveness of a strategy will be influenced by the ability of the organization to create and sustain competitive advantage. When formulating a strategy, you must consider the likely response of existing competitors in order to ensure that the necessary flexibility is incorporated into the implementation plans. A company which breaks into a currently stable industry or market may well threaten the market shares and profitability of other companies and force them to respond with, say, price cuts, product improvements or aggressive promotion campaigns. The new entrant should be prepared for this and ready to counter it.

Timing is related to opportunity, on the one hand, and risk and vulnerability, on the other. An organization must act quickly and decisively once an opening window of opportunity is spotted, since competitors may attempt to seize the same opportunity. At the same time, managers should make sure that they allow themselves enough time to consider the implications of their actions and organize their resources properly. Adaptive incremental change in the implementation of strategy can be valuable here. An organization may look to pursue a new strategy, learn by experience and improve by modification once they have gone ahead.

Strategic leadership and the structure, culture and values of the organization are, therefore, important.

Timing is also an implementation issue; the retailer Next provides one illustration of its significance, since the company introduced a number of successful strategic changes which resulted in growth and increased profitability, but then overstretched itself by pursuing strategies for which it had insufficient resources at the time. This story is explained in detail in the case on the website, and this theme relates to the theory of growth and the existence of the receding managerial limit suggested by Penrose (1959).

There is an important paradox of resource management. Resources must be stretched if they are to achieve their full potential but, if the targets set for them are over-ambitious, there is a real danger of under-achievement and damage to the rest of the organization. Here, resources may have to be redeployed, which will have consequences for the business from which they are taken. The reputation of

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the organization could easily be tarnished. Clearly, the decisions reached will reflect the risk perspective of the managers concerned.

Desirability

The ability of the strategy to satisfy the objectives of the organization and help to close any identified planning gap are important considerations. Timing may again be an important issue. The ability of the strategy to produce results in either the short or the longer term should be assessed in the light of the needs and priorities of the firm.

Decisions concerning where a company's financial resources should be allocated are known as investment or capital budgeting decisions. The decision may concern the purchase of new technology or new plant, the acquisition of another company, or financing the development and launch of a new product. Competitive advantage and corporate strategic change are both relevant issues. The ability to raise money – and the cost involved – are key influences and should be considered alongside two other strategic issues:

- Does the proposed investment make sense strategically, given present objectives and strategies?
- Will the investment provide an adequate financial return?

The latter question is partly answered by the company's cost of capital and the topic of investment decisions is explored in the Finance in Action web supplement. Strategic fit is a broad issue and is addressed in the main part of the chapter.

Effective synergy should lead, ideally, to a superior concentration of resources in relation to competitors. The prospects for synergy should be evaluated alongside the implications for the firm's strategic perspective and culture, which were included in the section on appropriateness. These factors in combination affect the strategic fit of the proposal and its ability to complement existing strategies and bring an all-round improvement to the organization. Diversification into products and markets with which the organization has no experience, and which may require different skills, may fit poorly alongside existing strategies and fail to provide synergy.

It has already been pointed out that risk, vulnerability, opportunity and timing are linked. Where organizations, having spotted an opportunity, act quickly, there is always a danger that some important consideration will be overlooked. The risk lies in these other factors, many of which are discussed elsewhere, which need careful attention in strategy formulation. These are:

- The likely effect on competition – and reactions provoked.
- The technology and production risks, linked to skills and key success factors. Can the organization cope with the production demands and meet market requirements profitably? Innovation often implies higher risks in this area, but offers higher rewards for success.
- The product/market diversification risk – the risk involved in overstretching resources through diversification has been considered earlier in this chapter.
- The financial risk – the cash flow and the firm's borrowing requirements are sensitive to the ability of the firm to forecast demand accurately and predict competitor responses.
- Managerial ability and competence – the risk here involves issues of whether skills can be transferred from one business to another when a firm diversifies, and whether key people stay or go after a takeover.
- Environmental risks – it is also important to ensure that possible adverse effects or hostile public opinion are evaluated.

Many of these issues are qualitative rather than financial, and judgement will be required. Moreover, it can be valuable to consider risk for the (often different) perspectives of all the key stakeholders in the organization. The strategy that is most desirable to one particular stakeholder group may be a lower priority for another. We can see that, in turn, this impacts on appropriateness.

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The ability of the organization to harness and evaluate the appropriate information is crucial, but there is a trade-off. The longer the organization spends in considering the implications and assessing the risks, the greater the chance it has of reducing and controlling the risks. However, if managers take too long, the opportunity or the initiative may be lost to a competitor who is more willing to accept the risk. The subject of risk is revisited in Chapter 16.

> *In my experience those who manage change most successfully are those who welcome it in their own lives and see it as an opportunity for stimulation and learning new things. Implicit is the willingness to take risks, including making intelligent mistakes.*
>
> *I am much more interested in important failures that prepare the way for future success than I am in cautious competence and maintaining the status quo.*
>
> Robert Fitzpatrick, when President Directeur Général, Euro Disneyland SA

Another consideration is the expectations and hopes of key stakeholders, the ability of the organization to implement the strategy and achieve the desired results, and the willingness of stakeholders to accept the inherent risks in a particular strategy.

Strategic changes may affect existing resources and the strategies to which they are committed, gearing, liquidity and organization structures, including management roles, functions and systems. Shareholders, bankers, managers, employees and customers can all be affected; and their relative power and influence will prove significant. The willingness of each party to accept particular risks may vary, such that trade-offs may be required. The power and influence of the strategic leader will be very important in the choice of major strategic changes, and their ability to convince other stakeholders will be crucial.

We conclude this section with Table 8.6 (which relates these three evaluation themes to the three key creation themes which underpin the chapter) and Strategy in Practice 8.2. Here you are presented with two alternate perspectives; both are realistic approaches, but which one feels more likely to be taken by an organization?

Table 8.6 Strategy creation and strategy evaluation

	Appropriateness	Feasibility	Desirability
Resource-driven strategy	Relevant to and for the resources (and strengths) currently possessed by the organization	Potential to create valuable outputs and outcomes without significant changes to the existing resource base	Relevant for most if not all stakeholders, but especially those employed by the business and those who fund it
Opportunity-driven strategy	The business can fund and obtain the new resources that might be needed – including people, capacity, technology and distribution	The business can fund and obtain the new resources that might be needed – including people, capacity, technology and distribution	Key stakeholders believe this is a sensible strategic move and they will back it
Competitor-driven strategy	There is an opportunity cost in not responding to a competitive threat or initiative	Resources are – or can be – available without compromising other important strategies	Ideally it will be seen as a 'strong positive move' and not a 'desperate reaction'

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Strategy in Practice 8.2 Strategic Decision-making Alternatives

The opportunity-driven perspective

'We recognize that a number of options may all be **desirable** (to various interested parties where the opinion of the most influential ones carry the greatest weight). These options are only **appropriate** if they can be achieved … and that requires them to be feasible for the resources we have available or can acquire.'

'The **feasibility** of any option we might be drawn towards depends not only on resources but on the willingness of key people to invest their time and energy and also provide effective leadership and support. This will, therefore, require effort and commitment on their part. So, do the people, whom we need to become engaged, actually care enough to make this investment? How can we engineer the effort required to make it all happen and make this a genuine opportunity and not just an idea we like?'

The resource-driven perspective

'Let's be pragmatic. Let's take a good look at the resources we have available and those we can readily acquire in any given timescale. What can we realistically achieve (what is **feasible**) with these resources? And from the alternatives we can identify, which is the most **appropriate** given the potential returns and outcomes? Our judgement call here determines the most **desirable** choice from an internal perspective.

'That said, we should always be looking at how we can build our resource base.'

8.4 Decision-making, subjectivity and judgement

This final section now explores the important theme of decision-making to help explain the critical distinction and split between strategic theory and strategy in practice. Although strategies can form or emerge as well as be formulated or prescribed, strategic change results from decisions taken and implemented in response to perceived opportunities or threats. The management of change, therefore, requires strategic awareness and strategic learning, which implies the ability to recognize and interpret signals from the environment. Signals from the environment are recognized by the organization at all times and in numerous ways, and they must be monitored and filtered in such a way that the important messages reach decision-makers. If strategic change is to some degree dependent on a planning system, that planning system must gather the appropriate data. Equally, if there is greater reliance on strategic change emerging from decisions taken within the organization by managers who are close to the market, their suppliers and so on, these managers must feel that they have the authority to make decisions that change things. In both cases, appropriate strategic leadership is required to direct activity.

This section looks at decision-making in practice, at how decisions are taken and could be taken, and at why some bad decisions are made. Strategy in Practice 8.3 focuses on strategic decision-making.

Strategy in Practice 8.3

Strategy concerns decisions and activities – both those intended to help meet desired ends and others which are circumstantially responsive. Typically, one decision starts off a chain reaction. The basic idea is that resources are used (at a cost) to produce products and services which are distributed, sold and consumed. The outcome should be that revenues exceed costs and that customers are sufficiently satisfied that they return.

Assume an organization wants to increase its profits. It can look to increase revenue or reduce costs – or, of course, both. Revenue can be improved by selling

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more products and by increasing prices (but only as long as demand does not suffer unduly). To which end, a price rise should be accompanied by adding value in some way. Costs can be reduced by increasing throughput to gain scale economies (but that could require a price reduction to stimulate demand!), or by improving productivity at no extra cost. We may argue that strong organizations will be looking at all of these options all of the time. Sometimes, the requirements for something to work in the desired way may not be met – and the side-effects can be counter-productive.

Let us apply this theme to a specific business situation, one fraught with issues. Airports really have no option but to take security seriously; they must screen passengers and their luggage. But they know they will come in for criticism when they keep people queuing for any serious length of time – especially if they have already been delayed at check-in. So, how could an airport – and the various airlines – look to improve passenger satisfaction during check-in and security without increasing costs? The airport executive knows that if the airlines get waiting times down people will be less grumpy and may be even more willing to spend money in the various shops and outlets. If airlines can reduce waiting times with lower staff, then that is even more beneficial to their bottom line.

One tactic that is used now is to allow people to check in before they even arrive at the airport and print off their boarding card. They only need to queue at the airport if they have hold bags to check in. Printing boarding cards is often easier to achieve 'at home' and more difficult 'away from home', where access to a printer may be restricted. But it is difficult, perhaps impractical, to allow check-in too many days ahead. It also assumes people are willing to do this. One alternative is electronic check-in at the airport – but, if several people arrive at once and they are unfamiliar with the systems, this can cause even longer delays. If the equipment breaks down or if the queue builds up too much, it rather demands that check-in staff are flexible and willing to intervene. But they may themselves have only limited slack they can utilize. So, the risk and trade-off is either (i) do not make too many changes but make sure there are plenty of people checking passengers in – this can be costly and work its way through to fares; or (ii) implement these types of changes in order to speed up passenger lines and save costs (with fewer staff) – accepting that if things do go wrong passengers may be aggrieved and complain, and eventually seek an alternative airline that either does it differently or has a better reputation for doing so.

We can see a similar 'whinge or walk' risk with some other decisions certain airlines take. The decision to charge passengers to check in hold bags is designed to speed up things at the airport by persuading people not to have much luggage. It also means those with luggage pay while those without luggage save. But while queuing is reduced at check-in, it can take longer to board a plane if most passengers have the maximum possible carry-on baggage. Delaying a plane on the ground can be costly in a number of ways, especially if one delay leads to further delays in a busy system. Everything involves some element of trade-off.

Of course – and returning to our earlier argument about real-time decisions that people take when something unexpected or undesirable is happening – individuals (who are allowed the freedom to do so) will intervene to try to make a system work better. If what they do actually works, it can eventually become practice and the system is changed. So, on the one hand, decisions and actions have a strong top-down element, with a clear outcome driving them but, at the same time, bottom-up practices could be the ones that come up with the real answers to the dilemma.

When things are working well in practice

- Activities deliver desired or desirable outcomes in terms of profits and customer satisfaction.
- Costs are managed and controlled.
- Decision-makers are making sense of what's happening.
- There are no serious unintended consequences.

When things are not working well in practice

- What someone thought would work in a particular way doesn't in practice – *the idea was flawed*.
- What was intended has 'got lost in translation' and something else happens – and this can be both deliberate or accidental – *the execution of the idea was flawed*.
- Deadlines (and targets) are missed.
- Problems are not spotted quickly enough to take remedial action, or they are ignored.

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Decision-making and problem-solving

Decision-making is a process related to the existence of a problem, and it is often talked about in terms of problem-solving. A problem, in simple terms, exists when an undesirable situation has arisen which requires action to change it. In other words, a problem exists for someone if the situation that they perceive exists is unsatisfactory for them and they wish to see something different or better happening and achieving different results.

We can distinguish between three types of problem. *Critical* (and urgent) problems demand immediate attention and may well affect business survival. Not responding is not an option. For many organizations, this type would embrace COVID-19. Strong 'heroic' leadership is often appropriate and valuable. *Tame* problems encompass everyday issues that arise, but which still need attention. They should not be ignored as they could escalate and become more serious; their resolution will typically be delegated to front-line managers. *Wicked* problems are those which are multi-faceted and systemic, exhibiting a range of defensible perspectives on the root cause, and for which there are realistically only accommodations between stakeholders rather than solutions. They often involve significant uncertainty about both cause and remedy; there are many unknown unknowns.

We might describe COVID-19 as both wicked and critical, at least until the work and contribution of various scientists reduced some of the wickedness. That said, in and among the many issues, there were some interesting nuances. When there was an obvious shortage of critical care beds in hospitals, a number of Nightingale hospitals (as they were called in the UK) were constructed, often by the army on secondment, in record time in large and empty (or available) buildings. At one level, this proved to be very effective. The 'kick in the teeth' arose from the reality that these new hospitals could only be staffed properly if existing doctors and nurses were transferred from where they worked (and were already fully occupied) or others were coaxed out of retirement. Other needs concerned ventilators and personal protective equipment. Both offered opportunities for new and existing businesses which could offer resources. For some, this worked very well – and was profitable. Others did pro bono work. Co-ordinating everything, however, proved to be complex and challenging. The successful and vital – but complex – vaccination programme (in the UK, at least, if not in some notable exceptions elsewhere such as New Zealand and China) is explored in a Chapter 17 case, where we see evidence of strong directional leadership.

Where the problem situation is very complex and can only be partially understood or controlled, decisions are not so much designed to find ideal or perfect answers, but rather to improve the problem situation. In other instances, managers may find themselves with so many problems at any time that they can, at best, reduce the intensity of the problem, rather than systematically search for a so-called right answer.

Ackoff (1978) distinguishes between solving, resolving, dissolving and absolving problems. A *solution* is the optimum answer, the best choice or alternative; rational decision-making (developed below) is an attempt to find it. A *resolution* is a satisfactory answer or choice – not necessarily the best available, but one that is contingent on circumstances, such as time limitations or lack of real significance of the problem – again, developed below. A *dissolution* occurs when objectives are changed in such a way that the problem no longer seems to be a problem. Feelings about what *should* be happening are changed to bring them in line with what is happening; current realities are accepted. Typically, managers accept new, weaker objectives which allow them to feel that there is no longer a problem. For example, achieving a target revenue growth of 5 per cent in a static market may be proving difficult; a revised (downwards) figure of 2 per cent would be much more achievable. *Absolution* happens when problems are simply ignored in the hope that they will rectify themselves; indeed, some people tend to treat minor illnesses in this way.

While there will always be an objective element in a strategic decision, other more subjective influences will also play a part. Figure 8.15 shows that the ultimate decision will have been affected by three elements: first, the results of whatever analyses have been used to evaluate the data available; second, the intuition and perspective of the person or people involved. Past experiences and their willingness to trust the reliability and validity of the information that they have will both be influential issues. Some managers and strategic leaders, particularly those whom we would describe as entrepreneurial, often have an uncanny and barely explicable understanding of a market or industry and of which strategy would work. They do not appear to carry out any formal analysis, or use any of the techniques described here. But such managers are a minority and others are well advised to use formal analysis. The third element is the political realities of the various alternatives, in the sense that the contingent decision is the one that people believe can be implemented and not necessarily the alternative that, on paper, promises the highest rewards. To be effective, all managers must be able to handle political issues, as discussed in Chapter 15.

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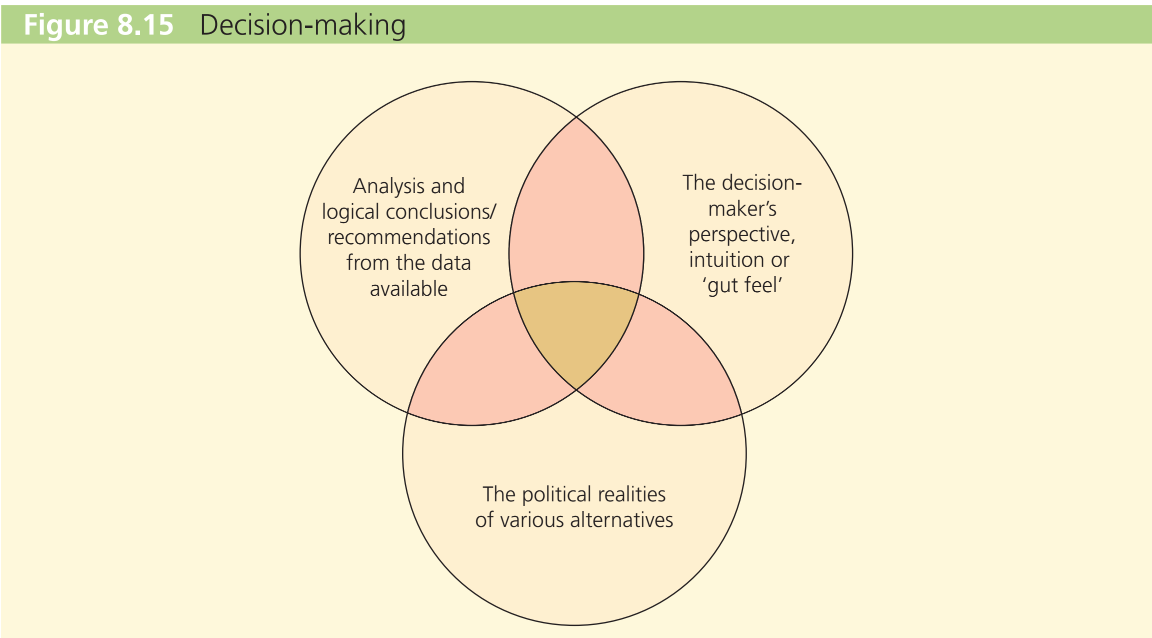
Figure 8.15 Decision-making



Similarly, De Bono (1985) takes a decision-maker perspective, suggesting people own and wear pragmatically one or more (metaphorical) hats, from a selection of six. These are:

1. a grasp of the 'big picture'
2. command of the relevant detailed knowledge
3. their personal feelings about the issue concerned
4. new ideas they have
5. a positive bias towards one (of potentially many) alternative choices
6. a negative bias towards certain choices, possibly ones favoured by others.

They change and alternate these hats in line with the different situations they have to contend with.

Figure 8.16 slightly differently illustrates the four key issues in any decision:

- The nature of the actual intervention – the person or people involved will be involved for a reason. Perhaps it is their direct responsibility, or they have been asked to advise and help, or they have been brought in because those responsible for the problem are simply not coping. What the problem 'means' to them and how they interpret and perceive the situation becomes a critical issue. Simply, they bring their own perspective, interpretation and objectives to the situation, which will naturally have an important bearing on the other three.
    - The relevant power issues and political realities.
    - The quality and reliability of the information available.
    - Cultural issues – in particular, norms, values and key roles – because the decision taken should never ignore the likelihood of it being implemented successfully. If people oppose the changes or strategy proposed, for whatever reason (again, discussed in Chapter 15), they may try to block its implementation. Where the change complements existing values and practices, it should be more acceptable than if it implies a change of culture and behaviour. Radical change is sometimes essential and should not be avoided because it is likely to attract opposition. However, it must be realized that it will take longer to implement.

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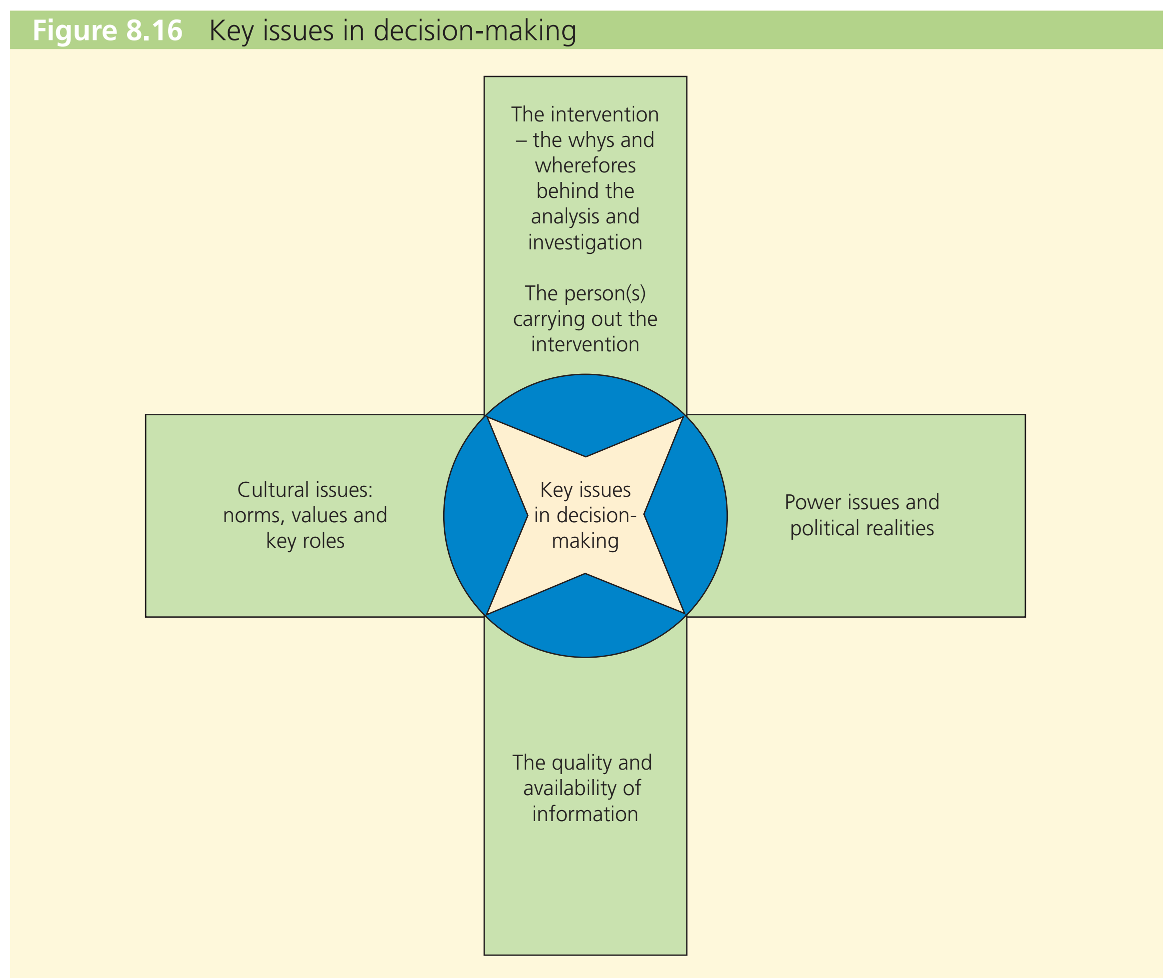
To summarize, there is rarely a 'perfect' answer; instead, choices have to be made and this comes down to both analysis and judgement. Sometimes, an alternative (which has support) has to be sacrificed because resources are limited. Whoever might be championing this alternative will inevitably be disappointed. Dealing with this disappointment can be challenging for the strategic leaders and sometimes very careful handling will be required.

Figure 8.16 Key issues in decision-making



The issues can be exacerbated if those involved disagree about the core problem or issue. Individual perceptions about the problem itself, its significance and how the organization should respond, can all be points of tension. Decision-makers may themselves be uncertain or unsure about the choices they make but feel their choice is limited or constrained, but they then have to 'bite the bullet', defend, support and implement the decision.

It is understandable that, with hindsight, organizations sometimes seem to make – or have made – poor decisions.

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'Good' and 'bad' decisions

Decision-making involves information and people. While the strategic leader must develop an appropriate information system, they must also ensure that a good team of people has been gathered and manage them well.

The conductor is only as good as his orchestra.

André Previn

Considerable research has been conducted on group behaviour, and it is beyond the scope of this book to review it. Yet, no leadership style is universally better than others and much depends on the personality, power and charisma of the leader.

Just as we would like to see evidence of more objectivity in some decisions, we would also like to see organizations being proactive as well as reactive in their decision-making – and yet they risk missing new windows of opportunity because they are perpetually 'crisis fighting'. Table 8.7 lists the characteristics of a fragmented organization with a likelihood of both inadequate decision-making for internal cohesion and synergy, and engagement in considerable crisis fighting. Organizations should usefully evaluate the extent to which any, or all, of these factors are present in the decisions that their managers are making. Improvements could then foster increased co-operation and sharing, and allow managers who do seem to be perpetually crisis fighting to be more proactive in seizing new opportunities.

Table 8.7 Manifestations of a fragmented organization
Irrational decision-making (processes)
Weak decision-making/leadership (people)
Rigidity, reluctance to change and negative politics
Conflicting perspectives and interests
Over-hasty decisions (decisive!) which are difficult to implement
Lack of clear purpose
Dissolution and absolution (of problems) instead of resolution and solution
Unhelpful personal objectives
Stakeholder conflicts
Poor information
Inadequate measurement and control
Managerial inability to take a holistic perspective

Because of the nature of the issues, we are not suggesting that there are obvious and quantitative measures available for assessing them. Rather, managers should be encouraged to confront and discuss the ways in which they behave, make decisions, carry out the decisions they make and, in the process, help or hinder their colleagues and other stakeholders. Hopefully, this approach will persuade people to reflect on the inherent style weaknesses without the process being either hostile or confrontational. While a personal self-audit is possible, the process is enhanced with groups of managers and frank exchanges. How often, when managers gather for a meeting, is the purpose task-oriented with the process element being either ignored or taken for granted? Increased attention to process can strengthen the decision-making and, although not novel, the fact that it is frequently missing requires that it be reinstated.

The notion of a rational decision-making process would include the following stages, not necessarily in this sequential order:

- Clarify the problem, which implies more than a statement of the obvious symptoms and manifestations.
- Establish clear objectives for the desired outcome.

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- Generate possible alternative courses of action.
- Assess the probable outcomes of each alternative.
- Select a course of action by considering likely outcomes and desired objectives.
- Implement this choice and monitor and evaluate progress.

While most decisions and managerial actions do not follow such a sequence, or incorporate all of these stages, short-cuts are often taken because of a lack of time or a lack of information, and sometimes through laziness. (Although rather dated, the following references are still pertinent and important.) Simon (1976) identifies how the idea of 'satisficing' explains the acceptance of a satisfactory course of action (not necessarily the best solution), which at least deals with the problem. Lindblom (1959) and, later, Quinn (1980) offer alternative theories based on the concept of trial and error in incremental, learning stages as distinct from more hands-off decision-making. Etzioni (1967) argues that managers make a judgement on the relative importance and priority of an issue or problem, and then base the time and attention that they give to the issue on this judgement. All of these are logical and defensible. The issue concerns the extent to which managers are avoiding – consciously or unconsciously – the elements of the rational approach, especially in the case of major, serious problems and, ultimately, making poor decisions which fail to deal adequately with the problem.

Weak decision-making involves managers realizing and discussing the extent of:

- their tunnel vision, leading to a lack of internal synergy
- information flows and communications which prevent the right information reaching the people who need it when they can make best use of it
- personal objectives and agendas which lead to subjectivity, selfishness and internal tensions
- willingness to ignore the potential downside impact of their actions on other managers and other parts of the organization
- unwillingness to compromise to 'accommodate' other managers
- the extent of any relevant 'noise' – as discussed in Strategy in Practice 8.4.

Strategy in Practice 8.4 Noise

Humans are unreliable; decision-makers and judgements vary between individuals – even when they are following the same guidelines and policies. Individually, people do not always react in the same way consistently when presented with the same challenge repeatedly. Of course, learning and improvement play a part in this, as does the willingness of some people to experiment and try out new ideas. But, in addition, there is *noise* to deal with. A shortage of time, a person's mood, distractions (such as other issues that are perceived to be more urgent both at work and outside work) are all relevant causes of noise. Their impact may be largely unrealized, and a certain amount will typically be understood because noise is difficult to eliminate completely.

Noise might have a similar impact and outcome to bias, but the two are not the same. A person's home bathroom scales (or body temperature checker during COVID-19) might well give a different reading from the ones presented at the doctor's surgery. Although the extent may vary, this is a predictable inconsistency – which is bias. At the same time, if, and depending in part where on the floor the scales at home might be placed, and/or the time of day they are used, they give a different reading, this aspect is not bias. Here noise of some form has become an issue.

Think: you have a second-hand car to sell – straight sale, not as a trade-in. If you take it to different dealers, will they all offer you the same price? Will this transaction be the same as the various comparison websites you might use? If you try bartering, will all the dealers respond in the same way?

How different might things be if (or when) decisions were (or are) being made by a pre-programmed computer using an algorithm? With comparison websites, of course, they are already. That said, often people are given the freedom to override the algorithm and offer discounts if they choose to, for whatever reason. When this choice happens, both bias and noise can be relevant.

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Are you aware of people who are 'in awe' of certain other people and respect their opinion about something, almost without question? This phenomenon is bias. Decision-makers are often unconscious of the impact of both noise and bias; they are perhaps more naturally aware of biases and prejudices that affect (and, some would say, 'cloud') their judgement.

Noise and bias both help explain why anticipated outcomes do not always materialize.

This Strategy in Practice box has largely been provoked by: Kahneman, D., Rosenfeld, A.M., Gandhi, L. and Blaser, T. (2016) 'Noise: How to overcome the high, hidden cost of inconsistent decision making', *Harvard Business Review*, October.

Many of these issues are ever present, or are possibly being ignored – causing frustration and, maybe, even despair – if not being dealt with. There may be accommodation among managers, as distinct from consensus, given the existence of multiple objectives and perspectives.

Heirs and Farrell (1987) identify three 'destructive minds', the impact of which organizations must minimize if they are to manage change effectively:

- the rigid mind – which stifles originality and creativity, and ignores the need to change
- the ego mind – which fosters subjectivity and makes collaboration very difficult
- the 'Machiavellian mind' – which uses political activity to achieve personal objectives at the expense of others.

All effective managers will be political; they will use their power and influence to bring about decisions and actions which serve the needs and interests of the organization. Negative politics occurs when this power and influence is used against the best interests of the organization. How many of these minds are evident in a crisis fighting organization that is largely reactive to events?

Crisis fighters are typically pragmatic and decisive but, sometimes, decisions taken in haste prove difficult to implement, as valuable time is spent trying to justify the decision. Taking time initially to search for support and agreement, involving a range of people and opinions in the process, can be hard to justify when time pressures are tight. However, if decisions enjoy people's support because they have been consulted and understand the background, implementation can be smoother, actually saving time in the end. We can learn a great deal from the Japanese here – but in how many organizations are managers listening and learning?

All the preferences of every internal and external stakeholder are unlikely to be met in full and so accommodation is necessary; hence, managers ought to appreciate and accept that different people have different perspectives on problems and issues. There is a saying: 'the way we see the problem is the problem'. Too narrow a perspective leads to a poor decision with adverse impacts on others, whereas taking account of different perspectives demands dialogue and sharing.

Finkelstein *et al*. (2009) argue that bad decisions come in two stages. In the first instance, an individual or group exercises poor judgement; but then, and second, there is a failure to correct the mistake. They cite four key causes: misleading experiences, misleading prejudgements, inappropriate self-interest and inappropriate attachments. Sometimes emotional attachments get in the way of logic. They see the Sinclair C5 (electric car) and the acquisition of ABN Amro by Royal Bank of Scotland as 'bad mistakes'. They comment that, due to what is known as post hoc rationalization, managers will retrospectively argue that 'it seemed like a good idea at the time', which it perhaps did because of the causal factors involved. Of course, the C5, while it may be perceived as a product failure, in part because it was underpowered for what it promised, was an important stage in the development of electric vehicles. We can see how it helped pave the way for motability scooters and small electric town cars. The C5 was positioned between these; a non-viable position as it turned out. Often, the managers involved are not stupid and they are not setting out to destroy their organizations, but they simply make mistakes and the risks they take do not work out for them.

Strategic choices will ultimately be judged on directional and operational criteria. Did the choice represent a clear and defensible route forward for the organization? Was the organization capable of executing the choice, and was the strategy implemented efficiently and effectively? Were the promised outcomes achieved? Again there is a temporal element. The decision to do something (or not do something) was taken at a

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particular point in time and influenced by both perceptions (of the problems and issues) and the information to hand. It may actually have been a poor choice. Afterwards circumstances change as competitors respond and assumptions are tested, and the organization might find itself unable to respond to new circumstances and challenges. What might have appeared a good choice may not turn out this way. This is the uncertainty of strategy and strategic decisions and why the fortunes of organizations may change quickly and unexpectedly.

Implementing decisions

A decision can only be effective if it is implemented successfully and yields desirable or acceptable results. Although spending time involving and gaining commitment from the people who must implement a decision is likely to lead to smoother implementation, the 'speedy decisive approach' may prove to be less effective because, if not supported, the alternative chosen may result in controversy and others may be reluctant to implement it. Vroom and Yetton (1973) have developed a model of five alternative ways of decision-making:

1. The leader solves the problem or makes the decision themselves, using information available at the time.
2. The leader obtains necessary information from subordinates and then decides on the solution to the problem. Subordinates are not involved in generating or evaluating alternative solutions.
3. The leader shares the problem with relevant subordinates individually, obtaining their ideas and suggestions without bringing them together as a group. Then the leader makes the decision, which may or may not reflect the influence of subordinates.
4. The leader shares the problem with the subordinates as a group, collectively obtaining their ideas and suggestions. Then the leader again makes the decision, which may or may not reflect the discussion and the influence of the subordinates.
5. The leader shares the problem with the subordinates as a group and, together, the leader and subordinates generate and evaluate alternatives and attempt to reach an agreement which everyone can endorse.

Vroom and Yetton (1973), as well as using the subjective expression 'solve' throughout, contend that the choice of style should relate to the particular problem faced, and their model includes a series of questions which can be used diagnostically to select the most appropriate style. While the model is useful for highlighting the different styles and emphasizing that a single style will not always prove to be the most appropriate, it is essentially a normative theory – 'this is what you should do' – and, therefore, should be treated with caution.

> *I make every decision, but get lots of advice. I don't delegate. It's 'What do you think?' 'What do you think?' 'What do you think?' Then boom, I decide.*
>
> Jeff Inmelt, CEO, General Electric

Judgement

We could sum up our dilemma as: *Judgement,* per se, *cannot be taught or learned; instead it comes from experience. Experience is gained by making mistakes, which, of course, are the result of poor judgement! Managers exercise poor judgement because it cannot be taught or learned.*

Markets (and, hence, product and service demand) change all the time – in part fuelled by fashion changes and in part by competitor tactics. To defend an existing position, and to claim a strong forward position, organizations must innovate – a point that reinforces earlier comments in this chapter. Some innovations are proactive; others reactive. Critical questions are: What do people making the relevant decisions know? What do they not know (and are therefore assuming)? How do they form any assumptions they make? To what extent are their *personal* (and thus subjective) perceptions of the value and relative worthiness of something affecting their decisions?

Strategic changes can be selected by an individual manager, often the strategic leader, or a team of managers, and Vickers (1965) stresses that three contextual aspects have a critical impact on the decision:

- the decision-makers' skills and values together with aspects of their personality (*personal factors*)
- their authority and accountability within the organization (*structural factors*)
- their understanding and awareness (*environmental factors*).

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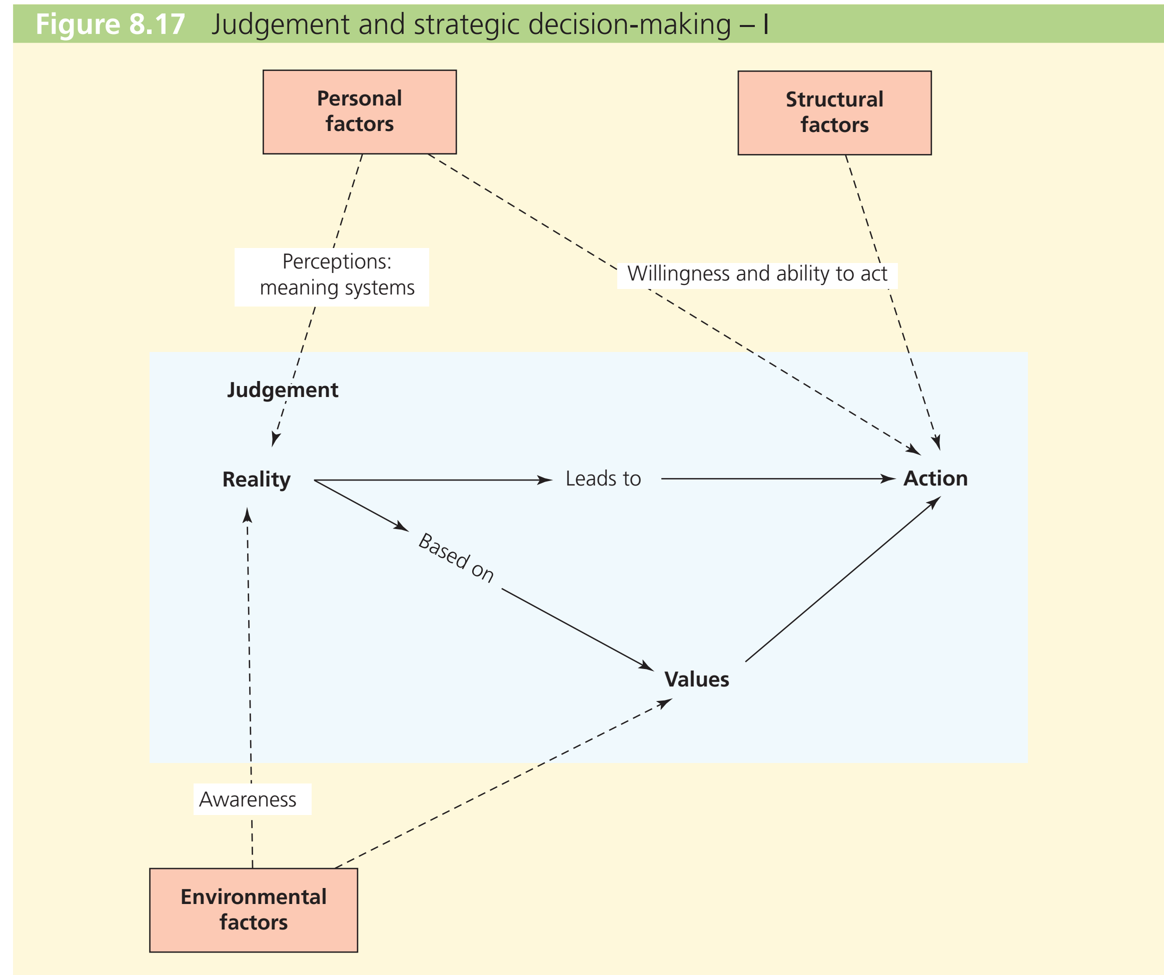
Related to these, the decisions taken by managers are affected by their personal judgemental abilities; understanding judgement can, therefore, help us to explain why some managers appear to 'get things right' while others 'get things wrong'. Vickers (1965) suggests that there are three types of judgement:

1 reality judgements – strategic awareness of the organization and its environment, and which is based on interpretation and meaning systems
2 action judgements – what to do about perceived strategic issues
3 value judgements – concerning expected and desired results and outcomes from the decision.

Figure 8.17 shows how these are interconnected, given that decision-makers need to understand 'what is' (perceived *reality*), 'what matters' (*values*) and 'what to do about it' (*action*). Their choice will be based on a conceptualization of what may or what should be a better alternative to the current situation and, ideally, will incorporate a holistic perspective. This would imply either an understanding or a personal interpretation of the organization's purpose or mission, and an appreciation that what matters is a function of urgency and time horizons. A company with cash difficulties, for example, may need a strategy based on immediate rationalization or consolidation; a liquid company evaluating growth options has greater flexibility. The choice will be influenced by managers' relative power and influence, their perception of the risks involved and their willingness to pursue certain courses of action.

Figure 8.17 Judgement and strategic decision-making – I



Tichy and Bennis (2007) suggest that managers and leaders must exercise good judgement in three critical areas: the selection of key people, the choice of strategy to follow and how to handle crises when something

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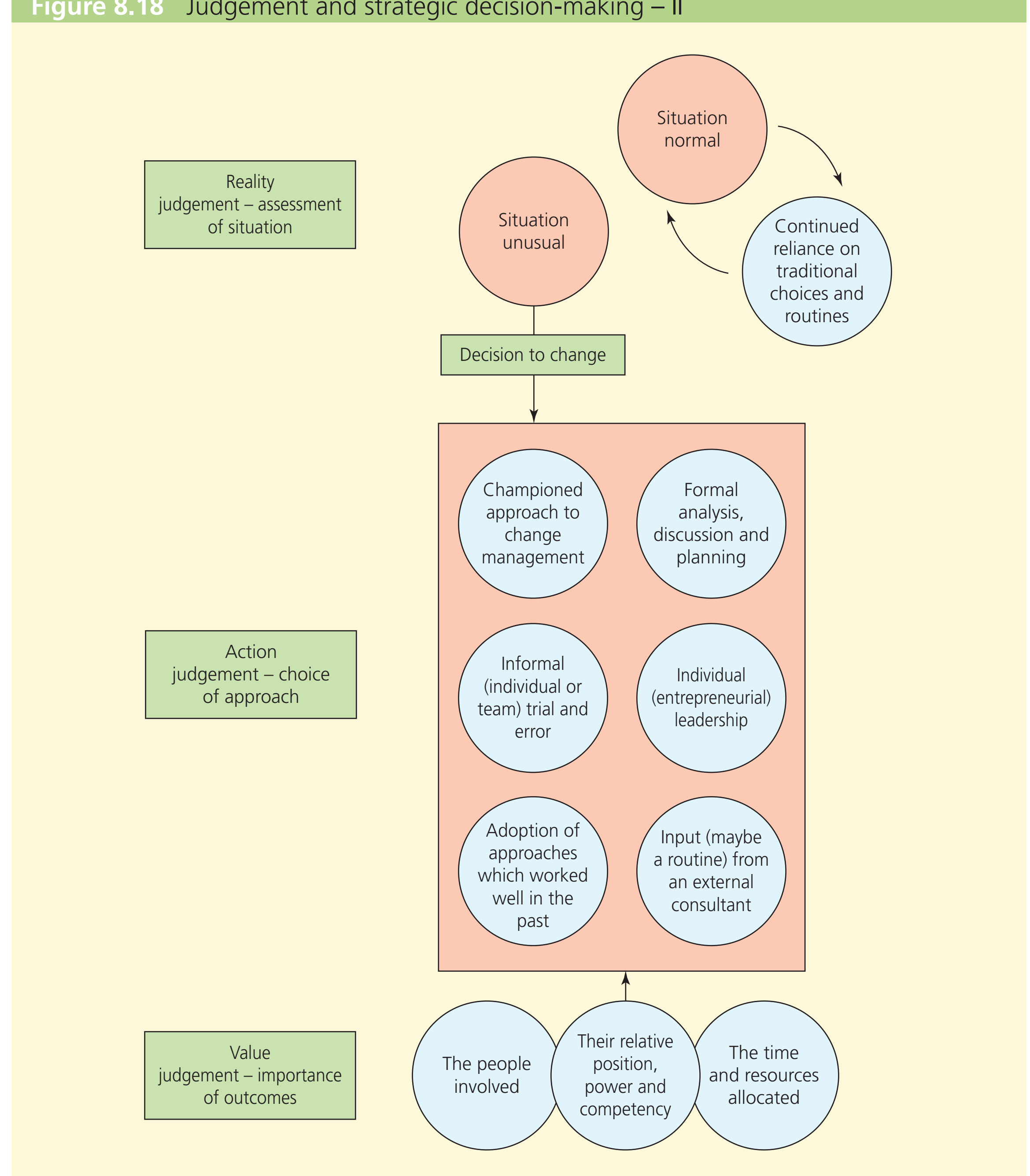
unexpected happens. Effective leaders, they argue, are better briefed and better prepared, and they 'make good calls'. It is, they say, all too easy for a leader to be: 'dazzled by an exciting strategy without thinking hard enough about how achievable it is, given the resources available' and quote a corporate strategic leader: 'Things seem very different now it's my ultimate responsibility than they did when I was a McKinsey consultant in the past.'

Figure 8.18 draws together key points from the sections on decision-making and judgement. The top part of the figure explains that managers have to assess any problematical situation and determine the extent to which it is normal or unusual: their reality judgement of the situation.

Figure 8.18 Judgement and strategic decision-making – II



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Where they perceive that there is a real degree of normality to the events, they will probably continue to rely on traditional routines and approaches. However, where the situation is seen as more unusual, a decision has to be made about how to deal with it. This choice reflects action judgement, and there are six (and possibly more) alternatives to choose from:

1 Continue to rely on approaches which have worked well in the past.
2 From a position of leadership, take decisive action – reflecting an entrepreneurial style.
3 Involve others in formal analysis, discussion and planning.
4 Possibly involving others, adopt a trial-and-error approach to craft a new strategy adaptively or incrementally.
5 Seek input from an expert, maybe an external consultant.
6 Establish that there is a change project under way and follow a 'textbook' approach – along the lines of the one explained in Chapter 15.

The outcomes will be dependent on the people who become engaged and involved, their relative positions, power and competency, and the time and resources allocated to the decision-taking and implementation. This final part is the relevant value judgement. We conclude with Strategy in Practice 8.5 which draws upon a number of themes from Chapters 1 to 8 to help explain why understanding the practice of strategy is far more complex and demanding than being 'knowledgeable about the theory'.

Strategy in Practice 8.5 Strategic Decision-making

Strategy and strategic management are vital contributions to an organization's success and resilience. To illustrate this point, Figure 8.19 has been adapted from the E–V–R congruence framework along the following lines:

The term '**strategic context**' replaces 'environment' (E). This term embraces the (competitive) circumstances a business faces, the opportunities available (if spotted and seized), and an assumption that these opportunities are evaluated properly against the appropriate, feasible and desirable criteria.

Human resources – people – use the other resources that are available and attainable to them, based on their assumptions, which in turn are reliant on their ability to make sense of the situation the organization faces. Key issues are their knowledge, insights and networks, which are all affected by important personal attributes. Additionally, Bansal and DesJardine (2014) argue that different personal values and perspectives on such things as the environment affect individual views of the future and appropriate strategies.

The **decisions** reached – by people working individually and in various groups and teams – are the outcome of various discussions. The nature and effectiveness of these discourses are dependent on a variety of factors, and it is the nature of most meetings that they are unpredictable. They do not necessarily follow a particular format (even if there is an agenda) and the outcomes are affected by who is there and the insights they bring. Collectively people attempt to make sense of the situation and reach some agreement on what they should do, their strategy and tactics.

Given the inherent unpredictability of events and outcomes, the authors believe that, in reality, rather than believing we can teach strategy per se, our focus should be on 'teaching about strategy' and strategic decision-making processes.

Ideally, as we discuss more in Chapter 9, people might like to think of strategy as designed, ordered and systematic, but when situations are forever fluid, experience tells us that strategic decision-making is interpretive (and responsive), social and systemic. 'Interpretive' acknowledges that analysis and information systems are vital elements, but they do not define strategy; in the end, strategic decisions depend on people – their power, influence and mindset, all underpinned by curiosity.

We therefore need to study how people (individually and in groups) think, learn and make decisions. It is essential to embrace the element of social interactions (Eden, 1992; Mintzberg and Waters, 1985) and how these engender collective sense-making and ultimately decisions. Discussions determine outcomes, and (especially informal) discussions are always happening. While there are formal meetings with agendas, there are

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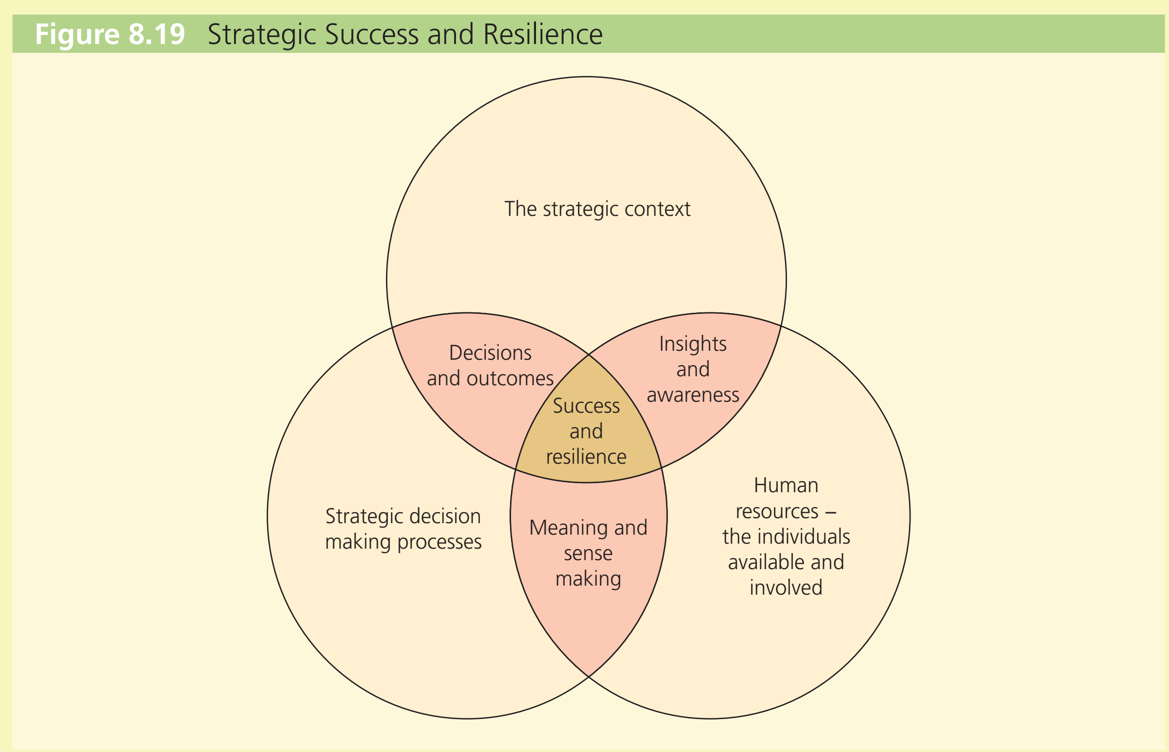
Figure 8.19 Strategic Success and Resilience



also frequent informal meetings, 'chats' and discussions as people live their lives. Moreover, sometimes certain individuals are either absent from, or present at, scheduled meetings and thus attendance affects the group dynamics. Similarly, people are leaving and joining organizations all the time, which also affects how groups and teams operate. Promotions and job changes add to the complexity. Together, then, these all add up to the relevant strategic discourse such that, in the end, strategic discussions are the result of 'negotiated order'. Analysts and planners can provide valuable data and thus support strategic decision-making, but the data itself does not necessarily determine the outcome. The sense-making, by individuals and groups, linked to power, influence and discourse, is critical. Hendry (2000) suggests that it might well be possible to identify when a strategic decision was actually reached, but asks whether we can identify when a contributory opinion was formed, and how? How did a particular idea come into being? What social connections were involved? Such issues imply that strategic decisions are uncontrollable, as they are affected by an unknown organizational discourse. Further, Janis (1972) introduced us to the notion of 'Group Think', and Harvey (1988) used the term 'Abilene Paradox' to explain that there is no certainty that groups will reach either real agreement (as distinct from some form of compromise) or even a logical choice (when both the data and process are examined).

Hindsight suggests that decisions that might be seen by many as strategically logical are sometimes but not always successful, while others that are arguably less logical do, in fact, prove to have successful outcomes (Sutherland, 2019). The Boeing Dreamliner plane – with engineering and ergonomic advantages created by engineers and science – has proved popular and delivered on the promise it had. Meanwhile, logic might have suggested that Red Bull – which is 'relatively expensive, sold in small cans and not very popular in taste tests' – would have 'bombed'. Yet it has been outstandingly successful.

The temporal element

There is also a fusion of elements linked to a temporal agenda (past, present and future) to factor in. Further, and related to this point, is an element of timeliness. Sutherland (2019) argues that employees and customers are often comfortable with what they know and do, and prefer that things do not change. The case on Coca-Cola in Chapter 12 discusses new product successes

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and failures; the attempt some years ago to replace the original Coke with a new taste was resisted actively by customers, so much so that 'New Coke' was withdrawn.

Mosakowski and Earley (2000) claim that organizational decision-makers are charged with projecting a company into an unknown future through decisions today that build on (and hopefully learn from) the past. While a decision is based on some understanding of issues and data, past and present, by the time that decision has been implemented, then everything 'known' that underpinned it has already become 'past' and the new circumstances may be different from those expected (forecast). Manson (2019) further emphasizes that, in today's world, the speed at which things happen, driven by IT and improved information gathering, means we know about success and failure very quickly, and the information is accurate. Basically, then, decisions have to be made using interpretations of what has happened in the past, for a world we can only partially understand (because it is complex and ever changing), always recognizing that any decisions made (that are directed at the future, as they inevitably have to be) may well look wrong almost immediately (because of the pace and unpredictability of change pressures) such that they have to be amended, tweaked or even abandoned 'in no time at all'. Teece (2007) discusses the significance of dynamic capabilities for responding and adjusting to ever-changing circumstances, while Dalpraz and DiStefano (2018) argue that managers' views on past, present and future can change quickly in a fast-moving 'new normal' world. Nevertheless, someone, sometimes an individual, is required to step up, commit and perhaps take a leap of faith, and accept both accountability and responsibility.

As students of strategy, we need to understand how individuals (and, in particular, the 'problem owner') and groups, through strategic discourse, make sense of the situation they are dealing with. But is it a 'proactive' decision they are making with a view to introducing something new and different to take advantage of an opportunity someone has spotted? Or is it more of a necessary decision to amend what the organization does as a reaction to changing circumstances, such as something a competitor has done? Collectively, then, but with some leadership element, they must make sense of the past and present and also make some attempt to forecast future events.

Kaplan and Orlikowski (2013) examined how an organization, facing an industry crisis, explored strategic alternatives. Those involved started with different views on the present and the future they were facing and also, to a degree, on past events. They knew they were looking for something that was 'coherent, plausible and acceptable'. As discussions developed and continued, the alternatives became more imaginative as they attempted to make sense of potential (unknown, unknowable and uncertain) future possibilities. They concluded that strategy could only be understood through examining the different views on these temporal issues – in an attempt to generate a shared meaning. Hendry (2000) has shown this is affected by personal relationships, the willingness to share ideas, how these ideas originate and networks outside as well as inside the organization. Reinecke and Ansari (2015) have suggested this process becomes increasingly difficult to understand when we add in the complexity of the multicultural themes that affect global businesses.

The decision-makers

The leadership in any group might be top-down, with a strong leader (the heroic model) or there could be strong aspects of servant leadership (see Chapter 10). Here we are surmising the problem owner (leader) recognizes they are surrounded by strong, capable, knowledgeable, experienced, expert people who have much to contribute … the challenge is to bring the views together and make sure important contributions are not overlooked. Kahneman and Tversky (1979) remind us that many individuals typically demonstrate 'loss aversion' and thus prefer not to be associated with failure – which can affect their propensity to take certain risks. Paraphrasing, 'as we become better off, we might see ourselves as having more to lose; and we make decisions accordingly'. Sutherland (2019) similarly argues that not (being seen to be) making a mistake may well be regarded as preferable to finding the 'best solution'. There is then a lower likelihood of disappointment.

When we think of people and their networks, we also need to factor in whether they (the decision-makers) can form a group with similar and shared values (and some closeness and shared ownership from this collective arrangement) or, 'simply', the group comprises individuals with, at least in theory, shared responsibility, who may not actually be 'lined up together'. Further, the groups or teams involved may be similar or dissimilar with regards to the knowledge and skills they bring and their preferred contributions.

Together, then, the people involved need to provide three things: ideas, resources and operational skills. When groups cannot be 'engineered' and either built around known friends and colleagues, and/or particular

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strengths and contributions (Belbin, 2020), but rather come together by other factors and forces, then, if there is a 'good one', perhaps an element of serendipity is involved.

The desired and required outcome: Added value

The ultimate outcome of 'strategy' is value creation for people who recognize and buy into that value. The business model is based on creating and building value – recognized value that matters for customers and clients. This value proposition demands that those charged with designing strategies understand these customers, their preferences, priorities and problems. It is, after all, about the customers – it cannot 'just' be about 'having great ideas' that are innovative – although these are still highly desirable contributions!

Figure 8.20 attempts to capture the constituent elements.

Figure 8.20 Strategy in action

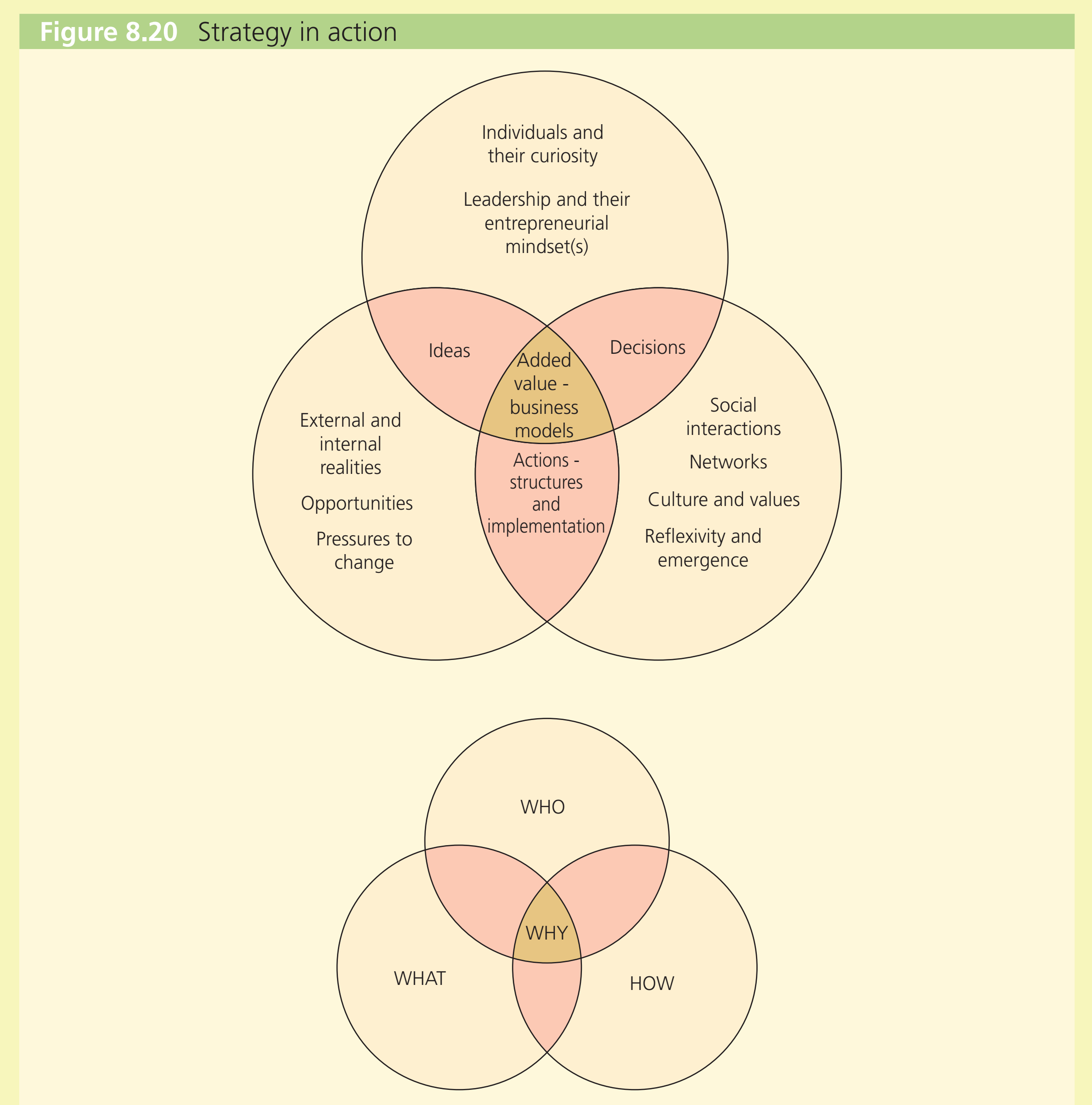

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Table 8.8 Fusing past, present, future

The past	Interpreted in part by analysis	These need to be linked and fused together, which embraces key elements of **judgement**.
The present	But as much 'the big picture' as the constituent detail	
The future	A vision (or forecast) for what might happen and 'what could be', if …	

Blending the upper and lower diagrams in Figure 8.20 reveals that four questions are being addressed:

Who is involved; do they have an entrepreneurial mindset; what contribution do they make; where is the leadership?
What factors, both external (environmental) and internal (resources), affect and influence – and perhaps constrain – their decisions? And where are the opportunities?
How are decisions reached? How much are they individual decisions? What social processes are involved? What influences these processes?
Why? In effect, what is the desired outcome? How might value be created and added effectively – and be rewarded? This question is manifest in a sound and resilient business model.

These issues can also be linked to the notion of the 'virtuous circle' (refer to Figure 3.3 in Chapter 3) where committed employees add value for customers and clients, who, by buying and consuming the relevant products and services, generate financial value for the (owners of) the organization, who are now in a position to reward their employees fairly or even generously. There are mutual benefits for all the key stakeholders.

Data and analysis will be important as underpinning, but it is down to 'what it all means' … what do we think the data is telling us? Is it suggesting that what we see to be happening is different from what we would expect (hope) to be happening? In other words, there is a problem that needs tackling?

From this comes the question: 'what exactly is the real problem we need to deal with?' As opposed to symptoms. And, how we see the problem is the problem. This is driven by what people think is happening – their perception. And we recognize different people have differing perceptions of 'the same reality' – such we perhaps never really know what is really going on. Much depends on the role of the appointed (or elected) leader who must spearhead events, and their perception of the process that decides might well be critical.

Stories (and cases) from the past (which we discussed as a key cultural element in Chapter 7) are always going to be interpretations of what has happened (affected by who is doing the telling). They are not saying 'do this thing', but rather 'we can learn this from what happened'. Different individuals bring different stories and different interpretations to the discussion.

We can think of the constituent elements as fusing the past, present and future, as shown in Table 8.8.

How effective this process is comes down initially to (i) the individuals involved and (ii) the processes that explain how they will work together. Beyond this we also must look at the design element regarding how organizations are structured and operate – how much is centralized, how much decentralized, for example – how much is meant to be top-down in nature, and how much is being deliberately allowed to evolve bottom-up? And, also, the reality element – in effect what actually is going on, which brings in the themes of social capital and social innovation. *We return to this topic and debate with a follow-up Strategy in Practice Box in Chapter 14*. Finally, we must never ignore uncontrollable themes such as timing (and whether things change as soon as a decision and a commitment have been made) and beyond this, luck.

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Research Snapshot 8.1

Strategic choice, while having first been conceptualized by Child (1972), has been widely researched in recent years (see, for example, the review by Mintzberg and Lampel, 2012). More recent research provides support for the importance of rationality in strategic decision-making, yet emphasizing that there is a 'paradox' since intuition also comes into play (e.g. Calabretta *et al.*, 2017). As well as the diversity, social capital, characteristics, self-evaluation, trust and cognitive diversity and use of advisers highlighted earlier in the chapter, more recent research has indicated how change management can contribute to firm performance. Gender (Perryman *et al.*, 2016; Rao and Tilt, 2016; Ruiz-Jiménez *et al.*, 2016), being outsiders (Bjornali *et al.*, 2016), cognition (Bromiley and Rau, 2016; Heavey and Simsek, 2017; Meissner and Wulf, 2017; Shepherd *et al.*, 2017), and avoiding using 'privileged' information (Johnson *et al.*, 2019) all matter to performance. Strategic choice in universities involving technology transfer offices (Horner *et al.*, 2019) are important elements in the toolkit used by higher education institutions.

Other recent studies suggest problems of bias within groups (Reitzig and Sorenson, 2013; refer also to Meissner and Wulf, 2017) and which may occur due to 'self-similarity' between actors in strategic interactions (Rubinstein and Salant, 2016). Additionally, problems of an inability to deal with change may occur (MacKay and Chia, 2013), with an exception being 'entrepreneurial alertness' – for example, leading to opportunities being discovered and exploited in more established firms and thus enhancing the firm's performance (Roundy *et al.*, 2018). Entrepreneurial orientation has also been found to influence entrepreneurs to engage in entrepreneurial activity if they consider government policies (in China) to be effective (Dai and Si, 2018). Hitt *et al*. (2021) report that entrepreneurial strategies are pursued by firms in certain environments. SMEs' strategic choice is also evidently influenced by innovativeness (Jun *et al*., 2021). Finally, strategic choice has been applied in emerging economy contexts and has provided some insightful and unique empirical results (refer, for example, to Tatoglu *et al*., 2020; Zhu, 2018).

The pivotal role of strategists in upper echelons has been explored recently. Menz and Scheef (2014) illustrate that chief strategy officers do not necessarily directly contribute to performance. Dameron and Torset (2014) proposed that 'strategizing can be conceptualized as the art of balancing tensions and that multiple strategists' subjectivities within a paradox lens on strategy may in fact co-exist'. Liu *et al*. (2022) find that the composition of top management teams and how they interact with CEOs have profound implications for strategic decision-making. Indeed, paradoxes can be well managed by strategists using a 'model of dynamic decision making' (Smith, 2014). Strategy formulation in SMEs and in relation to entrepreneurship (García-Pérez *et al*., 2014; Holt, 2012; Jansen *et al*., 2011; Karami, 2012) has been shown to be distinctive, as have sectors,

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e.g. differentiation strategies in the agribusiness sector (Brenes *et al.*, 2014), or the decision to use multiple channels in retail (Grewal *et al.*, 2017), or in the public sector where, as below, strategic performance measures play an important role (Pollanen *et al.*, 2017).

Stakeholder management is an important way of ensuring that such social considerations are achieved when formulating strategies (Eden and Ackermann, 2013; Perez-Batres *et al.*, 2012). The relationship between dynamic capabilities and firm performance when formulating strategy (Atkinson, 2013), and also competition and learning in a 'prescriptive framework' (Pisano, 2017) have been established. Zhang (2013) reignites the debate about the potential of vertical integration to enhance performance. Recently proposed means of achieving more effective strategy formulation include: taking into account strategy 'material' (Leonardi, 2015), undertaking collaborative learning (Brannen and Voisey, 2012), formulating problems using collaborative structured inquiry (Baer *et al.*, 2013), and engaging in 'open strategy' (Appleyard and Chesbrough, 2017; Dobusch and Kapeller, 2018; Dobusch *et al.*, 2019; Malhotra *et al.*, 2017; Mount *et al.*, 2020; Splitter *et al.*, 2019; Vaara *et al.*, 2019). A company's sustainability strategy can also be formulated and implemented effectively if particular factors are evident (Engert and Baumgartner, 2016), while the triple bottom line is achievable in strategic decision-making (McWilliams *et al.*, 2016). Strategic decision-making is also influenced by aspects such as innovation and patenting (Chih-Yi and Bou-Wen, 2021), intuition and other cognitive aspects (Luoma and Martela, 2020), sustainability (Calabrese *et al.*, 2019) and internationalization (Adomako *et al.*, 2021). Finally, two studies emphasize the importance of the speed of decision-making (Adomako *et al.*, 2021; Netz *et al.*, 2020), with the latter study emphasizing the importance of fast decision-making.

Although we acknowledge innovation to be important to strategic decision-making, we do not consider the more recent literature on innovation, which is too extensive to attempt even to scan the surface; however, you can refer to an innovation textbook (such as Kuratko *et al.*, 2010) for further insight. Further reading below provides a deeper understanding and critical awareness of strategic choice, strategy formulation, strategists themselves, strategic alternatives and strategic decision-making. In particular, it highlights developing thinking in relation to a long-established (over 40 years) theory of strategic choice, including how it is applied practically in varied organizational, economic and geographical contexts.

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Summary

Some strategies are intended, while others are emergent in real time. Intended strategies can emanate from planning and also from ideas input by key decision-makers or influencers – typically an owner – manager, or a visionary strategic leader. Emergent strategies happen when intended strategies are changed incrementally as they are implemented, or when organizations respond to environmental opportunities and threats. We would expect to find at least some evidence of all of these modes in every organization – simply the relative significance of each one will vary.

There is a range of strategic alternatives and strategic means that organizations may review and possibly choose at any time. Organizations will change their directions and strategies, and they do not always pursue the same strategy in the same way. Usually, they will aim to be proactive and purposeful about this. Sometimes, however, they are constrained: an option that they would like to pursue is unrealistic.

Over time, the corporate portfolio migrates. It should be built around a defensible heartland of related businesses, accepting that, at times, there will be diversification into related and unrelated activities. We cannot finally judge the worthiness of a particular choice until we take account of the organization's ability to implement the strategy that it has chosen.

The key strategic alternatives are *limited growth* (market penetration, market development and product development), *substantive growth* (horizontal integration, vertical integration, related diversification or unrelated diversification) and retrenchment. *Innovation* is an important aspect of market and product development – organizations should be constantly on the lookout for opportunities to improve and thus stay ahead as a competitor. The key strategic means are *organic growth*, internal investment to develop new competencies, *acquisition* (friendly purchase), *merger* (two companies simply joining together), *takeover* (hostile purchase), *strategic alliances* (partnerships, whatever the form) and *joint ventures* (alliances which involve a major financial investment by the parties concerned).

When evaluating and selecting strategies, it is important for organizations to address the following questions: What constitutes a good strategic choice? What can the organization do and what can it not do? What should the organization seek to do and what should it not seek to do?

An effective strategy is one that meets the needs and preferences of the organization, its key decision-makers and influencers – ideally, better than any alternatives – and can be implemented successfully. The techniques introduced in earlier parts of the book can all make a contribution, but there are likely to be subjective elements as well. There are three broad criteria for evaluating strategies: appropriateness, feasibility and desirability.

Appropriateness: Its fit with and its ability to strengthen the existing portfolio of activities; compatibility with the organizational mission; impact on opportunities and weaknesses, on E–V–R congruence; and whether it can stretch the organization's resources and exploit its core competencies further, or requires diversification.

Feasibility: Its ability to be implemented successfully (without any detrimental impact on present activities); the organization's possession of, or ability to acquire, the skills and competencies required; whether the implied costs can be met; and whether there is an opportunity to build and sustain a strong competitive position.

Desirability: Whether the option truly helps to close the planning gap; whether the organization is comfortable with the risks implied; whether it is a justifiable (and, in certain cases, the most profitable) use of organizational effort and resources; and whether potential synergy is acquired and stakeholder needs will be met and satisfied.

When reviewing options, it is unlikely that one will turn out to be the most appropriate, the most feasible and the most desirable. Trade-offs will have to be made.

The decision-making processes used will inevitably have elements of subjectivity. Judgement will have to be applied alongside any technique-driven strategic analyses. Decision-making, therefore, must embrace issues of intuition and political reality alongside the available information and analyses. There are a number of explanations – all easily appreciated – for 'poor' decision-making.

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Online cases for this chapter

Online Case 8.1: Adidas, Nike and Umbro
Online Case 8.2: Granada/ITV: Granada's Acquisition of Forte
Online Case 8.3: Kodak
Online Case 8.4: Next
Online Case 8.5: Easy Group – *which is also relevant for* Chapter 9
Online Case 8.6: Diageo
Online Case 8.7: Electrolux
Online Case 8.8: Airtours
Online Case 8.9: Mars
Online Case 8.10: Nokia
Online Case 8.11: Eclipse Aviation - Great Opportunity or Just Great Idea?
Online Case 8.12: Airbus and Boeing

Web supplement related to this chapter

Finance in Action: Financial Management

Questions and research assignments

1 What is the difference between planned strategy, visionary strategy and emergent strategy? Distinguish between adaptive and incremental change.

2 Thinking about any project or sporting event you have been involved with, how relevant are the introductory comments on professional football? What have you learned about strategy creation from your own experiences in either a business or other context?

3 For each of the following strategic alternatives, list why you think an organization may select this particular strategy, what they would expect to gain, and where the problems and limitations are. If you can, think of an example of each one from your own experience:

- do nothing; no change
- market penetration
- market development
- product development
- innovation
- horizontal integration
- vertical integration
- concentric diversification
- conglomerate diversification.

4 What are the relative advantages and disadvantages of organic growth, as opposed to external growth strategies?

5 Which of the evaluation techniques listed in the chapter (Box 8.1) do you feel are most useful? Why? How would you use them? What are their limitations?

6 From your experience and reading, which evaluation criteria do you think are most significant in determining the effectiveness of strategies? List examples of cases where the absence of these factors, or the wrong assessment of their importance, has led to problems.

Internet and library projects

1 For an organization of your choice, trace the changes of strategy and strategic direction over a period of time. Relate these changes to any changes in strategic leadership, structure and, wherever possible, culture.

2 Walt Disney Corporation became hugely successful and influential on the back of cartoon films, beginning with Mickey Mouse. In more recent years, theme parks and 'mainstream' movies have also been vitally significant. In addition, a number of proposals have bitten the dust. As a consequence, in 2004, the CEO Michael Eisner was under considerable pressure from some shareholders to resign. Research and

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evaluate the various strategic options pursued by Disney. Where should it seek to develop next?

3 Mumtaz started life as an Indian restaurant in Bradford, West Yorkshire, in the UK. It was started by a son and his mother in 1979. A second brother – who was a medical doctor – later opted to join the business. Mumtaz boasts Sir Alex Ferguson, various high-profile footballers and other celebrities as its customers. Her Majesty the Queen has eaten their food. There is now a second restaurant in Leeds and the business has diversified into Halal baby food (with 50 per cent of the sales going to non-Muslim customers) and a range of supermarket meals – starters, mains, desserts and breads.

   Why has Mumtaz been as successful as it has with its strategic choices when there are numerous Indian restaurants in the UK?

4 In 1983, Tottenham Hotspur became the first English football club to be listed on the Stock Exchange. Subsequently, the club diversified, acquiring a number of related leisure companies. The intention was to subsidize the football club with profits from the new businesses. Initially, this took place but, in the recession of the late 1980s, football had to prop up the other activities. Businesses were closed or divested, and the ownership of Tottenham Hotspur changed hands in 1991. During the 1990s, entrepreneur Alan Sugar acquired the club, only to relinquish control when he proved unpopular with many Spurs fans. Sugar claimed the Club forced him to take his eye off the ball with his business. Since then, despite several changes, including new ownership and several new managers and spending heavily on new players, Tottenham Hotspur has struggled to win trophies as frequently as in the past. Like its near neighbour in North London, Arsenal, Tottenham borrowed money to build a modern, new stadium. Because ticket income was to be used to help pay the debt interest involved, the Club was particular affected by the COVID-19 lockdown and the inability of (paying) fans to attend matches for over a year. Research the various changes and evaluate the strategies. Was it appropriate and desirable for Tottenham to become a public limited company at the time it did? How different was the approach to financing taken some years later by Manchester United and Manchester City? What strategies have made Manchester United the richest football club in the world?

Tottenham Hotspur plc **www.spurs.co.uk**
Manchester United FC **www.manutd.com**

Strategy activities

Reuters

Started in 1850 by a German living in Belgium at the time, Reuters is prominent and well known as a news agency; it has employed journalists to report conflicts and events across the world.

But 'news' has never been Reuter's main revenue earner. The provision of financial data has always been the principal business and, for this, it is the current world leader. In the early days, pigeons were used to fly data from one stock exchange to another across Europe and further afield.

In 2001, and some 150 years old, Reuters was thought to be near to collapse because of the growing prominence of US rival, Bloomberg, which runs its own satellite TV channel and also owns Thomson Financial.

Reuters' main customers are banks, brokerages and fund managers. It opted to rationalize its product range and target these customers more effectively. It would look to provide data and analysis packages suited to specific needs in a more differentiated way. This implied higher added value products and, in some cases, premium prices. There was a downside risk that some customers would 'trade down' for a cheaper, more generic package. There would also be fewer global centres. This would save on overheads; but, thanks to IT, customers were unlikely to be affected. In 2008, Thomson and Reuters merged.

Question

Do you think this more focused approach and the merger were perhaps risky in the economic recession and credit crunch of 2008 and 2009?

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The Clipper Round the World Yacht Race

The Clipper Round the World Yacht Race is a biennial race that involves (paying) amateur crews on one or more legs of a circumnavigation of the globe. There are 11 specially designed and identical yachts (owned by Clipper Ventures) competing. Professional skippers and additional qualified persons lead each team, and the journey is expected to take 10 months. There is recognition for winning each stage as well as an overall winner.

Exercise

Take the following skeleton and expand it to clarify your ideas on strategy creation and strategy in practice.

Planning – the route must be planned; resources have to be found; the team has to be recruited and 'bonded'; predictable eventualities have to be trained for.

Leadership – everyone will have a clear role and contribution, linked to capabilities and experience, but there is no doubt about the person with overall responsibility, the professional skipper. Their style can vary, of course.

Emergence – Weather and sea conditions will always intervene in some way. Things can happen at any time; a broken mast in adverse weather is a possibility. Competitors can be asked to divert and help another boat in certain circumstances. Participants can have accidents and need replacing. Ten months is a long time; a lot can happen!

As an alternative, you might wish to investigate just what 'stories' have emerged over the years.

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Chapter 9

The role of planning in strategy

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

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Learning objectives

Having read to the end of this chapter, you should be able to:

- distinguish between planning as a cerebral activity carried out by all managers and systematic strategic (or corporate) planning **(Section 9.1)**
- explain the concept of the planning gap **(Section 9.2)**
- discuss what is involved in a contemporary approach to planning **(Section 9.3)**
- assess the contribution of a number of planning techniques (**Section 9.4**).

Introduction

We begin Chapter 9 with an invitation to take part in a simple and quick exercise using the grid in Table 9.1. Your challenge is to maximize your return on an (imaginary) investment by making a series of choices. You start with your initial investment in grid square (1,10) shown as 'S' and your best return is +45% in grid square (20,19).

Table 9.1 Planning a strategy

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1										S									
2																			
3		X		X		X		X		X		X		X		X		X	
4																			
5	X		X		X		X		X		X		X		X		X		X
6																			
7		X		X		X		X		X		X		X		X		X	
8																			
9	X		X		X		X		X		X		X		X		X		X
10																			
11		X		X		X		X		X		X		X		X		X	
12																			
13	X		X		X		X		X		X		X		X		X		X
14																			
15		X		X		X		X		X		X		X		X		X	
16																			
17	X		X		X		X		X		X		X		X		X		X
18																			
19		X		X		X		X		X		X		X		X		X	
20																			
%	−45	−40	−35	−30	−25	−20	−15	−10	−5	0	5	10	15	20	25	30	35	40	45

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You first drop one row to grid square (2,10) and toss a coin. If it is heads, you change your investment decision such that you end up in grid square (3,9). If it is tails, the news is better! You move to grid square (3,11). And ever onwards. You can never move through a square with an X. You can only move one square horizontally and you can never go back. This mimics reality to a degree – some investment decisions do pay off and others don't.

After completing one or more runs down the grid – and comparing your scores – you will quickly realize that you need nine consecutive wins (or tails) to maximize your return.

Now you can reset the rules. You can **plan** your own route, having sight of the complete grid. There is no uncertainty (and chance) linked to coin tossing. Clearly it is possible and easy to follow a route to the +45 square. What does this confirm? Accurate knowledge and forecasting make a massive difference. But, if 'life was that simple', what would constitute competition when everyone can be successful? The first approach also reflects the reality that strategies are sometimes more successful than at other times; and that, however well you might perform, someone else could deliver better results. It is sometimes said that plans are wonderful until they are exposed to competition.

So, which approach best represents the situation that organizations and decision-makers face all the time? It is in this context that we need to explore the role and contribution of planning in strategy. Remember that earlier in the book we commented on what Robert Burns said about 'the best laid plans o' mice and men' and the Yiddish saying that 'when man plans, God smiles'.

That said, although today's world is dynamic and uncertain, success in business is not all down to luck. More and more data is available in today's digital age – and it should be used. However, it is not the data that matters; it is the sense that people make of it. Their understanding of market tastes, market segments and market dynamics. Although data can be sought to support decisions, by asking particular (biased) questions it is possible to gather evidence that confirms a decision is sound, when perhaps it is not; it is far more speculative.

Strategic Reflection 9.1 considers the challenges faced by airlines when travel restrictions started to ease after COVID-19, when there were still huge uncertainties, but when decisions had to be made ahead in readiness for the inevitable upturn in demand – whatever form that might take.

One key element of their challenge was timing – when to act. Case 9.1 illustrates this point. The Pony Express story illustrates that a particular strategy, planned and executed in exemplary fashion, can fail. If it had been introduced earlier, it might well have proved very successful, but still for only a limited window.

Strategic Reflection 9.1

The global airline industry post-COVID

The revenue and activity levels of global airlines in 2020 was somewhere around 60 per cent lower than it had been in 2019. Most of this reduction was the result of lockdowns and prohibitions linked to COVID-19. The popular view among commentators was that it would be 2024 before the activity level returned to that of 2019.

In 2021, as travel restrictions eased, several questions needed answers … and some predictions were gathering support:

1. It would be leisure rather than business travel that fuelled new growth as many people opted to continue with online meetings. Any ongoing loss of business travel would impact fares as well as the number of travellers. Business travellers (often making short-notice bookings) pay higher fares – as well as favouring seats in the more expensive parts of aeroplanes. Would new pricing models be needed? Might it make sense to reconfigure the seating (where this is practical) for certain long-haul flights? Which routes and flight frequencies should be prioritized? How easy/difficult would it be for airlines and airports to re-establish the required staffing levels, post-furlough and after making some staff redundant?
2. The massive debts accumulated by airlines would need paying off at some point. Might this need lead to mergers, takeovers and consolidation in the industry? Greater state support – here returning to elements of the past? Would this 'hidden debt cost'

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mean the era of ever decreasing prices had ended, at least for the short to medium term?

3 At the same time, supply would probably exceed demand for some time to come – and this situation generally suggests price competition and price reductions!
4 These decisions, and the new operations, would create 'winners and losers' – and perhaps some surprises.
5 One largely hidden element is the volume of air freight. Many airlines had relied on providing this service to survive. Would this dependency remain?
6 And what about the aeroplane and engine suppliers, who had also seen demand collapse? Would airlines want to rebuild their fleets with different planes? Would efficiency-driven replacement orders for new planes come through? How long would it take for their order books to build back up? The timeline for new aeroplanes is talked about in years rather than months or weeks – so decisions 'now' will need to be based on forecasts some years ahead. Will Airbus and Boeing be able to rebuild their skill capacity without serious challenges?

Case 9.1 The Pony Express US

Really the story of The Pony Express is a story of a business that failed … but things might have been very different. The Pony Express was a nineteenth-century mail service along a route from St. Joseph, Missouri, through the plains of the mid-West of America and across the Rocky Mountains to Sacramento in California, a distance of 1,900 miles across terrain that was still undeveloped economically. When the idea was formed, California was effectively cut off (travel-wise) from the more developed Eastern states, but expanding rapidly because of the Gold Rush. The Pony Express would use riders and fast ponies to carry mail over these 1,900 miles in sections, from one relay station to the next. In all, there were over 160 stations; the miles between them varied, based on the distance a pony could travel at a gallop before tiring – which naturally varied with the terrain.

Horses were swapped at the relay stations and then rested; the riders would change ponies and carry on, typically covering some eight to ten relays in a single day. Mail (and other light packages) was packed in secure pouches; including water, each pony was required to carry 75 kgs. The riders carried little else – other than guns. They had to be well armed as the territory was generally lawless and their packs could be valuable. In any one day there would be some 80 riders on the route and it took 10 days for mail to complete the journey. The ponies were small and fast, the riders young, fit and light in weight. The most famous was perhaps William Cody, 'Buffalo Bill', who joined at age 15. The Pony Express was a visionary idea that could only succeed with close attention to detail and serious resource planning.

The Pony Express was founded by three businessmen, who were already in partnership with a successful wagon freighting business. William Russell had started as a trader, but expanded into freight. His main contribution was securing contracts to carry mail, but he was also instrumental in raising Federal and other funding to allow their idea to happen. Alexander Majors again had an overland freight background, and he masterminded the logistics of the operation. William Waddell, another trader by background, was credited with managing the day-to-day operations and administration. They worked well together and complemented each other.

The first Pony Express journey was in April 1860 and, although there were various incidents,

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it succeeded in achieving what it promised. Mail was delivered. However, it would only last until its final delivery in October 1861. Although there is a legendary element because of the sheer ambition and daring involved, the Pony Express could not be classed as a successful business proposition. In its 18 months of operations, it had gross earnings of US$90,000 and posted trading losses of US$200,000.

It was a brave idea, it provided a truly creative answer to a clear problem, and logistically it worked well. As a business proposition, it was well conceived and executed. The issue was the opportunity would prove to be only short-lived. Others had been working in parallel on an alternative solution to the same problem. When the telegraph was opened across the whole of America – in 1861 – it allowed instant messaging. Up to then it mainly covered the eastern and southern states. The telegraph may not be a direct competitor to mail, but it sped up the movement of anything urgent. This direct competition only applied to information, of course, and not small packages.

Demand for the Pony Express fell away, and the revenue model was no longer viable. Its competition had really come from an indirect source that the founders had failed to appreciate. That said, even if it had survived the competitive intervention from the telegraph, the business model itself would have been destroyed when a transcontinental railway was opened in 1869. This connected Omaha, Nebraska (also in the mid-West) with Sacramento; it would later extend to Oakland on the California coast.

Questions

1. What do you think are the main lessons in this case story?
2. *(Optional for readers familiar with the novels of Terry Pratchett)* – To what degree does the success of 'clacks', the network of clacks towers, and the beginning of a railway traversing Discworld reflect what happened in nineteenth-century America?

Historically, some organizations placed great reliance on formal, systematized, **strategic planning**, but this approach has proved inadequate for the uncertainty of today's turbulent 'new normal' world. Technique driven, it was basically attempting to be too analytical. Yet planning of some form remains essential if resources and opportunities are to be linked effectively. But we need to be clear that we are now largely talking about planning as a critical element in strategy execution more than we see it (as once we did) as a driving force in strategy creation. That said, a number of valuable analytical frameworks and techniques evolved when planning strategy was more popular. Many organizations and decision-makers still find these frameworks and techniques valuable for helping make sense of the current situation and the relevant value and contribution of different products and services in the corporate portfolio.

Strategic planning can create sustainable competitive advantage by allowing senior managers to have 'prepared minds', leading to effective decision-making (Kaplan and Beinhocker, 2003). Given that bureaucracy, formalism and also limited integration and implementation can be problematic and also can raise ethical concerns, strategic planning should not only be effectively conducted but also ethical (Bonn and Fisher, 2005). While overtly formal strategic planning in SMEs appears to be relatively rare (Stonehouse and Pemberton, 2002), that is too simplistic a view (Gibbons and O'Connor, 2005, p. 170), in that 'small' does not always equal 'entrepreneurial'; neither does 'large' necessarily equal 'strategic'. Indeed, O'Regan and Ghobadian (2002) found that SMEs that adopt formal strategic planning were less constrained in implementing their strategies (O'Regan and Ghobadian, 2006).

Although strategic planning and performance is 'mediated' by different approaches to flexibility (Rudd *et al*., 2008), strategic planning is critical for less innovative family firms in enhancing their performance (Eddleston *et al*., 2008), while 'decentralized' strategizing and strategic planning help to enhance performance in manufacturing plants. Andersen (2004) focuses on 'dynamic' environments.

Strategic planning is evident in multinationals (Brock and Barry, 2003), such as General Electric with its changing processes over the years (Ocasio and Joseph, 2008), and the oil and gas sector (Grant, 2003, p. 491).

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Performance measurement is used in strategic planning by larger firms and those facing greater uncertainty (Tapinos *et al*., 2005), the latter confirmed elsewhere (Brews and Purohit, 2007). French *et al*. (2004) found that informal planning positively influences net profit. The balance between entrepreneurial, dynamic and flexible versus strategic planning needs to be achieved (refer also to Eppler and Platts, 2009; Smit and Trigeorgis, 2006).

Planning requires a creative input, together with elements of intuition and judgement – particularly to clarify the business model and to capture that which creates value for customers. Resource planning (and budgeting) then support the revenue model and clarify the value for the business.

Mintzberg (1989) affirms the view that the strategic leader should be the chief architect, in conjunction with planners, of corporate plans; that the process should be explicit, conscious and controlled; and that issues of implementation should be incorporated. Analysis leads to choice, which leads on to implementation. The process is sequential:

Analysis → Choice → Implementation

Certain organizations may claim that detailed long-term planning is essential for them, such as an airline which must plan capacity several years ahead because of the long delivery lead times for new aeroplanes and the related need to manage cash flow and funding. In addition, resources must be coordinated on an international scale. While planes are utilized on most days and fly as many hours in the day as possible, crews work only limited hours, and typically finish a flight or series of flights in a location which is different from their starting point.

However, Mintzberg argues that planning the implications and consequences of the strategic perspective is not necessarily the perspective itself, so detailed planning of this type should not inhibit creativity concerning the perspective. Planning of some form will always be required in large organizations because it forces thinking, and enables and supports resource allocation and budgeting. And yet, the extent and nature of the overall planning contribution will relate to the industry and the environment, and be affected by both leadership and culture.

Planning the future – thinking about the most appropriate strategies, and changes in strategic direction – is essential for organizations, particularly those experiencing turbulent environments. Yet, organizations that become reliant on professional planners and where the only outcome of planning is a plan may not enable effective **strategic thinking**, and may not result in a clear direction for the future.

Therefore, there are dangers in thinking that all strategic changes can be planned systematically and procedurally. Whether it is the result of formal and systematic planning, or much more informal and *ad hoc* leadership and management – which, paradoxically, still implies an element of planning – an organization will have strategies and processes whereby these strategies are changed. The processes need to be understood and, in many cases, improved – for example, where and how should it change and develop in the light of market opportunities and competitive threats? Lessons can be learned about their appropriateness to certain strategic opportunities. Managers should know clearly where the organization is, where it might sensibly go and start making appropriate changes. They should then monitor progress and be aware of changes in the environment in order to be flexible and responsive, since they are, after all, strategy-makers.

In this context, this chapter now considers what is meant by the term **planning**, and what is involved in the systematic planning cycle approach to the management of strategic change. The contribution of a number of planning techniques is evaluated, and possible pitfalls and human issues in planning are pinpointed.

Readers may again notice that a number of the references in this chapter are somewhat dated because, while at one time strategic planning and strategic management were almost synonymous, that is no longer the case and relatively little is being written on strategic planning that improves on earlier material (though see the Research Snapshot at the end of the chapter). The earlier writings on the topic, however, remain important and valid, since the points they make have not changed, although we must place strategic planning within the wider context of strategy creation.

Planning is one of the most complex and difficult intellectual activities in which man can engage. Not to do it well is not a sin; but to settle for doing it less than well is.

Russell Ackoff, 1970

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9.1 Strategic thinking and strategic planning

Case 9.2 (FedEx) shows two key elements of strategy creation in action and working together – **planning** focusing on project management, and the implementation of a visionary idea. Without sound planning, the venture could not possibly have worked. FedEx, of course, really started the courier business that today is just an everyday part of life. As the industry has grown in the UK, courier parcel deliveries have replaced some of the service provided historically by the Post Office and enabled the growth of Amazon and the online activities of numerous other retailers. Many of the van drivers who deliver to people's houses are self-employed contractors. As you think about planning in the context of this case, consider the added complexity that this adds. Who should take responsibility for route planning, for example? This section looks at planning's contribution to strategy-making.

Case 9.2 Federal Express US

Federal Express (FedEx) provides an excellent example of an organization (and an entrepreneur) that opened up an unrealized market opportunity and began a new industry. 'The greatest business opportunities arise when you spot things your customer didn't have a clue they needed until you offered it to them.'

The idea behind FedEx is simple. It is to provide a speedy and reliable national and international 'overnight' courier service for letters and parcels based on air cargo. FedEx rightly claim to have invented the concept of overnight delivery, creating a whole new market where previously there was none. The company had a peripheral but significant role in the film *Cast Away*, which featured Tom Hanks as a FedEx manager who survived the crash of a FedEx airplane only to spend several years marooned on a desert island. He held on to one of the packages from the plane and finally succeeded in delivering it.

FedEx is, however, unusual in a number of ways. Before it could even begin, FedEx needed a nationwide (North American) distribution system with a fleet of planes and trucks – a huge investment in planning and resources.

The business was the idea of Fred Smith, whose father was also an entrepreneur who had founded and built a successful bus company. When Fred was a student at Yale in the 1960s, he wrote a paper outlining his idea for a freight-only airline which delivered and collected parcels to and from a series of hubs. Traditionally, parcels were shipped on scheduled passenger airlines as normal mail, while Smith proposed flying at night when the skies were relatively quiet. His paper was graded as a C. After graduating, Smith served as a pilot in Vietnam before he bought a controlling interest in Arkansas Aviation Sales, a company which carried out modifications and overhauls. Determined to implement his idea for a courier service, he invested a US$10 million family inheritance and raised a further US$72 million from various sources based on a number of independent but positive feasibility studies.

FedEx took to the skies in 1973, offering a service in and out of 25 East coast cities with 14 jet aircraft. The demand was there, as he had forecast. Unfortunately, the rise in the OPEC oil price made FedEx uneconomical almost as soon as it started. Two years of losses and family squabbles – Smith was accused of 'squandering the family fortune' – were followed by profits and Smith's belief, courage and persistence were rewarded.

FedEx opened a hub in Paris in 1999 and opted for a standard price across the Eurozone; in 2006, it acquired UK-based competitor ANC – which it rebranded FedEx UK. In 2004, FedEx acquired Kinkos, a US high-street franchise that provides a range of office services. This allows customers to access FedEx services more readily. In 2015, FedEx acquired its rival, TNT.

FedEx is successful because it delivers on time and speedily, and because it has a sophisticated tracking system – SuperTracker, which it introduced in 1986 – in the event a package goes astray. It uses as a slogan 'The World on Time'. There are now nearly 700 FedEx aircraft flying over 1 million miles every two days. The central hub remains in Memphis in the United States, but the flights are international. Nine million packages from 220 countries are handled every night. FedEx's 100,000 trucks and courier vans cover several million miles every day, collecting and

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delivering these parcels. To ensure FedEx can maintain its service, it flies empty aircraft every night, which track close to the pick-up airports and which are brought into service if they are needed. FedEx has a presence at some 400 different airports and employs over 400,000 people worldwide.

Its success has, of course, spawned competition. But with learning and emergence, FedEx has stayed at the forefront of the industry it invented.

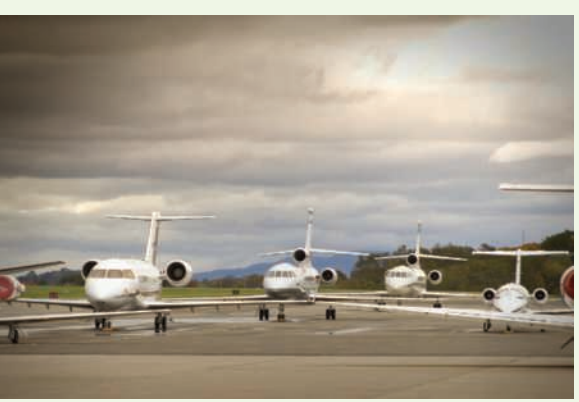
Questions

1 What role did planning play in the beginning of the FedEx story and how do you think it is utilized now?

2 Is it more or less significant than visionary ideas and emergent strategy?

Task

Use the internet to compare and contrast FedEx with UPS.



Robinson (1986) argues that the role of the planner should not be to plan, but rather to support and enable good managers to plan; the planner's task is not to state the objectives, but they should elicit and clarify them. Planning should concentrate on understanding the future, which is uncertain and unpredictable, and helping managers to make decisions about strategic changes. Thus, the aim of planning should be to force people to think and examine, not to produce a rigid plan. Hence, the real value of planning is not the plan which emerges, and which might be produced as a summary document – which is worth little more than the paper it is printed on – but rather the value lies in the **strategic thinking** that the act and process of planning forces people to do.

Undoubtedly, planning techniques – used carefully – can help to provide a valuable description and analysis of where the organization is 'now'. But, for managing the future and its inherent uncertainties, vision and flexibility will also be essential, alongside a clear direction and purpose. New thinking is essential for reaching the new competitive high ground first.

Strategic planning systems, popular and dominant in the 1960s and 1970s, became less fashionable in the 1980s and 1990s since they were perceived to be too time-consuming and mechanistic, unable to keep up with the changes going on in business. Planning had not contributed to strategic thinking in most companies and, because strategic thinking is essential, a new role has had to be found for strategic planning. Strategic planning became fashionable – and is, arguably, still needed – since it enabled allocation of resources and management of budgets in new complex multi-product organizations and helped to pull together organizations' disparate activities and businesses.

The outcome for many organizations was the downside – formal planning systems, heavily reliant on financial data, and supported by thick planning manuals and too many staff at the centre. On the upside, planning can encourage managers to think about the need and opportunities for change, and to communicate strategy to those who must implement it; this was particularly important in the 1960s and early 1970s when there was an abundance of investment opportunities and a dearth of capital and key priorities. In complex multi-activity organizations, decisions have to be made concerning where to concentrate investment capital in relation to future earnings potential, thus generating a number of portfolio analysis techniques, some of which are studied later in this chapter. Rather than use these techniques for gaining greater awareness and insight, for which they are well suited, managers sought to use them prescriptively to determine future plans.

To summarize, formal strategic planning had become unfashionable by the 1980s because:

- Planning was often carried out by planners, rather than the managers who would be affected by the resultant plans.
- As a result, the outcome of planning was often a plan which, in reality, had little impact on actual management decisions and, therefore, was not implemented.
- The planning techniques used were criticized primarily because of the way in which they were used.
- The important elements of culture and total quality management were ignored.

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And yet, many industries continue to experience turbulent environments caused by such factors as slower economic growth, globalization and technological change; so, strategic thinking is extremely important, leading to the following questions:

- What is the future direction of competition?
- What are the future needs of customers?
- How are competitors likely to behave?
- How might competitive advantage be gained and sustained?

Organizations must ensure that these questions are constantly addressed, rather than addressed occasionally as part of an annual cycle. Line managers who implement plans must be involved throughout the process, and every executive needs to understand how to think strategically. Rigorous frameworks and planning manuals are not necessary as long as the proper thinking takes place.

There should be a strategic plan for each business unit in a complex organization – that is, clear competitive strategies built around an understanding of the nature of the industry in which the business competes and sources of competitive advantage. Chosen strategies must have action plans for implementing them, including an assessment of the needs for finance and for staff training and development, which is generally less difficult than formulating a corporate strategy for a whole organization.

All managers plan how they might achieve objectives. However, a clear distinction needs to be made between the cerebral activity of informal planning and formalized planning systems.

A visionary strategic leader, aware of strategic opportunities and convinced that they can be capitalized on, may decide independently where the organization should go and how the strategies are to be implemented. Very little needs to be recorded formally, since conversations between managers may result in plans which, again, exist only in individual managers' heads or in the form of scribbled notes. Equally, time, money and other resources may be invested by the organization in the production of elaborate and formally documented plans.

In all cases, planning is part of an ongoing continuous activity which addresses where the organization as a whole, or individual parts of it, should be going. At one level, a plan may simply describe the activities and tasks that must be carried out in the next day or week in order to meet specific targets. At a much higher level, the plan may seek to define the mission and objectives, and to establish guidelines, strategies and policies that will enable the organization to adapt to, and shape and exploit, its environment over a period of years. In both cases, if events turn out to be different from those which were forecast, the plans will need to be changed.

As with Case 9.2 (FedEx), Case 9.3 on the Dabbawallas of Mumbai also shows the link between vision and planning. It is interesting to consider how much information is stored in people's heads and how flexible their behaviour may have to be on any particular day if the trains do not run on time.

Case 9.3 The Dabbawallas of Mumbai — India

The Mumbai Dabbawallas is a 100-year-old lunchbox delivery system whereby tins of hot curry, rice and chapattis are delivered to people in their places of work. The tins are of a standard size and shape – they form a stackable cylinder – and up to 250,000 of them are delivered (and returned) every day by some 5,000 wallas. Dabba means lunchbox; a walla (sometimes written as wala, sometimes as wallah) is a person carrying out basic work.

The origins of the business go back to 1885, when a banker hired a man to collect a dabba from his home and bring it to him at work, wait until he had eaten the meal and then return the empty tin to his home. Other colleagues caught on to the idea and did the same thing. One employee, Mahadev Haji Bache, saw the opportunity to build a business. He was really the founding entrepreneur who saw potential in an idea someone else had had. In 1890, Bache created his delivery business, employing

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35 wallas from his home village. They made use of the commuter railway network that was growing in and around Mumbai. This original business has grown into today's network – known formally as the Nutan Mumbai Tiffin Box Suppliers Charity Trust – which appears to mix organization and systems with entrepreneurship in a flat structure.

The food has traditionally been cooked by wives, sisters and maids – but, as progressively more women are now working, other women have seen a business opportunity and established small catering businesses to produce food to order. The food is cooked and put into the sealed tins for a particular time each day. The dabba is then collected by a walla, either on foot and with a hand cart or, more likely, on a bicycle, from either the home or the micro business where it is prepared, and delivered to someone's place of work, the tin later being taken back in readiness for the next day. Each tin is uniquely identifiable (with a set of numbers and letters painted on the lid or handle) and provided by the organization. The system is popular because it ensures people get a home-cooked meal each day – the trains they use for work are so crowded, it would be very difficult for them all to be carrying lunch pails.

After collection any time after 7.00 am by a particular walla, and always the same walla, the tins are taken to the nearest railway station, sorted by their destination, and put onto a train at around 10.00 am. They may travel on more than one train, depending on the complexity of the route they must take and they eventually end up in the hands of the walla who will deliver them. The system operates in reverse later in the day. All empty dabbas are returned by 6.00 pm. Teamwork is vital as there is a chain of people who all depend on the reliability and punctuality of everyone else. The chain cannot have weak links. Those involved appear to take great pride in the work they do and they are relatively well paid. They carry no paperwork; there are no scannable bar codes; in fact, there is no computer information system behind the operation, although online ordering has recently been made possible. Social ingenuity rules and the reliability is such that no more than around ten dabbas go astray in a year – in the order of 1 in 6 million. You might wish to reflect on how this compares with many airline baggage systems.

The system is favoured by people who work in offices, schools, hospitals and government buildings. They are invariably 'white collar' workers. Because of religious and other preferences, many have personal food tastes that are better satisfied from home than by local restaurants. Unless internal security systems require delivery to a nearby collection point, every dabba is delivered to the consumer's desk – and always by 12.30 pm. If someone has forgotten something – perhaps their glasses or mobile phone – this can be delivered along with their lunch.

The wallas usually have only a modest school education and they come from one of a series of 30 villages around Mumbai. Many do not read or write very well. They all wear jackets and white caps to identify who they are and also to offer some protection from the wind and rain. There are just four women dabbawallas. Each dabbawalla provides their own uniform as well as two bicycles and a wooden crate for carrying a stack of dabbas.

A typical operation at a specified railway station within the network might see four independent groups of between 20 and 30 wallas who each collect from 35–40 customers near to that station. Each full dabba weighs around 2 kilos. In other words, easily between 3,000–4,000 dabbas are brought to the station every morning for the same time and for sorting – 4,000 full dabbas would weigh some 8 tonnes! The individual wallas have their own agreed route, which they seem to memorize. They negotiate the price with each house – based on weight, distance and number of collections in the week – and they typically collect the meals at the same time every day. They also collect the money at some point in the week, usually on the evening return. Each of the four groups will be supervised by around four mukadams, who are typically experienced dabbawallas themselves. They can cover for absent colleagues – so they must know the procedures and the routes. They also maintain records of every daily transaction and movement.

The tins might arrive at the station at around 9.00 am and, at around 10.00 am, they will be loaded onto a train. In between, they will have been sorted and re-crated by the dabbawallas for their route and destination, using the details painted on the tin. The 'code' identifies originating and destination stations, the delivery dabbawalla and the relevant building, floor and room for the delivery. When the dabbas complete the final train journey on their route, they will end up with the walla who will deliver them. Every collecting walla rides a train and delivers dabbas – in the main, ones they did not collect. The system has to be very slick indeed. While space has been booked in the luggage compartments of the trains, they are normal commuter trains and they only stop for the time it takes for passengers to get off and on. More dabbas and wallas are loaded at every subsequent station and the sorting continues on the train.

The revenues collected for the service are pooled and split equally among the group of dabbawallas and mukadams. They are effectively self-employed and easily replaceable (there is always a demand to be accepted

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into the pool) but they operate as a co-operative and share equally. A small top slice pays the costs of the Trust.

Questions

1 What role do you think planning plays in this organization? Is this 'strategic planning' or planning the implementation of a visionary concept?
2 How significant might it be that so much information is kept in people's heads?
3 Can some of the issues the wallas may have to face on a daily basis be dealt with via planning, or do they require *ad hoc* flexibility?

The value of planning in strategy

When managers and organizations plan strategies, they are seeking to be clearer about the business(es) that the organization is in, and should be in; increase awareness about strengths and weaknesses; be able to recognize and capitalize on opportunities, and to defend against threats; and be more effective in the allocation and use of resources.

Irrespective of the quality or format of the actual plans, engaging in the planning process can valuably help individual managers to establish priorities and address problems, and it can bring managers together so that they can share their problems and perspectives. Ideally, the result will be improved communication, coordination and commitment; hence, there can be real benefit from planning or thinking about the future. What form should the thinking and planning take? Should it be part of a formalized system making use of strategic planning techniques?

Corporate and strategic plans concern the number and variety of product markets and service markets in which the organization will compete, together with the development of the necessary resources (people, capacity, finance, research and so on) required to support the competitive strategies. Strategic plans, therefore, relate to the whole organization, cover several years and are generally not highly detailed. They are concerned with future needs, and how to obtain and develop the desired businesses, products, services and resources. The actual timescale involved will be affected by the nature of the industry and the number of years ahead that investments must be planned if growth and change are to be brought about.

Functional plans are derived from corporate strategy and strategic plans, and they relate to the implementation of functional strategies. They cover specific areas of the business; there can be plans relating to product development, production control and cash budgeting, for example. Functional plans will usually have shorter time horizons than is the case for strategic plans, and invariably they will incorporate greater detail. However, they will be reviewed and updated, and they may become ongoing rolling plans. While strategic plans are used to direct the whole organization, functional plans are used for the short-term management of parts of the organization – for example, as applied to Federal Express.

Competitive strategies together with functional strategies and plans are essential if products and services are to be managed effectively, but they should be flexible and capable of being changed if managers responsible for their implementation feel it necessary. Ohmae (1982) emphasizes that individual products must be seen as part of wider systems or product groups/business units and that, although short-term plans must be drawn up for the effective management of individual products, one must ensure that thinking about the future is done at the appropriate level. As an example, a particular brand or type of shampoo targeted at a specific market segment would constitute a product market. The company's range of shampoos should be produced and marketed in a co-ordinated way and, consequently, they could constitute a strategic planning unit. The relevant strategic business unit could incorporate all of the company's cosmetics products, and there should be a competitive strategy to ensure that the various products are co-ordinated and support each other.

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In terms of strategic thinking, it is important to consider 'why' questions, rather than focus on what a product or service is. For example, Ohmae (1982) reminds us that the very successful (in its day) Sony Walkman was conceived by thinking about listening devices and how they might be adapted for personal use in public places. This perspective was different from the conventional focus on radios. If the level of thinking is appropriate, resources are likely to be allocated more effectively.

9.2 The planning gap

Various authors have developed a number of essentially similar models of systematic planning, all of which use the concept of gap analysis (e.g. Argenti, 1980; Cohen and Cyert, 1973; Hussey, 1976; Glueck and Jauch, 1984). The concept of the **planning gap** can be summarized as 'project the known – develop the new' (see Garvin and Levesque, 2006). It addresses two questions: Where do we want to go? Where can we go realistically?

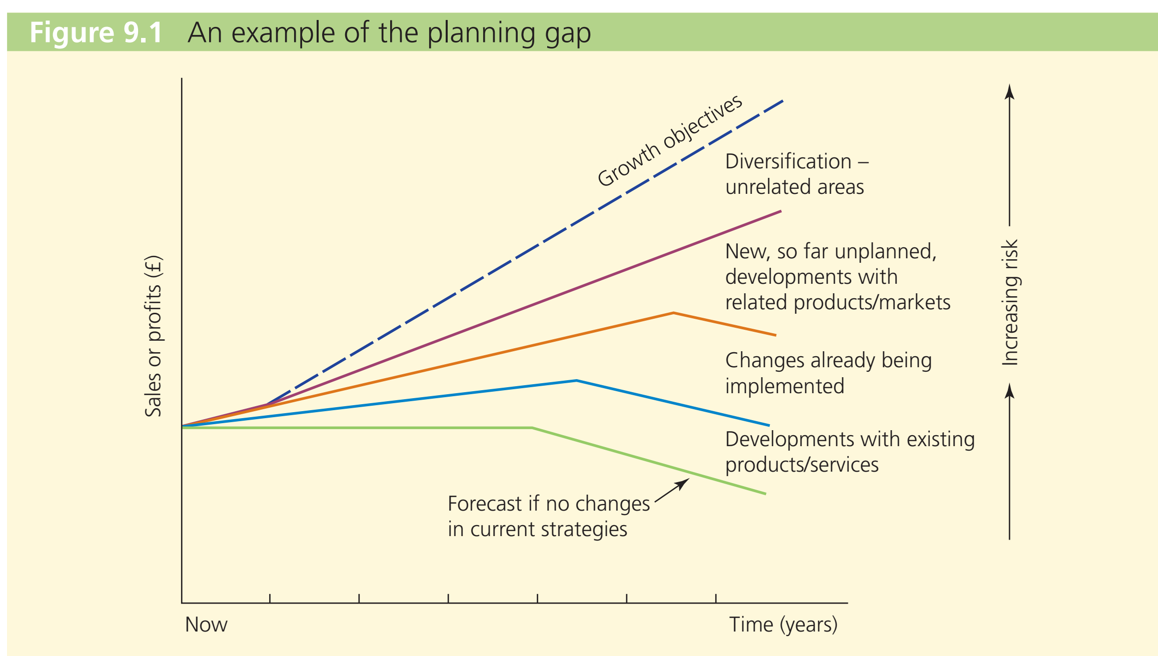
When deciding future organizational strategies, we must consider the *desired objectives* (where the strategic leader and other decision-makers would like to take the organization if possible) and *realistic objectives* (the influence and expectations of the various stakeholders, the existence of suitable opportunities and availability of the necessary resources). Indeed, evaluating the risk involved in the alternative courses of action is crucial – such as diversification with its high failure rates (as discussed in Chapter 13) – and so may be the only *feasible* strategy to achieve future (or maintain present) high growth rates. The strategic leader, under pressure from City investors, shareholders and analysts expecting growth rates to be at least maintained, may be forced to pursue high-risk strategies.

While undue risk should be avoided wherever possible, nonetheless a certain level of risk must be accepted, as must stretching targets set for managers and businesses.

The planning gap should be seen as an idea which can be adapted to suit particular circumstances, although gap analysis could be regarded as a planning technique.

An example of the planning gap is illustrated in Figure 9.1, in which the horizontal axis represents the planning time horizon, stretching forward from the present day; either sales volume or revenue, or profits, could be used on the vertical axis as a measure of anticipated performance. The lowest solid line on the graph indicates expected sales or profits if the organization continues with present corporate, competitive and functional strategies; *it does not have to slope downwards*.

Figure 9.1 An example of the planning gap



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The top dashed line represents ideal objectives, which imply growth and which may or may not ultimately be realized. The difference between these two lines is the gap: the difference between the results that the organization can expect to achieve from ongoing present strategies and the results that the strategic leader would like to attain.

The example illustrated in Figure 9.1 shows the gap filled in by a series of alternative courses of strategic action ordered in an ascending hierarchy of risk, which is constituted by the extent to which future products and markets are related to existing ones, as developed further in Figures 9.2 and 9.3. The lowest risk alternative is to pursue market penetration in the simple growth vector developed by Ansoff (1987) and illustrated in Figure 9.2; this can be extended to strategies of *market and product development* (as discussed in relation to Figure 8.8 in Chapter 8).

Figure 9.2 Ansoff's growth vector

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

Based on ideas in Ansoff, H.I. (1987) *Corporate Strategy*, revised edn, Penguin

The alternative with the highest risk is diversification because this involves both new products and new markets. Figure 9.3 develops these simple themes further and distinguishes between the following:

- replacement products and product-line extensions based on existing technologies and skills, which represent improved products for existing customers
- new products based on new or unrelated technologies and skills, which constitute concentric diversification (these may be sold to either existing or new customers)
- completely new and unrelated products for sale to new customers, known as conglomerate diversification and regarded as a high-risk strategic alternative.

Thinking about the extent of the initial gap between present strategies and ideal objectives enables managers to consider how much change and how much risk would be involved in closing the gap and achieving the target objectives. Some of the strategies considered may be neither feasible nor desirable and, consequently, the gap might be too wide to close. Similarly, the degree of risk, especially if a number of changes are involved, could be greater than the strategic leader is willing to accept. In these cases, it will be necessary to revise the desired objectives downwards, so that they finally represent realistic targets which should be achieved by strategic changes that are acceptable and achievable. This type of thinking is related to specific objectives concerning growth and profitability, but it does not follow, as was discussed in Chapter 3, that either growth or profit maximization will be the major priority of the organization, or that the personal objectives of individual managers will not be an issue.

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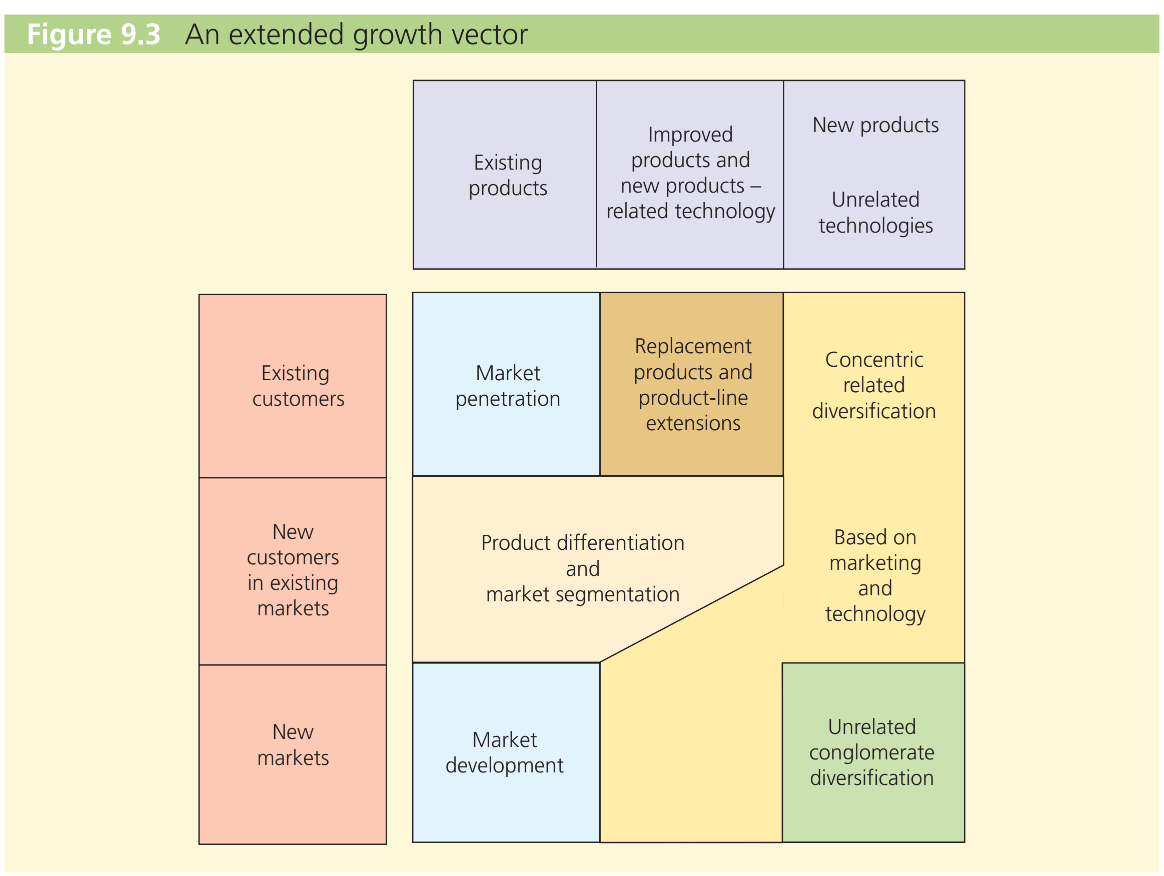
Figure 9.3 An extended growth vector



A temporal study of many established organizations will illustrate how, typically, different strategies are chosen and pursued at different times in an organization's life. A complex organization will often be pursuing different strategies in different business units.

9.3 A contemporary approach to strategic planning

To avoid planning becoming an end in itself, and to ensure that planners facilitate management thinking, many large companies have developed personalized contemporary planning systems along the lines of the one illustrated in Figure 9.4.

The organization's culture and the expectations of the strategic leader and the key stakeholders influence the whole process of analysis and decision-making – starting with an assessment of the current position of the organization, its skills and resources, and an evaluation of whether there is a clear understanding of the mission, the broad objectives and directions for the future.

Then the business environment is analyzed thoroughly, concentrating on the industries in which the organization currently competes and those in which it may apply its skills and resources. Feeding into this analysis are three other analyses:

- Broad scenario planning – conceptualizing a range of different futures with which the organization might have to deal, to ensure that the less likely possibilities, threats and opportunities are not overlooked, and to encourage a high level of flair and creativity in strategic thinking (refer to Chapter 4).

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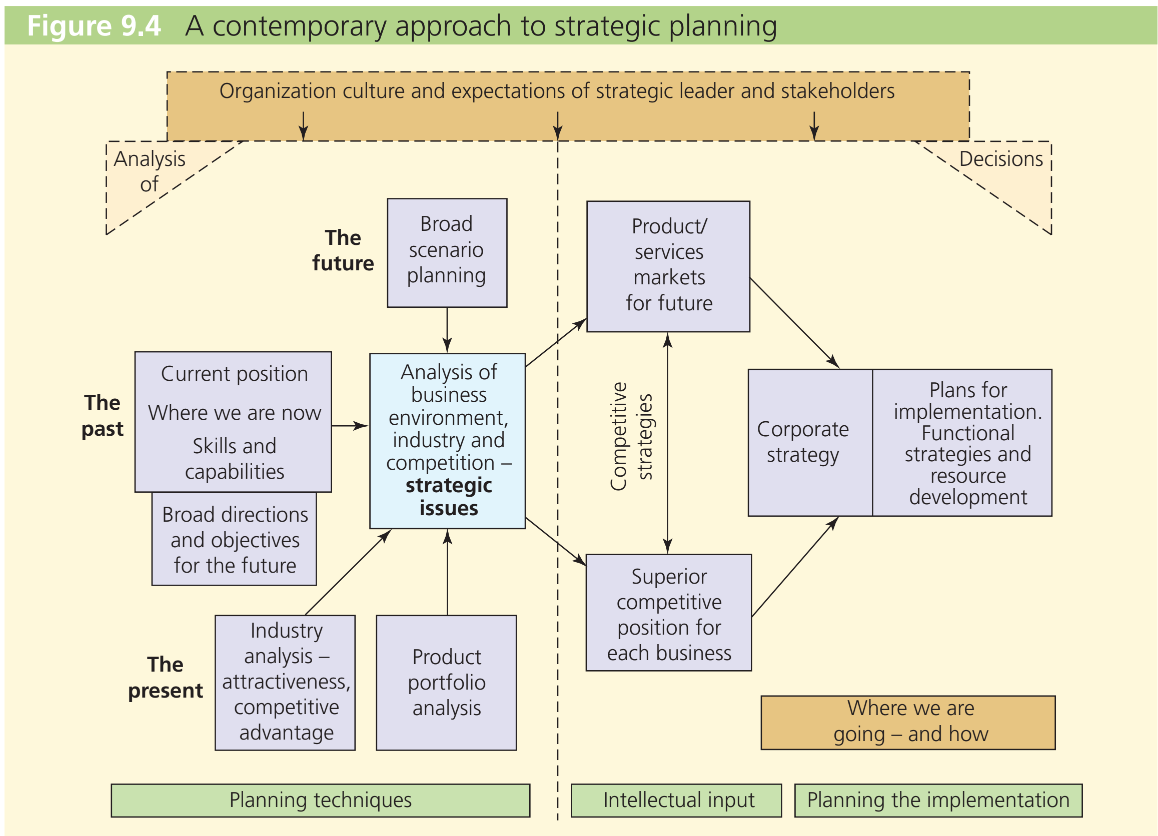
- Product portfolio analyses, which are discussed in greater detail in the next section; and contingency and possible crisis planning considerations can be incorporated in this.
- Industry analyses, following Porter's criteria for judging attractiveness and opportunities for competitive advantage (refer to Chapters 4 and 6).

Figure 9.4 A contemporary approach to strategic planning



This environmental analysis should focus on any *strategic issues* – current or forthcoming developments, inside or outside the organization, which will impact on the ability of the organization to pursue its mission and achieve its objectives. Ideally, these would be opportunities related to organizational strengths. Wherever possible, any unwelcome but significant potential threats should be turned into competitive opportunities. The band across the bottom of Figure 9.4 shows how this contemporary approach blends planning techniques with an intellectual input and later action plans for implementing strategic choices.

Identifying strategic issues is the transition point from analysis to decisions regarding future strategy, where techniques give way to more intuition and intellectual inputs before implementation issues are explored.

From these analyses, competitive strategy decisions must be reached concerning:

- the reinforcement or establishment of a superior competitive position, or competitive advantage, for each business within the existing portfolio of products and services.
- product markets and service markets for future development, and the appropriate functional strategies for establishing a superior competitive position.

When amalgamated, these functional and competitive strategies constitute the corporate strategy for the future which, in turn, needs to be broken down into resource development plans and any decisions relating to changes in the structure of the organization – that is, those reflecting where the organization is going and how the inherent changes are to be managed.

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Simply, planning techniques and analyses are used to clarify the key strategic issues. Discerning the issues and deciding what should be done to address them requires creativity (the search for something different) and, hence, a more intellectual input. Once broad strategic directions are clarified, detailed implementation planning will follow. As with the strategies, these detailed implementation plans are not inflexible.

New strategic issues ought to be spotted and dealt with continuously, enabled by the organization structure – either by decentralization and empowerment, or by effective communication.

A systematic approach to corporate planning may well succeed in the essential task of co-ordinating the plans for all the divisions and businesses in a large organization, enabling the strategic leader to exercise control over a conglomerate – and this is good. However, the system should not prohibit vision and learning within the corporation, since these are the two modes of strategy creation most likely to take the organization forward in a competitive and uncertain environment. Unfortunately, the vision and learning may be concentrated within individual divisions when, in an ideal scenario, it should permeate the whole organization.

Typically, strategic planning systems grew to be very formal, such that all ideas from the individual businesses had to be supported by comprehensive, documented analyses. Now it is frequently accepted that many proposals cannot be fully justified quantitatively and, instead, the assumptions and justifications will be probed and challenged by divisional boards. Care must also be taken to ensure that the evaluation and resource allocation processes do not create too high a level of internal competition. Divisions and businesses should have to justify their intentions and proposals, and it is inevitable they will be competing for scarce resources. Nevertheless, the real enemy is external competitors – not other parts of the organization, which must not be forgotten.

In addition, some organizations still tend to use performance targets as the primary means of control, which sometimes results in short-term thinking. Once a business drops below its target, it becomes pressurized to reduce costs, which may restrict its ability to be creative and innovative. Many strategic planning systems could be improved if the head office corporate planners, who sometimes tend to be remote and detached, had more contact and involvement with the businesses.

In summary, formalized planning systems may be imperfect, but a system of some form remains essential for control and co-ordination. Alone, it cannot enable the company to deal with competitive uncertainties and pressures – vision and learning are essential, but planning must not be abandoned.

This section has considered the important role and contribution of strategic planning in large, and possibly diverse, organizations. Strategy in Action 9.1 examines a number of relevant planning issues in local government, while the next section considers strategic planning in small businesses. Strategic planning is obviously relevant for various public sector agencies, which must deal with complexity and uncertainty, but there is one major difference between them and private sector businesses. Businesses are planning which products and services they will provide to which customers and how they will do this; these customers will typically have a direct commercial relationship with the business and pay for what they buy. Public sector organizations provide services (and some products) to service users in their communities – but payment is not direct and customers may not have the option to 'buy' elsewhere. Users do pay, of course, through the national and local taxation system and, while they can use their votes to influence the politicians who make the decisions about service priorities, this is a very indirect link. Customer satisfaction will still be an issue, but there is more opportunity for supplier ideologies to have an impact. The third sector comprises charitable organizations and social enterprises which sometimes provide direct paid-for services but, and more often, services and support which are covered by grants and donations.

Strategy in Action 9.1 Strategy and Local Government

A typical UK local authority is likely to perceive the aim of the activities it carries out as the provision of more, and ideally better, services for the local community. These services fall into three broad categories: front-line (housing, social care, education and leisure), regulatory (public and environmental health, planning and building control) and promotional (economic development and tourism).

How does local government 'work' strategically? Strategic decisions at the top policy level demand an input from two groups of people: the elected councillors who exert a controlling influence, and the salaried managers.

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The councillors may be politically very experienced and, working on behalf of their constituents, they should be in a position to reflect local needs. The specialist expertise is more likely to come from the salaried staff, although there are some very well-qualified and expert councillors. There are, therefore, two strategic leaders – the leader of the council and the chief executive – who ideally will be able to work together harmoniously and synergistically. On occasions, there will be clear evidence of visionary leadership. Some leaders, either individually or in partnership, will transform the character and infrastructure of a town or city. At the other extreme, other leaders really do little more than manage budgets and carry through central government initiatives.

There is an obvious role for strategic planning, as local authorities have to work within guidelines and budget restraints set by central government. They do not enjoy 'total freedom'. They have to decide on how, at least, to maintain local services, improve efficiencies and implement any central government requirements.

Councillors will form policy-making groups, with the head of each group holding a place in the cabinet – which is akin to the cabinet in central government. The salaried employees will operate with some degree of delegated authority in discrete service areas. Each service will have policy guidelines, output targets and a budget. Usually, they will be free to develop and adapt strategies and programmes as long as they operate within their budget and achieve their outputs.

Many councils will want to increase spending wherever possible, as more or better services are popular with the electorate. In simple terms, spending minus income (including grants from central government) equals the sum to be raised from householders and businesses and, generally, more spending is likely to lead to higher local taxes – in the case of the UK this means business rates and the banded 'community charge' based on property values. The freedom to increase these is constrained by central government. Borrowing is used primarily to fund new capital programmes and for managing the cash flow on a temporary basis. It is, for example, still being suggested that, in the future, many more local councils will borrow money to build new roads, or to improve existing ones, and repay the money with congestion charges on motorists – at least, in part, following the lead of London. Since the residents of Manchester were allowed a vote on this possibility in early 2009 – and rejected it, even though it would open the door to external public investment – the future continues to remain uncertain. Some councils establish partnerships with specific developers. An independent company could, for example, develop a new shopping centre in partnership with a local authority. Together, they will put up or raise substantial sums of development capital which will be repaid later through rents and business rates.

It is very difficult to measure quantitatively the benefits that accrue from certain services, such as parks and gardens for public recreation. Information from the Audit Commission enables one authority to compare its costs and spending in total, and per head of the population, for individual services with those incurred by similar authorities in the UK. Where this is utilized, it is basically a measure of efficiency, rather than an assessment of the overall effectiveness of the service provision, as shown in Chapter 11.

Until the 1980s, it was usual for a local authority to carry out most of its activities in-house. External contractors were used for some building and engineering work and in other instances where very specialized skills were required. However, the first Thatcher government required that councils put out to tender all major new-build projects, together with significant projects in housing and highways maintenance. Later in the 1980s, school catering, refuse collection, street cleaning and most white-collar services were also subject to compulsory competitive tendering (CCT). Where services were put out for tender, an authority continued to determine the specific level of service to be provided and then sought quotations for this provision. Tendering organizations neither suggested nor influenced the actual level of service. This power remained firmly with the local authority. As progressively more services were compulsorily put out to tender, local authorities essentially became purchasers of services on behalf of the local community.

The Blair-led Labour government, elected in 1997, was determined to abolish CCT and replace it with 'Best Value'. CCT was abandoned in 2000. Best Value requires a local authority to review each of its services over five-year periods, assessing whether it should be provided in house, via social enterprises and the voluntary sector, or by private sector contractors. There are four key themes:

- challenge
- consult (stakeholders)
- compare (by benchmarking external and other local authority providers)
- compete (with the best providers that can be identified).

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In recent years, the contribution of social enterprises and the voluntary sector in providing services that local (and national) government cannot or will not provide has grown, and without this contribution, many individuals and communities would be far worse off.

Some councils have spun out services they once ran into private ownership in the form of management buy-outs. Building maintenance for council houses would be a typical example. The new business must tender for the work periodically, but it is free to seek other work and contracts as well. The assumption is a blend of public service and entrepreneurship. Local authority run council houses are now typically semi-independent housing associations.

Local councils are constrained by central government financial rules, by legislative requirements and by certain government priorities. The current Conservative government (following on from the 2010–2015 Coalition government) supports academy schools, which are outside local authority control. Both existing and new schools can become academies if they can secure financial support and sponsorship. The outcome is that they reduce the reach and financial resources (for education) of local government. After the Blair Labour government came to power in 1997, it tightened up on the rules that govern residential care homes for the elderly. Room sizes and facilities had to meet certain minimum standards. As a result, many closed, although some have been rebuilt, making homes with fewer but better rooms. In some communities, it is significant that it is the public sector homes, rather than those run by the private sector, that have closed down. This needs to be put into the context of the growing challenge of social care for local authorities. Councils are responsible for adult and children's social care. The very visible problems related to child grooming and sexual exploitation demand investment in children's services; the ageing population and the desire to switch the emphasis onto keeping people safe in their own homes (as distinct from looking after them in hospital, which is the responsibility of the National Health Service) poses another challenge. Given that social care must be prioritized, it is clear that other services must, at times, be under threat. However, there is a further 'sting in the tail'. People who are assessed to have care needs are awarded personal budgets and the freedom to spend this money on the care they choose; the decision lies with the client, not social services. While this provides opportunities for entrepreneurial businesses (including social enterprises), some believe this freedom of choice adds to the complexity of the challenge.

Strategic planning and new and small businesses

Many readers will be aware of TV programmes such as *Dragons' Den* (UK) and *Shark Tank* (United States) – where business plans accompany a business pitch as new businesses seek investment – and also of student business plan competitions. Although some commentators argue that business plans are always going to be wrong in some way because they are underpinned by forecasting (which, by its very nature, is unreliable), the plans do (attempt to) force those involved to identify and deal with the relevant strategic issues. Business plans have a value but not 'all the answers'.

That said, the ability to capture the business and revenue models in an overarching but pithy way remains critical – and a business pitch should do so. The business plan then is an attempt to defend the business models by adding details and numbers; assumptions should be explained and justified.

Many small businesses stay focused and do not diversify or acquire another business. Their corporate perspective stays the same, but they still need to create some form of competitive advantage and to develop and integrate functional plans. In this respect, small business planning is similar to that for an individual business inside a conglomerate. Unfortunately, many small owner-managers misguidedly believe that strategic planning is too expensive and only belongs in large organizations, that formalized processes requiring expert planners are essential, and that the benefits are too long term and there are no immediate pay-offs.

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As a result, they adopt a more reactive approach; both vision and flexibility are important features of most successful small businesses, but these can be built on to provide greater strength and stability. Reinforcing the points made earlier in the chapter, small businesses can benefit in the same way as large ones from discerning the important strategic issues and from involving managers from the various functions in deciding how they might best be tackled.

Small businesses should involve all relevant managers in discussions about priorities, opportunities, problems and preferences, and should look ahead and not just consider immediate problems and crises. Objective information and analyses (albeit limited in scope) are required to underpin the process, which must be actively and visibly supported by the owner-manager or strategic leader, who, in turn, must be willing to accept ideas from other managers. Adequate time must also be found, and sound financial systems should be in place to support the implementation of new strategies and plans. If they needed to raise finance from the banking system or elsewhere, they would have had to draw up a business plan to support their request. All too often these plans are then put in a drawer and largely forgotten, rather than being used as a framework for budgeting and monitoring performance, such that some small firm owner-managers never really develop a discipline of planning.

Strategic planning issues

Corporate planning authors who have been cited earlier in this chapter share a consensus that strategic planning should not be undertaken by the chief executive alone, planning specialists divorced from operating managers, marketing executives or finance departments. An individual or specialist department may be biased and fail to produce a balanced plan. Instead, in some way, all managers who will be affected by the plan and who will be charged with implementing it should be involved. However, all of these managers together cannot constitute an effective working team, and, therefore, a small team representing the whole organization should be constituted, and other managers consulted – which will require a schedule for the planning activities and a formalized system for carrying out the tasks. As discussed above, it is important that planning systems do not inhibit ongoing strategic thinking by managers throughout the organization, because threats must still be spotted early and potential opportunities must not be lost.

The role of planning and planners

In the light of the comments above on strategy formulation (and also in Chapter 8), this section concludes by considering further the role of planning and planners. Planning and strategy creation are different in the sense that planners may or may not be strategists, but strategists may be found anywhere in the organization. Mintzberg (1989) suggests that planning activities are likely to involve a series of different and very useful analyses, but it does not follow that these must be synthesized into a systematic planning system. Planners can make a valuable contribution to the organization and to strategic thinking by:

- programming strategies in finite detail to enable effective implementation (this will involve budgeting and ensuring that strategies are communicated properly, plus the establishment of monitoring and control processes).
- formalizing ongoing strategic awareness by carrying out SWOT analyses and establishing what strategic changes are emerging at any time.
- using scenarios and planning techniques to stimulate and encourage thinking.
- searching for new competitive opportunities and strategic alternatives, and scrutinizing and evaluating them.

In other words, all of the activities incorporated in the planning systems discussed earlier in the chapter are seen to be making an important contribution, but they need not be component parts of a systematic model. Rather, they are contributors towards strategic thinking, awareness and insight.

Johnson (1992) further points out that occasionally plans are documented in detail only because particular stakeholders – say, institutional shareholders or bankers – expect to see them as justification for proposals. There is never any real intention that they should be implemented in full.

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Figure 9.5 The planning contribution

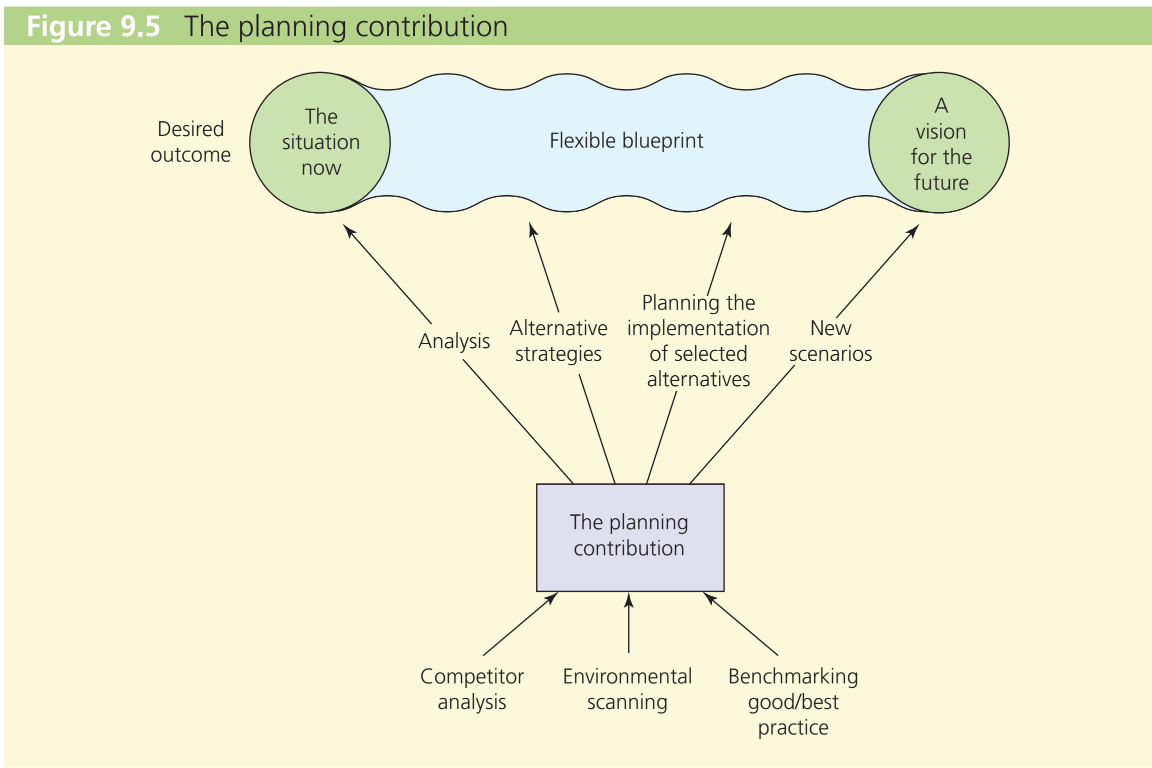

Figure 9.5 draws together a number of these themes and illustrates the various contributions that planning and planners can make. In conjunction with this, the next section considers the relative value and contribution of selected planning techniques.

Systematic planning (in isolation) will not create a vision – but you can plan your own way towards a vision. Ideas generated through planning may well change the vision:

> *The key macro and micro variables of our business are so dynamic that poker becomes more predictable than planning and reactivity more profitable than rumination.*
>
> Dr John White, ex-Managing Director, BBA, whose customers were involved in the motor vehicle industry

> *I have a saying: 'Every plan is an opportunity lost' . . . because I feel that if you try to plan the way your business will go, down to the last detail, you are no longer able to seize any opportunity that may arise unexpectedly.*
>
> Debbie Moore, Founder Chairman, Pineapple Dance Studios Ltd

9.4 Strategic planning techniques

While different strategists and authors of strategy texts adopt different stances on the significance of vision, culture and strategic planning techniques in effective strategic planning, our collective view is that the role of the strategic leader, styles of corporate decision-making and organization culture are key driving forces in strategy creation and implementation. However, strategic planning techniques, which rely heavily on the collection and analysis of quantitative data, do have an important contribution to make. They help to increase

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awareness – thereby reducing the risk involved in certain decisions – and can indicate the incidence of potential threats and limitations which could reduce the future value and contribution of individual products and services. They can help in establishing strategic and investment priorities in large complex multi-product multinational organizations, and can provide appropriate frameworks for evaluating the relative importance of very different businesses in a portfolio.

And yet, their value is dependent on the validity and reliability of the information fed into them such that, where comparisons with competitors are involved, the data for other companies may well involve 'guesstimation'. Judgement is required for assessing the significance of events and competitor strategies; vision is essential in discontinuous change management.

We would argue that strategic planning techniques should be used to help and facilitate decision-makers, but they should not be used to make decisions without any necessary qualifications to the data and assumptions.

Portfolio analysis

The Boston Consulting Group growth-share matrix (Strategy in Action 9.2) can, with careful and honest use of data, help to position products in relation to their stage in the product life cycle. Its value partly lies in its simplicity and it can provide insight into the likely cash needs and the potential to generate earnings. However, while a particular matrix position indicates potential needs and prospects, this should not be seen as prescriptive for future strategy. In certain respects, all competitive positions are unique. One must consider the actual industry involved and the nature and behaviour of competitors, which can be done with greater insight by business unit and product managers rather than by specialist planners, as the former are in a better position to appreciate the peculiarities of the market.

The product portfolio suggests the following strategies for products or business units falling into certain categories:

- cash cow – milk and redeploy the cash flow
- dog – liquidate or divest and redeploy the freed resources or proceeds
- star – strengthen competitive position in growth industry
- question – invest as appropriate to secure and improve competitive position.

Given that a dog represents a product or service in a relatively low-growth industry sector, and one which does not enjoy market segment leadership, many companies will have a number of dogs in their portfolios. **Liquidation** or divestment will not always be justified. Products which have a strong market position, even though they are not the market leader, and which have a distinctive competitive advantage, can have a healthy cash flow and profitability. Such products are sometimes referred to as 'cash dogs'. Divestment is most appropriate when the market position is weak and when there is no real opportunity to create sustainable competitive advantage, as long as a buyer can be found. Turnaround strategies for products which are performing very poorly are examined further in Chapter 13.

Hamermesch (1986) identified that many businesses that are classified as cash cows can be managed for innovation and growth, especially if the industry is dynamic or volatile, or can be made so. In other words, strategies that succeed in extending the product life cycle can move it from a state of maturity into further growth – for example, coffee which experienced renewed growth when the success of automatic coffee-makers increased demand for new varieties of fresh ground coffee.

When 'milking' products, care also has to be taken not to reduce capacity if there is a chance that demand and growth opportunities could return as a result of scarcities or changes in taste. When restrictions on the import of Scotch whisky into Japan were eased in the late 1980s, the product enjoyed star status, even though it was seen as a cash cow in the UK. Strategic decisions based on portfolio positions may ignore issues of interdependence and synergy, such that business units may be treated as separate independent businesses for planning purposes, making it likely that the more qualitative contributions to other business units, and to the organization as a whole, are overlooked when decisions are made about possible liquidation or divestment.

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Strategy in Action 9.2 The Boston Consulting Group (BCG) Growth-Share Matrix

Basic premises

Bruce Henderson (1970) of BCG has suggested, first, that the margins earned by a product, and the cash generated by it, are a function of market share. The higher the market share, relative to competitors, the greater the earnings potential; high margins and market share are correlated. A second premise is that sales and revenue growth requires investment. Sales of a product will only increase if there is appropriate expenditure on advertising, distribution and development; and the rate of market growth determines the required investment. Third, high market share must be earned or bought, which requires additional investment. Finally, no business can grow indefinitely. As a result, products will, at times, not be profitable because the amount of money being spent to develop them exceeds their earnings potential; at other times, and particularly where the company has a high relative market share, earnings exceed expenditure and products are profitable.

Profitability is, therefore, affected by market growth, market share and the stage in the product life cycle. A company with a number of products might expect to have some that are profitable and some that are not. In general, mature products, where growth has slowed down and the required investment has decreased, are the most profitable, and the profits they earn should not be reinvested in them but used, instead, to finance growth products that offer future earnings potential.

The matrix

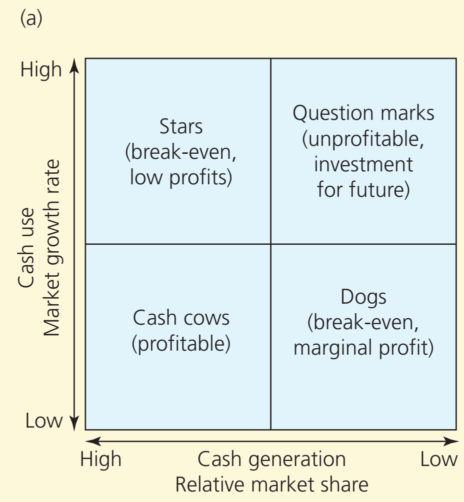
The matrix is illustrated in Figure 9.6. Chart (a) shows the composition of the axes and the names given to products or business units which fall into each of the four quadrants; chart (b) features 15 products or business units in a hypothetical company portfolio. The sterling-volume size of each product or business is proportional to the areas of the circles, and the positioning of each one is determined by its market growth rate and relative market share.

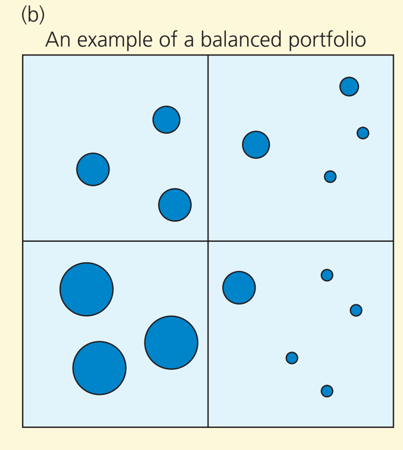
The market growth rate on the vertical axis is the annual growth rate of the market in which the company competes, and really any range starting with zero could be used. The problem is where to draw the horizontal dividing line which separates high-growth from low-growth markets.

The relative market share on the horizontal axis indicates market share in relation to the largest competitor in the market. A relative market share of 0.25 would indicate a market share one-quarter of that of the market leader; a figure of 2.5 would represent a market leader with a market share that is 2.5 times as big as that of the nearest rival. The vertical dividing line is normally 1.0, so that market leadership is found to the left-hand side of the divider. It is important to consider market segmentation when deciding on the market share figure to use, rather than using the share of the total market.

The growth-share matrix is thus divided into four cells or quadrants, each representing a particular type of business:

Figure 9.6 The Boston Consulting Group growth-share matrix





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- Question marks are products or businesses which compete in high-growth markets but where market share is relatively low. A new product launched into a high-growth market and with an existing market leader would normally constitute a question mark. High expenditure is required to develop and launch the product and, consequently, it is unlikely to be profitable and may instead require subsidy from more profitable products. Once the product is established, further investment will be required if the company attempts to claim market leadership.
- Successful question marks become stars, market leaders in growth markets. However, investment is still required to maintain the rate of growth and to defend the leadership position. Stars are marginally profitable only, but as they reach a more mature market position as growth slows down, they will become increasingly profitable.
- Cash cows are, therefore, mature products which are well-established market leaders. As market growth slows down, there is less need for high investment and, hence, they are the most profitable products in the portfolio. This is boosted by any economies of scale resulting from the position of market leadership. Cash cows are used to fund the businesses in the other three quadrants.
- Dogs describe businesses that have low market shares in slower growth markets. They may well be previous cash cows which still enjoy some loyal market support even though they have been replaced as market leader by a newer rival. They should be marginally profitable, and should be withdrawn when they become loss-makers, if not before. The opportunity cost of the resources that they tie up is an important issue in this decision.

Boston Consulting Group **www.bcg.com**

Directional policy matrices

Directional policy matrices, popular in the heyday of systematic planning systems, included those developed in the 1970s by Shell, General Electric and the management consultants McKinsey. They are all broadly similar and aim to assist large complex multi-activity enterprises with decisions concerning investment and divestment priorities. In using such a matrix, there is an assumption that resources are scarce, and that there never will be, or should be, enough financial and other resources for the implementation of all the project ideas and opportunities which can be conceived in a successful, creative and innovative organization. Choices will always have to be made about investment priorities. The development of an effective corporate strategy, therefore, involves evaluating the potential for existing businesses together with new possibilities in order to determine the priorities.

Typically, the matrix would be constructed within two axes: the horizontal axis representing industry attractiveness, or the prospects for profitable operation in the sector concerned; the vertical axis indicating the company's existing competitive position in relation to other companies in the industry, linked closely to Porter's models and frameworks (Chapters 4 and 6). Existing and potential new products can both be evaluated initially along the vertical axis by considering their likely prospects for establishing competitive advantage. The **directional policy matrix**, as with other matrices, is a technique which assists in determining the industry and product sectors that are most worthy of additional investment capital. Issues of synergy and overall strategic fit require further managerial judgement before final decisions are reached.

Rowe *et al.* (1989) have developed a model (which they have named SPACE – strategic position and action evaluation) based on four important variables:

- the relative stability/turbulence of the environment
- industry attractiveness
- the extent of any competitive advantage
- the company's financial strengths: profitability, liquidity and current risk exposure.

Scores are awarded for each factor, and then put into a diagram (refer to Figure 9.7 in Box 9.1), which features a financially strong company (or division or product) enjoying competitive advantage in an attractive industry with

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a relatively stable environment. The appropriate strategy is an aggressive one. Table 9.2 shows the appropriate strategies for four clearly delineated positions; judgement has to be applied when the situation is less clear-cut.

This technique usefully incorporates finance, which will affect the feasibility of particular strategic alternatives and the ability of a company to implement them. It has similar limitations to directional policy matrices.

Box 9.1 SPACE (Strategic Position and Action Evaluation)

Figure 9.7 SPACE

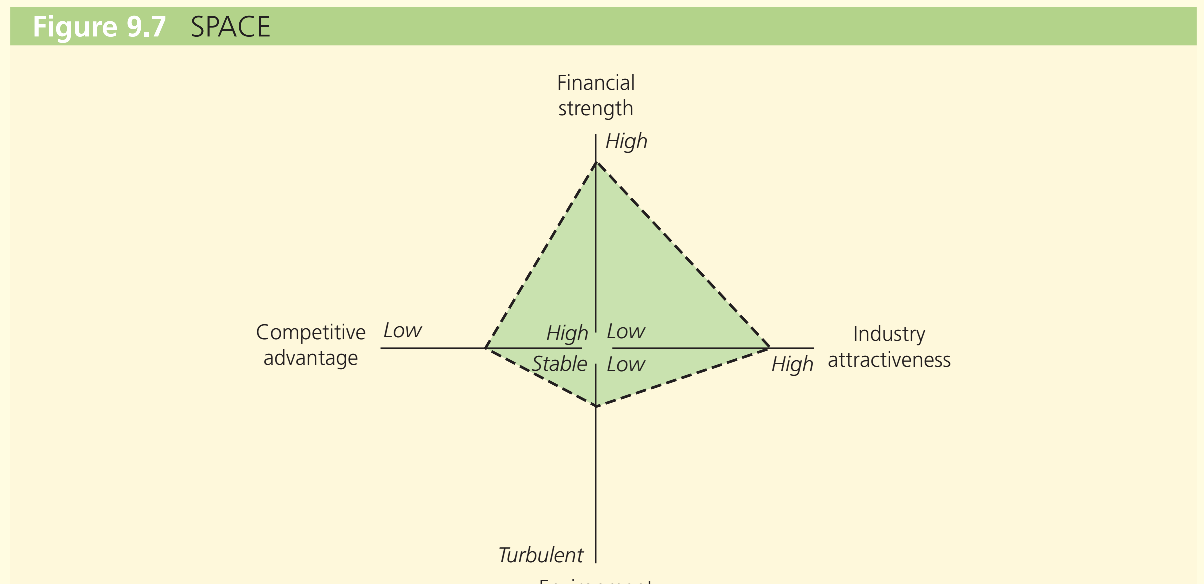

Table 9.2 SPACE

Strategic thrust	Aggressive	Competitive	Conservative	Defensive
Features				
Environment	Stable	Unstable	Stable	Unstable
Industry	Attractive	Attractive	Unattractive	Unattractive
Competitiveness	Strong	Strong	Weak	Weak
Financial strength	High	Weak	High	Weak
Appropriate strategies	Growth, possibly by acquisition	Cost reduction, productivity improvement	Cost reduction and product/service rationalization	Rationalization
	Capitalize on opportunities	Raising more capital to follow opportunities and strengthen competitiveness	Invest in search for new products, services and competitive opportunities	Divestment as appropriate
	Innovate to sustain competitive advantage	Possibly merge with a less competitive but cash-rich company		

Developed from ideas in Rowe, A.J., Mason, R.O., Dickel, K.E. and Snyder, N.H. (1989) *Strategic Management: A Methodological Approach*, 3rd edn, Addison-Wesley

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Spheres of influence

According to D'Aventi (2001), **spheres of influence** relate to the building of an arsenal of products and services that enable and support real influence across a wide range of critical interests – they imply consideration of the so-called 'wider picture'. Building this wider picture implies planning linked to a vision. Although companies may focus on a core (or heartland) of activities, they must not neglect to build a portfolio of logically related interests, even if some of them are clearly peripheral.

The basic idea is to create or restore order in an industry in times of complexity and chaos. After all, more chaos and uncertainty equates to lower profits. It is about strategic logic and it mimics how nations have behaved historically. Under traditional portfolio theory, investment decisions do not require a consideration of the strategic logic for supporting a business, even though it could be relatively low profit; spheres of influence looks at why organizations might choose to be in particular businesses. The desired outcomes are:

- Competitors are manoeuvred into corners.
- Rivals are encouraged to focus on areas which do not conflict with your interests directly.
- There is less destructive price competition lowering profits.
- There are fewer opportunities for new, rule-changing competitors to enter an industry.

There are five key planning elements:

1. *Core geographic and product markets*: the centre of the sphere of influence and where a company is seeking domination.
2. *Vital interests*: geographic or product zones which are critical for protecting the core, including complementary products, key supplies and providers of valuable resources such as know-how or employee skills – sometimes, but not always, they exploit competencies and capabilities associated with the core.
3. *Pivotal zones*: markets that could, in the long term, tip the balance of power or control away from a company in favour of a rival, if freely dominated by a competitor – a position is needed more for defensive purposes than dominance.
4. *Buffer zones*: positions in expendable, non-committed markets simply to constrain competitor activities, an important bargaining weapon – linked to:
5. *Forward positions*: front-line products located close to the core activities of key rivals, which can be used for purposes of attack, but they are mostly defensive, and cause competitors to think carefully about attacking any company which has them in place – there is a fear of a possible response.

We can apply these five elements to the development of Microsoft as follows:

- *Core* – desktop operating systems; graphical user interfaces; internet browsers.
- *Vital interests* – where it seeks to be a winner – operating systems for networks and for portable devices.
- *Pivotal zones* – e-portals and e-commerce businesses.
- *Buffer zones* – computer games and the X-Box, because rivals might use their dominance of this sector to develop operating systems; when Microsoft bought Mojang, the Swedish creator of the popular game Minecraft (for £1.5 million) in 2015, it was further extending and consolidating this buffer zone.
- *Forward positions* – initially bundling Explorer with Windows was 'way back' a forward position, partly synergistic, partly competitive, to deter Netscape – but it became core.

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Much of Microsoft's history – and phenomenal success – is characterized by 'catch-up' strategies where it has been quick to capitalize on rival initiatives, but then overtake them with alternative products and services. The Windows computer operating system lagged behind – but grew to dominate – the Apple Mac, which at one time was market leader. While it remained the system of choice for some, especially designers, the Mac still only ever had a fraction of the market share of Windows. Word similarly grew to dominate and displace the once very popular WordPerfect. Its commercial database SQL was developed to take on Oracle; Windows (Internet) Explorer eventually side lined Netscape's Navigator, although some believe there was an element of 'foul play' in the way Explorer was bundled with other Microsoft products. Google Chrome is one of today's serious competitors to Internet Explorer, and signals how Google has followed a similar strategic approach to Microsoft. The Pocket PC was launched as a rival to the Palm hand-held organizer, and its internet portal MSN was a follower of AOL. X-Box, of course, was designed to rival the Sony PlayStation, with Microsoft hoping to seize market leadership, something it has so far failed to achieve. When Nintendo launched the Wii and altered the competitive forces, this ambition was put on hold. Microsoft has bought a minority stake in Facebook (now Meta) and attempted (unsuccessfully) to acquire Yahoo. In large part, these decisions are affected by the strong position of Google and its ability to attract billions of dollars in online advertising revenue. In addition, Microsoft and Nokia entered into a strategic alliance that resulted in Nokia mobile phones carrying the Windows Phone 7 (and eventually Windows Phone 8) operating system, in addition to its existing alliance with camera lens manufacturer Carl Zeiss. Ultimately, Nokia sold its mobile phone business to Microsoft, leading to the Nokia brand being dropped from the handsets and being rebranded as Microsoft Mobile. Microsoft has also developed a new Web browser for its smartphones (Spartan) which it has incorporated with the relevant version of Windows 10. Meanwhile, Nokia – freed from its mobile phone business – continues to innovate by focusing its strategy on three key segments: networks, mapping and advanced technologies. Microsoft also owns Skype and LinkedIn – and its Microsoft Teams software proved to be hugely valuable during COVID-19 as more and more people worked from home.

Other examples

Walmart focuses on establishing and sustaining dominance of key product markets and territories around the world by, in part, establishing and nurturing relationships with key suppliers, and exploiting these through its huge buying power to force its rivals into either unoccupied niches, or those in which Walmart is not particularly interested – which, of course, is a very typical retail strategy.

Disney retains a presence in children's book publishing and in branded retail stores to give it countervailing bargaining power against potential rivals should it ever need to use it. We saw earlier in the book, in Case 1.2, how valuable its acquisition of Marvel Studios has proved to be.

Johnson & Johnson (J&J) might be described as 'The Baby Company' and Procter & Gamble (P&G) 'The Soaps and Shampoo Business'. These two businesses have activities and interests which overlap but, historically, they avoided destructive rivalry. J&J has opted not to compete directly with P&G's nappy business and its powerful Pampers brand, a very successful baby product; and, similarly, P&G focuses on adult soaps and shampoos, and does not address the children's market. Why? Because J&J owns the Neutrogena brand of mild adult soaps and shampoos, tightly niched and not mainstream, but this provides the company with competencies and capabilities which it could use to expand if it wished. Equally, P&G has the competencies and capabilities to produce children's soaps and shampoos. Competition from powerful rivals in core areas could destroy position and power, so no one would win and victory would be pyrrhic. Simply, potential threats are keeping rivals at bay.

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Research snapshot 9.1

Strategic planning research has a long pedigree, as reviewed by Wolf and Floyd (2017) over 30 years, offering a framework including strategic planners' role, their practices ('underlying routines, norms, and procedures'), and praxis ('concrete activities'). Various studies have examined key need-to-know themes, e.g. whether strategy planning is clear or ambiguous (Abdallah and Langley, 2014), the relationship with business models (Globocnik *et al.*, 2020), the role of innovation and knowledge management (Davis and Bendickson, 2021; Hughes and Hodgkinson, 2020). Implementation issues have been comprehensively addressed in the context of the public sector (Bryson, 2018; Bryson *et al.*, 2018; Elbanna *et al.*, 2016; Kools and George, 2020; Noto and Noto, 2019) and not-for-profit organizations (Bryson, 2018). Elbanna *et al*. (2016, p. 1017) found that strategic planning supported implementation which was 'mediated' by the involvement of managers, and 'becomes more salient in the face of stakeholder uncertainty'. Other authors have examined diverse sectors, such as the role of managers in strategic planning in the hotel sector (Elbanna, 2016) and grocery retailing (Hübner *et al*., 2016).

Given the discussion earlier in this chapter regarding the role of strategic planning in enhancing performance and sustainable competitive advantage more generally, more recent evidence (Dibrell *et al.*, 2014; George *et al.*, 2019; Guo *et al.*, 2020; Elliott *et al.*, 2020; Ohja *et al.*, 2019; Rau *et al.*, 2020) is supportive of the relationship between strategic planning and performance. Strategic planning sometimes occurs in more 'turbulent' environments (Ramírez and Selsky, 2016; Whittington *et al*., 2017). The latter examines how strategic planners' roles have changed in the past half century due to 'environmental turbulence', finding that 'the secular increase in environmental turbulence is negatively associated with forecasting (temporal range), economics and analysis (processes) and centralization (organizational location), especially when compared with marketing' (Whittington *et al*., 2017, p. 108). Ramírez and Selsky (2016), on the other hand, suggest that novel approaches to strategic planning (which they classify as 'socio-ecological') are more effective than the well-established, traditional strategic planning techniques in coping with turbulent environments.

Significant further research is still clearly needed not only to establish *whether* strategic planning influences performance but also *how* and *why* particular approaches make a firm operate more effectively in comparison with its competitors.

The articles below provide deeper understanding of strategic planning – particularly, how it affects firm performance – and will help students not only to develop their perception and critical awareness of this concept and practice but also to highlight the developing thinking in specific relation to performance enhancement (see Wolf and Floyd, 2017 for a much more comprehensive review of this topic).

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Summary

As organizations grow and become more complex, we find an increasing reliance on planning at the expense of the other modes of strategy, as there is an increasing need for effective control mechanisms. However, the risk is that bureaucracy and stasis accompanies the reliance on planning, which must not be allowed to happen.

Planning techniques can be extremely useful, particularly as they force managers and organizations to ask themselves many relevant and searching questions and to compile and analyze important information. But the techniques do not, and cannot, provide answers: they merely generate the questions.

The danger is that some managers may perceive the output of a technique such as matrix analysis as an answer to strategic issues.

Strategic planning – using techniques and formalized procedures – is just one of the ways in which strategies are created. Strategies can also be provided by the strategic leader and be decided by managers in real time. Intended strategies – say, those selected by the leader or a formal planning system – have to be implemented, during which they may well be changed incrementally. After all, intended strategies imply forecasting and, to some extent, all forecasts are wrong. In addition, flexible organizations will adapt all the time by responding to new opportunities and threats.

In the 1960s and 1970s, the predominant view of academics and organizations was that formalized strategic planning was at the heart of strategy creation and should be used to manage future direction. It became clear, however, that a planning approach that relies on quantitative data, forecasts and manuals, can restrict creativity, thinking, flexibility and, critically, the support and engagement of the managers who must implement strategy. Many organizations fell into the trap of believing the key outcome of planning is the plan!

Nevertheless, it is important to realize that all managers plan all the time. Evaluating the current situation, and discussing possible changes and improvements with colleagues, implies planning. Simply, this is informal planning, rather than the formalized systems implied by the term ‘strategic planning’.

There are at least seven approaches to planning, which should not necessarily be seen as mutually exclusive. Formal planning is separate from informal planning. The process can be largely top-down or bottom-up, and can involve extended budgeting and be numbers driven, or be more behavioural in approach, possibly using scenarios.

The *planning gap* is a very flexible concept and technique which can be used in a variety of ways, and is used to clarify the extent of the revenue or profits gap that could emerge if current strategies are left largely unchanged. The more ambitious the objectives set by the company, the greater the risk that is likely to be involved in the strategies required to close the gap.

Our contemporary approach to strategic planning is based on a mixture of planning techniques, intellectual input and action plans for implementing strategies – and central to the whole process are current strategic issues.

With any form of strategic planning, we must decide who should be involved and what they should contribute. Professional or specialist planners have an important role to play, but others must be involved as well.

Planning has a number of important contributions to make and individual organizations will not all adopt the same approach.

There are various useful planning techniques, specifically:

- the Boston Consulting Group (BCG) 2 × 2 matrix
- directional policy matrices
- SPACE (strategic position and action evaluation) (Box 9.1).

In various ways, all these techniques can be valuable, but they will always be dangerous if they are used too rigidly and allowed to drive decisions without reference to, or qualification by, managerial judgement. The thinking behind spheres of influence concerns the big picture, contending that companies should look to develop a portfolio of products that strengthen its all-round ability to compete by opening up competitive fronts proactively and reactively.

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Online cases for this chapter

Online Case 9.1: Starbucks
Online Case 9.2: Unilever
Online Case 9.3: Strategic Issues and High Street Banking
Online Case 9.4: Rio Tinto

Web supplement related to this chapter

Military Strategy II

Questions and research assignments

1. Mintzberg has distinguished between 'grassroots' strategies (which can take root anywhere in the organization but, eventually, proliferate once they become more widely adopted) and 'hothouse' strategies, which are deliberately grown and cultured. What do you think he means?
2. A manufacturer of industrial products is structured around five separate strategic business units (SBUs). Use the data opposite to construct a Boston matrix and assess how balanced the portfolio seems. Where are the strengths? Where are the weaknesses?
3. In the context of the Boston matrix, is the Big Mac a cash cow? What do you feel McDonald's competitive strategy for the Big Mac should be?
4. For an organization of your choice, ideally one with which you are familiar:
   - Ascertain how the planning, entrepreneurial and emergent modes might apply currently to strategic change in the organization. Which mode is predominant? Why do you think it is the preferred mode? How successful is it?
   - What would be the opportunities and concerns from greater utilization of the other modes?

SBU	Sales (£m)	Number of competitors	Sales of top three companies (£m)	Market growth rate (%)
A	0.4	6	0.8, 0.7, 0.4	16
B	1.8	20	1.8, 1.8, 1.2	18
C	1.7	16	1.7, 1.3, 0.9	8
D	3.5	3	3.5, 1.0, 0.8	5
E	0.6	8	2.8, 2.0, 1.5	2

Internet and library projects

1. Use the internet to look at all the businesses started by easyJet founder Stelios Haji-Ioannou, other than easyJet. Consider where he may have made a visionary impact. What do you think are the main contributions planning could make to the business? How much have the strategies changed as Stelios has striven to make these various businesses profitable?
2. Follow up the online case on UK high street banks. Take any one of the leading banks and examine its portfolio of activities – including the investment banking, international and other financial services businesses. In the current climate, do you believe the structure makes sense?
3. Download the 2021 'London Plan', the spatial plan for Greater London for the next 20+ years. Just what is being planned? How realistic is a plan such as this, even if it does provide direction and a statement of intent? How does this plan inform and drive the various activities that will emerge from it? How will its effectiveness (and resulting outcomes) be measured?

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Strategy activity

The Channel Tunnel

The Channel Tunnel between England and France was named the greatest construction achievement of the twentieth century. Passenger and freight shuttles began operating in 1994; Eurostar passenger services began a short while later, but growth was constrained until the fast access route between London and Folkestone began opening (in stages) in 2003. Freight trains also use the tunnel. The tunnel operator, Eurotunnel, has made operating profits since 1997 but other charges have meant net losses. In 2003, Eurotunnel identified the following strategic issues:

- The expensive infrastructure was under-utilized.
- Operator access charges were too high.
- There were conflicts between the various stakeholders, many of them caused by the financial losses.

Eurotunnel decided to reduce access charges to stimulate demand. There was a belief that demand was sufficiently price-elastic for this to improve profitability. Debts would have to be restructured – and not for the first time. There would be fresh investment in the Folkestone freight terminal to allow it to handle Continental gauge trains for the first time. And the terminal areas of Kent and the region around Calais would be promoted to stimulate tourism.

There have been a number of serious fire incidents, resulting in major disruptions which Eurotunnel had to deal with at immediate notice. The company has been restructured financially yet again, the shares are worth relatively little, and the business is controlled from France. In addition, the continuing challenges posed by migrants and would-be asylum seekers attempting to enter the UK illegally via the Channel Tunnel are major problems for border control staff and haulage companies. The solution to this problem does not lie directly with the tunnel owners, but rather with the UK government and the EU, in particular, the French government.

Eurotunnel **www.eurotunnel.com**

Questions

1. Overall, has the Channel Tunnel been a success or a failure?
2. Can you identify additional strategic issues to those listed here?
3. Is it realistic to suggest that strategic planning might have identified the potential for the migrant issue?
4. What alternative strategies might be considered to improve the fortunes of Eurotunnel?

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Chapter 10

Strategic leadership, entrepreneurship and intrapreneurship

PART 1 Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2 Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3 Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4 Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5 Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- define and contrast the roles of strategic leaders(hip) and entrepreneurs(hip), identifying factors contributing towards their effectiveness **(Section 10.1)**
- describe the conditions for making an organization intrapreneurial **(Section 10.2)**
- analyze the function of visionary leadership **(Section 10.3)**
- discuss a number of critical leadership issues such as finite shelf-lives and succession **(Section 10.4)**.

Introduction

Strategic leaders have to be able to think, make things happen, engage the support of other people and, on occasion, be the public face of the organization; few strategic leaders will be good at all four of these tasks. The strategic leader has an overall responsibility for clarifying direction, for deciding on strategies by dictating or influencing others around them, and for ensuring that strategies are implemented through the decisions they make on structure, style and systems. Perhaps the basic nature of the strategic leader will have an impact on the style and culture of an organization over time: dull leaders, belligerent bullying leaders, adventurous leaders and risk-averse leaders spawn companies with similar characteristics. Some leaders are entrepreneurial and visionary, and may be very effective in that role but ineffective as managers; hence, balancing visionary leadership and managerial competence affects the success or failure of any business.

Indeed, Storey (2005: p. 89) notes that: 'Despite the massive growth in activity directed towards leadership development, little of this has been directed at the top level; instead most activity has been focused on junior and middle levels of organizational leadership.'

Recent studies on strategic leadership have linked performance and styles of leadership (Jansen *et al*., 2009). Strategic leadership has also been considered to enable performance through the way in which it links resources and capabilities, including human capital and social capital (Hitt and Ireland, 2002). Also religion has an influence on how strategic leadership is conducted (Worden, 2005) and, indeed, in terms of intrapreneurial strategy, Ireland *et al*.'s (2009) model theorizes its 'antecedents', 'elements' (including 'vision, organizational architectures' and the generic forms of entrepreneurial process that are reflected in 'entrepreneurial behaviour') and 'outcomes', such as competitiveness and 'strategic repositioning'. Following research on external and internal factors, as shaped by managers, that influence intrapreneurship in South African firms and can be measured (Goosen *et al*., 2002), it was observed that the importance of employees has been overly downplayed in research into corporate entrepreneurship, which overstates the middle manager's role in a healthcare organization in Finland (Heinonen and Toivonen, 2008).

Our opening case (Case 10.1) on Innocent Smoothies features the growth and success of an entrepreneurial business started and run by a team of three friends who shared the strategic leadership role and responsibilities.

As well as leading from the front, a leader should create a climate that facilitates emergent change – appropriate intrapreneurial employees should be empowered, encouraged and energized (refer to Chapter 5) and can lead these emergent change initiatives. Leadership is both a job and a process – a process concerned with influence and change – which requires personal characteristics (which effective leaders need to possess) and leadership skills (which can be learned). Successful leaders also tend to build effective teams to support them.

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Case 10.1 Innocent Smoothies UK

Innocent Smoothies was started in 1998 by three friends who had met when they were students at St John's College in Cambridge. They had graduated in the early 1990s. On a snowboarding holiday they decided to start a business, but did not immediately plan to 'give up the day job'. They had run social events together at university and stayed close friends.

Adam Balon was the son of an ENT surgeon. Brought up in Surrey, he read economics at Cambridge and afterwards worked for Virgin Cola. Richard Reed's father was a manager with the Yorkshire Rider bus company. Reed read geography and then worked in advertising. Jon Wright was a Londoner, son of an IT manager, and he read engineering before becoming a management consultant.

After discarding a number of ideas, the trio decided to invest £500, buy some fresh fruit, have it crushed and bottled, and sell it from a stall at a music festival. They had decided that none of them really lived a healthy lifestyle and truly fresh fruit drinks would be one answer. They placed two large baskets on their stall and erected a large sign – *Should we start this business?* It was the philosophy that 'if there's something I want and can't readily get, and other people are saying the same thing, then there must be an opportunity'. The 'yes' bucket was soon full! They resigned from their jobs and embarked on the entrepreneur's journey. They were about to start one of the UK's fastest growing food and drink businesses which would be turning over £10 million after five years. Turnover in 2007 (just under 10 years) exceeded £100 million; Innocent had 70 per cent of the UK market for smoothies. When it started, there was little competition – but the market and competition would grow, partly as a consequence of what they did.

Money to establish a 'proper' business was hard to come by until they decided to email all their contacts with a simple question – *Do you know anyone who is rich?* One did and, after some discussions, the three were offered £235,000 for 18 per cent of the equity in the business. Their investor was a veteran US serial entrepreneur who had spent some time on the staff at London Business School and become a private venture capitalist. The three partners would retain 70 per cent, with the remaining 12 per cent split among their colleagues in the business, a number of whom also knew them at Cambridge. Because of the need to comply with legislation and restrictions over manufacture and distribution, things did not go smoothly at first. There were a number of 'false starts', but the trio persisted.

The three always had separate roles in the business based on their skills and preferences. Initially, they split the key roles into production (Wright), trade sales (Balon) and consumer marketing (Reed) – but there was no designated leader or chief executive. They recognized each other's strengths and worked as a team. The same principle continued but more responsibilities were added – and Reed became the public face of Innocent.

Although there are now more bottle sizes and blends than in the early days, with some flavours targeted specifically at children, the business remains focused on crushed fruit smoothies and fruit juices. For a period, they experimented with Veg Pots (a vegetable based easy meal, in effect) but this product has been abandoned. Innocent uses only natural, fresh products – with no additives or concentrated juices. The ingredients are sourced carefully from around the world – the 'only the best' approach linked to ethical and environmental concerns. They are not, however, organic. They continue to charge premium prices although there are invariably supermarket offers to be found.

The products can be bought widely – in Tesco, Sainsbury's and Waitrose, for example. Their markets soon extended to Dublin, Paris and Hong Kong. Their early success pioneering bottled fruit smoothies provoked competition. Established giants such as Del Monte and Ocean Spray (part of Gerber, itself recently acquired by Nestlé) have been unable to dislodge them from their market position. The most serious competition has come from the Tropicana brand, owned by Pepsi.

The company has always maintained a fun image and the trio always dressed casually. Their offices in South London are called 'Fruit Towers'. They are very creative and their logo is distinctive. It comprises an apple shape face with two eyes and a halo above. They want to be seen as fun and funky. They proclaim that their staff, with an average age of around 30, are empowered and constantly on the lookout for new ideas. Their website has been likened to a student blog and they regularly email

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their online subscribers. They push the health message and feature mentions of daily fruit and vegetable intakes on their packages. In 2007, they launched new packaging made from polyactic acid, which is fully degradable. Of Innocent's annual profits, 10 per cent has been given over to aid projects in places such as Bangalore, Africa and Brazil; and they maintain a 'Sustainability Squad' to monitor environmental issues. Innocent is on record as saying that they try to 'leave things better than they find them'. Richard Reed was once asked whom he most admired. Instead of a business leader, he chose 'a guy named Paulo who is running a Greenpeace campaign to save the Amazon rainforest'.

After nearly ten years of growth and success, Innocent 'took its eye off the ball'. In 2008, the founders sold a further stake to raise £35 million to help fund the development of new food products. Sales fell back in the second half of the year, and there appeared to be some concern that smoothies, very much a discretionary consumer purchase, could suffer in the anticipated economic recession. Competition and increases in fruit prices were also issues. A profitable company was about to become a loss-maker for a short period. At this time, Innocent was keen to expand in selected overseas markets – especially in Europe – and, in April 2009, Coca-Cola bought a 20 per cent stake for £30 million. Press reports stated the founders would continue to run the business and they remained confident the socially and environmentally aware stance of Innocent was not under threat. The logic of the investment was that Coca-Cola could help secure new distribution opportunities. Coca-Cola's stake has since been expanded and they now own 90 per cent of the company – but they seem to prefer a hand's-off role and the three founders were still actively involved for an agreed period of time. Innocent has been restored to growth and profitability, and the founders had secured their exit strategy.

Douglas Lamont, the CEO appointed by Coca-Cola after its three founders left, had been with Innocent Drinks since 2005; he had worked as 'Head of New Opportunities'. The company's head office (style, ambience and layout) has not been changed since the acquisition and continues to radiate a 'fun and casual' culture. It seems that the parent company is an investor which is happy to allow genuine freedom as long as the business performs, and Innocent is Europe's fastest-growing soft drinks brand. Of course, there are people who express serious concerns about the sugar content of fruit smoothies, but Lamont insists that they are not junk food and that the fibre content is the same as the original fruit. In 2018 Innocent was accepted as a B-Corp – which is an independently awarded kitemark, most prominent in the United States but spreading overseas, given to organizations with strong environmental and social credentials. 'If we can get the reputation of the business right, we can change the world' – Lamont.

Asked to explain just why Innocent has been as successful as it has, and what they have learned, Richard Reed focused on five themes:

- Be clear about your purpose – Innocent was about making healthy food fun and popular.
- Start with a 'clear big picture' but then focus on getting the details right. Implementation is critical and opportunities for innovation and improvement start with activities.
- Business is ultimately about people – consistent values matter.
- So does an ethical approach – which gives substance to what happens.
- Listening comes free – and doing it can be a real source of added value.

Questions

1 What are the key determinants of the success of Innocent Smoothies?

2 Visit one local supermarket and check out the presence of Innocent drinks and the competition. Can you see any visible threats to the business?

3 Do you see any longer-term risks to the idiosyncratic nature of this business from the investment and its subsequent acquisition by Coca-Cola?

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We can (and do, in this chapter) examine leaders and leadership from various perspectives:

- typologies – such as heroic, inspirational, charismatic
- roles and context – such as start-up or turnaround
- styles and approaches
- behaviours.

This chapter also looks at how some leaders are perceived to fail, and also at the vital issue of leadership succession.

> *The most important quality of a CEO (chief executive officer) is communicating a clear vision of the company's strategy – and the reputation of the CEO directly contributes to the company's ability to attract investment, recruit talent and survive crises.*
>
> Burson-Marsteller, US public relations business

> *The task of leadership, as well as providing the framework, values and motivation of people, and allocation of financial and other resources, is to set the overall direction which enables choices to be made so that the efforts of the company can be focused.*
>
> (The late) Sir John Harvey-Jones

In this quotation, Sir John Harvey-Jones emphasizes the need for a clear direction for the organization. The chief executive is responsible for clarifying the mission (or purpose), business model and objectives of the organization, for defining the corporate strategy which is intended to achieve these, and for establishing and managing the organization's structure. Personal ideas, vision and planning systems are all involved in defining the strategy.

The corporate strategy will be implemented within the structure, and the ways in which people behave – and are allowed to behave – within the organizational structure will impact on changes in competitive and functional strategies. The chief executive will also be a major influence on the organization's culture and values, which are key determinants of the ways in which strategies are created and implemented.

However, managers who are in charge of divisions or strategic business units (often referred to as 'general managers') are also responsible for strategic changes concerning their own products, services or geographical territories – as are functional managers, the chief executive, the chairman of the board (whether the same person as the chief executive, or a part-time, non-executive chairman) or the chief operating officer. Throughout this book, the term *strategic leader* is used to describe the managers who head the organization and who are primarily responsible for creating and implementing strategic change, particularly corporate strategic change.

While the strategic leader has overall responsibility for managing strategy in the organization, all employees can, and should be encouraged to, make a contribution, since they are then more likely to accept changes and the organization can become a strong competitor. Leaders should not – and, realistically, cannot – do everything themselves, but they remain the steer and catalyst for what does happen.

The strategic leader gathers and receives information about all aspects of the business, should use their network to monitor the environment and the organization, and watch for important opportunities and threats that could affect the whole business; hence, they need analytical skills and insight (or awareness) to provide an intuitive grasp of the situation that faces the organization. Threats can amount to crises the organization must deal with instantly, such as the finding in 2015 that Volkswagen had been using software that enabled it to doctor emission tests in the UK. Despite (at the time) no direct evidence that he had been involved personally, the CEO resigned as the share price plummeted. Correspondingly, there can be unexpected opportunities, such as windfall donations to charities. The 2014 'ice bucket challenge' – which directly benefited three charities: Macmillan Cancer Support, the Motor Neurone Disease Association in the UK and, particularly, ALS, a US motor neurone disease charity – grew virally from a grass-roots initiative through social media and took the ultimate beneficiaries by surprise. Celebrities and other participants generated donations by having a bucket of iced water poured over them, with everything filmed and shared online. The charities needed to become engaged in an instant in order to help maintain the momentum.

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Strategic leaders are put in a position of **power**, but have discretion over how they use it; some are very motivated by power, others use it to impose their own ideas, others seek to share power and responsibility with others to empower them.

Strategic leaders also draw on their experiences and expertise, as well as their background, which affects their relative preference for analysis and planning, or for working through people and allowing them individual freedom in **strategy creation**. These are the key themes of this chapter.

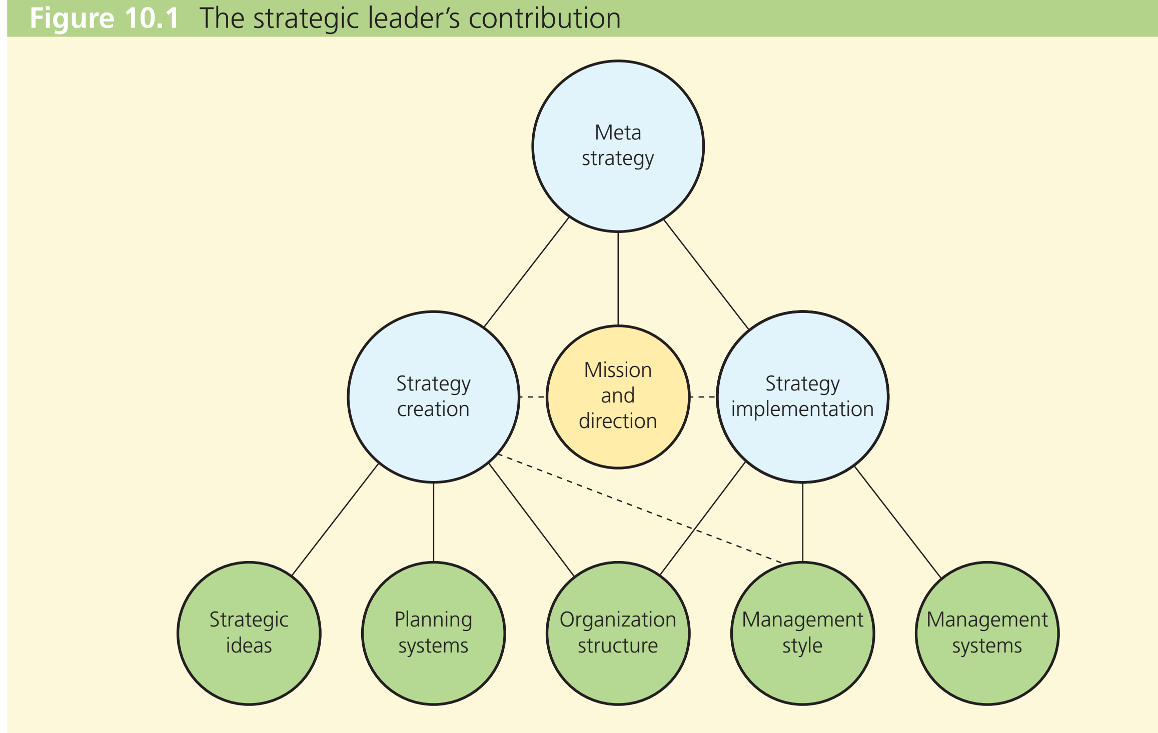
The strategic leader is responsible directly to the board of directors of the organization and, through the board, to the stakeholders in the business. The responsibilities of the board – and, in effect, the strategic leader – could be summarized as follows:

1. Manage the business on behalf of all the stakeholders (or interested parties).
2. Provide direction in the form of a mission or purpose.
3. Formulate and implement changes to corporate strategies.
4. Monitor and control operations with special reference to financial results, productivity, quality, customer service, innovation, new products and services, and staff development.
5. Provide policies and guidelines for other managers to facilitate both the management of operations, and changes in competitive and functional strategies.

Responsibility 5 is achieved through the organization structure; 2 and 4 are dependent on an effective communications network.

Figure 10.1 summarizes these points by explaining that, essentially, the strategic leader has a meta-level responsibility for deciding how strategies are to be created and implemented to pursue the mission and direction. They may impose strategies and, at the same time, decide on the nature, scope and significance of strategic planning systems. The choices of structure and management style will affect emergent strategy-making, as will be seen in Chapters 14 and 16.

Figure 10.1 The strategic leader's contribution



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Hooper and Trompenaars (2009) suggest that strategic leaders' results are partly driven by personal motives and ambitions, which affect personal values and the specific concerns these bring to the organization. Kellerman and Pittinski (2020) have concluded that six desires drive the most ambitious people:

1 power (and control)
2 money and accumulated wealth
3 sex and the personal gratification it can bring
4 success and reputation from achievement, *linked to*
5 legitimacy, identity and recognition, *plus*
6 legacy; a longer-term imprint.

In terms of their style, are they by nature more analytical (like corporate leaders) or more intuitive (like **entrepreneurs**)? And how effective is the leader at communicating – are they trusted; do they trust those that work for them? Sucha and Gupta (2021) further contend that products, their reliability and their ability to deliver what they promise have to be trusted by customers and financiers. Achieving this trust comes down to employees and what they do, which in turn relies on effective leaders and leadership. Trust, they argue, can be easily lost if and when people 'take their eye off the ball'. In 2022, the then UK Prime Minister Boris Johnson lost the trust of his fellow MPs and the public, and had to resign.

Table 10.1 summarizes the challenges facing strategic leaders and links them to key themes in the book.

Table 10.1 Challenges facing strategic leaders

Strategic challenge	Commentary
Ensuring every product and service is distinctive (competitive advantage) and adds relevant value for customers	The business model – and the corresponding revenue model
Taking into account all the key stakeholders and their (different) interests and priorities	
Dealing with the challenges of the 'new normal' business environment, which is uncertain and dynamic	The three components of E–V–R congruence: environment, values and resources
Building and maintaining a 'winning team' of people and other relevant capabilities	
Being clear about organizational values and embedding them in the organization	
Communicating to ensure the organization is visible	It is not enough to do; organizations must be seen to be doing and recognized for their achievements
Planning ahead – or, at least, thinking about the future	Opportunities and threats can come at any time and the organization must be prepared

We conclude the Introduction with Strategic Reflection 10.1 and invite you to consider the relevance for strategic leadership of studying leaders and leadership from a broader perspective.

Strategic Reflection 10.1

Leadership in a strategic context

Arguably, business leaders can and should learn from their counterparts – past and present – in other contexts. It can be valuable to study and reflect on what others have done that worked well for them – and also on what didn't work. This approach informs people, but it doesn't tell anyone what they should do – which comes down to personal choice and judgement. The efficacy of any decision is affected by time, context

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and circumstance, but the quality of a decision can be influenced by information and insight.

When discussing leadership generally, the default choice for many is often people perceived to be a heroic leader. Individuals, of course, can be seen as heroic for a whole variety of reasons. Guy Gibson, leader of the squadron known as the Dam Busters in World War II, was a decorated hero, but he perished before the war was over. His story illustrates innovation, pragmatism, bravery, risk and luck as well as the value of dedicated practice; his partnership with the inventor of the bouncing bombs that penetrated the dam walls, Barnes Wallace, was also of great significance. Another hero who 'succeeded against the odds' was Ernest Shackleton, who a little over 100 years ago led the rescue of his own expeditionary crew who had been stranded in the Antarctic. Of course, he had been involved in his crew being stranded, but his bravery, persistence and willingness to risk his own life says a great deal. Abraham Lincoln was deeply unpopular with residents of the Southern States because of his concerns over slavery. Even though he wavered and ignored the advice of many other statesmen, he kept going and ultimately succeeded in the Civil War. He displayed real courage. Naturally, there will always be opposing opinions, and sometimes refusing to change one's mind or change course is the wrong choice to make. Churchill, for many the greatest leader of the twentieth century, also had his opponents – perhaps given his past record, this opposition was understandable – but he gave people belief. In the movie *Darkest Hour*, Lord Halifax, one of Churchill's leading critics, conceded that 'he just mobilized the English language and sent it to war'. And people trusted him. Against the odds, he too was successful, but not without mistakes, errors of judgement and occasions of self-doubt. He might be called inspirational; he might also be called a visionary leader, as his view on what was happening in Europe turned out to be largely correct, when many of his opponents were seeing a different picture. In a very different way, Dr Martin Luther King Jr was also a visionary leader, and is remembered for his bravery in speaking out – as well as his oratorial skills.

We can learn a great deal from studying heroic leaders to find out what has value in strategy – but that is not to say strategic management (always) requires heroic leadership, although there are certainly occasions when it helps. When an organization is pioneering something new, or dealing with a major crisis or setback, it can be very helpful. But there are other ways of managing people and bringing out their best contribution. We might loosely associate heroes with the directional aspects of strategy, rather than operational detail, but sometimes the 'real hero' is the person who spots the problem or the error in and among the detail.

We might conclude that we are examining aspects of capability and temperament, the importance of 'recognizing the moment' (the opportunity), and the essential requirement to influence – perhaps even inspire – others to enable decisions to be enacted.

Reflection

Think of those people you know (or are familiar with) that you would describe as effective or successful leaders. Why have you made this choice and what factors have driven your decision? If they are not 'business leaders', what are the business lessons?

In doing this, you could, of course, use fictional heroes and/or leaders. Various characters from Shakespeare lend themselves very well, but so too do characters from *Harry Potter* and *Lord of the Rings.*

10.1 Strategic leaders(hip) and entrepreneurs(hip): Same or different?

Kets de Vries (1996) found that the most successful strategic leaders effectively perform two key roles: a *charismatic* role and an *architectural* one (refer to Figure 10.2). Hence, their strategies are owned, customers are satisfied, employees enjoy work and things can, and do, happen and change quickly. The charismatic role involves establishing and gaining support for a (winning) vision and direction, empowering employees and energizing them, gaining their enthusiastic support for what has to be done. The architectural role concerns building an appropriate organizational structure, together with systems for controlling and rewarding people – as a result, these roles embrace visionary leaders, entrepreneurs and intrapreneurs.

Hamel (1999) distinguishes between the often inadequate *stewardship* and the more dynamic *entrepreneurship*. *Stewardship* is the continued exploitation of *past* opportunities with costs managed for efficiencies and some incremental changes and improvements to reinforce the strategic position in a competitive environment. *Entrepreneurship* is the combining of new ideas, talented and entrepreneurial managers, and resources to exploit *new* opportunities entrepreneurially and driven by aspiration, rather than analysis.

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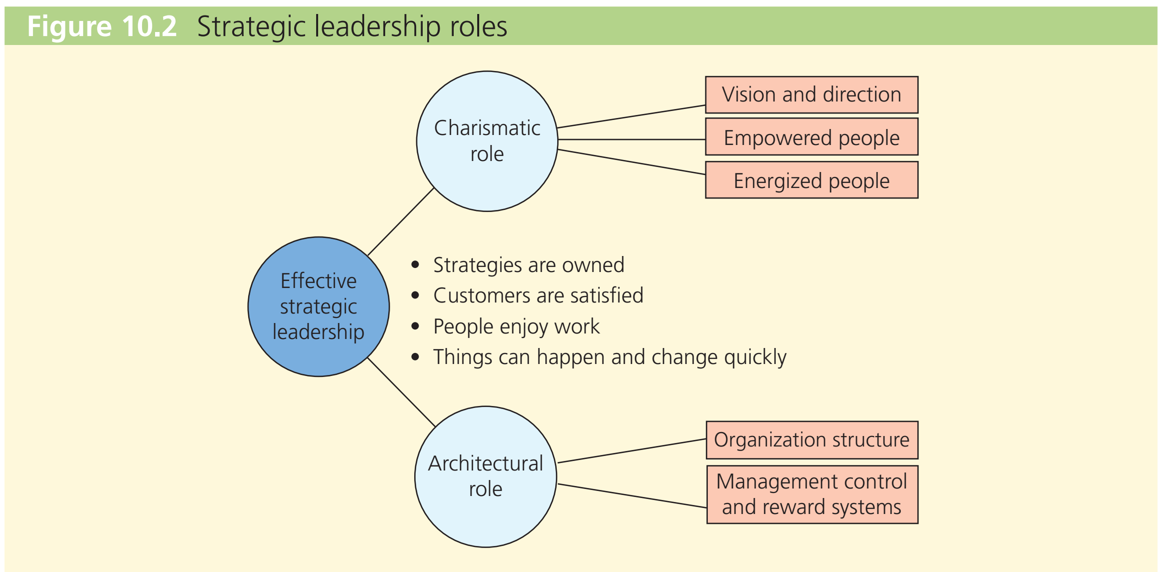
Figure 10.2 Strategic leadership roles



Perhaps what really matters is whether an **entrepreneurial mindset** is pervasive in an organization. This mindset would imply a focus on opportunity-spotting and opportunity-taking, and then a commitment to act on these opportunities, recognizing and attempting to manage the inevitable uncertainty and risk involved. When this mindset happens at the strategic leader level, it is entrepreneurship; when it is present throughout and at all levels in an organization, it is intrapreneurship. Table 10.2 features the recognized contributions of ten quite different strategic leaders, past and present.

Strategic awareness and change involves: becoming aware – listening, being on the shop floor more than in the office whilst, most important of all, staying humble – and taking action – sharing with others.

Michel Bon, ex-PDG, Carrefour SA

Table 10.2 Ten strategic leaders, each of whom has or had a vision, and is linked irrevocably to their company's strategy, structure and performance

Anita Roddick	The Body Shop	Built up and stuck with it; retired but left a lasting legacy
Richard Branson	Virgin	Built up, diversified and sold parts; reinvented the organization more than once
Alan Sugar	Amstrad	Built up and split up; personally found a new challenge on television
Tim Waterstone	Waterstone's	Built up, sold off and started again
Archie Norman	ASDA (and later Chairman of M&S)	Turned around and rejuvenated
Jack Welch	General Electric	Transformed
James Dyson	Dyson	Built up and remains in control
Gerald Ratner	Ratner's	Inherited, grew and lost
Freddie Laker	Laker Airways (Skytrain)	Built up, lost and retired eventually
Stelios Haji-Ioannou	EasyGroup	Built up, stepped down from original business, but continued to start new businesses

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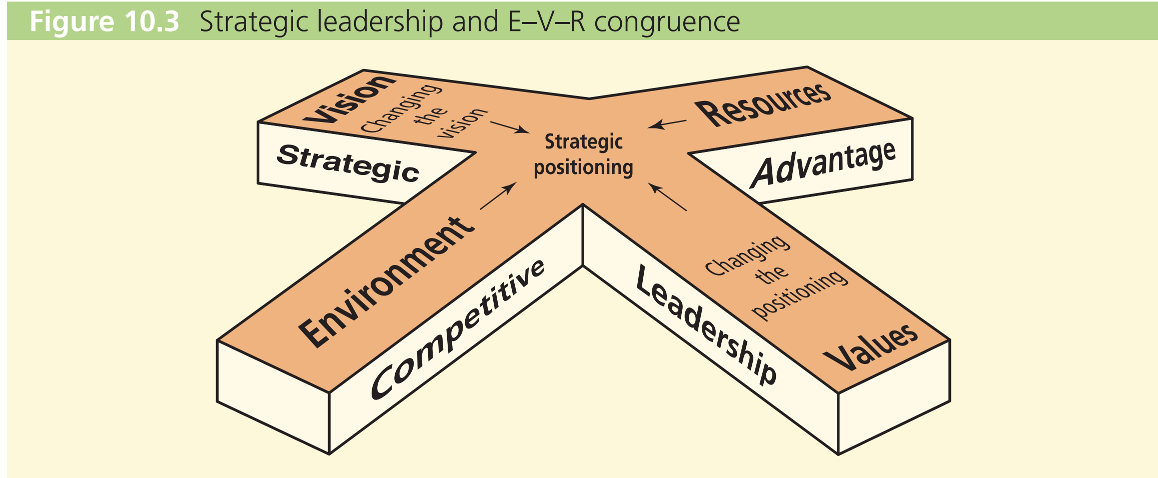
The role of the strategic leader

The strategic leader must *direct* the organization. They must ensure that feasible and achievable long-term objectives and intended strategies (which are more likely to be supported) have been determined, and that they are understood and supported by managers who implement them through the *organization structure* adopted by the strategic leader. Some will not be feasible due to wrong assumptions or changing circumstances. Decisions taken by general and functional managers within a decentralized structure will lead to new, incremental and adaptive changes in competitive and functional strategies. A third major responsibility of the strategic leader is a system of *communications* which enables managers to be strategically aware and ensures that the strategic leader stays informed of changes taking place.

Strategic leaders need to articulate a clear purpose and business model for the organization that is understood and supported by committed employees and which provides guidance and direction when managers make decisions and implement strategies determined by others. Similarly, the actual strategies – corporate and competitive – for achieving long-term objectives may be created personally by a strong or visionary strategic leader, or they may be ideas from anywhere inside the organization. Strategic leaders need not be personally visionary, as discussed later, but they must ensure that the organization has a clear purpose and direction and that resources are committed to its achievement.

Figure 10.3 develops the Environment–Values–Resources (E–V–R) congruence framework introduced in Part 1, with effective strategic positioning being central and reflecting competitive advantage. Positions have to be changed, perhaps due to innovation and incremental changes, or more dramatic and discontinuous changes reflecting a change in the vision.

Figure 10.3 Strategic leadership and E–V–R congruence



Strategic leaders must make things happen and bring positive results such that the organization's resources are managed efficiently and effectively. Some strategic leaders will be *doers*, active in carrying strategies through; others will be delegators who rely, instead, on their skills for motivating and inspiring, and they will need control systems for monitoring results and strategic **effectiveness**. Pragmatic but non-visionary leaders can be highly effective, but they must still ensure that the organization has a clear and appropriate purpose and direction. However, short-term success results from a combination of efficient management and friendly market forces, which can change quickly; or they can come when previously successful strategies are in need of renewal – a non-visionary may fail to provide the appropriate leadership and champion the necessary changes. Vision is crucial; some believe that the most effective leaders are those with ideas (Bennis, 1988) – perhaps because their vision and track record help obtain and maintain the confidence and support of influential stakeholders, such as institutional shareholders.

As well as vision and pragmatism, the leader should build a structure and culture that captures the abilities and contributions of other managers and employees, through which existing strategies are implemented where there is proper momentum for change (refer to Chapter 15).

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The organization's culture and values (Chapter 7) are very often influenced – or imposed – by the strategic leader – for example, the attitudes and behaviour of people and their willingness to accept responsibility and take measured risks. Although, over time, a strategic leader is likely to become more of a generalist than a specialist, a leader with a financial background may focus on financial targets and analysis; a marketing background will lead to focus on consumers and competition; or an engineering background to product design and quality.

Figure 10.4 delineates seven leadership styles and Table 10.3 contextualizes these in the directional-operational and external-internal perspectives.

Figure 10.4 Strategic leadership style and contribution

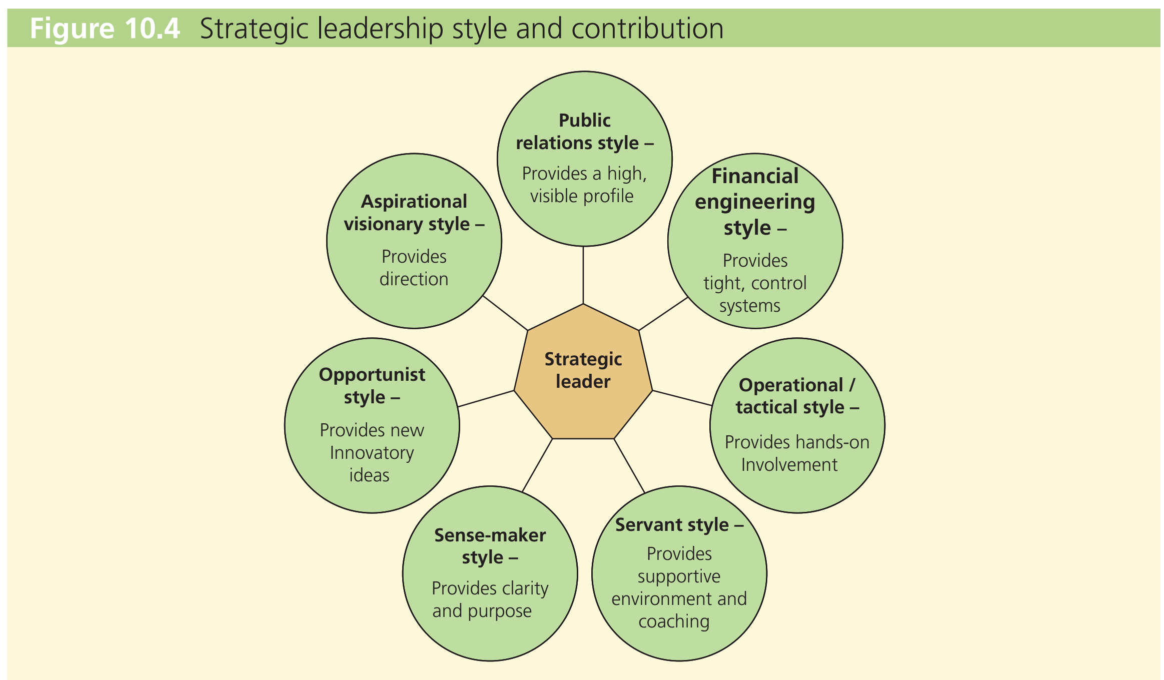

Table 10.3 Strategic leadership style

Directional		Reflective	Operational	
PR style Aspirational visionary	Opportunist			*EXTERNAL FOCUS*
		Sense-maker	Operational/tactical	*Both external and internal focus*
		Servant	Financial engineering	*INTERNAL FOCUS*

Every leader may have a dominant style, but must make sure that the others are not neglected, because all of the contributions are required. The balance between the seven, in terms of which are strong relative to the others, will affect the culture and management style of the whole organization. The visionary style and (perhaps to a lesser extent) the public relations style are directional contributions – while the sense-maker style is both directional and operational. The others focus more on operations; the servant enables change through people. The seventh element – the opportunist style, is concerned with seeing and championing new opportunities, although we might readily think of this as entrepreneurship, which we discuss later in

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the chapter. The leader has a clear custodial role vis-a-vis the culture and values of the organization and an expectation they will embrace and integrate stakeholder views, in particular making customers and employees feel their opinions matter. We would see strength here as being linked to the servant style. In Table 10.1, it was stressed that organizations must be visible and be perceived to have added value for customers. Just doing something is not enough; the achievement must be recognized. Hence there is a need to champion and promote the brand and the values of the organization; these contributions are linked to the public relations style. Leaders who are storytellers, as well as story creators, can be very valuable. In the 'new normal' world, where social media is ubiquitous and popular, it is essential that strategic leaders see this as an opportunity and seek to make sure their organization has a strong online presence. Resources will typically be invested in this activity, and this again relates to the public relations style we have identified. Arguably, use of this framework can help us to understand why things happen as they do in any organization being analyzed and will help to explain the relative balance between visionary, planned and emergent strategy creation. Table 10.4 now links Figures 10.3 and 10.4.

Table 10.4 E–V–R and leadership styles

E–V–R	Leadership styles
Vision	Aspirational visionary; sense maker
Values	Servant
Environment	Public relations; analytical; opportunist
Resources	Financial engineering; operational/tactical; analytical; opportunist

At this point, you might like to reflect on the achievements of two very different people. Jeff Bezos has proved to be one of the world's most successful entrepreneurs in terms of business and personal financial wealth creation; he has changed retailing, and he summarizes his philosophy quite simply: 'Start with the customer and work backwards' (Case 10.3). Berry Gordy (Case 10.2) had 'made his mark' – leaving a lasting legacy – and sold his business before Bezos even created Amazon. A key plank was his success in spotting, signing and nurturing artists with outstanding musical talent and ability.

Case 10.2 Berry Gordy and Motown Music US, Int

This case focuses on disruptive entrepreneurship and how a new music label and style provided an opportunity for various artists to record hit records and build successful careers in a global industry. Realistically, we might describe Berry Gordy as both an entrepreneur and an enabler, a man who started something with a declared belief but no clear idea where what he started would lead; he would respond to events and progress, seizing new opportunities. He left a legacy in music and entertainment. Gordy built a family; and, for many, it will be the names of his artists and the music they recorded that is the legacy.

Motown Music was important for the music itself, certainly, but also because it helped remove divides in the United States at a time when racial, social and political tensions were serious. In its heyday in the 1960s and 1970s, it had a transformational impact on popular music.

Berry Gordy was a songwriter, music and movie producer and author. He has been described as an 'innovative entrepreneur, teacher and visionary' whose music 'transformed American life'. He was inducted into the Rock & Roll Hall of Fame and received awards for his contribution to the Civil Rights Movement.

He was born in Detroit in 1929; his parents would be categorized as middle class. His father had several small business enterprises; his grandfather was a classical pianist. He was a professional boxer in his teens but gave up boxing when he was called for National Service;

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he served in Korea. Although afterwards he did work for a time in the automotive industry, his passion was always music; he wrote songs. He was introduced to the Rhythm & Blues singer, Jackie Wilson, who recorded one of his songs – *Reet Petite* – which became a 'modest hit' in 1957.

Gordy invested the royalties he earned, together with money he borrowed from his parents, to buy a small house which could double as a music studio and a home for his family. He said at the time he wanted more control over how his songs were recorded. He soon started working with up-and-coming bands that he either knew or discovered. His early successes came with The Miracles, whose lead singer was Smokey Robinson – and who has been 'his best friend' for over 60 years. The Miracles had a series of hit records, perhaps the best known would be *You Really Have a Hold on Me.* He started a record label – Tamla Records, later known as Tamla Motown and then Motown Music. In the early 1960s he recorded Mary Wells' *My Guy*, which was an international hit.

During the 1960s and 1970s, he recruited and recorded a whole raft of artists for Motown; some of these were long-stays, while others were more transient. They included: The Supremes, Marvin Gaye, The Temptations, Jimmy Ruffin, The Four Tops, Gladys Knight and the Pips, The Commodores, Lionel Richie, Martha & The Vandellas, Stevie Wonder and the Jackson 5. Most Motown artists were African American, but not exclusively so. Gordy controlled their public image, dress, appearance and choreography as well as their music. He defended this control by claiming: 'it made them stars; their success wasn't just luck'. He also worked closely with a variety of songwriters. He had a vision somewhat akin to a vehicle production line. Find singers with genuine talent and ability; sign them up and bring them into Motown; sort out a suitable song; record it; produce it and release it; promote it (to the media, especially radio stations); work on and with the artists' stage presentation; support their stage and media appearances. He deliberately encouraged a competitive spirit between his artists and between songwriters. He declared, though, that the competition should never stop them having fun. This competition did, and perhaps not unexpectedly, encourage some artists to leave Motown and sign with other labels. But Gordy clearly managed to retain several 'winners' and both they and the Motown label benefitted from the partnership. Motown became the most successful independent record label in the United States.

Gordy has commentated, maybe a touch tongue-in-cheek, that he was motivated by his own perceived shortcomings – which caused him to write the words of one successful song: *You broke my heart 'cause I couldn't dance. You didn't even want me around. But now I'm back …*

Gordy had notable relationships with some of his leading artists, including, particularly, Diana Ross. Gordy is on record as having three marriages which ended in divorce and eight children with six different mothers. He and Ross had a daughter – and a lengthy affair – but they never married. He clashed with her over the Supremes' choice of music; he believed they should also be singing and recording old classics, but she disagreed. He supported her desire to be the named lead singer, so the group became Diana Ross & The Supremes. This culminated in a split and the Supremes left Motown in the late 1960s. Both Ross and The Supremes have continued to perform, but completely independent of each other. He wanted to make Ross 'the biggest star in the world'. She was, in fact, booked to play 'as a legend' at Glastonbury in 2020, but because of COVID-19 (as we saw in Case 4.1) this concert did not happen, but she did appear there in 2022. Berry Gordy produced the movie *Lady Sings the Blues* about Billie Holliday, in which Diana Ross took the lead role. Ross finally left Motown in 1981, after 20 years with the label – with a US$20 million contract from RCA. Diana Ross and Berry Gordy are, apparently, still close friends.

Gordy might also be remembered for nurturing the early career of Michael Jackson. The Jackson 5 (five brothers) joined Motown in 1969, when Michael was 10 years old, leaving six years later. Their first four records with Motown all topped the charts. Gordy commented that Michael was always interested in the production side of music but has mused that perhaps he wanted too much control of everything he recorded. At his funeral, Gordy described Jackson as 'the greatest entertainer that ever lived'.

Berry Gordy sold his interests in Motown Music to MCA Records (which eventually became Universal Music Group) in 1988 for US$61 million. His music catalogue (from his song writing) was in a separate business that he sold later for a higher figure.

Still active in his 90s, he has been described as 'the greatest man in pop music history, who made the world happy'. He wrote his autobiography a few years after he sold Motown and, since then, a stage show based on his

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achievements and featuring many of his records – *Motown: The Musical* – has proved popular around the world.

Questions

1. Would you describe this case story as primarily one on a leader/entrepreneur or one on leadership?
2. How would you summarize the main styles and qualities of Berry Gordy in the context of the material in Section 10.1?
3. While recorded music is a product, is it also 'something more than a product'? If so, should or does the nature of recorded music place a particular social responsibility on those who create it?
4. What is Gordy's legacy?
5. Who do you think would be his main rivals to be called 'the greatest person in pop music history'?

Case 10.3 Jeff Bezos — US, Int

Jeff Bezos is the entrepreneur who founded Amazon and who was CEO until 2021. Amazon now has a valuation in excess of US$1 trillion. Bezos, with reported wealth of some $200 billion, was the world's richest man until Elon Musk (Tesla) overtook him. Amazon employs 575,000 people worldwide; half of all online sales in the United States are down to Amazon – and it all began in a garage around 25 years ago.

Annual sales are now in the order of US$400 billion, with net profits of over US$20 billion.

Jeff Bezos appears to have foretold that 'anything' would become available for purchase online, that high streets and shopping malls would start to fade in popularity, and that retailers generally would have to become more innovative. He built a retail and entertainment empire 'fit for the future' and forced others to follow his lead. What he has achieved took years – it was not 'instant success' – but the investments that were made (and they were serious investments!) have paid off handsomely.

Amazon.com was founded in 1994 by Bezos, the son of a Cuban immigrant, who once dreamt of being an astronaut. He consequently went on to graduate in electrical engineering and computer science from Princeton. While a teenager, a paper he wrote on the effect of zero gravity on the common housefly won him a trip to the Marshall Space Flight Center in Alabama. But after Princeton he became a successful investment banker on Wall Street. He was, in fact, the youngest senior vice-president ever at D.E. Shaw, which he joined from Bankers Trust. Intrigued by the speed of growth of the internet in the early 1990s, he decided to 'seize the moment' and leave the corporate world to become an entrepreneur. He had experienced his trigger and he left the bank with the straightforward intention of starting an e-commerce business.

At this stage, he had no specific product or service in mind, and so he began by drawing up a list of possible activities. He narrowed down his first list of 20 to 2 – music and books. In both cases, the range of titles available was far in excess of the number any physical store could realistically stock. In 1994 there were 1.5 million English language books in print, and another 1.5 million in other languages. Yet the largest bookstore carried 'only' 175,000 titles. Moreover, Bezos appreciated that the distribution was fragmented. He believed there was scope to offer books at discounted prices and wafer-thin margins to seize sales from existing retailers, while also boosting the overall size of the market. The secret of Bezos' success would lie in his ability to establish an effective supply chain. Warehouses have been strategically located around the world and Amazon makes sure that it can deliver either from stock or from publishers within days of receiving an order electronically. There are four value propositions to Amazon.com: convenience, selection, service and price. Clearly there are no books to touch, open and read. All communications are through the web pages or via email. The website allows customers

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to search the extensive book catalogue by topic and author, to read explanations and summaries from authors as well as reviews from other readers, specialist reviewers and Amazon's own staff – and to order with a credit card. Leading titles are held in stock but others have to be ordered from their publishers. Books are despatched very quickly after Amazon receives them into stock. Delivery to the customer of a non-best seller, therefore, is normally around a week, with more unusual titles taking longer. Stock titles take around 48 hours.

But, of course, books are now only one part of the story! Music, computer games, toys, pet foods and pharmaceuticals are just some of the products that Amazon now supplies. All books – and most products – are discounted; the 'store' is open 24 hours every day and is accessible from anywhere in the world. Amazon also offers a sales platform to hundreds of thousands of small merchants and it has invested in providing Cloud data storage.

Within its first year, Amazon.com earned revenues of US$5 million, equivalent to a large Barnes and Noble superstore, the leading US high street bookstore. Sales have since grown dramatically as the company has expanded rapidly – but so too have the costs. By 1999, sales had reached US$1.5 billion and they topped US$3 billion in 2001. By 2001, accumulated losses amounted to US$2.3 billion and Amazon had debts of US$2.1 billion. Its first *quarterly* profit came late in 2001, but the business had yet to post an annual profit. In 2001, some staff had to be laid off. The company went public in May 1997. Not unexpectedly, its share price and market valuation have been very volatile at times. In addition, the company has sometimes been criticized. It has a reputation (as do many other global businesses) for paying only modest business taxes; and it was alleged to have 'demanded' very low shipping rates from the US Postal Service, exploiting its very real power. Some have also commented that Bezos has yet to become a generous philanthropist, although commentators have suggested that 'he always wanted to make money so he would be in a position to influence the future'.

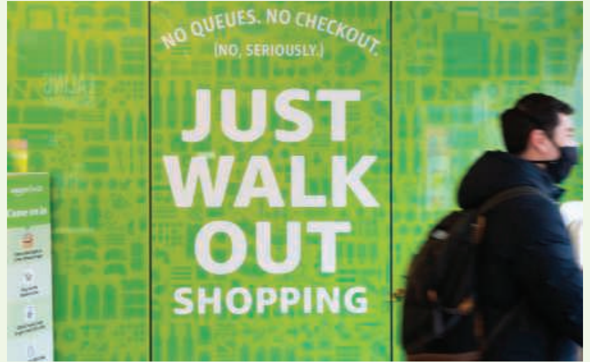
Amazon has diversified to some degree with the Fire Tablet, Kindle e-reader and Amazon Prime streaming. It has bought the distinctive Whole Foods supermarket chain and also experimented with its own supermarkets where everything is driven by electronic monitoring, thus replacing the checkouts as we understand them.

Bezos, himself, remained infectiously enthusiastic and was firmly at the helm of Amazon as CEO, where he took a 'seriously long-term perspective' … until he resigned in 2021. He is noted for two personal quirks – his loud and frequent laugh, and his tendency to always have to hand a small camera. His closest colleagues confirm he is 'sometimes goofy'. A noted workaholic, he believes 'that if he works over 60 hours a week he gets tired – but under 60 he gets bored!' He also believes that 'successful entrepreneurs are both flexible and stubborn simultaneously . . . the secret is knowing when to be flexible and when to be stubborn'.

He has become the owner of the *Washington Post* newspaper, and he has personally invested in an aerospace business, Blue Origin, which is competing with Elon Musk (Tesla) and Richard Branson (Virgin) in the challenge to provide space flights for those individuals that can afford the fare.

Questions

1. How would you summarize Bezos in the context of the leadership styles featured in Figure 10.4?
2. Richard Branson has been described as 'a legend in his own lifetime'. Would you describe Bezos in the same way? Why? Why not?
3. Case 10.6 on Virgin and this chapter's Strategy activity on Bill Gates (Microsoft) show how these entrepreneurs have become philanthropic. Can you identify philanthropic opportunities for Bezos?



Effective formal and informal communication systems help to share the strategic vision and to inform people of priorities and strategies; they also help to ensure that strategies and tasks are carried out expeditiously. In a decentralized organization, an effective communications network feeds information *upwards* and *laterally* inside the organization to avoid control being lost. In quite different ways, both 'managing by wandering

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around' and budgetary control systems can help to achieve this co-ordination. Good lateral communications also help managers to learn from other parts of the business, which can lead to good practice being shared. The strategic leader must champion relationships with important stakeholders, particularly its financiers, suppliers and major customers, and also government agencies and the media.

Corporate governance, although beyond the scope of this book, means that the leader should ensure there is a strong, competent and balanced executive team at the head of the organization whether the roles of chairperson (often a part-time post) and chief executive are split or not, or in terms of the role and contribution of part-time non-executive directors. Topics of **governance** controversy frequently involve senior management remuneration packages.

The importance attached to formal planning processes and emergent strategy creation in an organization will depend on the personal preferences and the style of management adopted by the strategic leader. The organization must be able to respond to the change pressures of a competitive environment, and curiosity, creativity and innovation should become part of the corporate culture. Ingenuity is always important, but often it is used tactically as a 'short-term fix'. New Zealand uses the phrase *Number 8 wire* for this. Farmers, frequently isolated from help when it is required urgently, turn to 8-gauge wire as a short-term resolution. Innovation implies more: an idea has been developed into something that adds longer-term value – quite possibly something customers realize and will pay for. Although learning and incremental change are crucially important, discontinuous change and strategic regeneration will be necessary for organizations at certain stages in their life cycles. When this is the case, and strategies, structures and styles of management need reinventing simultaneously, an effective, visionary leader will be essential.

An organization needs an *effective* strategic leader, but they cannot, and should not, attempt to do everything; they should be able to understand personal strengths and limitations, and to appreciate the most appropriate ways of contributing. There is no single, recommended behaviour for effective strategic leadership: some are autocratic, others democratic; some rely on planning and analysis, others are more intuitive and visionary; some accept risk or uncertainty, others are averse to these elements; some pursue growth through efficiency and cost savings, others by adding new values in an innovatory climate; some set ambitious growth objectives and others are more modest. All these styles can prove effective, but the challenge lies in creating and maintaining E–V–R congruence.

The strategic leader's position and situation should be evaluated, given that they may have founded the organization and may still be in control; are perhaps in a later family generation; may have 'risen through the ranks' to take control; or may have been brought in especially, possibly to turn around a company in difficulty; and may be relatively new or have been in the post for some time. The style of leadership adopted depends on the leader's preferred style, background and current circumstances.

Critical Reflection 10.1 extends Table 10.1 and provides a summary of the qualities and skills required for effective leadership, together with a list of the factors that typically characterize ineffective leadership. Figure 10.5 features requirements that determine the extent of the impact made by a strategic leader and presents the issues in three clusters.

- Drive – concerns motivation and ambition, and a person's ability to accept demanding targets and achieve results.
- Judgement – related to decision-making style and abilities; the softer or more conceptual issues of opportunity-spotting and problem-framing (awareness and insight into a situation) blend with harder analytical abilities.
- Influence – a person's appreciation of how others may be influenced and their way of doing it; networks and contacts are an important element of this.

A number of these themes are also illustrated in Online Case 10.7 on Sir Tom Farmer, founder of Kwik-Fit, who imported his vision from the United States and whose success has involved opportunism and innovation backed up by sound business sense. Sir Tom Farmer could legitimately be described as an entrepreneur, as discussed later in this section when we examine the link between entrepreneurs and strategy before going on to examine visionary strategic leadership.

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Critical Reflection 10.1 Effective and Ineffective Leadership

Qualities and skills for effective leadership

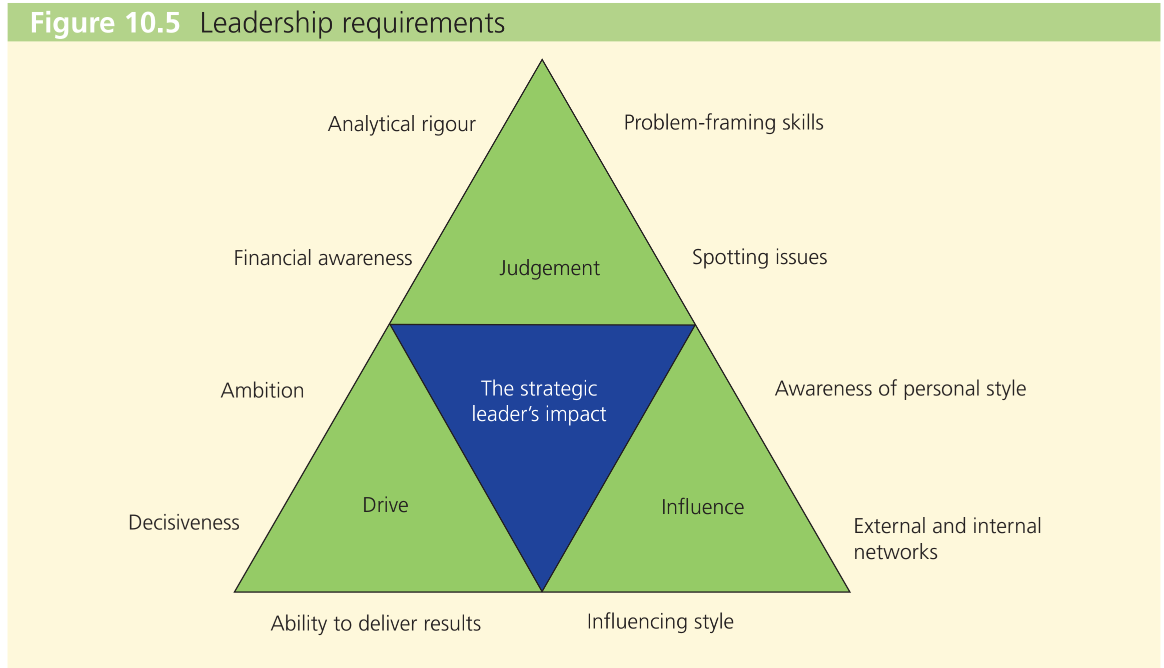
- a vision – articulated through the culture and value systems
- the ability to build and control an effective team of managers
- belief in success and in corporate strengths and competencies that can be exploited
- the ability to recognize and synthesize important developments, inside and outside the organization – this requires strategic awareness, the ability to judge the significance of an observed event and conceptualization skills
- effective decentralization, delegation and motivation – the appropriate extent will vary
- credibility and competence – knowing what you are doing and having this recognized; this requires the ability to exercise power and influence, and to create change
- implementation skills – getting things done, which requires drive, decisiveness and dynamism
- perseverance and persistence in pursuing the mission or vision, plus mental and physical stamina
- flexibility – recognizing the need (on occasions) to change strategies, structures and style; some leaders are single style and inflexible.

Characteristics of ineffective leadership

After a period in office, some leaders appear to coast, enjoying their power and status, but no longer adding any real value to the organization. Specifically:

- There are few new initiatives; instead there is a reliance on tinkering with existing strategies to try to update past successes.
- Good new products and services are not developed.
- The leader surrounds themselves with loyal supporters, rather than enjoying the stimulus of newcomers with fresh mindsets.
- Discordant views are either ignored or not tolerated.
- Cash reserves, beyond those needed to sustain a period of depressed sales, are allowed to accrue.
- The leader becomes out of touch with the views of customers and the activities of competitors.
- Too much time is spent by the leader on external activities, without ensuring that other managers are dealing with important organizational issues.

Figure 10.5 Leadership requirements



Based on a framework devised by Kingfisher plc in conjunction with Occupational Psychologists YSC

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Charan (2006) argues that effective strategic leaders should demonstrate necessary qualities and know-how, which, he argues, are:

- the ability to position the business in order to make money – which implies an ability to satisfy customers and respond to environmental changes
- connecting external events to the internal workings of the business – in order to drive the change agenda
- 'managing the social system' of the organization so that there are effective networks and communications
- judging, selecting and developing other and future leaders
- moulding an effective leadership team
- deciding on and pursuing realistic but stretching goals, linked to direction
- clarifying priority issues – which will affect the likelihood of achieving the desired outcomes
- finally, dealing with the inevitable, ubiquitous and unexpected challenges. The world is uncertain.

He does argue that it is unlikely any one person will be outstanding in all of these!

Entrepreneurs and entrepreneurship

Bolton and Thompson (2013) define an entrepreneur as a person who: 'habitually creates and innovates to build something of recognized value around perceived opportunities'. Entrepreneurs start organizations, run organizations and work in organizations as employees (as **intrapreneurs**, shorthand for *intra-corporate entrepreneurs*, Pinchot and Pinchot, 1978). Here, we examine strategic leaders as entrepreneurs, and then consider whether the strategic leader has built an organization which fosters intrapreneurship (Section 10.2).

We include a section on the lean start-up which is an emergent approach based on: (i) understanding customers, their problems and their needs; and (ii) building something of relevant value to meet their needs. You will appreciate the direct link to the above definition of entrepreneurs. Strategic management is concerned with environmental fit in terms of achieving congruence between environment, values and resources for existing and potential future products and services. (Figure 10.6 implies E–V–R action rather than an expression of a state, in terms of the environment as windows of opportunity and resources as organizational competencies and capabilities.) Thus, entrepreneurship is required in the organization – both at the level of the leader and throughout the whole organization – to ensure that resources are developed and changed, and used to exploit the windows of opportunity ahead of rival organizations.

Figure 10.6 E–V–R congruence and entrepreneurship

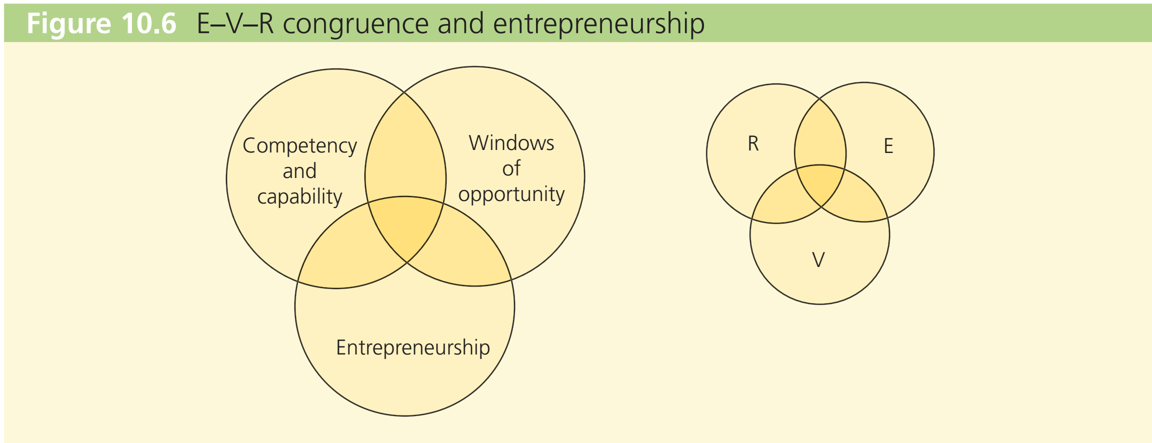

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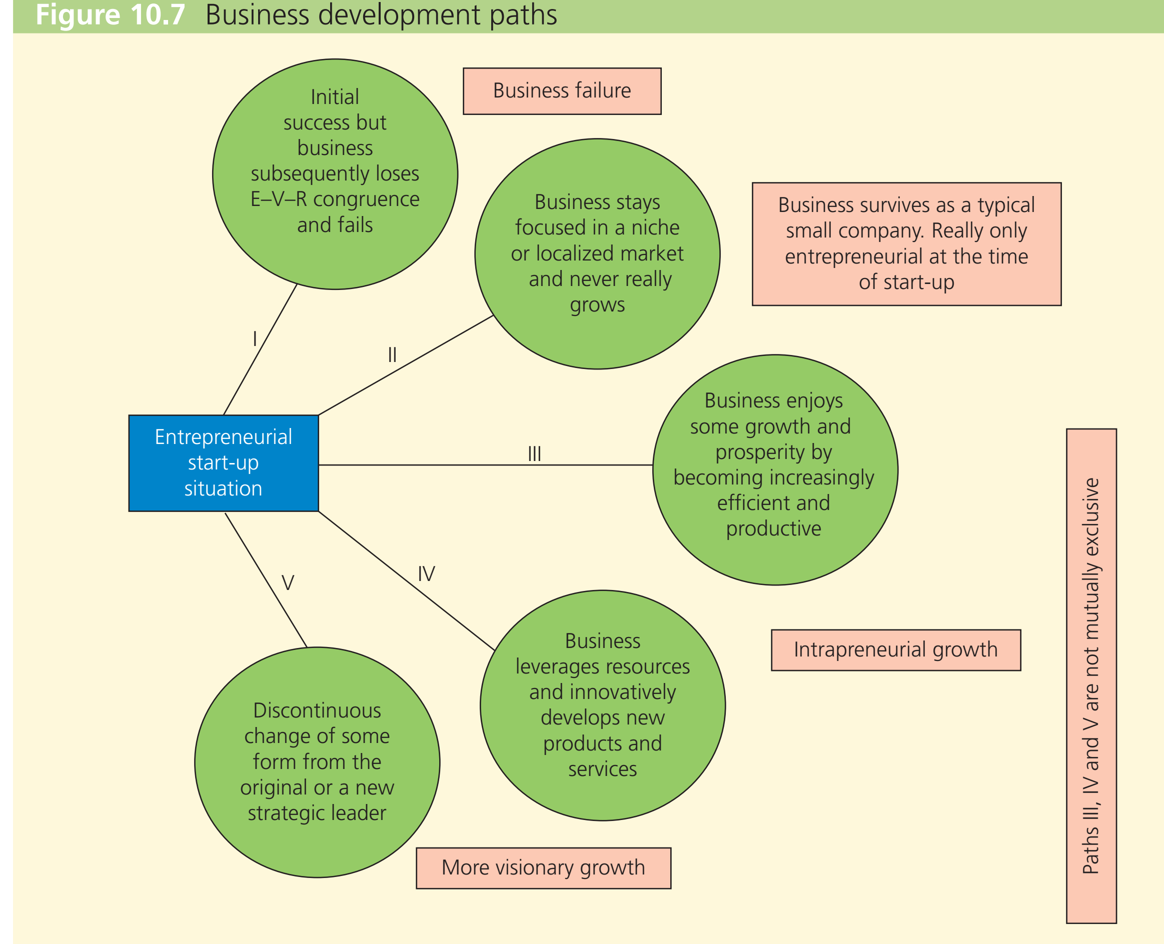
Figure 10.6 is drawn with an organizational perspective, but it could have been developed in the context of an individual's contribution, using the following ideas:

Windows of opportunity	E	*Opportunity-spotting and taking*
Entrepreneurship	V	*Individual motivation to innovate*
Competency and capability	R	*Personal attributes and capability*

Existing business leaders should ensure that attention is focused on costs and prices, which determine profits, and on ways of reducing costs by improving productivity, perhaps by technology changes and new operating systems, which may equally improve product quality, for which premium prices could be charged. Future developments may concern new products (or services) or new markets or both, and could involve diversification. For different alternatives, the magnitude of the change implied and the risk involved will vary, and the changes can be gradual or incremental, or can be more dynamic or individually significant. Real innovation can be costly in terms of the investment required and is (often necessarily) risky.

Figure 10.7 shows alternative development paths for a business given that, although entrepreneurs are usually conceptualized as people who develop new ideas and new businesses, alternative conceptualizations theorize entrepreneurs as individuals who introduce innovative ideas into a situation of some stability and create disequilibrium (Schumpeter, 1934). Conversely, entrepreneurs can create equilibrium (in the form of E–V–R congruence) by matching demand and supply in a creative way (see Kirzner, 1973). However, it is the path of future progress that really matters.

Figure 10.7 Business development paths



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The business could initially be successful but then fail, without further innovation and renewal (Path I), as the original window of opportunity closes and the business fails to find or capitalize on a new one.

Many archetypal small 'lifestyle' businesses – not run by 'real' entrepreneurs, as they fail the 'habitual' requirement included in the definition, but by lifestyle entrepreneurs – never improve and grow (Path II). Sometimes this is by deliberate choice, sometimes through lack of insight and awareness; but they survive by satisfying a particular niche or localized market and find a new window of opportunity if that one closes, and are reactive rather than proactive. They may *expand*, as distinct from true growth based on improvement and excellence.

Paths III and IV feature more proactive entrepreneurial businesses which *grow* via productivity improvements and/or by leveraging their resources to develop new products and service opportunities and sometimes, but certainly not always, they will be decentralized, empowered and *intrapreneurial*.

Path V implies discontinuous change and requires visionary leadership, either from the original founding entrepreneur or a new strategic leader. This will involve opportunity-based strategy-making, growth orientation, decentralized power and significant strategic change being achieved despite conditions of uncertainty (Mintzberg, 1973). Implicit is an attempt to be proactive and to manage the environment. Paths III, IV and V are clearly not mutually exclusive and can exist simultaneously.

Paths I and II are not genuine 'entrepreneurial' businesses; neither is an acquisitive-growth organization which fails to add new value and improve along either Paths III or IV, although at times its revenue may grow dramatically. When any company merges or is taken over, there is likely to be a change of strategy, culture and, possibly, leadership; hence, the acquired business may, therefore, experience a Path V change.

The lean start-up

Kander (2014) argues that:

- Start-ups are about finding customers and not building products.
- People are buying solutions to (their perceived) problems rather than products *per se*.
- Entrepreneurs must be detectives and not think they are fortune-tellers.
- Successful entrepreneurs need to be luck-makers rather than risk-takers.

Failure with start-ups is not (generally) because would-be entrepreneurs lack passion yet work hard, fail to actually make their products, and fail to secure the resources they need – but because they fail to find customers and sell their products. Why? Because it was never the right idea; it was never a real opportunity. When searching and looking for ideas, there is often a tendency to focus on the problems 'you' see (as we discussed in Chapter 8) – instead, it is necessary to identify (and solve/resolve) the problems your potential customers believe they have.

The philosophy behind lean start-ups (see, for example, Ries (2011) and Blank (2013)), then, is one of an entrepreneur realizing what can and can't be known when they start on their journey. Exercising leadership here is not about 'knowing, showing and telling', but about being willing to ask the right questions (and act on the answers) and be clear that your role is to serve customers. You might reflect here on the comment about listening at the end of Case 10.1. Once there is some clarity over the problems that customers see as priorities, creativity and innovation should be used to discover a potential solution or resolution. This idea should be trialled and improved in an emergent and iterative process. It is important to minimize how much is being invested at this point. Two things you might recall. First, the number of prototypes James Dyson made with his first vacuum cleaner (Case 5.1); second, the number of occasions on *Dragon's Den* when the panel has been appalled at the money already invested in a prospective business without any consequential financial return. During the trials, it might well emerge that an entrepreneur has created something that potential customers really like and praise – but that they have no intention of buying because what it addresses is something that isn't a problem for them. Moreover, it is always important to ensure that the outcome is a 'win-win'. First, that the product or service meets customer requirements, but, second, that the idea is something that interests the business and its key stakeholders, and that it can be produced and sold profitably.

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The important questions, then, are:

- Does a problem really exist? Do people care?
- Have we found a (re)solution?
- Does our idea offer genuine, affordable advantages?
- Will people buy at the price we would be charging?

As we discussed in Chapter 2, business models are all about value. Carlson (2006) argues that it is dangerous to assume that others will value something that appeals to you, that they should share your view of the world. It is imperative to test out ideas when it comes to perceptions and priorities relating to value; it is also necessary to check what it is that motivates other people and what it takes to persuade them to act.

The role of the entrepreneur

The word entrepreneur continues to suggest the sharp trader, so-called dodgy dealers or less-than-honest used car salespeople. Entrepreneurs are often linked exclusively to the business world; and yet entrepreneurial people are to be found in most walks of life – for example, social entrepreneurs have a commitment to deliver social and environmental as well as financial outcomes. In this section, we explore how our understanding of the term has developed in the last nearly 270 years.

Cantillon (1755) cites the entrepreneur as any individual who operates under conditions where expenditures are known and certain, but incomes (sales revenues) are unknown and uncertain. Cantillon's entrepreneur possesses foresight and the confidence to operate under conditions of uncertainty, and their main qualities are the creation of entrepreneurial income through decision-making and risk-taking, rather than orthodox effort. Cantillon was a natural trader and dealer with a relatively shrewd approach to opportunistic profit, and he was reportedly a successful speculator because he could perceive and predict the actions and reactions of other speculators better than they could predict his own – revealing a character combining intelligence and perceptiveness with a willingness to take risks. The word 'entrepreneur' first referred to Frenchmen – appointed by noblemen acting on the king's orders – who were granted the right to supervise the construction of a road or bridge and to collect the tolls, in return for a suitable donation to the royal treasury or some other favour. The entrepreneur took the risk and guaranteed the nobleman a fixed annual payment and kept the profit, while noblemen generally wished to earn a steady income without getting their hands dirty. Since entrepreneurs tended to be smart and closely involved with the project, and the noblemen who nominally owned the projects were usually neither, profits were often substantial – because they managed the risk carefully.

In the German-Austrian tradition, the entrepreneur is characterized as someone who manages the inputs into a process with higher level outputs – that is, trying to manage demand and supply – and who, by coping with uncertainty, is a risk-bearer. The Chicago tradition, outlined in the work of Knight (1921), indicates that the fundamental characteristic of the entrepreneur is risk-taking and being able to deal with the uncertainty that exists within any economy.

Schumpeter (1934) saw the role of the entrepreneur as driving through innovation, which leads to the creation of new firms, to the demise of old firms and, thus, the creation of wealth. Schumpeter believed that only large firms would have the resources to both innovate and prevent the competition from new entrepreneurs threatening them. However, small firms continue to be the engine of innovation in any economy and these firms are led by people we call 'entrepreneurs'.

Schultz (1962) suggested that the entrepreneur should not have a limited role as a business person, but should be the agent of economic change driving the economy forward. The Modern–Austrian Tradition portrays the entrepreneur as demonstrating 'great ingenuity', thus reaching the higher level of promoting economic change, meaning that they can contribute more to the economy and are more than just an effective manager: the entrepreneur must be alert to opportunity.

For Kirzner (1973), the entrepreneur is not interested in routine managerial tasks but is concerned to demonstrate qualities of creativity and perception, and is alert to changes in the economy, and takes advantage of such circumstances and opportunities. This view could return the perception of the role of the entrepreneur as a wheeler-dealer who creates nothing, instead spotting and taking profitable opportunity. To some extent, it

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will depend on what form opportunity takes: asset stripping or the opportunity to innovate, as both may create wealth – but for whom and how will the wealth be used?

Liebenstein (1966) moved towards confirming the more complex profile of the effective entrepreneur, with the theory of x-inefficiency and x-efficiency highlighting the basic concept that only through innovation will firms progress. He identifies two types of entrepreneur: a routine or managerial figure allocating inputs to the production process in a traditional manner, or the Schumpeterian entrepreneur who can produce a new product or process through innovation.

At this point, we can link in the work of the Classicists – particularly, that of Say (1815). He perceived the entrepreneur as someone who can effectively manage all of the factors of production (such as materials, labour, finance, land and equipment) – for example, someone who has mastered the art of administration and superintendence. This type of entrepreneur is a real team player and capable of managing the growth of a larger organization. Few entrepreneurs show these capabilities and many have no desire to manage, coordinate and combine all of the factors of production. But, if this were not the case, the organization would ultimately fail; therefore, the qualities of the entrepreneur are crucial, giving added importance to the concept of the entrepreneurial team that can provide the wide range of skills needed.

As well as sustained entrepreneurial behaviour, new entrepreneurs are required to start new businesses to replace the jobs which are lost when other companies collapse and certain industries decline, such as coal mining, steel making and shipbuilding, for example. Typically, a different type of business, with dissimilar labour requirements, will emerge. In general, the issue is not so much in stimulating business start-ups but in encouraging them to grow; and yet growth demands changes in structure and style and requires the owner-manager to relinquish some power and control. Case 10.4 features two interesting examples of visionary entrepreneurs: James Watt and William Chase, and the businesses they have helped to create. Case 10.5 allows you to reflect on how these views of entrepreneurs and entrepreneurship could be applied to the story of a successful Chinese businessman.

Case 10.4 James Watt and BrewDog – William Chase and Tyrrell Chips UK

James Watt grew up in the North East of Scotland in a small fishing village called Gradenstown, near Fraserburgh. James would help his father run and maintain his fishing boat. This exposure to hard labour is something that James Watt felt was a good beginning to his business career. After leaving school, Watt moved to Edinburgh to study law and economics at Edinburgh University. Following his graduation, Watt obtained a job in an Edinburgh law office. Pretty soon after joining the law firm, James realized he hated the job and discovered he actually had little real interest in his law career. At this point, Watt moved back to his home village and to temporary work on his father's boat.

During this period, his friend Martin Dickie (whom James had met at Peterhead Academy) had completed a degree in brewing at Heriot Watt University. After graduation, Dickie had obtained employment as head brewer at Thornbridge Brewery in Derbyshire. However, the two friends had kept in touch and shared a passion for beer, especially what Watt describes as 'real, honest natural beer not all that mass-produced beer that is full of junk and additives with marketing onslaughts designed to change your life'.

BrewDog was founded in 2006 by Watt and Dickie. The two friends started the business with £120,000, including their savings and loans from a variety of sources together with the Prince's Scottish Youth Business Trust. No external equity was given away, thus leaving the two partners firmly in control.

The brewery at the Kessock Industrial Estate in Fraserburgh produced its first brew in April 2007 and would go on, within one year, to become Scotland's largest independently-owned brewery, producing about 120,000 bottles per month for export all over the world. This soon grew to over 200,000 bottles per month with 80 per cent for export to the United States and Scandinavia. The BrewDog promise states that they will:

- only use the finest natural ingredients
- not include preservatives or additives within their beer
- always make great tasting beers and promote them in a way which makes people smile.

What is clear about the business is the fervour and style that the two friends brought to the start-up. Watt was very much the driving force behind the marketing of the beers with Dickie happy to brew beer, rather than sell beer. Watt

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recognized that there was a gap in the market between traditional real ale drinkers, who were mainly male and over 50, compared with the new beer drinker who was aged 18 to 30 and either male or female. In realizing there was a profit to be made from changing consumer tastes, Watt demonstrates the typical entrepreneurial trait of taking advantage of change for profit.

The nature of the different approach to brewing bottled beer that BrewDog has is very well demonstrated in the names given to their beers, which have included (as examples):

- Hop Rocker (Lager)
- Punk IPA (India Pale Ale)
- The Physics (Amber Ale)
- Rip Tide (Stout)
- Hardcore IPA (India Pale Ale)
- Paradox Imperial Stout, matured in various malt whisky casks.

The quirky nature of how BrewDog is run and their attitude to business, customers, beer creation and development can be examined through the company website: **www.brewdog.com**

In 2008, Paradox won the Gold Medal from the Brewers Association of the US in the strong beer category, beating 53 other entries. This is generally regarded as the most prestigious award that can be won worldwide for the brewing of beer. In 2008, BrewDog and James Watt won a number of other accolades, including Entrepreneur of the Year in the National Business Awards for Scotland; BrewDog was runner-up for the HSBC 2008 Start-Up Stars Award.

It was not, however, all 'plain sailing' for BrewDog. Their Fraserburgh location, to which they were fiercely attached, made it difficult to recruit the staff they would need for expansion and, inevitably, it added to their distribution costs. They would eventually relocate, but not far away. One of its brands attracted controversy: Speedball was seen by some to promote a drug that had killed the actors John Belushi and River Phoenix.

In 2008, BrewDog was challenged by UK drinks industry watchdog the Portman Group. Portman claimed BrewDog was in breach of their Code of Practice on the Naming, Packaging and Promotion of Alcoholic Drink. BrewDog refuted these allegations and countered that Portman was impeding the development of smaller brewing companies.

After an eight-month dispute and a preliminary adjudication which had ruled against the company, BrewDog was cleared of all breaches of the Code of Practice in December 2008, and was permitted to continue marketing their brands without making any changes to the packaging.

In 2008, BrewDog experienced cash flow problems, created in part by their success in winning awards and new orders; they were struggling to pay the interest on their bank loans. While this was happening, they entered another competition for bottled beers, organized by Tesco – and won the top four places! Inevitably, Tesco wanted more beer from them and offered an order for 2,000 cases a week. These would be for sale in 500 stores and, potentially, lead to even more demand. To fulfil this order, BrewDog would need more capital and more capacity. When they approached their bank with this story and asked for a larger loan, they were turned down. Opportunistically, they approached another bank but told them that their existing bank was fully supportive and willing to extend their loan, but they were looking for a better deal. Their approach succeeded and they were able to accept the Tesco order. Their beer is now widely available in supermarkets; and their growth continued. Having lost their claim to brew the world's strongest beer to a German rival, they reclaimed this honour in 2010 with Sink the Bismarck (41 per cent proof).

By 2015, BrewDog had expanded to 350 employees and a new site (larger) near to where they started. They owned 25 bars, not just in the UK, and they sold beer in over 50 countries. Exports amount to 65 per cent of sales. Watt and Dickie reduced their joint holding of 75 per cent of the shares when they accepted an investment from a US private equity firm in 2017. Also that year, the company announced that they were now to donate 10 per cent of annual profits as employee bonuses and 10 per cent to selected charities. In 2021 BrewDog had 100 bars and annual sales of £215 million; but there was still controversy. The brewer was told by the Advertising Standards Authority not to advertise one of its (alcoholic) seltzer drinks with the claim that it was healthy. The cans (and ads showing the cans) said: *Clean & Press; Hard Seltzer; Only 90 calories*. 'Adding fuel to the fire', BrewDog used social media (featuring the can) to tell its customers that 'due to advertising regulations we cannot claim this drink is healthy'. In addition, some past employees have reported 'a culture of fear' and that 'growth at all costs' is a driving force.

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Questions

1. In terms of the theory and practice of entrepreneurship, what theories best explain the actions of James Watt in the creation of BrewDog?
2. What type of entrepreneur is James Watt?
3. Analyze how BrewDog has been able to continue with its ambitious programme of expansion.

William Chase

At the ripe old age of 20, in 1984, William Chase purchased the Tyrrell Court Farm from his father. Poor sales and a recession saw his investment turn sour, with Chase being made bankrupt. However, not to be put off, William Chase fought back. He leased his farm back from the lenders; he eventually bought the farm back and moved on to become a successful potato farmer in his own right.

However, Chase believed that the only people making any money out of farming were the supermarkets, who were forever forcing down the prices they gave to the farmer. On this basis, Chase felt that his business of supplying potatoes would not be profitable for much longer. As with many examples of business change, the new direction for William Chase came about through circumstance. A batch of his potatoes scheduled to be turned into oven ready chips by McCain was rejected. Chase quickly found an alternative customer for the potatoes and sold them to a crisp maker. On tasting the final product, Chase thought he could do better. In 2002, he decided to do market research by going to the United States to taste as many hand-made crisps as he could. On returning, he set about making his own hand-made potato crisps. He knew that the success of his crisps had to be based on selling them as a new innovative product. He invested a great deal of money in marketing and packaging to put across the quality hand-made image Chase felt was crucial to the success of his crisps.

Over the next few years, Chase built up his hand-made potato crisp business by selling, first, to independent retail stores, farm shops and delicatessens, rather than to the big supermarkets, whom he would not allow to dictate to him. In September 2006, Chase won a legal battle against Tesco, preventing them from stocking his products without his permission. He did however continue to sell to other supermarkets with whom he was happy to deal including Waitrose, Sainsbury's and the Co-op. By 2007, the turnover of the business had reached £8.5 million selling not only the original potato crisp but also flavoured potato crisps such as Strawberry Sweet Chili and White Wine potato crisps. His next great product idea was to launch in 2008 the first British pure potato vodka.

Chase personified the business. While very ambitious, he was very keen on keeping the business based around the Tyrrell Farm; he is also a firm believer in the happy personalized team approach to doing business. Would this approach be appropriate into the future?

Chase opted to sell the Tyrrell Chips business (for £100 million) to Investcorp, a Dubai-based investor in luxury brands, in 2013. His real interest now lay elsewhere. His vodka distillery had been a success. He became the leading UK supplier of super premium vodka, which he distilled on the farm, requiring 16 tonnes of potatoes to produce 1,000 litres of high quality vodka. (*This story may well be cross-referenced to Case 6.1 on Russian Standard Vodka*). He also introduced Naked Chase Apple Vodka (from cider apples he grew) and Williams Gin, which derived from the vodka.

In early 2021 Chase Distillery was sold to international drinks giant, Diageo, for a sum rumoured to be around £600 million.

Tyrrells **www.tyrrellscrisps.co.uk**

Questions

1. To what extent is business development of this type very much a rare example of how to succeed in business?
2. Profile William Chase. Is he part of a new breed of businessman? How successful is his business today?

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Case 10.5 Alibaba.com (and Jack Ma) China

Jack Ma (Chinese name, Ma Yun) is the founder, chairman and CEO of the Alibaba group of companies. He is said to be the richest man in China (but excluding Hong Kong) and, according to Bloomberg, he became the 18th richest man in the world with wealth exceeding US$20 billion. In the world of business, Jack Ma is the epitome of the successful Chinese businessman who has, from nothing, created a major Chinese company. What lies behind his success and what, if anything, can be learned from and applied to other businesses, especially those based in Asia?

Ma was born in Hangzhou, Zhejiang Province, China. From an early age, he was keen to learn English and, as a young boy, he offered to be a pro bono guide to visiting businessmen so he could practise his English. He later graduated in 1988 with a Bachelor's degree in English, having initially failed the entrance exam for the Hangzhou Teachers College on two occasions. From his graduation, he followed what could be anticipated as the expected or traditional route and became a lecturer in English and International Trade at the Hangzhou Dianzi University. In 1995, Jack Ma visited the United States for the first time. He was able to go on this trip, on behalf of a public body in his province, through his superior skills in English – and it was then that he saw the internet in operation.

Following on from his trip to the United States, Ma, in 1995, was behind an internet B2B start-up that had to be effectively shut down through the lack of businesses wishing to trade online. The main product of this web business set up by Ma was Haibao.net, which had, as its B2B platform, a product called China Page. This was one of the earliest internet companies in China – and Jack Ma had invested 20,000 yuan of his own money in it. At this time, Ma experienced very heavy competition for the local B2B market from Hangzhou Telecom and he was eventually forced to co-operate with this local telecom company. In order to survive, he sold different equity stakes in China Page. Subsequently, Ma became the minority shareholder in his own business and, as a result, he decided to withdraw from it, dividing his 21 per cent of shares in China Page among the staff who had helped him to start it up.

Closely following this, Ma was given the opportunity, in 1997, to join the Ministry of Foreign Trade and Economic Cooperation, where he was given the responsibility of developing the Ministry's official site for the online trading of Chinese products. However, Ma was not enjoying the Ministry position and resigned his post in 1999. What the post had given him, though, was further experience in the needs of Chinese businesses wanting to sell their products on the internet. Ma became convinced that the answer to better revenue development was going to be based on helping small- to medium-sized Chinese businesses get online and trading, both with each other and with other businesses outside China.

With a start-up fund of 500,000 yuan, Ma bought the domain name of Alibaba.com and other related domain names including Alibaby.com. To get the site up and running, the staff recruited by Ma all worked 16 hours per day, sleeping on the floor of Jack Ma's house. The site was in operation by March 1999 and almost immediately started to attract venture capital offers. The key to success for Ma was that he believed China must have its own mode of internet and that if Alibaba stuck to providing services for small- and medium-sized enterprises, then the business would grow as these enterprises grew.

'Those who need our help are not nationally owned business firms – while international corporates don't need us either. We should always help those who need our help,' said Jack Ma in 2001. He realized there was a logic in putting the customer first.

This focus on the needs of the Chinese business or consumer has seen the Alibaba group of companies grow rapidly since 2001. Alibaba China became the world's largest online B2B marketplace with 75 million users in 240 countries and territories. Meanwhile, eBay, Google and Amazon have struggled in the Chinese market through not being able to adjust their US business practices to the needs of a Chinese SME wanting to sell in the world market, whether that be in New York or elsewhere.

In 2003, Jack Ma, through Alibaba.com, started an auction website, Taobao.com, which made use of an escrow payment system called Alipay which was needed at the time to work with the cash-based payment system that was the norm for transactions in China. In 2011, Taobao was ranked the 21st most popular global website in terms of traffic by Alexa.com, a subsidiary of Amazon.com that measures global internet traffic. Taobao built a 67 per cent share of the Chinese auction online market, and the value of the transactions on the site has reached US$1 billion. Ma received an offer from eBay to buy Taobao but, instead, he accepted a US$1 billion investment from Yahoo co-founder Jerry Yang.

In recent years, Alibaba.com has opened a European office and, in spring 2009, it opened its UK office. Ma has

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not stopped at this and, in 2011, added Alibaba Cloud to the stable of businesses within the Alibaba group.

In a shareholders meeting in May 2009, Ma urged those attending to take matters into their own hands. He reminded everyone there that the great fortunes of the world were made by people who saw opportunities that others missed and that the present global recession provided the opportunity for people to take matters into their own hands in the form of starting businesses to cope with the economic downturn, rather than waiting for government or businesses to help them.

Later, in 2014, Alibaba raised US$25 billion in an initial public offering on the New York Stock Exchange.

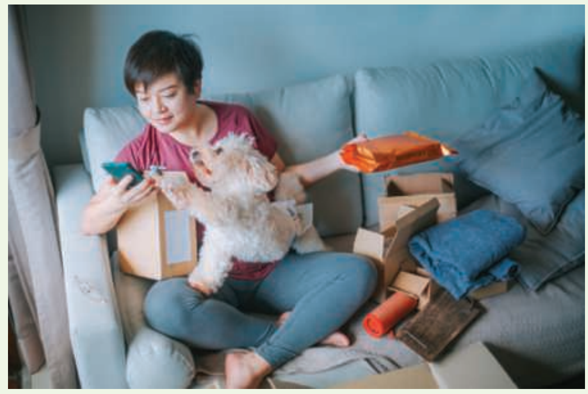
Jack Ma has started to use the term 'new retail' to embrace a seamless merger between online, offline, logistics and data – which is his vision for the future. People, he believes, will want flexibility.

To this end, Alibaba has invested in physical retailing – but with a difference. Alibaba has opened supermarkets where people can visit stores, choose what they want from displays, and, using his special app, place their order and have it delivered to their homes. Fresh food can be delivered locally in around 30 minutes. This (live tracking) app can also be used for fashion items. If a customer picks an item from a display, this action is picked up and the item in question is shown being worn by a model on an adjacent screen. Co-ordinating products are then offered. When customers try on an item in the changing room, they can use their app to have a different size or colour brought to them.

Alibaba has partnered with Ford to offer a new way of test driving (and buying) a new car. If someone (with the Alibaba app) sees a new car that they like, they can take a photograph to identify the model, access the product details, choose a colour and specification, book a test drive, and turn up at a showroom to collect a car which they can keep for up to three days. The app sorts out all the 'paperwork' and insurance. The customer does not ever need to meet a sales person! But, it seems, individuals can only grow to be really powerful if their activities are acceptable to the ruling State system. In 2021, Alibaba (and Jack Ma himself) was fined £2 billion for 'abusing its position' and restricting platform users from using other (competing) platforms. Ma was also allegedly detained and 'disappeared' (temporarily) for speaking out against the Chinese government and the Chinese banking system. The technology industries were being policed tightly.

Questions

1. Do you agree that Jack Ma is a typical entrepreneur?
2. What actions has he undertaken that represent the blend of entrepreneurial characteristics found in the literature profiling entrepreneurs?
3. What is the basic business model of Alibaba.com?
4. Starting with the final paragraphs, update the case further and examine the success of the business over the last five years. How well has Jack Ma managed growth?



It is, therefore, important for us to understand the motivation of entrepreneurs and how they discover and exploit opportunities. McClelland and Winter (1971) argue that all managers – in fact, all workers – are influenced and motivated by three desires: the desire to achieve, the desire for power and the desire for affiliation at work, the relative strength varying between individuals. Management thus needs to understand what motivates people, rather than believe that all people can be motivated in the same way. Entrepreneurial behaviour is typically characterized by high achievement motivation, but not without some evidence of the other two. Achievement motivation concerns doing a job well, or better than others, and accomplishing something unusual or important, and with advancement. Such managers thrive where they are responsible for finding answers to problems, and tend to set moderate achievable goals and take calculated risks. However, if the targets are too modest, managers are not challenged or satisfied and, if targets too high, consider them too risky. Actually achieving the goal is important and they also prefer constant feedback concerning progress. Achievement motivation is closely linked to the desire to create something, and entrepreneurial

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behaviour also features a desire for power, influence and independence. Entrepreneurs need both creativity and confidence if they are to seek out and exploit new ideas; and they must be willing to take risks. While McClelland and Winter (1971) describe achievement-motivated people as those who take very measured risks, there are some entrepreneurs who thrive on uncertainty and are successful because they take chances and opportunities that others would and do reject – but they will not always succeed.

Therefore, one may expect to see people who aspire to be leaders to be driven more by a desire for power, although McClelland and Winter (1971) believe achievement motivation is also strong in the most effective leaders.

10.2 Intrapreneurship

Entrepreneurial activity, innovation and growth are affected greatly by the ambition and style of the strategic leader, their values and the culture that they create – but, arguably, these should be spread throughout the organization. Intrapreneurship or intra-corporate entrepreneurship (Pinchot and Pinchot, 1978; Pinchot, 1985) is the establishment and fostering of entrepreneurial activity within large organizations. Two broad dimensions of corporate entrepreneurship proposed by Guth and Ginsberg (1990) are: (i) innovation as previously defined that relates to 'new businesses' being formed within the intrapreneurial firm; and (ii) strategic renewal or, as they define it, 'the transformation of organizations through renewal of the key ideas on which they are built, i.e. strategic renewal' (Guth and Ginsberg, 1990: p. 15). Indeed, Antoncic and Hisrich (2003) highlighted that our understanding or definition of intrapreneurship is clarified by 'emergent behavioural intentions and behaviours that are related to departures from the customary ways of doing business in existing organizations'. In other words, many new ideas for innovation, for product or service developments, can come from managers within organizations if the structure and climate encourage and allow them to contribute – such as through special task forces, development groups, or by allowing individual managers the opportunity, freedom and, if necessary, the capital to try new ideas. Success requires that change is perceived more as an opportunity than a threat, that the company is aware of market opportunities and is customer oriented, and that the financial implications are thought through.

Although effective leaders possess a number of characteristics, set direction and inspire others, their strong leadership should not stifle flexibility and learning by a resistance to trusting other managers and involving them in key decisions, or by trying to do everything themselves. Instead, they should build a team to whom they can delegate important decisions and contributions. While some of these people will, by necessity, be specialists, professionals and technocrats, Horovitz (1997) stresses the importance of also recruiting or developing entrepreneurial managers to ensure the flow of innovation and change and to prevent entropy. Horovitz argues that one of the reasons for Club Méditerranée losing momentum in the 1990s was the result of a failure to accomplish this back-filling effectively (see the Online Case 7.2 on Club Med). Quinn (1980) also emphasizes the importance of innovation and ongoing learning by this team because not all of the issues and difficulties that will have to be faced can be foreseen.

The phrase 'large businesses [sometimes] need to act more like small businesses' is used to suggest that they can easily lose their flexibility and their responsiveness to change pressures. Small businesses are often closer to a survival level, whereas larger organizations might well have accumulated more resources and reserves and feel less threatened. Individual employees may also have developed 'fiefdoms' they seek to protect. When such fiefdoms emerge, generating real buy-in to change can be a challenge, but a necessary one. That said, when new ideas gain support in large organizations, they can soon gather real momentum and impact.

> *The aim in a global business is to get the best ideas from everywhere. [In General Electric] each team puts up its best ideas and processes – constantly. That raises the bar. Our culture is designed around making a hero out of those who translate ideas from one place to another, who get help from somebody else. They get an award, they get praised and promoted.*

Jack Welch, ex-Chief Executive, General Electric

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This quote from Jack Welch reinforces the comment earlier (in Strategic Reflection 10.1) about heroic leadership. Horovitz (1997) contends that organizations should look for the problems before they even arise by questioning what the (possibly very successful) organization is doing wrong. At times, products, services and strategies which have served the organization well in the past – as they are not the future – should be abandoned. De Geus (1997) contends that businesses need to become 'living organizations' if they are to enjoy long and sustained success, requiring that the company:

- knows 'what it is about'
- understands where 'it fits in the world'
- values new ideas, new people, and fresh views and opinions
- manages its resources (especially financial resources) in a way which places it in a position to govern its own future – in other words, it is prudent and does not spend beyond a level it can earn.

These requirements are manifest in:

- clear direction and purpose (awareness of its identity)
- strategic positioning (its sensitivity to its environment)
- the management of change (its tolerance of new ideas)
- the efficient use of its capital investment.

People, then, must be seen as key assets and managed accordingly; controls must have some element of looseness and flexibility; and constant learning must be possible.

Kanter (1989) clearly supports this view when she argues that the whole organization holds the key to competitive advantage and that five criteria are found in successful intrapreneurial organizations. The organization should be:

- *focused* on essential core competencies and long-term values
- *flexible* – searching for new opportunities and new internal and external synergies with the belief that ever-increasing returns and results can be obtained from the same resources if they are developed properly and are innovative
- *friendly* – recognizing the power of alliances in the search for new competencies
- *fast* and able to act at the right time to get ahead and stay ahead of competitors
- *fun* – creative and with a culture which features some irreverence in the search for ways to be different; people feel free to express themselves.

In her earlier work, Kanter (1983) warned about how innovation can be stifled by:

- Blocking ideas from lower down the organization, on the grounds that only senior or very experienced managers are in a position to spot new opportunities; on the contrary, she argues, younger people with fresh minds are in an excellent position to question and challenge the status quo.
- Building too many levels in the hierarchy so that decision-making is slowed almost to a point of non-existence.
- Withholding praise from people who do offer good, innovative ideas, and instilling a culture of insecurity so that people feel too terrified even to question authority, policies or procedures.
- Being unwilling to innovate until someone else has tried out the idea – a fear of leading change.

Critical Reflection 10.2 provides another perspective on innovation.

While robust questioning and assumption-testing of new ideas is crucial, many people fear change – partly because of uncertainty about its impact on them personally – and thus will seek to resist valuable change initiatives and may even attempt to mount an active and orchestrated opposition. Managing change effectively, therefore, requires continuous effort and, sometimes, patience – reinforcing the significant contribution made by the project champion.

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Critical Reflection 10.2 Innovation and Marketing

In *Purple Cow,* Seth Godin argues that the traditional model of marketing/advertising where high spending drives long-life brands can still work for some, but it is not the way forward for most companies and certainly not for small businesses.

The traditional model of innovators (Rogers, 1995) – namely, early adopters, early and late majority, and laggards – is again still relevant but, for many organizations, the emphasis should be on reaching the innovators and early adopters, rather than thinking of big spends on the majority. After all, many people are now becoming very adept at ignoring brand advertising.

The implication is that we try to find people who are 'sneezers' and spread the word. One seeks to seed an 'idea virus' and ride the bandwagon of social media and viral marketing. The secret to success lies in the product itself and not in the power of advertising.

The ideal is a remarkable product – remarkable because it is innovative. But, of course, we also need a good route to market – we have to be able to access customers.

This should be the approach from the beginning – a search for 'something worth talking about'.

How could we achieve this? By clearly targeting improvement and looking to break the existing rules of competition. Witness the success of Classic FM and also composers who now see film scores as the new classical music; Ryanair; and various coffee shop chains.

In looking around, we can look at existing products and dissect them by the marketing Ps: product, price, promotion, positioning, packaging. All of these can offer opportunities to improve.

In all the above cases, those involved stuck to products people already wanted and consumed. They *simply* provided a new business model that worked.

In this context, it is always worth remembering that rule breakers usually get criticized. That said, playing safe will remain a risky strategy. The world changes.

The marketing spend that accompanies these new ideas does not necessarily have to be huge as long as it gets talked about. Again, think about the cheap-and-cheerful Ryanair adverts emphasizing low-low prices.

Ryanair also confirms that a modest beginning can still result in a very large and successful business with wide appeal – if the product is distinctive in a meaningful way.

The advertising should target the customer who is likely to be interested from the outset. But, as time goes on, it is important to stay vigilant and remember that there is a difference between someone who, say, uses online banking every day and someone who uses it once a month. They may all be online bankers, but they are very different in their usage.

Critically, you can never predict success. This is the world of the unpredictable.

In the end, a passion for the product is always going to help. You live and breathe it. And the initial ideas can be found with consumers who are passionate about the product and can see better ways of doing something.

Later on in the life of a product there is nothing wrong with 'milking a cash cow'. There never has been. The issue comes when this becomes the values and paradigm of the business.

Reference

Rogers, E.M. (1995) *Diffusion of Innovation,* 4th edn, Free Press.

Source

This Critical Reflection is summarized from: Godin, S. (2002) *Purple Cow,* Penguin.

The process of intrapreneurship

Bridge *et al*. (2009) highlight the importance of recruiting, spotting and using people with entrepreneurial talent who are motivated to use their abilities and initiative and do something on their own, but who may not want to start their own business. Intrapreneurship results in incremental improvements to existing products and services and, occasionally, to brand new products. Strategy in Action 10.1 is an idealized version of this situation. This story might be fictionalized and exaggerated but it is not wholly divorced from the approach tried and used by some (successful) large organizations.

Figure 10.8 shows that entrepreneurship (within a new organization) and intrapreneurship (within an existing, often large, organization) are broadly similar. They both begin when someone has a personal vision from which an idea and a related opportunity emerge, which must then be engaged and resources acquired as prerequisites to action and implementation. Intrapreneurship happens as individual managers promote and sell their ideas inside the organization and build a team of supporters, driving change (e.g. 3M and Post-it Notes). And yet, innovation is more likely to be a minor but significant improvement to a product, service or process.

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Strategy in Action 10.1 Jack's Dream

I'm Jack Dupont. I work for Sunlite PLC, one of the world's largest fruit juice manufacturers. I am an assistant manager in the staff canteen. I was having a shower after a hard game of squash when it suddenly hit me. If you can put shampoo in a sachet, why not fruit juice? When the sun is beating down, as it nearly always does in most countries of the world, what better than a quick squirt of juice to lubricate the tonsils? No cumbersome bottles or glasses, it can be carried in a shirt's top pocket or in a handbag.

I became excited. We could put, say, 100 millilitres of juice in each sachet. Ten to a litre. Each sachet could be sold for 20p – £2 per litre of juice compared to 50p for a full litre pack. I rushed to see Jim McIlroy, my boss. Mary Dignum, his secretary, gave me her usual friendly smile. 'Want to see Jim? He is very busy but I will see what I can do.' She came back with a twinkle in her eye. 'He can fit you in between appointments at eleven.'

I explained my idea. 'Hum,' beamed Jim. 'Let's get it off the ground at once. We need a proper business plan of course, to convince the board we have done things properly. Ring James Petrie at PricewaterhouseCoopers (Mary has the number) and ask him to do a market assessment for us. Harry in packaging will know who to contact for the machinery to sachet the juice. You'll need money. We were about to launch a campaign to expand our market in Singapore, but I am sure they would not miss a few grand to help start your new venture. While you develop this idea, I will instruct catering to buy in a substitute for you for one year. There are some spare rooms in 'D' division where you can pilot some juice sachets. If the piloting is successful, come back to help me arrange further finance. That's all for now, except to say, well done. There will be a rise for you in this.'

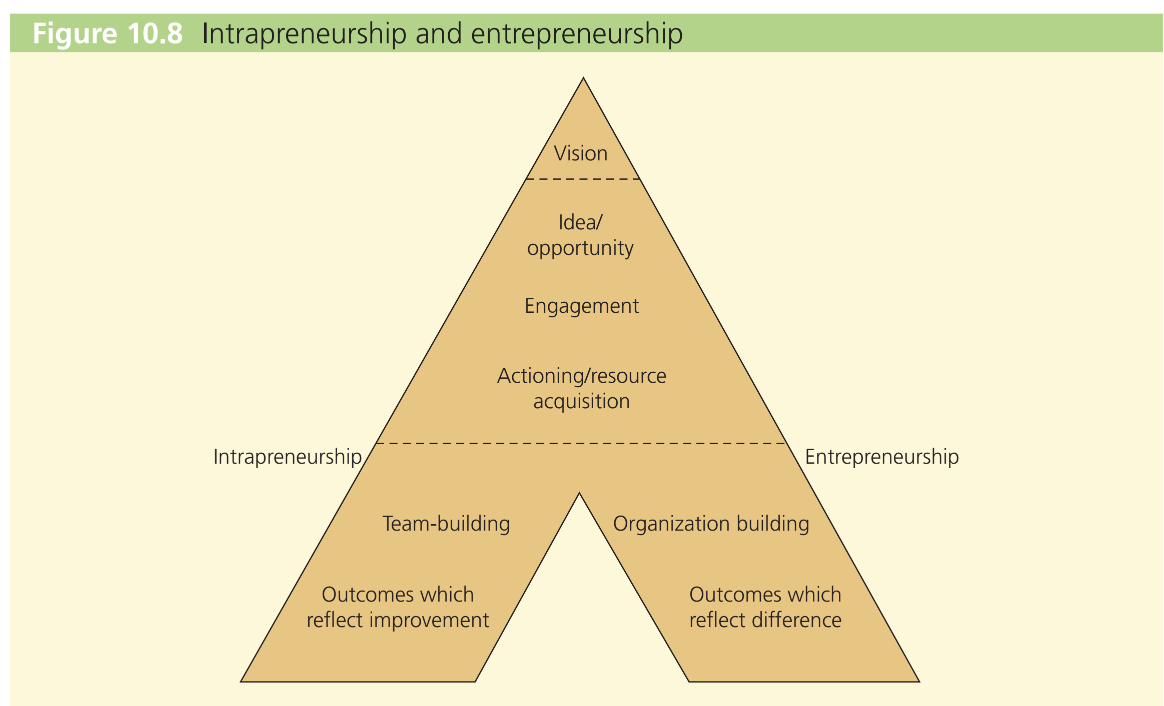
I felt inspired as I launched into the project with all the energy I could muster. There were, of course, many problems to overcome, but I had so many experts to help me. I had the full support of Jim and the board, with all the resources of Sunlite behind them. The first sachet rolled off the production line within a year, and is now being sold worldwide under the brand name 'KOOOL'. I never did go back to the catering department. I am currently working on a new project putting gin mixes into small plastic sachets.

Reflection question

Have you ever had an idea and a dream like Jack's? If so, how did you feel? What were you minded to do about it?

Developed from Hamel, G. (1999) 'Bringing Silicon Valley inside', *Harvard Business Review*, September–October.

Figure 10.8 Intrapreneurship and entrepreneurship



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Intrapreneurs, typically, are strategically aware, ideas-driven, creative, flexible, innovative, good networkers, individualistic but also able to work well in a team, persistent and courageous. If frustrated by a lack of freedom, they will underachieve, or possibly leave. But they are volunteers; intrapreneurship is not right for everyone.

According to Pinchot (1985), the key lies in engaging people's efforts and energy for championing, capturing and exploiting new ideas and strategic changes; such engagement must stretch beyond the most senior managers in the organization, who do not have a monopoly on good ideas. On the contrary, the potentially most valuable and lucrative ideas are likely to come from those people who are closest to the latest developments in technology or to customers, perhaps through suggestion schemes. The ideas need to be taken forward, and they can only be developed if the potential intrapreneurs are able to obtain the necessary internal resources and, moreover, they are willing to do something which, in turn, requires encouragement and appropriate rewards for success. People must feel involved in the process and comfortable that they are being supported. Morris and Kuratko (2002) added that intrapreneurs should manage expectations and never over-promise.

Intrapreneurship cannot work where people feel frozen out or metaphorically 'dumped on'. Churchill (1997) summarizes the philosophy as skills following opportunities, with people in entrepreneurial businesses seeing the opportunities and setting about acquiring the necessary resources. The whole process of change then becomes gradual and evolutionary, while the momentum for change and improvement is never lost, and the organization is less likely to be exposed and weakened by its competitors, resulting in it having to cross a 'bridge too far'. Maitland (1999) described how Bass developed new pub brands replacing its traditional customers (older working-class people) with young people through the involvement of an intrapreneur.

To summarize these points, Hurst (1995) likens entrepreneurial strategic leaders to gardeners, as they prune, clear out and plant (by recruiting other entrepreneurial managers), they feed (by encouraging and rewarding managers for being creative and innovative) and nurture, and manage the organization as they would a garden. Paradoxically, many good ideas begin in the same way that weeds emerge in a garden – randomly – and they need to be spotted, looked after and transferred to a hothouse.

The intrapreneurial organization

Fradette and Michaud (1998) describe four main elements in an organization which succeeds with intrapreneurship. First, the strategic and structural environment is 'right' in the sense that it has a realistic, widely understood and shared vision, and that formal systems and controls do not stifle innovation and people are free to make limited changes. Second, an appropriate workforce has been built that includes enterprising people trained in key skills and that has an appropriate reward system, with the organization's main heroes being the entrepreneurial ones. Third, the workforce is backed by the necessary support systems with a natural triumvirate of teamworking, collaboration and networking, and with information shared and learning fostered. Fourth, successes are visibly rewarded and mistakes are not punished so harshly that people are dissuaded from further initiatives.

An intrapreneurial organization will often feature a relatively flat structure with few layers in the hierarchy to speed up decision-making, and a culture and atmosphere of collaboration and trust. The style of management will be more coaching than instructional, and mentoring will be evident; ideally it will be an exciting place to work since the entrepreneur's enthusiasm will have spread to others.

Terazano (1999) also observes that effective intrapreneurship is not that easily achieved, and that many organizations fail to reap the anticipated rewards. Balancing control (to ensure that current activities and strategies are implemented efficiently) with flexibility (to foster and embrace changes to the same strategies) can imply different cultures, which are difficult to achieve without tension and conflict. Another difficulty lies with finding the appropriate reward and remuneration systems to ensure fairness. Managers in established companies often find it difficult to handle setbacks and disappointments when initiatives fail. But there always has to be the risk of failure, albeit temporary, when experimenting with

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new and unproven ideas. While intrapreneurs often have the security of large company employment, such that the penalty for failure is to some extent reduced, the rewards for real success are unlikely to equal those of the true entrepreneur. Nevertheless, 'increased competition in global markets and the pressure for innovation is forcing Britain's large companies to look for methods to stimulate ideas for new products' (Terazano, 1999).

10.3 Visionary leadership

In this section, we grapple with the tricky challenge of categorizing certain individuals as a 'transformational (business) leader' or as a visionary entrepreneur. In many ways, it is an artificial debate as clearly those concerned are both! The two 'roles' overlap. Visionary leadership is often associated with organizations and leaders that could be described as entrepreneurial, but this is not always the case; neither is it necessary that an effective strategic leader has to be personally visionary. Mintzberg *et al*. (1998) contend that visionary strategic leaders perceive strategy as a mental representation of the successful position or competitive paradigm, which is either thought through quite carefully or largely intuitive, and then serves as an inspirational driving force for the organization. The vision or idea alone is inadequate, since the leader must ensure that it is seen, shared and supported by customers, partners, employees and suppliers – and that it is flexible with detail emerging through experience and learning.

Mintzberg *et al*.'s (1998) visionary entrepreneurs often, but not always, conceptualize the winning strategic position as a result of immersion in the industry, either simply though a genuine interest, or because they may have worked in the industry for some time. Their secret is an ability to learn and understand, making sense of experiences and visible signals of which others cannot make sense.

Given the two opposing views of entrepreneurs, namely Schumpeter's (1934) *market equilibrium* (stability) *disturbing innovators* and the Kirznerian *equilibrium creating* opportunity-spotters, Blanchard and Waghorn (1997) claim that Ted Turner (with CNN 24 hour network news) and Steve Jobs – as with entrepreneurs in the mobile phones business – have been instrumental in changing the world we know. Their visionary leadership has opened up opportunities for other entrepreneurs and organizations.

Successful visionary, aspirational leaders and entrepreneurs are clearly not all from the same mould; it has been argued that there is a well of talent and, as individuals, we possess the potential most suitable for us to become either a leader, an entrepreneur, an intrapreneurial manager, an inventor, a follower or whatever (Bolton and Thompson, 2013). They argue that individuals remain in the metaphorical well until released, or until they propel themselves out with sheer determination, or are spotted, nurtured and encouraged. When people with entrepreneurial talent emerge from the so-called well, they follow different paths. Figure 10.9 represents hard entrepreneurship as the paradigm of the independent, pragmatic, opportunistic and competitive entrepreneur. This is an achievement-oriented person, a typical managed risk-taker and natural networker in search of a deal. Not every entrepreneur fits this pattern, since some present a softer image, operating in a more informal manner and being strong on communication and selling their vision to engage and motivate others. The hard and soft approaches lead to quite different cultures.

Some visionary, adventurous entrepreneurs set out to change the world, as they are people with a real ability to galvanize others, and they work hard, play hard and operate at the leading edge, with enormous energy. Generally, they would be described as 'having a presence'. Again, this approach is not, and need not be, ubiquitous. The fourth arm, innovation, still requires imagination, creativity, passion and a commitment to bring about change (see Lessem, 1986, 1998).

> *Entrepreneurs are risk-takers, willing to roll the dice with their money or reputation on the line in support of an idea or enterprise. They willingly assume responsibility for the success or failure of a venture and are answerable for all its facets.*
>
> Victor Kiam, Remington Razor

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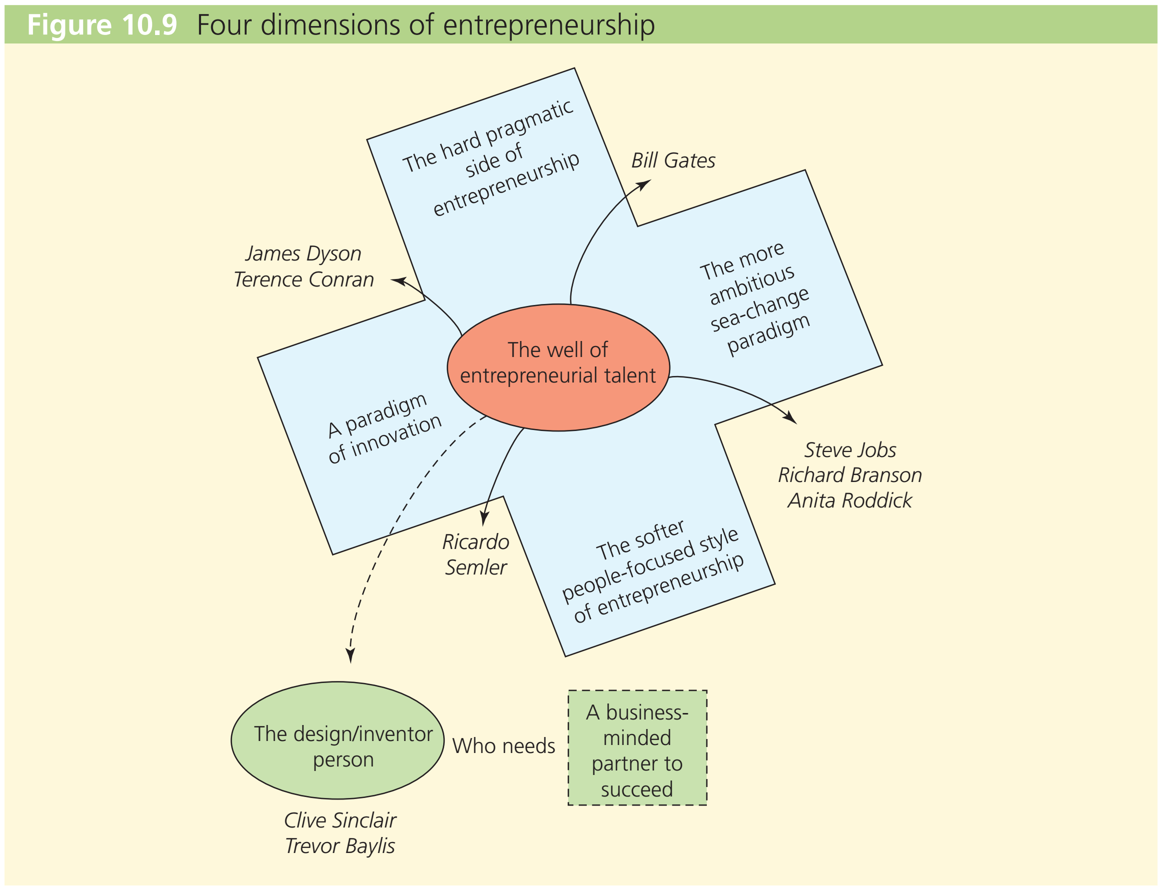
Figure 10.9 Four dimensions of entrepreneurship



Bill Gates (featured in the Strategic activity at the end of the chapter) is perhaps a typical hard adventurer, given that Microsoft has literally changed the world of computing, while James Dyson (Case 5.1) is a hard innovator, and Ricardo Semler (Case 5.6) is a visionary as far as management style is concerned, but Semco's engineering products, including pumps and industrial dishwashers, are hardly revolutionary, so he appears to typify the soft innovator.

There is, however, one final category: the designer – inventor who lacks the necessary business acumen or interest to build the business on their own but who can, with help, be part of a successful and entrepreneurial business. Sir Clive Sinclair, a designer-inventor who came up with a number of truly innovative ideas and products, never found the right partner to build a winning business. The late Trevor Baylis fits here, as he found the right partner and his BayGen radio has been a successful business.

Visionary leadership and strategy creation

Visionary leadership thus implies a strategic leader with a personal vision for the future of the organization and at least a broad idea of the strategies for pursuing the vision. Such leadership often appears to be based on intuition and possibly experience, rather than detailed analysis; but truly visionary leaders possess strategic awareness and insight, and do not require extensive analyses to understand key success factors and how the organization can use its abilities and competencies to satisfy needs and expectations. There is a 'feel' for which strategies will be appropriate and feasible, and for the potential of the opportunity.

When a visionary leader pursues new opportunities and introduces changes, the detailed plans for implementing the new strategies are unlikely to be in place but they will rely on incremental learning, flexibility and adaptation. For the approach to succeed, the leader must be able to inspire others and to

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persuade them of the logic and merits of the new strategies. Although true for all important strategic changes, when new proposals have emerged from a more formal strategic planning system, there will be substantive detail and analysis to justify the case, instead of a strong reliance on vision and intuition.

Where major changes to the corporate strategy are being considered, it may be necessary for the strategic leader to convince other members of the board of directors and, if new funding is needed, the institutional shareholders and bankers.

The strategy cannot be successful until it has been implemented and has brought the desired results and rewards. Such outcomes require the support and commitment of other managers and, consequently, effective visionaries are often articulate, communicative and persuasive leaders.

Therefore, visionary strategic leadership implies three steps:

- the vision
- selling it to other stakeholders and managers
- making sure it happens – aspects of vision, communication and pragmatism.

Richardson (1994) suggests that visionary leaders typically adopt 'covert', cerebral planning rather than formal planning, are passionate, develop a specific culture, convince others about their strategy, and are charismatic and powerful.

A visionary leader is not a synonym for an entrepreneur, such that we view a visionary leader, typically, as someone who is a persuasive and charismatic agent of change. They will either start a new, differentiated business which takes off, or change the direction and corporate strategy of a business in order to maintain or improve its rate of growth – implying major, discontinuous change and growth fuelled by astute acquisition. Entrepreneurial growth is not necessarily visionary, neither must entrepreneurs be charismatic figures; visionary strategic leadership, on the other hand, involves a visionary impact on strategy creation.

Yet, a strategic leader who succeeds in turning around a company in crisis and *restores growth* – a process sometimes called 'corporate entrepreneurship' – can be a visionary. But visionary leadership is not necessary for either new ventures or successful turnaround situations (see also Chapter 13). When a company is in trouble, a good, analytical 'company doctor' who can restructure, rationalize and refocus the business can be very effective.

Maccoby (2000) notes that strategic leaders, especially those described as visionary, are typically more visible today due to being self-publicists and the media being more interested in business stories, especially about new industries. Consequently, Maccoby concludes that an increasing number of strategic leaders are narcissists, inspirational personalities who have a major impact on culture and style, who enjoy the visibility and notoriety, and who often believe that they are 'something special'. Narcissists are often associated with major changes, where they believe they will promote their own careers, but they lack trust and fail to care for others in the organization. Kilbride (2014) also identifies narcissism as one of three 'dark' leadership behaviours. The others are:

- '**Machiavellianism**', which is a manipulative style; leaders who practise this style are likely to be dishonest in some of their dealings with others, as they seek to advance their own priorities at the expense of everyone else. That said, elements of Machiavellianism can sometimes be seen to be helpful in making sure that essential changes are implemented if there is hostile resistance from individuals with a particular agenda that is thought to be restraining the organization from moving forward.
- Psycopathic behaviour helps explain leaders who are perceived to be impulsive and high-risk taking, lacking empathy with others who are affected by their decisions and, thus, causing great anxiety and stress. Ironically, when some of these high-risk actions succeed, those who take the risk may be perceived as corporate heroes.

At this point, you may like to re-visit Case 10.4 (BrewDog) and assess the pragmatism and willingness of James Watt to be creative with the truth when seeking a new bank loan – although perhaps with good strategic logic. His willingness to take this approach did pay off.

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Big-picture visionaries are associated with risks, appear to be charming personalities, are typically entrepreneurial and competitive – and yet they can be unrealistic dreamers with delusions of grandeur, poor listeners, relatively isolated loners and uncomfortable with challenge or criticism.

A lot of people want to be led – yet there are very few leaders in life. When people have a good leader who instils team spirit, and they work in an environment that demands excellence, energy and the keeping of momentum in order to achieve a goal, then they want to stay . . . or, if they leave, they want to come back!

Linda J. Wachner, when CEO, Warnaco (US)

To be effective, leadership has to be seen, and it is best seen in action. Leadership must be communicated in words, but even more importantly in deeds. Leaders must be seen to be up-front, up to their jobs and up early in the morning.

Lord Sieff of Brimpton, Chairman of Marks & Spencer between 1972 and 1984

10.4 Critical issues in strategic leadership

Chief executives of large UK businesses stay in post for an average of just four years, while their equivalents in the United States last, on average, one year longer. These short 'shelf lives' are because of the visibility mentioned above, which leads to perceived poor performers being dismissed more readily than in the past. A price has to be paid for perceived failure and – although as it would appear with the collapse of banks – the price is not necessarily financial but more in terms of their reputation among the general public. In 2014, for example, Tesco announced that its revenue and profitability had fallen and that targets were being missed. More significantly, it emerged that profits had possibly been overstated in the accounts – perhaps deliberately, rather than as an oversight. The CEO, Philip Clarke, left the organization and it is worth following up how tricky it has proved for Tesco to recover its reputation as a dominant force in grocery retailing. Study M&S and you will find decades of growth and success, when the business was run by a small number of long-serving family members – followed, more recently, by greater turbulence and over 25 years of regular changes at the top.

Charan and Colvin (1999) suggest that there are many strategic leaders who are bright and experienced executives who can articulate a vision and strategy for their organization, but their shortcomings lie in an inability to implement strategy which, in an age of visibility, visions and broad strategies, soon becomes public property. Rivals can attempt to copy them if they wish and, hence, as was shown earlier, sustained competitive advantage lies not in ideas and strategic positions, but in the way strategies are executed. Charan and Colvin (1999) specify a number of typical strategic leader misjudgements:

- Underestimating the importance of people – a topic we discussed in Chapter 5.
- Failing to put people in the right jobs – people's individual strengths and natural behaviours can be used to judge where they are most likely to make their best contribution (Buckingham and Coffman, 1999).
- Failing to deal with underperforming managers, especially if they are people they have appointed and who remain loyal.
- Not stretching people to the highest levels of performance that they can reach.
- Failing to put in effective decision-making processes such that important decisions are either not made, or are not carried through, relating to empowerment – another topic discussed in Chapter 5.
- Misjudging the balance between strategy and operations, and between the external and internal focus of their efforts, linked to poor corporate governance, with the outcome that a good vision and broad strategy may neither be implemented effectively, nor updated in changing circumstances.

Circumstances dictate the most appropriate leadership style and contribution. At times a risk-taker is needed, and at other times a consolidator, for example. There are occasions when the 'brave and

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dictatorial' approach can be relevant, from someone who is confident in their diagnosis and views and can inspire confidence. On other occasions, a quieter 'influencer' who can fine-tune and persuade others to alter course is far more effective and appropriate. Sometimes, it is about vision; sometimes, it is detail; and, sometimes, it comes down to relationships. There will be occasions when a basically good leader finds that they are the wrong person in the wrong place at the wrong time. While they may be aware that this is the case, it does not follow that they will be able to reinvent themselves as a different person; then they should go.

All leaders, including the most successful, have finite 'shelf lives': periods of time when they can contribute effectively to an organization. Some know when to step down, when to retire or move on before they cease to be effective. Others stay too long and risk being remembered for their later shortcomings, rather than their earlier successes. They cease to enjoy (necessary) authenticity.

Kets de Vries (1994) argues that organizations where chief executives fail to make a timely exit often go through a three-phase life cycle:

- The entry of a new strategic leader into the organization, followed by experimentation with new strategies – such as downsizing, acquisitions, re-engineering and a drive for improved service and quality – and with improving results, certainly in the short term.
- Consolidation, when the changes are likely cemented in a new culture such that, if an organization was in crisis, the risks are now perceived to have fallen back, and herein can lie the seeds of a new crisis.
- Decline and a new crisis.

Visionary leadership is frequently associated with **entrepreneurial strategies** for companies enjoying prosperity in growth markets. As the organization continues to grow, a more formal structure – together with robust control systems – will be required. The leader must, therefore, be flexible, capable of adapting and willing to relinquish some personal control. Ideally, other managers will be empowered and encouraged to be entrepreneurial and visionary; however, some visionary leaders tend to be inflexible and a change of leader would benefit the organization. Similarly, a leader who is skilled at managing detail and resources to generate productivity is required by companies in trouble, facing a strategic crisis, or in need of rationalization.

Unless proper plans are made, succession can be hampered by many visionary leaders, who may be driven by personal ambition and a personal vision and who can be difficult to work with – hence failing to build a pipeline, which may raise several 'possible problem' scenarios. Owner-managed businesses may need to be sold, but once an entrepreneurial leader has left, what is the true value of the remaining assets? On a visionary's retirement, a complete outsider may be needed, implying major change; or the leader could have an accident (by falling under the proverbial bus) or illness, leaving a gap which cannot be filled in time to prevent a crisis.

The former (and late) leader of the successful diversified US conglomerate, General Electric (GE), Jack Welch, had an alleged conversation with a New York yellow cab driver, who claimed he sold his GE shares every August and bought them back in September: 'Jack goes on holiday in August and who knows what might happen when he's away.' When Welch gave GE advance notice that he would retire in April 2001, succession planning got under way and three internal divisional heads were identified as possible successors; they were all interviewed by GE's main board members, as were the key staff who reported to them, to assess their style and suitability. Furthermore, to ensure that one of them could be moved up without leaving a gap at the top of their division, a new chief operating officer was appointed in each case to provide for a second-stage orderly succession. 'Few large companies approach their succession planning with such care, but, of course, they do not always have as much notice!'

Welch's successor has proved to be effective – but in a different way – and the two disappointed executives both left to take up CEO roles at other companies. Both roles were in retailing, Albertson's and Home Depot, and both businesses were in trouble and have been turned around successfully by their new strategic leaders.

In contrast, Online Case 10.1 looks at how succession issues have contributed to the declining fortunes at Boots.

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Bower (2007) argues that strategic leaders must engage three challenges: judging where the world is going, identifying managerial and leadership talent, and engaging that talent. Planning for succession is integral to the talent challenge and should not be an occasional decision but an ongoing issue. Bower suggests that succession should come from within, as external appointments can be too disruptive, and he would argue in favour of the GE approach to succession of appointing business heads and making sure they are put to the test as strategic leaders.

When a new strategic leader is appointed, things may not be the same strategically, culturally and stylistically. If real changes are required because the company has lost momentum or is in difficulty, then logically a new leader with a different style is being brought in to make changes. Where a company is successful, then 'change for the sake of change' may be a mistake – but it is not unusual for a new leader to want to be seen to be their own person and to make an early mark. Returning to Figure 10.4, new leaders usually have a different preferred style.

Businesses 'fail' when they do not meet the needs and expectations of their key stakeholders, or when decisions that they take lead to outcomes which are unacceptable to the stakeholders. Such decisions may generate crises with which the business is able to deal, usually at a cost, or they may also lead to its ultimate collapse (see Chapter 13). The outcomes can take a variety of different forms, but Slatter (1984) has clearly identified three main, direct causes of corporate failure and collapse:

- weak or inappropriate strategic leadership
- marketing and competitive failings
- poor financial management and control.

These failings imply *incongruency* (lack of fit) between environment, values and resources resulting from a lack of strategic awareness, with leadership issues also underpinning the marketing and financial weaknesses.

Richardson *et al*. (1994) have identified a number of discrete failure crisis situations, against which we can consider strategic leadership:

- A *niche becomes a tomb* when a small company, locked into a successful product or service, lives in the past and fails to change – an invariable sign of poor leadership and perhaps succession problems.
- When *markets are not understood*, small companies will fail to establish a position in their target market and not take off and grow. This could be due, perhaps, to attention being concentrated on production, where the would-be entrepreneur may have expertise, but doing this may not satisfy customer needs and expectations, or may achieve an insufficient volume of sales.
- *Strategic drift* with larger organizations is the result of introversion and inertia in a changing environment due to complacency from past success, or a concentration on day-to-day reactive or crisis management, leading to potential failure. Online Case 10.1 regarding Boots is an example of a previously successful large business's problems adapting to a changing environment.
- *Overambition* occurs in the guise of the failed entrepreneur (who enjoys early success and rapid growth due to a good product or service but, in desiring to maintain high growth, diversifies into less profitable areas), or a conglomerate king-maker (who wants to build a large and powerful corporation and is tempted to acquire businesses that cannot be justified financially, paying a price which either overvalues the assets or which cannot be recouped from earnings, or overestimates the potential for synergy with the existing businesses, e.g. the Royal Bank of Scotland).

Sadler-Smith (2018) uses the term 'hubristic leadership' to describe those leaders who are powerful and successful, but who also become over-confident, over-reach themselves and inflict financial and organizational damage (see also Claxton *et al.,* 2015). Failures of this nature are frequently characterized by strong, powerful strategic leaders, inadequate attention to critical financial measures and controls, and inadequate governance that does not look after stakeholder interests. Philip Green (Case 4.7 and Online Case 10.2) is an example. In October 2008, the Icelandic Baugur Investment Group was facing meltdown having built up a mountain of debt buying top retail assets in the UK, such as House of Fraser, Hamleys, Mappin & Webb and Oasis. With the credit crunch came the collapse of the Icelandic banks, and Baugur owed at least £2 billion to these banks. What seemed like an integrated strategy of buying related assets – including department stores,

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fashion stores, speciality businesses and food retailers such as Iceland (the company, not the country) – completely unravelled. Similarly, a number of so-called corporate scandals have been widely publicized and have generated considerable cynicism and distrust about the world of business, especially with regard to the high-profile, celebrity leaders of Enron, Tyco, and so on.

Sonnenfeld and Ward (2007) believe that the most effective strategic leaders are those who can deal with adversity, crises and setbacks to avoid failure. Failure is viewed differently in the United States, such that many US entrepreneurs consider failure as an invitation to get up and do something else. Success, although an issue of temperament, also involves being able to learn from events and mistakes.

The final case in this chapter (Case 10.6, Richard Branson and Virgin) examines a leader who has been described as a visionary. Many people would actually label him an entrepreneur, of course. He certainly succeeded in becoming high profile and very wealthy. Because of his style and strategy, it is interesting to consider the future legacy of Branson (the entrepreneur) as well as Virgin (the brand).

Case 10.6 Richard Branson and Virgin — UK, Int

Virgin is not just a business as such; more realistically it is an international collection of discrete businesses held together by a well-known and visible brand. The Virgin brand is personified by its founder, Sir Richard Branson, who is a legend in his own lifetime and from whom it cannot be separated. That said, his current involvement is much less than in the past. Over many years he has demonstrated a unique ability to exploit a brand name globally and to apply it to a range of diversified products and services. He is Virgin in many people's minds – so, will he leave a lasting business legacy like Ray Kroc (McDonald's) has done? Can this diverse business outlive its founder? Whereas McDonald's is an undiversified business, the various Virgin businesses might share a brand name, but they are not managed as an integrated organization; they all enjoy significant independence. You might wonder, after Branson is no longer an active presence, whether the Virgin name will remain relevant. Will the legacy be different in different parts of the world?

Branson is creative, opportunistic and dedicated to those activities in which he engages. Possessed of a strong ego, he is an excellent self-publicist. Popular with customers and employees, he has created a hugely successful people-driven business. His determination to succeed and his willingness to take risks are manifest in his (past) trans-Atlantic power boating and round-the-world ballooning exploits. Although he always insisted that he 'wouldn't do this if I didn't think I'd survive', the *Financial Times* commented that, 'all those associated with Mr Branson have to accept that he is an adventurer … he takes risks few of us would contemplate'. He has chosen to enter and compete in industries dominated by large and powerful corporations. Having challenged British Airways very visibly and very successfully, for example, Coca-Cola has also been a target, albeit a less successful one! He is now offering (for the future) pioneering short passenger flights into space, although there have been setbacks with accidents. Significantly he beat his main rivals, Elon Musk and Jeff Bezos, in personally flying into space (in 2021). Also significantly, and not unexpectedly, his name comes up frequently when other business people are asked to name the person they most admire.

Now 70 years old, Branson has been running businesses (in various ways) for some 50 plus years, and from nothing he has built a personal fortune of US$5 billion. He began *Student* magazine (which he also edited and produced) when he was a 16-year-old public schoolboy, financing the venture by selling advertising from a public telephone booth. Ever opportunistic, he incorporated a mail order record business, buying the records from wholesalers once he had a firm order and cash in advance. Thwarted by a two-month postal strike, the young Branson decided to enter retailing. A record label developed on the back of his retail business, although both of these have been sold to help finance other ventures.

He decided to begin a trans-Atlantic airline in 1984. The move had been prompted by an American who approached him with a proposal for an all-business-class trans-Atlantic service. Although Branson rejected this particular focus, he took just a few weeks to make his decision. In this short period, Branson analyzed why small airlines had previously failed with similar ventures. Branson saw what he believed was an opportunity: Virgin Atlantic Airways would offer

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added value and superior service at competitive prices and concentrate on a limited number of the most lucrative routes. Branson had a vision and many critics, who argued that he lacked the requisite skills – but resources can often be found. Virgin Atlantic is now recognized around the world, although Singapore Airlines holds a significant financial stake. Other Virgin airlines have started in Australia and the United States with different Branson involvement. A successful holiday business has also been developed alongside the airline.

Similar but different, was Virgin Railways in the UK until it lost all its franchises. Branson's West Coast franchise (London to Manchester and Glasgow) has thrived, but Virgin struggled with the East Coast (Leeds, Newcastle and Edinburgh) franchise, which was renationalized in 2018. Stagecoach became the majority shareholder in its Virgin Rail Group (West Coast) business.

Similar launch and withdrawal strategies have prevailed with Virgin Media and Virgin Money – and there have been many more Virgin businesses in addition to the most prominent ones that have been mentioned. Describing itself as a 'branded venture capital company', Virgin has created over 300 businesses. The Virgin business was actually floated in 1986 but later returned to private ownership. Branson had been uncomfortable with the accountability expectations of institutional shareholders. Since then, he has used joint ventures, minority partners and divestments (such as the sales of his music business and record shops) to raise money for new ventures and changes of direction.

Branson's business philosophy is built around quality products and services, value for money, innovation and an element of fun. 'I never let accountants get in the way of business. You only live once and you might as well have a fun time while you're living.' In 2009 he invested in Formula One with a Virgin Racing Team, which was not a survivor.

By focusing on customers and service, he has frequently been able to add value where larger competitors have developed a degree of complacency. 'The challenge of learning and trying to do something better than in the past is irresistible.' Branson always realized that this would be impossible without the appropriate people and created an organization with a devolved and informal culture. Business ideas can, and do, come from anywhere in Virgin, and from people outside the organization. Branson has always made sure he is approachable. Employees with ideas that Branson likes will be given encouragement and development capital. Once a venture reaches a certain size, it is normally freed to operate as an independent business within the Virgin Group, and the intrapreneur retains an equity stake. Some, though, are sold and cease to be part of Virgin. Branson has always been willing to 'take punts' – and some do go wrong. Simply, on balance, he expects (and needs) to succeed more than he fails. 'Opportunities are like London buses. If you look at why you missed the last one, you will miss the next one as well.'

Inevitably, Branson's fame and reputation encouraged people to approach him – as Nelson Mandela did in 2001. Mandela asked whether he would take over the bankrupt Health and Racquet Club chain of health clubs in South Africa and thus save 6,000 jobs. He agreed and has since transformed the business into a successful chain of health and fitness clubs across the country. He has since invested further in South Africa through Virgin Money (a low-cost credit card), and Virgin Mobile (with a competitively priced network). Virgin Atlantic has been flying into South Africa for several years.

He has also declared his commitment to 'giving something back' and with a focus on where in the world he believes he can do most good.

Branson has committed half of his US$5 billion fortune to charitable causes 'to help make the world a better place'. He owns an island in the Caribbean, in the British Virgin Islands, where he has a retreat and holiday home and where his global think tanks are likely to meet. The Caribbean and South Africa have become two important targets for his Virgin Unite non-profit Foundation. He has established Branson Centres of Entrepreneurship in both Johannesburg and Jamaica. Here people are encouraged to start businesses and are provided with appropriate support – work space, business training, individual mentoring, networking opportunities and introductions to financiers. These centres are basically business incubators and each has a focus on businesses that are relevant for the locale – the one in Montego Bay targets tourism, but the one in South Africa has a strong technology focus.

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Questions

1. What are Richard Branson's strengths and limitations as a strategic leader?
2. How have they been manifested as Virgin has developed?
3. Can the Virgin name outlive its founder?
4. How else might someone who develops a significant media presence and reputation (as Branson has) 'make a difference' and leave a serious long-term legacy? You might wish to use other relevant cases mentioned in this chapter and the internet to help draw comparisons with his contemporaries such as Bill Gates and the important philanthropists from the past.

We take up these themes again in Chapter 17 when we discuss resilience; and we conclude this chapter with five leader-related thoughts identified by Bourton *et al*. (2018) as being a test of organizational flexibility and resilience:

1. At its core strategic leadership is about direction, not detail and not destination.
2. It is essential to be objective when reflecting on progress.
3. Assumptions must be tested constantly in an uncertain and turbulent world.
4. The organization must make sure assumptions continue to hold.
5. The organization must also never stop looking for fresh ideas.

Research Snapshot 10.1

We do not consider the more recent literature on entrepreneurship, which is too extensive to attempt even to scan the surface; however, see entrepreneurship textbooks (such as Deakins and Freel, 2012; Bolton and Thompson, 2013) for further insight. Relatively few articles in recent years have been written specifically on strategic leadership, though a large body of research has focused on leadership more generally, including at the strategy level, and there has been much interest in top management teams. We review briefly some recent research on strategic leadership, but also direct the reader's attention to the literature on leadership, which is vast and will provide some insights into strategic leadership, which clearly remains an area ripe for future research. Hence, strategic leadership (firms' so-called upper echelons or UE) and intrapreneurship (usually at lower levels of organizations, sometimes managers but very often non-managerial employees) can be viewed in that context. Importantly too, strategic leaders need to be entrepreneurial (Covin and Slevin, 2017), implying – and thus dovetailing the two themes of this Research Snapshot – that the middle managers and employees of such visionary leaders need, therefore, to be intrapreneurial.

New chief executive officers (CEOs) form a 'strategic leadership constellation', which is those senior managers or other employees that they collaborate with and, since it may not overlap with the executive team, can 'lead to tensions that trigger a process of convergence between these two bodies, particularly as the constraints on changing the executive team decrease and the CEO's needs evolve' (Ma and Seidl, 2018: 606). Hence, roles

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such as a Chief Sustainability Officer, as a strategic leader, on top management teams (Strand, 2014) can ensure that sustainability is embedded throughout the firm but such outcomes are more related to the notion of the triple bottom line, rather than traditional notions of financial performance.

Recent studies on strategic leadership have linked performance and styles of leadership (Carter and Greer, 2013), on the one hand, and the influence of company boards on strategic leaders' decisions, on the other (Bergh *et al.*, 2016). Strategic leadership has also been considered to enable performance through networks (Kriger and Zhovtobryukh, 2013). In line with the other articles on boards/top management teams mentioned above (e.g. Strand, 2014; Bergh *et al.*, 2016; Ma and Seidl, 2018), Marion and Uhl-Bien (2010) note that strategic leadership tends to have a 'leader-centric (upper-echelon) approach to strategy' but, in order to ensure competitive advantage, openness and, once again, social capital connections need to be exploited – for example, co-operation, alliances and partnerships. In terms of the role of new CEOs and who they collaborate with, Ma and Seidl (2018) found that tensions occur when who the CEO collaborates with is different from the firm's top management team. Abatecola and Cristofaro (2018) tracked the development of upper echelons theory and its relationship with strategic leadership to highlight aspects which are 'emerging psychological and cognitive moderators of UE variables' that 'affect their decision-making processes and strategic choices'. Furthermore, strategic leadership development appears to be neglected by human resource managers in Finnish companies (Viitala *et al.,* 2017), perhaps reflecting an overconfidence in the abilities and competence of strategic leaders. Strategic leadership in churches is a relevant and distinctive example (Grandy, 2013). While Carter and Greer (2013) also emphasize the importance of values, the competing values framework (CVF) could be 'adapted for analyzing and developing skill in addressing different leadership challenges in public sector contexts' (Lindquist and Marcy, 2016, p. 167). Leadership styles, social capital and human capital (arguably including values – in particular, religious faith) are all critically important.

Intrapreneurship as a 'niche' of the larger discipline of entrepreneurship has received increasing, though limited, interest in the academic literature, and we use the terms *intrapreneurship* synonymously and interchangeably with (intra) *corporate entrepreneurship* (CE). Parker (2011, p. 19), in considering entrepreneur-intrapreneur differentials and the role of social and human capital, found that, 'Nascent entrepreneurs tend to leverage their general human capital and social ties to organize ventures which sell directly to customers, whereas intrapreneurs disproportionately commercialize unique new opportunities which sell to other businesses.' Bosma *et al.* (2011) also compare intrapreneurship and entrepreneurship, finding: (i) double the incidence of intrapreneurship in countries with higher than lower income; and (ii) while education impacts on the likelihood of starting an intra- or enterprise, intrapreneurs are considerably more oriented to start up a new venture than non-intrapreneurial staff. In a similar vein, intrapreneurship in Portuguese healthcare organizations is impacted upon by a firm having an entrepreneurial orientation (Lages *et al.,* 2017). Other evidence suggests that internal factors ('opportunity recognition and social capital') and external or environmental factors ('fear of failure and education') directly influence intrapreneurship in Spain (Turro *et al.,* 2016).

Evidence from several studies indicates that there is a direct link between employee satisfaction or their personal outcomes (such as accruing financial or other resources), on the one hand, and intrapreneurship, on the other (Antoncic and Antoncic, 2011; Gawke *et al.,* 2017). Furthermore, intrapreneurship should be conceptualized as an 'individual-level construct' because of the role of employees and/or managers in the process (Blanka, 2019). As such, and given the 'mobility' of 'knowledge workers' to other firms (Braunerhjelm *et al.*, 2018), such knowledge workers – the intrapreneurs on whom many firms depend for their performance – need to be retained whether by enhancing their job satisfaction or financial resources (discussed above, cf: Antoncic and Antoncic, 2011; Gawke *et al.,* 2017). More recent research has provided additional evidence on employee intrapreneurship, i.e. the individual level rather than firm level (such as Audretsch *et al.*, 2021; Blanka, 2019; Gawke *et al.*, 2019; Pandey *et al.*, 2020). For example, Gawke *et al.* (2019) propose an Employee Intrapreneurship Scale, which is a useful tool to measure the level of employee intrapreneurship within a firm. Additional studies in recent years have unveiled new insights into aspects of corporate entrepreneurship such as the intersection with absorptive capacity, i.e. the ability of a firm to absorb external knowledge[1] (Audretsch *et al.*, 2021; Sakhdari and Burgers, 2018), social capital and entrepreneurial orientation (Chang *et al.*, 2019), the 'rules of the game' at both the societal and

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firm level that influence intrapreneurship (Elert and Stenkula, 2020), internal stakeholders (Chebbi *et al.*, 2020), and business model innovation (Urbaniec and Żur, 2020). Indeed, some recent evidence provides insight into the influence of intrapreneurship on firm performance (for example, Kreiser *et al.*, 2021; Niemann *et al.*, 2020; Vanacker *et al.*, 2021). Many of these extant studies, as Glinyanova *et al.* (2021) observe, are highly focused upon the resource-based view, which has a strong emphasis on knowledge and employees as individual intrapreneurs, but conversely there may be other aspects which are less commonly researched but are nonetheless vitally important to our understanding of this phenomenon.

Alt and Craig (2016) indicated that social intrapreneurs can contribute to the selling process in commercial firms by promoting social innovations that 'deviate from the dominant logic' of such firms. Although the specific link between strategic leadership and innovation (Calabrò *et al.*, 2021; Cortes and Herrmann, 2021; Kang *et al.*, 2015) has been investigated, relatively little research has explored social intrapreneurship or social intrapreneurs, and yet it is clearly an important avenue for firms to move beyond being ethical or socially responsible to embedding social innovation in their business model. While we may ponder about whether the integration of strategic leadership and intrapreneurship could foster more visionary leadership in organizations, it is far from clear yet whether that might be the case. Although this Research Snapshot has revealed a host of theories and empirical findings, some of the most recent research on intrapreneurship and (strategic) leadership, such as that published in a special issue of the top-ranked *Journal of Management Studies* (Haynes *et al.*, 2015; Kang *et al.*, 2015; Simsek *et al.*, 2015) are insightful. However, future research on strategic leadership, including a novel definition, has been proposed (Samimi *et al.*, 2020) and that would build on the ongoing research programme into intrapreneurship, despite the perception that 'never the twain shall meet' between these two domains. Nonetheless, as we explained in the chapter (Section 10.2), Guth and Ginsberg (1990, cited earlier) segmented corporate entrepreneurship into innovation and strategic renewal. As such, since prior literature has examined the specific link between strategic leadership and innovation (Calabrò *et al.* 2021; Cortes and Herrmann, 2021; Kang *et al.*, 2015), perhaps less has been undertaken on genuine strategic renewal, which, especially due to the pandemic, we suggest is a critical avenue for future research.

[1] Refer to Cohen and Levinthal (1990).

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Summary

The *strategic leader* of an organization affects both strategy creation and strategy implementation, and is responsible for establishing the basic direction of the organization, the communications system and the structure – which influence the nature and style of decision-making within the firm. In addition, decision-making and change are affected by the personal ambitions of the strategic leader, their personal qualities – such as entrepreneurialism and willingness to take risks, the style of management adopted and the management systems used. Power, however obtained and used, will also affect the style and approach of the strategic leader.

Strategic leaders may be personally visionary, but this is not a prerequisite for effective leadership; leaders must ensure that the organization has a vision and clear direction and that resources are committed towards its achievement. They must ensure, perhaps by delegating to others, that: (i) the organization thinks strategically, (ii) people are engaged and committed, (iii) there is positive action, and (iv) the organization has an appropriate public face and visibility.

The leader can contribute by starting a new business or venture, by turning around a company in trouble, by transforming an already successful company or even by splitting up a company to exploit the true value of its subsidiary parts. Seven different *leadership* styles (sense-making, aspirational, public relations, opportunist, financial engineering, operational and servant (people-based)) were identified, often related to past experiences. The leader's natural or preferred style has a major impact on organizational culture. Visionary leaders typically provide a strategic vision, rely less on formal planning systems, are persuasive and charismatic, and operate through the culture.

Entrepreneurs are similar in many respects but are also different, as they build value around opportunities with intra-corporate entrepreneurs (intrapreneurs) being provided with opportunity and encouragement in some organizations where they will drive emergent strategic change. The lean start-up is a valuable entrepreneurial approach to ascertaining what potential customers might be most willing to buy.

Clearly, some strong leaders are instrumental in the success and prosperity of organizations but, on other occasions, they are perceived to fail. In reality, the shelf life of many large company chief executives is relatively short. Where they are seen to fail is often the result of poor implementation, which implies that leaders are more likely to know what they would like to achieve than how to do it. This suggests that it is easy to think that success lies in a good idea, in a strategic position – but ideas and positions can be copied. Sustained competitive advantage lies in the ways in which things are done. Processes and behaviours are harder to replicate.

Succession is a crucial issue, particularly for someone who has been especially successful or charismatic, and a newcomer may want to make changes, possibly to establish their personality and preferences in the organization.

Online cases for this chapter

Online Case 10.1: Boots
Online Case 10.2: Philip Green
Online Case 10.3: David Bruce
Online Case 10.4: Michelle Mone and MJM International
Online Case 10.5: Pilgrim Jewellery
Online Case 10.6: Wynn Las Vegas
Online Case 10.7: Sir Tom Farmer and Kwik-Fit
Online Case 10.8: Volvo
Online Case 10.9: Friends Reunited
Online Case 10.10: Richer Sounds
Online Case 10.11: Jim McColl

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Questions and research assignments

1. Using the online Volvo case (Online Case 10.8) as background, discuss why effective leadership involves both strategy creation and strategy implementation. From your experience and reading, which other well-known strategic leaders do you believe are strong on:
   - creation?
   - implementation?
   - both?
2. Research the real ale sector. How much has it expanded in recent years? What may the further development of BrewDog entail?
3. Where do the entrepreneur and the visionary leader overlap, and where are they different?
4. Apply Figure 10.4 (alternative styles of leadership) to any strategic leader whom you are in a position to evaluate.
5. In the context of the lean start-up, and using the railways as an example, talk to people you know and ask questions that provide some insight into what it is that they (as rail passengers) really want from the railways. What is their main problem – for example, is it speed, frequency of trains, reliability, etc? You might, of course, take the same approach with air travel or cruise holidays. At the very least you might think to list the range of issues that you would anticipate – always accepting, of course, that it can be a mistake to prejudge what might emerge!

Internet and library projects

1. Look at the events surrounding BHS, Arcadia and Sir Philip Green. Could the closing down of these iconic high street stores have been avoided? How might all-round better outcomes have been achieved? Do you agree with those critical commentators who see some of Philip Green's decisions as 'questionable' and perhaps unethical? A final thought-provoking question: Is there 'any way back' now for Sir Philip Green as an entrepreneur?
2. Re-examine Figure 10.4. Can you attach a particular entrepreneur to each one of the seven key leader styles?
3. How effectively has the General Electric succession issue been resolved?

Strategy activity

Bill Gates

Bill Gates had a vision for transforming the lives of ordinary people, 'foreseeing a single operating system for every personal computer around the world' to complement Steve Jobs' (Apple) vision of 'a personal computer on every desk in every home and office around the world'. Dedicated pursuit of this focused vision through Microsoft has made him the world's richest person. At the beginning of 2000, Microsoft was valued at US$600 billion. Gates' personal wealth exceeded US$85 billion. Gates was born to wealthy parents; he was energetic and inspired to work 'ridiculously long hours', and he has inspired criticism and, inevitably, jealousy.

There are several reasons behind Gates' phenomenal success. Among them are his ability to absorb information quickly and his technical expertise – he can actually write computer code. He understands consumers and is uncannily aware of market needs. He has an eye for the main chance coupled with an ability and will to make things happen. Moreover, he is an aggressive defender of his corner, which ultimately may have worked against him with the US anti-trust authorities.

Born in 1955 in Seattle, Gates quickly became interested in science fiction and, unusually, went to a school which had a computer that students could use. A 'nerd' from an early age, it has been said Gates 'preferred playing with computers to playing with other children'. He nevertheless teamed up with his friend, Paul Allen, and together they 'begged, borrowed and bootlegged' time on the school computer, undertaking small software commissions. Gates and Allen went to Harvard together, where Gates proved to be an unpopular student because of his high self-opinion. Surreptitiously using Harvard's computer laboratories, they began a small business on the campus. Gates later left Harvard to start Microsoft,

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never completing this formal part of his education. Allen was his formal partner in the venture, but Gates always held a majority control. Bill Gates' visionary contribution was the realization that operating systems and software (rather than the computer hardware) held the key to growth and industry domination.

Gates took risks in the early days but, assisted by some good luck, his gambles largely paid off. When the first commercial microcomputer (the Altair) needed a customized version of the BASIC programming language, Gates accepted the challenge. His package was later licensed to Apple, Commodore and IBM, the companies which developed the personal computer market. When IBM decided to make a serious attack on the personal computer market, Gates was commissioned to develop the operating system. Innovatively improving an existing off-the-shelf package and renaming it MS-DOS (Microsoft Disk Operating System), Gates was now on his way. Since then, Windows has become the ubiquitous first-choice operating system for most PC manufacturers.

By and large, his success has depended on his ability to create standard products – the benchmark against which others are judged.

Gates hired the 'best and brightest' people and he made many of them millionaires. He preferred a college-style working environment with a culture dedicated to learning, sharing and overcoming hurdles. Gates personally thrives on combat and confrontation. His colleagues have to be able to stand up to him, but it does generate creative energy. However, he is also seen as enormously charismatic, and employees desperately 'want to please him'. In his younger days, he was branded a risk-taker; stories are told of his love of fast cars and his tendency to leave late for meetings in order to provide him with an excuse for driving quickly. After a two-year investigation by the US anti-trust authorities, it was ruled (in 2000) that Microsoft should be split into two businesses – one for operating systems and one for applications, including the internet; it was also ruled that Microsoft should be required to give away some of its coding. Gates and Microsoft had been found guilty of exercising monopoly power to the detriment of their competitors. Gates was incensed and appealed against the verdict, which was largely overturned in a higher court. In 2004, the European Competition Commission also ruled against Microsoft, arguing that it had created an effective monopoly by bundling its own Media Player with Windows. Microsoft said that, again, it would appeal the verdict.

Since the US ruling, Gates has announced two key things. First, in the future Microsoft would focus its resources and energies on developing software that would be delivered as services via the internet, rather than loaded into individual PCs. Second, he was standing down as chief executive. He would continue as chairman and adopt a new role as the company's top software architect. He was returning to his roots.

> *I'm returning to what I love most – focusing on technology. These are dramatic times in our industry. We recognize that we must refocus and reallocate our resources and talents.*

In July 2008, Gates left Microsoft in terms of day-to-day involvement but remained chairman. Between 2006 and 2008, what is described as a top management transition took place at Microsoft. The new role for Gates allows him to spend more time on his health and education work through the Bill and Melinda Gates Foundation.

The new CEO was to be Steve Ballmer, who had joined Gates during the Harvard days, where he was a fellow student. Having been a successful vice president for sales, support and marketing, he had later been appointed president. Ballmer is recognized as an aggressive hardliner who would have the difficult task of trying to keep the growth of Microsoft going.

In recent years, some developments have been less successful than others in the face of emergent and dynamic competitors, but Microsoft remains a very powerful business, even if it is not quite the force it once was. In 2014, Ballmer stepped back and was succeeded by Satya Nadella. His appointment led to a number of changes at the executive level.

Microsoft **www.microsoft.com**

Questions

1. What are the strategic issues that confront Microsoft today?
2. What exactly did the European Competition authorities decide and what has developed since the announcement in March 2004?
3. How difficult is it to sustain a dominant position in a fast-moving and emergent industry? What lessons can we learn from Gates and Microsoft?
4. Research the main causes which the Bill and Melinda Gates Foundation supports. How do you reconcile the picture we have painted of Gates with his transformation into a social entrepreneur and philanthropist?

In considering these questions, you may find it useful to review the commentary on Microsoft in the Spheres of Influence section in the previous chapter.

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Part 4 Strategic growth issues

In Part 4, Chapter 11 considers what constitutes strategic success and how a number of choices are driven by the related ambitions. At the most basic level of argument, an organization is successful if it is meeting the needs and expectations of its stakeholders, such that their support and commitment are maintained. We will explore the logic of constantly seeking to grow, which sometimes implies serious risk.

Chapter 12 concentrates on managing growth by discussing diversification, acquisition strategies and strategic alliances. The chapter also covers the broader topic of international strategy. It is broader in the sense that all of the growth strategies discussed in Chapter 8 can have an international dimension. Therefore, internationalization needs to be examined as a strategic action in its own right.

Chapter 13 looks at business failure, consolidation and recovery strategies. If anything in human life is certain, then it is death. This applies to many businesses. At some point in the life of any business, elements of Chapter 13 will be relevant. Corporate level failure is a fact of life; no business of any size is immune to this possibility and, just as failure can happen, so it can be avoided or recovered from by the correct strategic actions.

In Parts 4 and 5 we take greater account of strategic realities and strategy in practice, accepting that strategic management is more than an intellectual exercise.

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Chapter 11

Strategic control and measuring success

PART 1
Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- distinguish between efficiency and effectiveness, and how success may be measured and assessed in financial terms **(Section 11.1)**
- appreciate how strategic competency and admiration are important themes in a holistic approach to evaluation **(Sections 11.2 and 11.4)**
- identify the difficulties involved in measuring the effective performance of many not-for-profit organizations **(Section 11.3)**.

Introduction

Organizational performance overall is evaluated internally and externally. The performance and contribution of individual businesses and products will be evaluated against their budgeted targets. External stakeholders, especially shareholders, financial analysts and journalists, will be 'interested in the numbers'. Customers and suppliers will too, as well as in other qualitative indicators. Employees will also be interested, in part because of their own future security. At the same time, their individual contributions will be measured and evaluated. The more detailed breakdown and challenges will have a direct linkage back to key performance indicators (Chapter 3) and key success factors (Chapter 4). The focus of this chapter is on corporate performance rather than personal managerial contributions, although they are very clearly interdependent.

The performance of a company in terms of the outcomes of its realized strategies (as distinct from intended) is therefore evaluated by financial ratios and other quantitative measures. While these are an essential element of the evaluation process, they are inadequate alone, such that we need to take a more holistic perspective which embraces both subjective performance indicators and recognizes the underlying causes of relative success and failure.

We show how different measures and assessments can provide conflicting conclusions and present a comprehensive model based on Environment–Values–Resources (E–V–R) congruence.

As financial ratio analysis remains an important aspect of management case-study analysis, a section explaining the main ratios is included as a web supplement. You may wish to revisit this.

11.1 Defining and measuring success

An organization is successful if it meets the needs and expectations of its stakeholders, implying a mixture of common sense and competency, as it must understand the 'why' and 'how' behind the 'how well'.

We may think we know instinctively whether an organization is doing relatively well or relatively poorly, but more precision is needed – since we could be deluding ourselves, misjudging a situation, feeling complacent and/or ignoring environmental changes. Success, assuming it is real and not imagined, can be transient.

Figure 11.1 implies that organizations and their managers must know where, how and why a company is doing relatively well or relatively poorly, and that they use this information either to sustain success by improvement and change, or to remedy weaknesses actively. Otherwise, if they take relative success for granted or fail to understand relative failure, they will experience slow or rapid decline.

Explanations are sought and attention is focused when results or outcomes are disappointing or below target, but it is not always so with success. Managers may proverbially pat themselves on the back and assume that the success is a result of their personal abilities and brilliance – whereas the success may, in reality, lie more in good fortune and an absence of any strong, threatening competitors. Such advantages can prove very short-lived since success, when taken too much for granted, can quickly turn to failure – a manifestation of the prevailing culture.

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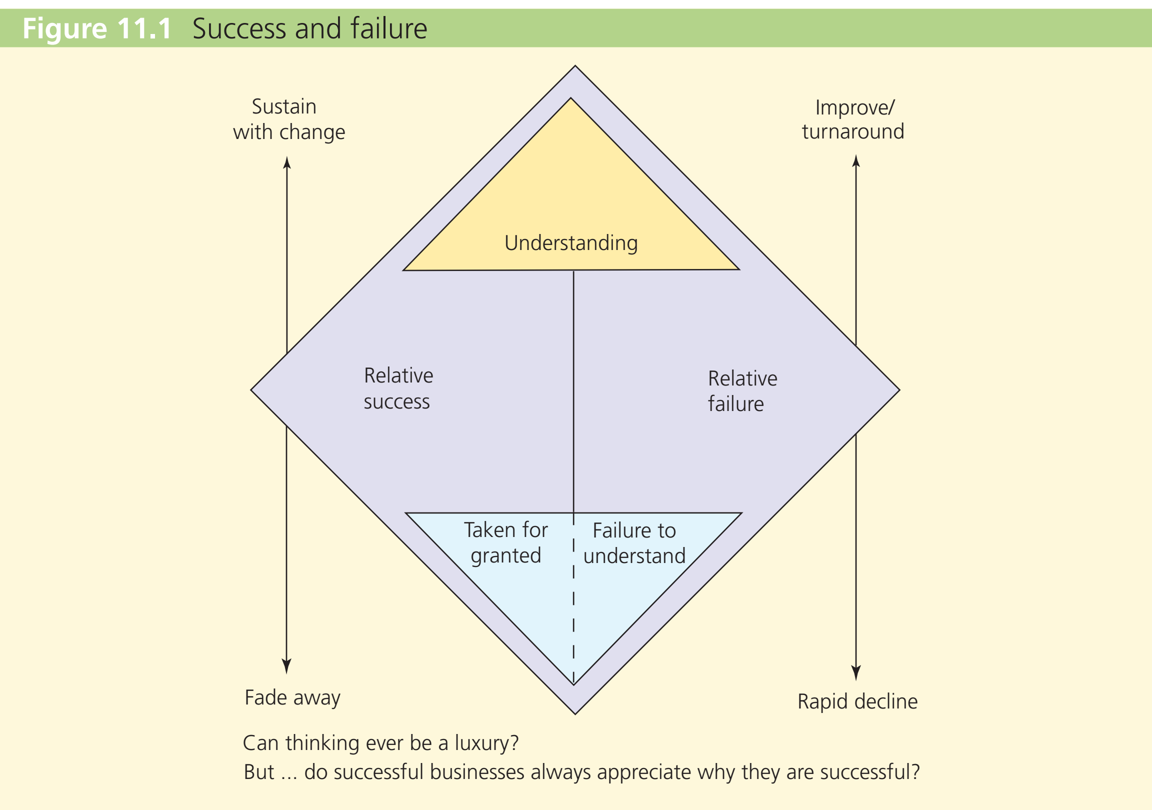
Figure 11.1 Success and failure



Organizations must face up to the real issues and not attempt to 'spin' the figures to provide an attractive, but not entirely honest, explanation. Companies like to present and discuss their results in terms of absolute figures for revenue and profits, and the media seem happy to report these figures, frequently headlining any growth. Absolute growth in this form can – and can be used to – hide deterioration in true performance. Profitability, for instance, is more important than profit *per se* for understanding how well a company is doing, since growth alone can be a very dubious and misleading measure of success; *sales revenue is vanity; cash flow is clarity; profits are sanity*.

What matters is growth in strength, not growth in size alone, since the benefits of the latter are sometimes illusory. While revenue increases are often reported in the financial press as a positive measure of progress, profits and profitability are arguably more significant measures. Increasing the number of employees often goes hand-in-hand with revenue growth but can sometimes bring added complexity for the organization. As can more customers, especially if they are scattered across new countries. Growth from selling more to existing customers might seem ideal – but the loss of a major account can then have a large impact and create real uncertainty.

We look at growth in the charity sector towards the end of the chapter. Charities basically raise money (from grants, donations and enterprise activities) to spend on particular causes. But the money raised also has to pay for the administration and marketing involved; one key risk is that more and more has to be invested in marketing, once charitable commitments grow and more needs to be raised every year. Once the percentage of the money raised but spent on maintaining the charity, rather than supporting the cause, exceeds a certain level, the charity might well be perceived as poorly run.

Companies may, not unusually, concentrate measurement on factors that can be measured most easily or readily, such as inputs, resources and efficiencies, because outcomes and **effectiveness** are more difficult to measure. Yet, as we have already seen, satisfying the needs and expectations of key stakeholders is critical for long-term prosperity. Critical Reflection 11.1 on **efficiency** and effectiveness reinforces the point and it is supported (below) with a summary of relevant measures for BA and Case 11.1 (JRC Global Buffet). Thompson and Richardson (1996) have shown how generic strategic competencies can be categorized into

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three broad groups which influence the organization's efficiency and effectiveness, and which have relevance for all of its stakeholders. *Content* competencies reflect the ways in which organizations add value, and differentiate and manage their costs, including functional and competitive strategies. *Process* competencies deal with the ways by which these content competencies are changed and improved in a dynamic and competitive environment, such as strategy implementation, and quality and customer care. Meanwhile *awareness and learning* competencies inform the change management process, for example the ability to satisfy stakeholders, ethical and social issues, and the ability to avoid and manage crises.

Critical Reflection 11.1 Efficiency or Effectiveness?

There are three important measures of performance:

- Economy, which means 'doing things cost effectively'. Resources should be managed at the lowest possible cost consistent with achieving quantity and quality targets.
- Efficiency, which implies 'doing things right'. Resources should be deployed and utilized to maximize the returns from them.

Economy and efficiency measures overlap and are essentially quantitative and objective.

- Effectiveness, or 'doing the right things'. Resources should be allocated to those activities which satisfy the needs, expectations and priorities of the various stakeholders in the business.

In essence, there is no point being the world's best producer of something – for example, large CRT computer monitors when everyone now wants a flat screen!

Effectiveness relates to outcomes and need satisfaction and, consequently, the measures are often qualitative and subjective.

Although it is rarely used, there is a relevant fourth 'e'– efficacy. Is the organization doing 'what it says on the tin'? In effect, is it practising and demonstrating its declared mission or purpose and values?

Where economy, efficiency and effectiveness can be measured accurately and unambiguously, it is appropriate to use the expression 'performance measures'. However, if, as is frequently the case with effectiveness, precise measures are not possible, it can be more useful to use the term 'performance indicators'.

As the following table indicates, only efficient and effective organizations will grow and prosper. Effective but inefficient businesses will survive but underachieve because they are not using minimum resources; efficient but ineffective companies will decline as they cease to meet the expectations of their stakeholders – simply, the things they are doing are wrong, however well they may be doing them.

	Ineffective	Effective
Inefficient	Corporate collapse	Survival
Efficient	Gradual decline	Growth and prosperity

Possible performance measures for BA: an application

As you read through this section, you are encouraged to reflect on which measures will have 'fallen through the roof' during COVID-19 when flights were cancelled and passenger numbers collapsed. You might speculate how BA, like any and every airline, could have managed events better – but always remember the relevant time pressures that managers faced and the built-in lags for carrying out certain changes. *While we have specified BA, this list would be relevant for any similar airline.*

An airline is a people-dependent service business. Unquestionably its revenue, profits, profitability, liquidity and market share (explained and discussed in the web supplement to this chapter) are all important. But, alone, they are inadequate for assessing the overall performance.

The following list contains examples of appropriate measures that could also be used. It is not offered as a complete list of relevant measures.

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Economy measures

- direct costs, e.g. the cost of fuel
- the cost of leasing aircraft
- staff levels and costs – slimming these is acceptable as long as the appropriate quality of service is maintained. This could be measured as an overhead cost per passenger.

Efficiency measures

- timekeeping/punctuality
- revenue passenger kilometres (RPK), the number of passengers carried multiplied by the distances flown
- available seat kilometres (ASK), the number of seats available for sale multiplied by the distances flown
- the overall load factor = RPK/ASK. (Similar measures for freight are also relevant.)

Solid performance with these measures is essential if the airline is to run at all profitably, but increasing them requires the airline to be more effective in persuading more customers to fly, utilizing marketing and consistently good service. A related measure is:

- passenger revenue per RPK – improving this implies increasing the return from each flight, given that on any aircraft there are likely to be several pricing schemes in operation; BA has previously changed its strategy to address this issue (Online Case 12.1)

  The relative numbers of First, Business Class, Premium economy and Economy passengers (as appropriate for the flight) is an important variable.
- income (from all sources) related to the numbers of employees
- reliability of the aircraft – that is, continuous flying without breakdown (as a result of efficient maintenance, see below)
- the average age of the aircraft in the fleet.

Effectiveness

- ability to meet all legislative requirements
- image – which is based on several of the factors listed in this section
- staff attitudes and contributions – both on the ground and onboard the aircraft: care, courtesy, enthusiasm, friendliness, respect and efficiency
- the aeroplane – does it look and feel new and properly looked after?
- other aspects of the onboard service, such as the cleanliness of the seating and toilet areas, food and entertainment
- the amount and size of on-board luggage space in the overhead lockers
- innovation – new standards of passenger comfort
- safety record
- the number of routes offered, the timing of flights and the general availability of seats
- recognition of, and rewards for, regular and loyal customers which is reflected in the accumulation of air miles by passengers and the numbers of passengers who become ‘gold card’ holders in regular flyer schemes
- having seats available for all people with tickets who check in. While airlines, like hotels, often overbook deliberately, they must ensure that they are not ‘bumping’ people onto the next available flight at a level which is causing ill-will and a poor reputation.
- the compensation package when people are delayed
- time taken at check-in

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- reliability of baggage service, particularly making sure that bags go on the right flight; this also involves the issue of bags being switched from one flight to another for transit passengers.
- the time taken for baggage to be unloaded (this is partially in the hands of the airport management)
- the absence of any damage to luggage
- the systems for allocating particular seats in advance of the flight and at check-in – for which BA often charges
- the number of complaints; the number in relation to the number of passengers
- the way in which complaints are handled
- the ability to balance the cost of maintenance with the costs incurred if things go wrong. If there is inadequate maintenance, there are likely to be incidents or accidents which are costly in lost revenue and goodwill. At the same time, airlines could over-maintain to a level where they are no longer able to compete because costs are too high.

The additional factors below are not wholly the responsibility of airlines as they also involve the airport owners:

- terminal provisions and comfort – this includes seating, escalators, restaurants, duty-free shopping and toilets – *airport lounges can be included as a terminal provision; they are typically free to access to First and Business Class passengers but increasingly some lounges can be used by any passenger who opts to pay an additional fee.*
- security – evidence of security and the perception that it is being taken seriously.
- availability of trolleys and wheelchairs for disabled passengers.

Endnotes

It is also important to consider how all these factors may be measured and evaluated. Observation, passenger surveys, complaints and comparisons with other airlines are all possibilities.

The distinction between indicators (aspects of service which are actually difficult to measure), measures and performance targets (standards to measure against) needs to be recognized.

The following points are also worth noting:

- It is sensible not to be overambitious with measures and targets.
- If something cannot be measured, it is perhaps better to leave it out.
- The chosen measures must be relevant and easily understood – hopefully, the very act of measurement will foster improvements.

Case 11.1 JRC Global Buffet — UK

This case explores the operations at one JRC location, Watford. When the case was written, there were eight of these JRC all-you-can-eat buffets open in the south of England and Wales.

JRC is an all-you-can-eat buffet that serves dishes from around the world – Brazilian, British, Chinese, French, Indian, Greek, Italian, Japanese, Lebanese, Mexican, Spanish and Thai – alongside each other, each from a discrete serving station with its own (trained) chefs and live cooking station visible behind. Customers can see the food being prepared. Some 300 dishes are available for customers to select from. A wide range of desserts (from around the world) and soft drinks are included in the single, fixed price. People can mix-and-match internationally as much as they wish, or focus on just one or two countries or styles. We might say that 'all tastes are capable of being satisfied'. Dining is informal; the food is authentic; and the set prices are proclaimed to be 'unbeatable'.

Some of the dishes are specially cooked to order, while others are preprepared and available as an open hot and cold buffet. Some Japanese main courses, for example, are typically prepared on demand, although sushi can readily be preprepared. Much relies on the

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vigilance of the chefs to see and to sense which dishes are popular at any given time, and to have more 'on the go' so that dishes are always replenished and available. Customers with certain allergies may need to check things at the station, which can slow everything down temporarily. Over time, of course, these customers will come to know what, for them, is safe to eat.

Customers have a fixed time to select and eat their meal. They pay as they enter the restaurant and, in return, are given a ticket for a seat. People who reserve a table are allowed 1¾ hours inside the restaurant; 'walk-ins' have 15 minutes less. People need to be seated as quickly as possible by the staff – and are sometimes asked to leave after a while.

Given that queues can soon form around a busy kitchen station if the food on offer takes longer to prepare than certain other choices, and if that country's food is particularly popular, booking ahead would seem very sensible. Levels of popularity for individual cultural cuisines and the respective dishes will naturally vary, based on who the customers are, thus creating constant uncertainty. Of course, customers are always free to avoid a particular queue and select an alternative station. Keeping an open mind on what you might eat can again be a sensible decision. Regular customers – who 'know' the system and the layout – might be expected to target their preferences and head straight for these specific stations.

Watford has four separate seating areas (or stations) – each of which has 175 covers – and these are opened (and closed) in a fixed rotation. When a dining station is closed, staff clear, clean and reset the tables to a fixed time schedule of 35 minutes.

It is not unusual for there to be a huge amount of food waste – too much has been prepared and needs to be replaced by a fresh batch; customers collect far more than they need or can eat. 'Their eyes are bigger than their stomachs.' After all, they have paid for it!

JRC opens at lunchtime and will stay open until late evening closing time. We can easily work out that it is possible to have some dining stations open for four sittings in a day and some for five – if people are happy to eat quite late in the day. We can also work out that staff members are unlikely to be there for all the time the restaurant is open in any single day.

Questions

1 List what you think might constitute useful and relevant efficiency and effectiveness performance measures. In doing this exercise, separate the measures that are most relevant for the restaurant's owners, for their staff and for customers. In compiling this list of measures, think about the expectations that customers might have and how readily these might be 'catered for'.
2 Using your past experience of – or experience from a special visit to – an all-you-can-eat buffet … even if it is a single cultural or 'ethnic' cuisine, such as Chinese, or a carvery or a restaurant breakfast buffet, as distinct from one as complex as JRC … what can you learn about the behaviour of different customers (and conclude about what they see as important), the food available (and the challenge of keeping fresh supplies available) and the service (seating, serving and cleaning)? What operational improvements could you suggest?
3 Is it realistic to expect the same quality and presentation of food as you might anticipate from a restaurant where all the food is prepared to order?

Improving competency

Where organizations need to become more successful and less crisis prone, they must improve and/or reprioritize their competencies. Thompson and Richardson (1996) argue that it is necessary, first, to evaluate which competencies are critical for strategic and competitive success; and, second, to ensure that the organization possesses these competencies at an appropriate level. To facilitate these needs, and to ensure that there is improvement and change, they need to measure their competencies. Figures 11.2 and 11.3 expand the strategic implications of these points.

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Figure 11.2 Conscious and unconscious competency

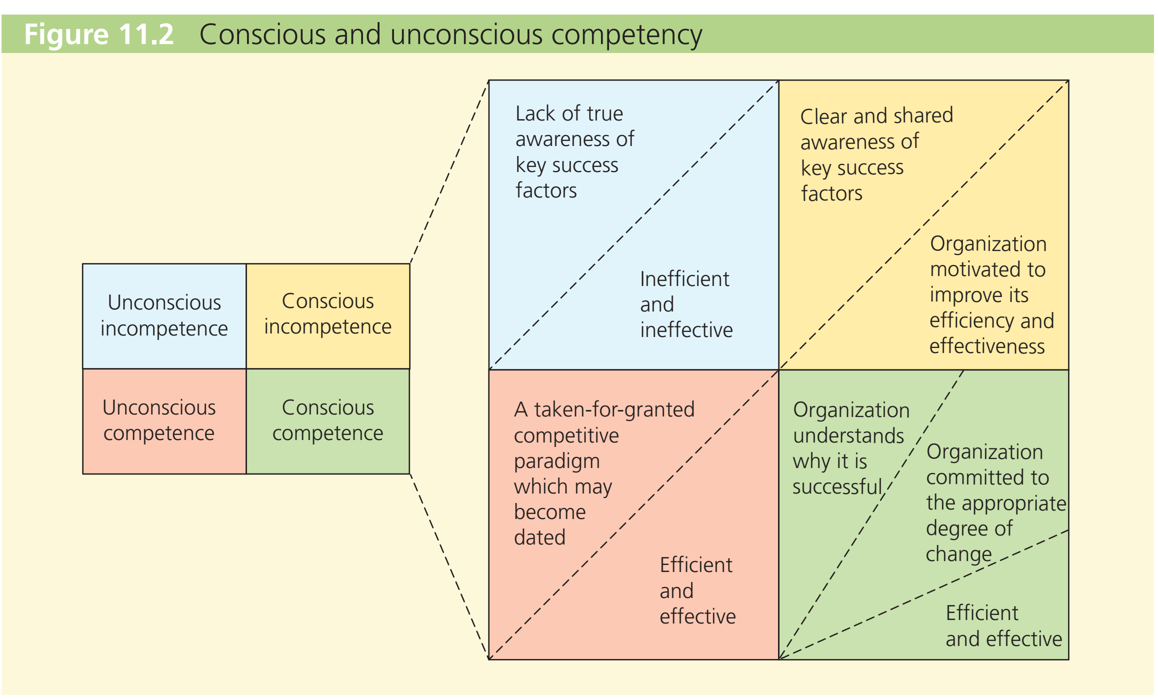

Figure 11.3 Improving competencies

Unconscious incompetence

2

Ascertain the key success factors

Conscious incompetence

Efficiency drives (possibly also improving effectiveness) without diagnosing key success factors

1

Improvements to efficiency and effectiveness properly measured

3

4

New competitive paradigm without sacrificing efficiency and effectiveness

Unconscious competence

Double-loop learning

Conscious competence

Strong cultural acceptance of current competitive paradigm with single-loop improvements

5

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The four-quadrant box on the left of Figure 11.2 has been adapted from May and Kruger (1988), whose ideas on personal competency have been extrapolated to an organizational context; it can be linked to E–V–R congruence. An *unconsciously incompetent* organization does not appreciate just which factors are critical for competitive and strategic success. Partly as a consequence of this, the organization is both inefficient and ineffective, and is not deploying the right mix and measure of the generic competencies.

An *unconsciously competent* organization is efficient and effective, satisfying the needs and expectations of its stakeholders, with an implication that it does not fully understand why it is successful, or when it may need to change. Consequently, it has a 'taken-for-granted' paradigm of competitive and strategic success which may become outdated and no longer appropriate.

The *consciously incompetent* organization has a clear and shared awareness of key success factors, with managers recognizing which issues and competencies are essential for success. Unfortunately, it is less efficient and effective than it needs to be, but hopefully it is motivated to improve.

Finally, the *consciously competent* organization understands why it is successful. It is efficient and effective, and motivated to manage both continuous and discontinuous change as necessary.

Figure 11.3 illustrates the requirements for moving from one quadrant to another. An unconsciously incompetent organization becomes more competent (arrow 1) by efficiency and productivity drives, which may also improve effectiveness to some extent, but it may not become properly effective because it fails to clarify its key success factors. The same organization, alternatively, may become more conscious by attempting to clarify the key success factors (arrow 2) which, later, need to be accompanied by a determined effort to improve efficiency and effectiveness (arrow 3) to generate competency.

Arrows 4 and 5, linking the bottom two quadrants, indicate an organization with E–V–R congruence. Once an organization has become consciously competent, these competencies and the associated competitive paradigm need to be accepted fully and absorbed into the organization's culture and values. Satisfying the key success factors happens almost automatically and unconsciously (arrow 4), and there is an ongoing commitment to continuous improvement, which is only satisfactory while the underpinning competitive paradigm remains appropriate. Competitive pressures will, at some stage, require most organizations to search for a new perspective of effective competition, ideally reaching the new competitive high ground ahead of their rivals. For this reason, the competency package – and key success factors – should be evaluated constantly to ensure that they remain appropriate. When the competitive strategy is changed, efficiency and effectiveness must not be sacrificed (arrow 5).

11.2 What should we measure? A holistic model

If you can measure it you can manage it.

Peter Drucker

Not everything that can be counted counts; and not everything that counts can be counted.

Attributed to Albert Einstein

The three most important things you need to measure in business are customer satisfaction, employee satisfaction and cash flow.

Jack Welch, ex-Chief Executive Officer, General Electric (US)

The ultimate measure of success for any organization will invariably have a quantitative element: revenue growth, profits and profitability for profit-seeking firms, and an ability to raise sufficient funding to fulfil its purpose and objectives effectively for non-profit-seeking concerns. However, simply focusing on financial measures, important as they are, is woefully inadequate, as they pay insufficient regard to issues of cause and outcome.

The basic principles are explained in Figure 11.4, which links to the business and revenue models. The quality of the opportunity and its execution (strategy and implementation) indicate strategic effectiveness. It is the opportunity and its execution that generate revenue; the efficiency of the execution determines costs. The gap between costs and revenue is profit.

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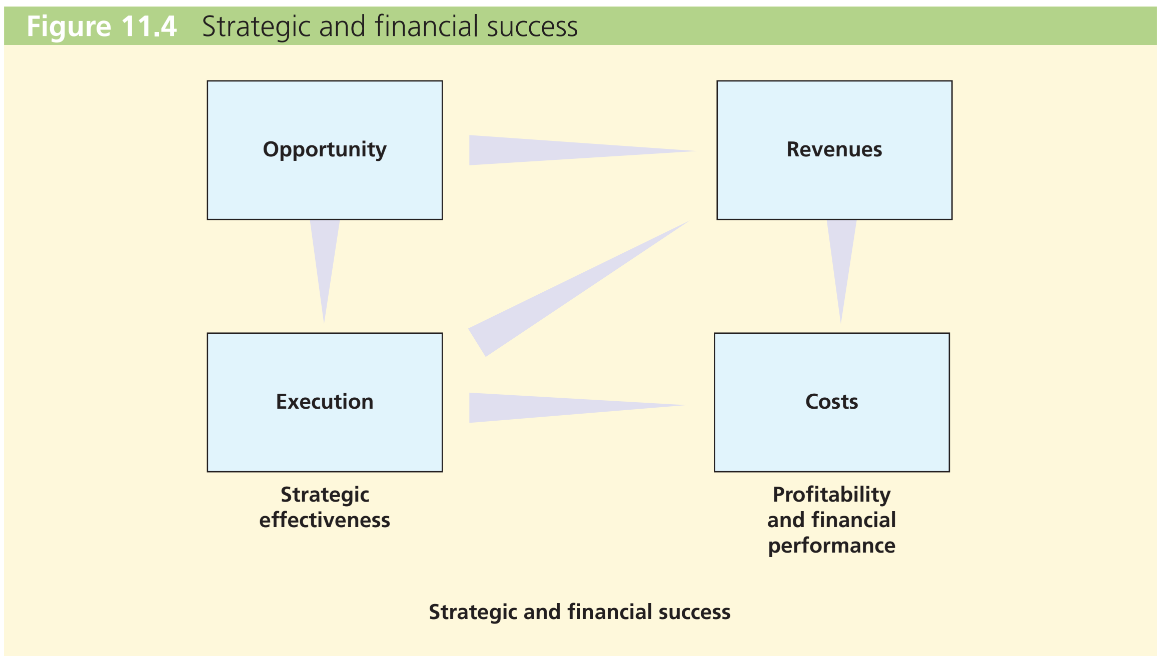
Figure 11.4 Strategic and financial success



Accepting these reservations, we should look at performance measures within a comprehensive cause and outcome framework. Kets de Vries (1996) argues that strategic leaders play two key roles: a charismatic one – through which they ensure that the organization has an understood vision and direction, that people are empowered and, as a consequence, they energize, stimulate and galvanize change; and an architectural role of establishing an appropriate structure and style for both control and reward. Effective leaders succeed when strategies are owned by those who must implement them, customers are satisfied, people enjoy their work and things happen in the organization – specifically, the necessary changes are quick and timely. This was explored more fully in Chapter 10.

Figure 11.5 reinforces the importance of strategic leadership for establishing (and changing) both competency and the corporate strategic logic of the organization. With the latter, we are considering whether or not the organization's corporate portfolio and its competitive strategy or strategies make sense and can be justified, or appear to be a recipe for poor or disappointing performance.

A strong and well-managed portfolio will be reflected in successful and effective competitive and functional strategies. It will also be reflected in a firm's operating efficiency, as well as its image, visibility and reputation, its strategic leader, and its products and services. These elements can be managed and can have a bearing on many things, but they are difficult to evaluate and measure, particularly by the organization itself. Largely, they are the subjective opinion of external experts and stakeholders.

There are three distinctive broad approaches to measuring outcomes. These are:

- *financial results* and other market-driven quantitative measures, such as market share
- *stakeholder satisfaction*, reflected in the balanced scorecard and similar packages
- *admiration*, for example the annual reviews carried out by *Fortune* in the United States and *Management Today* in the UK.

We now examine briefly corporate logic, admiration, image and reputation, financial measurement and stakeholder measures to explain the linkages in Figure 11.5.

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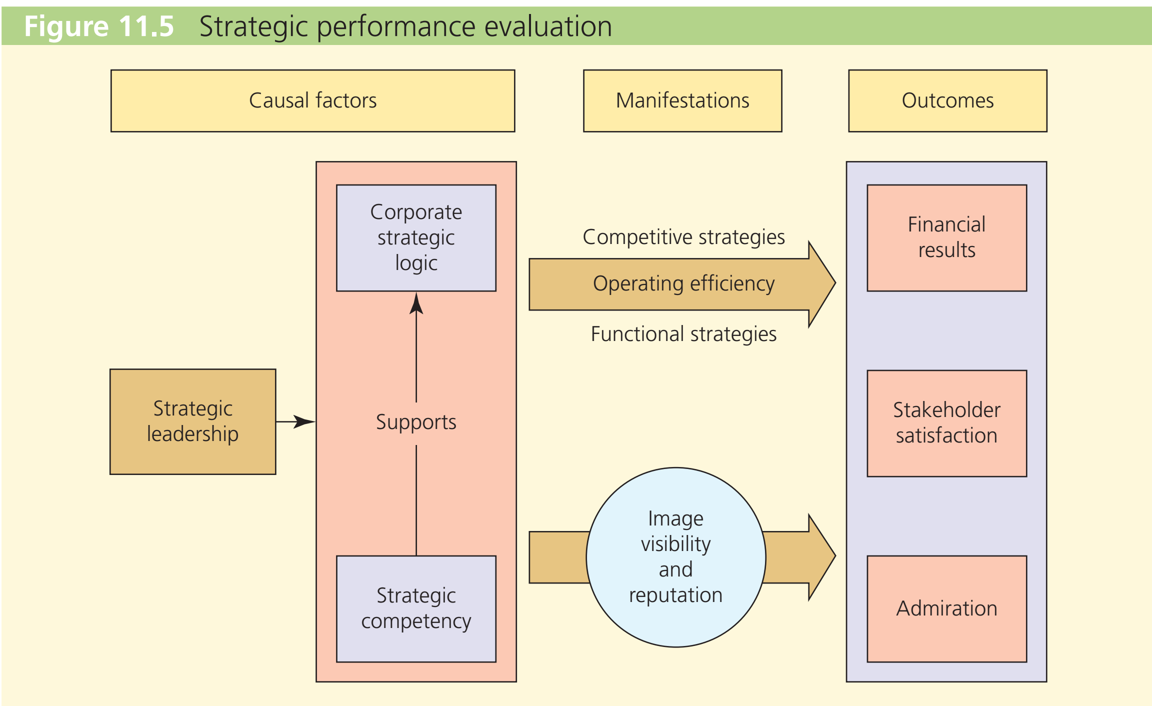
Figure 11.5 Strategic performance evaluation



Corporate strategic logic

Caulkin (1995) stressed that the average life expectancy of successful UK companies is some 40–50 years, such that only 9 of the 30 companies in the first *Financial Times* share index in 1935 still existed in their own right 60 years later. Several others were under new ownership, some had been liquidated and many had been acquired and absorbed by their new corporate parents. Inevitably, every one of the companies will have seen major strategic and/or structural changes of some kind. We could postulate that in today's turbulent 'new normal' business environment, corporate life expectancy will still be challenging.

Sadtler *et al*. (1997) support a clear focus built around a defensible core of related activities, and in this they reflect current practice, as debated in Chapters 12 and 16.

Admired companies

Sound profits and a strong balance sheet are important, but alone they will not necessarily lead to a company being 'admired'. In the 1980s, and based on research in the United States by *Fortune*, *The Economist* began to investigate which companies are most admired by other business people, particularly those with whom they compete directly. More recently, *Management Today* has taken over the project in the UK, and the *Financial Times* in association with the accountancy firm PwC later initiated a parallel European and then a global study. Business people are asked to allocate marks against certain criteria for their main rivals, which in the UK survey are: quality of management; financial soundness; value as a long-term investment; quality of products and services; the ability to attract, develop and retain top talent; capacity to innovate; quality of marketing; and community and environmental responsibility. These criteria reflect multiple perspectives and stakeholder interests and, consequently, in 1991 *The Economist* argued that admiration encourages: (1) customers to buy more and to stay loyal, (2) employees to work harder, (3) suppliers to be more supportive, and (4) shareholders also to remain loyal. In the commentary below, we consider the potential existence of a link between an admired company and its strategic leader.

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Listed here are the winning UK companies between 2000 and 2020 – with outline details of the less recognizable names included:

2000 GlaxoSmithKline *(pharmaceuticals)*

2001 Shell Transport & Trading

2002 British Petroleum (BP)

2003 Tesco

2004 Cadbury Schweppes

2005 Tesco

2006 Tesco

2007 Marks & Spencer (M&S)

2008 Diageo *(drinks conglomerate)*

2009 Sky

2010 Unilever *(foods, pharmacy products and household goods)*

2011 Berkeley Group *(property development)*

2012 Diageo

2013 Diageo

2014 Johnson Matthey *(chemicals)*

2015 Unilever

2016 Advanced RISC[1] Machines (ARM) *(computer architecture – chip designer)*

2017 Unilever

2018 Diageo

2019 Greggs

2020 Halma *(life-saving technology)*

A quick scan of the list shows three multiple winners – Diageo four times, and Tesco and Unilever three times each. Tesco had also been a three-times winner in the 1990s, but its last success occurred in 2006. The other 11 winners represent a variety of sectors. There were consecutive year winners on just two occasions, showing that consistent success is clearly difficult, and reflecting in part competition variations in different industries but also that different sectors perform well at different times. *You might wish to drill deeper into the companies which place in the Top 10 or Top 20 behind some of these winners and perhaps examine the relative fortunes of different companies over an extended period and/or which sectors feature heavily, and when.*

There is also an annual 'most admired leader' award – which is an equally revealing list, and also a list affected by corporate leaders 'moving on'. Sir Terry Leahy, Chief Executive Officer (CEO) of Tesco, was the most admired strategic leader in 2007 and 2008. By 2010, Tesco had dropped to eighth position in the annual table – in 2011, the year that Leahy retired, it was 41st. Had the (well-announced) retirement of Leahy been instrumental in this fall in confidence? Tesco's corporate performance in the years since has fallen (and risen) dramatically, and the business in the UK has been slimmed down, with some overseas assets sold. Some commentators suggest that Tesco's performance would not have deteriorated to the extent it did had Leahy left earlier, when he was 'at his peak'. This relationship between his departure and the firm's subsequent performance is something we will never know, of course.

Retailer John Lewis has not been prominent towards the top of the companies list, but Andy Street, CEO of the John Lewis Partnership, was the most admired leader in 2014; two years later he too retired and was elected as the Mayor of the West Midlands in 2017. In recent years, the performance of John Lewis has also deteriorated in line with many other leading high street names (as we discuss earlier in the book) – whether

[1] Reduced Instruction Set Computer.

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there is a link between this decline in performance and the departure of the former CEO, or whether it is, in fact, pure coincidence, could again only ever be surmised. The winner of this award in both 2015 and 2016 was Carolyn McCall of easyJet; she, similarly, has now left the airline and is CEO of Independent Television (ITV). The recent performance of easyJet, as is the case of most airlines, has been affected significantly by the COVID-19 pandemic and the associated public health measures.

The most admired strategic leader in 2011 was Terry Pidgley of the Berkeley Group, the winning company in 2011. Pidgley was a true entrepreneur, rather than a career executive who had risen to be CEO of a blue-chip corporation – and the first entrepreneur, *per se*, to win the 'most admired leader' accolade. He had founded the business in 1976 and stayed with it as it grew and prospered. Given he had a deprived background, and was, in fact an orphan, a 'Barnardo boy', you can appreciate that he started by building a single house as a sole trader. His 'rags-to-riches' ascent has been a remarkable achievement.

Listed below are the 10 most admired global companies in 2020 on the *Fortune* website. You might like to read this list and re-read the UK list above. Which one contains more companies you are familiar with and brands you use – and what might be the implications of this? The criteria used by *Fortune* are similar to those used in the UK and are: management quality; quality of products/services; innovativeness; value as a long-term investment; soundness of financial position; ability to attract, develop and retain talent; community responsibility; the wise use of corporate assets; and effectiveness in conducting a global business.

1. Apple – *computers etc.*
2. Alphabet – *internet services and retailing – main brand, Google*
3. Amazon – *internet services and retailing*
4. Berkshire Hathaway – *corporate investment vehicle*
5. Walt Disney – *entertainment*
6. Starbucks – *food*
7. Southwest Airlines
8. Federal Express (FedEx) – *courier deliveries*
9. Nike – *sports apparel and footwear*
10. General Electric – *various engineering products and corporate finance*

Source: www.fortune.com/worlds-most-admired-companies/list

The extremely successful and remarkable Berkshire Hathaway generally features. Run by the entrepreneur Warren Buffett, Berkshire Hathaway is neither a manufacturing nor a service business; instead, it is an investment vehicle for its shareholders' funds. Minority shareholdings in a range of companies, including Coca-Cola, are typically held for the long term. Notably, high-technology companies are avoided because of their perceived inherent uncertainty.

Financial success alone certainly does not guarantee admiration from competitors and popularity with all the stakeholders; at the same time, deteriorating financial returns will bother shareholders far more than customers!

Image and reputation

Could reputation, inevitably a subjective judgement, actually help to cover up a relatively poor financial performance, itself a more objective measurement? Fombrum (1996) contends that reputations create economic value with image, embodying the company's uniqueness, being a key competitive tool, thus favouring benchmarking those companies perceived to be the leading performers to avoid critical gaps.

Brands can give a company visibility, sometimes internationally; and, when a prominent brand becomes associated with trust and quality, its corporate owner should be in a position to command premium prices, although some resources may be needed to cover the extra promotional costs required to sustain the brand's visibility. Companies are increasingly including their brands as balance sheet assets and attempting to place a value on them. Usefully for consumers, sensible companies will invest in their brands in order to improve them and sustain their competitive leadership.

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Financial measures

A plethora of financial performance measures has long been used to help evaluate the relative success and progress of a business, including ratios such as return on capital employed and return on shareholders' funds, earnings per share, the share price itself and the price to earnings ratio. Typically, a company's share price performance will be evaluated against the relevant industry average and against one of the *Financial Times* indices. While these are objective within the constraints of accounting practice and convention, there are two points to note. First, although analysts always seem to stress profitability, relating pre- or after-tax profits to sales, or capital employed, or shareholders' funds, press headlines are more likely to focus on the specific growth or decline in revenues and actual profits made. Second, share prices are also affected by future expectation, and a plausible and convincing strategic leader can be persuasive about 'better times being on the way'.

An analysis of financial ratios is useful for a number of reasons. It enables a study of trends and progress over a number of years to be made, and comparisons with competitors and with general industry trends are possible. It can point the way towards possible or necessary improvements – necessary if the organization is performing less and less well than competitors, useful if new opportunities are spotted. It can reveal lost profit and growth potential, and can emphasize possible dangers, for example if stock turnover is decreasing, or ratios affecting cash flow are moving adversely. Financial analysis concentrates on efficiency, rather than effectiveness, unless the objectives are essentially financial or economic ones. The real measures of success, as far as the strategic leader and the various stakeholders are concerned, is whether or not the objectives perceived as important are being achieved.

Outside analysts, such as students and interested readers, can gain insight into the apparent objectives of an organization by reading annual reports, articles, press releases and so on. However, only the people involved in decision-making know the real objectives and whether they are being achieved. At this point you are encouraged to read Strategic Reflection 11.1.

Strategic Reflection 11.1

Evaluating outcomes

As a student, you might wish to reflect on how the outcomes of your degree course might be evaluated and what would constitute a successful outcome.

From your perspective, probably the 'number one' outcome will be the level of degree you obtain. But you might also be interested in the skills and capabilities you have developed while a student and maybe also how much you have actually enjoyed your time as a student. How much fun you have had. Who you have met. And also, have you truly enjoyed the subjects you have studied – we might add, especially strategy!

Your university will also be evaluating your academic success, as well as your recorded student satisfaction in any relevant surveys. They will also track what happens to you afterwards. This might be employment (ideally a job that would be categorized as a graduate-level post) but, equally, it might be progression to another (higher) degree, in which case your employment a couple of years later will then become a relevant measure.

However, the extent to which your desired outcomes and personal objectives prepare you for your life after university is also important. Say, for example, your ambition is to form a small theatre company with your friends and create something that gets staged. To fulfil this ambition, you need another source of income, which might come from part-time employment in a supermarket, a restaurant or a call centre, none of which the university would be able to record as full-time graduate-level employment. But if you achieve what you set out to do, then, as far as you are concerned, this is a positive and satisfactory output.

Financial analysis from the published (and easily obtained) results can be very informative and lead to conclusions about how well a company is performing, but certain aspects remain hidden. Decision-makers inside an organization use financial analysis as part of the wider picture, but outsiders are more restricted. Financial analysis is a very useful form of analysis, which should be used, but its wider aspects should not be overlooked. *Economic value added* (EVA) has been adopted as another measure, which compares a company's after-tax operating profits with its cost of capital (see Lynn, 1995).

A more detailed treatment of financial measures is included as the Finance in action web supplement.

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Stakeholder measures

The *Tomorrow's Company* report (RSA, 1995), written as an attempt to improve the competitiveness of UK industry in global markets, concluded that there was:

- complacency and ignorance about world-class standards
- an over-reliance on financial measures which often focus attention on the short rather than long term
- a national adversarial culture which fails to integrate stakeholders into a cohesive network of interdependent organizations.

We could ask: has much changed since this research was published? We believe that the preferred solution lies in a more holistic approach which incorporates the interests of multiple stakeholders, with a clear realization that both measurement and organizational learning must encompass internal and external (environmental) aspects. This is in accordance with the ideas behind the *balanced scorecard* approach of Kaplan and Norton (1992, 1996).

Kaplan and Norton suggest that organizations should focus their efforts on a limited number of specific, critical performance measures which reflect stakeholders' key success factors, so that managers can readily concentrate on those issues which are essential for corporate and competitive success.

Kaplan and Norton use the term 'balanced scorecard' to describe a framework of four groups of measures, and argue that organizations should select critical measures for each one of these areas:

- financial – return on capital employed; cash flow
- customers – perceived value for money; competitive prices
- internal processes – enquiry response time; enquiry to order conversion rate
- growth and improvement – number of new products/services; extent of employee empowerment.

These measures encapsulate both efficiency and effectiveness. Figure 11.6 illustrates the synergistic dependencies and linkages between the four groups of measures. These have a close relationship with the competency linkages mentioned at the start of this chapter - these are featured on the right-hand side of the figure. Underlying everything is the principle that the organization uses the resources at its disposal to create and add value for customers and other relevant stakeholders. Central to this is people and whether the organization is able to harness the knowledge, talent and energy available.

Measuring effectiveness requires recognition that quality does not mean the same for every customer. Organizations must determine what will generate repeat business and seek to provide it. Supermarkets, for example, can offer service in the form of a wide range of products, brand choice for each product in the range, low prices, fast checkout and ample car parking. Organizations may perhaps achieve such repeat business by focusing aggressively on one or more of these elements, or they may seek a balanced profile, such that the major chains will have a basic competitive posture and then tailor each store to meet local conditions.

Case 11.2, Classic FM, describes how a radio station introduced classical music to millions of new listeners, causing an increase in classical CD sales, while not meeting its own financial expectations and being criticized by 'musical purists'. Online Case 11.5 invites you to consider the reasons behind the success of the fast food business Ajisen Rahmen and how changes in China could impact on its future. In addition, you may like to read Online Case 11.1 Lastminute.com and reflect on how we evaluate success in modern-age dot.com businesses.

The next section discusses the measurement of success in **not-for-profit organizations** specifically, but the underlying paradigm is relevant for all organizations. The so-termed 'triple bottom line' assessment argues that all organizations should pay heed to their social and environmental impacts alongside their financial success, and, in effect, do more good than harm. The triple bottom line, then, can be summarized as:

- profit
- people
- planet.

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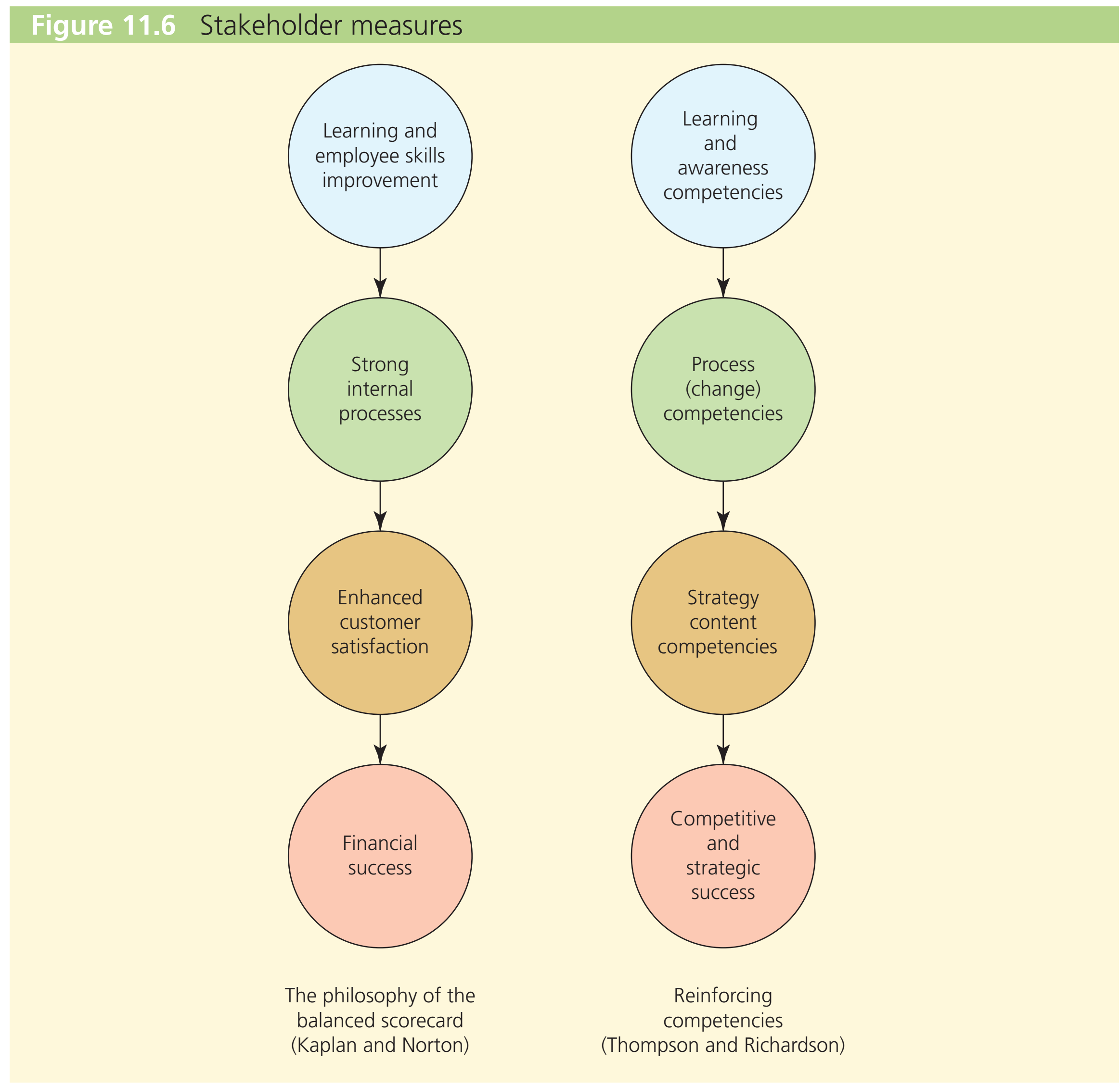
Figure 11.6 Stakeholder measures



Case 11.2 Classic FM UK

Owned now by radio group GWR, Classic FM was launched in 1992. It is now a 24-hour commercial radio station which plays classical music in short (typically around four-minute) extracts. GWR owns several other radio stations – largely broadcasting more popular music, including LBC, Heart, Smooth, Real, Gold and Capital. As its audience ratings have continued to grow – they now exceed 6 million – and making extensive use of its website, Classic FM has increasingly involved its listeners in choosing the playlist. This began with an annual popularity poll for people's favourite classical music. As with popular music, there is also a Classical Top 20 (best-selling CDs – both CDs and downloads) which is featured every week.

In the beginning, some 'purists' were incensed. This was different from the approach of BBC Radio 3 – which had begun broadcasting as the Third Programme in 1946 and was renamed in 1967 – which always targeted 'high-brow' listeners. Opera and theatre director Jonathan Miller commented that he saw it as part of a 'global decline where all thought is reduced to soundbites'.

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The Times feared it would 'relegate serious music from high art to low entertainment'.

Diarist and playwright Alan Bennett described Classic FM listeners as 'Saga-louts'.

But there have been some notable achievements:

- Classical music has acquired a mainstream audience.
- Classic FM is one of the best-known brands in the UK.
- The company has found opportunities to diversify – into a magazine, retail organization, record label, credit card and a dating agency.
- Compilation albums of favourite classical music have been spawned and sold in large numbers by Classic FM and mainstream labels.
- Record stores feature classical music more extensively, especially the chart albums.
- Classic FM has developed links with selected orchestras and helped increase aggregate concert audiences.
- Classic FM has also helped launch the careers of such popular artists as Russell Watson, Andrea Bocelli, Bond and The Opera Babes.
- It has also popularized the soundtracks of films such as *Titanic, Lord of the Rings* and the *Harry Potter* series – all of which have sold in huge quantities.

Although turnover exceeded £30 million by the early 2000s, with the company profitable from 1997, advertising revenues have fallen short of early targets. Part of the issue lies with the age profile of the listeners it attracts. The average age is in the mid-forties but the median age is in the fifties. There is a strong student audience, but students are not big spenders! Indeed, much of this book has been written with the station playing quietly in the background. Simply, the biggest spending advertisers want to see evidence of the key 35–44 age group.

Question

Visit the Classic FM website and tune into the station (101.1 FM) and consider what options Classic FM may have for increasing its popularity with the key 35–44 age group.

Postscript question

A Corporate Watch investigation showed that GWR was an 'offshore' business which uses tax havens to avoid (legally) paying UK corporation tax. Does this claim affect any views you may have formed about the social value and contribution of Classic FM?

11.3 The measurement of success in not-for-profit organizations

In Chapters 1 and 3, we suggested that the objectives of not-for-profit organizations are often stated in terms of resource efficiency because of the difficulty of quantifying their real purpose. Thus, the measures of their success that are used in practice may not be closely related to their real mission and purpose. Where this happens, financial and other quantitative measures are being used as the measures of performance, and efficiency, rather than effectiveness, is being evaluated. In other words, performance and success are being measured but, despite the usefulness of, and need for, the measures being used, they may not be assessing strategic performance directly in relation to the mission.

In recent years, **social impact** evaluation has become increasingly popular, although this comment does not imply that social impact is readily and easily measured. Social impact is 'the effect of an activity on the social fabric of the community and the well-being of individuals and families' (online Business Dictionary). This definition seems meaningful at one level, but many see social impact as a loose, intangible and subjective concept.

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'Social impact is jargon – broad, vague and somewhat inaccessible by definition' (Woodson, 2013). Measuring and evaluating social impact, then, is a real challenge. The following criteria, based on themes from Bogiazides *et al.* (2005), give us a sense of the relevant issues – and challenges:

- investment secured for the organization, charity or initiative
- income generated by any commercial activity involved
- jobs created
- skills preserved and/or transferred
- social benefits, including fun and enjoyment, as well as opportunities for community sharing
- community pride.

You may like to revisit Case 3.5 on The Steam Railways Heritage – which includes a short commentary on the National Railway Museum and mentions links to heritage railways that still feature steam locomotives – and consider the social impact theme and the list of factors identified (above) by Bogiazides *et al.* (2005).

To explore these issues further, cross-reference the business model for Divine Chocolate that we outlined in Chapter 2 – and which we expand in the case in Chapter 14. To maintain their support for Fair Trade farmers, companies such as Divine Chocolate are likely to end up paying more for their supplies than they might pay for cocoa beans they would perceive to be inferior. This perspective would, of course, be based on the type of farming methods and the wages and conditions of the relevant workforce rather than the actual cocoa. If consumers are happy to pay a premium price for the finished chocolate, in order to allow a satisfactory profit margin, the model works. Simply, they are committing to the Fair Trade values. But it remains the case that there are many lower price alternatives to those chocolate products that are marketed as Fair Trade.

Developing the same theme, and while not generally a main feature of the stakeholder virtuous circle (that we introduced in Chapter 3), the prices paid to suppliers by some producers are also an important issue. In some cases, of course, suppliers are powerful enough to demand prices that yield satisfactory margins for them. In other cases, such as the trading arrangements between large supermarket chains and some of the small farmers who supply them, the power lies with the buyer. Some farmers end up struggling to produce for the price they can get for their products, while the supermarkets make healthy profits and final customers benefit from low prices.

Drucker (1989) observed that many not-for-profit organizations are more money conscious than business enterprises; this is because their required funding is hard to raise, and they could invariably use more money than they have available. Money, however, is less likely to be the key element of their mission and strategic thinking than are the provision of services and the satisfaction of client needs. Given this premise, the successful performance of a not-for-profit organization should be measured in terms of outcomes and social impact, with money being a major constraint on what can be accomplished and the appropriate level of expectations. The outcomes, in turn, must be analyzed against the expectations of the important stakeholders, involving for many not-for-profits the beneficiaries of their service and volunteer helpers, as well as financial supporters and paid employees. It should not be forgotten that volunteers are beneficiaries as well as 'givers' due to the personal satisfaction they gain from their contribution. Typically, personal objectives and expectations will differ. But what is the case in reality?

The performance and effectiveness of the education system relates to the impact on pupils after they leave the system, on their parents, on the taxpayers who fund education and on future employers. Their perspectives will differ, and their individual aspirations and expectations will be difficult to quantify and measure, such that it is easier to measure efficiency in the way that resources are utilized – for example, by class sizes, staff/student or staff/pupil ratios, building occupancy and examination performance.

A charity seeking to save money by minimizing its administration and promotion expenditures (perhaps, then, spending only 20 per cent of its income on these functions) is focusing on short-term efficiency. However, one that increases its long-term effectiveness (raising more money) by investing in marketing and administration (perhaps spending 60 per cent on administration and marketing) has the potential to be more effective over the long term than a charity focusing on short-term efficiency. Charities aim to establish the most appropriate structure, administration network and promotional

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expenditure to achieve their purpose, and then run it efficiently. The not-for-profit sector is increasingly attempting to measure effectiveness in terms of impacts and outcomes, rather than efficiency alone – a task that is not straightforward.

Value for money evaluation, popular in the public sector, looks at the relationship between the perceived value of the output (by the stakeholders involved) and the cost of inputs; it is used as a comparative measure. There are too many uncertainties for there to be any true agreement on the magnitude of 'very best value' and, consequently, the provision of good value (in comparison to 'competitors') is being sought.

Both inputs and outcomes enable a consideration of the efficiency and effectiveness of the organization's transformation processes, and its ability to add value. Jackson and Palmer (1989) emphasize that, if performance is to be measured more effectively in the public sector, then the implicit cultural and change issues must also be addressed. The climate must be right, with managers committed to thinking clearly about what activities should be measured and what the objectives of these activities are – perhaps involving different reward systems linked to revised expectations. This approach, they suggest, leads managers, for example, to move on from measuring the numbers of passengers on the railway network to analyzing how many had seats and how punctual the trains were. Jackson and Palmer also emphasize the importance of asking users about how effective they perceive organizations to be.

Case 11.3 (Masdar) describes a remarkable project in the Middle East and, again, invites you to reflect on how its success will be evaluated as time goes on. Strategic Reflection 11.2 invites you to evaluate success in three different organizations.

Case 11.3 Masdar — UAE

Masdar is a radical 'project' in Abu Dhabi in the United Arab Emirates (UAE) that raises interesting questions about how we could evaluate success.

The UAE relies heavily on oil – Abu Dhabi has some 8 per cent of the known oil supplies in the world – which should last for another 100 years. But it is a desert region with a hot and humid climate. Summer temperatures can easily exceed 50 degrees centigrade and sandstorms are normal. Air conditioning is ubiquitous. Collaborative research by the World Wildlife Fund (WWF) and others has concluded that, per capita, it has the 'world's worst environmental footprint'.

Masdar is a planned city designed by the UK architects Foster & Partners. It is being built by the Future Energy Company with initial seed capital from the Abu Dhabi government, which has been followed by third-party investment. Located next to the international airport, the new city was conceived to be entirely dependent on solar and other renewable energy, and there was to be a zero carbon and a zero waste ecology; the zero carbon ambition has since been abandoned. In the first instance, a solar energy plant has been constructed. Its purpose, among other things, is to provide the energy for wind farms on the peripheries of the city, a hydrogen power plant and geothermal facilities. The intention is to attract 'cleantech' (clean technology) companies that carry out research, and design and manufacture environmentally friendly products.

The city project was started in 2006 with an intended timescale of eight years to completion and with the first phase of completion in 2009. But this schedule was formulated before the global financial crisis and, later, the COVID-19 pandemic. The completion dates of every phase have been delayed, in part because of reductions in global oil prices. As this book goes to press, the estimated completion of Phase 4 has been delayed to beyond 2030, and it may well be delayed further. At the same time, the budget has been reduced. The Masdar Institute of Science and Technology (with links to the Massachusetts Institute of Technology (MIT) in the United States) is already open and operating within the developing city. In addition, a solid cluster of some 400 related businesses have already co-located there. These include: Schneider Electric (energy automation products), Siemens (power generation, but also domestic white goods) and Saint-Gobain (building products). The International Renewable Energy Agency is now headquartered in Masdar.

When complete, Masdar will be a large block of around six square kilometres. There will be a high perimeter wall not only to block out the hot desert winds but also to channel air movement in order to create an air flow down the carefully designed streets and reduce the need for extensive air conditioning. A wind tower blows cold air down to shift hot air upwards

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within the walled barrier. Between 45,000 and 50,000 people will eventually live in the city and up to 60,000 will commute into the city to work. Many people are living there already. There will be no cars and, instead, a new rapid transit system will be used. With around 100 stations and 3,000 pods, people will be able to access transport within 150 metres of where they are anywhere inside the city boundary. This system will be connected to the public transport network outside the city – and there will also be a park-and-ride facility. Water comes from a solar powered desalination plant and will be recycled as far as possible. Crops will be watered with grey water. Biological waste will be treated to make fertilizer. Plastics and metals will be recycled locally. Palmwood (taken from trees that no longer bear fruit) is being used extensively.

So how much is Masdar an exciting model for the future and how much is it an indulgence for the wealthy elite of Abu Dhabi?

The city is meant to be commercially viable. Revenues will be earned from its commercial and trading activities. There will be a stream of income from selling and licensing its new technologies. Ideally, there will be synergy from learning from doing and exploiting the new knowledge. There is a major potential to learn lessons that are valuable for improving living conditions in desert countries everywhere.

A long-term sustainability perspective is being taken, given that Abu Dhabi's oil reserves are thought to be finite. Throughout the world, there is increasing interest in renewable energy sources that are not dependent on oil and other fossil fuels. There is perhaps an assumption that, over time, Abu Dhabi can become a knowledge economy and, therefore, more sustainable – at the same time, helping the rest of the world. The question remains, though, as to whether this locale was the most logical place for such an ambitious experiment.

But there is perhaps one real irony. The Future Energy Company is a subsidiary of Mubadala, an organization that is also committed to revenue generation from its attractions including the Formula 1 racetrack and a Ferrari-themed amusement park. Neither of these can realistically be carbon neutral. Hence, there is potential for a cynical view that Masdar is largely a 'balancing act'. We must all decide for ourselves.

Question

Over time, how do you think the relative success of Masdar will be evaluated? Are you in favour of the 'measures' you believe will be used? Are they sufficiently holistic?

11.4 A holistic framework of measures: Revisited

Figure 11.7 offers an outline framework for reflecting on the measurement demands facing an organization, based on the premise that a competitive and strategically successful organization will achieve – and, with changes, sustain – a congruency among its environment (key success factors), resources (competencies and capabilities) and values (the ability to manage appropriate and timely continuous and discontinuous change). A small reminder of this E–V–R congruence model is provided in the top right corner of Figure 11.7.

While corporate strategic success is concerned with the mission and purpose of the organization, it will frequently be assessed by financial measures of some form, as highlighted earlier. Long-term strategic success requires that the interests of stakeholders be met, and be seen to be met; that it is accomplished efficiently with capable resources; and that there is a commitment to the mission reflected in organizational values. The implication is that, in addition to resource efficiency and stakeholder satisfaction, organizations should attempt to measure values to ensure that the culture is appropriate. However, the true complexity of this task is realized when we question whether we really know what the culture of an organization in an era of continuous change should be like, particularly when incorporating periodic restructurings and downsizings.

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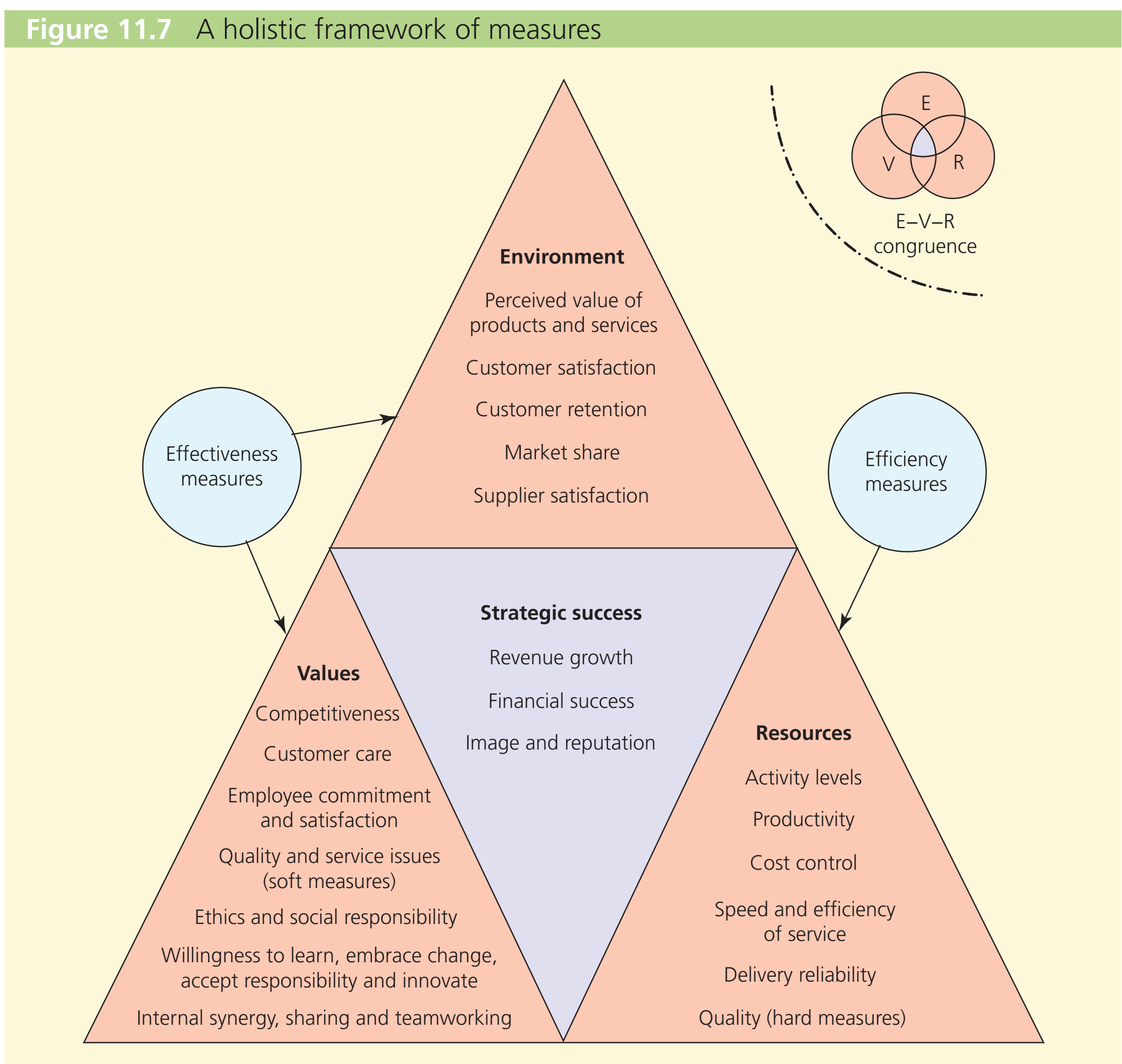
Figure 11.7 A holistic framework of measures



> *In a very turbulent, rapidly changing time what we need to give people is something they can depend on, something lasting. Every company needs to rethink what are the values and what are the operating principles that will be unchanging in time so that we can truly establish a new contract with all employees.*
>
> George Fisher, Chairman, Eastman Kodak

Research can capture a snapshot of currently held values and the extent to which particular behaviour is being manifested. For example, some organizations will prefer to use volunteers from among the workforce, rather than select a sample. The findings should be evaluated against a set of expectancies, and follow-up research can track both positive and negative developments. The organization must then decide what action to take should there be any deterioration, or in the initial absence of a critical value or behaviour pattern. Figure 11.7's framework implies a series of 'hard' and 'soft' measures and indicators; some will be straightforward, others far more difficult and subjective. Arguably, the real key to success lies in those issues that are most difficult to assess – not in an excuse for not attempting a robust assessment of some form. Strategic Reflection 11.2 considers three examples of where values have added complexity to performance evaluation.

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Strategic Reflection 11.2

Perspectives of success

This reflection box comprises three organizations which have, in some way or another, been successful – when measured against certain criteria. In each case, using an alternative lens, the relevant outcomes could be seen differently. You are asked to reflect on how you would evaluate the outcomes in each case. Think about whether your views are always 'in the same direction'. You might also like to think of similar 'dual-perspective' cases you could add to these.

1 A business built on criminality

The movie *Silk Road* is based on the business activities of the computer scientist (and entrepreneur) Ross Ulbricht between 2011 and 2013, when he accumulated considerable wealth from trading. Basically, using the historic (and very profitable) trade route between the Middle and Far East and Europe known as the Silk Road, he was moving and selling drugs using the dark web. Arrested and charged by the Federal Bureau of Investigations (FBI) in 2013, he was later imprisoned for two life sentences plus 40 years for computer hacking, narcotics trading and money laundering. The movie had been inspired by a piece in *Rolling Stone* (Kushner, 2014). Can a financially lucrative business legitimately be called successful if it is based on questionable values?

2 A successful product and a failed revenue model

People who remember the three *Back to the Future* movies will be familiar with the futuristic DeLorean gull-winged car, with a stainless steel body. John DeLorean was a US engineer and entrepreneur from 'Motown' (Detroit, Michigan) (with a background in the motor industry) who, in the early 1980s – at the height of the 'troubles' – was able to secure UK Government grants to help build a car factory in Belfast, Northern Ireland. Some US$200 million was required, with a proportion of this borrowed from commercial sources. DeLorean was clearly ambitious and was described by many commentators as egotistical and narcissistic. Troubled by over-spending, the business collapsed and disappeared over 40 years ago. It was established that some of the money raised had been 'siphoned off' by DeLorean for personal gain. A total of 9,000 cars had been completed; around two-thirds are still on the road. In an attempt to save the business, John DeLorean set out to obtain further funding by various means; he fell into an FBI trap and agreed to smuggle cocaine. He is now deceased. However, other entrepreneurs are hoping to start making the cars again, using (in part) existing inventory that has survived.

3 A successful business empire overdependent on its founder

Martha Stewart was an outstandingly successful businesswoman who used television to build a business empire, Martha Stewart Living. She had a background in journalism and she seamlessly moved on to writing books and presenting regular television programmes covering cooking, decorating and home management. She was unquestionably a household name with incredibly wide recognition and respect. It was perhaps not unexpected that she might want to use her financial wealth for other purposes. She started investing in other businesses, quite separate from her own, but was caught and convicted for insider trading. The activities behind her rise and fall were really not connected, other than one helped fund the other. But Martha Stewart Living was unable to survive without its founder and, despite other ventures after she had served her prison sentence, Martha Stewart, now in her eighties, has never been able to reinvent herself with anything resembling her earlier successes.

Reference

Kushner, D. (2014) 'Dead end on Silk Road: Internet crime kingpin Ross Ulbricht's big fall', *Rolling Stone*, February.

We finish this chapter with a case on the acquisition of Costa Coffee by Coca-Cola (Case 11.4). This case looks at evaluating the success of a particular strategic change and the impact that this change might have on the future success of the acquiring business, factoring in the perspectives of the various key stakeholders. It can be linked back to Case 10.1, where we saw Coca-Cola acquiring Innocent Drinks – and afterwards giving it considerable independence. Costa was a very successful business; it was not taken over because it

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was failing. Does it, therefore, make sense for Coca-Cola to adopt the same approach with Costa Coffee? The case also provides a foundation for Chapter 12, where we look at the logic and outcomes of mergers, and also Chapter 16, where we consider the strategic value for companies like Coca-Cola in building a portfolio of related businesses.

Case 11.4 The Sale of Costa Coffee to Coca-Cola — UK, US

In August 2018 Whitbread agreed (after being approached with an offer) to sell its Costa Coffee chain to Coca-Cola for £3.9 billion. Whitbread had been planning to spin out Costa Coffee as a discrete business since a US hedge fund had become its largest shareholder, but this opportunity was far more lucrative. Costa was being valued at more than the current valuation of the industry world leader, Starbucks. Whitbread would now be able to focus on its Premier Inn chain of budget hotels and its Beefeater and Brewer's Fayre restaurants – as well as returning a significant sum of money to its shareholders.

Costa Coffee had existed since 1971, when it was started as a single store business in South London by two brothers, Sergio and Bruno Costa. When it was sold to Whitbread in 1995 (for £19 million), it had grown to be a chain of 39 coffee shops. Whitbread itself started as a brewer in 1742; it began bottling beer in 1868 and opened its first Beefeater restaurant in 1974. Before buying Costa Coffee, it diversified into David Lloyd Leisure (gyms), Marriott Hotels, TGI Fridays, Pizza Hut and Premier Lodges, subsequently divesting all but the Premier Lodges, which it later renamed. In 2000, it had divested all its brewing activities to focus on the Premier Inn and Costa Coffee brands.

In the 23 years that Whitbread owned Costa Coffee, it transformed the business into a chain of 2,400 UK coffee shops, 1,400 overseas outlets (in 31 countries) and over 8,000 Costa Express vending machines located in places such as petrol stations. Costa Coffee had a 40 per cent share of the UK market. Whitbread/Costa Coffee was successful because it cleverly rethought where premium coffee might be consumed. Coffee shops have been opened in what are called third spaces near to where people shop and where they catch buses and trains (and planes), as well as in gyms and some workplaces. (The first and second spaces are homes and offices.) The important fourth spaces they have targeted successfully are places where people don't necessarily want to be and where good coffee can improve the experience – hospitals and motorway services are relevant here.

At the end of 2017, the main places to buy coffee in the United States and Europe were:

	Number of outlets	
	Europe	**USA**
Costa Coffee	2,755	
Starbucks	2,406	13,532
McCafé	2,253	
Caffè Nero	755	
Dunkin' Donuts		8,828
Tim Hortons		683

A number of commentators believed that the market for coffee shop chains in the UK might have peaked, in part because of the very rapid growth in the previous ten years as well as the growing success of small independent coffee shops, and also in part linked to the demise of the UK high street (which we discussed earlier in Chapter 4). However, Costa Coffee offered Coca-Cola an ideal opportunity to fill a gap in its drinks-focused product range. Both businesses have succeeded by directing attention to finding, reaching and satisfying customers; they are complementary and not competing. It was being assumed that international growth would be important and still offer real opportunities given Coca-Cola's reach and distribution strengths, It might also become increasingly significant if pressures on soda drinks and the related sugar taxes become more constraining. It was also suggested that a range of ready-to-drink cold coffee brews would soon appear in stores to rival those products already marketed successfully by Starbucks. And, of course, the United States is the home of Coca-Cola where Costa Coffee has yet to establish any serious presence.

To some stakeholders, the sale of Costa Coffee for the price received must seem like a real success, and this may not be the end of the story. As a focused business with just Premier Inns, Beefeaters and Brewer's Fayre restaurants, Whitbread might now be an attractive target for others in the leisure industry – something that some shareholders might again see as attractive.

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Questions

1. From the perspective of Whitbread's shareholders, would this strategy be seen as successful? Why? Was it a strategic move that would benefit all key stakeholders or just some? Was it really driven by a financial (rather than a strategic) perspective?
2. How do you evaluate the acquisition from the perspective of Coca-Cola? What would you do next as the new owner?
3. Given the increasing pressure against single-use plastic bottles and paper cups, how might Coca-Cola respond?

Note

Given the rather descriptive and technical nature of this chapter, it does not include a Research Snapshot, while issues of performance have been explored in snapshots in other chapters in specific reference to those particular themes.

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Summary

An organization is successful if it is meeting the needs and expectations of its stakeholders, such that their support and commitment are maintained.

Strategically, this definition will imply a clear direction, from which are derived corporate, competitive and functional strategies, the implementation of which brings about the desired results, and needs both common sense and strategic competency.

Measurement matters such that apparent success cannot – and must not – be taken for granted; neither must weaknesses be overlooked. Also, those issues which really matter must be measured. The act of measurement focuses attention and endeavour on that which is being measured: being brilliant at things that do not really matter to stakeholders will not add and build value.

Some key elements will, through their very nature, be difficult to measure since they are essentially subjective and qualitative issues, rather than objective and quantifiable. There is no excuse to avoid tackling them; instead, we have to rely on indicators, rather than measures of performance.

In some cases, attention is focused on efficiency measures, which largely concern the utilization of resources, such as whether or not we are 'doing things right', while measures and indicators of effectiveness look more at outcomes (for stakeholders) and provide a check on whether we are 'doing the right things'.

Most organizations use a raft of quantitative measures, embracing sales and production. Analysts external to the organization, such as students – and lecturers, come to that – will not usually have access to this information from which to draw conclusions. However, financial data have to be published and can be used to calculate a number of valuable ratios which provide some insight into organizational performance. In the web supplement to this chapter, investment, performance, solvency and liquidity ratios are explained.

The balanced scorecard provides a comprehensive set of measures which covers stakeholders, finance, customers, internal processes, and growth and improvement.

Issues of admiration, image and reputation can be examined – evaluations that are usually made by people inside the relevant industries and, therefore, provide an insight into how organizations are rated by their competitors and peers, but these have a short-term focus. Companies that are highly regarded will not necessarily be those with the strongest financial results.

In isolation, therefore, any single (type of) measure must be treated cautiously.

Online cases for this chapter

Online Case 11.1: Lastminute.com
Online Case 11.2: National Health Service (I)
Online Case 11.3: Arsenal Football Club
Online Case 11.4: BTA – British Tourist Authority
Online Case 11.5: Ajisen Ramen

Web supplement related to this chapter

Finance in Action: Financial Statements

Questions and research assignments

1. Take either (or both) the *Management Today* or *Fortune* lists of admired companies and think about the hidden messages in the rankings as they change year-by-year. Without further research and 'digging', do they really tell us very much? Can you think of any better way to rank the relative success, contribution, esteem and impact of organizations and their strategic leaders?

2. The purpose of the Metropolitan Police Service is to: 'uphold the law fairly and firmly; to prevent crime; to pursue and bring to justice those who break the law; to keep the Queen's peace; to protect, help and reassure people in London; and to be seen to do all this with integrity, common sense and sound judgement.'

   How may they measure their success?

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3 The Royal Charter for the Royal National Institute of Blind People, granted originally in 1949, states that the Institute exists in order to:

- 'promote the better education, training, employment and welfare of the blind
- protect the interests of the blind and
- prevent blindness'.

How could they assess how well they are doing?

Internet and library projects

1 In early 2000, Microsoft was judged by the US courts to have been operating as a monopoly and stifling competition. How have its reputation, respect and admiration been affected by this judgment? Also, how have these been affected by subsequent moves by both the company and the competition authorities in America and Europe?

Microsoft **www.microsoft.com**

2 Select a number of organizations from the 'Admired companies' section of this chapter, picking out those that interest you personally. Obtain their financial results for at least two years which correspond with the admiration rankings. To what extent are financial performance and admiration linked? By also checking the movements in the company's share prices over the same period, does the company's market valuation more closely reflect financial performance, or a wider perception of its relative performance?

3 In conjunction with the financial analysis exercise at the end of the web supplement to which we have referred, determine just how successful you believe Shepherd Neame to be in a relative and competitive sense. It would be extremely valuable to compare the financial data for Shepherd Neame in 2020–21 (when profits fell) with earlier pre-COVID results. Consider whether these were good results in the circumstances.

4 Use the internet to research one or more of the Heritage Railways in the UK – good ones to look at would be the Severn Valley, the Keighley and Worth Valley, the North Yorks Moors and the Bluebell Railway – and attempt to assess their social impact (using the criteria mentioned in the text).

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Chapter 12

Issues in strategic growth: Domestic and international

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
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PART 4
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STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- compare and contrast domestic and international strategies **(Section 12.1)**
- explain the different modes and means of growth – both domestic and global – and their roles as growth strategies:

  – diversification **(Section 12.2)**
  – mergers and acquisition **(Section 12.3)**
  – strategic alliances and joint ventures **(Section 12.4)**
  – franchising and licensing **(Section 12.5)**
  – exporting and other international market entry strategies **(Section 12.6)**

- discuss a number of constraints and outline a selection of possible future influences on international growth **(Section 12.7)**.

Introduction

Strategic growth requires an organization to understand why it is seeking growth and the opportunities that are available to it. Its choice from these alternatives should be linked to appropriateness, which was explained in Chapter 8, and also whether the organization, its people and its finances are ready for a particular opportunity and choice (feasibility and desirability), and how intentions might best be executed, given that people deliver on the promise (elements of desirability). After all, if any proposed strategy cannot be implemented and executed well, then it is simply an idea – it is not an opportunity.

Hashemi and Hashemi (2002) sum up the 'growth tests' very succinctly:

- Is the business ready with the necessary controls and systems?
- Is the market ready? Do you have a presence? Are there enough customers?
- Is the business ready financially? Can the expansion be funded internally or is external capital required?
- Are 'you', the entrepreneur/strategic leader, ready for the challenge, which might require building or integrating a new team and, sometimes, delegating more responsibility or designing a new organization structure?

This chapter explores different forms of growth strategies – both domestic and international – and considers how to manage and implement them effectively. While they are popular alternatives for many companies, particularly larger ones, research suggests that growth strategies often fail to meet expectations: they need careful, thorough and objective analysis before they are pursued, and care and attention in implementation. The chapter therefore covers key corporate strategic alternatives (internationalization and diversification) and the means by which these alternatives can be implemented (mergers, acquisitions, franchising, etc.). We explore opportunities ranging from 'simply' exporting, to a fully fledged international strategy and structure. The attractiveness of these alternatives will be influenced by the company's objectives. Some companies will be proactive, others reactive; but not all need to, or should, take advantage of every potential international opportunity. The appropriate strategy will always match the environment, values and resources congruently.

Some authors have argued the case for **organic** – 'by enhancing current customer relationships and building new relationships' – rather than **acquisitive growth** (Dalton and Dalton, 2006). Indeed, other scholars have reviewed the 'antecedents, environmental factors, performance and process outcomes, moderators and the characteristics' of **diversification** (Hitt *et al.*, 2006). And the legitimacy conferred on firms by strategic alliances – in relation to governance and how they have chosen partners – can contribute to the performance of firms (Dacin *et al.*, 2007).

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All growth decisions need to be justified, i.e. there needs to be a good reason why. Organizations should not seek growth simply because there is an opportunity or because they can grow. Growth can easily take organizations 'down new paths', implying there is genuine uncertainty. As well as a clear purpose and intent, it helps if there is an identifiable way back should the decision in question turn out to be a poor choice.

Over time, the decisions and actions taken by individual businesses determine the structure of an industry in various countries and worldwide. The UK was once a pioneer in motor vehicle manufacturing, and it remains at the forefront for certain areas or fields. Many other countries have developed manufacturing capacity. Cars and vans are bought around the globe – but different models find favour in different countries. Most are left-hand drive; the UK has always had right-hand drive. In seeking to explain the global industry today, Strategic Reflection 12.1 illustrates how the existence of car and van manufacture persists in the UK to this day – with most of the production exported. Conversely, most of the cars seen on our roads have been imported.

Strategic Reflection 12.1

The UK Motor Industry in the Global Context

Many years ago, when the lead author was a student, car manufacture in the UK was dominated by two companies – one British, namely British Leyland (comprising Austin, Morris, MG and other brands) and one US, Ford. The situation is very different today; both businesses have largely disappeared as manufacturers in the UK and yet car assembly continues. The following data is provided to enable you to reflect on how motor vehicle manufacture has become both concentrated and global.

Strategic Reflection 6.1 earlier drew attention to certain global motor vehicle manufacturers and the brands they own – specifically, we examined Toyota, Volkswagen, Ford, General Motors (GM) and the Peugeot SA (PSA) Group, previously Peugeot-Citroën (which until recently owned Vauxhall in the UK and from January 2021 the ownership shifted to Stellantis, as explained below).

Among the other leading groups are:

- Bayerische Motoren Werke AG (BMW), incorporating Mini and Rolls Royce
- Daimler (Mercedes Benz and Smart)
- Fiat Chrysler (which owns Alfa Romeo, Lancia, Jeep, Maserati and Dodge in the United States).

In 2021 Fiat Chrysler and the PSA Group (previously Peugeot-Citroën) completed a merger, making this group (now called Stellantis) the fourth largest manufacturer in the world, after Toyota, VW and Daimler.

In addition to these full ownerships, Renault owns 43 per cent of Nissan (with Nissan owning 15 per cent of Renault) as well as 34 per cent of Mitsubishi. In South Korea, the two leading manufacturers are also linked – Hyundai owns 34 per cent of Kia.

These businesses operate globally in a variety of ways. They own manufacturing plants in different countries – with each plant specializing in one or just a few models of car (and van). Many of the leading manufacturers operate plants in China, some with established joint venture (JV) agreements, and there are also independent Chinese businesses. Audi, VW, Volvo, MG and Smart are among the many cars/models built in China.

The parts used are sometimes shipped around the world, but are often sourced more locally to reduce costs and to enable a just-in-time manufacturing operation – where very few parts are stocked as inventory prior to their use.

It is not always the case, but many of these plants are not too far by road from a port. Finished cars are then shipped around the world on large vessels. They can then often be spotted in large compounds near to entry ports, awaiting distribution to sales points across the relevant country (and beyond, if borders can be crossed easily) where they will be sold by independent dealers.

Some plants owned by the manufacturers are not for vehicle assembly. Instead, they build the engines, which in turn can also be moved overseas before being integrated within the vehicle as part of the global assembly process and value chain. With the growing popularity of electric cars, the same principle can be applied to batteries.

In 2020, before the industry experienced a fall in production triggered by the COVID-19 pandemic, around 1.35 million cars were being built in the UK – 80 per cent of these were shipped overseas for sale, many to other EU countries. This total is around a million fewer than the number of new cars sold annually in the UK. The production figure fell to 920,000 in 2021. The imported vehicles came largely from other European countries and the Far East.

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In terms of numbers of cars, the bulk of the UK motor industry is now controlled by Japanese companies. Toyota and Nissan both have plants – as did Honda until 2021. Mini (BMW) and Vauxhall are also active. In addition, Aston Martin (whose leading shareholder is a Canadian billionaire), Bentley (VW), Jaguar and Land Rover (both Tata), Lotus and Rolls Royce (BMW) also feature. Engine assembly (and export) is an important element of the UK industry. In 2021 Nissan announced a £1 billion investment in an electric vehicle hub near to its factory in Sunderland that would be known as Envision.

The three leading UK-owned UK-based manufacturers are Morgan, Caterham and McLaren, all of whom build specialist (and relatively expensive) 'sporty' cars.

12.1 Domestic and/or international strategy?

High-growth entrepreneurial businesses have various 'patterns' of growth, being influenced by age, size and sector (Delmar *et al*., 2003), high-growth 'gazelles' creating jobs (Davidsson and Henrekson, 2002; Henrekson and Johansson, 2010) and, with the wry observation that 'The development of firm growth research has been notably slow', McKelvie and Wiklund (2010) observed that too much attention has been given to the growth rate, rather than the growth mode. High-growth firms grow because of the five factors identified by Demir *et al*. (2017): (i) human capital, (ii) strategy, (iii) human resource management, (iv) innovation and (v) capabilities. As we discussed in Chapter 8, companies can grow organically by **diversifying** and investing their own resources to develop new competencies and capabilities, and to open up new market opportunities and/or select strategies involving acquisitions (involving integration with another company), or joint ventures (JVs)/ **strategic alliances** (SAs) (establishing linkages with a proven supplier with the appropriate competencies and the necessary customers). JVs and SAs are typically faster but often higher risk because the partnerships have to be implemented successfully. Although diversification (a route) and acquisition (a means) often go hand-in-hand, Constable (1986) argues that the high level of strategic energy devoted to these consolidation strategies can create (and have created in the past) an illusion of real growth, with an emphasis on the shorter-term financial aspects of strategic expertise, as opposed to the operational and market-based aspects which are of great significance in the long term. Using today's strategic terminology, we would be arguing they do not always build and add new value for customers. If a growth-oriented company faces limited existing markets, as well as barriers to entering international markets, diversification may be an attractive option – but there may already be intense competition in domestic markets which the company considers entering, especially in attractive and profitable industries. Direct entry may thus seem less appropriate than acquiring an existing competitor.

However, government policy on competition may restrain particular lines of development for certain companies, such that large firms may diversify into unrelated businesses where there is little apparent threat to the interests of consumers. An ambitious company which has grown large, successful and profitable in a particular industry is perhaps likely to seek diversification while it is strong and has the resources to move into new business areas effectively by acquiring an existing organization, rather than growing organically. Indeed, Meer (2005) suggested that firms should appoint 'Chief Growth Officers' to give them 'a more disciplined approach to growth, better organizational capabilities for driving growth and a more supportive culture'.

Growth strategies may involve a complex international dimension, since countries differ economically (e.g. variable growth rates), culturally (behaviours, tastes and preferences) and politico-legislatively (markets that cannot be penetrated effectively without joint ventures with local companies). International organic growth strategies include exporting to new markets overseas, or developing special varieties of a product or service in order to target it to the specific needs and requirements of overseas customers. Alternatively, they could establish distribution or assembly bases, joint ventures and licensing agreements with foreign companies, or a comprehensive global organization through acquisition or strategic alliances. Kay (1990) recommends that they determine the smallest area within which they can be a viable competitor. This line of argument is discussed further in Chapter 17. Kay's view relates to (but is not quite the same as) the notion of a 'heartland' (Goold *et al*., 1994), which considers the scope of activities to which a business can add value. A *multinational* is any company which produces and distributes in two or more countries, while a *transnational* global corporation is one with a large proportion of its sales, assets and employees outside its home base. Porter (1990) believes that **international strategies** essentially supplement the competitive

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advantage created in the home market by achieving sustainable competitive advantage and a higher profit. This can be achieved by being the *low cost* producer in the industry, or by a *differentiation* strategy with more reliable products and better levels of service, or a *focus* on where the business seeks to achieve a competitive advantage in specific target segments (his three generic strategies – see also Chapter 6). In terms of additional prescriptions for effective international strategies, firms must retain their national strengths when they cross national borders (Porter, 1990), while global firms should shake off their origins, with managers adopting an international perspective (Ohmae, 1990). The competitive growth and internationalization strategies of Haier were discussed in the earlier Case 8.2 and, again, you may like to revisit this.

While *internationalization* has been defined as 'an approach to management which allows an organization to integrate domestic and international opportunities with internal resources' (Yanacek, 1988), *international business* consists of transactions devised and carried out across national borders to satisfy the objectives of individuals, companies and organizations, with primary types of international business being export-import trade and direct foreign investment (Czinkota *et al*., 2005). Although some people may suggest that selling across borders could be achieved through management contracts or licensing agreements (rather than the firm having a physical presence in another country), the proprietary information possessed by the firm and its people is a vital source of competitive advantage, which can only be accessed by a physical presence. More recent research on internationalization is reviewed in the Research Snapshot for this chapter.

Firms enter the international arena for a variety of reasons and all firms operate within a framework of constraints, such that not all opportunities can be responded to positively, and they need to be evaluated within the overall context of the businesses aims. Motives are also directly related to the mode of market entry adopted by a company, and these motives may include *push factors* (having excess capacity, a unique product, a company-specific advantage, a marketing advantage or being driven by the ambitions of the strategic leader) and *pull factors* (receiving an unsolicited order, having a saturated domestic market, experiencing competitive pressures and identifying an attractive export development or incentive programme). Inevitably, this classification is contested, since the difference between a pull factor and a push factor can be difficult to judge (e.g. a saturated home market could be both a pull factor and a push factor), but greater clarity emerges from the terms **proactive** and **reactive**, as identified in Table 12.1.

Table 12.1 A classification of international involvement motives

	Internal	External
Proactive	• Driven by owner-manager/key decision-makers • Desire to increase profits • To increase market share/market power • Having a unique product/service/brand • Extend life cycle or seasonality • New product/service development • Having a company-specific advantage, e.g. in marketing, technology • To serve customers better by being closer to where they are	• Perceived international market opportunities, e.g. removal of trade barriers • Export development activity by governments, trade associations, banks • Improvements in IT, physical infrastructure, e.g. transport links
Reactive	• Excess production capacity • Spreading costs and risk	• Unsolicited order • Small domestic market • Declining domestic market • Saturated domestic market • Peer competitive pressure • Service existing customers who have gone international

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Proactive internationalization is in line with the ambitions of the strategic leader (the owner-manager in a small organization) and, thus, strong market development in the domestic market that provides finance for international activities. Alternatively, the company may internationalize rapidly because of a strong product concept, brand or service. Internationalization in this context is deliberate and planned, reflecting the owner's commitment to the process and the associated risks. Quite often, proactive internationalization can be the result of a conscious policy of recruiting people, often younger graduates, who have a positive attitude to international business.

Reactive internationalization tends to be based, at least initially, on an extension of domestic marketing practice with very little adaptation to local customer needs. The whole internationalization process tends to be more gradual, and it emerges in an *ad hoc* and incremental way, which is often based on a chance order from abroad which the company follows up without any grand design. Market spreading tends to be more common than concentration as opportunities are followed without, at least initially, any strategic plan in mind. Over time, it can be expected that companies will clarify their international objectives. Case 12.1 explores the drive and motivation behind Bata Shoes' global expansion.

Case 12.1 Bata Shoes — Europe

Although not a familiar name in the UK, Bata is one of the world's leading footwear retailers. The company remains family-owned with headquarters in Lausanne, Switzerland. It manufactures and retails all round the world – there is production in 26 different countries and retailing in 70. Approximately 1 million customers buy Bata shoes every day and to date it has sold approaching 15 billion pairs. The company seeks to stay ahead by innovation in both products and processes. Its shoes are designed for comfort as well as fashion and design. This market position has been brought about because Bata has been able to deal with a variety of environmental shocks.

The company was founded in 1894 in Zlin, which today is in the Czech Republic but then was classified as the Austro-Hungarian Empire. Thomas Bata was a descendant of a family of cobblers who had been shoemakers for centuries. Real growth started during World War I when the company received orders for military boots, which allowed it to move from a small family concern to mass production. Bata has been described as the 'Henry Ford' of Eastern Europe. He was always concerned about his employees, and built houses and recreation facilities for them. When Thomas died in a plane crash in 1932, there were 16,500 employees.

His half-brother, Jan, took over the business and he set about expanding throughout Europe – previously the company had been concentrated in the East – and adding new products such as toys and tyres. After 10 years of Jan's leadership, there would be over 100,000 employees and various overseas subsidiaries.

But Germany occupied Czechoslovakia in 1939 and Jan Bata was forced to leave the country. He was a recognized supporter of the Czech in exile. The Czech factories were handed over to a distant family member and Thomas' grandson, another Thomas, was left controlling all the overseas subsidiaries from a new base in Toronto, Canada. It is reported that, during World War II, Jan Bata helped many Czech and Slovak Jews to escape the Nazi occupation, finding them work in the various factories.

When the war finished, there were ownership disputes over the Czech factories and, eventually, they were nationalized in 1945. Jan Bata was put on trial (in absentia) by the new Communist government and convicted; it was clear he would be unable to return. His conviction would eventually be quashed in 2007. Quite soon, the family name disappeared from the business in Czechoslovakia, which was renamed Svit.

But the business, known worldwide as Bata Shoe Company, has continued to expand. Private label ranges were added to the basic name in the 1970s: Bubblegummers, Power, North Star and Marie Claire. Work safety shoes and AW-branded sports shoes are now significant ranges. In the 1980s, the retail formats were changed to reflect current trends; there were now city stores, large format stores and speciality sports stores. As was happening with many shoe manufacturers, production in developed countries largely ceased during the 1990s. After the fall of the communists in Czechoslovakia in 1989, named the so-called 'Velvet Revolution', Thomas Bata, the new CEO, was invited to invest in the ailing Svit business, but it could not be returned to its original ownership. Instead, he bought a number of stores and also established partnership agreements with businesses in Russia, Poland, Croatia and Slovenia. The original Czech company was simply

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unable to compete in a new, free market and it went bankrupt in 2000. There is, however, a shoe museum in Zlin and the Bata family still has a small shoe trading business. The actual business may have gone full circle but the company name is revered in the Czech Republic for what it has achieved.

Questions

1. How well do you think Bata dealt with the challenges and threats it faced?
2. Do you think the enforced trigger caused the development of an international strategy that otherwise may not have happened?

Organizations developing their corporate strategy internationally must consider marketing strategies, financial strategies, the structure of the organization (including location issues), and cultural and people issues.

Figure 12.1 endeavours to link these four factors and implicitly reinforce the notion of Environment–Values–Resources (E–V–R) congruence. The situational factors have to be right for an international strategy to make sense – that is, the returns must exceed the investment, as shown in Figure 12.2. However, appropriate choice of product lines, markets, entry mode and the speed of expansion all need to be considered when internationalizing (Gupta and Govindarajan, 1998).

Figure 12.1 International strategy

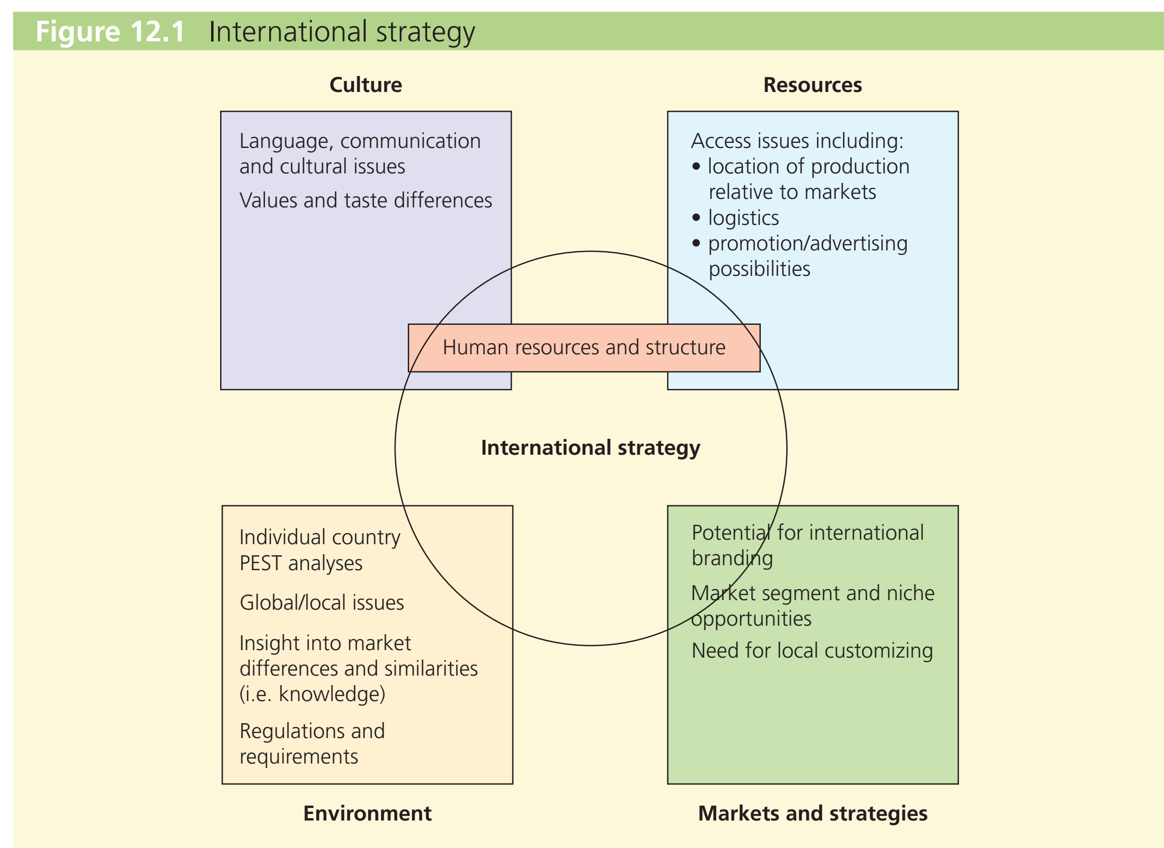

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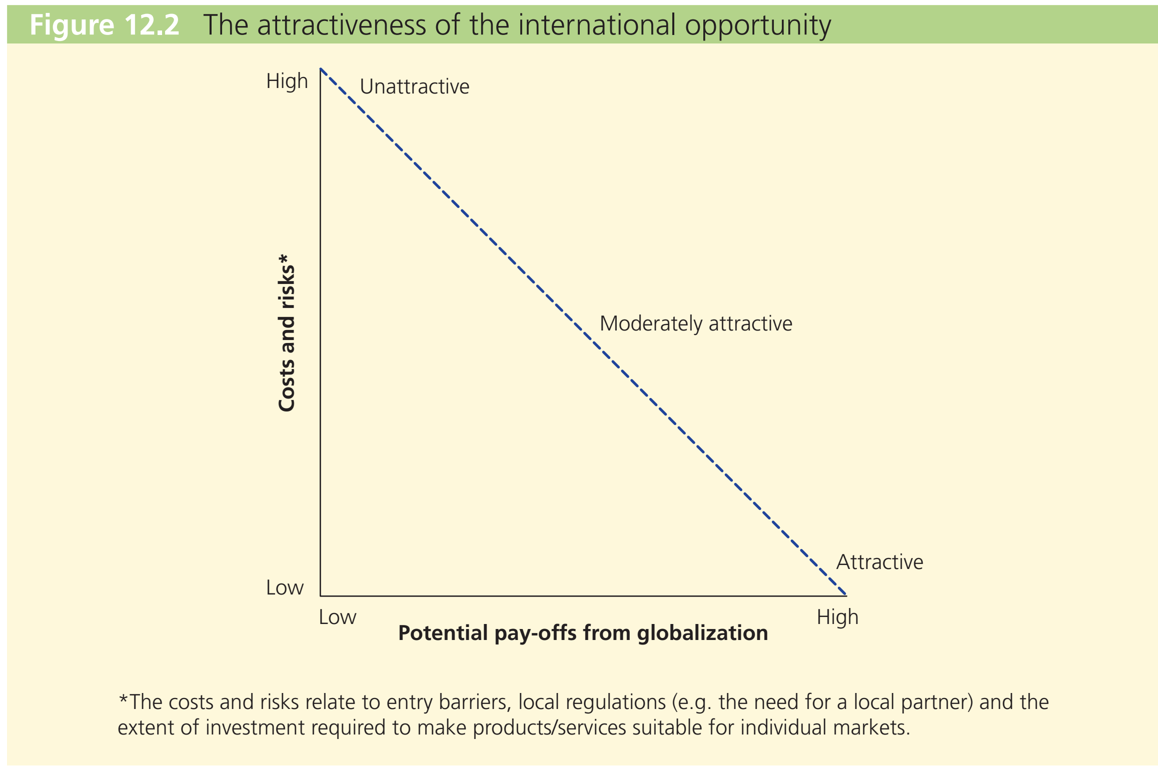
Figure 12.2 The attractiveness of the international opportunity



*The costs and risks relate to entry barriers, local regulations (e.g. the need for a local partner) and the extent of investment required to make products/services suitable for individual markets.

We can take each of these four factors in turn, relating them to domestic strategy where appropriate – that is, considering the choice between domestic and international strategy. First, **marketing**: how global products and services can be made and the extent to which they have to be tailored to appeal to different markets are critical. Markets vary from those termed *multi-domestic* (where the competitive dynamics of each separate country market are distinctive and idiosyncratic) to **global** (where competitive strategies are transferable across frontiers). Clearly, different competitors in the same industry adopt a variety of competitive strategies and the appropriate range of products or services is illustrated by the framework, a 2 × 2 four-quadrant matrix, presented in Figure 12.3, which is a useful starting point for analyzing both opportunities and competitor strategies:

Product/service range	*Geographic scope*
1 Narrow	National
2 Broad	National
3 Narrow	Global
4 Broad	Global

Organizations that need to be located close to customers to provide delivery and other services can establish strategic stockholding, rather than manufacturing. Going global differs from a multi-level domestic approach in three basic ways by: (i) looking for similarities between markets, rather than ignoring similarities; (ii) seeking homogeneity (in products, image, marketing and advertising message), rather than having unnecessary differences from market to market; and (iii) asking, 'is this product or process suitable for world consumption?' rather than relying solely on local autonomy, which never asks the question. While marketing in a multi-level domestic strategy is the most localized of the business functions, differences exist in marketing mix elements and between firms. Elements that are strategic such as positioning are more easily globalized, while tactical elements such as sales promotions are typically determined locally. Adaptation is present even at Coca-Cola, which is acknowledged to be one of the world's most global marketers and discussed in Case 12.2. The key is the worldwide use of ideas and methods, rather than absolute standardization. Other distinctive characteristics of the global approach, also summarized in Table 12.2, include centralizing decision-making, and adaptability or localization.

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Figure 12.3 Competitor analysis in a global context

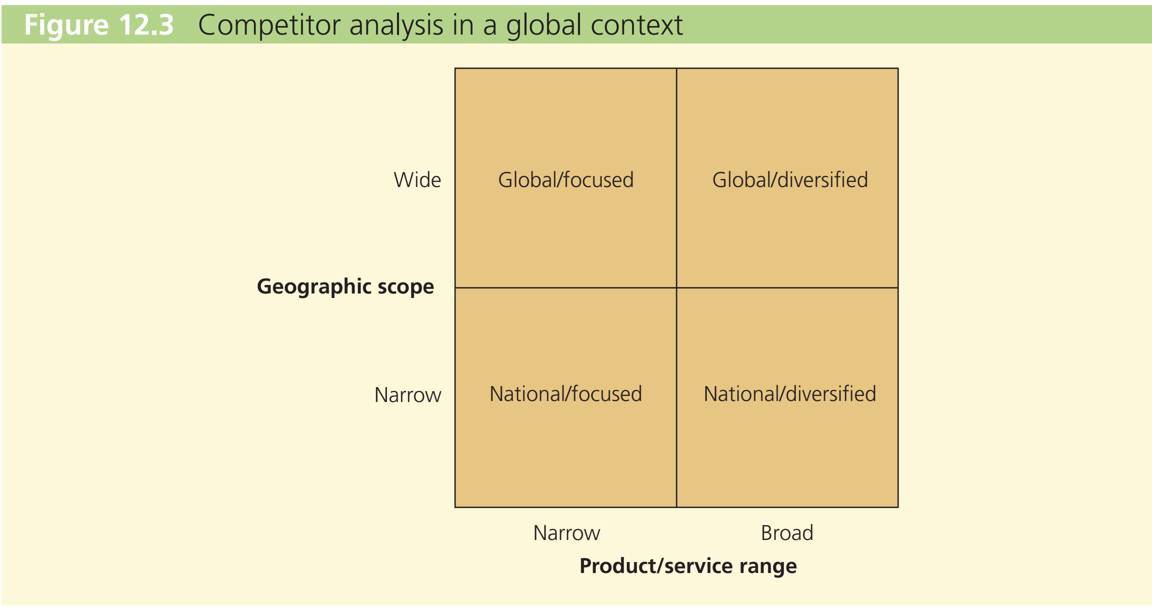

Table 12.2 Characteristics of a global business

Criteria	Measurement
Mission	Clear mission statement signalling that the company has significant international ambitions
Objectives	Quantifiable objectives showing ambition to operate or market on two or more continents
Size	>£5m turnover Minimum 30 per cent turnover from overseas
International markets	Sales: minimum two continents
Overseas operations	On a minimum of two continents: employment or assembly or manufacture or distribution channels
HQ	CEO based in and board meetings held in founding country. Overall operational control there
Strategic independence	Strategic decision-making in 'home' country
Growth	Five-year turnover growth
Influence on markets	Global market share; global brands
Integration of operations	Operational control or Brand management on at least two continents
International recruitment	Significant numbers of non-home nationals at senior managerial level
International sourcing	Company seeks inputs worldwide

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Case 12.2 Coca-Cola

Int

Although it is typically priced higher than many competing products, Coca-Cola (Coke) remains the world's best-selling soft drink and it is among the world's best known (and most valuable) brand names. Coca-Cola is reputed to see its only serious competitor as water! Ideally, an adult requires a daily liquid intake of 64 ounces (1,800 ml) and, overall, Coke provides just 2 ounces (60 ml) of these. The soft drinks industry has been categorized in the following way:

- refreshment – typical carbonated drinks, such as Coke
- rejuvenation – ready-to-drink teas and coffees, for example
- health and nutrition – juices, vitamin-enhanced and milk drinks
- replenishment – bottled water and sports drinks.

The Coca-Cola company was 135 years old in 2021 and it remains largely focused. It acquired Columbia Pictures some years ago, but later sold the studio to Sony. Seventy per cent of Coke's sales and 80 per cent of its operating profits are now earned outside the United States. The company has enjoyed a 50 per cent share of the world market for carbonated drinks, including 44 per cent of the US market, which is some 12 percentage points ahead of its nearest rival, Pepsi. It is now around 48 per cent globally with 42 per cent of the US market. Its nearest rival, Pepsi, has a global share of some 20 per cent with 30 per cent of the US market. Coke owns around 500 brands of drinks, including water. A typical US adult who drinks Coke will consume 400 8-ounce (250 ml) servings in a year, just over one each day. Because Americans own large refrigerators which can store the largest bottles available, this level of consumption can work out relatively inexpensive. By contrast, a regular British Coke drinker consumes 120 8-ounce (250 ml) servings in a year, often from smaller and more expensive bottles and cans. The UK is still perceived to be a developing market for the product. Other 'established' territories – which include Switzerland, Chile and Mexico – have a consumption of 300 8-ounce (250 ml) servings per year. Most recently, sales have been growing well in the fastest growing – and also emerging – economies, including China and India. The company recently claimed that there are 1.8 billion servings every day around the world of Coca-Cola products. As a consequence, the company is responsible for 700,000 jobs when its partners (bottlers and distributors) are included in the total.

Over the years, critics have predicted that something would happen to stem the continual and successful growth of the business – possibly changing tastes, stronger competition or market saturation. This prediction has proven ill-founded; indeed, Coca-Cola has continued to increase worldwide sales through clever marketing and occasional new products. In 1996, Coca-Cola was the United States' most admired company in the Fortune rankings, but it did not sustain this position in the late 1990s and early 2000s, although it continues to enjoy high global admiration. In terms of increases in shareholder wealth, Coca-Cola was unrivalled in the United States throughout the leadership of Roberto Goizueta, its charismatic chief executive. Goizueta was the strategic leader from 1981 until his death in post in 1997. Coca-Cola made a number of strategic misjudgements during his time in charge but, overall, he was perceived to be a hero in the company's folklore. He kept Coca-Cola strongly focused on Coke when, with hindsight, he should have introduced other drinks – as his competitors were doing.

Competitive strategies

Coke had successfully established Fanta (the fizzy orange drink launched in 1960 in the US market, though originally developed in 1940 in Germany) and Tab (sugar-free Coca-Cola, 1963) when Goizueta took over. In 1982, Diet Coke was launched. Diet products are particularly important for the US market, but are generally less significant elsewhere.

However, in 1985, New Coke was launched to replace the original blending, but was subsequently withdrawn after a consumer outcry. It was sweeter and some critics suggested it had been developed because of the increasing popularity of the sweeter Pepsi Cola. One Coke fan who lived on the US East Coast went round all the local stores in her district buying up all their remaining stock of the original blend. Two men on the US West Coast started a society pledged to restore the original taste. Members from across the United States paid to join and the group organized demonstrations. Inevitably, there was huge publicity. The company eventually backed down and relaunched the original blend as Coca-Cola Classic. A while later, New Coke was withdrawn. While you may have imagined the

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company would be damaged, it actually benefited from the enormous publicity it generated. The debacle cost money, but sales increased.

The Fresca range was launched. Sprite is another famous Coca-Cola brand, as are Minute Maid fruit juices. Under Goizueta's successor, in 1998, an agreement to buy the Schweppes soft drinks businesses outside the United States from Cadbury's was thwarted by the European regulatory authorities. Coca-Cola has also been affected by economic crises and recessions in countries where it is particularly popular, especially in Russia and Asia. In 1999, it was forced to withdraw the product in Belgium after a health scare resulting from minor contamination. Arguably, the company's public relations could have been better. Five years later it had to deal with an even more significant self-imposed crisis. Dasani Water in Europe was exposed as treated tap water and not natural spring water. The company never claimed anything else, but consumer expectations were that it was genuine. It was withdrawn. In the United States, the product is different; simply, the same brand name is used.

In 2001, Coca-Cola formed a joint venture with Procter & Gamble to link its soft drinks with Procter & Gamble's snacks, such as Pringles. This collaboration followed a strategy developed by PepsiCo. Also in 2001, Coca-Cola allied with Disney to allow it to use Disney characters for promotional purposes. The company has also extended its product ranges into Fruitopia, a 'new age' fruit drink, bottled water (such as the Dasani brand already mentioned) and Lemon and Vanilla Coke.

Coke had really become popular overseas when it was shipped out to GIs (US soldiers; cf 'Government Issue') during World War II and, systematically, it has been introduced to progressively more countries. For many years, its stated goal was to 'always have Coca-Cola within an arm's reach of desire' and preferably in chilled storage, whether on retail shelves or through vending machines. It has benefited from being associated with the image and persona of the United States of America. When GIs drank it during World War II – and subsequent wars in Korea and Vietnam – it was seen as a reminder of exactly what they were fighting for. Early in 1999, Coca-Cola's name was linked to a line of fashion and sports clothing, the first significant extension of the brand.

The organization

A basic challenge for Coca-Cola is that its product is essentially flavoured water. It is in demand all around the world even in countries where water is relatively scarce as well as where it is plentiful. Water, of course, is expensive to ship. Given that effective supply chain management is absolutely vital for the business, what is the best way to organize production and distribution worldwide and make sure that Coke reaches its customers both efficiently and effectively?

Coca-Cola controls the production of the concentrated syrup in Atlanta; mixing, bottling/canning and distribution is franchised to independent businesses worldwide. In truth, the issue of the 'secret formula' is more mystique than necessity, but it provides another valuable story to reinforce the brand and its image. Goizueta inherited a distribution network which was underperforming, and he set about strengthening it with proper joint venture agreements and tight controls.

Goizueta chose to acquire its smaller, underperforming bottlers, invested in them and, when they were turned around, sold them to stronger anchor bottlers – specifically those with the financial resources to invest in developing the business. 'Coca-Cola's distribution machine is [now] the most powerful and pervasive on the planet.'

Coca-Cola has always advertised heavily and prominently, and Goizueta also negotiated a number of important promotional agreements. Coca-Cola has special aisles in Walmart stores and Coke's Hi-C orange juice is supplied to McDonald's, for example. In recent years, there has been increased emphasis on branding and packaging at the expense of pure advertising. 'We had really lost focus on who our customer was. We felt our customer was the bottler, as opposed to the McDonald's and the Walmarts' (Goizueta).

Faced with increased competition from retail own-label brands sold mainly through supermarket chains, Coca-Cola has carefully defended and strengthened its other distribution outlets such as convenience stores, fast-food restaurants and vending machines.

Competitors

Coca-Cola's main rival is Pepsi Cola, which has a 30 per cent share of the US market and 20 per cent of the world market. Its share has been growing since the 1993 introduction of Pepsi Max, a sugar-free product with the taste of the original Pepsi. Pepsi diversified into snack foods (Frito-Lay in the United States, Walkers and Smiths crisps in the UK) and restaurants (Pizza Hut, Taco Bell and the cult-like Kentucky Fried Chicken (KFC) in the United States, and famously smuggled across the Auckland, New Zealand border during a COVID-19 hard lockdown in the city in September 2021).

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Just a third of global profits came from soft drinks in the mid-1990s. Pepsi also owns much of its bottling network. In 1996, the Pepsi brand was relaunched with a massive international promotional campaign. The new Pepsi colours, predominantly blue, were chosen to appeal to the younger buyer. In 1997, PepsiCo divested its restaurants into a separate business and followed this up with the acquisition of the French company Orangina – after the European competition regulators had prevented Coca-Cola from buying the business. One year later, Pepsi acquired Tropicana, the world's largest marketer of branded juices, which it bought from the Canadian company Seagram. With this purchase, Pepsi controlled 40 per cent of the US chilled orange juice market, twice the share of Coca-Cola.

Another significant competitor is Cott of Canada, which produces discounted colas with acceptable alternative tastes. Cott produces concentrate for Walmart in the United States and for Sainsbury's in the UK.

Renewal

In 2004, Douglas Daft, the second CEO since Goizueta, announced he would retire at the end of the year. He would be aged 61 and had been in charge of the company for five years. Coca-Cola had a succession problem all over again and, moreover, it was not performing particularly well. It was rumoured at the time that Coca-Cola might have sought to split the chairperson and CEO posts, but that did not happen. Instead, the retired executive E. Neville Isdell (an Ulsterman) was persuaded to return and he would stay firmly in charge until 2008, by which time Coca-Cola was much stronger.

Isdell immediately declared that there would be investment in marketing, brand building and brand protection. Where there were gaps in the product line, they would be filled. In 2005, Vault was launched to compete with Pepsi's citrus flavoured Mountain Dew. Rockstar was acquired to add to Full Throttle – both would compete with Red Bull. Powerade, launched to compete with Pepsi's Gatorade, was doing well but it had a great deal of ground to catch up. Diet Coke was supplemented by Coca-Cola Zero in 2005 and Coca-Cola Life in 2013. Diet Coke and Coke Zero are both less than 1 calorie per 100 ml; Coca Cola Life is 27 calories; the original Coke is 42 calories per 100 ml. Diet Coke and Coke Zero use the same artificial sweeteners – the difference is the caffeine content. Diet Coke contains more caffeine than either the original or Coke Zero. Coca-Cola Life uses stevia leaf extracts (a natural product) to replace some of the sugar. Coca-Cola Zero Sugar was (re)launched in 2016, designed to taste more like the original product than the other low-calorie versions.

Coca-Cola bought a minority share in Honest Tea (organic teas and juices) in 2007, and also acquired the French company Glaceau, which produces and markets a range of different enhanced water drinks. These all have added vitamins and distinct fruit flavours. In three stages, Coca-Cola has bought Innocent Drinks (fruit smoothies) in the UK – although this company operates with a degree of independence (Case 10.1). Another recent acquisition was Costa Coffee in 2018, which we examined in Case 11.4.

When Isdell stepped down, Coca-Cola was already showing healthy sales in four key emerging markets: China, India, Russia and Brazil. Isdell was replaced by an internal candidate, a Turkish-American former Coca-Cola salesman and later general manager and other senior positions, Muhtar Kent, who in turn was succeeded in 2017 by Englishman James Quincey. Their challenge has been that, in recent years, people have not been drinking as much Coca-Cola. The calorie message has hit home. However, a total of 1.8 billion servings are still sold in 200 countries every day. An internet search of Coca-Cola revenues in recent years will show some decline, but this decline is affected by the company's strategy of relying more and more on independent franchised bottlers to allow it to be more focused at the 'front end' of the value chain.

Coca-Cola **www.coca-cola.com**

Questions

1. Why is Coca-Cola 'number one' in its industry? *In answering this question, think about the organization as well as the product and its approach to marketing.*
2. Where is its competitive advantage?
3. If it avoids serious mistakes, does it need to do anything radically different to retain its position?
4. Can you think of anything its leading rivals could do to disrupt the status quo?

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Second, **finance** relates to issues of currency transfers and exchange rates. For example, floating exchange rates imply uncertainty, and predictable or fixed rates – such as in the Eurozone – can potentially benefit a car manufacturer which produces engines and transmission systems in one country, transfers them to assembly plants in a second and third country, each specializing in different cars, and then finally sells them throughout Europe. Costs and estimated profits must be based on predicted currency movements, and any incorrect forecasting could result in either extra or lost profits. Similarly, exports and imports vary in price due to exchange rates.

Third, two key **structural** considerations are: (i) where to make the various products and services to obtain the necessary people and other resources required in order to be as close as appropriate to each defined geographic market and to manage costs efficiently; and (ii) how best to structure the organization in order to control it effectively while simultaneously ensuring sufficient responsiveness to changing environments.

The international location decision is affected by a number of factors, including the existence of any national resources which influence competitive advantage in a significant way. Even small businesses are using overseas factories to produce goods at a low price while retaining home-based research and development, and sales and marketing. Consumer electronics and pharmaceuticals are industries where the headquarters of the leading companies are concentrated in one or a few countries. Case 12.3 shows how Infosys chose to locate where specialist people resources were available and affordable.

Case 12.3 Infosys — India

Infosys is a software business based in India, but which targets markets around the globe. It was set up with this strategy in mind.

Infosys was started in 1981 with 10,000 (Indian) rupees, equivalent to some US$1,200; it is now one of India's most dynamic wealth generators. The company was floated in 1993; within six years, and after growing by some 50 per cent per year, the share value had increased 85 times. Infosys became the 15th largest company quoted on the New York NASDAQ and the first Indian business to be listed there.

Founder Narayana Murthy, who was around 35 at the time, left a US computing business, together with six Indian colleagues, and they started Infosys in Murthy's home in Poona, near Mumbai. Infosys would write software for established businesses in the G7 countries, and also provide systems integration and consultancy services. Murthy was the son of a teacher, and, although he had been working abroad extensively, particularly in Paris, he was to be the only one of the seven to stay based in India. The others would work in the United States, close to their key clients. The business would be global from 'day one'; there was no local market of any consequence for what they were doing. Their first major client was Reebok.

> *The market for the idea did not exist in India . . . we had to embrace globalization. I believe globalization is about sourcing capital from where it is cheapest, producing where it is most cost-effective and selling where it is most profitable, all without being constrained by national boundaries* (Murthy).

India was able to offer well-educated, English-speaking staff who were proficient in IT. They had a strong work ethic and the prevailing salaries were well below those of their client countries. The United States has generally provided two-thirds of the company's revenues. Infosys was able to offer very competitive prices for high-quality work. But things were not altogether smooth. 'It took 1 year for a specialist telephone connection, 2 years to get a licence to import a computer and 2 weeks every time we needed foreign currency to travel abroad.'

In 1987, Infosys began a joint venture with a management consultancy based in Atlanta. The US staff would seek out business; Infosys would provide the skilled personnel to deliver the product. This gave Infosys market credibility and opened up a host of fresh opportunities. New clients included Nestlé, General Electric and Holiday Inn.

The joint venture was abandoned in 1995 when Infosys felt it was sufficiently established and well known to open its own offices in the United States. In 1991, back in India, Infosys had moved from Poona to a new 55-acre complex in Bangalore, home of India's burgeoning software industry. There was now a focus on a broader product range with an extended set of staff skills and

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competencies; this would involve selective acquisitions. The company was restructured around strategic business units. The emphasis would be on service and customer focus. Additional business from existing clients was sought energetically – it amounted to 80 per cent of revenues – as well as actively searching for new clients.

There are a number of reasons why Infosys has been as successful as it has:

- It has world-class operations and high-quality products and service.
- It recognizes that, in software, human resources are the core resources and they must be nurtured. Systems and conditions were created which would attract and retain the best. Good young talent was sought and, unusual for India, Western-style stock options offered.
- It has expertise in project management.
- It has a clear structure (in Bangalore) that was dedicated to servicing overseas clients. However, as relative salaries in India have risen (albeit still well below those of the United States and the UK!) Infosys has started to set up overseas supply operations. It now employs software writers at its operation in Shanghai, China, for example.
- It ensures that while large clients are sought, it avoids dependency on any single client. At one time, General Electric provided 25 per cent of revenues; this has been reduced to 10 per cent over time as the company has grown.

Infosys has not been without its critics in India. Its 'social perspective' on working conditions and rewards has not endeared it to everyone. Murthy has proclaimed that 'all profitable exporters should give 20 per cent of their earnings before interest and tax to help fund higher education in India', which has detractors as well as supporters.

As for Murthy himself, he has stepped down from the chief executive position he held for over 20 years, but he remains involved on the fringes. In 2003, he became the company's 'chief mentor' responsible for helping to 'create future leaders' within Infosys. He has been credited with conceiving the '24 hour working day'. His legacy is the world's second largest IT company – the only one bigger is Tata Consulting – refer to Case 12.4.

Questions

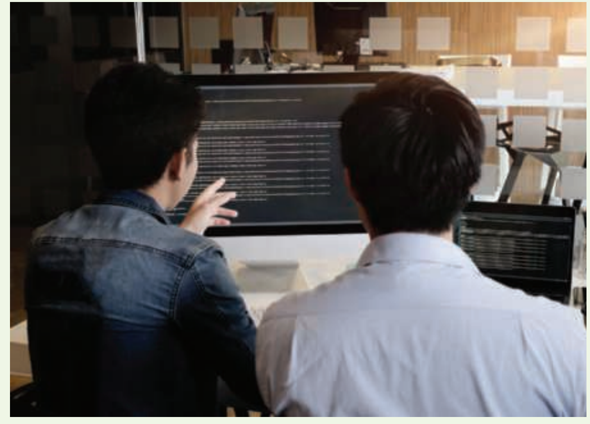
1. What factors may threaten the type of international strategy practised by Infosys?
2. What do you think are the most realistic growth options available to Infosys?

Footnotes

In 2008, the global credit crunch and recession hit India's outsourcing industry quite markedly. Infosys slashed its earnings targets by 30 per cent. The main problem was the demise of the US financial sector. Also in 2008, Infosys looked at acquiring Axon, a UK-based specialist in business software. It backed away, saying it was 'no longer prudent' at the existing valuation.

By 2011, the company's 30th birthday, there were 125,000 employees. Competition from Tata Consultants (mentioned in Case 12.4) and others was robust and, at this time, Tata was growing at a faster annual rate. Critics argued that Infosys was too slow in its decision-making – in part because 'some of the best managers had left' – and that margins were being protected, rather than prices shaved to secure business. Infosys was perceived to be reluctant to sacrifice its margins. In addition, it was said, its marketing and customer service could both be improved. It was also very significant that in the global recession, and considering the problems in banks and financial services, some of Infosys's leading customers were spending less on IT and software. On a more positive note, Infosys was becoming increasingly committed to cloud computing for those customers who would accept it.

There are now 260,000 employees, 1,650 clients in 50 countries and a turnover of US$14 billion.



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Whatever the structural form, a truly international business must develop a global mission and core values (such as consistent quality worldwide), and achieve integration through effective communications. The corporate strategy must be centralized, even if the company has a number of independent subsidiaries and operates in several multi-domestic markets. However, the organization must be able to embrace the different national cultural traits and behaviours, which presents an important managerial challenge. Decisions have to be made concerning the balance of local managers and mobile 'international' managers who are easily transferable between divisions and countries (see also Bartlett and Ghoshal, 1989, 1992).

Fourth, **cultural differences** are revealed through values, rituals, heroes and symbols, as discussed in Chapter 7, including Hofstede's five dimensions to describe the cultural variations between 58 countries (Hofstede, 1991). These variations include: masculinity versus femininity; individualism versus collectivism; uncertainty avoidance; distance from power or hierarchy; and long-term versus short-term orientation. More prosperous nations he found to be more individualistic and poorer ones more collectively oriented. Uncertainty avoidance was more evident in the Latin European and Mediterranean nations, and Latin countries have higher power distance, while most countries studied had a short-term orientation (Hofstede, 1991). Firms that seek rapid internationalization, therefore, must decide between opting for an efficient distribution network and targeting countries that are physically closer, or embrace cultural similarities and differences.

In the following sections, we summarize a number of potentially highly effective growth strategies – diversification, **mergers/**acquisition, joint ventures, as well as some other alternatives. In each sub-section below, we broadly discuss these modes or growth strategies in a domestic context, but we also highlight global issues – in particular, modes of international market entry, such as exporting.

12.2 Diversification

In choosing whether to diversify or not, Markides (1997) recommends that organizations should address five key questions:

1. What can we do better than our competitors, around which we should focus and build?
2. What strategic resources are required in the possible new sector(s) or segment(s)? What are the implications of this requirement?
3. Can we beat the competition and become a strong player?
4. Is there a downside risk? In particular, can existing businesses be affected in any detrimental way?
5. What learning potential is there? Can the new business enhance synergy and improve our existing businesses and the organization as a whole? This assumes, of course, that the organization is able to exploit the learning potential.

Endless (high) growth may be a delusion and low growth the norm, such that managing growth wisely is a key managerial skill for organizations and that new business areas should be entered cautiously (Campbell and Park, 2005; Harding and Rovit, 2004). Diversification strategies often proving less successful than expected are less likely to be due to the choice of diversification as a strategy, but rather because of implementation problems, such as the poor choice of an acquisition target. Indeed, diversification may be chosen because the existing business is perceived to be vulnerable – perhaps because of its limited growth potential, further investment in internal growth not being justified, threats from new technology, undervaluation by the stock market – leading to them being a takeover target if they do not diversify. Diversification may be chosen because a company has developed a particular strength or expertise – whether financial (high cash reserves or borrowing capacity), marketing, technical or managerial – and feels that it could benefit from transferring this asset into other possibly unrelated businesses. Sometimes it concerns risk and establishing or restoring an acceptable balance of yesterday's, today's and tomorrow's products in a complex portfolio – especially attractive where a company is relying currently on yesterday's products. Another reason is connected to the ambitions of the strategic leader, who may feel that they can run any type of business

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successfully regardless of the degree of unrelatedness. Some may be very keen to grow quickly, possibly to avoid takeover.

Related and unrelated diversification have been studied with regard to resources and capabilities being shifted between different businesses due to firms moving in and out of different marketplaces (Helfat and Eisenhardt, 2004). Figure 12.4 summarizes related and unrelated diversification opportunities, with its upper section suggesting that the degree of unrelatedness increases when the tangible resources involved (both plant and equipment, and intangible brands) are different rather than similar, and the processes – the ways in which these resources are deployed and utilized – also change. The lower section of Figure 12.4 provides examples of each situation, and with strategic risk rising, along with the extent of newness and learning. The merger in 2017 between Booker (a leading food and groceries retail and wholesale business) and Tesco (the UK's leading supermarket group) is relevant for the bottom right quadrant as it involves an element of diversification. The merger happened a few months before Sainsbury's and Asda announced their plans to merge (since abandoned due to refusal by the Government regulator). This approach, however, represents horizontal integration and is thus not diversification; it was discussed in Chapter 2. Booker was already vertically integrated as it had franchised some 5,000 small grocery stores (trading as Premier, Londis and Budgens) and was supplying them from its wholesale arm. Tesco has its own chain of local convenience stores, as do both Sainsbury's and Asda. It is interesting to reflect on the strategic logic of both mergers and to consider which approach might offer the most opportunities to build new value for customers.

A number of UK and US research studies have investigated the relative success of diversification strategies and, despite problems with researching this topic due to the availability of longitudinal data, as well as comparing the performance of businesses over time, most of the findings are consistent. Research published over a number of years has indicated that the more diversified companies had the highest sales and earnings growth and the lowest share capital value depreciation. Dominant-product companies comprised the next most successful group, followed by related companies and, finally, single-product companies. However, when the ratios for return on capital employed were examined, dominant products were most successful and the most diversified the least successful, a finding that would appear to confirm the contention by Peters and Waterman (1982) – that successful companies 'stick to the knitting' – is justified.

Top options for going global are **developing new markets for existing products** and **international diversification** (which are located in different quadrants on the Ansoff matrix in Chapter 9) – the latter being the riskiest, since it takes the company away from its core expertise in production and domestic distribution. Going global may seem ambitious, but is a viable strategy if well managed by the leadership team.

This approach involves simultaneous entry into numerous different geographical markets and is most viable for companies (or entrepreneurs) that have internationally transferable technology- or knowledge-based products. It is based on assumptions that the world is becoming more homogeneous, that distinctions between national markets are fading and will eventually disappear for some products, and that only the brands will survive in any scale. Coca-Cola and Levi Strauss have based their global marketing effort over the past decades on the premise that universal appeal exists, such as Coke's 'one sight, one sound, one sell'. Global marketing strategies must change as the world does. Yet, a single advertising approach exploits the similarities to stimulate sales everywhere, while being lower cost than many national campaigns. One obvious way for a firm to expand is by offering its existing products in foreign markets, perhaps by **exporting** from its domestic production base, and employing the services of agents and distributors to handle its products in export markets. Alternatively, implying greater commitment, the firm may decide to relocate production itself by establishing manufacturing plants in selected overseas markets.

The company may decide to become **vertically integrated** on a global basis, sourcing some of its raw material requirements and intermediate products from overseas subsidiaries or suppliers, and establishing overseas sales subsidiaries in order to put its international marketing operations on a more dedicated footing. Likewise, the company may diversify its business by acquiring suitable foreign companies. These multi-channel strategies are consistent with becoming a global entity.

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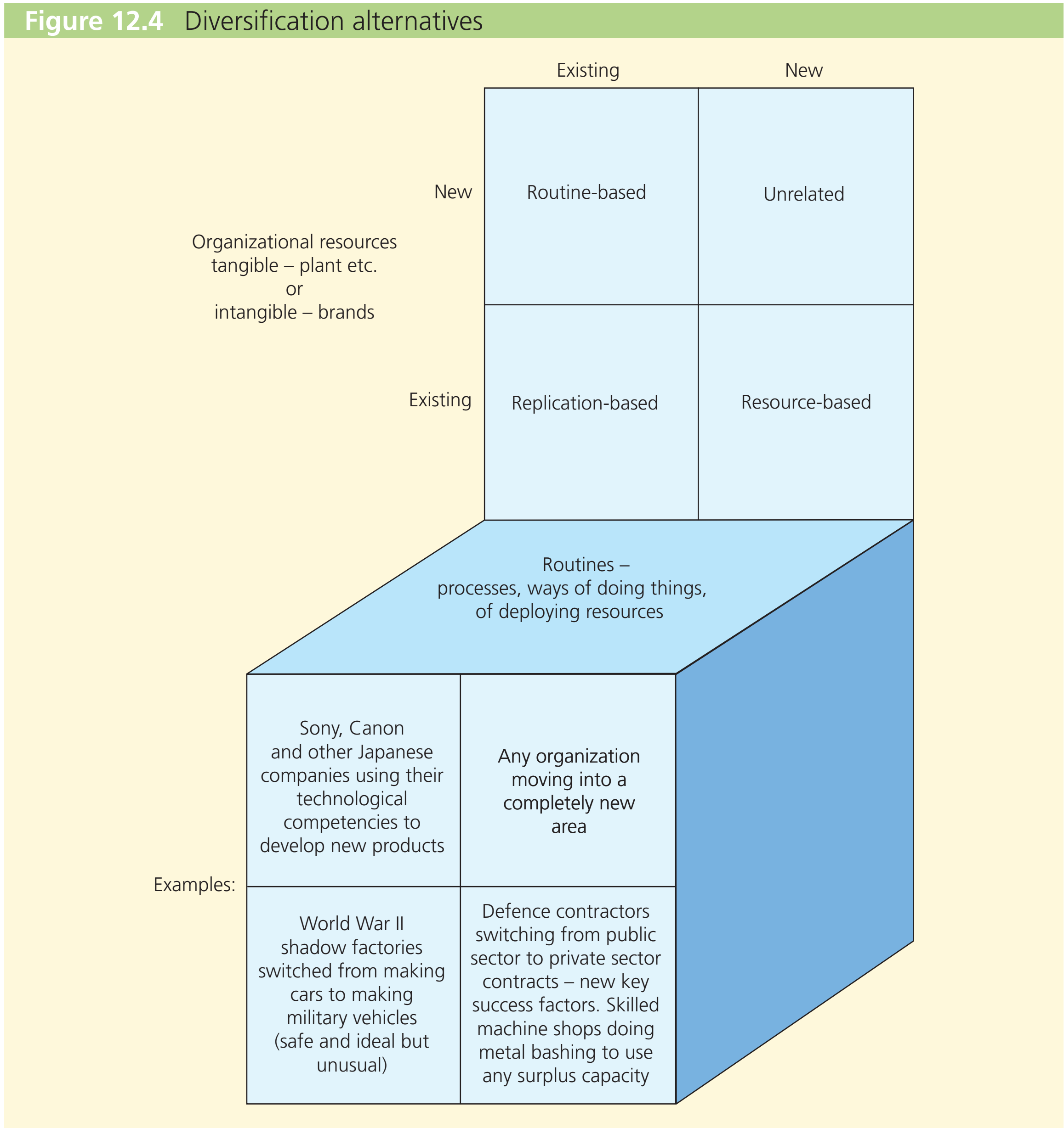
Figure 12.4 Diversification alternatives



Developed from Chiesa, V. and Manzini, R. (1997) 'Competence-based Diversification', *Long Range Planning,* Vol. 30, No. 2, pp. 209–217

The structural alternatives (see Section 12.1 on **structure**) available are:

- A globally centralized organization, remote from markets and relying on exporting, which is likely to prove cost efficient but possibly out of touch.
- Manufacturing plants located close to markets in order to satisfy local needs and preferences (e.g. Unilever, which relies on localized manufacturing and marketing). Known as both **international** and **multi-domestic**, it could still be controlled centrally, or substantially decentralized into fully autonomous units, in which case the plants may be independent or co-operate in some way; it is more expensive, but can offer higher levels of service. Another example is cement, an international commodity product, where companies are structured in this way because there is no benefit to be gained from transporting cement across frontiers.

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- Centralized manufacture of key components, possibly in a low-wage country, with final assembly or finishing nearer to markets – for example, Caterpillar Tractors.
- An integrated global structure with production locations chosen on resource or cost grounds, in which finished goods will be transported to markets. In this structure, the organization will have an international presence but, for example, in Country X its sales could consist mainly of products imported from other locations, while most of Country X's production is exported. Marketing, production control, purchasing, and research and development will all be co-ordinated globally if they are not centralized.
- Centres of excellence may be established where cultural values and behaviour are most appropriate. Philips chose to concentrate technology development in the Far East, where a long-term perspective is natural; IBM has established research and development facilities in Italy, which it regards as suitably intuitive and innovative.
- A global network via strategic alliances (discussed in Section 12.4).

12.3 Mergers and acquisitions

This section embraces several possibilities, including the following:

- Organizations A and B become either A or B. *One has taken over the other and one name has disappeared.*
- Organizations A and B together become (a new) Organization C – *in other words, a new name after a merger or takeover. Both old names have disappeared. The implication might be a fresh start after disruptive change.*
- Organizations A and B become AB, with a joint name. *The signal here might be joined and identifiable partners.*
- Organizations A and B become A(B) or B(A) – *this change representing a form of 'parent-child' situation. Both names are retained but it is clear who the new owner is and which organization is a subsidiary.*

Each of these alternatives presents a different message and may also imply a different feel for employees and/or customers and/or funders.

As the major beneficiaries of an acquisition are often the existing shareholders of the company being acquired, some people argue that the self-interest of the City and large institutional shareholders could motivate certain mergers and acquisitions. Acquisition strategies proving less successful than expected may be because of a poor choice of acquisition target and implementation problems. If genuine synergy potential exists, both the existing and newly acquired businesses can benefit from a merger or acquisition. A company which has become stale or sleepy, or which has succession problems at the strategic leader level, may see an acquisition as a way of obtaining fresh ideas and new management – apparently more important than how related the businesses are. Related to the earlier point (Section 12.2), some acquisitions may happen because a company is available for purchase, rather than as the outcome of a careful and detailed analysis.

Lorenz (1986) suggests that research in this field can be classified into four schools: (1) accounting, (2) economic, (3) financial and (4) managerial:

1. **Accounting** – post-merger profitability studies which typically show that few acquisitions increase profitability; for most, the effect is neutral, while some have negative effects.
2. **Economic** – is there an increase in market power?
3. **Financial** – share price movements.
4. **Managerial** – is it more risky to move into new markets than into new technology, assuming that the two cannot be achieved together?

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In reality, acquisition is an uncertain strategy and, no matter how sound the economic justification may appear, implementation or managerial issues ultimately determine success or failure. Where two companies choose to merge, they have an opportunity for a reasonably comprehensive assessment of relative strengths and weaknesses, although one of them may conceal certain significant weaknesses. Even less information will be available in the case of a contested takeover. It is never easy to determine from outside an organization what its style of management is, or its managers' attitude to risks, or how decisions are made, or whether managers are largely self-reliant. In the final analysis, the success of an acquisition or merger will be influenced markedly by the way the companies fit (or do not fit) together, as well as by the logic used to justify the strategy (refer to Figure 12.5). As a result, financial analysis may be used to justify the acquisition, but it will not answer questions relating to implementation. Table 12.3 highlights significant information that is usually unavailable until after the acquisition.

Figure 12.5 Strategy creation and implementation

Implementation	Vision: Good	Vision: Poor
Good	Effective strategic management	Opportunist and likely to underperform
Poor	Wasted opportunity	Ill-conceived mistake

Developed from a matrix devised by Booz, Allen and Hamilton

Table 12.3 Information available before and after an acquisition

Before	After
Organization charts	Inner philosophy and culture
Data on salaries of top management	Real quality of staff in decision roles
Reasonably detailed information on board members and key executives – but only brief details on middle management	Salary and reward structures and systems
Products	Decision processes
Plants	Inter-relationships, power bases, hidden conflicts and organizational politics
Corporate identity, image and reputation	Individual objectives being pursued
Past record, especially financial	

Key considerations to be addressed by a company before acquiring another are: (re)structure and its impact on people and existing businesses; size, risk, valuation and price of the acquisition; maintaining good relationships with key managers during negotiations to try to ensure that they stay afterwards; maintaining momentum and interest in both companies after a successful offer; how quickly to merge; reporting relationships and the degree of independence allowed to the acquired company; and whether and how to send in a new management team.

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Some of these issues are considered below, where effective acquisition strategies are discussed, but many of them are taken up in later chapters which consider the implementation aspects of strategic change. Figure 12.5 illustrates that an effective strategy is one that is based on good vision (in relation to its strengths and market opportunities) and sound implementation prospects (i.e. how the two organizations will be merged together and the changes required to structures, cultures and systems in order to achieve their potential synergy). If the logic behind an acquisition is poor, the merged company is likely to underperform, however well the two companies may be managed as one corporate whole. If the vision is good but implementation is weak, underperformance is again likely because synergy will not be created.

If companies develop by a series of acquisitions, typically several banks will become involved, which may be spread worldwide – and, therefore, their cultures and lending philosophies may differ, their levels of exposure will vary, the assets securing the loans will not be the same and certain banks may see themselves as lenders to just one part of, rather than the whole, acquired company. Problems arise if a bank gets into financial difficulties, or if the company seeks to extend a loan or adjust the terms.

A number of authors have suggested ways of improving the effectiveness of acquisition strategies. Drucker (1982), for example, argues that there are five rules for successful acquisitions:

1. It is essential for the acquiring company to determine exactly what contribution it can make to the acquired company: it must be more than money.
2. It is important to search for a company with a 'common core of unity', say in technology, markets or production processes.
3. The acquiring company should value the products, services and customers of the company that it is taking over.
4. Top management cover for the acquired company should be available in case key managers choose to leave after the acquisition.
5. Within one year, managers should have been promoted across company boundaries.

Ramsay (1987) argues that effective acquisition strategies have four stages, which are illustrated in Figure 12.6. First, *the formulation of a clear strategy* involves building on existing strengths and developing synergy around them, thereby transferring skills and competencies and achieving economies of scale; spotting an opportunity and acting quickly and decisively to capitalize on it; and matching resources (strengths) and opportunities relating to the way the company is managed and to its culture and values.

Second, the *search for*, *and review of*, *possible acquisitions* need an active and positive search process: it must be realistic and must assess just how resources will be shared, and it should include where and how skills will be transferred, and where and how economies of scale will be obtained. Although there was a switch during the 1990s from conglomeration to mergers with a more defensible strategic logic, there has also been a concurrent increase in hostile takeovers because higher premiums are being paid (van de Vliet, 1997), as illustrated further in Figure 12.7, which pulls these points together diagrammatically. In the context of these arguments, did the acquisition of Jaguar Land Rover by Tata (Case 12.4) make strategic sense?

Some may easily have questioned Tata's ambitions, but both brands appear to be prospering and reaching a more international market.

Third, in *acquiring the company*, alternative ways of valuing a business – in order to determine an appropriate bid price – are described in Strategy in Action 12.1. Hidden weaknesses in friendly mergers should be identified and acquirers should avoid paying too much in a contested takeover bid. If too high a premium is paid, the acquisition is less likely to be successful (Burgman, 1985), and a vicious circle of disillusionment can easily be created. The business can be paid for using cash (where the likely return should exceed either the return that could be earned if any surplus cash were invested elsewhere), or with equity (whereby a predator or acquirer simply offers its shares in exchange for those in the targeted business).

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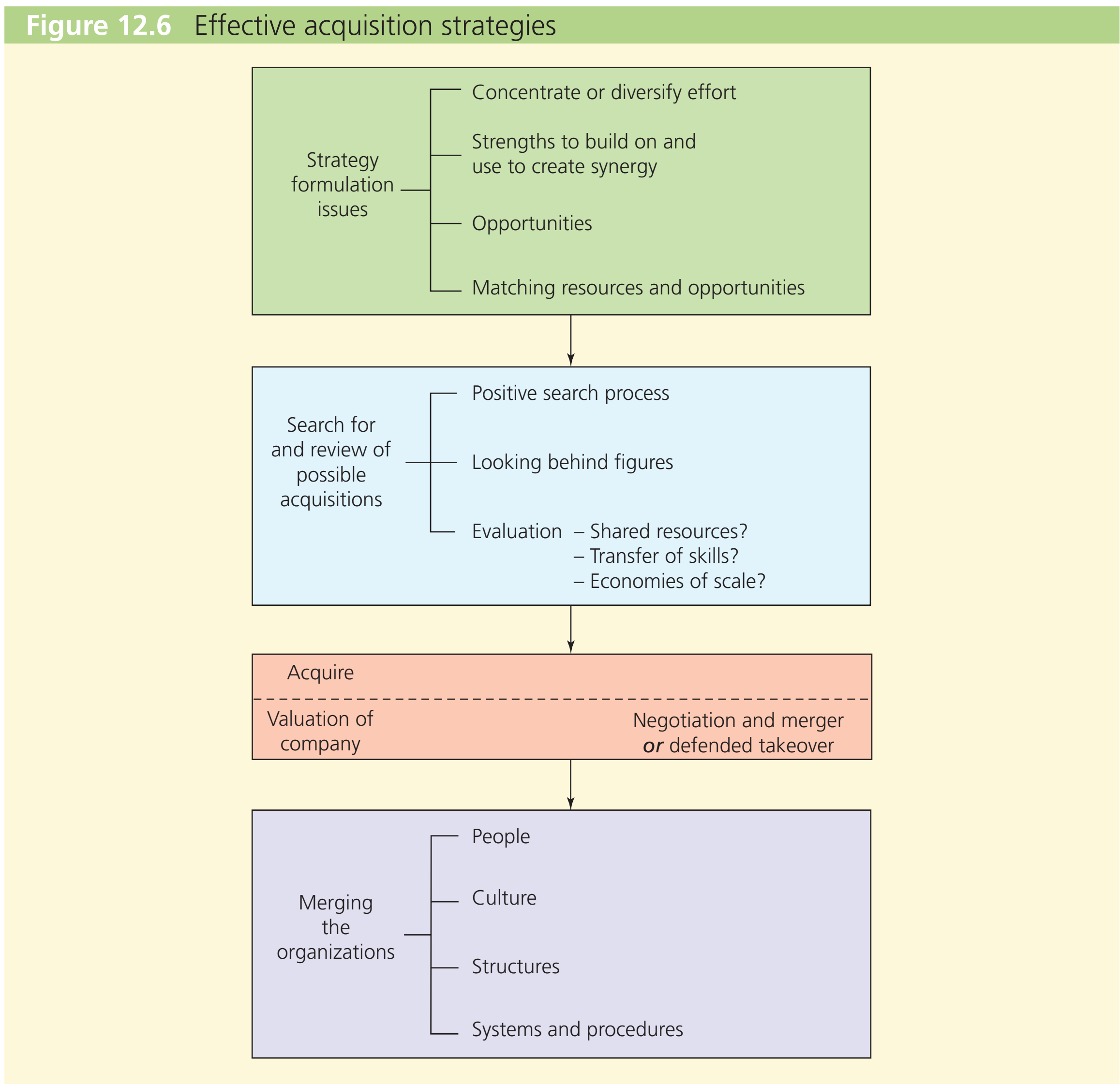
Figure 12.6 Effective acquisition strategies



In terms of *post-acquisition activities*, the nature of the post-acquisition challenge depends on the type of acquisition and the objectives behind it. For any acquiring company to gain financially, sales must be increased and costs reduced to a level which compensates for any price premium paid – which researchers suggest is rarely less than 20 per cent. Merging two organizations involves decisions about the integration of strategic capabilities – in particular, operating resources (sales forces, production facilities), functional skills (product development, research and development) and general management skills (strategy development, financial control, human resource strategies). The strategy for the implementation – ideally developed after the merger or acquisition, when fuller details are available – has three issues.

First, many chief executives and other senior managers leave acquired companies either immediately or within one to two years after the acquisition, especially after hostile takeovers. Second, different cultures must be reconciled. Third, as also addressed in Chapter 14, when companies become larger and more complex, they must be broken down into business units.

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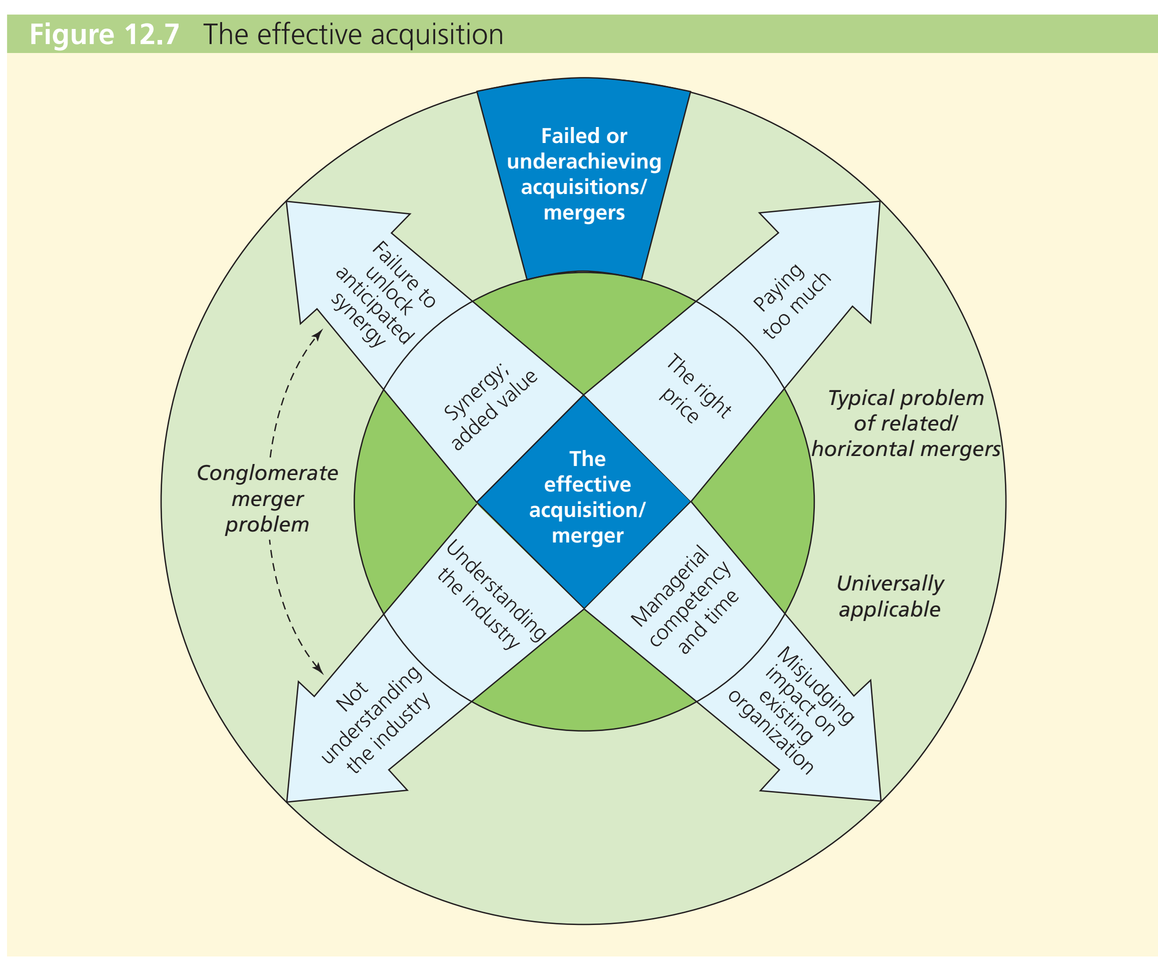
Figure 12.7 The effective acquisition



Case 12.4 Tata and the Acquisition of Jaguar

Int

Tata is India's largest conglomerate, with interests spanning tea, motors, airlines, steel, chemicals, defence, cement, home appliances, telecoms, sport and software consultancy. It is over 140 years old and now has an annual turnover of US$123 billion. It is controlled by three family-run trusts and the CEO until recently was Ratan Tata, who took over from an uncle in 1991. He set about 'modernizing' the conglomerate to 'make it ready for international expansion'. Ratan Tata initially made the group more centralized to bring cohesion to the 90 operating companies around the world. There have since been selective investments – but also disposals – with a general drive to become more international. IT has been developed and used to drive control systems which allow for increasingly decentralized authority.

The international strategy really began to gather pace in 2000.

Tetley Tea, bought in 2001, is part of Tata, as are Daewoo Trucks, NatSteel of Singapore (2004) and Teleglobe, the Bermuda-based wholesale telecoms group bought in 2005. In 2007, Tata paid US$13 billion to acquire the UK's largest steelmaker, Corus. Linked to Corus, Tata was keen to develop iron ore mining in South Africa and Canada in order to extend its control of the supply chain. Steel, of course, is a key material for car manufacture.

In 2007, Tata bought Jaguar and Land Rover from Ford of America. This was an interesting move, given Tata's parallel strategy of developing the so-called People's Car, the Tata Nano – the truly low-priced car discussed in a separate case (Case 6.2). Tata really had no previous experience of luxury brands. There were commentators who expressed the view that they could not understand this move. After all, Tata was more used to building rudimentary trucks for relatively poor roads across India.

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Jaguar was thought to be in need of repositioning – it had lost some of its edge through association with the broader range of less exclusive Ford models. There was a stated belief that Tata would be able to offer Jaguar greater access to investment funding and greater independence than it had enjoyed at Ford.

But would it? When the credit crunch and recession began to bite, car sales fell. But so did steel demand and Tata found itself needing to make major savings at Corus. The conglomerate in the ex-colony that had become a colonizer itself was enquiring about foreign government subsidies to preserve jobs. However, there was a parallel view that the recession would provide a good opportunity for Tata to cut waste and build the core strengths of its businesses.

Another problem was that Ratan Tata was past normal retirement age and 'there was no obvious successor'; he did in fact retire in 2012 and was succeeded by Natarajan Chandrasekaran, the former CEO of Tata Consultancy Services. Despite questions and concerns on the part of some commentators Jaguar has thrived under Tata's ownership. Moreover, in 2012, Tata announced a new joint venture with a Chinese manufacturer – Land Rovers and Range Rovers were to be manufactured in China specifically for the local market. Although Tata has recently sought a buyer for its UK steel business, Corus, Jaguar Land Rover continues to thrive with new models. Jaguar Land Rover has continued to develop popular new Jaguar models, including SUVs but production of new vehicles in the UK has been cut back. However, in 2019, ambitious plans to build new electric models in the UK were announced.

Question

Acquisitions of this nature should add value to the parent organization. At the same time, the parent should add value to the new acquisition. Why do you think this acquisition has turned out to be a 'win–win'?

Strategy in Action 12.1 Valuing a Company

Acquisition of another company constitutes an investment, although one major strategic objective could be to avoid being taken over by another firm. Whatever the strategic reason, the current value of an organization is important. Assuming that we are not talking about a merger (of assets), a company will usually be acquired when another company buys an appropriate percentage of its shares. While the bid price will always be influenced substantially by their current market price in trading, the likely purchase price in both a hostile and a bidding situation (where more than one prospective buyer is in evidence) will reflect a premium. However, the market price at any time may or may not reflect the value of the organization.

Alternative valuation methods

Rule of thumb

A typical rule of thumb valuation of a company would be to multiply the most recent annual profits (or an average of the last few years) by an *x* factor. Relatively small *x*'s will be selected for small companies (which have fewer customers and fewer key people) and service businesses, where it is easier for key people to be lost during or after the acquisition. The *x* factor could vary from 3 up to 13 for large, established manufacturing businesses.

The balance sheet valuation

The balance sheet value of a company is usually taken from the value of the net assets. Divided by the number of ordinary shares issued, this yields the asset value behind every ordinary share and it can, therefore, be useful in assessing what an appropriate bid price for the ordinary shares may be. However, caution is needed because the balance sheet traditionally records historical costs rather than present values, which can be misleading in the case of property. In addition, although some companies do account for this, the value of such intangible assets as brand names is rarely reflected in the balance sheet.

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The market valuation

The market valuation of a company is the number of ordinary shares issued multiplied by their present price plus the inherited debt. This will reflect the likely lowest cost to a buyer, as any bid for shares at a price below their existing price is unlikely to succeed. In reality, the price of shares is likely to increase during the period between when current shareholders realize that a bid is likely, or when one is announced, and when control is finally achieved by the bidder.

The current share price and the asset value of shares should be looked at together.

Earnings potential

Many contend that it is future earnings potential that determines how valuable a company is, not historical results – see, for example, Allen (1988). An analysis of past and current performance is, therefore, limited in its usefulness. In isolation, a high return on capital employed, for example, can hide the reality of an asset base which is declining in real terms. Therefore, we should estimate the future cash flows that the company is capable of generating and discount these by the cost of capital. The current value of the company is determined by this net present value calculation.

The decision to acquire a company, however, will neither be based solely on the discounted future earnings, nor the purchase price; that said, both of these are very important. Future earnings potential for both the acquiring and the acquired companies could be improved with a merger if valuable synergy of some form is derived and, for this potential, a premium price could be justified. To a large extent, the price will often be determined by what improvements to the bottom line the acquiring management believe they can achieve.

A multifactor approach

Consequently, Copeland *et al*. (1990) recommend a five-level valuation approach:

- The first level is the current market value, described above.
- The second level is the earnings potential, the value of the projected cash flow, discounted.
- The third level projects a value once internal improvements have been undertaken. New business processes, for example, could improve the cash flow.
- The fourth level is the value after restructuring, when non-core or poorly performing activities have been sold or divested.
- The fifth level combines level three and four benefits. Significantly, the improvements implied in these three levels may require a fresh management team and style.

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Allen, D. (1988) *Long Term Financial Health: A structure for strategic financial management,* Chartered Institute of Management Accountants (CIMA).

Copeland, T., Kotter, T. and Murrin, J. (1990) *Valuation: Measuring and Managing the Value of Companies,* John Wiley.

In summary, first, the price paid for an acquisition should reflect its acquirer's ability to add value, share resources and transfer skills. Second, its strategy should be soundly based, and the potential synergy real rather than imagined. Third, post-acquisition management should recognize that, while changes must be made to add value, two cultures must be integrated if the strategy is to be implemented effectively. Finally, five factors for implementing acquisitions and mergers successfully are:

1. Tread warily and carry out sufficient analysis – especially where there is a hostile reaction from the target.
2. Evaluate any prospective partner fully, carrying out a culture and style assessment, as well as a financial evaluation.
3. Take on board the best practices from both (all) businesses to increase the prospects for synergy. It is highly unlikely that one partner will have a monopoly on good ideas.
4. Communicate with those people affected to the maximum extent that is expedient.
5. Ensure that key people are identified and stay.

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The role of private equity funds

Private equity funds appear to have become the new conglomerates, as they have sought to acquire struggling businesses (usually as a whole) or buy selected parts of existing businesses that the current owners are happy to divest, put in a new management team (often described as a management buy-in), turn them around and prepare them for flotation. Their logic is to borrow money at competitive rates and seek to earn a handsome return from the flotation in a relatively short period of time. A number of success stories bear out the logic of this approach. The Debenhams Strategy activity (at the end of this chapter) illustrates this, but subsequent events with Debenhams confirm that short-term success may not generate long-term renewal.

However, private equity funders have been criticized and accused of 'job cutting and asset stripping'; this replicates earlier criticisms of acquisitive conglomerates. Although many of the businesses they target are underperforming, analysis by Arnold (2009) of the largest businesses owned by private equity funds at the end of 2007, tracking back to when they had been acquired, suggested that they had created jobs and increased the investment in fixed assets, and had increased productivity and value added, well ahead of the UK average. Although such a study may appear credible, it is nonetheless only one study, and perhaps the jury is still out on the socio-economic contribution of private equity.

To conclude this section, Strategic Reflection 12.2 invites you to consider which points (from this chapter) are relevant in the acquisition of a leading UK manufacturer by a financially driven turnaround specialist.

Strategic Reflection 12.2

The acquisition of GKN by Melrose

Guest, Keen and Nettlefolds (GKN) is an engineering business that can trace its origins to 1759 and the Industrial Revolution; it had itself grown by a series of mergers. It employed some 60,000 people (with 90 per cent of these outside the UK) in 2017, and its main businesses were aerospace (wings, engines and wiring to customers including Airbus), vehicle components (for VW, BMW and Volvo cars and light trucks) and metal powders – along with additives, wheel manufacture and freight services. It was instrumental in building Spitfires during World War II.

Melrose was formed in 2003 to invest in (and turn around ready for sale) troubled manufacturing businesses. Its 15-year record includes McKechnie (mainly aerospace and subsequently sold in two parts), Dynacast (sold), FKI (part sold, part retained) and Elster (metering, and subsequently sold to Honeywell).

In 2018 Melrose was cleared by the UK competition authorities when it bid to acquire GKN, an approach which was eventually backed by 52 per cent of the relevant shareholders. The GKN Board had vigorously opposed the approach and offered to divest the car parts business. They also proposed a merger with a US engineering business, which Melrose described as 'panic-driven strategy'. Profits had fallen steadily over a five-year period. In recent months, the chief executive-in-waiting had resigned following problems with the aerospace business in the United States and a new CEO was appointed.

Some politicians and the relevant trade unions were also opposed to the sale. The multi-billion pound final offer was priced approximately 6 per cent above the current share price. During the bidding period, Melrose was not allowed to carry out due diligence.

Melrose declared that its strategy was 'to keep the company together to improve all of the businesses in GKN, only realising their value once they have reached full potential'. They pledged to invest in research and development and to maintain GKN as a UK business.

Some months later, Melrose – having now completed the due diligence process – reported that it had not found any 'black holes' in the finances. It began to publicize which activities it was hoping to divest. First was the powder metallurgy business, none of which is based in the UK. More significantly, perhaps, given some of the statements that had been made when GKN was opposing the deal, no major customers had walked away. Melrose further announced £500 million of capital expenditure for 2019. It was reported in 2021 that, with hindsight, GKN's previous leading shareholders felt that they had accepted a price below the true value of the business.

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12.4 Strategic alliances and joint ventures

Partnership can be one of the quickest and cheapest ways – but also toughest and riskiest – to grow or develop a new (and perhaps global) strategy. Indeed, how strategic partners are chosen has been researched (Nielsen, 2003), as well as why they are chosen, along with their effects on performance (Pansiri, 2005). The advantages of strategic alliances have been investigated – that is, 'accessing rather than acquiring knowledge', where they can 'contribute to the efficiency in the application of knowledge', and 'by improving the efficiency with which knowledge is integrated into the production of complex goods and services, and second, by increasing the efficiency with which knowledge is utilized' (Grant and Baden-Fuller, 2004). As for SMEs, performance is impacted by 'host country knowledge' and 'size-based resources', with different effects observed from having local partners, depending on size and level of local knowledge (Lu and Beamish, 2004). Many alliances fail, since the needs of both partners must be met and, consequently, the *why,* the *who* and the *how* must be answered satisfactorily: (1) *Why* use an alliance? (2) *Who* to select as a partner? and (3) *How* to implement the agreement?

Many European companies have conceived alliances from a defensive perspective, rather than as a pro-active growth opportunity (Garrette and Dussauge, 1999), or they may be a fall-back position when the competition authorities stand in the way of a merger or acquisition. It is important to note that several successful US and Japanese companies have taken a different view and favoured alliances.

Online Case 12.1 shows how British Airways (BA) has used mergers and alliances, together with proactive and reactive strategies for its alliances, in an ongoing attempt to create the world's first truly global airline.

Although strategy authors are still arguing over the meaning and definition of the terms 'joint venture' and 'strategic alliance', we consider a *strategic alliance* to be all forms of agreement between partners, and a *joint venture* to be those agreements which involve either the establishment of a new, independent company owned jointly by the partners, or the minority ownership of the other party by one or both partners. An example of the latter is Renault and Nissan – details are included in Strategic Reflection 12.1.

The term *consortium* is also used in this context – for example, where companies in an industry generally collaborate or share, perhaps through a trade association. The Japanese *keiretsu* (or family of businesses) is another, quite different example where companies, often in a geographical cluster, own stakes in each other, and share and collaborate wherever possible, perhaps by intertrading or by seconding staff to help with a particular problem or difficulty.

An alliance (or joint venture) could involve:

1. direct competitors, possibly sharing common skills, and with the objective of increased market share
2. less direct competitors with complementary skills, where the intention is more likely to be benchmarking and learning for mutual benefit, and possibly developing new ideas
3. related companies sharing different skills and competencies and, although they may be within the same added value chain (e.g. a manufacturer and either a supplier or a distributor), the alliance should generate synergy through co-operation, innovation and lower costs, while allowing each partner to concentrate on its core competencies.

Thus, companies can increase competitive advantage without either merger or acquisition and, moving from an alliance to a joint venture and from 1 to 3 in the above hierarchy, the significance increases for the partners involved. Some companies will be involved in several alliances with different companies at the same time. For instance, Toshiba has created a global network of allies for different products and technologies (including Alstom, Siemens, Ericsson, General Electric, Motorola, Time Warner and Apple), seeing this 'circle of friends' as an opportunity to share ideas to obtain the latest technology and to gain competitive advantage through learning.

Reasons for joint ventures and strategic alliances include the cost of acquisition being too high, or legislation preventing acquisition (in cases where the larger size is required for critical mass), or political or cultural differences meaning that an alliance is the most likely approach that would facilitate integration. The increasing significance of a total customer service package suggests linkages through the added value

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chain – to secure supplies, customize distribution and control costs – while, at the same time, individual companies may prefer to specialize in those areas where they are most competent. Furthermore, the threat from Japanese competition has driven many competitors, who do not wish to merge, into closer collaboration. Examples include US and European car manufacturers who have taken stakes in Japanese businesses where outright acquisition is unlikely. Covert protectionism in certain markets necessitates a joint venture with a local company, particularly in China, one of the world's fastest growing economies.

The likely outcomes of joint ventures and strategic alliances include increased competency, synergy, a stronger global presence, greater innovation from the pooling and sharing of ideas and competencies, lower costs (through a virtuous circle of learning where each partner learns new skills and competencies from the others) and access to new markets and technologies. In short, an alliance is a means to an end, since it is not necessarily a permanent arrangement, and can be changed as time goes on. Indeed, Connell (1988) contends that companies collaborate strategically for three primary reasons:

1. To gain access to new markets and technologies as markets become increasingly international.
2. To share the costs and risks of increasingly expensive research and development.
3. To manage innovation more effectively, due to high research and development costs and greater globalization which, together, often ensure that any competitive advantage gained from technology is relatively short lived.

Other vehicle examples include: Peugeot and Mitsubishi started working together on the development of motors for electric cars, and Bosch and Samsung formed a 50:50 joint venture to develop, manufacture and sell automotive lithium-ion batteries.

A fourth reason is, arguably, to attempt to regain lost competitiveness in a marketplace – believed to have spawned a series of agreements among European electronics manufacturers, and links between them and Japanese and US competitors.

While there are a number of reasons and justifications for such strategic alliances, they can be difficult strategies to implement effectively, as shown later in the chapter. A strategic alternative for international growth is to build a global network via strategic alliances which has many strategic advantages but can be complex to control and costly in overheads. We have seen how Coca-Cola, based in Atlanta, commands some 50 per cent of the world's soft drinks market and over 40 per cent of the US domestic market. The key success factor is obtaining distribution and access to markets and, because Coca-Cola is mostly water, this aspect of the business is decentralized, while branding and marketing is global and centralized. The strategy is to sell concentrate or syrup to local bottlers, whether independent businesses or joint venture partners. Pricing is based on what can be afforded locally, and a variety of support mechanisms are offered. Coke is frequently promoted with local endorsements, but marketing and advertising feature sponsorship of international sporting events.

Six different forms of strategic alliance and joint venture are illustrated below, which are not mutually exclusive, as some of these cover more than one:

1. Component parts of two or more businesses may be merged.
2. Companies may agree to join forces to develop a new project.
3. Companies may agree to develop a new business jointly.
4. There may be specific agreements between manufacturers and their suppliers.
5. A company may make a strategic investment in another firm.
6. Companies may form international trading partnerships.

Next, we consider some key issues in joint ventures and strategic alliances. Various authors have examined the relative success of alliances and joint ventures. Kanter (1990) suggests that key success factors include: the strategic importance for both partners of the alliance/joint venture; combining complementary (not the same) competencies; open information sharing; and 'genuine' integration, despite cultural differences, which requires trust, and which should have some sort of formal institutional framework, management of which would be a strategic capability. Ohmae's (1989) aspects of effective implementation include: (i) mutual commitment of resources and time to the collaborative arrangement, with the brightest and the best management being moved

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into the alliance or 'seconded'; (ii) mutual benefits which may cause some 'sacrifices' to each partner, rather than any sort of unbalanced partnership; (iii) flexibility to deal with emergent changes throughout the alliance's existence; and (iv) aligning, or resolving, any variations in organizational or national cultures. Alliances enable learning, and a distinction can be made between 'migratory knowledge' – for example, capabilities that can be transmitted in a straightforward manner – and more deeply 'embedded knowledge' (such as trade secrets and expertise), which helps partners to understand new markets (Badaracco, 1991).

As with acquisitions, joint ventures and strategic alliances should be evaluated in terms of their ability to generate synergy and create new value. The strategic wisdom behind the decision to form an alliance in the first place, the choice of partner, and the management of the alliance once it has been agreed are other **critical success factors** (Devlin and Bleackley, 1988). Both partners should improve their position as a result of their alliance and, if synergy truly exists, joint ventures can effectively enable the implementation of strategic change. However, although some of the inherent difficulties of acquisition are avoided by this type of agreement, implementation issues exist which, if not tackled properly, will make the joint venture expensive and tie up resources which could otherwise be deployed more effectively.

Arguably, the world has become too large and the competition too strong for even the largest multinational corporations to do everything independently! Technologies are converging and markets are becoming integrated, making the costs and risks of both product and market development ever greater. Partly as a reaction to, and partly in order to exploit these developments, entrepreneurial management has become more pragmatic about what type of alliance it takes to be successful in global markets.

The emerging business model, especially among technology-centred companies, therefore favours the formation of strategic alliances with suppliers, customers, competitors and companies in other industries. This can take many forms, ranging from informal co-operation to joint ownership of plants and operations.

Dunning's (1980) *Eclectic Paradigm* – sometimes called the OLI framework – explains why firms would choose their international strategy based on:

- *Ownership* – it owns something valuable, such as a trademark or patent, or specific knowledge and/or skills that others do not possess. If this is the only advantage it possesses, then licensing (see below for more detail) is the most logical.
- *Location* – if, and only if, there are further specific potential advantages available – such as direct access to raw materials, low wage opportunities or favourable tax or tariff advantages – then establishing an overseas production facility comes to the fore; this implies foreign direct investment. Of course, where strong location advantages exist, there will sometimes be internal pressure from the government and local businesses to be able to share in the benefits. China, for example, has favoured joint venture arrangements for this reason. There is a recognition that foreign investors have something to offer and something to gain – as has the country.
- *Internalization* – implying that internal transaction costs (the cost of doing something oneself) are lower than the costs if an external party is involved. In this case, producing and then direct exporting now make more sense than licensing – and there may well be a case to invest in a subsidiary exporting business.

12.5 Franchising and licensing

Two other means of growing the organization avoid the risks and pitfalls of acquisitions and joint ventures, but still require relationship building and trust.

Franchising

Franchising takes many forms, providing established businesses with an opportunity for rapid growth and franchisees with a relatively low-risk means of starting a small business with an already established brand

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and an extant market if they have sufficient investment capital. A number of small independent businesses can, therefore, operate as part of a chain and can compete against larger organizations. Service businesses are more common than manufacturing in franchising – Prontaprint printing and copying shops, and the British School of Motoring, plus Subway, Kentucky Fried Chicken, Burger King and Spud-u-Like are all relevant examples. A company which chooses franchising as a means of strategic growth enters into contractual arrangements with a number of small businesses, usually one in each selected geographical area. In return for a lump sum initial investment and ongoing royalties, the typical franchiser provides exclusive rights to supply a product or service under the franchiser's name in a designated area, know-how, equipment, materials, training, advice and national support advertising. This allows the business to grow rapidly in a number of locations without the investment capital which would be required to fund organic growth of the same magnitude. Another advantage for the franchiser is alleviation of the need to develop managers, such that efforts can be concentrated on expanding market share. Effective monitoring and control systems must be established so that franchisees provide the necessary level of quality and service.

Franchising has also enabled a number of prominent companies to open up access to a global market without the financial and other resource implications of acquisition – for example:

1. ***Manufacturer–retailer*** – where the retailer, as franchisee, sells the franchiser's product directly to the public; for example, new motor vehicle dealerships.
2. ***Manufacturer–wholesaler*** – where the franchisee, under licence, manufactures and distributes the franchiser's product; for example, soft drink bottling arrangements.
3. ***Wholesaler–retailer*** – where the retailer, as franchisee, purchases products for retail sale from a franchiser wholesaler – typically a wholesale co-operative set up by the franchisee retailers, who are contractually obliged to purchase from it; for example, hardware and automotive product stores.
4. ***Retailer–retailer*** – where the franchiser markets a service or a product under a common name and standardized system through a network of franchisees.

Companies can expand in a number of ways, and full ownership of new outlets is perhaps the most obvious way forward. However, some organizations decide to follow the franchising route because of the following three key reasons:

1. *Resource scarcity* means that a company needs access to management talent or other knowledge not available to them and, at the same time, may not have a large amount of money to invest in the expansion.
2. *Agency theory* is about the way in which those people who manage the outlet are motivated and monitored. Because franchisees have considerable financial investments at stake, and because they receive profits from the outlet, they are more motivated than managers of company-owned units to work hard to make the franchise profitable.
3. *Risk spreading*, which compensates for the decisions surrounding any expansion, is accomplished through franchising. The investment risk is lowered through franchising compared with joint ventures, which can involve large capital investments and legal complications. Franchising creates sales and brand recognition at a much lower cost. In international expansion, the political risk and the overall risk of failure are primarily borne by the franchisee.

The timescale required by franchising is seen as faster than self-owned expansion, which will often require more monitoring. The process of establishing a chain of franchises increases the knowledge of the franchiser, and the time required for each new outlet is reduced as expertise increases. With experience, the franchiser develops sensitivity to site selection, store layout, procurement and operating policies appropriate to particular environmental settings.

Case 12.5 (Soupah Farm-en-Market) describes a Nigerian business proposing franchising as an opportunity for growth and invites you to consider (and ideally debate) the merits and implications of this idea.

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Case 12.5 Soupah (Farm-en-Market) Nigeria

Soupah is a business to business (B2B) social enterprise that links rural smallholder farms in the Oyo state of Nigeria with local customers (based largely in an urban area) – and thus provides these farmers with a route-to-market which would otherwise be difficult for many of them to organize individually. It makes extensive use of technology to balance and link supply and demand. Soupah also provides a degree of food processing within this supply chain. Farmers benefit with more reliable control over their selling and marketing; customers benefit with easier access to fresh produce.

The business is based and concentrated in Ibadan – the third largest city in Nigeria. The population of the city is 3.5 million, with 6 million in the wider metropolitan area. Soupah started as a university entrepreneurship project that proved to be a real opportunity for its founder, Ifeoluwa Olatayo. She began initially by buying ingredients and cooking 'home food' on campus and then selling and delivering meals to fellow students. She won funding to expand the idea – and started to acquire harvested products from farmers which she (often) collected, sorted, washed, pasteurized and packed before she sold these on to her student customers. This time they had to do the cooking. This venture again succeeded and she subsequently opened four retail outlets on or close to her university in Ibadan, thus expanding her customer base significantly. She soon had 12 full-time and 4 part-time employees. During the COVID-19 pandemic, she started home deliveries (with her 'drivers' using bicycles) and also offered food lockers when customers were happy to collect their own orders at a time when it was most convenient for them. The (fresh) products available included: fruits, vegetables, grains, pulses, spices and herbs – and some sea foods – with everything affected by seasonality.

The success of Soupah has encouraged her to seek further 'grant' funding, largely from open competitions – now international competitions – to expand the venture further. She has proposed developing a franchise opportunity. Independent 'agripreneurs' (in exchange for an investment) would be provided with mobile technology, expertise and everything needed to open a packing house, including a solar-powered cold store, plus appropriate vehicular transport for moving products between the farm, the business, independent retailers as appropriate and final customers. Ifeoluwa believes both specialist retailers and general grocery stores would be relevant target customers.

Questions

1. How would you summarize the basic business model of (the original) Soupah?
2. Can the core business based around Ibadan University be expanded in a serious way? What would limit its prospects?
3. Do you support Ifeoluwa Olatayo's belief that a franchise model would be an ideal way to grow this business and reach a wider clientele? How difficult do you think it might be for her to organize all the resources she is promising to provide – and what might easily go wrong?
4. Should this franchising opportunity succeed in Nigeria, could you see the next step being a transfer to other African countries – and, if so, what would the new implications be?
5. Revisit the introduction to this chapter and apply the growth tests suggested by Hashemi and Hashemi.

Licensing

Licensing involves a company being allowed to manufacture a patent-protected product or service – designed by someone else, possibly in a different country. Examples include Pilkington (which patented float glass then licensed its production throughout the world and established world leadership, but could not have afforded to

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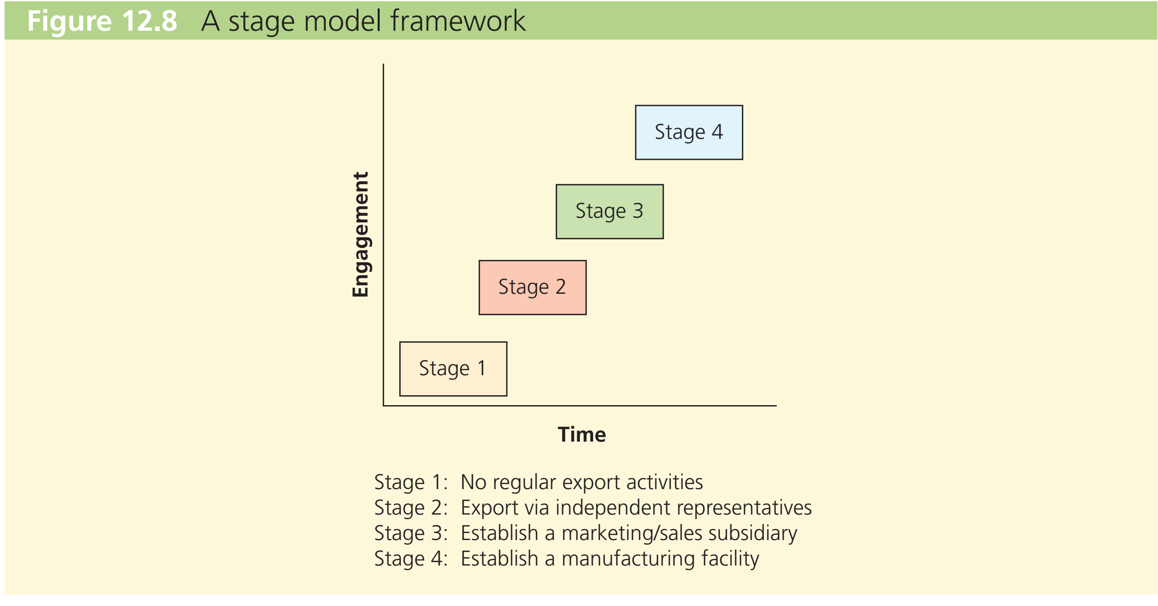
establish production plants around the world) - Pilkington is now a subsidiary of Nippon Sheet Glass of Japan - and Mary Quant (a designer of cosmetics, tights, footwear, beds and bed linen, who never manufactured the products she designed, as they were all licensed and some were marketed under the Quant name and some under the manufacturer's name). Licensing also provides an ideal opportunity for the owners of valuable **intellectual capital** to earn revenues from their knowledge-based resource without having to invest in manufacturing. Many leading pharmaceutical companies license production rights of certain drugs once their patents have expired and retail prices (and profits) are likely to fall. One argument in favour of licensing has been that production and labour relations problems are avoided, enabling the business to focus on its expertise and competitive advantage.

In an international context, licensing involves agreements providing unilateral technology access (frequently through patents) to a licensee in return for a fee. Cross-licensing is a bilateral form of licensing where companies usually swap packages of patents either to avoid patent infringements or to exchange existing, codified technological knowledge.

12.6 Exporting and other international market entry strategies

While frameworks based on various stages, such as the one featured in Figure 12.8, build on the premise that internationalization is a process which develops over time and consists of a number of phases, the models are influenced by *psychic distance*, the tendency for those people involved in first-time exporting to trade with countries with which they feel comfortable culturally, and **geographic proximity**, where initial exporting will take place to countries nearby. Criticisms of stage models include that they are ill-equipped to consider companies that engage in rapid and more direct forms of internationalization. Further, the implied sequential process is not inevitable, and there is evidence of companies moving backward and forwards, or even jumping stages, within the model. Evidence of rapid internationalization by high-technology products, whose window of opportunity on the world market can be quite limited, has further added to the criticism.

Figure 12.8 A stage model framework



Online Case 12.6, Volkswagen, illustrates this theory in practice. This theory has survived for as long as it has because nothing better has come along, and the model remains intuitively appealing to our search for order and neat explanations in the chaos of the international environment. However, while elements of the model may provide useful insights to our understanding, the stages approach can no longer be accepted as the best explanation of the internationalization process. Simply, there is no 'one-size-fits-all' approach that can deal with the inherent complexity.

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Selecting international markets in which to operate is a crucial element of international activity. Any company will have a number of broad strategic choices to address, including whether a domestic export-based strategy or a production-based strategy in the host country is more appropriate. The host country may only welcome the exporter if it involves a presence in the host market. Such a presence will require a commitment, at the very least, to international marketing or to a production plant, unlike a pure domestic export-based strategy. For many years, China required joint venture arrangements with a local Chinese company as a condition of market entry. Under such a strategy, the responsibility could be devolved to the intermediary used.

Table 12.4 shows that there are a number of ways to classify the options open to companies, and that no single method is correct or perfect.

Table 12.4 Options for direct entry

Agents	Generate customers for products on a commission basis	Exporter's control is high but the method involves close management if market coverage is to be achieved
Distributors	Take title of goods and earn a profit from the mark-up Handle local distribution and marketing	Low level of initial control but offers rapid coverage
Direct selling	Supply direct to customers who order through catalogues, online or through trade fairs	Potentially high level of control but lack of country presence may limit penetration
Sales office	Exporter's own personnel actively target customers Office handles all sales functions	Country presence helps develop sales but coverage may not be sufficient for larger markets such as the United States
Subsidiary	Dedicated sales and operations may range from assemblage to locally sourced manufacturing	High potential control but coverage can be limited

Few companies have the management resources, experience or financial resources to launch products globally and, therefore, the choice of market entry options is more restricted for smaller and newer companies. Neither can management be prescriptive about the method of entry chosen: different international markets require different solutions!

In understanding market entry decisions, there is trade-off between having a high level of control set against the cost of achieving this status. Most writers on this subject make the distinction between indirect and direct modes of entry, which have different levels of foreign (or direct) investment available for overseas expansion. For example, a new firm or a firm new to exporting, may, for financial reasons, choose to use domestic intermediaries to respond to unsolicited orders. As these types of orders grow in number and regularity, the company may then choose to appoint a representative in-country who will be given the task of actively seeking new orders.

Case 12.6, Li Ning Sportswear, looks at domestic and international themes. A substantial proportion of the manufactured goods bought around the world are 'Made in China' and other countries in the Far East - but the brands of the businesses frequently remain 'Western'. It seems seriously challenging for Far Eastern companies to become globalized.

Case 12.6 Li Ning Sportswear — China

The Li Ning Sportswear company was first established in 1989 by Li Ning, one of the outstanding Chinese athletes of the twentieth century. At the 23rd Olympic Games in Los Angeles, Li Ning won three gold medals, two silver medals and one bronze medal. As a gymnast, he won over 106 medals in various competitions over a career in sport that lasted 17 years. Li Ning retired in 1989 and, by 1990, he had founded the Li Ning Sportswear business. In August 1990, Li Ning Sportswear was selected to provide the designated clothing for the

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Chinese delegation at the 11th Asian Games and, in 1992, for the 25th Olympic Games in Barcelona.

Encouraged by this success, Li Ning was cross-listed in the Hong Kong Stock Exchange in 2004 and was the first Chinese sports goods business to achieve this. Throughout this period, Li Ning had been trying to succeed in international markets. He set up within Li Ning Sportswear an international trade department and signed agreements with European distributors; he also hired designers of sportswear and equipment in Italy and France. The company was represented at European Trade Fairs in major cities such as Munich. All of this activity failed to help the business reach its overall target of sales of RMB1 billion. The brand simply had not taken off outside China. It appeared that European markets were not ready for a Chinese sportswear business competing head on with adidas, Nike and other multinational brands - although it can rival the sales of these brands within China.

During this period, when the focus of the company was on developing its international trade, the domestic market had become extremely competitive. Li Ning Sportswear then decided to concentrate on the domestic market in order to achieve the original sales objective set by the founder – that of sales of RMB1 billion. 'To some extent China is the world', Li Ning commented. At this point, international sales were less than 2 per cent of total sales.

However, Li Ning did not give up on his quest to create an international business. In part, this was driven by the corresponding success of adidas and Nike in the Chinese market where, from 2004, they took advantage of the booming Chinese sports goods market to open two stores a day in the major cities. The Chinese brands such as Li Ning and Anta faced the real possibility of being relegated to second-tier businesses. To combat this, Li Ning decided to combine the Chinese oriental elements of design into the sportswear, in order to differentiate the business; he also decided to invest heavily in technology-based research and development for the company's sportswear and equipment. At the same time, he adopted the 'best of overseas management practices' in terms of IT, stock control and marketing. European companies were hired to install and implement the management systems needed.

Li Ning had started to sponsor foreign sports groups in 2001. Between 2001 and 2006, this was stepped up and, in 2006, Li Ning successfully sponsored the French gymnastics team, and became the designated supplier for the Spanish male and female gymnastics and basketball teams. At the same time, Li Ning was investing in the home market with major new stores in Beijing and Shanghai.

Li Ning was now perceived to be a real success story inside and outside China. This was highlighted in 2008 when, at the Beijing Olympic Games, Li Ning himself flew across the stadium to light the Olympic torch. This fitted in with the company's slogan of 'Anything is Possible'.

Following on from this, in March 2009, Li Ning signed a major sponsorship agreement worth US$7.5 million over five years with Elena Isinbayeva, the double Olympic gymnastics champion at the Beijing games. Elena was to become the international face of Li Ning as it sought to combine what they believed was the unique combination of oriental style with advanced technological developments in sportswear and equipment. The aim now was to make Li Ning into one of the top five world sports brands at some point between 2013 and 2018. There was still a long way to go for this to be achieved. Revenue reached RMB9.5 billion in 2010 (95 per cent of the target) – but this fell to below RMB9 billion in 2011, when earnings also halved. Slower industry growth, increased competition and increased costs were all cited as contributing causes. By 2020, Li Ning's turnover had reached RMB14.5 billion, of which RMB6.5 billion came from footwear; 30 per cent was online. But most of this was still earned in China.

Clearly, for a business solely based in China, becoming a truly international brand is a major challenge.

Li Ning **www.lining.com**

Questions

1. Research the Li Ning business. What can you learn from this in terms of how the business has developed?
2. What steps might be needed for Li Ning to be a truly international business?

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According to McAuley (2001), '**indirect . . . exporting** is often referred to as passive exporting or as being a result of an "export pull" effect, since people outside the company stimulate the activity', suggesting that the strategies that came under this category are 'responding to unsolicited or chance orders'. For some companies, such unsolicited orders are their first introduction to international markets, which may stimulate them to explore the feasibility of exporting more seriously, as the stage models would suggest. It does have that advantage of being new, unexpected business which illustrates that there are potential, as yet unreached, customers in the world, and it involves no product adaptation costs or promotion costs. The downside of this approach is that the company:

> *is not geared up for exporting, and therefore there are relatively high costs involved because of the learning curve which has to be gone through. For example, a one-off distribution channel will be relatively expensive as no economies of scale are available. The potential benefits of this initial involvement depend on the company's medium-term response to the unsolicited order.*
>
> McAuley (2001)

The **direct entry** approach involves finding and appointing in-country representatives, usually in the form of agents or distributors – an active form of exporting which relies on in-country intermediaries. Inevitably, the commitment and investment required are greater than those for direct exporting, but the rewards are potentially greater. The options involved are as shown in Table 12.5. While agents and distributors are the most common form of entry by newer growth firms, this form of representation requires management and control.

Table 12.5 Classification of modes of market entry

Indirect market entry	Strategies without foreign investment
• Unsolicited orders • Domestic-based intermediaries Courier/express services Export management companies Export houses Trading companies Piggybacking Brokers Jobbers	• Licensing • Franchising • Management contracts
Direct market entry	**Strategies with foreign investment**
Domestic-based intermediaries • Freight forwarders • Consortium exporting • Export department Foreign-based intermediaries • Agents • Distributors	• Marketing subsidiary • Manufacturing subsidiary • Joint ventures Joint equity venture Contractual joint venture

A limitation of working through an intermediary is that a firm will not own its distribution network or its customers within a foreign market, and the exporter can be starved of information on market trends and competitor activities, which an intermediary may control. In fast-moving markets, or with products at the early stages of growth, access to information can be crucial to gaining entry – hence, licensing and joint ventures are more common methods of entry for technology-based businesses.

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Agents and distributors will usually seek exclusivity for a territory. The difference between an agent and a distributor is that the distributor will, as would a foreign customer, be placing orders, holding stock and accepting responsibility for the sale of goods. Despite best intentions, a growth business with a limited track record and product innovation is less likely to attract a distributor who is willing to hold stock. Agency agreements are, initially, the more common form of entry, and most agreements are set out between sole agents, rather than the larger multi-channel agency that is more likely to deal with public limited companies.

An agent for whom the company's business is significant should be found, such that they will provide adequate support and prioritize the products among the range they represent and promote. At the same time, no agent will willingly expose themselves to the risk of being supplanted by a branch of the company's own sales organization. Exclusivity is usually central to negotiations for the agency agreement, but many unsuspecting firms give away too much territory to a single agency.

In market situations where there is slow growth for the company's product in an otherwise high-growth market, the agent concerned may either be overstretched or may be the wrong agent; they may be someone for whom the products and the business are insignificant, or have a low priority. On the other hand, high-market growth can create pressures within the company to take over the territory or replace the agent; this may often require compensating the agent handsomely, especially where local legislation exists to protect their position. Elsewhere, the company may wish to expand its product line, or else diversify into a quite different product – but, if the local agent is unable to meet this new expansion but still holds a company agreement to exclusivity of sales territory, then contracts will need renegotiating or terminating.

These factors may explain why finding an agent is comparatively easy when entering a new market, but finding one that is right for the company is extremely difficult. An agent is usually paid commission only on sales, so loyalty rests purely on the company currently providing them with the greatest earnings – which may be problematic, since agents may represent a number of separate companies and product lines. Meanwhile, the company holds responsibility for whatever unsold inventory is held by the agent.

12.7 Internationalization constraints and influences on future global growth

Not all companies are in a position to take advantage of all the international opportunities which may present themselves and, indeed, not all opportunities will even be recognized by the decision-makers in the company. Morgan and Katsikeas (1997) identified four barriers that explain why business owners are discouraged from participating in international business:

1. An insufficient pool of resources can create strategic obstacles.
2. A firm's cost base and margins can lead to operational (and logistical) obstacles.
3. A lack of fit between a firm's strategy and its environment may result in limited knowledge of market opportunities, creating informational obstacles.
4. A firm may be unable to maintain necessary interactions with key parties because of limited resources leading to process-based obstacles.

Not all companies wish to become internationally active for a variety of reasons, which can be associated with the personal characteristics of the strategic leader or founding entrepreneur. This is particularly the case in smaller companies, who may find it difficult to delegate responsibility, or who have reached the 'comfort level' and do not wish to expand the business. While outsiders may wish to see growth in a frustratingly under-achieving company, one must not force change on such a company. As well as what may be termed these 'softer' constraints, the more traditional ones relate to worries about resources (mainly finance and people), time available, market uncertainties, marketing costs, payment terms, exchange rates, the cost of insurance, information shortages, political uncertainties and cultural differences.

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Any firm faces many decisions in its attempt to internationalize its activities and must decide what volume of trade is desirable, how many countries to market in and which countries to select. The degree of market attractiveness will be influenced by a number of factors related to geographic, demographic, economic, technological and sociocultural characteristics. Once it has evaluated the relative attractiveness of the potential markets in relation to the company's product/service, a company should be better placed to select those markets where the 'fit' is apparently best. For each business, the selection of entry mode will then be linked to their international strategy which, in turn, is influenced by motives and constraints – for example, the use of export or international production strategies, the use of intermediaries, or how much control over marketing activities the business wishes to retain. There will also be issues regarding expected payback on the investment, the degree of flexibility required and how the strategy fits with broader business objectives. All of these issues prepare the way for one of the dominant decisions of the internationalization process: the mode of market entry decision. Clearly, the constraints on internationalization can act as barriers to the initiation of international activity, as well as affecting the process of international business by influencing the choice of market entry.

The future potential internationalization opportunities are influenced by the interaction of external and internal forces – for example, when pressure built for a return to the Doha Development Round, which is the trade negotiation forum for the World Trade Organization (WTO), aiming to lower global trade barriers. Discussions started in November 2001 in Qatar but stalled in 2008 and progress remains uncertain. Global trends include the creation of enterprises based on the knowledge-based economy, such that firms must be aware of opportunities and be prepared to take advantage of windows of opportunity as they open – just as relevant for **small- and medium-sized enterprises** (**SMEs**) as for the multinational. Decades of constant progress in ICT (Information & Communications Technology) have triggered a complex pattern of change in international business relationships, providing the process of globalization with new tools and infrastructures with which entrepreneurial companies capture global opportunities. Unlike previous transformations, the international economy now encompasses global consumers who have local tastes, preferences and servicing requirements.

Specialization and individualization of products lead to shorter production cycles which, in turn, increase the investment and costs of research and development, production and sales. As a counter-balance to this trend, ICT has dramatically improved the speed, quantity and quality of communication – and, especially, the co-ordination of economic actions and transactions. In this respect, ICT can be viewed as an enabler and, at the same time, as a driving force towards the virtual organization. A key objective of a virtual company is to improve its flexibility, which is needed to meet the fast-changing market conditions. In order to decrease complexity and increase flexibility, companies seek to create, nurture and exploit relevant core competencies. This strategy means that companies concentrate on what they can do best – specializing in certain areas, developing and constantly improving their core competencies.

However, as we pointed out in Chapter 5, a core competence on its own does not create any value; therefore, companies have to search internationally for value chains where they can integrate their core competencies. Those core competencies are then flexibly configured in different value chains whereby those value chains are made of many different core competencies provided by different economic actors, which leads theoretically to an optimum value creation process.

The emergence and development of virtual organizations are being forced by changing market conditions – in particular, the increased requirement to offer specialized products, to reduce the time to market process, the increased international competition (globalization) and the requirement to satisfy individual customer needs to which organizations have to respond. Some commentators expect multinationals to be losers in this world order. Others anticipate that the large global companies will form strategic alliances with the small technology innovators and, between them, they will have the capability to squeeze out the existing market leaders. This process of change offers an increasing number of opportunities for entrepreneurial firms that are knowledge based and willing to play on the global stage.

Finally, firms involved in internationalization must be concerned with the quest for 'global' sustainability, defined as 'the ability to meet the needs of the present without compromising the ability of future generations to meet their needs' (Peng, 2009) – for example, through Fair Trade and other ethical practices.

We conclude this chapter with Case 12.7 (*The Michelin Guide*) which provides an opportunity to consider the relevance of the various themes we have discussed for one particular organization.

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Case 12.7 The Michelin Guide — France, Int

The Michelin Guide began life in 1900 when the (French) Michelin Tyre company started producing a free give-away guide for its customers. The guide provided information on where motorists (in France) could find car repairers, fuel and rooms for an overnight stay.

A restaurant section was added in the 1920s and then, in the 1930s, the Michelin brothers started to employ independent restaurant inspectors who provided reviews and recommendations, rather than a simple listing. From the outset, the inspectors were anonymous and they always paid for their meals.

By 2013 – when the CEO of Michelin, now the second largest manufacturer of tyres in the world, was reviewing the strategic logic of the *Guide* – it had become an international benchmark of restaurant quality. In 2014, the movie *The Hundred Foot Journey* was based around the desire to move from one to two stars.

Every restaurant listed was awarded one, two or three stars:

- One star signifies 'very good food'; two stars means 'food worthy of a detour on a journey'; while the ultimate three stars implies 'a meal worthy of making the trip in the first place'.
- While it is the restaurant's service as a whole that is given the star(s), the award is often seen as an endorsement of the chef; their status is enhanced.
- Some 2,600 stars were awarded to restaurants in Europe, the United States and the Far East – with almost half of these going to restaurants in France and Japan. The list following shows the leading 10 countries (in order of three-star restaurants, the first figure) and the total stars awarded (the second figure):

	Country	Three-star	Total stars
1	Japan	28	695
2	France	27	596
3	Germany	10	255
4	America	10	127
5	Italy	7	307
6	Spain	7	148
7	UK	4	145
8	Hong Kong	4	58
9	Belgium	3	107
10	Netherlands	2	101

- A paper version of the *Guide* (a book) was sold in 23 countries, with local prices varying from 15 to 25 euros.
- There are online versions and a Michelin app that helps customers find restaurants in various countries.
- Other guides were becoming more competitive, such as the *World's 50 Best Restaurants* – produced by Nestlé and linked to its San Pellegrino brand.
- Online websites such as Trip Advisor carry reviews and recommendations that many customers find useful, even though the *status* of the *Michelin Guide* is not threatened in any way by such rivalry.

The basic problem for Michelin was one of justifying the *Guide*, given that the revenue it generated did not cover its costs. There was a quantifiable value to the Michelin (tyre) brand to factor in, but, even so, the *Guide* did not metaphorically 'wash its face'.

Questions

Use the themes discussed in the chapter to suggest:

1. How Michelin may create more value for customers from the *Guide* – with the assumption that more value could lead to either (or both) more sales or a higher price.
2. Whether it may be possible to add more value and generate more value from restaurants; those featured are able to pay Michelin for a superior display within the *Guide* but not their review or ranking.
3. Whether greater international coverage may make sense – and, if so, how this may be engineered.
4. Whether there should be greater emphasis on online versions, rather than physical guides – and, again, how this may be engineered.

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This case really asks you to reflect on the perceived value (by customers) of paid-for reviews from an objective process conducted by independent reviewers. Is the number of people willing to pay for such reviews likely to increase or decrease in the future? Are the reviews seen as largely 'informative' or are they used directly for a decision choice? Various websites now offer customer reviews of hotels and restaurants, but these are often linked to a process where the sites hosting the reviews are looking to sell something for a commission. But how much faith do we (and should we) place in these customer reviews? Think: on a scale of 1 to 10, how 'honest' do I believe these online reviews are? And, of course, there are many online endorsements from bloggers and the like, many of whom are receiving direct payments for what they say. Again, are they truly objective?

Research Snapshot 12.1

Some authors have argued the case for **organic** rather than **acquisitive growth** (Lockett *et al*., 2011). O'Regan and Ghobadian (2012) interviewed the chairman of John Lewis Partnership to exemplify the use of logical incrementalism as an organic growth strategy in an employee-owned firm. More general studies of strategic growth have also been published, e.g. on 'unintentional' growth strategies (Titus *et al*., 2011), 'real options theory' (Trigeorgis and Reuer, 2017), resources (Nason and Wiklund, 2018), and internationalization (Kyläheiko *et al*., 2011; Mathews *et al*., 2016). New theories have been offered by recent articles, such as an 'attention-based view' of firm growth, which is underpinned by whether managers are paying close attention to growth, based on the example of Motorola (Joseph and Wilson, 2018). Others build on established theories, such as Barney's resource-based view of resources being valuable, rare, inimitable, and non-substitutable, and Penrose seeing resources as 'versatile', and find more evidence of higher growth in studies of the latter perspective than with the former (Nason and Wiklund, 2018).

Additionally, scholars have specifically researched growth in new ventures and SMEs (Barbero *et al*., 2011; Bradley *et al*., 2011; Clarysse *et al*., 2011; Hagen *et al*., 2012; Phillips *et al*., 2013; Wright and Stigliani, 2013; Brouthers *et al*., 2014; Larrañeta *et al*., 2014; Obeng *et al.*, 2014; Pe'er *et al*., 2016; Rodríguez and Nieto, 2016; Brown *et al*., 2017; Poblette, 2018; Cosenz and Bivona, 2020; Tsuruta, 2020), especially with regard to finance for high-growth and less growth-oriented small firms including equity crowdfunding and other sources (Brown *et al.* 2018, 2019; Brown and Lee, 2019) or international growth (D'Angelo and Presutti, 2019; Scuotto *et al.* 2020). As Pe'er *et al*. (2016: 541) emphasize, a key constraint being their size, i.e. the cause of the 'high failure rates of de novo entrants being liability of smallness'. However, Urbano *et al.* (2019) emphasize the potential high growth of more innovative, export-oriented SMEs based on new technologies. Scholars have thus researched, empirically and in detail, the relationship between diversification and firm performance – whether growth, profitability or other measures (George and Kabir, 2012; Hashai and Delios, 2012; Alessandri and Seth, 2014; Coad and Guenther, 2014; Chen *et al*., 2014; Kim *et al*., 2015; Castaldi and Giarratana, 2018; Gu *et al*., 2018; Garrido-Prada *et al*., 2018: Schommer *et al.*, 2019; Sohl *et al.*, 2020). The effects upon diversification on other measures have also been researched, for example: adding value (Hautz *et al*., 2014; Lien and Li, 2013; Mackey and Barney, 2013); achieving survival (Patel *et al*., 2018); enhancing innovation (Orlando *et al*., 2018; Statsenko and de Zubielqui, 2020); or entry into new markets after spin-off from another company (Xie *et al*., 2016). Additional studies that have researched diversification have considered this strategic growth mode in an international context (Hautz *et al*., 2014; Mayer *et al*., 2014; Sanchez-Bueno and Usero, 2014; Sharapov *et al.*, 2021; Singh *et al*., 2018; Wang *et al*., 2018). The latter three studies focus particularly on 'business group affiliation' and defined as: 'an economic coordination mechanism in which legally independent companies (bounded together with formal and informal ties) utilize the collaborative arrangements to enhance their collective economic welfare' (Colpan and Hikino, 2010, p. 17) in the Indian, Chinese and European contexts, respectively. Finally, Anjos and Fracassi (2015) investigated the role of information in networks of industries for different types of diversified conglomerates.

Ferreira *et al*. (2014) reviewed over 300 research articles on mergers and acquisitions (M&As) – which highlights that this Research Snapshot is only the tip of the iceberg – and summarized the key findings of this research topic over 30 years. Other more recent articles have revealed the motives of acquisitions, i.e. how the target is selected, in related industries across international borders (Lim and Lee, 2016) and assessing the outcomes of the merger (Hassan *et al.*, 2018), as well as the selection of the acquisition target being based on 'resource similarity and complementarity' (Yu *et al*., 2016).

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Furthermore, authors have also studied the performance effects of M&As (e.g. Gomes *et al*., 2013; Arvanitis and Stucki 2014; Ahammad *et al*., 2016; Cho *et al*., 2016; Trichterborn *et al*., 2016; Bettinazzi and Zollo, 2017; Huang *et al*., 2017; Popli *et al*., 2017; Rozen-Bakher, 2018; Wei and Clegg, 2018), with the latter also addressing business group affiliation (as above) in Indian firms. Issues of quality assurance are important – for example for retailers, in acquisitions because of the nature of the supply chain (Xiao *et al.*, 2020). Social and cultural issues that have been examined (e.g. Vaara *et al*., 2012; Stahl *et al*., 2013; Ahammad *et al*., 2016; Brueller *et al.*, 2018) have included aspects of human resources or, indeed, the different cultures of organizations and varied nations in which M&As take place. For example, while much research focuses on acquisitions and mergers that take place nationally (within borders), there are important aspects when they are cross-border such as timing within a so-called 'merger wave'; shareholder value; and scandals leading to controversial acquisitions being abandoned, respectively (Fuad and Gaur, 2019; Maas *et al.*, 2019; Yapici and Hudson, 2020). The role of strategic resources has been specifically examined (Yu *et al*., 2016; including vis-à-vis performance: Popli *et al*., 2017; Wei and Clegg, 2018), as has the process by which Chinese multinationals acquire strategic assets in Western countries by utilizing M&A strategies (Zheng *et al*., 2016). Another relatively fascinating avenue related to the decision-making process of M&As relates to 'celebrity' (Cho *et al*., 2016) or 'superstar' (Shi *et al*., 2017) chief executive officers (CEOs), with the former investigating risk-taking by acquisitive firms and the variations in the premia that they pay for acquired firms, and the latter revealing that award-winning 'superstar' CEOs' competitors react to the awards by increasing the number of acquisitions. Different institutional logics (see Thornton and Ocasio, 1999) also influence M&A target decision-making, e.g. in Chinese firms where there is a tension between communism/state ownership and the Western free market economy (Greve and Man Zhang, 2017), and furthermore that mergers between public and private sector organizations lead to changes in their institutional logics (Thelisson *et al*., 2018). Following from the people aspect discussed earlier, other research has examined how learning occurs in M&As (Yang *et al*., 2011; Nadolska and Barkema, 2014), as well as the churn of top managers as a result of M&A (Krug *et al*., 2014), and also the apparent effect of the gender of board directors (i.e. whether they are men or women) upon 'acquisition intensity' (Chen *et al*., 2016). An additional aspect of M&As that has been researched is the role of innovation – for example, exploration and exploitation (Phene *et al*., 2012; Stettner and Lavie, 2014), M&As in emerging economies (Lebedev *et al*., 2014; Zheng *et al*., 2016; Greve and Man Zhang, 2017; Chen *et al*., 2018) and, more specifically, in an international context (Riad *et al*., 2012; Bandick *et al*., 2014; Kling *et al*., 2014; Lim and Lee, 2016; Wei and Clegg, 2018), offer a number of relevant and fascinating articles that students may find of particular interest.

Enabling us to dovetail with inter-firm collaboration as a growth strategy, the choice between acquisition or strategic alliance has been contrasted (McCann *et al*., 2015) or, indeed, the choice between acquisition or joint venture (Reuer and Ragozzino, 2012). For a comprehensive introduction to strategic alliances, see Link and Antonelli (2016) and for extensive reviews, see Gomes *et al*. (2016). In line with some of the themes from other strategic growth modes, in relation to strategic alliances, authors have examined alliance capabilities (Lioukas *et al*., 2016; Kohtamäki *et al*., 2018; O'Dwyer and Gilmore, 2018; Robson *et al.*, 2019), the role of innovation (Gulati *et al*., 2012; Haeussler *et al*., 2012; Hohberger *et al*., 2015; Vendrell-Herrero *et al*., 2018), entrepreneurial orientation (Brouthers *et al*., 2014; Jiang *et al*., 2016b; Eshima and Anderson, 2017), learning and knowledge (Yaprak, 2011; Khamseh *et al.*, 2017; Subramanian *et al.*, 2018), exploration and exploitation (Yamakawa *et al.*, 2011), resources available from networks within alliances (Aggarwal, 2020), and trust including partner trustworthiness (Jiang *et al*., 2016a; Krishnan *et al*., 2016; Panico, 2017). Business model innovation is an important aspect of strategic alliances (Spieth *et al.*, 2021), including collaborative business models (de Man and Luvison, 2019). Finally, the benefits or firm performance effects of alliances stem from various factors, which researchers have explored, including the balance between competition and collaboration (Arslan, 2018), on the one hand, which suggests the advantage of selective co-opetition (see Chapter 2), and, on the other, horizontal versus vertical alliances which can lead to greater systems integration by the B2B alliance partners in, for example, the automotive industry (Geleilate *et al.*, 2021).

From an international perspective, building on extant research on international strategic alliances (e.g. De Jong, 2015; Politte *et al*., 2015; Lojacono *et al*., 2017; Weaver, 2017; Goerzen, 2018; Pesch and Bouncken, 2018), the importance of national culture when establishing strategic alliances cannot be overestimated (López-Duarte *et al*., 2016), neither can cultural diversity in terms of innovation performance (Elia *et al.*, 2019).

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Various studies have examined international joint ventures in China (for example, Li *et al.*, 2011; Chang *et al.*, 2013; Yao *et al.*, 2013; Park, 2011; Shi *et al.*, 2014; Jin *et al.*, 2016; Shu *et al.*, 2017; Howell, 2018), specifically China-Africa JVs (Ado *et al.*, 2017); India (Dhir *et al.*, 2013); and Brazil (Meschi *et al.*, 2017). Although much of the recent research has focused on international joint ventures (in addition to those reviewed above, see also Chung and Beamish, 2012; Liu *et al.*, 2015; Park and Harris, 2014), other studies have explored some other interesting aspects, such as joint ventures' interaction with networks (Polidiro *et al.*, 2011; Shijaku *et al.*, 2020), and the role of cultural distance (López-Duarte and Vidal-Suárez, 2013).

This further reading, drawing together the 'state of the art' of recent research on the various strategic growth modes (both domestic and international), will help students to develop their perception and critical awareness of strategic growth and its modes, and also to highlight developing thinking.

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Summary

Periodically, organizations must make decisions about how focused and how diversified they wish to be. Horizontal integration, such as acquiring or merging with a competitor, will engender critical mass but may be restrained by the relevant competition authorities. Diversification can be into related or unrelated businesses, or vertically forwards or backwards in the supply chain. Unrelated diversification is invariably high risk, but it may be justified or chosen because of the weakness of the present businesses, existing businesses having strengths and competencies that could be exploited in other industries, or the ambitions of the strategic leader.

Where a company does choose to diversify, it is more likely to implement this strategy through acquisition (friendly purchase), merger (bringing together the assets of two businesses) or takeover (hostile purchase) than through organic growth. The companies that succeed with this strategy follow a number of simple rules: they carefully target their acquisitions; learn from previous experiences and become 'professional acquirers'; avoid paying too high a premium; adopt an appropriate post-acquisition structure and style, and ensure that the businesses are integrated effectively; and, corporately, they add value.

Strategic alliances and joint ventures (a stronger type of alliance where shares are exchanged, or an independent company is set up) provide an alternative to an acquisition or merger. While they are designed to deliver synergy, cost savings and access to either technology or markets, they will have implementation challenges.

The Japanese, in particular, have developed real capabilities in alliance management, while many Western companies have looked on them from a more defensive perspective. For example, they are an alternative when an acquisition is not feasible for whatever reason, with the three main reasons lying behind this strategy being to gain access to new markets and technologies, to share expensive research and development costs, and to manage innovation more effectively.

There are six particular, and overlapping, forms of alliance and joint venture:

1. the merging of component parts of two or more businesses
2. companies joining forces to develop a new project
3. companies joining forces to develop a new business together
4. agreements between partners in the same supply chain
5. where companies purchase a stake in another business for strategic, rather than purely financial, reasons
6. international trading partnerships.

Strategic alliances can also be very significant in developing internationally.

For alliances and joint ventures to work successfully, commitment from all parties is required. Everyone must appreciate that they can benefit and commit accordingly. Trust, sharing and collaboration become essential, even though different cultures and languages may be involved.

Franchising and licensing can sometimes provide valuable means of growing. The risks are different but the capital required is considerably less.

Franchising is an approach used by many companies to develop internationally, which can allow for controlled investment and more limited resource implications.

All strategic options can have an international dimension – ranging from exporting, to a global corporation where products are manufactured in various places around the world and then marketed globally as appropriate. Some companies will 'go global' with existing products and services they market overseas – others will tailor complete strategies for local markets – and the motivation to do so can be organization driven, or driven by environmental opportunities. The deciding factors can thus be push or pull and involve either a proactive or reactive stance.

The key issues in developing an international strategy concern products, markets, entry considerations and timing. The main considerations are marketing (the global and multi-domestic approaches), finance, structure, location (where to produce in relation to market opportunities) and culture (which differs between countries).

There are a number of market entry opportunities, although sometimes there will be a given element which acts as a constraint. Entry into a market can be either direct or indirect, and it may or may not require foreign investment and/or exporting. Good overseas agents (a crucial element of the direct approach) are

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worth their weight in gold, but it is all too easy to appoint the wrong agent.

Constraints thus limit opportunities – here, resources, costs and knowledge may be relevant – and the ability to gain market access will always be critical.

Some companies will deliberately avoid the risks and uncertainty associated with internationalization. Finally, we discussed a number of constraints and outlined a selection of possible future influences on international growth.

Online cases for this chapter

Online Case 12.1: British Airways
Online Case 12.2: Asda–MFI

This case was originally written to illustrate the three tests described earlier in 'the search for, and review of, possible acquisitions'. The anticipated synergy was not achieved. Asda, of course, is now owned by Walmart. MFI went into administration in December 2008 and all of its branches closed.

Online Case 12.3: Daimler-Chrysler
Online Case 12.4: Delta-Northwest
Online Case 12.5: Ford-General Motors
Online Case 12.6: Volkswagen
Online Case 12.7: Matsushita and Canon
Online Case 12.8: Tesco
Online Case 12.9: Constellation Wines
Online Case 12.10: Yorkshire Water's Onion Strategy
Online Case 12.11: Fred DeLuca and Subway

Questions and research assignments

1. From the various points and issues discussed in this chapter, list the possible advantages and disadvantages of diversification and acquisition strategies; and, from your experience, list one successful and one unsuccessful example of this strategy. Why have you selected these particular cases?
2. What are the key arguments for and against strategies of unrelated diversification and focus? Again, from your own experience, list examples of each.
3. What exactly is the difference between a strategic alliance and a joint venture? Can you provide examples of each, in addition to those included in the text?
4. Do you agree with the view that, if they are established and managed carefully, strong alliances can provide all the benefits of an acquisition or merger without most of the drawbacks?
5. Revisiting Chapter 8, for each of the following strategic alternatives, list why you think an organization may select this particular strategy as a means of international growth. What would they expect to gain, and where are the problems and limitations? If you can, think of an example of each one from your own experience:
   - market development
   - product development
   - innovation
   - horizontal integration
   - vertical integration
   - concentric diversification
   - conglomerate diversification.
6. What are the relative advantages and disadvantages of direct market entry as opposed to indirect entry strategies?
7. What are the essential differences between an export, an international and a global organization?

Internet and library projects

1. Obtain statistics on either a selection of large companies which interest you, or the 20 largest companies in the UK, and:
   - ascertain the extent to which they are diversified and classify them as either single, dominant, related or conglomerate product companies

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- determine their relative size in relation to their competitors in America, Japan and Europe.

2. In 2003, Cadbury Schweppes became more diversified – albeit relatedly – when it acquired Adams Confectionery, a leading manufacturer of chewing gum. We can see in Online Case 8.9 that Mars had considered buying Adams – and that it eventually bought Wrigley instead. Was this a justifiable move by Cadbury Schweppes? Why? Why not? Has it turned out to be a successful strategy? Did it force the hand of Mars? Who owns Cadbury Schweppes now?
3. Take any well-known Japanese manufacturer – such as Toshiba or Sony – and determine how many alliances and joint ventures they have, and what they are designed to contribute strategically.
4. Using actual examples as your base point, could the high-technology things we currently take for granted – such as mobile phones, personal computers and the internet – have been developed to the stage they have if companies had worked in isolation? Has the co-operation approach been more sensible and realistic than a series of cross-border mergers?
5. Take any leading investment by private equity funders and explore the impact of the intervention. Depending on your personal interests, you could, for example, choose from Fitness First, Madame Tussauds, National Car Parks or Travelodge.
6. Consider the most appropriate strategy for a UK-based company with international ambitions in the following industries (assume that your choice could be implemented):
   - men's fashion
   - real ale
   - baby clothes
   - ladies' handbags.
7. For an organization of your choice, trace the changes of international strategy and strategic direction over a period of time. Relate these changes to any changes in strategic leadership, structure and, wherever possible, culture.
8. Abrakebabra became the Republic of Ireland's premier fast food chain. It grew rapidly in Ireland through franchising. Can you ascertain why? Before the company got into difficulties, it opted not to develop internationally (apart from in the UK) but, instead, developed other franchises. Was this strategy sensible?

   Abrakebabra **www.abrakebabra.com**
9. Find two businesses that have grown internationally through franchising, one a product business and the other a service business. Compare and contrast their development. To what extent are they similar and to what extent do they differ?

Strategy activity

Debenhams

The hostile acquisition of Debenhams department stores by Burtons – which later changed its own name to Arcadia – took place in 1985. Debenhams was then owned by Burton for 12 years, until 1997, before it was demerged as an independent company with a separate listing on the Stock Exchange. It was generally acknowledged that it had not been able to prosper as part of the larger group. At this time, sales exceeded £1 billion from the 92 stores. The managing director in-post at the time, Terry Green, stayed on until 2000, when he left to run BHS (British Home Stores).

Belinda Earl was then promoted to the top job. At the age of 38, she had extensive experience in 'trading' but was less experienced in the property and financial aspects. Her strategy was focused on improving customer service and introducing a wider, more differentiated product range. The ranges would not be the same in every store; she wanted the individual units to be as flexible as possible and able to respond to regional taste variations. She also wanted to increase the number of stores to 150 – but gradually, over a period of time. She also opted to join Barclaycard, BP and Sainsbury's in the Nectar loyalty card scheme.

Prices were reduced in 2001 and 2002 to boost sales; by 2002, turnover had risen to £1.7 billion. Pre-tax profits were £150 million. Many analysts believed Debenhams was being set up for sale.

In 2003, two prospective external buyers came on the scene. Both were venture capitalists, anxious to buy a successful business. First to bid was Permira, once called Schroder Ventures. It offered 425 pence per share, valuing the business at £1.54 billion. Permira were experienced in these deals, having bought Homebase from Sainsbury's

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before strengthening it for sale onto Great Universal Stores (GUS). In two years, Permira had generated a cash return of six times its original investment. Belinda Earl and her Finance Director were given permission by the Debenham's board to co-operate fully; and it was assumed that, if Permira were successful, Earl would stay on as managing director and as a substantial shareholder.

The alternative bidder was CVC Capital Partners in association with Texas Pacific Group. They bid 455 pence per share, valuing the business at £1.65 billion. Some independent non-executive directors on the Debenhams board backed them, but it was clear CVC would not be retaining Belinda Earl if they succeeded. CVC was successful and they installed a new management team. In charge was Rob Templeman, who was currently the chairman of Halfords, which CVC had bought from Boots. He had also been in charge of Permira's turnaround of Homebase after its purchase from Sainsbury's.

The business changed hands in December 2003. The CVC buy-in team had four main planks to its strategy: improve cash management; cut costs; increase top-line sales – the new target audience was to be young females interested in fashion; and better supply chain management. Templeman commented that Debenhams 'is a good business with a good brand – but we think we can do it better'. Head office staffing levels were soon reduced and supply chain costs saved through inventory reductions of £50 million, coupled with an increased stock turnover. The number of suppliers was reduced. Stores were remortgaged and bonds issued to replace expensive debt capital. Prices for some slow-moving items were slashed to clear stocks. By mid-2004, sales were running some 5.5 per cent ahead of 2003 levels; profits were up by around 14 per cent. Five new outlets were planned for 2005. New overseas suppliers were being targeted. It seemed only a matter of time before Debenhams followed Halfords and Homebase as a sale or flotation business in a relatively short space of time.

The initial public offering took place in 2006. When this was complete, the business had generated well over £1 billion for the new investors. The company was being valued at around £3 billion. Templeman stayed on as CEO after the flotation. CVC and Texas Pacific still held (smaller) stakes.

Some of the new Debenhams early success had coincided with problems at M&S, but, and similar to John Lewis, this business started to improve its performance. Moreover, key staff left Debenhams for other retailers. The share price fell in 2007 and there was a series of profit warnings. Capital expenditure for new stores and refurbishments would have to be curtailed, which would hit performance further. The question was: *Could Templeman be as effective at building new value as he was at cost-cutting and retrenchment?*

Christmas trading at the end of 2007 was also disappointing – although Debenhams was not alone in this; in 2008, the share price continued to fall. At the beginning of the year, Angela Spindler joined the business from Asda, where she had been in charge of the George clothing range. She had the title managing director and was being talked about as a future CEO. But she left before completing 12 months. Under Templeman, the trading position of Debenhams continued to fluctuate.

When Principles, the fashion chain that was owned by collapsed Icelandic investor Baugur, went into administration in 2009, Debenhams took on the in-store concessions it already had. High-street Principles stores closed. Debenhams was able to acquire the name and any stock it wanted. Debenhams also announced plans to open more stores. However, the shares slumped due to worries over the debt pile.

In June 2009, CVC Capital Partners made its exit. Texas Pacific remained involved, reiterating its confidence in the business and its management team. That said, the Debenhams debt burden still stood at £925 million.

The debt level proved unsustainable and in 2019 Debenhams was placed into administration. Following a short-lived CVA with its landlords, Debenhams finally closed its doors in 2020.

Refer also to the earlier Case 4.7 on high street retailing.

Question

Clearly when strategic leaders fail, their replacement by someone capable of turning around the business can be justified. But Belinda Earl was successful. In whose interests is a management buy-in along the lines described here?

Project

By using the internet, try to ascertain what benefits accrued from this change of ownership and management. Can you see ways in which they may have created new value for customers? What then went wrong causing Debenhams to eventually close down?

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Chapter 13

Failure, consolidation and recovery strategies

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- in the context of strategic break points **(Section 13.1)**
- identify the four possible outcomes of strategic change when companies are in difficulties **(Section 13.2)**
- define corporate decline and failure, and identify their main symptoms and causes **(Section 13.3)**
- describe and discuss strategies related to retrenchment, turnaround, divestment, management buy-outs and buy-ins, and the implementation issues involved **(Section 13.4)**
- summarize the possible strategies for individual competitors in declining industries **(Section 13.5).**

13.1 Strategic break points

The 'strategic life' of any organization depends on decisions, adjustments when opportunities are spotted and responses to threats. The question, therefore, is how good is an organization's track record over time? Companies (and their strategic leaders) benefit from 'good decisions' and are likely to be affected adversely by poor choices. They metaphorically prosper or suffer. Over a period of time (and a series of decisions), they end up better off or worse off, financially and strategically. Even if, at the end of a time period, they appear to be 'on an even keel', they are likely to have seen movements up and down. We refer to these decisions as break points. **Resilient companies are good at managing their strategic break points through a series of decisions.**

A strategic break point, then, happens when a business makes a clear strategic decision that affects either what it does (directional change) or how it does things (operational changes). A new product or entry into a new market – or conversely dropping a product from the range or exiting a market – are examples of directional change, as would be, at a higher level, mergers and divestments. Any significant innovation in an operational or functional area would also constitute a break point. Break points may be 'forced' through circumstances – where a perceived threat element is in play, always accepting the potential threat might be made into an opportunity – or freely decided upon as an opportunity. In every case, there is a risk as the outcomes will be uncertain.

Figures 13.1(a) and (b) represent that, in the best-case scenario, there will be a successful outcome with real benefits perceived. We can discuss what we mean by real benefits in terms of, for example, value created or profits. In the worst-case scenario, there will be a perception that the wrong decision and action were taken – if the choice turns out to be a 'disaster', then it is conceivable the organization will move into a failure state. In between these three delineation points are various possibilities. There is always likely to be a perception of under-achievement by some observers, even when progress is made. If the organization's levels of success continue on (roughly) the same level after the break point, then we could argue there is some degree of success if it was dealing with a genuine threat. But if it was chasing a growth opportunity rather than a threat, then the quality of the decision would need to be seen differently.

Examples of strategic break points might be summarized as follows:

- the need to act because a particular stage of a product/service life cycle is reached
- fashion changes, supply issues or other (similar) external circumstances
- competitive forces and declining fortunes
- an investment opportunity in some new, relevant technology
- changes in strategic leadership – newcomers with fresh ideas and aspirations
- a desire to grow the organization, maybe driven by financial investors
- a desire to change the structural heartland of the business by merger or divestment.

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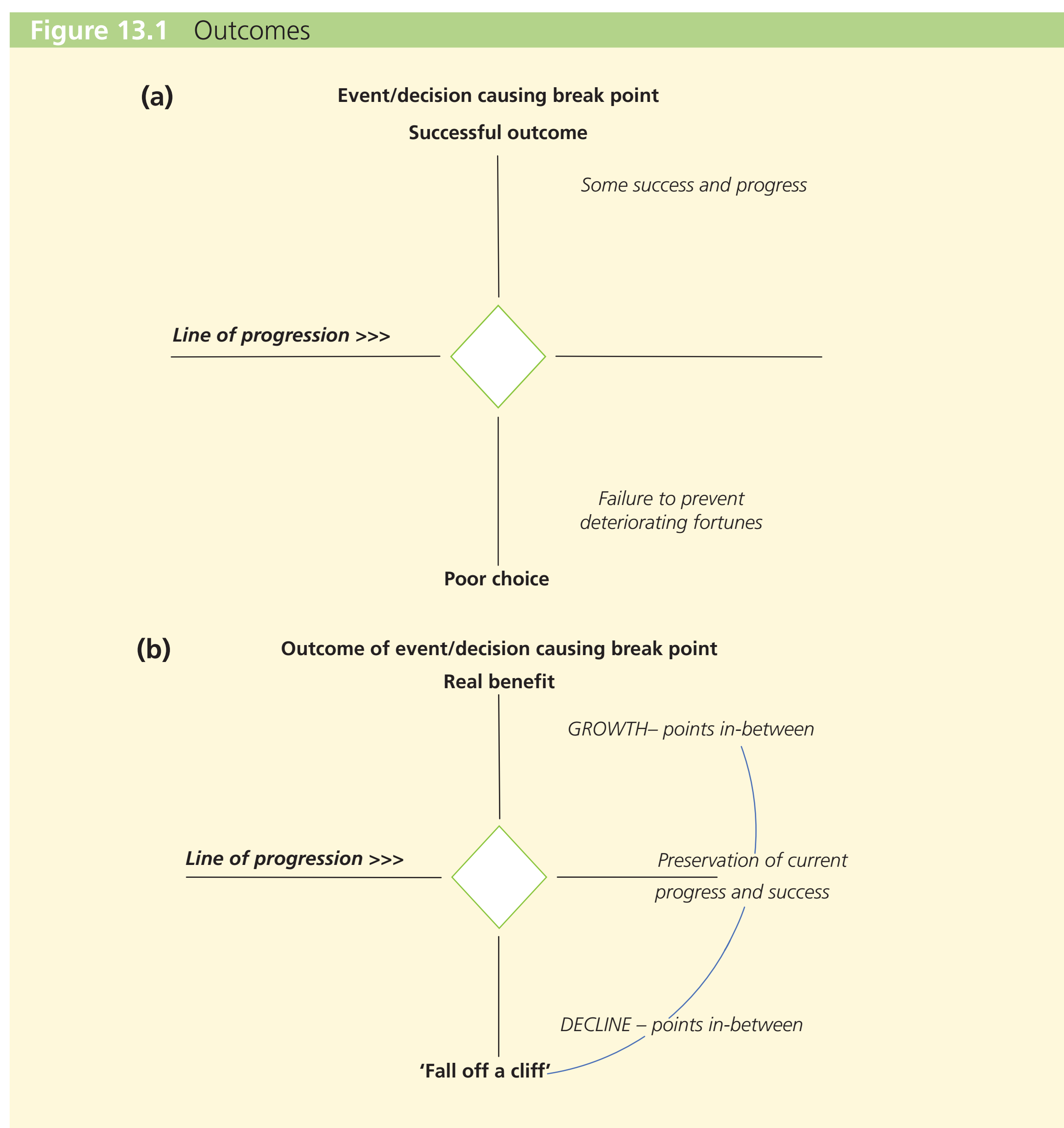
Break points are inevitable in the history and progress of an organization; how well they are dealt with comes down to the quality of the decision itself and the way everything is handled. This 'how well' determines whether the organization grows and/or flourishes or declines. Over time the organization is likely to experience several growth and decline tracks or flows; progress will almost certainly not be linear.

Figure 13.1 Outcomes



For this reason, we can graphically present strategic break points as being similar to a game of Snakes and Ladders. Over time, fortunes rise and fall along the lines of the chart shown in Figure 13.2. Here we see three (perceived) good decisions followed by some poor ones, such that over time the organization has declined. A stabilizing decision followed by a good one simply restores the situation to where it started. The pattern of moves up and down will tell us a great deal about how well the organization has been run and has performed over a period of time. By digging deeper, we can learn a great deal about what the organization has been doing well and not doing well.

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Figure 13.2 Time patterns

			4			
			5	6		
	2	3		7		
1				8		11
				9	10	
	Good decision	*OK decision*	*Very good decision – followed by poorer decision*	*A stabilizing decision followed by a series of three poor decisions,*	*Another stabilizing decision*	*A good decision to restore where the business was*

1→2	*Good decision*
2→3	*OK decision*
3→4	*Very good decision*
4→5	*Poorer decision*
5→6	*OK, stabilizing decision*
6→7	*Poor decision*
7→8	*Poor decision*
8→9	*Poor decision*
9→10	*Re-stabilizing, but at a lower level than the past stable position*
10→11	*Good decision, restoring where the business was at the start*

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Strategic batting averages

Assuming we have access to sufficient data, we can therefore further examine the progress of any organization over time in respect of how various strategic break points were handled. We could, although we would be generalizing, compare organizations and key strategic leaders in terms of their '**strategic batting averages**' over a period of time. Here we would need to create some sort of acceptable scoring system for the outcomes of the break points we identify. In doing this we really ought to factor in the background, relevance and significance of each strategic break point. Was it a forced or necessary change? Was there 'every reason to change' or no real need? Was it well supported or forced through with opposition? How well were the circumstances and alternatives understood? How was each strategic decision reached and executed? Real success demands a strong strategic choice and effective implementation. Therefore, there are four broad outcomes:

1. a good choice, based on clear insight, well timed and well executed
2. a good, defensible idea but not necessarily a well-timed action and relatively poorly executed
3. a less defensible idea, but one that is managed and executed to deliver some positive outcomes
4. a relatively poor idea followed by, possibly inevitably, poor execution.

To summarize, we would be arguing that organizations that manage their break points well over time, even though the pattern may show inconsistencies, are likely to be seen as more resilient to change pressures and opportunities. This is accepting that we could also do this analysis using the strategic leader rather than the organization as the basis for investigation. There are qualitative and quantitative assessments to consider. An organization's performance might look relatively disappointing, but setting this alongside the fortunes of its most identifiable competitors, might tell a quite different story. There will always be unanswered questions. What would have happened if the organization had not taken certain actions when it did? Would alternative choices have led to better or poorer performance?

We examine strategic resilience in greater depth in Chapter 17.

This chapter now focuses on the challenges facing those organizations that are metaphorically finding too many snakes and not enough ladders – they are dropping down the performance board.

13.2 Outcomes of strategic change for companies in difficulty

Ultimate business failure implying closure or liquidation – where the organization has failed to satisfy certain key stakeholders, has ceased to be financially viable, and is beyond turning around by new management – happens with many small businesses; it also happens with much larger and established organizations. However, at least some part of a larger organization can potentially be rescued. A business that is in crisis, where radical **strategic changes** are required, also represents a failure of strategic management, even if (with sound **retrenchment** and turnaround strategies) the business can be rescued: mistakes have been made, either poor judgement or relative inactivity in the face of a need to change. If a business, or a part of a business, is sold because it is unprofitable, it may represent failure by the current management team. Although commonly assumed that the business has a stronger future in different hands, all divestments of this nature do not imply failure, but rather may be because of poor strategic fit and perhaps a past misjudgement. Hence, our study of failure concerns why the performance of a business can sink to a crisis level which demands drastic remedial action, or sale, or closure – or, arguably, under-performance and under-achievement (against potential) may be a form of failure.

Like Chapter 12, this chapter discusses strategy with a relatively intellectual approach and presents research-driven theory on the causes of organizational decline and failure, together with conventional approaches for dealing with these setbacks. In practice, of course, every case will be different in some way, and whatever happens will depend on people and the decisions they take. Some individuals, with particular interventions, will on occasions show that 'the inevitable can be avoided' – but these examples will not undermine the basic arguments.

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Many of the key references are somewhat dated to reflect when the relevant research was carried out. Today's treatment of strategy will sometimes present a different terminology – as we increasingly focus on value, and the ability (or inability) of organizations to create and deliver value for customers and do so with a profit or surplus. Again, this treatment amounts to nuances and not necessarily new knowledge or theory. Dealing with setbacks requires intervention. Sometimes this intervention comes in the form of a new owner who is financially motivated to acquire a business, turn it round and then sell it once new approaches to customer and financial value creation have been demonstrated. We have discussed this type of intervention in the previous chapter and we include it again here.

Entrepreneurial learning after business failure can be impeded by the process of 'grief recovery' – with grief being defined as 'a negative emotional response interfering with the ability to learn from the events surrounding that loss', but this process can actually enhance such learning by implementing certain tactics (Shepherd, 2003). Delayed failure hampers recovery, suggesting 'anticipatory grief as a mechanism for reducing the level of grief triggered by the failure event, which reduces the emotional costs of business failure' (Shepherd *et al.*, 2009). Indeed, entrepreneurs cope with failure in particular ways (Singh *et al.*, 2007). Hayward *et al.* (2006) have found that entrepreneurs who are overconfident (what they term hubris) may fail because they are overambitious. As this book has discussed elsewhere, they may be unconsciously incompetent.

Failure can sometimes be a reflection of the unconscious competence we explained in Chapter 1 when we first introduced E–V–R congruence. It was certainly relevant for UK banks before the financial crash of 2008 – and some people fear it explains the difficulties some business schools have faced in recent years. It happens when organizations grow complacent in a favourable environment and take a 'here and now' perspective. When organizations start to fall back in such circumstances, they ideally need people who have experienced dealing with setbacks and recessions in their past. As we will discuss further in Chapter 15, there are always economic cycles with good and bad years; what organizations need to spot is when there might be significant and unusual disruption ahead.

Poor strategic leadership, insufficient control of the essential aspects of financial management and the failure to be competitive are key causes of corporate decline and failure. For example, in Case 13.1, Jinan Sanzhu failed because, *inter alia*, it grew very quickly and executives 'took their eye off the ball'.

Alongside this case, Strategy in Action 13.1 looks at an 'organization' (that was really a business, albeit an unusual business) that fell foul of the law and had to cease trading and close down. At one level, both the business and its entrepreneurial owner were succeeding, but cash flow difficulties encouraged 'the wrong decision', which was discovered when an unexpected event drew what might be seen as unwelcome attention.

At any given time, certain industries will provide attractive growth prospects for those companies who already compete in them, and for potential newcomers. Concomitantly, other industries will be in terminal decline either slowly (where profitable opportunities may still exist for those companies that can relate best to changing market needs), or rapidly (where prospects are likely to be very limited), or undergoing significant change where adaptable companies can survive and grow. Shipbuilding is a good example. There has been a migration to yards in the Far East, while some (but certainly not all) European yards have thrived by switching to building modern cruise ships by adapting to, and exploiting, changes in lifestyle holiday patterns and demographics (the population's age profile).

Any recovery is influenced by improved marketing effectiveness, competitiveness and revenue; and also by managing the organization more efficiently in order to reduce costs. Where these changes prove inadequate, more drastic strategic change is necessary: retrenchment – that is, changes in functional strategies that increase revenue and reduce costs by concentrating and consolidating, or **turnaround** – that is, changes in competitive strategies frequently featuring repositioning for competitive advantage. Retrenchment and turnaround strategies are often collectively called *recovery strategies*, while **divestment** occurs when part of an organization, which is diverting resources which could be used more effectively, is sold. Sometimes this happens just to raise money. These all result in changes to the company's corporate strategy.

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Case 13.1 Jinan Sanzhu Group — China

The Jinan Sanzhu Group was founded in 1993 by Bingxin Wu. He started the business with the equivalent of £20,000 (RMB300,000). By 1996, the turnover of the Sanzhu Group had reached RMB8 billion. The basic product of the business was a health food drink which was claimed both to prolong life and to cure a range of diseases. The founder of the business, Mr Wu, was a self-made man who, after the death of his parents and six brothers, had been forced to feed and clothe himself from an early age. He had successfully built up his first business before he was struck down with a serious illness. Fortunately, he recovered and it was this brush with cancer that led him to set up another venture selling the health food drink. Mr Wu is very typical of the kind of self-made Chinese entrepreneur who, after starting a business from humble beginnings, is able to create a large business by sheer force of their personality and power within the business.

The company grew rapidly, setting up 2,000 offices throughout China and with a salesforce of 150,000 people, recruited mainly as agents. The advertisements for the product implied that it could cure a range of diseases; within three years the company was selling 0.4 billion bottles of the product per annum. During its period of success, the Jinan Sanzhu Group diversified very rapidly – entering a range of business sectors including medicine, bio-engineering, chemical and cosmetics industries. However, in 1996, a man called Boshun Chen died suddenly at the age of 60 in Hunan province. His family suspected that the Jinan Sanzhu health product had caused the death of Mr Chen. The event received widespread media publicity throughout China and, within a few months, the turnover of the company rapidly declined. A lawsuit was also lost in 1998 and the army of sales agents built up by the group quickly dropped away. Most of the existing health products of the business were now worthless and two modern factories set up to manufacture the product were closed. Unlike many sophisticated multinational businesses, the Jinan Sanzhu Group was unable to make effective use of the media to defend the product so as to retain the loyalty of their customers. Within five years of start-up, the Jinan Sanzhu Group had failed.

Question

What are the classic management problems that a careful reading of the Jinan Sanzhu Group situation can identify?

Strategy in Action 13.1 Molly Bloom

This is a story of an entrepreneurial lady who saw and seized an opportunity, but was effectively brought down by her own ambitions – but also, and perhaps more so, by the singular ambitions and greed of others she was dealing with. In the end, her financial problems pushed her into illegal activity to try to rescue a cash flow situation – which had consequences. But she has found a way to bounce back, a characteristic of many entrepreneurs.

Molly Bloom was born into a successful family in 1978. A university graduate, she had reached 'Number Three' status as a US skier, and had hopes for Olympic success, when an accident in 1999 cut short that career. Moving to Los Angeles (LA), she became a bar worker in a Hollywood night club before – in 2004 – becoming the host and organizer (for the night club) of up-market high stakes poker games in that club. *Unlike other 'casino card games', the house does not have a stake in poker games* per se. *The house cannot win and take the pot. Dealers deal cards; they do not play a hand in the game itself. The winner (of the game) takes the whole pot. Poker is, of course, a serious game with an annual world championship.*

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The game she hosted in LA attracted, among other Hollywood celebrities, Leonardo DiCaprio, Ben Affleck, Tobey Maguire and Matt Damon. Stakes of up to ('an insane') US$250,000 in a single hand/game would not be regarded as extraordinary. Bloom's reward came in the form of generous tips. However, a few years after she started, she fell out with one of the regular celebrity players and felt she needed to leave LA. With hindsight, she said she had realized that, for some of those involved, this business was a serious business and not just recreation. Relocating to New York, she saw an opportunity to host similar poker games targeted mainly at wealthy Wall Street bankers and other financial dealers, this time in private hotel suites. The stakes here were actually considerably higher than they had been in LA. A key issue she faced this time around was that she owned the game, as such, and therefore she had to act as 'banker'. It was her business. Players used chips they had bought to be in the game – or, more realistically, typically acquired on credit. This situation meant she had to underwrite any delayed repayments and any bad debts. Although not losing money on the games, the (very considerable) amount she was able to earn from pay-to-play money and tips proved inadequate to fund the cash flow she needed. *This cash flow difficulty mimics a key problem faced by many organizations in all fields of activity.* To cover this difficulty, she started to demand and to take a percentage of the pot. The problem – this arrangement was illegal. But none of her regulars objected. Things continued 'happily' for a few years, until 2013.

But there were other difficulties. Some would say, not unexpectedly, her high stakes games attracted people involved in organized crime. We might reflect that too much money was involved for such people not to see opportunities.

However, her real problem came some years later when the FBI started to investigate the activities of one financier whom they believed was running a Ponzi scheme on Wall Street. *Typically, built on lies, a Ponzi is a form of fraud where people invest in the success of a non-existent enterprise, persuaded by the promise of quick returns to the first investors, with these returns to come from money invested by later investors.* They 'stumbled across her poker games' and wondered whether she might personally be benefitting from the proceeds of organized crime. Naturally, some very large sums of money were moving through the business.

Charged by the FBI and facing lengthy imprisonment if convicted, she agreed to plead guilty to lesser charges. She was fined US$1,000 – although she had to write off US$125,000 that she was owed by debtors involved in the poker games. She also had to serve 200 hours of community service over 12 months. She avoided imprisonment. That said, having earned considerable amounts (estimated at US$4 million per year) but also living an extremely lavish lifestyle (you might argue to present the appropriate image for the organizer of high stakes poker games), she was now 'cash poor'.

She set out to redeem herself by writing about her story – a popular and successful true crime book that soon became a leading movie. She also offered mentoring to other female entrepreneurs and became a motivational speaker.

In the end, it is left to each of us to decide whether Molly Bloom, as an entrepreneur, should be seen as a success or a failure. Her poker games were fundamentally successful for the players, but perhaps too successful for their organizer.

Reference

Bloom, M. (2014) *Molly's Game: From Hollywood's Elite to Wall Street Billionaires' Boy's Club – My High Stakes Adventure*, Harper Collins.

Businesses succeed when a number of elements are in place – in particular, a sound business and revenue model where there is real demand and an opportunity to earn revenues in excess of costs, a solid cash flow, good relationships with customers and strong relationships with employees. Basically (and simply), it is building value – both customer value and financial value in the form of a profit or surplus. These themes are particularly relevant when times are tough – such as in a recession or pandemic – and point the way to understanding what business should look to achieve and protect at all times.

Arguably, a company is failing when it does not meet objectives set by its stakeholders, or if it produces outputs that are considered undesirable by those associated with it. The outcome may not be ultimate failure, closure or liquidation, but – when the failure or the decline reaches a certain level, or continues for some time – it may act as a trigger for remedial action. Such action may be spurned, of course, or prove inadequate, such that the business deteriorates and is finally liquidated.

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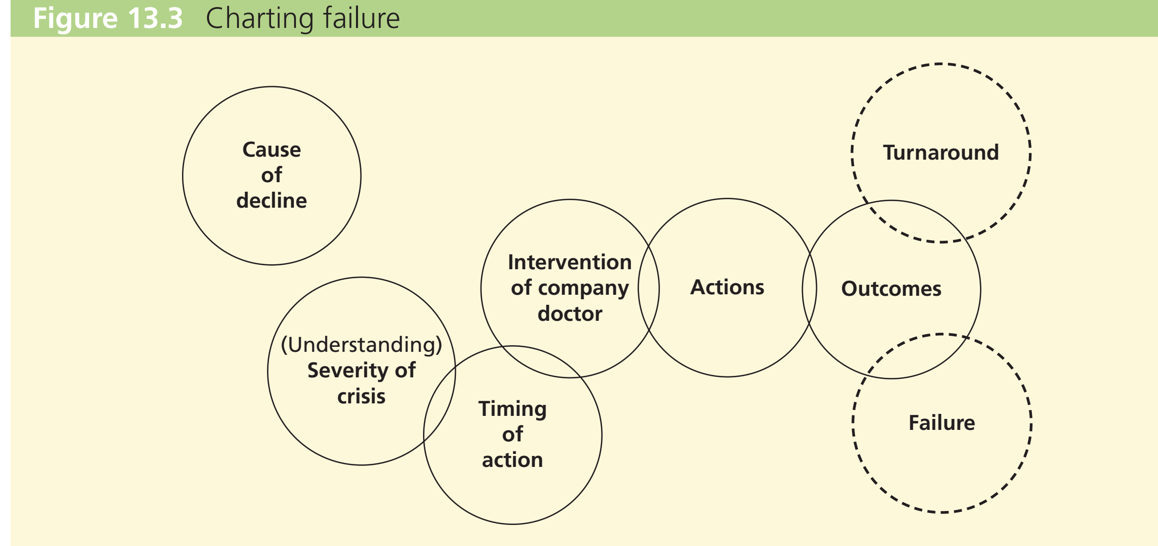
A company which polluted or harmed the natural environment in some way would be classified as unsuccessful – and may even be perceived as a failure – by certain stakeholders, but would not necessarily fail financially and go out of business. Companies sometimes develop and launch new products that fail because very few people buy them – the Ford Edsel car and Strand cigarettes are well-quoted examples from business history and, over the years, Sony has launched recording products (e.g. DAT tapes and the mini disk) that were market failures. Such companies have particularly unsuccessful competitive strategies with some products but do not experience corporate failure. Indeed, Stokes and Blackburn (2002), who critique the notion that closure is synonymous with failure, find that (serial) entrepreneurs learn that: 'The closure process can represent a positive, learning experience. Even owners who have had unsuccessful ventures are motivated and more able to make it work next time because of lessons learned.' A distinction between 'compulsory' and 'voluntary' exits is needed; hence, 'the longer one can survive and prevent involuntary exit, the more successful one is' (van Praag, 2003).

Corporate failure, liquidation and lack of success should not, then, be seen as synonymous terms. A private sector, profit-seeking organization would certainly be classified as a failure if it ended up in liquidation and was closed down with its assets sold off piecemeal, whereas a similar company may be unsuccessful and in decline but able to avoid liquidation. Appropriate strategic action that addresses the causes of the decline may generate recovery – for example, major shareholders may insist on the appointment of a new strategic leader, or the financial or competitive weaknesses may be acted on. Such a company could also be acquired by another, possibly because its shareholders are happy to sell their shares. A company may have been placed in *receivership* (unable to pay its creditors: its suppliers, or bank loan interest) and the *receiver* (usually a professional accountant charged with saving the business if possible) has arranged the sale of the business as a going concern. An alternative is the process of 'members' voluntary liquidation', where the owners are still in control of the business, having chosen to close it by selling off the assets themselves, rather than by a forced sale of assets by the receiver.

Similarly, major financial stakeholders or trustees could orchestrate the closure or replacement of strategic leader(s) of a non-profit-seeking organization.

Figure 13.3 tracks the potential outcomes once difficulties and potential failure are realized and acted on. The timing of the intervention is critical here, such that sometimes businesses can be turned around, and sometimes it may be too late to undo the effects of weaknesses and poor decisions in the past.

Figure 13.3 Charting failure



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A company may be relatively unsuccessful compared with its competitors for a prolonged period if its key stakeholders allow it, but is never perceived to be failing. For example, a small private company whose shares are not quoted on the stock exchange may be making only very limited profits and growing at a rate slower than its industry. However, its owners may be happy for it to stay in existence while it is solvent: perhaps because the owners are drawing substantial earnings and not reinvesting to build a future, as the business exists to provide them with a lavish lifestyle. Major English football clubs have perhaps exhibited such symptoms; however, a consistent lack of success will weaken the company, cause it to exhibit symptoms of decline and may ultimately lead to failure. You are invited to investigate 'success' and 'failure' in professional football in the Strategy Activity at the end of the chapter.

In an 'ideal world', an organization will act 'ahead of time' by anticipating when present successes are likely to plateau and will introduce changes before they are forced on to the organization by deteriorating fortunes. At Manchester United, where Sir Alex Ferguson was manager between 1986 and 2013. Ferguson had the ability to build a winning team and then dismantle it and rebuild a new team; he did this several times in his 27 years by being willing to sell players who were still 'at the top of their game' and replace them with new talent that could be nurtured. Apple's ability to develop and launch a series of new, imaginative products over a number of years similarly demonstrates an ability to sustain a growth trajectory. New products came on stream before the growth of the 'last big thing' had plateaued and started to fall (in line with the typical product life cycle graph).

The next sections examine factors typically leading to corporate decline and failure and at how managers may realize their company is heading for failure unless remedial action is taken.

13.3 Symptoms and causes of decline

Symptoms of decline

These symptoms do not cause failure but are indicators that a company may be heading for failure, and appear when a company is performing unsuccessfully relative to what could be expected by an objective outsider or analyst. Slatter (1984), building on the earlier work of Argenti (1976), analyzed 40 declining UK companies which were either turned around or have failed, concluding that the ten major symptoms are:

1. falling profitability
2. reduced dividends, because the firm is reinvesting a greater percentage of profits
3. falling sales, measured by volume or revenue after accounting for inflation
4. increasing debt
5. decreasing liquidity
6. delays in publishing financial results, a typical indicator that something is wrong
7. declining market share
8. high turnover of managers
9. top management fear, such that essential tasks and pressing problems are ignored
10. lack of planning or strategic thinking, reflecting a lack of clear direction.

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Causes of decline

Slatter's work remains definitive, consistently affirmed by more recent research, including the Society of Practitioners of Insolvency (1995), which found that the greatest single cause of business failure was the loss of market (29 per cent of insolvencies), inadequate cash flow (25 per cent) and leadership failings (16 per cent). Once such symptoms are evident, the underlying causes – categorized below as leadership, finance and competitiveness – should be identified before attempting remedial action.

Inadequate or weak strategic leadership

Derived largely from Heller (1998) and Oates (1990), warning signals (mainly in smaller firms) include:

- *The existence of (too many) 'would-bes'* where something critical is missing – for example, a good new idea, some key competence, true commitment.
- *The single-dimension paradox* where start-up progressed well, but there was a lack of ability or opportunity to grow the business beyond the initial stages.
- *The business is a half-way house* – that is, a franchise or co-operative (or something similar) that is critically dependent on the continued support and engagement of others who may be outside the business.
- *The business is impoverished* and fails to achieve (or loses) a winning strategic position; funding may be difficult or mismanaged and is under-capitalized; insufficient attention is paid to the right quality for customers; under-developed management team; key people leaving (key skills are missing); or cannot cope when succession is an issue.
- *The business is blinkered* with too much self-belief (perhaps driven by production orientation, not customer orientation): the 'we know best' syndrome where the strategic leader is unwilling to accept outside views or advice.
- *The business is technology shy*, a tension where the business needs capital and technology, which costs money, so its key question is: Just when do you invest and how much do you spend?
- *The business has become smothered* and too bureaucratic, perhaps due to legislation, or its large size has caused a loss of its creative spark.
- *The business is (now) run by a crisis manager* who relies too much on an ability to deal (or not deal!) with setbacks and crises as they arise, implying the wrong trade-off between reactive and proactive strategies.
- *The business has started making (too many) mistakes*, possibly having become too ambitious, perhaps with misjudged diversification or acquisition, or it may have ignored warning signs such as a cash shortage, or it may simply be too greedy.

Inadequate strategic leadership can be manifested in a number of ways, which, in turn, cause key strategic issues to be neglected or ignored (Chapter 10), and a company could be controlled or dominated by one person whose pursuit of particular personal objectives or style of leadership could create problems, or lead to inadequate performance. The organization may fail to develop new corporate or competitive strategies such that previous levels of performance and success are not maintained when particular products, services or strategies go into decline. This issue can be compounded or alleviated by weak or strong managers and by the quality of non-executive directors on the board. Specialists (e.g. accountants or engineers) may ignore aspects outside their expertise. Other examples include: (i) companies undergoing diversification concentrating their resources on areas of new development and neglecting core businesses; (ii) acquisitions failing to match expectations (Chapter 12), due to a poor choice by the strategic leader; and (iii) mismanagement of big projects, including developing new and different products, and entering new markets (possibly abroad), where over-optimistic revenue forecasts prove

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to be wrong, or the company stretches its financial and managerial resources, causing healthier parts of the business to suffer. Another possibility is dishonesty, whereby some strategic leaders and businesses take chances and risks which rely on not being found out but, ultimately, the business may find survival difficult (refer to Strategy in Action 13.1).

Poor financial management

Poor financial control includes a failure to manage cash flow, temporary illiquidity due to overtrading, or inadequate costing systems (a lack of awareness of the costs of their products/services – moving them from profit to loss if the product mix changes). A firm investing in expensive equipment for potentially lower costs or product differentiation automatically increases its fixed costs or overheads and its **break-even** point, making the company more volume sensitive. Finally, some companies in decline situations (e.g. Online case 13.9 on Leeds United) appear not to budget properly and, therefore, experience unexpected financial difficulties.

Companies without scale economies (or who are not vertically integrated) can be at a cost disadvantage relative to larger competitors and they may face low profits or a failure to win orders. Large multi-product companies can subsidize the cost of certain products and, again, put pressure on their rivals. Conversely, they may have higher costs than their smaller competitors because of the overhead costs of the organization structure, such as an expensive head office. Further, poor operating management can mean low productivity and higher costs, thereby causing decline. These cost problems all affect competitiveness and they are, therefore, linked to the additional competition factors discussed below. Finally, the debt ratio should be controlled to avoid not being able to pay interest charges because of low profits; companies relying on loan capital may find that, in years of low profits, they cannot invest sufficiently, leading to decline; or, conversely, may decline because of under-investment due to conservatism, rather than financial inability – a weakness of strategic leadership.

Competitive forces

While all the relevant Porterian forces (Chapter 4) can be managed to create competitive advantage, each of them could cause a weak competitor to be in a situation of decline. If a company's products or services cease to be competitive (perhaps due to a loss of clear differentiation and, in turn, a failure to maintain competitive advantage), or if costs increase (perhaps due to increased labour costs which competitors manage to avoid), pressure will be put on prices or profit margins and it may no longer be worthwhile manufacturing the product or service. As well as increased labour costs, a company may experience cost problems as a result of currency fluctuations if it has failed to buy forward appropriately to offset any risk, and property rents if leases expire and need renegotiating during a period of inflation. Companies whose competitive strategies rely on differentiation must ensure that customers recognize and value the source of the differentiation – requiring creative and effective advertising and promotion targeted at the appropriate segments. This is potentially expensive, especially if the industry is characterized by high advertising budgets. Companies failing to market their products or services effectively may decline because they are failing to achieve adequate sales.

Case 13.2 (Nine Dragons Paper) looks at a company where rapid growth and success put strains on the business and led to a perception of underlying difficulties – which the company has subsequently dealt with. Case 13.3 (Kids Company) illustrates a different story; here, the charity concerned went out of business. The service that Kids Company provided did not become irrelevant; it is still required. The problem was one of execution. Leadership failings meant there was an inadequate focus on the details and the operations and, ultimately, the money simply 'ran out'. There are some interesting lessons. It is invariably important that a charity 'does good' and is seen to do good. It needs to be perceived to be adding value and to be well managed. While this implies it does not under-sell its achievements, it is also important not to over-sell and claim a level of performance that cannot be substantiated.

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Case 13.2 Nine Dragons Paper Limited China

Nine Dragons Paper Holdings Limited (NDP) was established in 1995 to meet the needs of the growing Chinese business economy for paperboard packaging. Its operations serve as a one-stop shop for a broad range of high-quality paperboard products. The growth of NDP has been extraordinary – as witnessed by the group sales for 2010/11 of RMB14.2 billion, representing an increase of 36 per cent when compared with the previous year. At the same time, gross profit amounted to RMB2.2 billion, an increase of 8 per cent over the previous year.

The intention of the Group was stated as continuing steady growth in 2012 and beyond, with six new paper machines coming on stream for 2012 and 2013, which would bring the Group's total production capacity to over 14 million tonnes per annum – an increase in production capacity of 21 per cent when compared to the current capacity.

Behind all of this growth and success is the figure of chair and founder of NDP, Cheung Yan (her Cantonese name), otherwise known as Zhang Yin, who, with the continuing success of NDP, became the richest woman in greater China.

How did she achieve this position and become the chair of such a business enterprise?

Zhang Yin was born in 1957 in Shaoguan, Guangdong. She is the daughter of a lieutenant in the Red Army who subsequently became the general manager of a metallurgy company in Guangdong. When Yin finished school, she started working as an accountant in a textile factory in Guangdong. From the textile company, Yin moved to Shenzhen to work in a paper trading business. This happened at a time when the whole area around Shenzen was starting to boom because of its economic zone status. In 1985, when she was 27 years old, Yin gave up working in Shenzhen and rejected the opportunity to work in a joint venture company. Instead, she was entrusted by a papermaking factory to purchase waste paper in Hong Kong. Due to the relative scarcity of forest resources in China, most high-grade paper raw material requires the import of waste paper and pulp. Yin saw the opportunity this represented. She moved to Hong Kong in 1985 with her savings of US$3,800 and became engaged in the business of purchasing waste paper for recycling.

After working for less than two years in Hong Kong, Yin had accumulated enough experience to establish her own paper-making factory – Dongguan Zhongnan Paper – in Dongguan City to produce paper for daily use. However, the supply of waste paper in Hong Kong and in China continued to be limited by volume. In order to seek greater sales and business development opportunities, she moved to the United States and founded, in collaboration with her (new) second husband, the paper exporting company America Chung Nam. Not only was the United States rich in waste paper resources, it also had a mature recycling industry.

The ambitious Yin set herself the goal of building the largest business in the world for the supply of raw material for paper-making. Yin also saw an advantage in being located in the United States – by shipping her waste paper to China in containers that otherwise would be returning empty to China from the United States. At this time, it was the case that for every ten full containers that left China for the United States, nine empty ones went back to Hong Kong. Yin was thus able to secure a low price for shipping her waste paper back to China and the shipping company made an unexpected profit. This gave her a core element of price competitiveness in the Chinese marketplace. This was coupled with the business model adopted by Yin of being a Chinese company buying cheap scrap paper from the United States, importing it into China to be recycled into cardboard boxes to export Chinese goods, mainly back to the United States.

Yin's ambition led her to take a different strategic course from other Chinese paper-making factories – who typically limited their production capacity to around 50,000 tons per annum due to the size of the local domestic market. Yin planned to become the leading packaging manufacturer in the world; and her first paper-making machine had a production paper-making capacity of 200,000 tonnes. At this time, she bought paper-making factories in both Dongguan City and Taicang City, giving her additional production capacity. Yin supplemented this by purchasing paper-making capacity on machines located overseas. Although the paper was more expensive, this was all round much more productive for the high volumes involved.

In 1995, Yin returned to Hong Kong and co-founded NDP with her husband and her younger brother. Yin demonstrated the nature of her single-minded determination to stay focused on one activity when she said: 'Nine Dragons Paper will not enter the field of newsprint.' A total of US$110 million was invested in NDP at this time, with their headquarters remaining in Dongguan. For the next ten years, Yin and the management team at Nine Dragons set about meeting their declared target

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of becoming the world's largest supplier of paper for the packaging industry. In March 2006, Nine Dragons Paper floated on the Hong Kong Stock Exchange and the initial public offering raised almost US$500 million. By the end of 2006, investors were enjoying a 300 per cent increase in the value of their stock. Through the success of this flotation, a further doubling of production capacity took place – and this continued each year so that, by 2009, NDP was, indeed, the world's largest manufacturer of packaging paper, with an ever-increasing focus in high margin paper products such as coated duplex board, and food grade and pharmaceutical grade white board. In 2010/11, high-grade paper products accounted for 24 per cent of the tonnage produced – up from 11 per cent in the previous year.

The Group's paper machines in China are currently located in four areas, including Dongguan, Guangdong Province, the Pearl River Delta and Taicang, Jiangsu Province in the Yangtze River Delta Region. The Group is actively involved in both further organic growth and growth by acquisition having, in 2011, entered into an agreement for the controlling interest in Habel Yongxin Paper Co. Ltd.

With the strategy of measured steady long-term growth in production capacity, a focus on core paper products, and the twin targets of economies of scale and environmental protection called for in the People's Republic of China (PRC) Government's 'Twelfth 5-year programme', NDP appeared to be set for continued sales and profit growth.

Yet, in June 2011, Standard and Poor's Rating Services, quoted in Reuters, announced that it had withdrawn its 'BB' long-term corporate credit rating on Nine Dragons Paper (Holdings) Ltd and also the 'BB' issue rating on the company's outstanding senior unsecured notes. Standard and Poor's is quoted as saying, 'In our view, Nine Dragons has an aggressive debt-funded growth appetite. We withdrew the ratings because we have insufficient access to the management and therefore cannot fully understand the company's strategy or assess its further credit risks.'

At the end of December 2011, Nine Dragons had about HK$19.97 billion (US$2.6 billion) in bank borrowings and a net borrowings to total equity ratio of almost 88 per cent. Zhang Yin defended the performance of Nine Dragons saying, 'These six new production lines will allow the company to produce new products and not just increase production of what we already have. This year will be a peak for debt levels. Once we are through this year we will see debt levels falling next year and the year after next.'

Nine Dragons Paper Limited **www.ndpaper.com/en/about/chairman.php**

Questions

1. Is a sustained existence 'inevitable' for Nine Dragons Paper, or could a business with such a growth record actually fail?
2. Has Nine Dragons been guilty of repeating mistakes made in the past by companies with ambitious business growth targets?
3. Alternatively, is this typical stock market scare mongering to act as a check on an aggressive and dynamically led focused business?
4. Has Zhang Yin been able to demonstrate that she was correct with the assertions printed at the end of the case?

Case 13.3 Kids Company UK

When the UK charity Kids Company collapsed in August 2015, it was described as the 'largest and highest profile charity to go bust in recent times'.

Kids Company was a little under 20 years old; its CEO (and also its founder) was Camila Batmanghelidjh, who was renowned for being charismatic and media-friendly. Camila had been born into a wealthy Iranian family (in the early 1960s) but had been brought to the UK at the age of 12 to attend a private school. A colourful dresser and a striking figure, she was a very noticeable and vocal campaigner and critic. A lady with bold ideas, she also had the determination to implement them; she was awarded a CBE for her charitable work.

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In 1996, believing that state-provided children's services 'fail to deliver love', she wanted to introduce and trial fresh approaches. She argued that many youngsters and their families with serious and genuine needs were not being 'noticed' by Social Services. Her charity – which opened under six railway arches in London – was experimental, entrepreneurial and effectual. As well as having only one CEO throughout its life, Kids Company also only ever had one chair of trustees – Alan Yentob, who, in 1996, was controller of BBC1 Television, before being promoted later to director of programmes and then creative director for the BBC as a whole. Nineteen years later, its annual revenues (from grants and donations) amounted to some £24 million per year; Camila herself was seen as being personally responsible for 60 per cent of this. There had always been grants from government, in the order of £4 million to £5 million per year through the Department for Education; Prime Ministers Tony Blair and David Cameron both declared their support for her work. She was always able to attract celebrity backers; Coldplay are often cited as one, having donated some £8 million at different times. Camila's approach was to provide each child she helped with a key worker who would help with access to all the support services they required – but only up to the age of 18. However, after the age of 18, financial support from the charity was continued, especially for those with serious family needs; by this time, some of the children Kids Company supported had children of their own. Arguably, as Kids Company grew, it failed to become properly 'organized', such that it remained very dependent on its founder when it really required that she build a strong team of senior managers. Arguably, the necessary control mechanisms were never established.

When there were serious setbacks in 2015, Kids Company was unable to deal with them. A new campaign called 'See the Child. Save the System' which targeted child protection had not attracted the funding it required and so had failed to meet its targets and promises. Because of her position and influence, it was assumed and expected that Camila would deal with everything. However, and linked to other examples of bad publicity, her reputation was becoming tarnished. In July 2015, the government was asked for more cash. There were reported differences of opinion about the viability of further support but, eventually, £3 million was offered, as long as Camila stepped down – which she reluctantly agreed to do.

However, one month later there was no money to pay wages and to meet other financial commitments. Some 650 people lost their jobs. Kids Company claimed that, in various ways and from its various bases, it was dealing with 36,000 children – but this figure has been disputed by outsiders. Perhaps significantly, after Kids Company closed down, the number of people approaching Social Services for direct support was reported to be 'very modest'.

The media were quick to weigh in. They reported that some young people who were given a 'poverty intervention payment', and/or a financial allowance for attending particular programmes, were then spending this money on drugs. It has been suggested that some participants were receiving multiple thousands of pounds. It was alleged that the charity was employing (and paying) the children of trustees and also covering the private school fees for the children of senior staff. In addition, it was alleged that it used an expensive private apartment with a swimming pool. Camila, meanwhile, blamed the government and the media. Her chair of trustees (Alan Yentob) claimed the charity had been properly audited and 'everything was in order'; in addition, philanthropists were satisfied. Camila argued that demand for Kids Company's services was so great there was financial overload; the charity had become dependent on short-term and emergency donations because it did not have the opportunity to build its reserves. She refused to accept it was a 'failing charity'. Relating to Kids Company, Alan Yentob seemingly wrote an email claiming that 'swathes of south London teenagers would now descend into savagery' and there was 'a high risk of arson on government buildings'.

What had gone wrong?

As the dust settled, commentators claimed, first, that the finances had not been visible enough. Each year Kids Company seemed to manage to raise 'bail-out' money to keep it going – but it never put in robust controls to stop this requirement. *The Spectator* magazine used the phrase 'a drain on its donations'. Second, impact reporting had probably been exaggerated. Rather than objective research, Kids Company had relied on powerful human interest stories and the media that ultimately turned against it. Third, management had become chaotic with inadequate delegation of power and responsibility; within the last year three senior managers, including the finance director, had left, all citing 'extreme stress'. As a consequence of these circumstances, there was inadequate risk management.

Kids Company had become, and stayed, too reliant on its founder Camila Batmanghelidjh; at the same

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time, it had only ever had the one chair of trustees. Both strategic leaders were strong on the creative elements but, as the organization continued to grow, the leadership challenges changed to become more operational. There was no pressure on either leader and no internal leadership development. Private businesses are typically subject to market forces and, if they fail to add and deliver value for their customers, they are in trouble; Kids Company was not under the same pressures. Moreover, the regulatory regime to which it was subject did not deal with its shortcomings. Of course, as fund raising had continued successfully year after year, albeit with elements of uncertainty, it was easy to overlook the shortcomings. As they say, hindsight is wonderful! A subsequent legal case and ruling in 2021 concluded that the trustees had not actually been running an unsustainable business model ... and they should not be disqualified from similar roles in the future for being over-optimistic. This ruling view seems to imply that voluntary boards should be treated more leniently than might be the case for a for-profit organization.

Questions and task

1 Do you instinctively agree or disagree with the final comment above?

2 Use the text of this chapter (and parts of Chapter 10, Section 10.4) to reflect on the points in this story and then research the collapse (a year earlier, in 2014) of the charity Beat Bullying, run by another strong leader, Emma-Jane Cross. How many similarities do you see? How might charities (and other third-sector organizations with boards of trustees, many of whom will be recruited by the organization's founder and managers) prevent strong leaders becoming too powerful?

13.4 The feasibility of recovery

When a company's sales or profits are falling because of non-competitiveness or because its industry is in decline, recovery may or may not be possible. A single-product firm, or a firm heavily reliant on the industry in question, may be in real difficulties and in danger of liquidation unless it can diversify successfully, though this may be difficult to fund with lower profits. Where the situation applies to one business unit in an already diversified company, the company as a whole may be less threatened. However, a change of strategy will be required, depending on whether or not a successful recovery can be brought about and sustained. Furthermore, Cope *et al.* (2004) found that venture capitalists (VCs) considered prior failed entrepreneurs sympathetically, given that they (the VCs), 'recognize the complex, contextual nature of failure and do not necessarily perceive the entrepreneur to be the primary cause of the venture's demise'. Hence, they take 'a tolerant, flexible and open-minded attitude to failure and are keen to understand the circumstances in which it occurred', and may still invest in an excellent idea whether or not the entrepreneur had prior failure(s). Indeed, research into failure has identified a 'self-serving attribution bias among entrepreneurs when they enumerate the factors that contribute to or impede their business success' (Rogoff *et al.*, 2004) which, therefore, has implications for recovery or the ability of a 'failed' owner-manager to start again.

The likelihood of a possible recovery improves where the causes of the problems can be overcome, depending on how serious and deep-rooted they are; where the industry as a whole – or particular segments of the industry which could be targeted – remains attractive; and where there is potential for creating or enhancing competitive advantage. Slatter and Lovett (1999) identified four steps to turnaround management:

1 Take control and manage the immediate crisis.
2 Rebuild stakeholder support.
3 Fix the business.
4 Resolve future funding.

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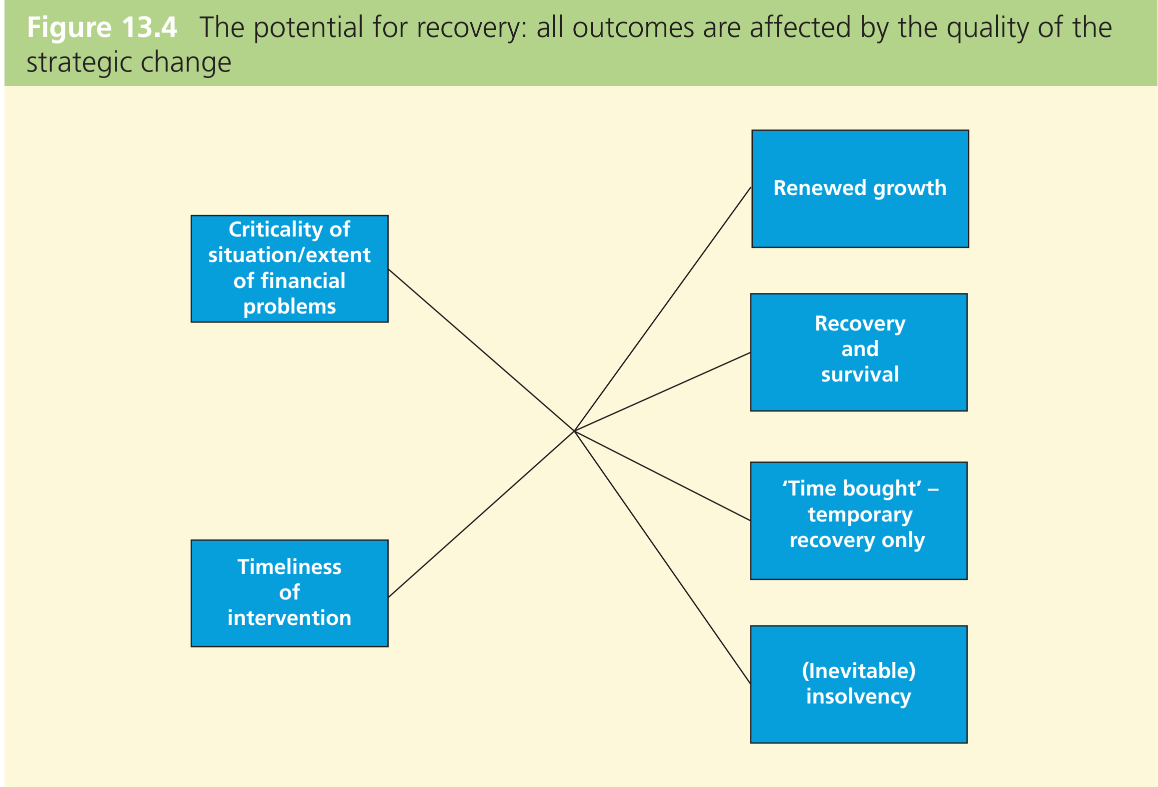
Recovery situations

Four types of recovery situation are illustrated on the right-hand side of Figure 13.4 (derived from themes in Slatter, 1984). Changing the strategy becomes essential when the profits of the firm or business unit have declined to a crisis stage, but the industry and competitive factors may be such that recovery simply is not feasible. Insolvency is inevitable, whatever alternative strategies may be tried; or successful retrenchment strategies may be implemented and profits returned to a non-crisis level. Unless the industry remains in some way attractive and potentially profitable, or the firm retains its competitive advantage, the retrenchment may subsequently fail. A third alternative is a successful turnaround but no real growth and sustained recovery. Insufficient funds may be generated in a low-profit industry to finance investment for further growth and diversification. A sustained recovery implies real growth, and possibly further changes in functional, competitive and corporate strategies.

Weitzel and Johnson (1989) drew attention to the issue of timing and highlighted that the later an organization delays in attempting recovery from a downward trend, the more difficult the task. This theme is picked up on the left-hand side of Figure 13.4 and then Table 13.1 expands the arguments. Here, we imply that sustained survival or recovery is a much steeper challenge (with less likelihood of success) when remedial action is delayed. There is always likely to be a 'point of no return' when recovery of any form is unlikely.

Figure 13.4 The potential for recovery: all outcomes are affected by the quality of the strategic change



Developed by authors based on ideas from Slatter, S (1984) *Corporate Recovery*, Penguin; adapted from Weitzel, W and Johnson, E (1989) 'Decline in organizations: A literature integration and extension', *Administrative Science Quarterly*, 34(1).

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Table 13.1 The feasibility of recovery

	Time of action – in the form of a fresh strategic approach *Timeliness is declining left to right across the four columns*			
Likelihood of outcome	**Early action**	**After decline has set in**	**When a real sense of danger is felt**	**When it is perhaps already too late for real recovery**
Renewed growth	Clearly possible	Still possible	Real risk it may not happen at this stage	Unlikely outcome at this stage
Recovery and survival	Should always be possible	It could happen	Could well be the best outcome possible	Always possible – just – but a great deal of work and effort would be required
'Time bought' – temporary recovery only	Almost certain this could be achieved with a well-crafted turnaround strategy	Should always be possible – but, again, needs a well-crafted strategy	Not impossible	Could be a real risk at this stage of decline
(Inevitable) Insolvency	Just possible it may already be too late – but this outcome would be disappointing	Again, possible that recovery of any form may be too late, but there would still be some feeling of disappointment		Most likely outcome

Non-recoverable situations involve little chance of survival and the likelihood that both retrenchment and turnaround strategies will fail, characterized by Slatter (1984):

- The company is not competitive and its potential for improvement is low, perhaps the result of a cost disadvantage that cannot be remedied. Certain businesses and industries that have declined in the face of foreign competition, especially from countries with low wage costs, are testament to this scenario.
- The company is not diversified and lacks both the resources and access to resources to remedy this weakness.
- Demand for the basic product or service involved is in terminal decline.

Temporary recovery occurs where a retrenchment strategy is implemented successfully and may or may not be sustained (Slatter, 1984). New forms of competitive advantage may be found and sustained, or the product or service may be effectively repositioned, averting subsequent insolvency. However, if costs are reduced or additional revenues are generated in an essentially unattractive and declining industry, the effect will be limited. In such cases, the company should invest the cash generated from the retrenchment to diversify, if that is possible.

If an organization has captive customers who are in some way dependent and face high short-term exit costs, possibly because of agreed specifications, they can exploit them for a period by charging high prices – although profit will improve temporarily, the customers will be lost in the medium to long term – so the company needs to use the extra revenue and the time that they buy to develop new strategic opportunities.

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Sustained survival implies that a turnaround is achieved, but there is little further growth (Slatter, 1984). The industry may be in slow decline, or generally competitive and unprofitable; and, while survival potential and limited profit opportunities continue to exist, there is little more. Sustained survival would also apply where a company failed to use its increased earnings effectively and did not diversify into new, more profitable opportunities which could provide growth prospects.

Sustained recovery is likely to involve a genuine and successful turnaround, possibly new product development or market repositioning, perhaps followed by a growth strategy such as acquisition and diversification.

The recovery is helped if the industry is strong and attractive, and the company's decline has been caused by poor management, rather than because of industry decline.

Both a sustained survival and a sustained recovery may involve divestment of assets or part of the business to enable the company to concentrate on selected market segments or products.

Slatter (1984) studied a number of successful and unsuccessful attempts at turnaround, and concluded that there are three main features of a sustained recovery:

1. Asset reduction is invariably required in order to generate cash, which is quite frequently achieved by divestment of part of the business.
2. A new strategic leader is usually necessary, who will typically be associated with a restructuring of the organization, the introduction of new strategies and a redefinition of roles and policies.
3. Better financial control systems are also a typical feature.

While retrenchment and initial survival can be achieved by concentrating on improving efficiencies, sustained survival and recovery invariably require more effective competitive and corporate strategies. Cases 13.4 and 13.5 discuss the changing fortunes of three UK fashion businesses. Kim Winser, who now owns her own fashion business, was involved in two of them. The most successful turnaround has been at Burberry, Case 13.5.

You might like to revisit Case 4.7 on the UK High Street as you read these two cases – and then link all of them with Case 13.6 which follows after.

Case 13.4 Kim Winser, Pringle and Aquascutum — UK, Int

This case describes the impact Kim Winser has had in reviving the fortunes of two long-established brands. Winser herself has been described as having that 'unnerving mix of friendliness and control that powerful women have'.

Pringle is a long-established clothing and knitwear manufacturer based in the Scottish borders. Formed in 1815, Pringle is believed to be the UK's oldest clothing brand. The company became known for the 'twinset' – a matching jumper and cardigan for ladies – which was worn and popularized by movie stars such as Audrey Hepburn, Vivienne Leigh and Margaret Lockwood in the 1950s – the shruggie 'ballet cardigan' and the Argyle check sweater worn by golfers.

In 2002, the current owner, Dawson International, a Scottish yarn and clothing manufacturer, was keen to refocus its business around cashmere products, and opted to sell Pringle for £10 million to Fang Brothers Knitting of Hong Kong. At the time, Pringle was in decline. A number of reasons were cited. Sales had fallen in key Asian markets; the value of sterling was high; the clothes were staid and unfashionable; the brand had failed to keep up with changing tastes. Dawson had closed the Pringle factory in Berwick and reduced the headcount elsewhere – but the overall health of the business had not improved markedly. New owner Kenneth Fang decided he needed a fresh chief executive if the brand was to be rejuvenated.

He recruited Kim Winser – at the time, a marketing director with M&S where she had worked since she was aged 18. Feisty, she had once criticized M&S chief, Lord Sieff, in a meeting, arguing against his plan to appoint a female board director. The argument is that she herself wanted to be the first woman on the M&S board! She had been promoted through the ranks and was credited with turning around the womenswear business in the 1990s. She came with a reputation for being driven, career-minded and organized. Fang was willing to give her considerable autonomy.

She concluded the brand needed reconceptualizing and repositioning in a short period of time – her target was just three months. She set out to achieve the

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simultaneous lowering of costs and the development of new products and market opportunities. More jobs, including senior management posts, were lost. The long-standing retail concession with Edinburgh Woollen Mills was abandoned in favour of high-end/high-fashion outlets such as Selfridges and Harvey Nichols. A celebrity endorsement deal with golfer Nick Faldo was terminated.

A new collection was quickly designed – with a more modern look – although the product range overall was being reduced. Aspects of the past – the Argyle check, the twinset and the cashmere yarns – were retained, but new colours, new styles and new ways of displaying the famous Pringle motifs were sought. The range was promoted in glossy fashion and lifestyle magazines; model Sophie Dahl was recruited for the campaign. The effect was instantaneous and sales jumped 30 per cent. A confident Pringle joined the London catwalk for the first time in its history. When Madonna, David Beckham and Robbie Williams were all seen in public wearing Pringle clothes (a hugely valuable free endorsement), the brand was 'hot'. It was now 'nightclub' rather than 'golfclub'.

Winser decided to enter retailing – another first for Pringle. She began with a shop at Heathrow Airport, but with plans for Central London, New York, Tokyo and other European cities. The range has also been extended beyond knitwear into complementary skirts, trousers, dresses, coats, swimwear and accessories. Baby wear and homeware were on the future agenda. It helped that any spare capacity in the Pringle factories could be used to manufacture other products for the Fang Brothers. Having transformed the brand, but with the turnaround not yet complete, Winser left in 2006. Pringle continued in business – always struggling to be profitable – until production was 'paused indefinitely' in early 2020, during the COVID-19 pandemic.

In 2006, Kim Winser joined Aquascutum, which she described as a 'sleeping giant of a business'. Aquascutum had also been described as 'Britain's noblest fading brand'. Could she repeat her turnaround achievements?

Aquascutum became a popular choice for consumers willing to pay premium prices for good quality, stylish clothing; it is perhaps best known for its trench coat – a distinctive, classic, light tan-coloured, belted, double-breasted raincoat with sleeve straps and epaulettes. The company is 150 years old – younger than Pringle! – and was owned by a Japanese business, Renown.

The flagship London store has photographs of Hollywood celebrities wearing the products – the fact that most of these are 'older' rather than 'youthful' stars is indicative of the typical buyer. Annual turnover grew to exceed £200 million, mainly in the UK and Japan, but the business had been losing money. One question concerned whether it would lend itself to a more youthful appeal with endorsement by models such as Kate Moss or Sophie Dahl.

Winser believed she needed to 'have fun with the style' but not sacrifice the brand's heritage – an interesting challenge. She wanted to attract new customers without losing the existing ones. More accessories were on the cards, especially bags.

In 2009, and after three years of losses, Winser sought to acquire the business as a management buy-out, but her bid failed 'at the eleventh hour'. She resigned and left immediately. Renown continued with its attempt to sell the business and started discussions with a Hong Kong trader who already acted as a wholesaler in the Far East for Aquascutum trench coats – but, again, no deal was concluded. 'The chances of the brand surviving as a British business were fading fast.' It began to appear that Renown may move everything, including design and manufacture, to the Far East. Aquascutum was eventually sold to a Hong Kong trading business for £15 million in 2012. By 2016 it was on the market again – at a price of £100 million. Sales have been refocused (successfully) on the Chinese market. There are three stores in the UK, all in London. The company did change hands again and it continues to produce and sell.

Meanwhile, Kim Winser's name had been linked to a senior post at Versace and also as a possible successor to Sir Stuart Rose as CEO of M&S. Neither happened. Having acted as an adviser to other fashion retail groups, she started Winser London as an e-commerce business in 2013. Using this label, she has opened a small number of specialist boutiques and has concessions in some John Lewis stores.

She favours young designers – to reflect a key part of her target market – and word-of-mouth publicity. Part of her strategy is largely to ignore the more traditional approach of seasonal ranges to be more flexible. Given that the seasonal differences in weather seem to be changing, she believes she needs to be able to respond to unexpected opportunities she might spot. She has also slimmed down her supply chain to reduce costs but also allow faster response times. This approach matters with fast fashion. She works closely and personally with the factories that supply her. Innovation and responsiveness, she believes, are critical success factors for her business.

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Questions

1. How do you perceive the similarities and differences of the two turnaround challenges faced by Kim Winser?
2. Given that, in the world of high fashion, little stays still for long, what would you recommend Pringle should be doing to make sure if it does start up again, that it does not once again switch from growth into decline?
3. Had Kim Winser succeeded in buying Aquascutum, what changes do you think she may have made/needed to make?
4. Given her record, would she appear to have been a likely candidate for the leadership role at M&S?

Case 13.5 Burberry UK

Burberry is a luxury fashion house that was established originally in 1856. Its products include clothing, accessories, perfumes and cosmetics; it is best known for its outerwear, in particular its trench coats, many of which are double-breasted. The key feature is the distinctive check lining; the check pattern is an external design feature of some of its overcoats. Burberry pioneered the waterproof gabardine fabric that it still uses for its raincoats. It provided kit for Ernest Shackleton's troubled expedition to the Antarctic and it supplied the trench coats for Britain's troops in World War I. Family controlled for around 100 years, it eventually became part of the Great Universal Stores Group but was restored to independence in 2005. At this time, the business was experiencing difficulties. Today turnover is in the region of £2.5 billion; the company is profitable; and its once-tarnished brand reputation has been restored.

Between 2001 and 2005 the Burberry brand was associated with 'chavs' (young men from the so-called underclass, usually economically inactive, known as 'not in employment, education or training' (NEETs) and mostly engaged in anti-social behaviour, and drinking cheap lager) and football hooliganism. Not only had it launched lower priced products itself, it had entered a multitude of licensing agreements, such that the famous Burberry check was readily available on doggy coats and baby strollers. Moreover, counterfeit products with the check design were everywhere. Outerwear was now only 20 per cent of revenue. While genuine accessories, such as polo shirts and scarves, were still relatively expensive to buy, these were at much lower price points and they needed to sell in higher volumes to compensate. The range was seen as unbalanced.

As a consequence, senior personnel changed. In 2006 Angela Ahrendts became CEO; she stayed in post until 2013 (when she left to run the retail operations for Apple) and she was credited with turning around the company's fortunes. She became the highest paid CEO in the UK. She worked closely with Christopher Bailey (who succeeded her as CEO). Bailey had joined Burberry in 2001 as creative director. They were determined to lose the 'chav' image and use the media widely to 'tell a new story'. They did a number of things:

- The product ranges were slimmed and refocused. Outerwear was to become the leading revenue generator again. Designs were tightened and the famous check used more judiciously. Price points were moved upwards as the luxury image (and product quality) was improved. It was not at all unusual to find coats priced at over $1,000.
- The new target customer was younger and often a millennial – so the designs had to be fashionable. To assist, younger designers were recruited.
- New stores were opened around the world, wherever people would expect to shop for luxury branded items. There are now around 500 stores in 50 countries.
- When it was realized that many senior staff did not routinely wear Burberry, this practice was changed.
- At the same time, online sales were developed along with a much stronger website.

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- Most of the franchise agreements were either discontinued or bought back.
- Burberry had always manufactured in the UK, but this policy was now reinforced. Factories in Yorkshire (in Keighley and Castleford) produce most of the outerwear. 'Yorkshire grit' is a feature in a number of advertisements to draw attention to the brand's heritage.

By 2017, turnover had reached £2.75 billion with an operating profit of over £400 million. When compared with another heritage UK luxury brand, Aquascutum, which was bought out of bankruptcy for £15 million, this improved performance has been seen as a real achievement. Now, 60 per cent of the revenue comes from apparel, with 55 per cent contributed by women's wear and 45 per cent by men's. Retail activity generates 80 per cent, wholesale 16 per cent and licensing 4 per cent. Activity in Asia drives 40 per cent, with 34 per cent from Europe and 26 per cent from the United States.

European sales were affected by the fall in tourism during the first two years of the COVID-19 pandemic (2020 and 2021), but sales in China, South Korea and the United States were more resilient.

Questions

1. Christopher Bailey stepped down in 2018, feeling he had 'made his contribution' and it was time to step aside. Do you feel the changes (and their outcomes) will have made the company more resilient and sustainable? While it would always be assumed new executives would wish to maintain the upwards momentum, how easy might it be to lose focus again?
2. Also in 2018, Burberry had to take legal action against Target for copying its check design. Research how this situation has developed. How much of an issue has it been? How difficult is it to prevent this sort of intellectual property infringement?
3. How would you seek to strengthen the product range without losing the necessary focus on important target customers? You can, of course, find full details of the relevant product ranges on the website.

Rescue, to provide a platform for recovery, could well take 12–18 months and involves making the business cash rich by selling assets, obtaining a new injection of funding and restructuring debt; and tightening operations by strengthening margins, better cost control, better working capital management and better information.

True renewal and recovery could then require a further three to five years. The skills required for the rescue and recovery stages are different, and a change of strategic leader – as happened at Pringle – may be logical. A vision for recovery is of little use until the business has been rescued and consolidated; equally, consolidation without a future vision is likely to show only limited and short-term benefits.

Useful questions were identified in van de Vliet (1998) regarding the assessment of recovery potential:

1. Is there some part of the business worth rescuing?
2. What are its key core activities?
3. Does it have the people it needs, who truly understand it operationally?
4. Do these managers have the freedom to manage?
5. Are there ways in which the product(s) and/or service(s) could be improved?
6. Can the necessary resources (other than people) that are required be secured?

Having considered the background feasibility of recovery, the actual recovery strategies are now examined in greater detail.

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Retrenchment strategies

Essentially functional, rather than competitive or corporate, retrenchment aims to make firms more productive and profitable while retaining, essentially, the same products and services, although there may be some rationalization. By concentrating on financial issues, it often addresses major causes of the company's decline.

Organizational changes

While (as discussed above) a change in strategic leadership is frequently involved in recovery strategies, firms may also need to strengthen their management team in other areas. Personnel changes in themselves could be unimportant, but the subsequent changes to strategies, structure and policies – and the effect on the existing staff and their motivation – do matter. Reorganizations take place, with new definitions of roles, responsibilities, policies and management, and control systems to give managers new opportunities to achieve, and convince them that recovery is possible.

Financial changes

Poor financial control systems – for example, badly managed cash flow – are often a feature of companies in difficulties. Overheads may have become too high in relation to direct production costs, such that the company may not know the actual costs of producing particular products and services, or be unable to explain all expenditures. The establishment of an effective costing system, and greater control over the cash flow, can improve profitability and generate revenue. Another retrenchment strategy is restructuring debt to reduce the financial burden of the company. Possibly repayment dates can be extended, or loan capital converted into preference shares or equity, thereby allowing the company more freedom through less pressure to pay interest.

Cost-reduction strategies

Traditionally, highly acquisitive companies such as Hanson and more recently Melrose (see Strategic Reflection 12.2), would be attracted by businesses with high gross margins and relatively low after-tax profitability – indications of underlying value restrained by overgrown overheads, which provide opportunities for improving profits by reducing organizational slack and waste. Companies can (and should) address their overheads without being acquired, by recognizing the extent of the problem and being determined to reduce costs to improve their competitiveness and profitability – which happened increasingly in the late 1980s and 1990s, reducing the number of attractively priced acquisition targets and, in turn, reducing the potential for this particular acquisition and **turnaround strategy**. Companies that could not reduce their costs were often liquidated as the economy tightened. A starting point for cost-cutting is labour costs, thus improving productivity, but reductions that are too harsh threaten the quality of the product and the overall service offered to customers. One opportunity, both to meet demand and to contain costs, is to examine working patterns and attempt to manage overtime, part-time arrangements and extra shifts. Companies can slip easily into situations where overtime and weekend working are creating costs which cannot be recovered in competitive prices.

A parallel issue and challenge for the UK National Health Service (NHS) is the extent (and cost) of temporary agency doctors and nurses linked to an inability to match supply with demand. Some hospitals are operating with a financial deficit, rather than a surplus, and relying on 'external help' from other parts of the NHS – in a truly competitive environment, they would be insolvent. That said, of course, hospitals have an expectation that patients will be treated and they have no effective control over who may turn up.

Redundancies may be required to reduce costs and bring capacity more into line with demand, but can be implemented well or poorly. In most cases, the issue is not losing particular numbers of people and thereby saving on wages, but losing non-essential staff or those who fail to make an effective contribution – and, in a voluntary redundancy programme, good people may choose to leave or take early retirement. Costs can be reduced anywhere and everywhere in the value chain. Better supply arrangements and terms can reduce costs; products can be redesigned to cost less without any loss in areas significant to customers; and certain activities,

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such as public relations, training, advertising and research and development, may be cut. The rationale is often that these activities are non-essential, which could be perfectly plausible in the short term, but may not be the case for the longer term; therefore, they would need to be reinstated when extra revenues have been generated.

Asset-reduction strategies

Divestment of a business unit, or part of the business, is considered in greater detail later and, while being more of a corporate than a functional strategy, the decision should not be made on financial grounds alone. While the sale of a business can raise money, it may be more than offset if there is existing synergy with other parts of the company which suffer from the divestment. *Internal divestment or rationalization* can take a number of forms to reduce overheads and direct costs – for example, plants may be closed and production concentrated in fewer places, or production may be rescheduled to generate increased economies of scale. *Assets could be sold and leased back* and, as far as the balance sheet is concerned, assets will have been reduced and, in turn, cash will have been generated. The scope and capacity of the business may be unaffected, since the changes are exclusively financial.

Revenue-generating strategies

Revenue can be generated by improving certain management control systems: freeing cash by reducing stocks by better stock management, or a review of the whole production system and a move towards just-in-time; or improving cash flow by persuading debtors to settle accounts more speedily.

> *We weren't making money at SAS [Scandinavian Airlines System] when I came here. We were in a desperate situation, and that's the worst time to focus on preventing mistakes and controlling costs. First, we had to increase revenues. We had to decide what business we were going to do – before you can start managing effectively you must know who is your customer and what is your product – and go to work on the revenue side. Then we could think about cutting costs, because only then would we know which costs could be cut without losing competitiveness.*
>
> Jan Carlzon, when President and Chief Executive Officer, Scandinavian Airlines System

Case 13.6 examines the revenue-increasing approaches of Gap, Gucci and Maserati.

Case 13.6 Gap, Gucci and Maserati — US, Europe, Int

Gap

Gap is a US clothing retailer which also owns the Old Navy and Banana Republic brands. The business was founded by Don Fisher and, throughout the 1990s, he continued to work closely with his hands-on CEO, who designed clothes and specified inventory quantities. When Paul Pressler was recruited from Disney in 2002, and appointed CEO, the business was in some difficulty. Sales were falling and Gap appeared to have 'lost touch with its customers'. Could Pressler restore its previous performance levels?

Gap's original target customers were the so-called 'baby boomers', those born between 1946 and 1964. As they matured, married and had children, the brand was extended – with Gap Kids (1986) and Baby Gap (1990). The business did very well with smart casual clothes when 'dress-down Fridays' were introduced. However, competition from 'more sassy brands', such as Abercrombie & Fitch and American Eagle, hit Gap. The company reaction was to target the younger market, but critics felt the focus was more on teenagers than people in their twenties and that this was a mistake. Gap had failed to get the range quite right. Profits were affected because costs were relatively high through inadequate investment in retail systems.

Pressler was more detached in his style and he was determined to 'replace intuition with science'. He respositioned the brands – with Banana Republic the most

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up-market, followed by Gap and then Old Navy. Products were segmented for discrete groups such as mums, mums shopping for families, fashionable young people and more conservative young people. Considerable work was done on sizing – with sales data used to determine which sizes would feature in different stores. Where sales were inadequate, stores were closed. But three years after his appointment, Gap was still struggling. Revenue fell during the COVID-19 pandemic; 81 stores closed during 2021 and Gap effectively switched to an online-only business.

Gucci

Gucci began life in Florence in 1921 as a manufacturer of superior quality leather goods – but, since 2001, it has been owned by the French business Pinault Printemps Redoute (PPR); it is now based in London. During the 1990s, the company had enjoyed something of a revival in its fortunes.

Gucci is perhaps best known for its shoes and handbags – which are sold in boutiques and specialist department stores around the world. Many of its customers are wealthy Asians. The company has systematically diversified and the Gucci *group* also includes Yves Saint Laurent (clothing, perfumes and other luxury items), the Alexander McQueen, Stella McCartney and Balenciaga fashion labels, and the French Boucheron jewellery business. Yves Saint Laurent had been acquired in 1999. Group sales were in the region of 2.5 billion euros when PPR acquired the business.

PPR appointed a new CEO, Robert Polet, from Unilever. Although he had been responsible for revenues some three times Gucci's turnover, his main experience was with ice cream.

He targeted a number of things:

- Sales of Gucci-branded products needed to double (from 1.5 billion euros) by 2010 – by exploiting opportunities in Asia and India.
- The group overall should adopt the 'lighter style' of YSL.
- Shoes and jewellery sales should be increased.
- The specialist fashion labels needed to be lifted to, at least, break-even performance.
- Marketing and customer awareness was not strong enough.
- The supply chain should be strengthened to 'best in class' performance levels.

Maserati

Maserati started making cars in 1914, and its success as a sports car manufacturer peaked in the 1950s. There have been six owners of the business, the most recent being Ferrari, itself owned by Fiat. Ferrari bought 50 per cent of the business in 1997 and the remaining half in 1999.

In the early years of the twenty-first century, Maserati was losing money. It was not alone. The two luxury brands owned by Volkswagen – the Italian Lamborghini and the French Bugatti – were also struggling. Ferrari inherited a 'ramshackle factory' making 700 cars a year. It 'wasn't really a business any more', but Ferrari was determined to remedy this. Money was invested and capacity increased to 5,000 cars per year. This was 300 cars more than Ferrari itself, which was being kept at that level. The realistic target for Maserati was thought to be 10,000. To put these figures into perspective, the UK's specialist sports car builder, Morgan – albeit a different offering – was making around 700 cars a year. A new CEO, Martin Leach, from Ford, was appointed in 2004.

There was a stated desire to introduce new models, but this takes time. Maserati uses Ferrari engines, as one may expect. The focus of investment would be on the engine, gearbox and electronics – the car must be distinguishable on performance. The most popular model is the sporty Quattro Porte saloon, which competes with the top of the range BMW and Mercedes models. 'The Maserati brand has an intrinsic value that can justify a high price – 10 per cent to 20 per cent above BMW and Mercedes – if the product is right.' Production and sales (all models) did reach 50,000 in 2017, but then fell to 35,000 and 19,000 in the subsequent two years.

Questions

1. How difficult is it to revive a flagging brand and target new customers in a very competitive market?
2. What has happened to Gap and Gucci since 2009, a period when many retailers have been struggling?
3. Was the timing of the attempt to rejuvenate Maserati 'right' or 'wrong'?

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Turnaround strategies

While retrenchment strategies usually have short time horizons, do not affect customers directly and will be designed to yield immediate results, turnaround strategies are likely to address those areas which must be developed if there is to be a sustained recovery. This involves changes in the overall marketing effort, including the repositioning or refocusing of existing products and services, together with the development of new ones. They are designed to bring quick results and, at the same time, contribute towards longer-term growth. They overlap with the internal limited growth strategies outlined in Chapter 8, and they may also be a stepping stone to growth through diversification. The turnaround strategies below are designed to improve the effectiveness of the company's marketing and, consequently, address customers and consumers directly; thus changes should be implemented cautiously.

Changing prices

Prices can be changed at very short notice, with price increases or decreases resulting in increased revenue. Price rises can increase revenue, as long as the elasticity of demand ensures that sales do not decline unacceptably. Price decreases can improve demand and, hence, revenue – again, depending on the elasticity of demand. Hence, an insight into the demand elasticity for individual products and services is required, although forecasting the effect of price changes is somewhat uncertain. In general, the opportunity to increase prices is related to the extent of existing differentiation, and the opportunity to differentiate further and create new competitive advantage.

Unless particular products and services are regarded as under-priced by customers in relation to their competition, a price rise should be accompanied by advertising support and possibly also minor changes and improvements in the product or packaging, and the price change must be justified. The likely reaction of competitors – in turn, influenced by the structure of the industry, and the degree and type of competitive rivalry – should be gauged. Markets with an oligopoly structure, an essential feature of UK industry, tend to follow price decreases but not price rises. Discount structures may be altered to favour certain groups of customers at the expense of others, thus both raising revenue and improving attractiveness to certain market segments. Any negative effect on other customer groups should be monitored carefully.

However, some firms increase prices immediately after being acquired, assuming that existing customers are for now committed and locked in, and can be 'exploited'. The new parent is willing to lose them in the medium term as it has other plans for the business, which may involve rationalization and selling on to someone else.

Refocusing

By concentrating its efforts on specific customers and specific products, relating the two closely together, refocusing requires careful thought and attention in relation to why people buy, in order to identify the opportunities for differentiation, segmentation and competitive advantage. The selection of particular product/market and service/market niches for concentrating effort will depend on revenue and growth potential, gross margins, the extent and type of competition for the segment or niche, and the potential to create a response to marketing activity – such as advertising. In the short term, products or services that sell quickly and generate cash quickly may be attractive opportunities, even if their gross margin is small; and there may be a group of customers for whom an appropriate package can be created.

New product development

The replacement of existing products with new ones may be required to effect a turnaround if a company has been losing competitiveness in an attractive industry by falling behind competitors in terms of innovation and product improvement. Equally, product improvements, designed to prolong the product life cycle, can be useful in low-growth or declining industries, by helping a company to concentrate on particular segments of the market that remain relatively strong.

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Rationalizing the product line

Reduction in variety can enable efforts to be concentrated on stronger market segments and opportunities, particularly where the industry, overall, is losing attractiveness. This strategy needs a proper understanding of costs, and which individual products and services are the most and least profitable. In a multi-product organization, with interdependencies between the business units, **transfer price** arrangements can distort profitability. As mentioned earlier, certain products and services can be vital contributors to overall synergy but, individually, not very profitable; care needs to be taken with these.

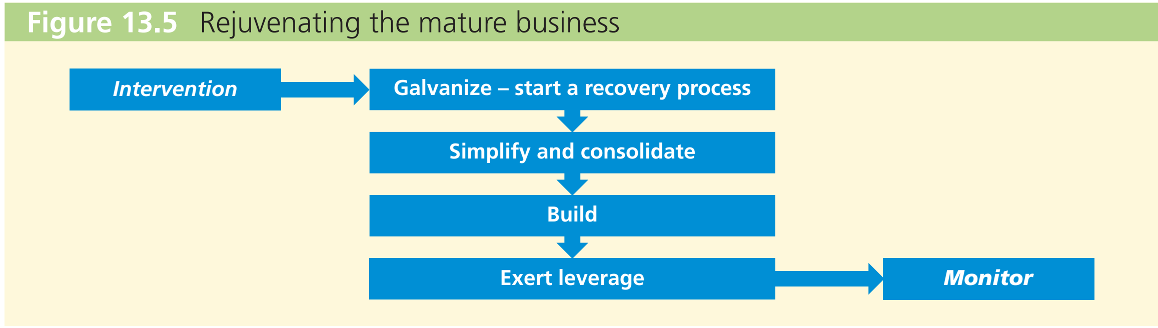
Emphasis on selling and advertising

Selected additional expenditure (e.g. advertising, below-the-line promotions, and the salesforce to promote products and services in order to generate sales revenue) can generate greater revenue, or there may be an examination of all current marketing expenditure to try to ascertain the best potential returns from the spending. However, all of these activities are investments, and their potential returns should be considered. The increased revenue expected from any increased spending should certainly exceed the additional costs incurred; perhaps the opportunity cost of the investment funds should also be assessed. While five alternative approaches to improving marketing effectiveness have been considered in this section, a number of them may be used in conjunction at any time. Moreover, these turnaround strategies may also be combined with the retrenchment strategies discussed earlier, both to reduce costs and to improve revenue at the same time. As discussed above, the divestment of products or business units can reduce assets in retrenchment strategies and also rationalize the product line.

Rejuvenating mature businesses

Baden-Fuller and Stopford (1992) define a mature business as 'one whose managers believe themselves to be imprisoned by their environment and unable to succeed' and, as a consequence, they are invariably giving poor service to their customers and achieving barely adequate financial returns. Often, with a more creative, entrepreneurial, innovative approach, they can be rejuvenated by simply becoming a stronger competitor. This transformation is likely to require a number of developmental steps over an extended period, rather than being achieved with a one-off major project: it implies a change of culture and style. Success will not be instantaneous and will need building. Baden-Fuller and Stopford (1992) have developed a four-stage model for rejuvenation, which is summarized in Figure 13.5.

Figure 13.5 Rejuvenating the mature business



Developed from ideas in Baden-Fuller, C. and Stopford, J. (1992) *Rejuvenating The Mature Business*, Routledge

1. *Galvanization* is when there is a clear recognition of the true state of the business and the establishment of an able management team which is committed to dealing with the problem, which may only need a change of strategic leader; on other occasions, the changes will be more extensive. Managers who are responsible for bringing about the crisis – through poor decisions and judgement, or negligently allowing the situation to deteriorate – will need to change their approach if they do stay. Progress requires resources. Independent businesses are likely to require

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fresh capital and possibly new owners, while subsidiaries of larger organizations will have to justify new corporate investment.

2 *Simplification* follows, implying a clearer focus and the concentration of scarce resources on a smaller agenda to build a strong and sustainable core. Strategies, structures and styles may all have to change, which is sometimes termed 'strategic regeneration' (Chapter 15). The business must next consider new competencies and advantages.
3 *Build* new competencies and competitive advantages which, again, because of resource pressures, will probably take time and prove highly challenging. Finally, true rejuvenation requires the exertion of leverage.
4 *Exert leverage* to extend its new competencies and capabilities into new products, services, markets and opportunities.

To succeed with all four stages, an organization will have to demonstrate that its people have the ability to blend 'left-brain' and 'right-brain' thinking and approaches. We associate 'left-brain' with a systematic and analytical approach, and 'right-brain' with a more creative and imaginative style. Moving from Stage 1 to Stage 4 implies that right-brain thinking will become increasingly important; if existing people cannot adjust (or realize they need to adjust their approach), they may need to be replaced or the organization will not be able to rebuild. Of course, once a new vision (or 'big picture') for the future is created, it will remain important to execute the changes well and pay attention to detail. The systematic, analytical approach is never irrelevant, but it may not be enough. Simply, the 'devil is in the detail' is an appropriate phrase, but the analysts must not stifle the need to reimagine and innovate by dismissing the potential value of creativity and intuition.

These points are illustrated in Case 13.7, where a turnaround specialist intervenes at two businesses, New Covent Garden Foods and Green & Black's Chocolate. This case is really about value engineering and the creation of new customer value. Both businesses received a 'business model make-over'.

Case 13.7 Food Industry Turnarounds UK

William Kendall has demonstrated expertise in turning around companies. He will join a company and allow its founder to make an exit; he will then build the business in terms of both scale and profitability before selling it on as a viable concern.

Kendall is the son of a Bedfordshire farming family and he grew up passionate about both food and business. After school, he spent a year in the Army before reading law at Cambridge. He trained and practised as a barrister before becoming an investment banker. After the crash of 1987, he opted to study for an MBA at INSEAD.

In 1989, he joined the New Covent Garden Food Company – best known in the UK for its fresh soup in cartons, a product the supermarkets have come to copy with their own branded ranges. The company was not making money when Kendall arrived, and this continued for five years. But, with innovation, new products, diversification into fresh gravies, fresh baked beans and fresh sweet sauces, and with more robust management systems, its fortunes were changed around. In 1998, it was sold for £24 million to existing food business S. Daniels, a related business that had moved from canned to fresh and chilled fruit and drinks products.

His next challenge was Green & Black's chocolate, where he and a business partner bought an 85 per cent stake. He was able to do this at a favourable price because the company was 'losing money thanks to a mish-mash of a product range'. The business had been set up by Craig Sams, an American who had come to the UK from California. Sams had been an early campaigner for organic living and he set up Whole Earth Foods in 1967 to make peanut butter, jams, baked beans and cereals. While on a holiday in Belize, he met some Mayan Indians and spontaneously offered to buy organic cocoa from them if they started to grow it. Sometime later, they took him up on his offer! As a response, he started Green & Black's in 1991 and its chocolate became the first product in the UK to feature the Fair Trade kite mark, signalling that a fair price was being paid to the farmers who supplied it. It symbolizes an ethical business. Kendall and Sams knew each other and got on well, but Kendall commented that Sams was not a businessman at heart. 'He has brilliant ideas, but soon

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moves on to the next thing.' In other words, he starts things but does not stay focused and build the business.

Kendall immediately rationalized the product range to focus on chocolate. He set out, as he had at Covent Garden, to build a strong management team so he could step back from operational commitments. To generate funding, he negotiated a sale of 5 per cent of the equity to Cadbury Schweppes. The product was clearly a luxury product, not an essential foodstuff, and it was priced higher than the main branded chocolate bars. But it was high quality and customers 'get their chocolate hit from eating less than they would of the main brands'. Kendall recognized the importance of supermarkets and targeted them. Supermarket sales of £2 million in the 1990s increased sevenfold in the first four years that Kendall was in control, and the annual growth was around 40 per cent through this channel. Margins may be tight but it was a very significant route to market for a confectionery product. Improved marketing, new products and ever-increasing quality standards went hand-in-hand with the supermarket strategy. In 2006, the whole business was sold to Cadbury Schweppes for some £20 million. Inevitably, there were sceptics who did not believe the new owner would preserve the strong ethical values of the business. Kendall dismissed this argument and said they had been able to work with Cadbury Schweppes successfully for three years and 'big business is not automatically evil'. Cadbury has since extended its commitment to Fair Trade, although in 2010 it was acquired by the US foods business, Kraft.

William Kendall became the chairman of Nemadi Advisers, investors in early stage consumer goods businesses with an environmental element.

Questions

1. Would you think any strategic leader who 'understands the theory' could be a turnaround specialist like William Kendall, or do you think he has certain qualities and skills that make him the expert he is?
2. What is the 'secret of his success'?

The whole enterprise must become more customer-focused, committed to efficiency and improvement, and responsive to environmental demands.

Returning to the theme of Figure 5.10 earlier in the book, through double-loop learning an uncompetitive firm has found new opportunities for adding value and creating advantages, and has then used single-loop learning initially to leverage this new advantage.

Divestment strategies

Divestment can be *internal* – the closure of a plant as part of a rationalization programme, or *external* – the sale of part of the business. The justification will be similar for each, with resources that have been saved or generated being reallocated. In the past, pharmaceutical companies have divested non-core assets such as medical devices and manufacturing plants to cut costs and to focus on core strategies – primarily, drug development. However, while some pharma companies have narrowed their focus, targeting specific disease areas for future growth, others have taken a broader approach in an effort to spread risk and return on investment.

Davis (1974) argues that divestments are often sudden decisions, rather than decisions reached as part of a continual evaluation process which periodically reviews all of the products and services in the firm's portfolio. Companies that utilize portfolio analysis as part of their planning will be in a position to identify which parts of the business are the poorest performers and are possible candidates for divestment. However, Devlin (1989) contends that effective divestment is a skill that few strategic leaders actually possess – which itself is a critical strategic issue, given that many acquisitions fail to achieve their expected returns. While divestment

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may suggest an admission of failure, it can be used positively. There will be reluctance to sell a business unit to another company, especially a competitor, who may succeed and transform the business into an effective performer – particularly important if such success could pose a future threat to business units that have been retained. For these reasons, divestments are often associated with a change of strategic leader, as an outsider is less likely to feel any loyalty to past decisions.

At this point, it would be valuable to re-read Online Case 5.1 and also Case 10.6 on Richard Branson and Virgin. The case documents a number of important strategic changes that were not associated with any change of leadership. Branson chose to sell his music business to Thorn-EMI; he also opted to form partnerships with Singapore Airlines and Stagecoach (Virgin Trains). These deals were selected as they helped secure valuable investment funding; they have also been part of an overall repositioning that has helped Virgin to grow and succeed.

In selecting a divestment candidate, both financial and strategic aspects are important: the current position in the product life cycle and the likely future potential for further growth and profitability; the current market position and opportunities for competitive advantage; the future potential for cash generation and future investment requirements in order to remain competitive (linked to this is the opportunity cost of the resources being utilized); identified alternative uses for the resources which could be freed up and, in certain cases, the extent of the need to free up resources for relocation; and the ability to find a suitable buyer willing to pay an acceptable price.

Once the decision to divest has been taken, there are further considerations. First, how active and how secretive the search for a buyer should be. Arguably, there should be an active search for an acceptable buyer who is willing to pay an appropriate premium, on the grounds that it is all too easy to sell a business cheaply. A low price could be expected where the sale is hurried, perhaps because there is a pressing need to raise money, or where a first offer is accepted without an exploration of other options. Another argument is in favour of secrecy and speed, as opposed to prolonged and publicized negotiations. Employees may leave if they feel that their company is no longer wanted by its existing parent, and relationships with important suppliers and customers may also be affected. In addition, simply offering a business for sale may not be productive. Sales must be negotiated and potential buyers must be vetted. The terms of the sale should be financially acceptable, and the buyer should not be an organization that can use the newly acquired business to create a competitive threat to retained activities. Devlin (1989) suggests that, in general, speed is of the essence. Long delays are likely to mean lost confidence. However, some businesses may be difficult to sell.

Second, buyers can be categorized into different types, and the potential of the business for them needs careful consideration during negotiations:

- *Sphere-of-influence buyers* may expect immediate synergy from the acquisition. These would include competitors for whom it would be horizontal integration, and buyers and suppliers for whom it would imply vertical integration. These are the buyers who are most likely to pose future threats unless the divestment removes any involvement in the industry in question.
- *Related industry companies* – these may not be current competitors, but rather be companies for whom it could be possible to share activities and transfer skills.
- *Management buy-outs* involve the purchase of a business from its existing owners by the current managers in conjunction with one or more financial institutions. Some buy-outs occur because family owners have no organized succession and a sale to the existing managers is more desirable than a sale to an unknown outsider. Financiers are attracted to management buy-outs, which offer the potential to earn higher returns than investing in large companies and lower failure rates than traditional start-up businesses, but they will typically look to earn back their investment – usually through a public share offering – in around four years. Banks will typically agree to a higher percentage of debt in relation to equity (gearing) or in relation to total capital employed (the debt ratio) than is conventional, and will look for a cash flow that can both pay the interest and repay the debt after an agreed number of years. Managers must be able to make the business more competitive and overcome the constraints imposed by the high debt burden, and able to generate a positive cash flow. The Strategy activity in Chapter 12 shows how private equity was invested in Debenhams and how a handsome return was earned quite quickly, but the situation deteriorated in later years ultimately resulting in the closure of all Debenhams stores.

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- *Management buy-ins* occur when a group of outside managers is brought in to run a company which is sold to them and their backers, rather than to existing managers. The disadvantage is the loss of continuity and the lack of insight and experience in the particular company; a possible advantage in certain circumstances is the influx of fresh ideas.

Third, some argue that the cash raised from the sale should be deployed effectively and without undue delay. If a company is decreasing in size, building up reserves of cash and can find no suitable investment opportunities, it may become vulnerable to acquisition. Ideally, a use for the cash will be determined before the sale, but implementation of a combined sale and investment may prove difficult. Devlin argues that, where these changes can be managed effectively, divestment can provide a source of new competitive advantage.

Having explored retrenchment, turnaround and divestment strategies, these strategies are discussed specifically in the context of an economic recession, and this chapter concludes by considering alternative strategies for declining industries and how the most appropriate strategy may be selected.

13.5 Managing in a recession and a declining industry

Managing in a recession

Strategy in Action 13.2 The impact of the COVID-19 pandemic

This shock, beginning in spring 2020, saw customer orders for some (but by no means all) products dry up, with some businesses effectively forced to shut their doors with very little notice. New strategies, tactics and plans had to be made 'on the move'. The UK Government furlough scheme (paying 80 per cent of wages to laid-off workers for three months initially, and lasting until October 2021) was a massive help. At the same time, people everywhere (unless they worked in key front-line services, including hospitals and supermarkets) were required to work from home. Increasingly, more shops and hospitality businesses were allowed to reopen, with staff returning to places of work. Customers, of course, changed their lifestyles and buying habits; online shopping grew rapidly. Some products and services were in greater demand; others saw demand fall.

The questions strategic leaders (facing threats to their business) had to address – at short notice – were along the lines of:

- Just how much cash reserves do we have? Do we really need?
- Can we get unfinished orders out – and are they still required?
- Can we accept any new business? If so, can we get hold of the resources we need (a supply chain issue) and satisfy some of these orders somehow?
- Can we switch our resources to other activities, for which there is demand?
- Can we secure cash by selling inventory? *One plant nursery in Winchester, UK, for example, 'gave away' plants to local residents and asked for donations.*
- Can we secure loans we can afford to take out? *There was a (limited) government-backed scheme.*
- How long can we survive – with and without financial interventions? *This aspect needs to be set alongside external opportunities to return to work, both short term partial movements and longer term when the business might properly be able to rebuild.*
- When might we get back to normal? What do we mean by 'normal'? Is it a 'new normal'? And will people want to come back to work?!
- Can we make workplaces safe again until there is a COVID-19 vaccine? This implied the ability to socially distance and maybe the possibility of wearing face masks and maybe even other personal protective equipment (PPE).

Some businesses, of course, did spot opportunities – but they needed to have the capacity and capability, resources and flexibility. Employees might have to learn new skills quickly. Examples included: businesses that could switch to producing PPE and ventilators; home delivery services, including retailers such as Amazon, together with various courier businesses; supermarkets with home deliveries (and click-and-collect); and restaurants providing take-away alternatives.

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Meanwhile, all staff working for the National Health Service (NHS) were stretched and working long hours, and not necessarily at the jobs they were used to. They were at the 'front line' and not immune from catching COVID-19 themselves. When they were unable to work, this situation put even greater pressure on their colleagues. Of course, NHS employees were also redeployed (or volunteered out of hours) to help with the essential vaccination programme – which we explore separately in Chapter 17. Retired employees returned to work to some degree; but training new doctors and nurses cannot happen 'overnight'. While there were valuable short-term adjustments to help the system cope, waiting lists for 'routine' procedures became increasingly stretched – presenting long-term consequences.

Consequential operational challenges

To seize the opportunities that were emerging, (some) organizations had to deal with (some of) the following challenges – with the ones below offered as examples only, not a comprehensive list:

- the robustness of their information technology (IT) systems when people moved to home-working in large numbers – and at the same time and at short notice
- the ability of staff to deal with the social pressures of home working alongside their other challenges of children needing home schooling. This arrangement did reduce their commuting costs, of course, and organizations saw some overheads fall
- the capacity and flexibility of supply chains – linked to an ability to actually deliver to customers. *Furniture deliveries from European manufacturers took longer; Nando's was short of fresh chickens at one point; and McDonald's was unable to provide milkshakes for a short period.*
- where relevant … the ability of people to carry on working and providing certain services where social distancing was a real issue.

Brexit also happened part-way through the period of the pandemic and brought its own issues, although not all were entirely related to either COVID-19 or Brexit since other social or economic changes may have coincided with these major disruptive events. One challenge that affected many organizations that transported goods to customers or to retail branches was a shortage of long-distance lorry drivers, which put further pressure on supply chains. The underlying 'pull' factors here were also that the wages had risen in the home countries of many of these lorry drivers as well as a desire to be closer to family and be back somewhere where they felt 'a greater sense of belonging'. Nonetheless, Brexit and the pandemic could also have been parallel 'push' factors that caused them to leave the UK. Again, it takes time for new drivers to become qualified; there is no instant fix for certain challenges, even if there are people willing to get involved.

The first two years of the COVID-19 pandemic (in 2020 and 2021) caused a serious – but temporary – decline in economic activity. It was not an economic recession per se, but it required a similar reaction – which we consider briefly in Strategy in Action 13.2. Demand for some products and services fell, while increasing for others. Some were, but not everyone was affected by a loss of earnings. Demand was driven by the change to a lockdown lifestyle and a switch to home-working (and home schooling) for many households. COVID-19 thus presented a series of challenges and questions for organizations – the most flexible, resilient and adaptable ones were able to meet the challenge. There remain increasing financial challenges ahead for economies across the world.

Some years before, the early 1990s were characterized by an economic recession – not unusually, as economies experience cycles. Typically, the latter years of the decade provided clear evidence of an economic recovery in the UK but, this time, the real beneficiaries were service businesses, rather than the manufacturing sector, which was affected by the high value of the pound sterling. This early 1990s recession was global and it affected most countries, industries and businesses, regardless of size or sector. Since then, other world economies have performed worse than the UK, which at the time benefited from low inflation and low interest rates, and also from investment in the public sector.

While it was always likely that another recession would occur at some stage, when it happened it was a deep recession affecting the United States, Europe and Asia, which then impacted on the developing countries such as China and India that supply them with manufactured goods, and the rest of the world as the fallout from the banking crisis spread worldwide. The recession that began in 2008/09 saw the traditional economic downturn – accompanied by limited and expensive credit, the so-called 'credit crunch' brought about by the banks becoming

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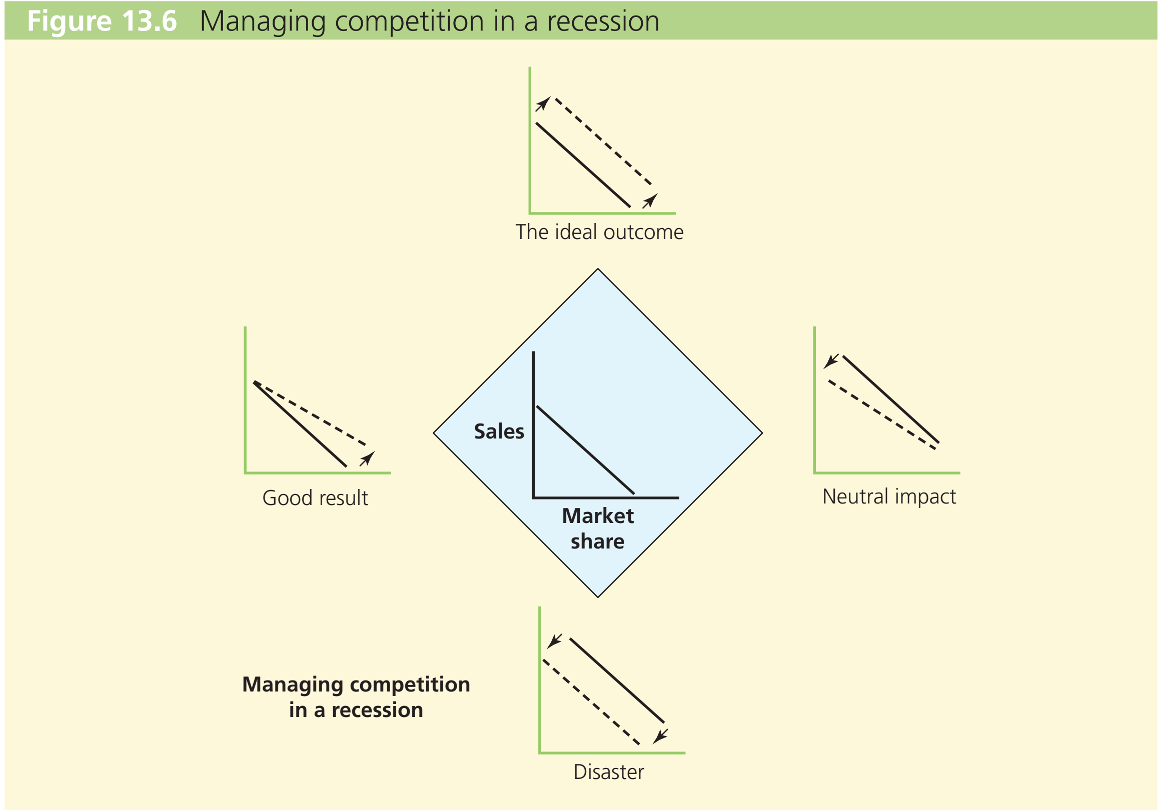
defensive as they tried to recover from the imprudent lending that had characterized the previous few years, fuelled by policing and regulation of financial services. The government put pressure on the banks to lend but things were slow to happen. In Ireland, the government would only lend money to the (needy) banks if they promised to lend, rather than shore up their capital reserves, which was only likely to happen if the government offered 'guarantees' against loan defaults. The latest recession was also particularly volatile and uncertain, and was manifest by the suddenness and steepness of the downturn in orders, and the uncertainty caused by the lack of clarity and agreement on its length. Running a business became more uncertain – a threat to some and an opportunity to others, such as eBay making much money helping companies clear surplus stocks.

For those companies that could survive the recession with their capacity and employees largely intact, the turnaround in the economy would be a genuine opportunity. In 2009, some companies – for example, all the leading car manufacturers – gave their workers extended holidays on part pay, while others were reducing hours and some reduced pay. Large companies – where they were able – took extended credit, something that is always easier if the suppliers are small companies with only limited power and influence. For any that could grant extended credit, there was a chance to pick up fresh orders.

This more recent global recession, given its length and depth, brought new challenges for both governments and organizations. The impact of Greece's struggle to repay debt interest, for example, had repercussions across Europe, especially in those countries tied to the euro. Other countries, especially in Southern Europe, saw unemployment rise and a consequent fall in demand for some products and services. Governments around the world had to decide the nature and severity of any 'austerity' measures they might impose; their choices affected many things – again, including the demand for certain products and services.

Figure 13.6 illustrates possible competitive outcomes from a recessionary period, with the two key variables being sales and market share. During the recession, sales overall in an industry will go down. A neutral effect for all (or any single competitor) would be reduced sales but retained market share. A 'perfect' result would be increased sales and market share, if some competitors are forced to close. A good result would be constant sales, which would imply an improved market share. Reducing both sales and market share would be a disaster and reflect a weak competitor.

Figure 13.6 Managing competition in a recession



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Retrenchment strategies are frequently required in a recession as demand falls and costs need containing. At the same time, there is a need, wherever practical, to invest and prepare the organization to benefit from the recovery when it comes. Recession alone will not necessarily put a company into a crisis or turnaround situation; rather, it highlights existing weaknesses either created, or hidden, in boom conditions. The organizations that are best prepared to cope with a recession are those with relatively low borrowings. Highly geared companies may be forced to divest assets in order to raise cash to cover their interest and repayment needs.

Clifford (1977) has suggested that companies that survive a recession most successfully are characterized by superior management which emphasizes the protection of margins, the efficient use of capital – and a concentration on markets or segments where distinctive competitive advantage is possible. Such competitive advantage will result from more effective cost control, innovative differentiation, a focus on service and quality, and speedy reaction and change in a dynamic environment. An economic recession will typically force organizations to be creative in their search for cost reductions, especially if productivity drives (perhaps IT related) have already eliminated a number of operational inefficiencies. Cost savings must then be controlled to ensure that they do not creep up again, and the focus of the cost-cutting is critical. Training and research and development, for example, should not be sacrificed unnecessarily, because new ideas and service quality are increasingly important for adding value, helping customers to find new competitive opportunities themselves and persuading consumers to buy when their spending power is limited. Research and development, then, should be managed better, rather than cut, and directed more towards short-term improvements. However, the long-term needs should not be wholly ignored – in particular, the development time for new products and services should be speeded up.

Dividend payments and investment funding may have to be traded off against each other. Some organizations will reduce dividends when profits fall to conserve their resources; others will maintain them to appease shareholders. Moreover, increasing global competition has forced companies to target markets and niches more effectively and, in many cases, increase their marketing, rather than cut expenditure. The emphasis has typically focused on efficiencies and savings, rather than luxury – consumers with less discretionary purchasing power have been more selective.

Whittingham (1991) reinforces points made earlier in the book and contends that innovation and improvements in products and services are more effective uses of scarce resources in a recession than is diversification, and that cutting back too much leaves companies exposed and under capacity for the recovery. Ideally, organizations will consult and involve employees, seeking negotiated pay freezes and reduced hours, rather than making staff redundant – providing greater flexibility to grow. And yet, many firms will not have sufficient resources to pursue their preferred option.

When companies emerge from a recession and attempt to satisfy increasing demand, they need to control events, monitor the cash flow and guard against overtrading. Paradoxically, a recession can be an ideal time to invest for the future to ensure that the organization is ready to capitalize fully when the economic recovery begins – possibly implying investing in new plant and equipment, in research and development, or in new IT at a time when the company is struggling. The secret is money: if a company builds up a cash mountain when its revenues and profits are high, it is likely to be criticized for not finding opportunities to spend it; it may even come under pressure to return some of it to shareholders, or be persuaded to diversify or acquire unnecessarily. Such a cash mountain helps to pay staff when future revenues and profits are restrained, allowing an organization to retain the people it does not want to lose, rather than face enforced redundancy programmes.

The Institute of Chartered Accountants in England and Wales (ICAEW, 2009) offers eight key strategies for coming through an economic downturn:

1. Manage risk and uncertainty – implying understanding where the business may be most exposed; for example, if any key supplier were to close or disappear, or if a major client was lost, or currency movements could be a huge problem.
2. Manage cash, which for some is easier said than done in a credit crunch, as a recession is exactly when a business needs cash reserves because these reserves can: (a) help pay wages when the order book is thin and (b) be there for investing to seize new opportunities from others who are less able to respond.

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3. Try to secure any funding shortfalls that are going to be needed for future investment, such as selling unwanted or spare assets (assuming a buyer can be found), as the opportunity cost of the money released can be greater.
4. Review the organization structure and its cost base, by outsourcing non-critical items, but the firm must not do things that may damage its long-term interests for short-term pragmatism.
5. Ask for professional advice and support if some decisions take the organization into 'unknown territory'.
6. 'Manage the year end' by being open and honest about progress, so as not to spring unnecessary surprises on investors.
7. Engage and involve employees, who know where savings can be made; if painful decisions have to be made, then there are 'good' and 'bad' ways of dealing with the problem.
8. Finally, look ahead, plan ahead. The recession will end; new opportunities will arise. Is the company's business model appropriate for the future?

Table 13.2 provides a useful summary of these and other points.

Table 13.2 Managing in a recession

In a recession, companies should:

- determine and clarify strategic priorities
- be willing to act rather than procrastinate with some tough decisions
- stay fully informed about trends and changes in relevant industries, making use of IT for this and other potential benefits
- monitor gross profits and cash flow very carefully
- identify where there is any overcapacity
- spend carefully
- seek to extend payment times to creditors
- look for possibilities to reduce overheads or fixed costs
- cut back on borrowings if at all possible
- monitor currency fluctuations if the company trades in foreign currencies, buying forward where appropriate
- recognize that high prices may be unsustainable and act sooner rather than later
- keep staff informed of the situation, taking as positive a stance as is realistic
- tighten staffing levels where appropriate, but not by losing key people
- make any necessary redundancies all at once
- invest in training for those who remain and look to retain morale
- stay in close contact with customers and look for opportunities where both parties can help each other
- seek out relevant marketing opportunities at home and abroad – recessions are uneven in their impact
- accept that flexibility and innovation are crucial.

Accenture (2003) suggested the following companies as examples of strategic successes during the 1990s recession:

- Nokia divested a range of businesses and invested in mobile telephones, becoming (for a while) the world's leading manufacturer of handsets.
- Southwest Airlines continued to expand, opening up new routes and cities, never deviating from its winning competitive formula; it was consistently profitable when other airlines were losing money.

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- Walmart also grew (opening up progressively more new stores) and remained focused on its existing strategies, while many other rivals changed their strategy in an attempt to boost sales.
- In contrast, Samsung decentralized to give managers more autonomy.

In every case, we can see evidence of investment in a clear business model, indicating that successful companies do not spend excessively in boom times; instead, they generate cash, reduce debt and build up their resource base, providing flexibility. But other businesses will perish in a recession. It is worth commenting that, in the more recent recession since 2008, three of the four companies cited here have again proved how robust they are. Nokia, however, has been less successful and has been affected by the massive changes in mobile telephony and the dramatic impact of new smart phones.

At this point, you may like to think of other businesses you know that have done well in the recession since 2008 and consider the reasons why.

Strategies for declining industries

Morrow Jr. *et al*. (2004) note that strategies vary according to whether the sector is 'growing' or 'declining': for 'growth industries', asset retrenchment enhanced performance; in 'declining industries', cost retrenchment did the same, whereas 'asset retrenchment' exacerbated performance. Distinguishing the public and private sector, turnaround is essential, with 'failure' in the public sector being conceptualized quite differently from private sector firms running out of money. For example, schools or hospitals (which may, in some ways, resemble declining industries due to under-funding and various other crises) not meeting their objectives of the necessary quality required – and, hence, exploring endeavours to achieve a 'turnaround in their performance' (Walshe *et al.*, 2004) with private and public sector turnaround – have been compared and contrasted (Paton and Mordaunt, 2004).

Rarely is an industry unattractive for every company competing within it and, indeed, mature and declining industries can be made attractive for individual competitors if they can find appropriate and feasible opportunities for adding value and creating competitive advantage. Although tea is a more popular drink than coffee in the UK, consumption has been declining for a number of years. Tetley became the market leader in the 1990s and it has adopted a number of strategies to retain its leadership – for example, promoting more specialist teas such as Earl Grey, Red Bush and Lapsang, and it introduced draw-bag tea bags, and the increasingly popular fruit flavoured infusions. After being bought out by its managers (from Allied Domecq) in 1995, Tetley formed a joint venture with Indian tea grower, Tata, now its new owner. Some firms experiencing decline in a mature industry will cause their own demise through dated, inappropriate competitive strategies. The US company Republic of Tea (see the case in Chapter 3) has succeeded in the same industry with a very different niche approach.

In some cases, an innovative new strategy by one competitor can rejuvenate the whole industry. When an industry has reached maturity or begun to decline, while demand overall is declining, the pattern can vary markedly – some sectors or segments may be static or expanding. Consumers will be knowledgeable because the product or service has been around for a while; also, many will become increasingly price conscious and prices will tend to fall in real terms. The 'commodity' perception of products will increase, and distribution is likely to become more concentrated.

Companies will, again, attempt to find new ways of adding value and differentiating but, as time goes on, the opportunities become increasingly limited. Paradoxically, they will often find it harder to justify both research and development spending (to develop new variations) and marketing expenditure to inform and persuade customers of the differentiation. However, as the decline continues and overcapacity emerges, the weakest or least profitable producers will tend to withdraw from the industry, relieving some of the pressure on those who remain.

Harrigan (1980) considers whether retrenchment, turnaround or divestment is the most appropriate strategy for an individual competitor in a declining industry. Strategies of leadership and **niche marketing** (turnaround), exploiting or harvesting (retrenchment) and divestment are considered in the light of the overall attractiveness of the industry while it is declining and the opportunities for an individual competitor to create and sustain competitive advantage, as illustrated and defined in Figure 13.7.

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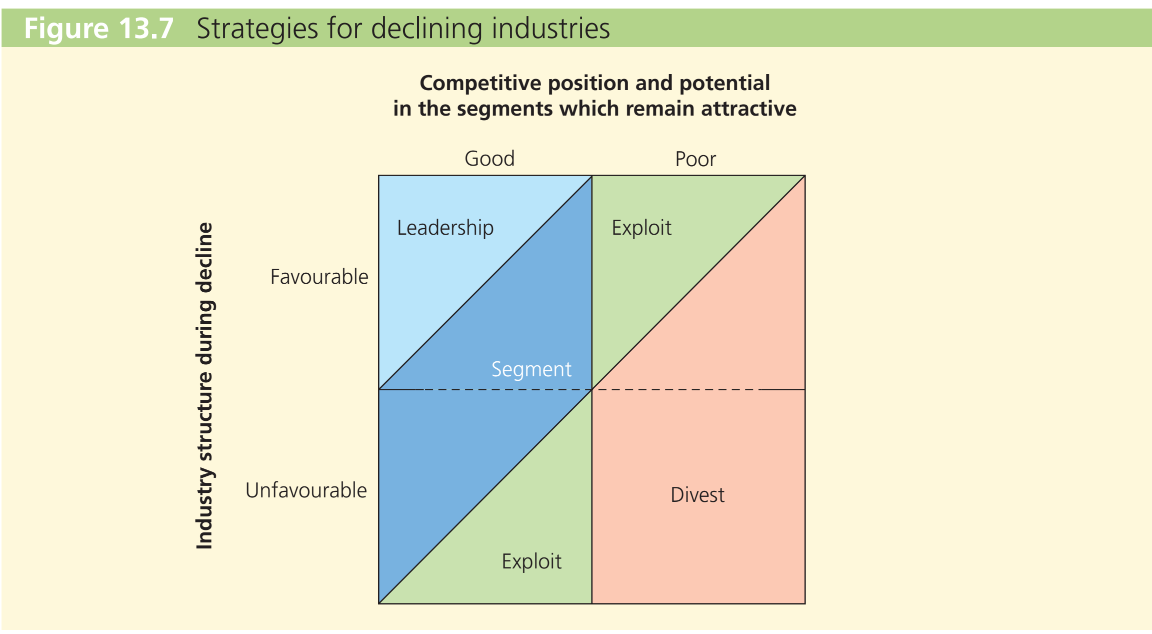
Figure 13.7 Strategies for declining industries



Developed from ideas in Harrigan, K.R. (1980) *Strategies for Declining Businesses.* Heath; Harrigan, K.R. and Porter, M.E. (1983) 'Endgame Strategies for Declining Industries', *Harvard Business Review*, Vol. 61, No. 4, July–August, pp. 111–121

Leadership	Selective investment: turnaround Invest as appropriate to give real competitive advantage Idea: become one of the strongest competitors in the declining industry with either the lowest costs or clear differentiation
Segment or niche	Selective investment: turnaround Identify one or more attractive segments, those with greatest potential for longer-term survival or short-term returns, and seek a strong position while divesting from other segments
Exploit or harvest	Phased withdrawal; retrenchment Controlled disinvestment, reducing product alternatives, advertising and so on in order to cut costs Problem: losing the confidence of suppliers and buyers as they witness the obvious reduction of commitment Must lead eventually to divestment or liquidation
Quick divestment	Immediate sale or liquidation

Harrigan contends that the most appropriate strategy depends on four factors:

1. The nature of the decline, and the causes – the speed at which decline is taking place, and whether specific segments are still surviving and offering differentiation and niche marketing opportunities for companies who can create and sustain competitive advantage – which affect the industry attractiveness.
2. The ability of a company to target these market segments effectively and create consumer preference, which is affected by company strengths and weaknesses.

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3. The exit costs for all competitors, which influence the degree of urgency that companies feel towards finding a way of remaining competitive, rather than simply withdrawing and relate to:
   - the inability to find a buyer for the business, and the cost of closure
   - the strategic significance for the company as a whole, particularly if vertical integration strategies are affected
   - the possible effect on key stakeholders, such as shareholders, managers and the strategic leader, especially if they have had a long-term commitment to the product service or business unit.
4. Linked to all these, the opportunities or threats which exist as a result of competitor activities, what they choose to do and why. If the product is strategically significant to them, certain competitors may choose not to withdraw, accepting very low profits or even no profits, and thereby making it more difficult for others.

Figure 13.7 encapsulates the first two points, but the decision also involves the last two. Competitive advantage is likely to be attained by companies who are aware early of the decline, and the opportunities present during the decline, and who seek to create the most advantageous positions ahead of competitors. Companies reacting when things have already started to go wrong are less likely to create an effective strategy.

In Chapter 12, we stressed that organizational issues and difficulties often result in the failure of the diversification and acquisition strategies to yield the desired results. Organizational issues will again be important in the case of recovery strategies. Time is likely to be limited and proposed changes will have to be implemented quickly. The support and co-operation of managers and other employees will be essential, particularly where redundancies, changes in organization structures or changes in working practices are required. Quite possibly, changes in attitudes – an issue of organizational culture – will be involved. Although the gravity of the situation may be visible, and the dangers of failing to change clearly understood, the changes will need to be managed properly if they are to prove effective. The issues involved in managing change are discussed in Chapter 15.

Research Snapshot 13.1

Business failure, turnaround and recovery are well researched within the academic literature, especially in the entrepreneurship and small business field.

Recent studies have investigated failure 'attributions', whether internal (within the business) or external (due to outside forces) (Amankwah-Amoah, 2015; see also on causes, stages, and consequences, Amankwah-Amoah, 2016; and on effects, Amankwah-Amoah *et al*., 2018), and 'ascriptions' (again, about what caused the business to fail). Notably, these authors suggest that: 'entrepreneurs with external stable ascriptions have even less perceived learning when they abandon their previous domain in their new venture' (Amankwah-Amoah *et al*., 2018). Amankwah-Amoah and Wang (2019) have also reviewed global business failures comprehensively. Evidence suggests higher levels of learning from internal causes of failure as opposed to external causes (Yamakawa and Cardon, 2015) and, indeed, that 'regenerative' entrepreneurs learn from their various failure attributions and how they subsequently respond (Walsh and Cunningham, 2017).

Entrepreneurial learning after business failure, which as discussed earlier in the chapter leads to grief, can involve higher stress levels ('harm or loss') leading to more grief (Jenkins *et al*., 2014) or, indeed, building on attributions as mentioned above, to blame and also considerable regret (Quach *et al*., 2021). A more realistic – or even pessimistic – perspective on 'subsequent ventures' may be taken by entrepreneurs with prior failure experiences – more particularly noting that 'portfolio' entrepreneurs were less optimistic than 'serial' entrepreneurs (Ucbasaran *et al*., 2010). These authors also investigate costs, learning and outcomes of failure focusing on 'life after business failure'

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(Ucbasaran *et al*., 2013). However, the assumption that entrepreneurs learn from failure is yet one more area of conventional wisdom that unfortunately represents lazy thinking. Although some do, some clearly do not. In an emerging economy, sub-Saharan African context, it is clear that firm performance does not necessarily improve due to prior 'business failure experience' (Boso *et al*., 2019), but rather that it can do so: 'when it is channelled through entrepreneurial learning under conditions of increasing levels of entrepreneurial learning and a greater degree of alertness to new business opportunities' (Boso *et al*., 2019, p. 370). It would be interesting to test whether this pattern of behaviour holds in the West, which it may do, the problem being that many of the datasets are of successful post-failure entrepreneurs who learned from failure rather than a wider cohort of failed entrepreneurs trying again.

Indeed, 'recovery and re-emergence from failure is a function of distinctive learning processes that foster a range of higher-level learning outcomes', in particular relating to networks, 'pressure points' of managing a business, and thus potentially making them better entrepreneurial managers and strategists in future (Cope, 2011). Amankwah-Amoah *et al.* (2018) explained the way in which subsequent re-entry to entrepreneurship is impacted upon by entrepreneurial learning from failure due to 'imprinting entrepreneurs' experiential knowledge upon their successive new start-up firms'. Scholars have explored how the stigmatization of failure can lead on to positive 'epiphanies' from which entrepreneurs learn dramatically (Singh *et al*., 2015), the interrelationships between spirituality and failure (Singh *et al*., 2016), and how resilience can influence failed entrepreneurs establishing a subsequent new venture (Corner *et al*., 2017). Further, Mandl *et al*. (2016) found that whether entrepreneurs established a further business after a failure depended on their perception of why the previous failure occurred. Coverage in 'narrative accounts' such as in the case of Nokia (Laamanen *et al*., 2016) or in the media can influence perceptions of businesses, or can 'signal business failure' (see e.g. Sheng and Lan, 2018), or can also impact on entrepreneurs' decisions. 'Failure stories', i.e. learning from business failures of other entrepreneurs, have a strong influence upon entrepreneurs (Bledow *et al.*, 2017), while failure attributions (whether internal or external) impact public perceptions of entrepreneurs who had a failed business as well as their impression management as they present certain 'narratives' to the public (Kibler *et al.*, 2017, 2021) along with the way the 'digital identity' of an entrepreneur changes (e.g. on Twitter) following a business failure (Fisch and Block, 2021). Firm characteristics including their age and productivity influence exit (Aga and Francis, 2017). Additionally, entrepreneurs' characteristics, such as family (Chirico *et al*., 2018, 2020; Jayawarna *et al*., 2020; Madanoglu *et al*., 2020), especially for immigrants (Bird and Wennberg, 2016), age (Lin and Wang, 2019; Baù *et al*., 2017), 'multiple-owner experience' and gender (Baù *et al*., 2017; Justo *et al*., 2015; Simmons *et al*., 2019), as well as their self-efficacy and personal financial loss based on 'prospect theory' (Hsu *et al*., 2017), influence both the decision to exit and, as evident from some (but not all) of these studies, subsequent re-entry into entrepreneurship after failure. Indeed, despite prior and widely held assumptions that women entrepreneurs have higher failure rates than men, they are, in fact, 'more likely than males to exit voluntarily' (Justo *et al*., 2015). Luzzi and Sasson (2016) found that former entrepreneurs (who exit, as distinct from fail) are paid more as employees.

Other more psychology-based studies have investigated psychological explanations for failure, such as hubris or overconfidence (Artinger and Powell, 2016; Picone *et al*., 2014), alongside stress factors such as work–family conflict and also evidence of 'emotional exhaustion' leading to entrepreneurial exit in the United States and Australia (Sardeshmukh *et al*., 2020). They have also examined different emotions (whether positive or negative) and, indeed, how failed entrepreneurs make sense of the events and possibly learn from these experiences (Byrne and Shepherd, 2013), and regulate their emotions (Fang He *et al*., 2018). While Byrne and Shepherd (2013) focus very much on cognition (i.e. thinking processes and how they impact how entrepreneurs interpret events, their own actions, and so on), other research on cognition suggests that their attributions of failure can actually lead them to initiate a new start-up and that these attributions can actually influence how the new business grows (Yamakawa *et al*., 2013), or in discovering new opportunities (Mueller and Shepherd, 2017) – for example through enhanced entrepreneurial alertness (Boso *et al*., 2019). That ties in with other evidence that suggests high costs of going into a different line of business, rather than admitting that they may have internal weaknesses ('leadership' related, e.g. 'strategy, decision-making and planning style'), because they 'blame the external environment and change industries for their subsequent venture, and that this industry change is costly in that it invalidates potentially useful industry experience, hindering their

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subsequent venture' (Eggers and Song, 2014). Nummela *et al*. (2016, p. 51) further find that, in the case of international new ventures, 'managerial capabilities, particularly managerial experience and business competence, filter the external drivers of failure'.

Wennberg and DeTienne (2014) have reviewed the literature on exit (as distinct from failure) and clarified the intentions and strategies behind exit and issues relating to performance – for example, whether the wages earned from self-employment are worth continuing, and other connected matters. More recently, as well as their respective edited book with chapters and a review article that we would recommend to deepen your understanding of exit (DeTienne and Wennberg, 2015, 2016), DeTienne *et al*. (2015) have investigated exit strategies by focusing on their typology of: (i) 'financial harvest', (ii) 'stewardship' and (iii) 'voluntary cessation', and test the role of the entrepreneur's strategies in relation to each of these types of exit. (For other reviews and discussions of definitions of failure or exit, please refer to Eklund *et al*., 2020; Jenkins and McKelvie, 2016; Khelil, 2016; Kücher and Feldbauer-Durstmüller, 2018; Walsh and Cunningham, 2016; and of fear of failure, Cacciotti *et al*., 2016, 2020).

Recent research into turnaround and recovery provides some interesting and relevant pointers to strategies for firms experiencing financial problems and the risk of failure. Given that much of the above literature focused on *internal* factors related to entrepreneurs and managers, and while we cannot downplay the importance of good financial and general management and strategy, *external* contextual factors (see the cross-country variations in Benyon *et al*., 2020; and, with respect to entrepreneurial ecosystems, Guerrero and Espinoza-Benavides, 2021) are vitally important too; as well as, ultimately, how they respond to a crisis or recession and that includes specifically how they deal with turnaround and recovery. In the context of a recession, a literature review synthesizes extant knowledge to suggest six turnaround strategies, which are 'cost efficiencies, asset retrenchment, a focus on the firm's core activities and building for the future and … reinvigoration of firm leadership and culture change' (Schoenberg *et al*., 2013). Other reviews include those proposing a model to help us understand and theorize decline of organizations and turnaround (Trahms *et al*., 2013); distinguishing 'retrenchment' and 'recovery' (Schweizer and Nienhaus, 2017); emphasizing the importance of 'timing, speed and rhythm' in retrenchment (Barbero *et al*., 2017); or where organizations where the pay gaps between employees and executives are so large encounter severe difficulties in retrenchment or turnaround (Tao *et al*., 2020). Tenkasi and Kamel (2016, p. 221) found the following four turnaround strategies by analyzing 142 firms between 1983 and 2003: 'rationalizing existing resources, developing existing resources, generating new resources, and investing in future resources'. Avoiding downsizing, i.e. making staff redundant, can be achieved by having a better understanding of causes of decline and reacting accordingly (Santana *et al*., 2017). The cognition of chief executives (Liang *et al*., 2018) in firms in decline enable effective turnaround. Vice-chancellors, however, are not renowned for their cognition. Tangpong *et al*. (2015) emphasize early action in that 'declining firms that implement retrenchment actions early have a higher likelihood of successful turnaround'. Other recent papers focus on factors that influence both the decline ('poor management, high debt in adverse macroeconomy, an adverse microeconomic environment and one-off causes of decline') and recovery ('management change and cash generation, market reorientation and cost-cutting and retrenchment') of existing enterprises in the case of the Finnish Restructuring of Enterprises Act (Collett *et al*., 2014). Specific case-based examples of turnaround strategies include studies of schools in New York City (Favero and Rutherford, 2016), the Jarvis railway support firm in the UK (Wild and Lockett, 2016) and German savings banks (Decker, 2018). While knowledge capabilities can explain failure and the resilience of some firms that had 'high levels of R&D human capital' during the Global Financial Crisis (GFC) (Martinez *et al.*, 2019); however, Amankwah-Amoah *et al*. (2021) reviewed the small business failures caused by the more recent COVID-19 crisis which can be generalized to what they refer to as other 'black swan' events (refer also to recent evidence on firm survival and jobs, Brown and Cowling, 2021). The way in which firms have recovered and implemented turnaround strategies in the current climate can be inferred from prior literature. But also the 'limits' experienced in previous crises by companies such as British Airways and Iberia by their respective national institutions and 'employee representation' (Santana *et al*., 2019) can be extrapolated to determine how they, alternatively, responded when their business models have largely collapsed due to the pandemic. Therefore, the linkage between a feasible business model and a viable revenue model (see Chapter 2), which can withstand 'black swan' events as well as normal downturns in the economic cycle, provide key strategic insights for managers and leaders.

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The articles below provide a deeper understanding of business failure and turnaround, with the further reading helping students to develop their perception and critical awareness of this topic, and also to highlight the developing thinking in relation to why and how, especially, smaller, entrepreneurial firms fail and what can be done in response to such scenarios. Taken together, the studies on turnaround and recovery also help us to understand the aspects that lead to declining organizations; they may also assist in helping to avoid eventual failure.

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Summary

Organizations constantly have to make decisions that affect their strategies and, in this way, navigate their way through an uncertain environment. Any decision that implies strategic change is a strategic break point. Afterwards, the organization might see an improvement in its performance and fortunes, but this is not guaranteed. Organizations that find their performance declines after a series of break points will be ‘failing’ in some way and to some degree and they will need to improve.

Ultimate business failure happens when a business is liquidated or sold because its managers have made strategic errors or misjudgements, or may have simply avoided the need to change in a dynamic environment. However, a business can similarly fail to meet the needs and expectations of key stakeholders, or experience financial difficulties but survive, where one or more factors may be involved. A new strategic leader may be appointed who succeeds in turning the company around. Part, or all, of the business could be sold.

Companies fail for a variety of reasons and, usually, more than one factor is in evidence, the main factors being: poor management, competition, a decline in profits, a decline in demand for the product or service, misjudged acquisitions, or other changes in corporate strategy.

At any time, certain industries will be declining and others will be relatively unattractive insofar as particular companies are concerned, generally because of intense competition. Individual companies may be performing poorly and in need of either a recovery strategy or an appropriate divestment, and the feasibility of recovery varies from situation to situation. The four possible outcomes of a change in strategy are a failure to recover, temporary recovery, sustained survival and sustained recovery.

The likely outcome is inevitably affected by the timing of the intervention such that, if a company realizes the gravity of a pending situation at an early stage, it will be better placed to deal with it. Recovery will be more difficult to achieve if the organization waits until it is facing a real crisis. *Retrenchment* – to create a platform for possible expansion later – concerns stronger cash management and tighter operations. Renewal brings in marketing and the search for new opportunities for adding value and differentiating, and is about building new forms of competitive advantage. *Divestment* can be an important theme in retrenchment and consolidation. Management buy-outs can be used as a convenient means of divesting a business which has the potential to grow but which is no longer core to its existing parent. A four-stage model of the process can be summarized as:

1. galvanization – engaging the problem
2. simplifying the situation so it can be dealt with
3. building new competencies
4. exerting leverage to develop and sustain new competitive advantages.

Economies move from boom conditions into recessions, the depth and length of which vary markedly, when company revenues and profits will fall and a number of the issues and strategies discussed in relation to retrenchment and consolidation become relevant. Paradoxically, this is often an ideal time for a company to invest, if it has the appropriate resources. If it can afford to hold on to its staff, they will have time to deal with the changes; and new plant, equipment and technology could be in place in time for when the economy turns around, strengthening its position. Several possible strategies exist for individual competitors in mature and declining industries – for example, withdrawal from the industry, or finding attractive niches; an industry being in decline does not automatically make it unattractive for everyone.

Online cases for this chapter

Online Case 13.1: General Electric Corporate (GEC)
Online Case 13.2: Albertson’s and Home Depot
Online Case 13.3: HP Bulmer
Online Case 13.4: Laker Airways
Online Case 13.5: Golden Wonder
Online Case 13.6: Ministry of Sound
Online Case 13.7: Woolworths and Zavvi
Online Case 13.8: Arcadia
Online Case 13.9: Leeds United Football Club

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Questions and research assignments

1. Do the causes discussed in this chapter provide an adequate explanation for any corporate failure with which you are familiar?
2. Why might a company wish to remain a competitor in an industry despite low or declining profitability? Classify your reasons as objective or subjective. Can the subjective reasons be justified?
3. What factors do you feel would be most significant to all parties involved in a proposed buy-out during the negotiations? Where are the major areas of potential conflict?
4. Develop a timeline from the Fabergé case (Case 7.4) and examine what happened to the **brand** at each strategic break point you identify.

Internet and library projects

1. Find an organization to study and track through a series of decisions and strategic break points – there are a number of cases in the book and online which could be used – and complete a 'snakes and ladders board' for that business. What are your conclusions? Why do you think the outcome is what it is?
2. Chariot was described as a 'small but brazen' lottery provider. In 2006, it attempted to launch an alternative to Camelot and the National Lottery in the UK. It claimed the existing lottery 'gave money to unworthy causes' – the opposite of its mission. The business lasted less than six months. What happened to cause it to fail? In contrast, why has the 'Health Lottery' succeeded?
3. Coffee Republic was one of the forerunners with coffee bars providing freshly made and relatively expensive coffees in the UK. Its founders, Sahar and Bobby Hashemi, wrote a book for would-be entrepreneurs – *Anyone Can Do It*. But competitors such as Starbucks, Caffè Nero and Costa Coffee were far more successful. Again, what went wrong? What are the lessons in this particular case?

Strategy activity

The Challenge of 'Staying On Top'

Sport

Think about the leading international competitions (World Cups) in football, rugby union and cricket (as examples) and consider how difficult teams find it to retain an important trophy, especially time-and-time again. The same principle often applies to domestic competitions, such as UK football's Premier League. Why? Essentially, it is the strength and quality of competition. Competition in matches. Competition for resources. Teams change as players leave or 'pass their best' or suffer injuries. A minority of players earn huge salaries; the majority are less fortunate. Many play because they really enjoy it rather than because they have a 'special talent'.

A Premier League club competes on the pitch every week. But this competition is only part of the story. At the same time, it needs to nurture new players through its Academy. It needs to buy and sell players (in the transfer windows) and sometimes pull in players on loan. It has to attract paying supporters and sponsors to allow it to build its financial resources. It further benefits from having its matches shown live on television – if it is selected. It needs strengths in several areas; a serious weakness in any one of these can become a serious issue. Many of these issues will be decided as short-term issues, although long-term strategies will be behind much of what happens. If, for any reason, a club has to, or decides to, build a new stadium, this will involve long-term funding. Leading clubs, in particular, are influenced significantly by the 'generosity' of wealthy owners.

The problem sometimes comes if a club is relegated and suffers a reduction in its income. In the end, it is finances that determine long-term success.

Project

1. The first leading English football club to become a public company was Tottenham Hotspur in 1982. Compare it today with, say, a leading London rival such as Chelsea or Arsenal, or, more ideally, Manchester United. How well has it performed 'on and off the field'? Did other clubs benefit more from its trail-blazing role?

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2 Read Online Case 13.9 on Leeds United and reflect on how financial issues later created turbulence in a club that was 'very much on top' in the 1960s, and which has only recently returned to the Premier League.

Music

Tastes in music change – for consumers individually and collectively. Success does not come in a 'one-size-fits-all' format. Artists appear and disappear as 'chart-toppers'. That said, some people remain fans of a particular performer 'for ever'. Elvis has been dead for many years – but his music remains alive. The Beatles are popular – but how many can remember when they last performed as a group? Abba's music is the same. Meanwhile, Elton John, Rod Stewart and The Rolling Stones continue to attract audiences when they perform – something they continue to do.

People 'buy in' to the music industry in various ways. Vinyl records have been resurrected successfully at the same time as streaming has become dominant. Singles – and singles charts – are still important but by no means as significant as they once were. Arena tours and festivals can attract huge audiences. Some artists rely more on studio albums whilst others love to tour.

Some artists write and sing their own songs; others rely on specialist songwriters for their material. Songwriters also 'come and go'. One constant, though, seems to be the significance of accompanying videos – because of the importance of promotion and social media.

Behind the scenes are the specialist musicians who back the featured artists, as well as music producers and other important contributors – most of them anonymous to the general public.

Record labels can appear and disappear (often through acquisition by another company), in no small part linked to their ability to attract and retain artists who can earn money for them. Some artists become extremely wealthy and high profile whilst others get along far more modestly. At the beginning, how easy is it to predict likely success? Perhaps, sometimes, it is; but often it is not. However, we cannot discount the role of television programmes for creating new groups and finding new talent. In the music business, really almost anything seems possible.

In the end, partly linked to talent, and sometimes arguably not, there is a very uneven distribution of fortunes. Some individuals earn huge wealth in the music business, whilst there are many others who, more realistically, 'earn a decent living'.

We might ask: how many people in the music industry are survivors, who enjoy what they do and earn a decent living, but who feel disappointed in what they have created and achieved?

Project

1 Take a record label you are familiar with and which no longer seems to be around. If you are short of an idea, use either Virgin or EMI – which are mentioned in the chapter text. What happened to them – and why?

2 Also take an artist you like but who doesn't seem to be releasing new music any more. Again, what happened? How much has their 'disappearance' been their choice and how much a failure to continue to meet customer preferences?

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Part 5

Strategy implementation

Parts 1 and 3 ('Understanding strategy' and 'Strategy development') have addressed a number of important 'how' (and some 'who') questions – in particular, how strategies are created. Parts 2 and 4 ('Analysis and positioning' and 'Strategic growth issues') have been more focused on 'what', 'where' and 'why' issues. This final part of the book addresses a number of additional 'how' questions regarding the management of strategy.

In particular, the following issues are addressed:

- How managers make relevant strategic decisions in practice (Chapter 14).
- How intended strategies could be implemented (Chapter 14).
- How emergent strategy actually happens (Chapter 14).
- How the organization should (could) be structured and designed to ensure that both happen (Chapter 14).
- How the strategic leader can manage both the organization structure and resources to achieve corporate-level synergy, ideally making sure the various functions, activities and businesses are co-ordinated, and
- Contributing towards clearly understood objectives (Chapter 14).
- How the organization should seek to deal with the pressures and demands of change, appreciating that cultural and behavioural changes may be required (Chapter 15).
- How resources should (could) be deployed and managed (Chapter 16).
- How the organization may seek to stay resilient by dealing with risk and crises effectively (Chapter 17).

The concluding chapter, Chapter 17, also recaps:

- what strategy is and what the practice of strategy involves
- what the purpose of strategy is.

Readers will quickly realize that Chapters 16 and 17 tackle the most complex issues involved in a study of strategy.

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Chapter 14

Strategy implementation and structure

PART 1
Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- understand more clearly the practice of strategic decision-making **(Introduction)**
- explain how strategy and structure are linked in a circular process **(Section 14.1)**
- discuss the processes and problems involved in the effective implementation of both intended and emergent strategies **(Section 14.2)**
- discuss the advantages and disadvantages of centralization and decentralization **(Section 14.3)**
- identify and describe five basic structural forms which an organization may either adopt or adapt **(Section 14.4)**.

Introduction

In Chapter 8 we emphasized that an effective (appropriate, feasible and desirable) chosen intended **strategy** must be implemented successfully and competently; that is the translation of ideas into actions and the generation of positive outcomes – sometimes swiftly, itself a source of competitive advantage. New strategies may be selected because they offer opportunities and potential benefits but their implementation, involving change, implies risk (Reed and Buckley, 1988). **Strategy implementation** should, therefore, seek to maximize benefits and minimize risks.

Promising and intending are (relatively) easy. Executing and implementing are not. Unfulfilled promises are not unusual. Strategy in Practice 14.1 revisits the practice of strategic decision-making we began discussing in Chapter 8 and considers how strategic ideas are operationalized in organizations. This 'reality' is followed by an examination of the relevant theories and concepts which underpin it.

Strategy in Practice 14.1 Operationalizing strategy

As an introduction to this box, you might wish to quickly revisit Strategy in Practice 8.5, which concludes with the following paragraph and which we now take further. Below we will consider the important role of sensemaking (Weick, 1995; Weick *et al.*, 2005) in strategy formulation and implementation.

How effective this [strategic decision-making] process is comes down initially to (i) the individuals involved and (ii) the processes that explain how they will work together. Beyond this we also must look at the design element regarding how organizations are structured and operate – how much is centralized, how much decentralized, for example – how much is meant to be top-down in nature, and how much is being deliberately allowed to evolve bottom-up. And, also, the reality element – in effect, what actually is going on, which brings in the themes of social capital and social innovation.

To appreciate how strategy is operationalized – exactly how decisions are reached, together with how effective they prove to be – demands that we understand how organization structures are operating in practice (rather than how they were designed or meant to operate) and the relationships between various people (formal and informal), as well as knowing something about the capabilities and confidence of the people concerned. This last element is affected by recruitment decisions and also by how well people are being led and managed. Practice is further affected by the willingness of people to sometimes 'stand up and be counted', to put forward and defend ideas they have, and to take responsibility for trying new initiatives all in the context of **agency**.

We saw earlier that decisions are made in the context of the problems that people see – their perceptions of what is happening and their judgement (possibly biased

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in some way) on the attractiveness of various options that have been (or might be) identified. Then it is (i) a question of how much responsibility and accountability they are expected (and willing!) to accept in the organization, which is in turn affected by the structure and the degree of centralization and decentralization; and (ii) the formal and informal discussions, conversations and sharing that take place. The relevant window of time cannot be ruled out as a significant variable – sometimes fast, decisive answers are expected – on other occasions, we might see people talking and talking and not reaching any agreement on anything. The problem owner (the person with ultimate responsibility) will eventually have to decide something, of course.

The identity of the problem owner is linked to structure and where the responsibility for the relevant strategic decision resides. In a centralized structure, the emphasis is on middle level managers and employees following direction from the strategic leadership team, who would be expected to be responding to customers and competitors. The problem owners will be 'senior staff'. In a decentralized structure middle managers and other employees are more likely to take ownership of (and responsibility for) certain problems and decisions. When (post action) they look back on decisions and their outcomes, using hindsight, they might conclude that those involved never seemed to 'get their heads around' the real issues (in other words, their sensemaking was poor), or that conflicts between them prevented anything sensible coming out of any deliberations. Of course, the conclusion might well be far more positive: 'People did well'.

Table 14.1 attempts to identify the issues that affect and determine the effectiveness of decisions.

Sensemaking

Sensemaking, defined by Weick *et al.* (2005, p. 409) as 'the ongoing retrospective development of plausible images that rationalize what people are doing', is a personal and complex theme and a detailed study is beyond the scope of this book. However, and largely but not exclusively based on Weick (1995), we might think of the following themes being relevant issues:

- learning and beliefs that are personal to an individual, and dependent on their experiences
- retrospection, reflection and conclusions from past events
- the degree of clarity over the purpose and significance of the situation that people are dealing with
- personal views on the situation and customers, clients and/or suppliers involved; their ability to see the situation from this external perspective
- how comfortable people are with the situation, the setting and the other people involved – including where there are any personal rivalries
- the extent to which there is an ongoing element, where past decisions are being reviewed and hopefully improved as part of an emergent process, and whether people are comfortable accepting that perhaps they 'called it wrong' in the past, perhaps for very good reasons
- the commitment to the plausibility of the options or decisions – the belief in the plausibility of persuading others and bringing them on board – both for an individual and inside any group and beyond
- issues of power and influence and how they are manifested; how people trust and react to the views (and leadership) of others in the group.

Social capital leading to social innovation

We can think of social capital as being related to the networks, interactions and relationships between people that determine how effectively they work and function together. It is akin to a lubricant; it enables something to work and to happen. In this context we are seeing social innovation as new practices that add greater perceived value for those affected, and especially for customers and clients. Decision situations tend to be different rather than identical, as many variables are involved. We can, though, think of there being various relevant 'social' stages in the decision-making process. These stages are interdependent, but they are not necessarily a linear stages model as such. They overlap and influence each other and they are iterative in various ways. External events and circumstances can affect the social order of an organization and so the people involved in decision-making might be seen as potentially fluid. Various people meet at different times and in various circumstances. Moreover, as fortunes change for different parts of a business, then from time to time individuals will personally feel more or less threatened or (relatively) secure; and this aspect may not affect both the way they see things and also how they relate to each other.

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Table 14.1 Sensemaking across the decision stages

PROBLEMS	PERCEPTIONS	PROCESSES	PEOPLE
← → ***SENSEMAKING*** ← →			
What problems can we identify?	What do we think is happening that is creating the problems we are identifying?	How are we identifying and diagnosing these problems and how confident are we about our conclusions?	Are we confident that those involved are committed to our customers, clients and/or suppliers?
What matters to customers/ clients and also suppliers?	What could we do to add value for our customers/clients and suppliers?	As a group, are we largely in agreement?	What is the relative power and influence of those people involved?
What would provide value for them – and is delivering this within our capability?	What should we be prioritizing?	As a group, how do we work and reach our decisions? Do we all largely agree? Is there consensus or more realistically 'accommodation'? How are our decisions executed?	Can we choose the team? What are the social dynamics? Are people comfortable working with each other? Is it obvious who will take responsibility for implementing the decisions – and will they receive genuine support?

The stages and elements in this loose process are:

- The context of any meeting, be it formal or informal, and its raison d'être; what is the significance of the meeting and the decisions being addressed – and the extent to which everybody is fully appreciative of this significance?
- It is important not to overlook the 'constituency', the people involved, how and why they have been selected to be there. Their relative power and influence of, and trust in, team members – all loosely centred around the recognized problem owner. On occasions, there will be 'history' between certain individuals who struggle to work together, but sometimes have to do so.
- The stories and experiences that each member brings – and contributes. It is about engagement more than it is attendance, which, in turn, affects
- The social capital within any pairing or team and their discussions, affected by the composition of the group, their shared values and how they work with each other. Plus, their ability to harness and build on their collective experiences and knowledge, however accumulated.
- The sensemaking that ensues from their discussions and shared understanding of issues, meanings and priorities – and their ability to direct this insight to the problem being addressed. *While less explicit, this needs to be seen in the context of how well they are seeing the problem from the perspective of the client, for whom value needs to be created*.
- The ideas that emerge – which need to be client-focused, value-generating and ideally innovative (to set the organization apart from rivals and generate a genuine reason why customers, clients and/or suppliers should give buy-in) – and the extent to which there is cross-team understanding, belief, commitment and visible support.
- The activities which will be needed to make these ideas happen, internally and externally, together with a willingness to defend them, champion them and enact them – that is, having a belief that the team has 'come up with something really valuable' and worth shouting about.

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- Ongoing support and commitment to implement any decisions and then to reflect, review, engage and change if (when) things don't go quite according to plan; or when competitor or other reactions demand change to the original decision.

With certain decisions, it is relatively straightforward to obtain some insight into what has happened, although there is always likely to be some subjective perception. With the most 'messy' and complex problems and decisions, gaining genuine insight is far trickier – especially as there are likely to be several stages and different people.

Understanding the strategic management context

To summarize the key arguments in this summary, we would argue three points.

First, that it is necessary to examine the individuals involved (who they are and why they behave in particular ways) and how they are both led and managed in a particular organization – and also in the individual part of the organization where they work. What happens in the two 'locations' might vary, depending upon individual circumstances and styles of leadership and management.

This first point leads on to the second point, a need to appreciate how processes, discussions and decision-making happen and are managed – to make best sense of the data available and to attribute meaning to the situation. It is often tempting to focus attention on the quality of the decision itself and ignore how and why it was reached.

Point three: strategic decisions, and the actions they precipitate, should be evaluated for their appropriateness, feasibility and desirability – *all in the context of the value they might create and add for key stakeholders*. Put simply, people are being expected to transform knowledge and capability into value. In the end, the quality and styles of leadership will hold everything together; they create and influence the culture that supports all three points.

So, we must ask and consider again – how much of this material can be taught? How much is natural and instinctive behaviour for many of the key individuals involved?

References

Weick, K.E. (1995) *Sensemaking in Organizations*, Sage.

Weick, K.E., Sutcliffe, K.M. and Obstfeld, D. (2005) 'Organizing and the process of sensemaking', *Organization Science*, Vol 16, No. 4, pp. 409–421.

Considering the link between firm performance and the implementation of strategy, some studies have identified particular barriers to strategy implementation (Atkinson, 2006; Heide *et al*., 2002; Hrebiniak, 2006). In particular, these barriers relate to achieving 'effective' implementation, with strategy failure being due to a lack of investment, no 'buy-in' by implementers, being unfocused, poorly designed and 'unanticipated market changes' or powerful competitors' responses (Sterling, 2003), with responses to these being modelling, achieving 'buy-in', making priorities clear, designing better strategies and using competitive intelligence (Sterling, 2003). There can be 'communication problem[s] which may be influenced to some extent by the organizational structure, [and] constitute the key barriers to the implementation of planned strategic activities' (Heide *et al*., 2002). However, resistance to change and leadership tactics by 'saboteurs, groupies, double agents and mavericks' suggest that 'mavericks need to be supported and rewarded for their contributions, groupies must be driven and encouraged, double agents have to be persuaded and convinced and saboteurs must be handled carefully and effectively and must not be allowed to become the focal point of leadership efforts' (Speculand, 2006). Dobni and Luffman (2003) investigated a major driver of performance, market orientation: 'the collective of employee behaviours that affects strategy implementation, how an organization interacts with its environment and adjusts to changes within that context'. Meehan and Baschera (2002) noted the role of contact with customers and employees in effective implementation of strategy. Authors have specifically considered the importance of the effective implementation of marketing strategy – for example in non-profits (Chimhanzi and Morgan, 2005).

Crittenden and Crittenden (2008) noted that, 'implementation is a critical cornerstone or ally in the building of a capable organization, and the use of the appropriate levers of implementation is the pivotal hinge in the development of the organization. Ultimately, strategy implementation helps create the future,

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not inhibit it'. Other studies include how, rather than parachuting in managers from their home countries, multinationals operating in China can improve the implementation of their strategy by recruiting local managers (Fryxell *et al*., 2004).

Over time, strategy implementation consistency – 'the alignment between firms' resource allocation decisions and their articulated corporate concept' – shows no particular trends; in fact, such 'firms tend to "zig-zag" over time' (Brauer and Schmidt, 2006). The consistency of the implementation of strategy may, in addition, differ drastically across different organizations of the same type. Consider local government, where the fourfold factors of 'ideological vision, leading to change, institutional politics and implementation capacity', underpinned by an overarching concept of 'receptivity for organizational change', in the practices of particular strategies in such organizations – such as in those cases that are outsourcing (Butler, 2003) – have a major impact on performance.

This final Part of the book explores the 'make or break' issue of strategy execution and implementation. Chosen strategies have to be actioned; in the process, they may be changed in an emergent, effectual manner. New strategies (as well as new businesses) start with an idea which relies to some, perhaps considerable, extent on creativity in a search to be innovative and different. To be a genuine opportunity, the organization must be able to deliver value for its intended customers and do so profitably – costs must not typically exceed revenues generated. This implies that the necessary resources can be sourced and obtained, and routes to market established. If 'everything works well' and customers are satisfied (and continue to be customers), then the business has a real chance of succeeding, as long as it is vigilant to change pressures and tactically flexible. At the same time, as it grows it has to review and amend its internal organization and processes to deal with the growing levels of activity and complexity. These are the challenges we explore in this chapter and, initially, in Case 14.1, The Flying Doctor Service in Australia, which examines the implementation challenges of what started out as a really good idea to meet a growing need. Basically, we are looking for an organization to become and remain:

1. entrepreneurial – finding and seizing opportunities at all times
2. effectively positioned within its target markets – accepting that positions may need to change at certain times because of competition
3. organized (internally) so it can deliver what it promises efficiently and effectively
4. 'architected' (or structured externally) with a robust and working supply chain based on relationships and partnerships.

Case 14.1 The Royal Flying Doctor Service of Australia — Australia

The 'Flying Doctor' began with a simple idea – blend medicine, aviation and radio to deliver an important (perhaps more realistically, a vital) service to people who live, work and travel in the remote inland areas of Australia. Australia is huge; the 'outback' territory in question is larger than Western Europe. The bulk of Australia's population lives either along, or not too far inland from, the coast (and not the whole coast!). But those involved in farming and mining need to live further away and often in relative isolation. They can be at a considerable distance – several hundred kilometres – from major towns, where they may not expect to find a doctor, let alone a hospital. Farmers and miners created the need for a service; in turn, the existence of the service allowed farming and mining to develop.

The idea started life in 1928 with a Presbyterian Church minister, the Reverend John Flynn, who was a missionary with the Australian Inland Mission (AIM). At this time, the population of Australia was some 6.5 million people; today, it is between 25 and 26 million, of whom just over 3 per cent live in the so-called 'outback', away from the coastal regions.

The first service (in 1930) was named the Aerial Medical Service; it had one plane, one pilot and one doctor. The plane and its pilot were contracted from Qantas; today's national carrier was, at the time, a small bush airline – the Queensland & Northern Territory Aerial Service. The base was in Western Queensland. The Service relied on funding from appeals – and it still does! Today, it requires AU$50 million every year to continue the current service it offers.

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During the 1930s, AIM stepped back and the service became an independent charity; the name was changed to The Flying Doctor Service in 1941. The Royal prefix was permitted from 1955.

Over time, the service has split itself into different 'sections' for discrete regions. These are autonomous, operating independently of each other, but co-ordinated by a central council. Today, some 40 planes make around 40,000 flights every year. There are 800 staff who evacuate some 25,000 patients every year. In the early days, the service comprised a small plane, a doctor and a nurse. Today, they are essentially 'flying intensive care units'.

When the service started, it was faced with a number of challenges. Turbo-prop planes were used in the beginning – and are still preferred today, because of the nature of landing strips that may have to be used on isolated stations. These landing strips may only be used occasionally. Many of the flights will always be in darkness and so landing may be assisted by only limited illumination. As you may expect, aircraft maintenance and safety has always been critical – yet, flights will be initiated at short notice and, today, there is considerable air traffic crossing Australia every day. Co-ordinating the rescue flights involves Air Traffic Control, as well as the service.

Calling out the service relied on radio for many years. However, in the 1930s very few of the isolated stations would have electricity. Thanks to one inventor, a pedal-powered radio was designed. Operators would be, in effect, riding a bike while having their hands free to key in and transmit a message in Morse code. Of course, you might wonder how easy this might be for someone who lived alone and was in need of medical assistance. Over time, car batteries replaced the pedals and voice communications also became possible. Now telephony (with mobile phones) is widely, but not ubiquitously, available.

The promise today is a 24/7 medical service to 80 per cent of Australia (today's designated 'outback') – with a plane arriving within two hours of being promised. Once a request is made, a doctor makes a diagnosis and decides whether it is an emergency (requiring immediate attention) or a less urgent mercy mission. The service also provides inter-hospital transfers and a health care clinic provision. To access the latter, patients may have to drive hundreds of kilometres.

The Flying Doctor Service remains free to its users.

Questions

1. Some of the challenges the service faces are provided in the case. Can you think of what has been – and still is – involved in implementing the idea and making sure the Flying Doctor is a genuine opportunity and not just a 'good idea on paper'?
2. Should funding be available, can you think of further opportunities the service could consider?

Linked to this last point, Handy (1994) distinguished between three important sets of contributors that must be linked: first, core employees who determine the organization's competencies and capabilities; second, critical support organizations such as suppliers and distributors; and, third, 'support employees' who may comprise attached professionals, such as consultants, but (increasingly, for some) part-time employees who may also work elsewhere. Hospitals and care homes are two examples of organizations that often rely on temporary 'agency workers' who do not have permanent arrangements with any single organization. The second and third of these three can be hugely significant, but there will always be some risk and danger in becoming over-dependent on them.

Accordingly, this chapter examines the linkages between strategy and structure, in terms of a number of alternative structural forms and the **centralization/decentralization** dichotomy, and the forces that influence and determine structure.

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14.1 Strategy → structure or structure → strategy?

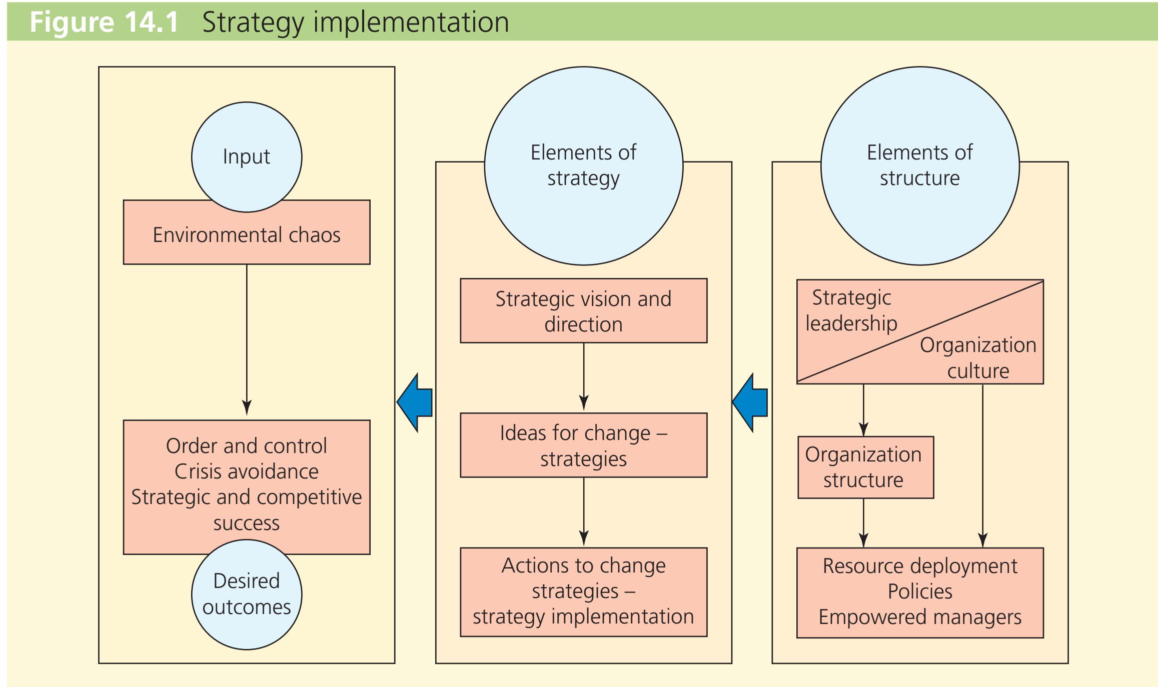
Theory dictates that the structure of an organization is designed to break down the work to be carried out – the tasks – into discrete components, which may comprise individual businesses, divisions and functional departments. People work within these divisions and functions, and their actions take place within a defined framework of objectives, plans and policies which are designed to direct and control their efforts. In designing the structure and making it operational, key aspects include empowerment, employee motivation and reward, as well as information and communication systems to ensure that efforts are co-ordinated to the appropriate and desired extent, and that the strategic leader and other senior managers are aware of progress and results.

As mentioned earlier, one essential contribution of the strategic leader in a competitively chaotic environment is providing and sharing a clear vision, direction and purpose for the organization (refer to Figure 14.1). From this, and taking into account whether the strategy is visionary, planned and/or emergent, actions and action plans (the middle column in the figure) need to be formalized. Strategies and proposals for change are inextricably linked to the implementation implications (the right-hand column in Figure 14.1). Four questions must then be asked:

- Is the structure capable of implementing the ideas?
- Are resources deployed effectively?
- Are managers suitably empowered?
- Do organizational policies support the strategies?

If any answers are negative, then there will need to be a review and a rethink of the strategic ideas themselves, the structure, organizational policies or aspects of resource management. The final decisions will either be determined or strongly influenced by the strategic leader, and affected by the culture of the organization.

Figure 14.1 Strategy implementation



If appropriate, feasible and desirable strategies that *are* capable of effective implementation are selected and pursued. The organization should be able to establish some order and control within the chaotic environment – hence, avoiding major crises (the left-hand column), which still require that strategies, products and services

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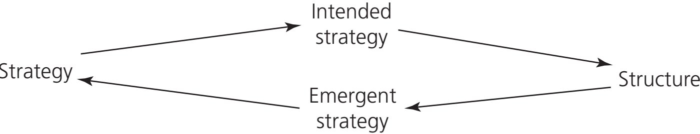
be managed efficiently and effectively at the operational level. Responsibility for operations will normally be delegated and, consequently, to ensure that performance and outcomes are satisfactory, sound monitoring and control systems are essential.

While structures are designed initially – and probably changed later at various times – to ensure that **intended strategies** can be implemented, the day-to-day decisions, actions and behaviours of people within the structure lead to important emergent strategies. There is, therefore, a continual circular process in operation:



Although this chapter is a later one in this book, structure and implementation are not the end point in the strategy process and, indeed, they may be the source of strategic change.

Figure 14.2 – a stages process diagram – illustrates that, when implementing intended strategies, the strategic leader must ensure that there are appropriate targets and milestones, must establish a suitable organization structure, and must secure and allocate the relevant strategic resources, such as people and money. People then use the other strategic resources, working within the structure, to carry out the tasks that they have been allocated; their actions should be monitored and evaluated to check that the targets and objectives are being achieved.

Figure 14.2 Intended strategy implementation

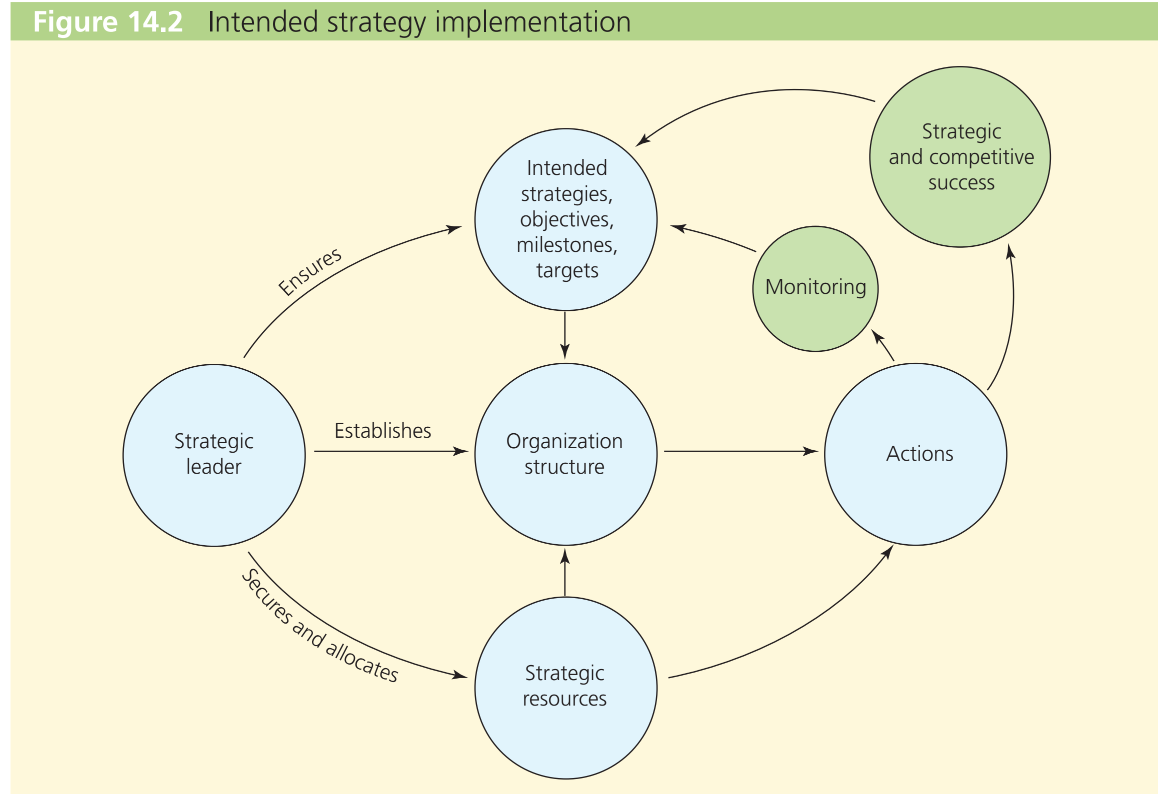


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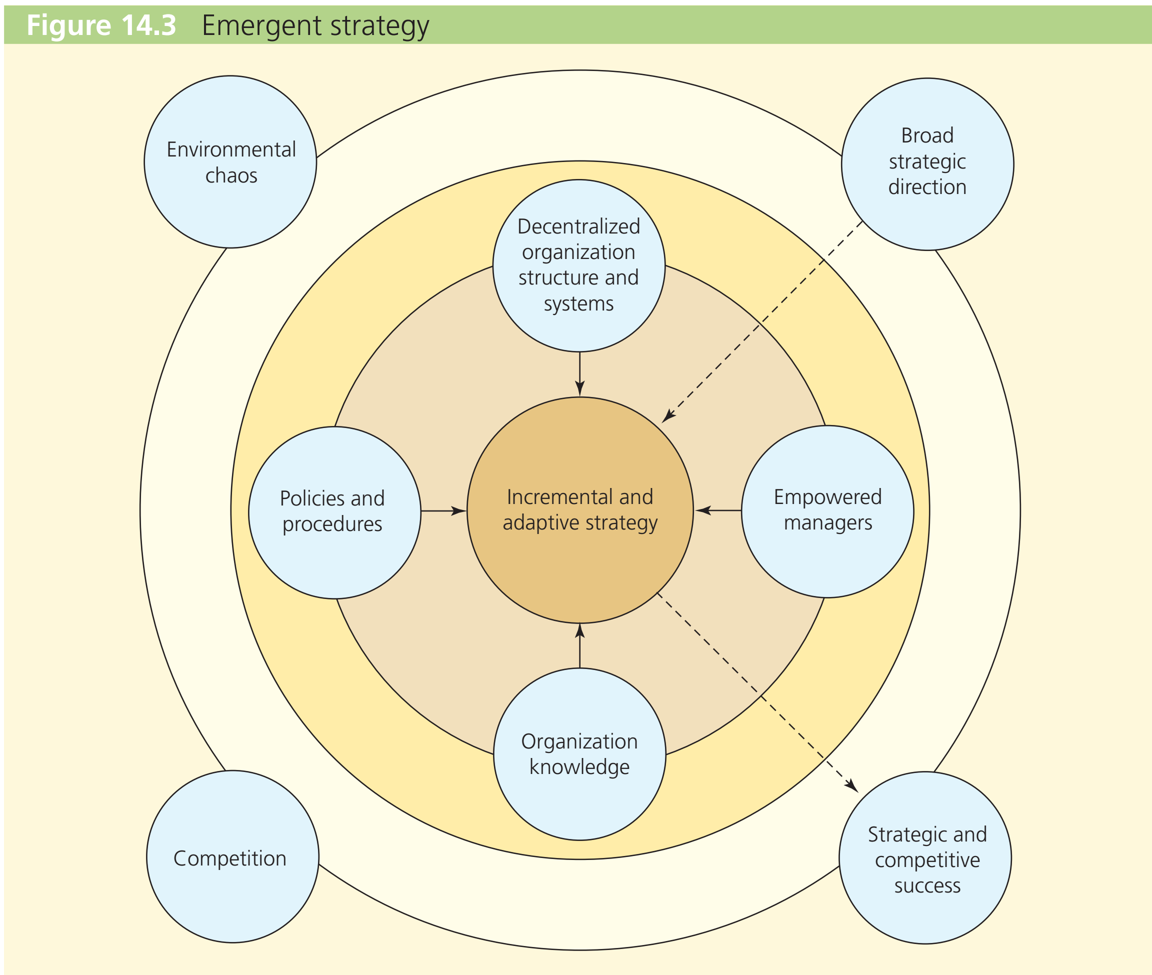
Figure 14.3 summarizes that, in the (less prescriptive) emergent strategy process, a number of influences operate together. The strategic leader provides a broad strategic direction such that empowered managers – while constrained by any relevant rules, policies and procedures – work within a decentralized structure. The strategies that emerge are affected by the constraints, the extent to which managers accept empowerment, and the accumulation, sharing and exploitation of organizational knowledge. The outcome of the strategies is related to the extent to which they deal with the competitive and environmental pressures with which the organization must deal.

Figure 14.3 Emergent strategy



The outcome, in terms of strategic management and performance, depends on the direction provided by the strategic leader; the culture of the organization; managers understanding, supporting and owning the purpose and corporate strategy, and appreciating the significance of their individual contribution; empowered managers' willingness and ability to be innovative, add value and take measured risks; and the effectiveness of the information sharing, monitoring and control systems. Refer to Case 14.2 on Divine Chocolate.

Business is a game, a game to win. My job is to set the strategy and have a team that can deliver it, to review their performance, handle the regulatory issues and set targets and objectives to grow the business.

Charles Allen, when Chairman, ITV

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Case 14.2 Divine Chocolate Africa, Int

Cocoa was first farmed in Ghana when plants were taken over from Equatorial Guinea. Ghana turned out to have ideal soil (the beans take their taste from the soil) and a suitable climate; high-quality cocoa beans with a good taste are grown in the humid, shady conditions of the rainforest. Cocoa beans are now an important export product and Cadbury is a major buyer. Most of the cocoa is grown on small family farms; the land does not lend itself to large plantations. The trees are vulnerable to disease and so yields vary, meaning demand and supply are sometimes out of alignment. Bean prices fluctuate and life can be very uncertain for small farmers.

In 1993, a group of local farmers formed their own co-operative, Kuapa Kokoo, with help from Twin Trading in London. Twin Trading was a charity set up to promote and sponsor Fairtrade; behind it was a group of individuals with an interest in regeneration, economic development and public policy. They were also keen to act and (in collaboration with Oxfam) they had already been instrumental in the establishment of Café Direct, which distributes Fairtrade coffee.

Every village in one particular area of Ghana has representation in the co-operative, which acts on behalf of some 67,000 small farmers. Many of the farms are run by 'the women in the family' as it is claimed they have the stronger work ethic. The 'chief weigher' is a farmer and villager, and everyone is entitled to check they are being fair.

Again, with direction and support from Twin Trading, Divine Chocolate was set up in 1998. Divine was established to manufacture and distribute chocolate products and the Kuapa Kokoo co-operative is the largest shareholder. This system makes sure the farmers can get their product to market and obtain a realistic price. When Divine was established, the UK government helped with overseas aid and The Body Shop was an investor. Later, when The Body Shop was acquired by L'Oreal in 2006, its 12 per cent shareholding was gifted to the Kuapa Kokoo co-operative, thus increasing its shareholding from 33 per cent to 45 per cent. A Dutch financial and development group, Oikocredit, and Twin Trading also hold shares; Comic Relief and Christian Aid both have a direct interest. Now the co-operative's beans are handpicked, fermented and carefully dried in the sun on large tables. While the beans are used in chocolate, the oil is used for soap manufacture and the husks for animal feed. The co-operative is willing to sell its high-quality beans to other customers than Divine, but typically at higher prices. Divine's dried beans are then shipped to Europe (Germany) for manufacturing into chocolate bars by Ludwig Weinrich, a manufacturer of private label ranges. The range has 85 per cent and 70 per cent cocoa solid dark chocolate, milk and white chocolate, and bars flavoured with orange, ginger, raspberries, mint and hazelnut. It is a premium price product and available in UK supermarkets. Divine also produces own-label chocolate for the Co-op retail supermarkets in the UK and for Starbucks. The bars are now sold in Ireland, Scandinavia, the Netherlands and, since 2007, the United States.

Divine has its head office in London and there are some 16 employees. From 1999 to 2020 the managing director was Sophi Tranchell, who started with the company shortly after it was set up. Previously, she had run Tartan Films but she came from a family who had campaigned on social issues. She had also sold Fairtrade products at university. The idea is that Ghanaian farmers always receive US$1,600 per tonne (minimum) for their beans plus a further $150 which is ploughed directly into community projects such as new schools. In addition, 2 per cent of Divine's turnover is paid as a shareholder dividend to them. Divine's turnover of between £8 and £9 million is a tiny proportion of the global £3 billion market for chocolate. In 2020 control of the business was acquired by Ludwig Weinrich, although Kuapa Kokoo retains a 20 per cent shareholding. The values remain the same.

In Divine, we can see entrepreneurship in action at a number of levels – the story also provides insight into how a vision can become a reality with a sound business and revenue model if various interested parties can find ways to work together.

Question

How would you design a structure that could embrace the ethos and values of Divine Chocolate and ensure strategy implementation such that the objectives of all key stakeholders may be met?

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14.2 Implementation and change

Some of the aspects of implementation can be changed directly, and some that can only be changed indirectly are more difficult for a strategic leader to control and change. Their success in managing these aspects influences the effectiveness of both: (i) the implementation of strategies and strategic changes which are determined through the planning and visionary modes of strategy creation; and (ii) the ability of the organization and its managers to respond to changes in the environment and adapt in line with perceived opportunities and threats.

Aspects of implementation that can be changed directly include, inter alia, the organization structure (the actual, defined structure – not necessarily the way in which people behave within the structure), management systems, policies and procedures, action plans and short-term budgets, and management information systems.

Aspects of implementation that are changed indirectly are, for example, communication systems, managing and developing quality and excellence, manifested values and the organization culture, and the fostering of innovation.

While the management information system can affect formal information flows, the network of informal communications truly determines awareness. Such communications are affected by, and influence, the degree and spirit of co-operation between managers, functions and divisions.

Attention to detail, production on time and to the appropriate quality, and the personal development of managers and other employees are all factors in managing and developing quality and excellence. As well as developing managers' skills and capabilities generally, the quality of management in particular areas and the cover for managers who leave or who are absent should be considered – and the organization structure should provide opportunities for managers to grow and be promoted.

Manifested values and the organizational culture involve the way in which things are done, including standards and attitudes which are held and practised.

The fostering of innovation is about the willingness of people to search for improvements and better ways of doing things, with their encouragement and reward being very much influenced by the strategic leader, with leadership by example often proving significant.

Those aspects that can be changed directly generally imply physical changes in the way in which resources are allocated. Behavioural aspects, which imply changes in beliefs and attitudes, can only be modified indirectly. Both are considered in the forthcoming chapters.

Owen (1982) identified problems faced in successful strategy implementation:

1. Strategy and structure need to be matched and supportive of each other, with products and services being managed independently (or in linked groups or business units) in order to be matched closely and effectively with their environments. Alternatively, the strategic leader may prefer a centralized structure without delegated responsibilities, or the organization could possess certain key skills and enjoy a reputation for strength in a particular area. Indeed, certain skills may be absent which need to be compensated for, or managers may be unwilling or reluctant to change jobs or location within the structure – given that structures depend on the people involved and their individual skills. Related products may be produced in various plants nationally or internationally, leading to a geography-oriented structure keeping the plants separate. The structure cannot feasibly be changed every time there is a change in corporate strategy, so acceptable modifications to the existing structure are preferred to more significant changes.
2. The information and communications systems are inadequate for reporting back and evaluating the adaptive changes that are taking place and, hence, the strategic leader is not fully aware of what is happening. This leads to the performance of the existing structure not being monitored properly and, thus, to ineffective control mechanisms.
3. Implementing strategy involves change which, in turn, involves uncertainty and risk, and the development of new skills. Also, managers may be reluctant to implement changes. Their motivation may need to be addressed.
4. Management systems within the structural framework, developed to meet the needs of past strategies, may not be ideal for the changes that are taking place currently, and modifying them continually is difficult.

In addition, managers and leaders often do not anticipate challenges and the length of time that implementation entails, or they may be too focused – in terms of time and resources – on other tasks to concentrate on

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implementation of a new strategy. Perhaps predictions were based on circumstances or assumptions that no longer hold, or were downright incorrect, and the organization is not dynamic enough to deal with the changes required (Alexander, 1985). All these problems presuppose that the formulated strategic changes are sound and logical, but a poorly thought-out strategy will create its own implementation problems.

To counter these problems, without changing the structural framework but reconfiguring how people operate within it, Owen (1982) suggests the following:

- Clear responsibility for the successful outcome of planned strategic change should be allocated.
- The number of strategies and changes being pursued at any time should be limited, and the ability of the necessary resources to cope with the changes should be seen as a key determinant of strategy and should not be overlooked.
- Necessary actions to implement strategies should be identified and planned, and, again, responsibility should be allocated.
- Milestones, or progress measurement points, should be established.
- Measures of performance should be established, as well as appropriate monitoring and control mechanisms.

Moreover, Alexander (1985) contends that people who will be affected by the strategic changes should be involved and their commitment gained, and that the implications should be communicated widely and awareness created, underpinned by incentives and reward systems. While no 'best way' of implementing strategic change and 'no right answers' exist, there are various lessons, considerations and arguments.

Three final points must be made to conclude this section.

First, although there are no right answers to either strategy formulation or strategy implementation, the two must be consistent if the organization is to be effective. Arguably, how the organization does things, and manages both strategy and change, is more important than the actual strategy or change proposed.

Second, the style of strategic leadership will be very influential. We also argue that the preference of the strategic leader affects the desirability of particular strategic alternatives. The structure of the organization, the delegation of responsibilities, the freedom of managers to act, their willingness to exercise initiative, and the incentive and reward systems will all be determined and influenced by the strategic leader. These, in turn, determine the effectiveness of implementation. The strategic leader's choices and freedom to act, however, may be constrained by any resource limitations and certain environmental forces.

Third, the timing of when to act and make changes will also be important. In this context, for example, Mitchell (1988) points out that timing is particularly crucial in the implementation decisions and actions that follow acquisitions. Employees anticipate changes in the organization, especially at senior management level; inaction, perhaps beyond three months, causes uncertainty and fear. As a result, there is greater hostility to change when it does occur. The dangers of hasty action – such as destroying strengths before appreciating that they are strengths – are offset. Mitchell (1988) concludes that it is more important to be decisive than to be right, and then to learn and adapt incrementally.

14.3 Structural alternatives

Any discussion on organization structures is built on two premises: tasks and operations must be clearly allocated to 'units' and individuals and their progress against relevant targets monitored; and all of these efforts must (as appropriate) be co-ordinated so they are complementary and synergistic rather than competing and conflicting.

While the organizational structure provides the framework through which intended strategies are or are not implemented, the structure also provides a foundation for emergent strategy creation and allocates tasks to people in certain roles with certain expectations. The accompanying systems, which in part are designed to co-ordinate all of these tasks into a meaningful whole and thus create synergy, help to determine the freedom that individual managers have to change things: the style of management, influenced by the strategic leader, which determines how co-ordinated the efforts are; how co-operative managers, functions and businesses are with each other; and how willing managers are to accept empowerment and make changes. We now examine

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strategy-structure linkages in terms of various alternative structural forms – in particular, **centralization** and **decentralization**, as well as the forces that influence and determine structure.

Campbell *et al*. (2015) emphasize that designing effective structures for large, diverse organizations is complex, and that decisions concerning what may best be centralized and what should be decentralized are key. Governance and compliance will always be the central core – then it becomes a question of the value that can be obtained from centralizing other things. From this approach come decisions about the nature of relationships between the centre and the devolved parts of the organization. Is the relationship one of policy direction? The provision of hands-on (and perhaps charged for) services? Support and advice? Co-ordination? And is the relationship one of power top-down or influence?

Lawrence and Lorsch (1967) have argued that organizations should be structured so they can respond to environmental pressures for change, thus pursuing any appropriate opportunities. As strategies relate the organization's resources and values to its environment, strategy and structure are inextricably linked – and, indeed, structure enables the organization to achieve its strategic objectives and implement strategies and strategic changes. While strategy formulation requires the abilities to conceptualize, analyze and judge, implementation involves working with and through other people and instituting change, such that implementation poses the tougher management challenge (Thompson and Strickland, 1980).

The essential criteria underpinning the design of the organization structure are, first, the extent to which decision-making is *decentralized* as opposed to centralized, and, second, the extent to which policies and procedures are *formalized*.

Decentralization is required to some degree if incremental and adaptive strategic change is to take place (see Critical Reflection 14.1) with formality relating to the degree of specialization of tasks and jobs. An important consideration is how defined and 'rigid' jobs are (i.e. how long they have remained roughly the same); the longer the 'rigidity' has been in place, the greater will be the resistance to changing it. Clearly, communications and formality are linked with a formal organization relying on vertical communications, with instructions passing downwards and information on results passing upwards. Often, good news tends to flow upwards quickly and readily, and bad news is covered up. More informal organizations have stronger and more effective horizontal communications, as people across the organization are encouraged to talk and share.

A key organizational challenge, therefore, is to find the appropriate degrees of decentralization and informality to enable them to maintain control while innovating and managing change in a dynamic and turbulent environment – in turn, requiring that managers be empowered. As suggested by various small business growth models (e.g. Greiner, 1972), organizations are often centralized and informal at start-up but, as limited power and responsibility are devolved to identifiable managers, the structure becomes more formalized – while the central power of the strategic leader remains strong – and there is a later switch to a decentralized structure with formal controls through policies, procedures and reporting relationships.

Critical Reflection 14.1 Centralization and Decentralization

Centralization and decentralization relate to the degree to which the authority, power and responsibility for decision-making are devolved through the organization. There are several options, including the following:

- All major strategic decisions are taken centrally, at head office, by the strategic leader or a group of senior strategists. The size of any team will depend on the preference of the overall strategic leader together with the size, complexity and diversity of the organization. Strictly enforced policies and procedures will constrain the freedom of other managers responsible for business units, products, services and functional areas to change competitive and functional strategies. This is centralization.
- Changes in the strategic perspective are decided centrally, but then the organization is structured to enable managers to change competitive and functional strategies in line with perceived opportunities and threats.
- The organization is truly decentralized such that independent business units have general managers who are free to change their respective strategic perspectives. In effect, they run a series of independent businesses with some co-ordination from the parent headquarters.

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The extent to which true decentralization exists may be visible from the organization's charted structure. It is always useful to examine the membership of the group and divisional/business unit boards, regardless of the number and delineation of divisions. The organization is likely to tend towards decentralization where there is a main board and a series of subsidiary boards, each chaired by a member of the main board. The chief executive/strategic leader, who is responsible for the performance of each subsidiary, will not necessarily have a seat on the main board. The organization will tend towards greater centralization where the main board comprises the chairperson/chief executives of certain subsidiaries, generally the largest ones, together with staff specialists. Hence, decentralization and divisionalization are not synonymous terms.

The ten main determinants

- the size of the organization
- geographical locations, together with the:
  - homogeneity/heterogeneity of the products and services
  - technology of the tasks involved
  - interdependencies.
- the relative importance and stability of the external environment, and the possible need to react quickly
- generally, how quickly decisions need to be made
- the workload of decision-makers
- issues of motivation via delegation, together with the abilities and willingness of managers to make decisions and accept responsibility
- the location of competence and expertise in the organization; whether the managerial strengths are in the divisions or at headquarters
- the costs involved in making any changes
- the significance and impact of competitive and functional decisions and changes
- the status of the firm's planning, control and information systems.

Advantages and disadvantages

There are no right or wrong answers concerning the appropriate amount of centralization/decentralization. It is a question of balancing the potential advantages and disadvantages of each as they affect particular firms.

It has been suggested that companies which achieve and maintain high growth tend to be more decentralized, and those which are more concerned with profits than growth are more centralized. The highest performers in terms of both growth and profits tend to retain high degrees of central control as far as the overall strategic perspective is concerned. Child (1984) contends that the most essential issue is the degree of internal consistency.

Advantages of centralization

- consistency of strategy
- easier to co-ordinate activities (and handle the inter-dependencies) and control changes
- changes in the strategic perspective are more easily facilitated.

Disadvantages of centralization

- may be slow to respond to changes which affect subsidiaries individually, rather than the organization as a whole, depending on the remoteness of head office
- easy to create an expensive head office that relies on management information systems and becomes detached from customers, and for which there are too many diverse interests and complexities
- general managers with real strategic ability are not developed within the organization; instead the organization is dependent on specialists and, as a result, the various functions may not be properly co-ordinated. Does this achieve a fit between the organization and its environment?

Advantages of decentralization

- ability to change competitive and functional strategies more quickly
- improved motivation
- can develop better overall strategic awareness in a very complex organization which is too diverse for a head office to control effectively.

Disadvantages of decentralization

- may be problems in clarifying the role of head-office central services which aim to co-ordinate the various divisions and business units and to achieve certain economies through, and the centralization of, selected activities
- problems of linking the power that general managers need and the responsibility that goes with the power. General managers must have the freedom to make decisions without needing to refer back to others.

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Two contrasting cases explore how the international charity Oxfam (Case 14.3) and the entrepreneurial US-based Nantucket Nectars (Case 14.4) have dealt with the centralization–decentralization challenge. Oxfam needed centralization to achieve co-ordinated effort, especially when it lost effective control of certain employees deployed to aid work overseas, while the need for a formal structure developed and became urgent as Nantucket Nectars grew in size.

Case 14.3 Oxfam: Structures for Emergent Strategy UK

Oxfam is a well-known international charity engaged in:

- 'doing good' around the world, both through routine operations (such as improving the availability of fresh water in developing countries) and responding to emergencies – such as its activity during COVID-19 which helped over 11 million people worldwide – with both physical goods and people
- campaigning and lobbying
- fundraising and promotion
- running a chain of charity shops and warehouses.

These activities are clearly related, but they are different in respect of key success factors, competencies and culture. The challenge is compounded by the fact that Oxfam operates globally – but it is not one single operation. The charity was started in the UK, in Oxford, in 1942. While the UK operation remains substantially the largest, there are now 12 Oxfams around the world. There are national operations in Spain, Germany, Holland, Hong Kong, Australia and the United States, for example – all 'working together' and co-ordinated from Oxford.

In 2020/21 Oxfam had a total income of £344 million. This included £105 million from donations and legacies (the charity spent £21 million, or 20%, raising this) and £40 million from trading sales. The latter figure was lower than previous years because of COVID-19; it was £91 million in 2017. The remainder largely came from government and other public agencies. However, some £369 million was spent on humanitarian work, development, campaigning and advocacy.

Whilst the Oxfam International Secretariat employs less than 300 staff globally, Oxfam affiliates globally number around 10,000 staff and nearly 50,000 interns and volunteers.

Altogether Oxfam claims to have helped 13.1 million people in 2020/21.

Each national operation has something of a distinctive and preferred *modus operandi.* For example, the Dutch Oxfam prefers to ally with local partners while the UK Oxfam is large enough to deploy its own field workers.

When some new disaster or emergency arises and Oxfam's help is needed, there are a number of elements to co-ordinate. The delivery of actual aid to various points of need must be overseen. Staff need to be deployed to those areas where they can be of most help – some quite senior staff have to be available on a flexible basis to travel at short notice. Oxfam's efforts overall must link with parallel work by the United Nations and other aid agencies.

Decision-making must be speedy and, to a genuine degree, devolved. Moreover, it is important that Oxfam is genuinely responsive – its efforts should be targeted at the needs its clients have, rather than in the pursuit of a provider's agenda.

It was clear not very long ago that, sometimes, the different national operations were working 'side-by-side' – at least, insofar as they were behaving as a single operation with joined-up thinking and effort. As a consequence, Oxford took on a stronger centralized co-ordination role – helped by (subsidized) investment in new IT systems. One implication of such greater central influence and co-ordination of the different Oxfams (all using the same generic brand) is that when something unfortunate happens in one operation or country, everything operating as 'Oxfam' is going to be affected and maybe tarnished.

Question

1 Given the nature of the needs and challenges outlined, to what extent do you think Oxfam should be centralized and to what extent decentralized?

In summer 2018 Oxfam announced that it would be forced to make cuts to its global aid programmes because of the fallout from a recently publicized scandal. Oxfam staff deployed to Haiti to help in the aftermath of the 2010 earthquake had been accused of sexually abusing and exploiting women who were survivors of the earthquake. While named individuals were at the centre of the accusations, Oxfam itself was accused of knowing about the problem but covering it up when certain people left the charity, some (but not all) of them voluntarily in 2011.

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Oxfam denied a cover-up, but there was considerable adverse publicity in the media around the world; government support was suspended; private donations fell. Both the GB Deputy CEO and later the CEO resigned. In June 2018 cuts of some £16 million were announced.

Then, as serious questions continued to be asked about the future of Oxfam, the future of the charity started to look far more secure with an unexpected private donation of £41 million (in August 2018). Richard Cousins, a wealthy businessman, had left the money through a 'common tragedy clause' in his will; he had died, together with his wife and children, in a seaplane accident in Australia at the end of 2017. We might ask, had he known about the hidden story (that had not at the time been announced), might he have changed his legacy? We can never know the answer.

In 2021, there was an element of 'same again' in the Democratic Republic of Congo, when staff had to be suspended. Oxfam was again stopped from bidding for UK government aid, after just being reinstated.

Question

2 Disregarding the fortuitous outcome for Oxfam, do you think incidences and crises of this nature might be better spotted and dealt with in a centralized – as opposed to a decentralized – organization?

Oxfam shops in the UK

Some 33 per cent of Oxfam's income in the UK comes from trading; donations and legacies contribute 37 per cent and the remainder is largely grant income. The retail income is unrestricted income, while a proportion of the remainder has conditions on where and how it can be spent.

Oxfam was, in fact, the first UK charity to open a shop (in Oxford) in 1948. Now, most large charities have a chain of shops – and they compete with each other on high streets everywhere. They rely extensively on commercial (business) rates relief and volunteer staff. Staff costs amount to 30 per cent of total costs in the sector, and it has been estimated that every year some 145,000 volunteers provide 900,000 hours of free labour.

After several years of growth, the sector seems to have stabilized to some degree; the economic recession earlier in the 2000s will have had some impact but, of course, shops selling largely second-hand goods could have expected to do well during this period. The impact of COVID-19 was different. This time, shops were unable to open for several months. However much demand there might have been for charity shop goods, nothing could be received or sold. And these operations have not been set up with online shopping options.

The general pattern for chain retailers outside of the charity sector is to centralize stock buying and inventory management. Head offices decide on the stock range and pricing policy for every branch. Using IT systems to track sales, they organize and ensure fast replenishment from regional warehouses. It is not unusual for displays and merchandizing also to be decided by central staff. Store managers are responsible for the smooth running of their branch and day-to-day staff management – as well as security, given the threat from shoplifting.

But is this approach right for charity shops?

Given that many staff are volunteers, might they be expected to prefer being managed by local people and not head office staff they may never meet? The stock is often unique, in the sense that it is largely donated and sold as second-hand. The appropriate pricing will have to take account of local factors and the nature of nearby competitors. This approach is not exclusively the case, as some stock (such as Christmas cards) is bought in as new goods, and the same ranges are available in most shops. There is also a need for shops to have something of a common standard and appearance in order not to tarnish the Oxfam brand. Good practices can and should be shared. Goods donated need to be sorted, cleaned and redistributed to where they are most likely to sell – which, logically, should have some regional element to it. In the case of specialist shops, such as Oxfam bookshops (considering that Oxfam is the largest second-hand bookseller in the UK), this aspect is clearly an issue.

The following statistics (extracted from *Charity Finance* and from *Fundraising Magazine*) provide some context.

In 2015 Oxfam had 660 shops which earned £93 million in income; on both counts it was the second largest chain of charity shops. The income per shop (per week) was £2,681, of which £859 was profit. This 32.4 per cent margin is the largest among the top ten charities. Of goods sold, 70 per cent are donated (and thereby free to Oxfam); 30 per cent are bought in. By 2022 it had 100 fewer shops; all had been closed for seven months and some did not re-open after COVID-19 lockdowns, and other closures continued. Without a growth in online sales, the retail contribution of just under £40 millions would have been lower. The figures earlier show a reduction in

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contribution in 2021 of around 55% since 2015; and returning to the earlier levels now seems a challenge.

Questions

3 Again, to what extent do you think Oxfam shops should be centralized and to what extent decentralized?
4 Would online shopping ever be a realistic opportunity for a local charity shop?

Case 14.4 Nantucket Nectars US

Nantucket Nectars is an unusual but very successful business which was started by two friends. When Tom First and Tom Scott graduated from Brown University in Rhode Island, they decided they wanted to live on Nantucket Island, off the New England coast, and find some way of earning a living. In the summer of 1989, they started a small business for servicing the yachts belonging to visitors to the island. This was always going to be seasonal. They travelled around the harbour in a distinctive red boat, delivering newspapers, muffins, coffee, laundry and any other supplies for which there was a demand. They also washed boats, emptied sewage and shampooed dogs. This seemed to lead naturally to them later opening the Nantucket Allserve general store, which still exists. They used the following promotional slogan in the early days: 'Ain't nothing those boys won't do'.

Once the summer was over, demand for their services fell as the yachts disappeared. They decided to experiment with fruit juices, mixed in a household blender. They first sought to replicate a peach-based nectar that they had sampled in Spain. During the following summer, they sold their bottled juices from their red boat. They always produced distinctive flavours from the best quality ingredients. By investing their joint savings, they were able to hire a bottler to produce 1,400 cases. Overall, though, the business merely struggled on for a couple of years, until one wealthy yacht owner offered them a US$500,000 loan to develop the business. They seized the opportunity. Nantucket Nectars then expanded quickly to cover a number of states on the US east coast. Initially, they did their own bottling, but then switched to subcontracting. As the business has grown, they have also switched to independent distribution.

> *If I were on the outside looking in, I'd say Nantucket Nectars was an overnight success. Being on the inside, it's been a long, long time. We almost went out of business a thousand times.*
>
> Tom Scott

By the late 1990s, Nantucket Nectars employed over 100 people and sold in over 30 US states and a number of selected export markets. Values were always a key element. The partners remained determined to 'create the best quality product in the juice market', and yet the company remained enigmatic. The bottle labels stated: 'We're juice guys. We don't wear ties to work'; folksy radio commercials were utilized extensively in the United States, but a new head office was established in an old Men's Club near Harvard University. It was furnished with antiques, and managers had private offices instead of the open-plan arrangement which is increasingly popular in many informal organizations. First and Scott typically took their dogs into work. Each week every head office manager focused on talking personally with one of their salespeople in the field, staff who would otherwise have little contact with head office.

The founders claim that the company was always run on gut instinct, and trial and error. Few people had any formal business qualifications. In 1997, Nantucket Nectars was awarded a contract to provide juice for

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Starbucks and, later that year, Ocean Spray – the leading manufacturer of cranberry juices and other products – acquired a 50 per cent stake. The companies believed that they could make extensive savings on supplies if they joined forces. First and Scott continued to run the business that they founded.

One other related diversification was the Juice Guys Juice Bar which sells freshly prepared smoothies made from fruit, yogurt and Nantucket Nectars fruit juices, as well as sandwiches and memorabilia.

Nantucket Nectars was acquired by Cadbury Schweppes in 2002 but, today, it is part of Plano, the Texas-based owner of Dr Pepper, Snapple and a number of other refreshment beverages. The founders are not involved in day-to-day operations but they do still contribute to the marketing effort and provide the voice-overs for the radio advertisements.

Questions

1. How easy would it have been for First and Scott to maintain their informal style and culture as Nantucket Nectars grew?
2. Would more formality really be required?
3. How are strategy and structure linked?
4. What is the balance between intended and emergent strategy?

You could usefully apply Figures 14.1–14.3 to this case.

While these structural types will be evidenced in the organization frameworks and structural designs which are next explored in detail, structure involves more than the organization chart or framework used for illustrative purposes and to explain where businesses, products, services and people fit in relation to each other. Structures are dynamic and involve behaviour patterns.

> *In my experience, the key to growth is to pick good managers, involve them at the outset of discussions on strategy and objectives and then devolve as much responsibility as they will accept. That's the only way you know if they are any good.*
>
> Sir Michael Grade, when Chief Executive, Channel Four television

14.4 Structural forms

Conventional wisdom argues that individual firms grow from being a small business with a simple **entrepreneurial** structure, developing a more formal **functional structure** to cope with the increasing complexity and the demands of decision-making, later becoming diversified with a **divisionalization** structure, and eventually a *matrix* within a multiproduct, multinational organization with interdependencies accommodated to achieve synergy (Chandler, 1962; Salter, 1970). A number of discrete structural forms can be adapted and personalized by an organization when attempts are made to design an appropriate structure to satisfy its particular needs. The structural forms described in this section are, therefore, only a framework, and the behavioural processes within the structure, the way in which resources are managed and co-ordinated, really determine effectiveness. In turn, these aspects are related to the way in which authority, power and responsibility are devolved throughout the organization and whether, generally, the firm is centralized or decentralized. These forms are illustrated, but not exhaustively, below.

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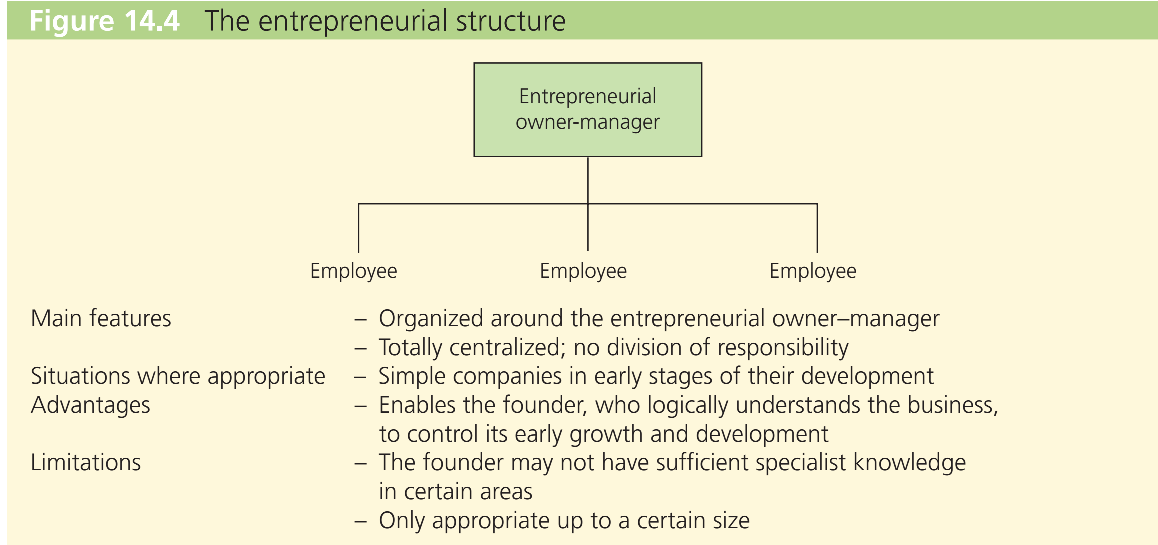
The entrepreneurial structure

Typically utilized by early-stage small firms, totally centralized, with key decisions being made by the strategic leader to whom employees refer everything significant (Figure 14.4).

Figure 14.4 The entrepreneurial structure



A new business founder (who has contacts and expertise in the firm's line of business and whose investment is at risk) can control its growth and development. Although perhaps not really a formal structure (as all responsibility, power and authority lie with one person), some small firms give selected specialized employees job titles and some limited responsibility for production, sales or accounting (in which the founder may have potential skills gaps). As such, it is more like the functional structure in Figure 14.5. Its limitations relate to both skills gaps and growth, since the demands of both day-to-day problems and longer-term planning mean decision-making will become too complex for one person, leading to pressure to establish a more formal functional organization. When faced with relinquishing some responsibility for short-term decisions in order to have greater opportunity to concentrate on the more strategic aspects of the business, some owner-managers – who started their own business because they wanted total control over something, or because they were frustrated with the greater formality of larger companies – will be faced with a major dilemma, which helps to explain why some small businesses with an apparent growth trajectory and good prospects plateau. Without structural change, they are constrained; without strategic change, they may well start to decline.

The functional structure

Small firms that have outgrown the entrepreneurial structure, larger firms that produce only a limited range of related products and services, and the internal divisions and business units that comprise larger diversified organizations all may adopt this structural form which, being centralized with corporate and competitive strategies controlled by the strategic leader, is more suited to a stable rather than turbulent environment (Figure 14.5).

Structured around specialist functional tasks, the managers – who may possess delegated authority to change functional strategies – run departments responsible for these functions. Their effectiveness depends on teamwork by specialist managers and the co-ordination of the strategic leader. This structure is highly efficient with low overheads and allows functional managers to develop specialist expertise that can help create competitive advantage. Communication between these specialists and the strategic leader facilitates a high degree of strategic awareness at the top of the organization. Limitations, however, include managers with greater specialist expertise, rather than the more corporate perspective found in general managers, leading to the

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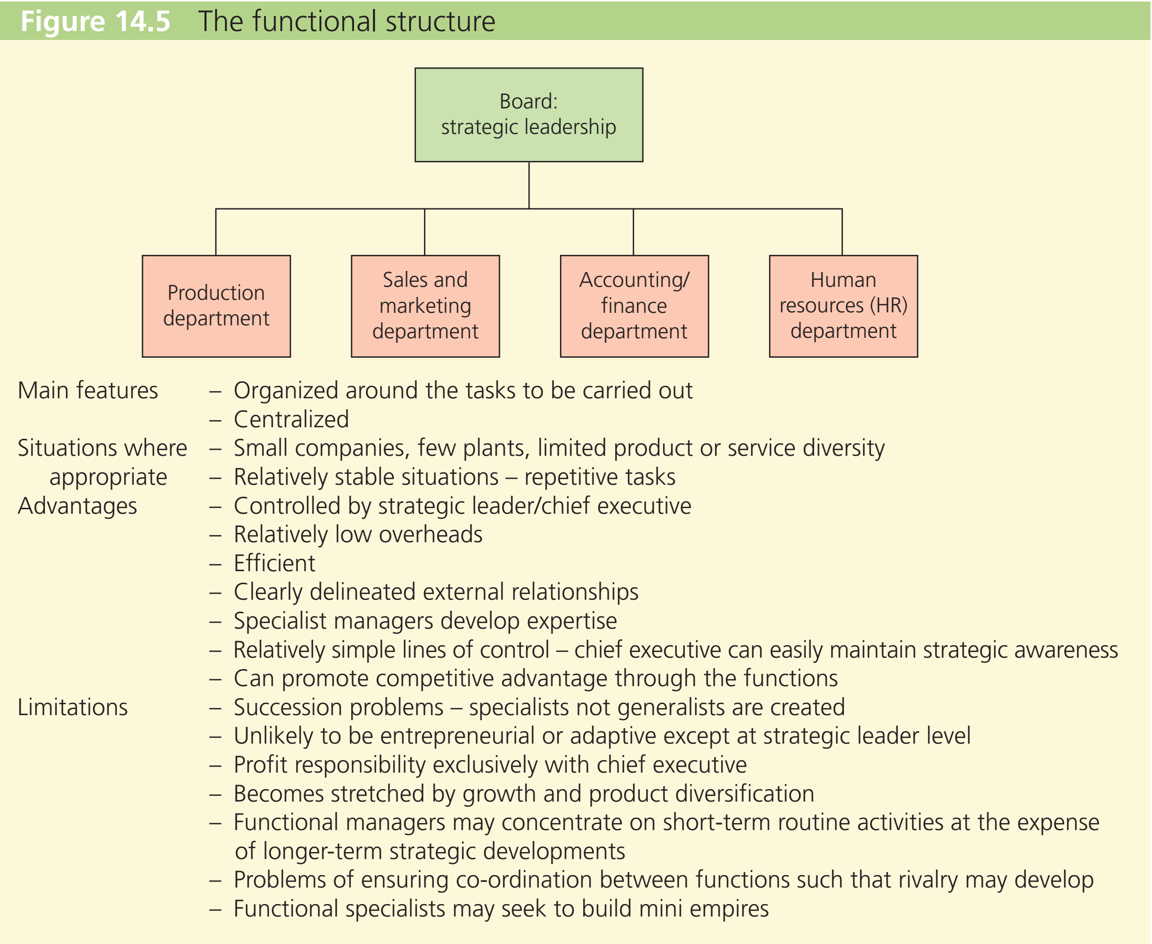
Figure 14.5 The functional structure



likely succession of a functional-specialist chief executive. Although possibly having a dynamic entrepreneurial strategic leader, functional organizations tend to be less entrepreneurial than more decentralized forms.

Functional managers (not being responsible for strategy or profit) may concentrate on short-term operational issues, rather than longer-term strategic needs, or on building mini empires around their specialism, leading to *intra-firm* rivalry (for resources and status) and making co-ordination and team-building difficult. Further, as the firm grows from a limited range of related products to unrelated ones, co-ordination becomes difficult, necessitating some form of divisionalization and a revised role for the strategic leader. Their choice of future corporate growth strategy will have a major bearing on the structural developments. Figure 14.6 shows the structures discussed linked (indicatively not prescriptively) to relevant growth strategies.

The divisional structure

An organization can be divisionalized using product groups (as illustrated by Figure 14.7); geographical regions; or manufacturing, assembly and distribution activities in vertically integrated organizations. They have decentralized divisions or business units (led by a general manager responsible for strategy implementation and, to some extent, formulation), themselves likely to contain a functional structure, and are profit centres. Such structures are found when complexity and diversity increase, where turbulent environmental conditions make it appropriate to decentralize some responsibility, or where there are major differences in needs and tastes in the company's global markets.

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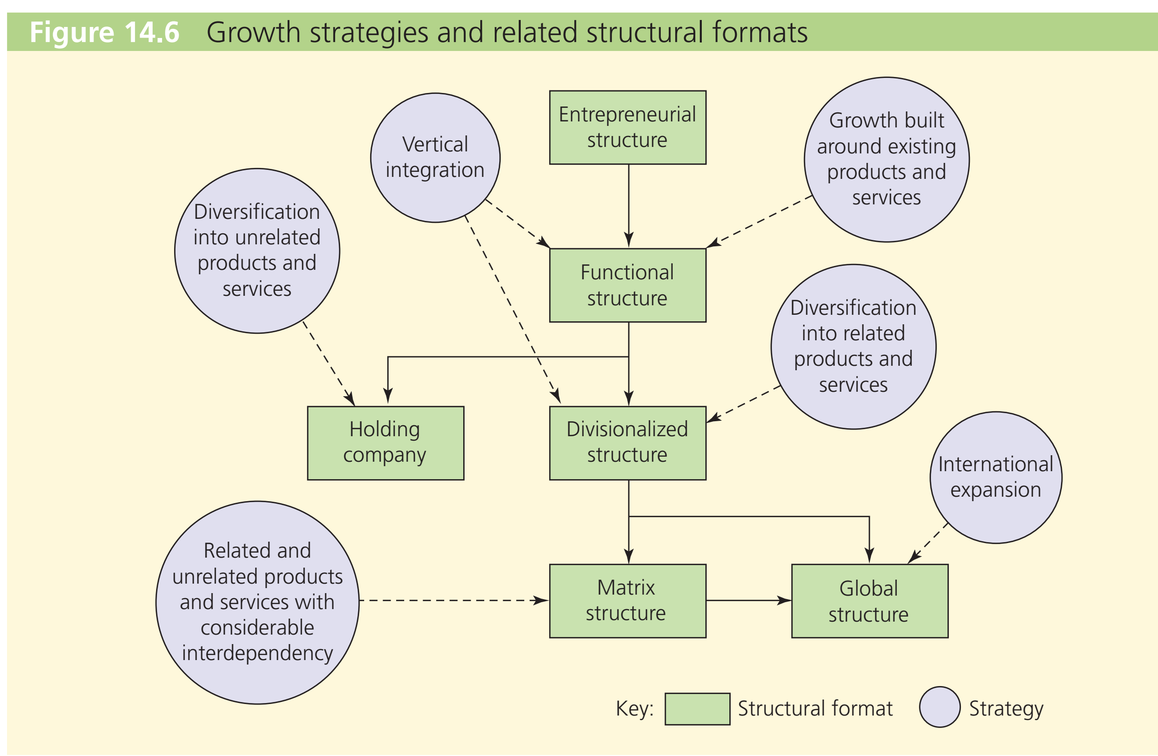
Figure 14.6 Growth strategies and related structural formats



The organization can thus manage the strategies of a number of disparate products and markets effectively. It can also spread profit responsibilities between the divisions or business units, thus motivating managers and enabling each activity's contribution to the organization as a whole to be evaluated. By delegating functional strategies, the strategic leader can concentrate on corporate strategy and avoid involvement in routine decisions. Acquisitions and divestments can be handled so that only parts of the firm are affected directly. Innovation and intrapreneurship throughout the corporation, if encouraged by the strategic leader, are facilitated. Difficulties and challenges include designing the most appropriate structure – which involves changing the power structure, the relative amount of decentralization and managers' jobs, thus proving disruptive. A further challenge is the implementation of such changes, since it may be difficult to establish (perceived) equitable profit targets – used as a basis for assessing performance and effectiveness – given that divisions may: (i) be of uneven sizes, (ii) be operating in markets which differ in their attractiveness, (iii) have strong or weak relative market shares, (iv) be interdependent on each other, or (v) have to compete with each other for scarce corporate resources. Further, conflict may arise if certain divisions are favoured in transfer prices at the expense of others. Profit orientation means that buying divisions may seek internal discounts; selling divisions may expect other parts of the company to pay the going market price; divisions may be oriented towards short-term financial measures, rather than strategic issues. Organizations with various different products, all depending on core skills and technologies, must harness and improve these skills (i.e. corporate resources) while ensuring competitiveness and operating efficiency for each product range. Each division is likely to contain a functional structure and to have functional support from headquarters. The overall company may be able to negotiate better borrowing terms than an individual division could. They also need to minimize the potential waste from duplicated resources, especially where there are layers of divisions and, as organizations develop globally, the structural issues are compounded. Online Case 14.6 discusses ABB, a company which deliberately followed a strategy of devolution when growing and diversifying.

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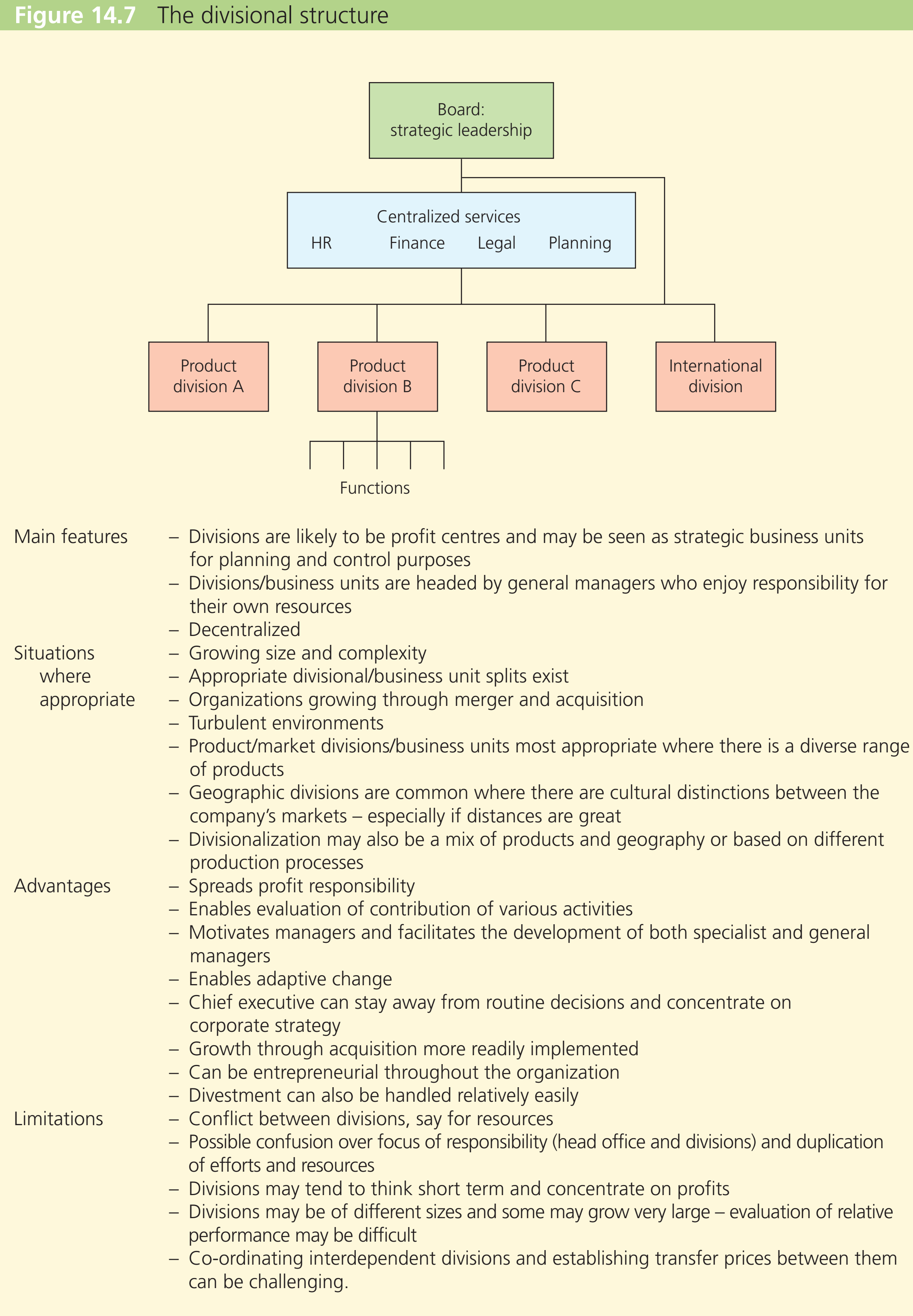
Figure 14.7 The divisional structure



Main features	– Divisions are likely to be profit centres and may be seen as strategic business units for planning and control purposes – Divisions/business units are headed by general managers who enjoy responsibility for their own resources – Decentralized
Situations where appropriate	– Growing size and complexity – Appropriate divisional/business unit splits exist – Organizations growing through merger and acquisition – Turbulent environments – Product/market divisions/business units most appropriate where there is a diverse range of products – Geographic divisions are common where there are cultural distinctions between the company's markets – especially if distances are great – Divisionalization may also be a mix of products and geography or based on different production processes
Advantages	– Spreads profit responsibility – Enables evaluation of contribution of various activities – Motivates managers and facilitates the development of both specialist and general managers – Enables adaptive change – Chief executive can stay away from routine decisions and concentrate on corporate strategy – Growth through acquisition more readily implemented – Can be entrepreneurial throughout the organization – Divestment can also be handled relatively easily
Limitations	– Conflict between divisions, say for resources – Possible confusion over focus of responsibility (head office and divisions) and duplication of efforts and resources – Divisions may tend to think short term and concentrate on profits – Divisions may be of different sizes and some may grow very large – evaluation of relative performance may be difficult – Co-ordinating interdependent divisions and establishing transfer prices between them can be challenging.

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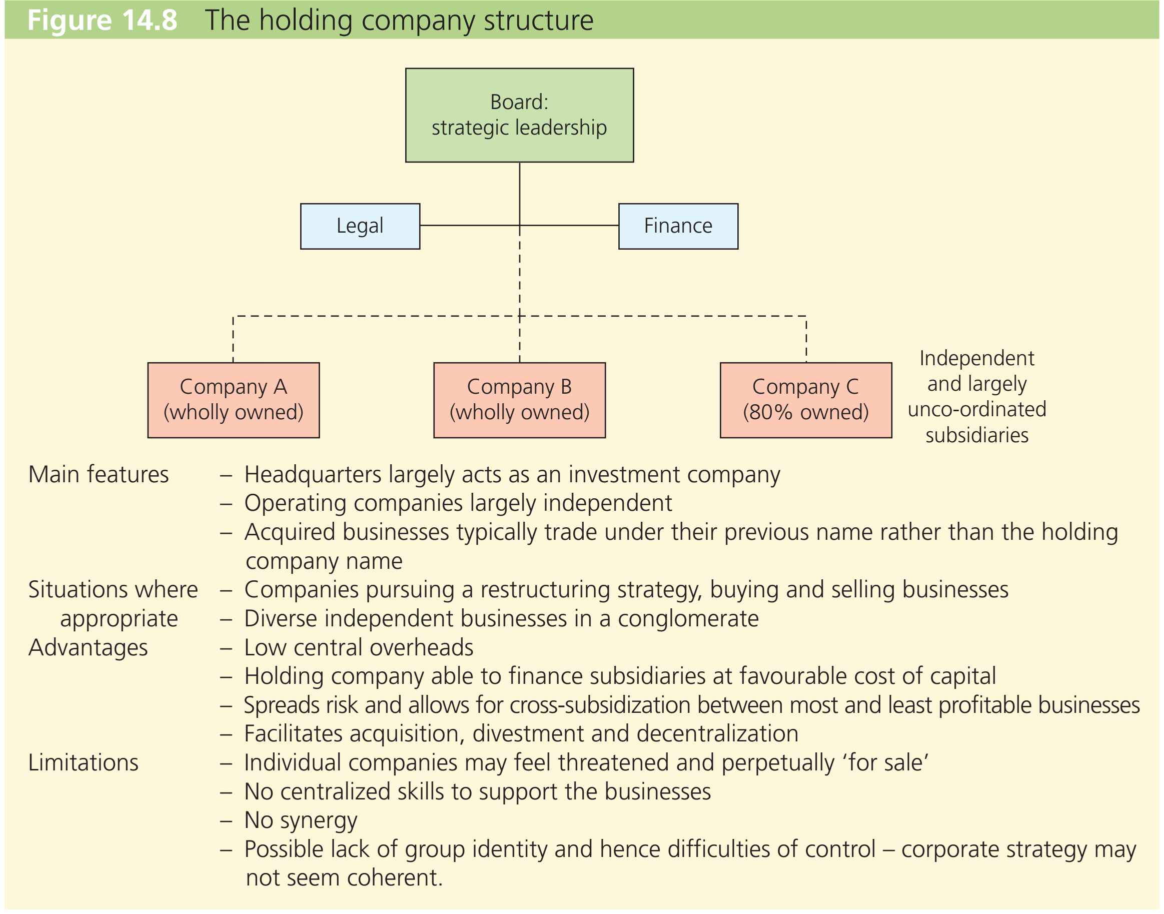
The holding company structure

This structure is ideal for diversified conglomerates where there are few interdependencies between the businesses, as the small head office acts largely as an investment company – acquiring and selling businesses, and investing money as appropriate (Figure 14.8). The subsidiaries, which may or may not be wholly owned, are independent, and their general managers are likely to have full responsibility for corporate strategy within any financial constraints or targets set by headquarters. Subsidiaries commonly trade under individual names, rather than the name of the parent organization, especially where they are acquisitions which may be sold again at any time. The **holding company** structure is particularly appropriate for companies pursuing restructuring strategies, buying, rationalizing and then selling businesses when they can no longer add further value. Advantageously, this structural form has low central overheads and considerable decentralization, while enabling the head office to finance the subsidiaries at a favourable cost of capital, helping to provide competitive advantage. In addition, risks are spread across a wide portfolio, and cross-subsidization is possible between the most and least profitable businesses, but a fair reward structure is needed for the general managers. The key benefit to headquarters lies in their ability to earn revenue and profits from the businesses, ideally in excess of pre-acquisition earnings, and being able to sell for a real capital gain. Limitations include the vulnerability that general managers may feel if they suspect that their business may always be for sale at the right price; the existence of fewer centralized skills and resources supporting the businesses, little co-ordination and, therefore, few opportunities for synergy; and no group identity among the business units and a lack of coherence in the corporate strategy. Several control issues which face head offices of divisionalized and holding company structures have been mentioned in the above sections, and these are explored in greater detail in Chapter 16. When you have read the case you might reflect on the complexity and ask: Can organizations become too complex? This is an issue we revisit in Chapter 16.



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An interesting development in the third sector parallels this aspect. Some charities are collaborating, with partnership agreements. They are forming a consortium, sharing knowledge and capability, and joining together for certain activities – perhaps a joint bid for funding, perhaps on a single project where they can effectively combine their forces with synergistic outcomes. Such arrangements do not involve the same commitment as would be involved in a more formal merger although, ultimately, this approach could follow once the potential benefits are realized.

The matrix structure

These attempt to combine the benefits of *decentralization* (motivation of identifiable management teams, closeness to the market, speedy decision-making and implementation) with those of *co-ordination* (achieving economies and synergy across all the business units, territories and products). They require dual reporting by managers, for example, to a mix of functional and business unit heads or geographical territory and business unit general managers. Matrix structures are found typically in large multi-product, multinational organizations where there are significant inter-relationships and interdependencies, but also in small sophisticated service businesses such as a business school. The online case on ABB (Online Case 14.6) tracks a series of changes to a complex organization over a 30-year period. It illustrates the struggle the company faced in building a structure that would enable effective implementation in respect of dividing and then co-ordinating the various activities – and how implementation challenges have contributed towards sometimes disappointing financial results and sparked consequential changes to the corporate strategy. This circular process and challenge continue to the present day.

The traditional matrix structure in Figure 14.9 illustrates an organization split into a series of divisions with co-ordination responsibilities: (i) product groups – production and marketing of their particular products in a series of plants which could be based anywhere in the world; and (ii) geographical divisions – sales, marketing and distribution of all of the corporation's products, regardless of where they are manufactured, within their territorial area. The operating units are the production plants, members of one or more product groups, depending on the range of products manufactured in the plant, and whose products are marketed in more than one territory or geographical region. Consequently, the general manager in charge of each operating unit is responsible in some way to a series of product and territory chiefs (four in the illustration), all of whom have profit responsibility. The matrix is designed to co-ordinate resources and effort throughout the organization. Ideally, resources and efforts should be concentrated on *both* the product groups and the geographical territories, not just one of them.

Post-matrix alternatives

For some organizations, traditional matrix structures have been too complicated to be effective, due to an inability to deal with the issue of dual responsibility. And yet there are examples of successful attempts. Campbell *et al.* (2015) cite Procter & Gamble (P&G) in recent years as one. P&G has not only effectively combined the global production of a wide range of consumer products and the various countries in which they all sell but also added an effective contribution from the centre. One key top-down provision has been the management of the individual brand identities within the P&G umbrella. Fayol (1916) extolled 'unity of command' as the basic management principle – specifically, the need to be responsible only to one manager – which, and challenged by the matrix, may yet prove to be a defensible assertion. Decisions have been stifled by confusion, complexity and delay because managers have not been sufficiently sophisticated to operate effectively within this theoretically ideal (matrix) structure. The need remains for a structural form which offers the potential advantages of the matrix to large complex multi-product, multinational organizations, and which can be implemented. An organization that is unable to design and operate a structure that enables the effective linking of a diverse range of related interests to achieve synergy – one that, at the same time, permits the various business units to be responsive to environmental change – may need to be split up. Philips, Ciba-Geigy and Texas Instruments are early examples of multinationals that introduced and then retreated from the pure matrix structure (Hunsicker, 1982), while ABB (Online Case 14.6) changed its matrix to adjust the balance of power, then largely abandoned it.

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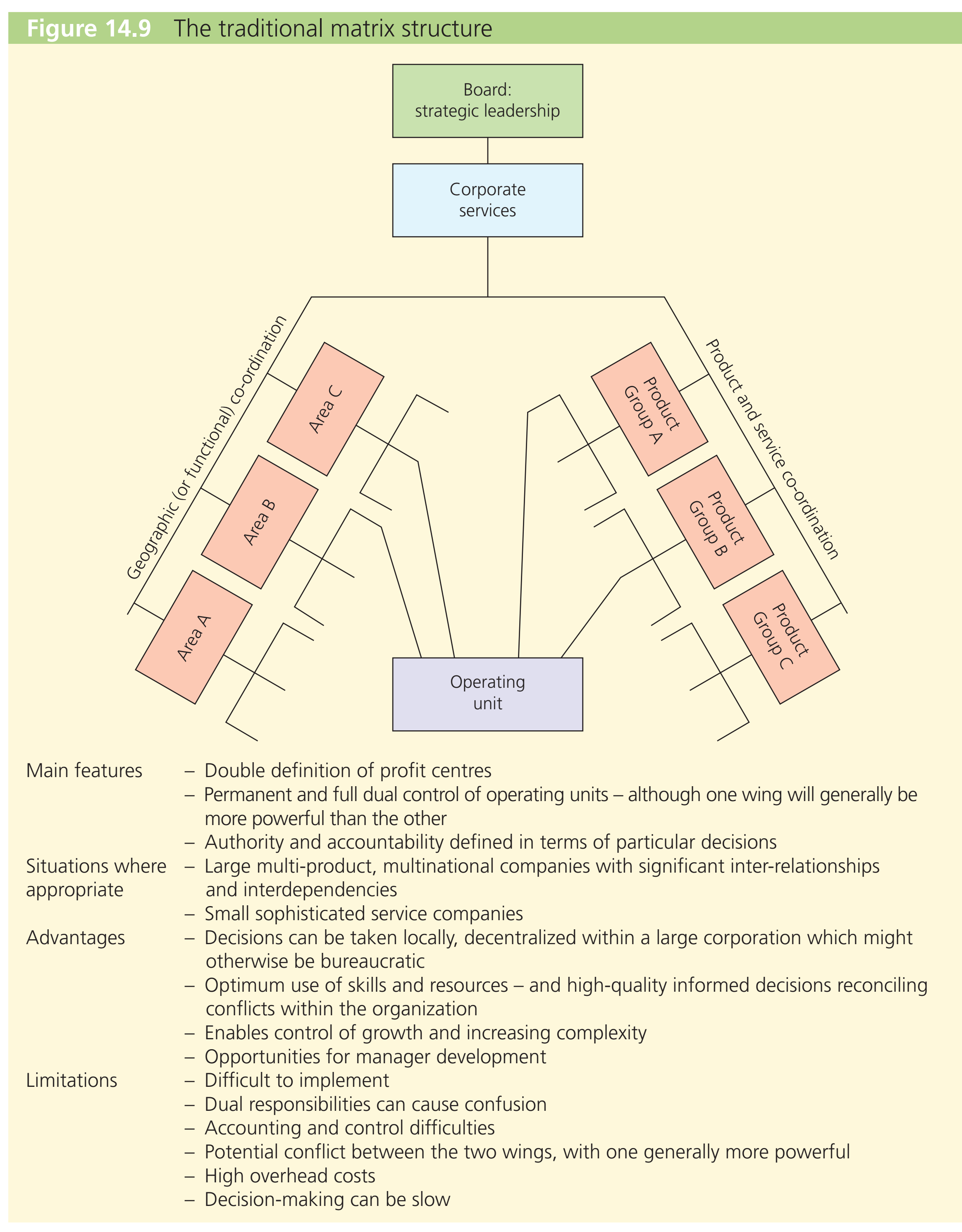

Figure 14.9 The traditional matrix structure

Main features	– Double definition of profit centres – Permanent and full dual control of operating units – although one wing will generally be more powerful than the other – Authority and accountability defined in terms of particular decisions
Situations where appropriate	– Large multi-product, multinational companies with significant inter-relationships and interdependencies – Small sophisticated service companies
Advantages	– Decisions can be taken locally, decentralized within a large corporation which might otherwise be bureaucratic – Optimum use of skills and resources – and high-quality informed decisions reconciling conflicts within the organization – Enables control of growth and increasing complexity – Opportunities for manager development
Limitations	– Difficult to implement – Dual responsibilities can cause confusion – Accounting and control difficulties – Potential conflict between the two wings, with one generally more powerful – High overhead costs – Decision-making can be slow

Hunsicker (1982) argues that matrices were designed to co-ordinate activities, but the real strategic need is the development of new initiatives; hence, a greater emphasis on temporary project teams, and the development and encouragement of managers within the organization so that they are more innovative and intrapreneurial, implying changes in behaviour rather than structure.

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Pitts and Daniels (1984) list the following opportunities for obtaining the benefits of a matrix-type structure within more unitary forms:

- Strengthen corporate staff to look after corporate strategic developments – for example, seeking new opportunities that existing business units could exploit.
- Rotate managers between functions, business units and locations, increasing their awareness and providing input of fresh ideas.
- Locate executives responsible for product co-ordination in territories closer to those managers responsible for production of the key products.
- Create liaison groups meeting periodically to co-ordinate related issues, groups which could attempt to co-ordinate the **global strategies** of a number of related products in a search for synergy and mutual benefits.
- Build the notion of agreed contributions between business units into both the performance management systems and the compensation schemes.
- Periodically review and amend the constitution of the divisions without restructuring the whole organization.

As a more informal form of matrix structure, DeSmit (2018) flags the valuable contribution of temporary multi-disciplinary teams which are formed (and then disbanded) in relation to specific problems and needs. Sometimes these would be referred to as '**task and finish teams**'. They might involve staff seconded from various and discrete parts of an organization, sometimes supplemented by relevant outside specialists. The argument is that individuals who contribute to such teams have dual roles: an operational role (where they have a permanent base) related to their expertise and capability, and a 'value creation role'. DeSmit refers to them being members of chapters (their permanent base) and tribes, with chapters releasing people to various tribes on a case-by-case basis as and when they are needed. Chapter leaders are then seen as responsible for developing individual talent alongside meeting their operational targets. It is tribe leaders that then make a greater impact on emergent strategic development through the tasks they undertake and complete. For this to be effective, DeSmit counsels identifying squad leaders – looser and more informal roles linked to spotting talent, recommending suitable deployments and mentoring the progress of those involved.

Drucker (1988) suggested that the organization of the future would have fewer managers and fewer hierarchical layers, that IT would give individual managers more autonomy and more informed decision-making when specialists have decentralized responsibility for key activities within the organization, but that strategy co-ordination would still constitute a major challenge. We are now in a position to judge his prediction. Virtually every manager has access to a personal computer, an organizational intranet and the internet. For many, letters, memos and telephone calls have been replaced by emails. In reality, what has changed? Emails and electronic file transfers have led not to better decision-making through more autonomy, but rather, to rushed decision-making due to having less time to consider the next move.

We conclude the main body of this chapter with Case 14.5 on Age UK. This charity was created by a merger of two existing older people's charities, which had complementary activities but different structures. It was not straightforward to establish a single new structure, and the one that emerged has led to complications. It will allow you to reflect on how structural challenges might inhibit strategic ambitions.

At this point in the book, you may like to reflect on whether certain strategic decisions can lead to serious implementation and structural challenges and consider why the notion of 'sticking to the knitting' could seem very plausible and persuasive. One irony is that *some* strategic leaders manage complex strategic situations very effectively. We might wonder why this does not prove possible for many other strategic leaders. See Research Snapshot 14.1.

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Case 14.5 Age UK's Structural Challenge UK

Age UK was created in 2009 with the merger of two existing charities – both created originally to support the needs of older people: Age Concern England and Help the Aged. There were similarities between the two but also differences in strategy and structure. This was not the first attempt to merge the two; and combined they became the UK's largest charity for older people. It has been claimed that the merger saved £100 million in annual running costs but involved some significant job losses, never an easy thing for third sector organizations (a term embracing charities, social enterprises and other voluntary organizations).

Age Concern was the older of the two. It had grown out of a post-World War II initiative to support economically and socially disadvantaged older people with direct services, originally with a job creation focus. It was built with independent local groups, each with responsibility for funded initiatives in specific areas. By the year 2000, some 300 Age Concerns were linked in a national federation. Between 2006 and 2009 a new project, the Heyday Initiative, a subscription service for providing advice on particular problems and services, lost money for the charity. When Age Concern merged with Help the Aged, many local branches (which had been raising money locally) had restricted funds that must be dedicated to serving local beneficiaries.

Help the Aged was established in 1961, initially to support older refugees and immigrants; it was organized nationally, while providing services in local areas. These included day centres (often to relieve family care challenges), supported housing initiatives and community groups. Help the Aged opened charity shops to help generate funds and, in 2001, took over another charity, Research Into Ageing. It also developed an international arm that Age UK absorbed.

While merging the two charities was financially beneficial, perhaps even essential, and a genuine opportunity, the strategic challenge was just beginning. Structuring and operating them together and cohesively was not straightforward, as the existing operations implied constraints. Linked in a federation they might be, but the Age Concern branches were all still local and independent, with their own staff, trustees, fund raising activities and beneficiaries. There could be no 'clean-sheet' start. Ideally, we might have started by clarifying how value might be created most effectively and then organizing the resources for doing this most efficiently. But here the approach had to be based on how to obtain the best outcomes from the resources (and structure) available, and also comply with Charity Commission regulations to ensure all activity was for the benefit of the target beneficiaries.

The new Age UK was London based, with a head office responsible for marketing, publicity and campaigning, and national fund raising. The intention was that if anyone left a donation to Age UK in their will, it would eventually be gifted to their local organization if some direct link could be shown; otherwise, if this link was not evident, the money went into central funds. A trading arm (providing commercial services, such as energy contracts and insurance) was set up as a social enterprise and designed to create a surplus to support the work of the charity.

The national organization owned and ran charity shops in various places, typically the Help the Aged ones rebranded. In addition, there were over 140 independent local brand partners, who paid an annual fee to be members of the federation. Each of these retained their own staff, their own volunteers and their own trustees. The number of volunteers now outnumber paid staff in most local organizations, often by substantially more than 2:1.

For the fee they paid, they received certain benefits and services from the national organization. Many of these local Age UK branches also had their own charity shops (the original Age Concern ones) and carried out local fund raising. In total there are now approaching 400 named Age UK shops, but at one point this was 500. However, not all the local Age Concerns opted to be part of Age UK and become brand partners; and they continued to operate locally with their existing brand. It is still not unusual in some towns for there to be competing Age UK and Age Concern charity shops. Some Age UK shops belong to the national charity and some are locally owned and run by a branch partner – which affects where the trading surplus goes – but this distinction is not clear to the general public. Not all the existing branch partners were financially robust and able to continue without local mergers, which have happened spasmodically since the 2009 merger.

In March 2020 it was estimated that there were some 390 Age UK charity shops in existence on high streets. These are competing with many other charity shops for

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donations of goods to sell and customers to buy them – and, very significantly, volunteers. Certain other charities such as Oxfam and British Heart Foundation have substantial networks, while locally individual hospices are very dependent on their shops for helping raise the annual income they need to survive. Local hospices generally are locally very visible charities with substantial loyal support – because the benefits they bring and the people they help are clear. An individual charity might hope customers are more drawn to the cause than to the goods on sale, but this might be something of a forlorn hope in many instances. In 2018/19 the Age UK national shops recorded a surplus of £700,000 – but one year later they recorded a £2 million loss. And this was before COVID-19 struck with the lengthy shutdown of non-essential retail operations. It is by no means certain that all of these 390 shops will be able to survive; much depends on leases, rents, rate rebates, future volunteering and the popularity of charity shops in the 'new' high street.

Each brand partner is required to provide an Advice and Information Service locally as part of their agreement with the national charity, and for which they are given financial support, which may or may not cover all their relevant costs, depending again on such things as property rents and staff needs. There is also a national information website and call centre, controlled by, but not located in, London.

Local organizations are reliant on grants and fees for specific service provision, many of which are linked to local authorities (adult services) and the National Health Service. That said, they do not always provide any front-line care as such – to do this they need Care Quality Commission (CQC) approval, and not all have it. Instead, they will provide such home care services as cleaning and gardening. In addition, volunteers as well as paid staff will offer help with driving people to certain places, settling them in at home after a spell in hospital or visiting and befriending to avert loneliness. Inevitably some of these services had to be withdrawn during the COVID-19 pandemic. Each local Age UK must deal with the challenge that a large proportion of its income is likely to be restricted funding linked to designated services and outputs – when, for some of the needs that can be identified, unrestricted funds would be required. Simply, sometimes, the focus must be on what can be funded and not what key people (staff, volunteers or clients) believe is a priority need. At the same time, some services require a certain financial contribution from clients if they are to be viable – they cannot be fully funded with grants and contracts. Then there is the dilemma of deciding who should pay what and whether there should be subsidization. Some clients (or their relatives) value the service and pay, while others cannot realistically pay much, if anything – yet there are others who could pay but won't. Should they be denied support?

The perspectives and views of key stakeholders are important. It might seem a logical assumption that volunteers to a charity – particularly where there is a strong local identity – will be more committed to local interests and needs than to national ones, however related they might be. They will know where their time and direct efforts are being channelled and who is benefiting. But what about any financial donations? It is quite possible some donors are less clear, perhaps assuming their gifts will benefit people near to where they live, when this may not be the case. And when people realize (because they are clients) or read that Age UK has stopped certain commercial services (mainly energy contracts) because of the way they were operating, and then because they were not able to generate an adequate surplus, what might they think? Will this affect their willingness to support and donate? In addition, stories about senior staff salaries in large charities generally, and the proportion of money raised that is spent on the organization itself (and on future campaigns) rather than specifically on the actual cause (here, supporting and helping older people) are more likely to hinder than help.

Although there might be an argument in favour of discrete local service provision at the point of delivery, how much duplication is implied by some 140 local branches doing, effectively, the same thing (although with clear variances and different priorities)? How much unnecessary duplication of underpinning back-room services (basic financial and human resources systems, for example) might be eliminated with collaboration? It is such potential savings as these that have led to a limited number of local mergers of Age UK branch partners since 2009 – some of these driven by opportunity and others forced by financial pressures. There remains evidence of resistance from local trustees who remain fiercely loyal to the independence of the organization they joined, wishing, perhaps, to protect their own role and status.

Finally, assuming it was important for Age UK to be sure people understood their new structure, would the continuing existence of the Age Concern brand be a hindrance?

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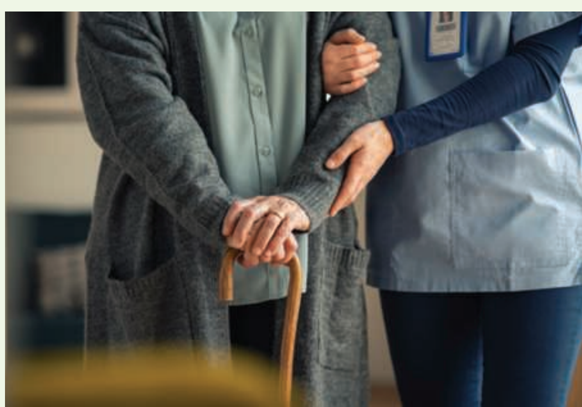
Questions

1 Would you see the 2009 merger of Age Concern and Help the Aged as being one forged in opportunity or necessity?

2 To what extent do you think this conclusion will have influenced the new Age UK structure? Could you have designed a more efficient and alternative structure, given the history and inheritance for the new senior staff and Board of Trustees and any relevant local pressures?

3 Influenced by COVID-19, Age UK has experienced a fall in its national fundraising in recent years and some redundancies have had to be made, inevitably reducing its resource capacity. At the same time, many local branches have lost service contracts and also had to reduce their staff and volunteer complement. Is, then, the real challenge for the future more about strategy or structure?

4 Talk to people you know, especially older people who might be beneficiaries of Age UK, and check which brand is more meaningful to them today. Is it Age UK or Age Concern? If the latter, how significant is this?



Research Snapshot 14.1

The academic literature seems to have spawned a moderate level of interest in strategy implementation, but it is dwarfed by the literature on strategy formulation and strategic management more generally, suggesting a field of research with significant gaps and opportunities for future studies. That said, the implementation of strategy is covered by other related papers (e.g. Leonardi, 2015; Zollo *et al.*, 2018; and others) and the topic has been extensively reviewed and synthesized (Friesl *et al.*, 2020; Tawse and Tabesh, 2020; Weiser *et al.*, 2020). The latter authors refer to strategy implementation as being 'adaptive' and they define strategy implementation accordingly as: 'the continuous interplay of three interrelated activities – conceptualizing, enacting, and coordinating – that enable an organization to realize strategies through collective actions by organizational stakeholders' (Weiser *et al.*, 2020, p. 973). **Conceptualizing strategy** is 'generating and continuously reevaluating an organization's strategic direction' (Weiser *et al.*, 2020, pp. 973–974), **enacting strategy** is 'the pattern of strategy implementation brought into being within people's actions over time', and finally **coordinating strategy** involves 'the deliberate actions aimed at orchestrating strategy implementation … [and] the social dynamics through which people work interdependently on goals and tasks to achieve collective action.' (Weiser *et al.*, 2020, p. 974). The adaptive view thus helps to explain the *practice* of strategy implementation as well as theories.

Enablers and barriers to strategy implementation are prevalent in the literature. Cândido and Santos (2019) report that a complicated and interwoven set of barriers can create wicked problems and make strategy implementation very difficult. Implementation can be impacted by the existence of 'sender's bias', defined as 'the overestimation of the quality of communication (i.e. degree of sharing) with organizational members by senders (i.e. top managers)' (Shimizu, 2017, p. 52). Clearly, the top management team has a critical responsibility not only in formulating strategy but also in ensuring its effective implementation, but so too do project managers in many firms (Hyväri, 2016); and tools such as a balanced scorecard cockpit (Strohhecker, 2016) could assist top managers to implement strategy effectively. The importance of – and contrast between – the actions of individual employees/managers and groups in implementing strategies cannot be overestimated (Scott *et al.*, 2018). Social capital can enhance performance – in particular, that 'reputational social capital enhances the performance impact of middle managers' upward

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influence, while informational social capital elevates the performance impact of their downward influence' (Ahearne *et al*., 2014). Middle managers' emotions can influence strategy implementation (Huy, 2011). Other aspects that affect strategy implementation include skills, a clear 'skills gap' being identified (Speculand, 2014), and also corporate governance and the transition from formulating to implementing strategies, in this case, in relation to firms' sustainability strategies (Engert and Baumgartner, 2016; Klettner *et al*., 2014). Indeed, the visionary leadership of team managers can influence strategy implementation, depending on the strategical alignment (or not) of the aforesaid team manager with the chief executive officer (CEO) because it influences whether or not their team is committed to the strategy (Ateş *et al*., 2020).

Authors have specifically considered the importance of the effective implementation of marketing strategy (Grossberg, 2016; Olson *et al.*, 2018). Service-dominant logic from the marketing field can help 'the bundling and deployment of human capital resources for effective strategy implementation' in terms of 'enduring relationships, collaboration, co-creation, open dialogue, trust, and status minimization' (Greer *et al*., 2017, p. 137). Achieving effective strategy implementation within subsidiaries has a major impact on performance (Lin and Hsieh, 2010). Recent research indicates that the 'failure rate' of strategy implementation is still not known due to 'outdated, fragmentary, fragile or just absent' evidence (Cândido and Santos, 2015). Other authors argue that managers should implement strategy 'perfectly' (Lee and Puranam, 2015). Business models (Chapter 2) are vehicles for strategy implementation but depend crucially on developing an effective value proposition (Payne *et al.*, 2020). Examples from specific industry sectors suggest that the strategy to be implemented is 'fantasy' in the case of a Finnish bank (Sajasalo *et al.*, 2016), that interruptions to strategy implementation may have a 'ghostly nature' in Danish local government (Pors, 2016), or that the challenges of diversity management (e.g. between different cultural or ethnic groups) in South African universities has major implications for strategy implementation (Strydom and Fourie, 2018). Organizations anywhere with cross-cultural workforces can adapt and apply the lessons from this context to their own context.

The articles below provide a deeper understanding of strategy implementation and, accordingly, the further reading from this literature will help students to develop their perception and critical awareness of the barrier to, and drivers of, effective implementation of strategy, and its link with firm performance (for a much more comprehensive treatment of strategy implementation, see Hitt *et al.*, 2017). It will also help to highlight the developing thinking in relation to this topic.

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Summary

To be successful, an intended strategy must be implemented which requires that the organization's strategic resources be developed, deployed and controlled appropriately. This will be accomplished through the design of the organization (the structure) and the processes encapsulated within the structure.

The structure can be described as the means by which an organization seeks to achieve its strategic objectives. However, the structural processes are a reflection of culture, power and political activity, and where people are empowered in a decentralized organization these processes determine the actual (adaptive and/or incremental) strategies pursued.

Consequently, the structure must be capable of creating and implementing strategy. The key issues which impact on strategy creation and implementation are the extent of any decentralization, the need for co-ordination and the relative degree of formality–informality.

Organizational structures are designed to ensure that intended strategies can be implemented effectively, and the processes within the structure also affect and facilitate emergent strategy. Particularly significant for ensuring that both happen is the location of power, responsibility and authority in the organization, and the extent to which these are centralized and decentralized. In large organizations, the relationship between the head office and the various subsidiaries (businesses or divisions) relates to this issue.

Centralization yields consistency and control, but it can result in an organization being slow to respond to the pressures for change in its external environment. In addition, entrepreneurial managers may feel constrained. Decentralization enables flexibility, but control is more difficult because it is dependent on an effective information system which can gather together the various changes that are taking place as empowered managers make and take decisions.

Centralization/decentralization and formality/informality (the nature of control mechanisms and communications) determine the broad structural type.

There are five plus one main structural forms:

1. The *entrepreneurial structure* is found in the typical small business where everything is centred around a key person, often the owner-manager.
2. The *functional structure* emerges as departments and managers are created to deal with the increasing number of tasks.
3. The *divisionalized structure* is a popular structure for organizations with several products or services which may or may not be related.
4. The *holding company* is adopted by a diversified business with largely unrelated activities or businesses which can advantageously be kept separate for control purposes.
5. The *matrix structure* – or some variant of it – is most frequently used where there is a need to co-ordinate products and countries in a business which manufactures and markets worldwide. Because of its inherent complexities, alternative forms of integration may be sought.
6. Finally, there is what we could call the *post-matrix* structure, which may attempt to combine the matrix's benefits yet overcome its limitations.

Organizations change their structures as they grow; they may also be changed in line with alterations to the corporate portfolio to try to keep the two in balance. The main determinants of structure are: size, tasks to be carried out, environment and ideology. The basic structure divides up the tasks, but, of course, the structure is merely a framework for allocating tasks and roles and positioning people. The real follow-up challenge is one of integration.

Online cases for this chapter

Online Case 14.1: Amstrad
Online Case 14.2: Pilkington
Online Case 14.3: National Health Service (II)
Online Case 14.4: Nestlé
Online Case 14.5: Boda Porcelain
Online Case 14.6: ABB (Asea Brown Boveri)

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Questions and research assignments

1. It was stated in the text that decentralization and divisionalization are not synonymous. What factors determine the degree of decentralization in a divisionalized organization?
2. For an organization with which you are familiar, obtain or draft the organization structure chart. How does it accord with the structural forms described in the text? Given your knowledge of the company's strategies and people, is the structure appropriate? Why? Why not? If not, in what way would you change it?
3. How uncertain and traumatic could it be to work in a middle or senior management position in a large organization which changes its structure relatively frequently? Despite this, is change inevitable?
4. Obtain the necessary information from the internet and decide whether you agree with the view that Procter & Gamble has successfully designed an effective matrix structure.

Internet and library projects

1. Evaluate the divisionalized or holding company structure of a large, diverse, multi-product, multinational, considering the main board status of the key general managers. Does this suggest centralization or decentralization? If you are familiar with the company, do your findings accord with your knowledge of management styles within the organization? To what extent is performance determined by structure?

Strategy activity

WH Smith

In the last 35 years, WH Smith has worked hard to clarify its strategic position in the retail industry. There is serious competition for all its products. As a consequence, its performance has both improved and deteriorated. There have been changes of leadership and occasional rumours of a possible takeover or sale to private equity. The data below provides a summary of the organization structure in 1995, 1999, 2003, 2008 and 2021. Research the company's progress over this period and (if you wish) update the data provided below. Has the structure merely changed to reflect changes of strategy? Or could the structural changes have been a serious attempt to drive the business both competitively and in fresh directions? What new formats has WH Smith experimented with more recently?

WH Smith: group structure, 1995

Retailing: UK and Europe

WH Smith Retail	High street stores – books, sounds, stationery Airports and stations Specialist Playhouse video stores
Virgin Our Price (75 per cent holding)	Virgin Megastores – *sold 1998*
Waterstones	Specialist booksellers – large towns and cities – *sold 1998*

Retailing: US

WH Smith Inc.	Gift shops, typically in hotels and airports
The Wall Inc.	Specialist bookselling in major cities and airports – *sold 1998*

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Distribution: UK and Europe

WH Smith News and Books	Newspaper and magazine wholesaling and distribution Book distribution to retailers, schools and libraries
WH Smith Business Supplies	Five acquired suppliers of commercial stationery and office products amalgamated under the Nice Day brand – *sold in 1996 to Guilbert of France*
Do It All	DIY retailers, at this time a 50:50 joint venture with Boots – *sold to Boots in 1996*

WH Smith: group structure, 1999

WH Smith High Street	545 stores – books, sounds, stationery in the main
WH Smith Europe Travel Retail	183 station and airport stores
WH Smith US Travel Retail	412 gift shops mainly in hotels and airports
WH Smith Asia Travel Retail	Hong Kong, Singapore and Sydney airports
WH Smith Direct	Internet retailing, with terminal access in selected stores
Hodder Headline	Consumer books publisher – with an 8.5 per cent share of the relevant market segment
WH Smith News Distribution	51 depots, making WH Smith the UK's leading wholesaler of newspapers and magazines (the High Street and Europe Travel Retail included the rebranded John Menzies stores acquired by WH Smith in 1998)

WH Smith: group structure, 2003

UK Retailing	The high street, airport and station stores plus WH Smith Direct (online sales)
WH Smith Asia Pacific	Stores in Australia (Angus & Robertson) and New Zealand (Whitcoulls) been acquired *The US Travel Retail Business sold in 2003*
WH Smith News Distribution	
WH Smith Publishing	Publishers John Murray and Robert Gibson acquired to strengthen Hodder Headline

Publishing was floated off as an independent business in 2004
Also in 2004 the Asia Pacific business was sold to private equity
In 2006, the business was split into two and existing shareholders given shares in both WH Smith Retail and Smiths News

WH Smith Retail: group structure, 2008

WH Smith High Street	557 stores, selling newspapers, magazines, stationery, books and entertainment There were Post Offices in 82 of these and Bureau de Change facilities in 50 branches
WH Smith Travel	449 outlets at airports, railway stations, hospitals and motorway services – selling a dedicated range of newspapers, magazines, books and confectionery
WHS Direct	24 hour internet sales

Smiths News*, now a separate business, comprised 44 distribution centres (or 'houses') handling newspapers and magazines for 22,000 large and small retailers; it trades as 'Connect'*

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WH Smith Retail: group structure, 2021

The underlying structure was largely the same in 2021, other than (i) online sales were absorbed into the High Street Division and (ii) some 200 of the High Street stores now incorporated a Post Office branch – typically replacing a local (head) post office that had been closed down. There were 544 High Street stores and 1,166 in WH Smith Travel. In 2020, both divisions recorded trading losses, but in 2021 both were again profitable and, unusually for recent years, High Street outperformed Travel. These results clearly reflected the extent to which COVID-19 had restricted people from shopping and travelling and how general spending had been the first to recover.

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Chapter 15

Leading change

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- appreciate the dynamics of strategic change, its management, its role in growth, and major forces for, and types and modes of, change **(Section 15.1)**
- explain why people frequently resist change and how resistance can be overcome **(Section 15.2)**
- identify a number of different approaches to the planned management of change **(Section 15.3)**
- assess the importance of power, how it is used in change situations, and how managers can improve their political effectiveness in organizations **(Section 15.4)**.

Introduction

Change is real. Change pressures are constant. They present a key challenge for organizations. In some ways, there is a degree of predictability but also a great deal of uncertainty. Some change is linear and mimics tidal flows; there are, for example, economic cycles where years of relatively high growth are followed by a period of either lower growth or even decline. That 'boom' will turn to 'bust' and then back to 'boom' is known and predictable. Incidentally, a former British Prime Minister, when Chancellor of the Exchequer (Treasury Secretary), claimed 'no more boom and bust', but his government was defeated following a boom and bust around the time of the **credit crunch**. But the length of each cycle as well as the difference between the high and low points can be variable and unpredictable. Superimposed on these cycles are periods of relative calm and greater volatility which do not follow any cyclical pattern; by nature, they are unpredictable, complex and potentially threatening. They are influenced by customer demand and competition, from existing and new rivals, products and services. Some organizations and strategic leaders seem to 'read the runes' better than others do and are better prepared. For some organizations, change pressures mean they always seem to be in a state of entropy, 'picking up the pieces', and attempting to rebuild rather than appearing to be (to at least some degree) in control of their own destiny. Organizations ideally need to be strategically agile (which we discuss in this chapter) and also strategically resilient (Chapter 17).

Leading change has been traced back as far as the Book of Job, especially considering how, in the Jungian analysis, 'the transformations of consciousness … are highly relevant to the ways that organizations and their leaders face chaotic, turbulent and/or unpredictable circumstances' (Smith and Elmes, 2002). The literature on leading change is 'often contradictory, mostly lacking empirical evidence and supported by unchallenged hypotheses', according to By (2005). (Refer also to the Research Snapshot for further work by this author.) Change leaders in the public sector can lead chaotic change – that is, 'changes in an organization when the external and internal complexity and uncertainty is high' – and 'pay attention to how people form identities in organizations and avoiding design-oriented managerial interventions, as well as keeping at bay the anxiety caused by not being in managerial control' (Karpa and Helga, 2008).

Leading change in the private sector has also been investigated. For example, Fenton and Pettigrew (2006) found that – within an engineering consultancy attempting to undertake a global strategy – leaders were opposed to change which they perceived as potentially jeopardizing their identity. In addition, a study of how leaders lead and can cope with change in financial services firms reported that, 'change leaders are themselves part of the process, and that the judgemental and cognitive processes which employees engage in, in their relationship with those leading change, is crucial' (Woodward and Hendry, 2004). Some research on change leadership has focused on vision and the construction of coalitions (Kotter, 2005), the way in which leaders' attempts to make changes in their organizations may result in failure (Kotter, 2007), and how

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'leverage points', as a response to 'pain' and 'significant emotional events', can be used to achieve change (McAllaster, 2004).

On the other hand, it has been suggested that change leadership can be most effectively achieved through identifying its 'organization-specific DNA' and then 'self-organizing', 'spreading change by minimum intervention' and being able to 'read change signals correctly' (Karpa, 2006). Leaders must not only choose changes but also determine the best way to implement such changes, as in the case of Deutsche Lufthansa and its 'strategic change programme' (Bruch *et al*., 2005). Balogun (2003) further argued that middle managers are 'change intermediar[ies]' who are essential to the implementation of change by 'interpretation of the change intent' – and yet, such middle managers may experience 'workload issues and role conflict' as a result of these duties.

For leaders to achieve successful change, Gilley *et al*. (2008) observe that, 'the abilities to communicate appropriately and motivate others significantly influence a leader's ability to implement change effectively and drive innovation'. Charismatic leadership has been identified to be important to enable effective innovation (and, by implication, performance) within research and development teams, given that they can engender a 'sense of team identity and commitment, and encourage team members to co-operate through the expression of ideas and participation in decisions' (Paulsen *et al*., 2009).

Organizations and managers then face change on a continuous basis, especially in volatile environments; some changes are reactions to external threats and others are proactive attempts to seize opportunities and manage the environment. We introduced you to the 'new normal' world of business – where change is a constant – in Chapter 4. Organizations should seek to obtain and maintain congruence between their environment, values and resources, making changes when there are pressures from either the environment or their resources. Organizations must seek to create and sustain competitive advantage and, wherever possible, innovate to improve their competitive position, implying a readiness to change and the ability to implement the proposed changes.

This chapter examines the management of change in terms of leadership, culture and power, intrapreneurship, **empowerment** and learning organizations. The content relates to the V circle in Environment–Values–Resources. Throughout the book we have argued that V (encapsulating leadership, culture and values) is a key determinant of a sustained match between E and R (products, services and markets) in a dynamic world.

In this race . . . you run the first four laps as fast as you can – and then you gradually increase the speed.

William Weiss, when CEO, Ameritech

15.1 Strategic change: Dynamics, management, growth, forces, types and modes

Figure 15.1 illustrates the (managed) **strategic change** process. Driven by the strategic leader and affected markedly by the organizational culture, the organization is attempting to manage in (reactively) and manage (proactively) its external environment. The structure, objectives and the related performance measures are determined by the mission and direction and they, in turn, guide the decisions, actions and outcomes. These outcomes can then be compared with performance expectations. The timing of change is critical; if things are not changed at the appropriate time, the organization is likely to be reactive and may well end up perpetually crisis fighting.

Strategies, as we have said earlier, follow life cycles and, throughout a strategy's life, there should be innovative, incremental improvements in the face of competition. But when industries, markets or technologies are disrupted, companies must adapt and perhaps transform themselves if they are to survive, which may be more pronounced if they have been 'betting' as opposed to 'hedging'. Betting implies having pursued a focus strategy and relied on a limited range of related products, rather than having diversified to spread the risk across a number of industries, which is hedging.

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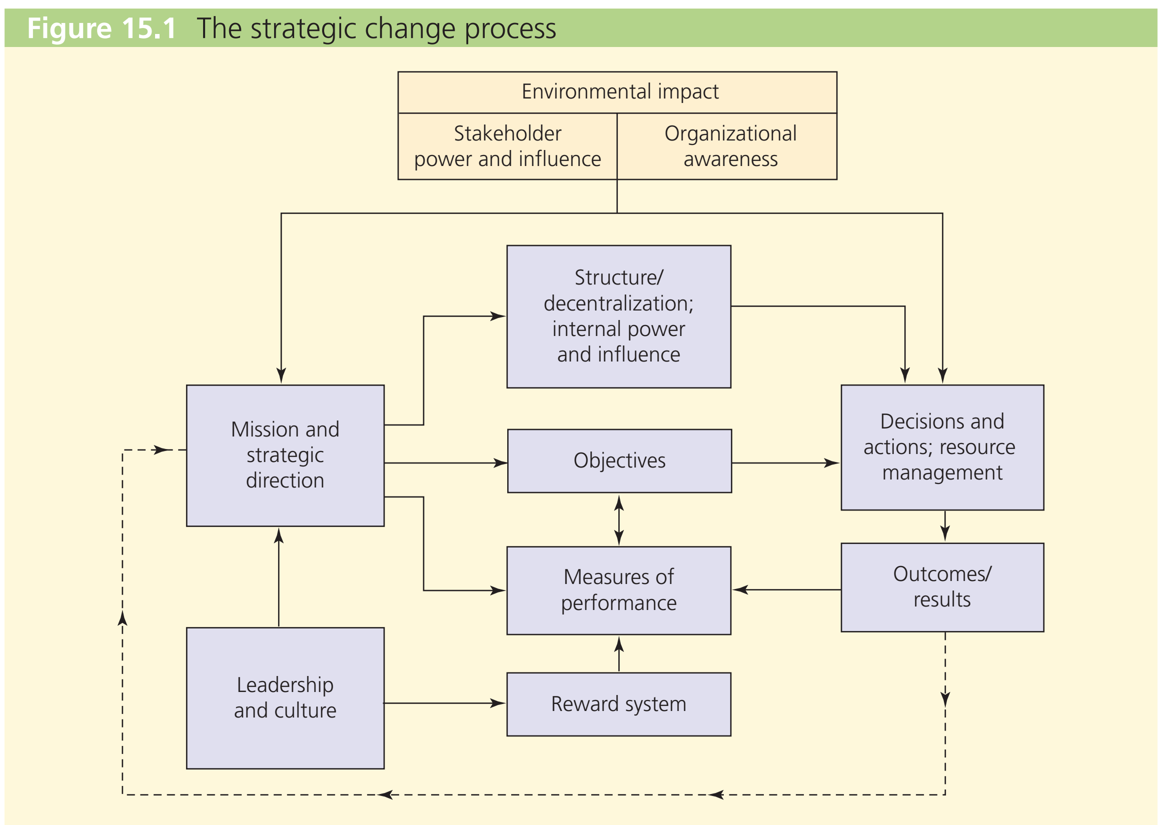
Figure 15.1 The strategic change process



Hence, effective organizations must be able to *manage change*, with managers and employees being supportive, rather than resistant or hostile. When strategies change, structures and responsibilities often change too, clearly affecting people. Kotter and Schlesinger (1979) and, later, Waterman (1987) suggested that most companies or divisions need to make moderate organizational changes at least every year, with major changes every four to five years – a demand that has certainly not been relaxed today!

While organizational changes can be reactive and forced by external change, effective strategic management requires *learning*. Managers must be aware of their environment, assessing trends and deciding in advance what should be done about perceived opportunities and threats. Planning activities and systems should ensure that the future is considered, and the resultant plans should encompass the implementation aspects of any proposed changes and the need to be flexible to accommodate unexpected changes. Moreover, **innovation** should be possible within the organization, and managers should constantly be looking for ways of being more effective and able to proceed with appropriate changes.

Ideally, the organization will seek to develop a culture where people do not feel threatened when they are constantly asked to question and challenge existing behaviours and acknowledged ways of doing things, and change them. This is a culture that sees innovation and change as normal; a culture that is ideal for dealing with the competitive chaos that characterizes many industries and markets; a culture where people do not automatically ask: ‘Who is already doing this?’ when someone proposes an innovative change. Such a culture cannot happen without strong strategic leadership which fosters, encourages and rewards intrapreneurial and innovative contributions from managers and other employees throughout the organization.

Such a culture will frequently be based around a working atmosphere of curiosity, creativity and fun; people must enjoy doing things differently and originally, actively looking for new competitive opportunities, instead of simply copying others.

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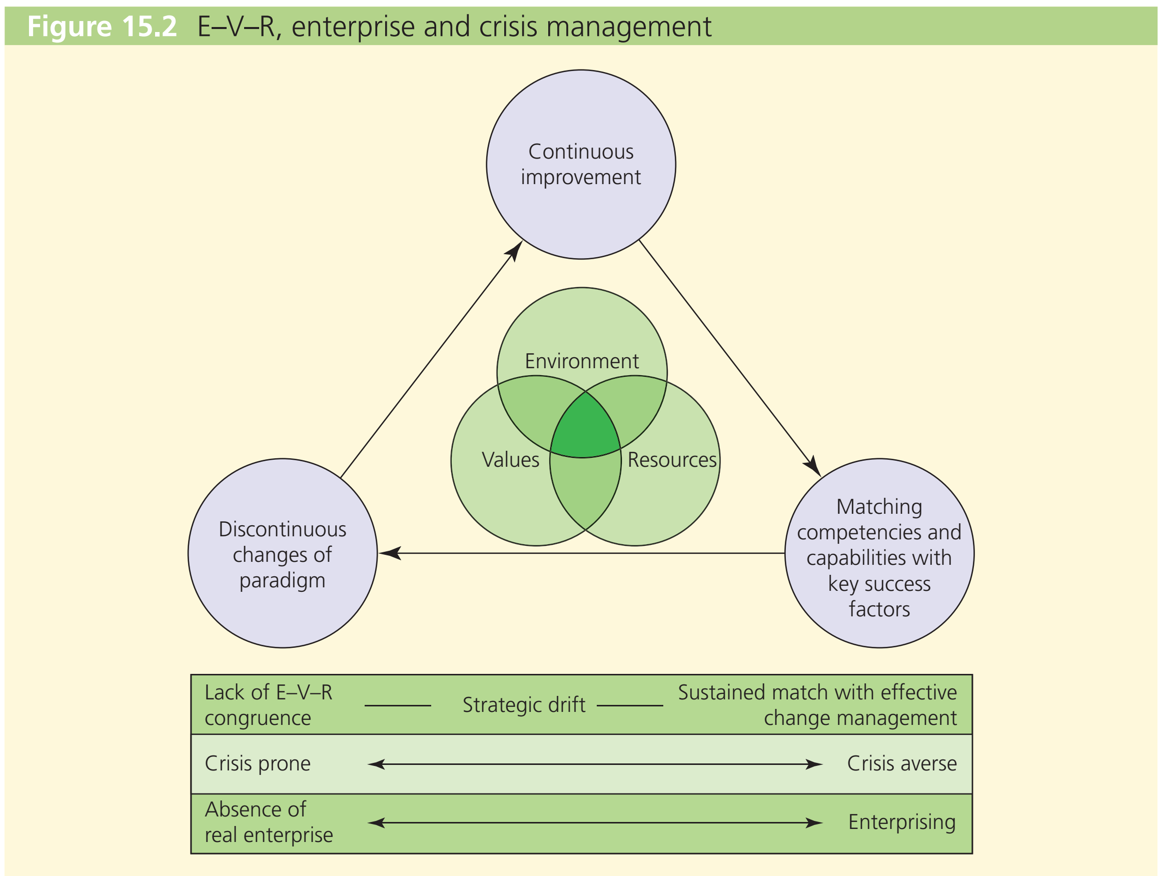
A change culture is highly desirable for many organizations but very difficult to achieve. Hence, the implementation of change requires *a perceived need for change*, which can originate with either the strategic leader or managers throughout the company who are aware of the possibilities; *the necessary resources*, involving aspects of competency as well as physical resources; and *commitment*, influenced by organizational culture, the extent to which managers are responsive and innovative.

Figure 15.2 takes the concept of Environment–Values–Resources (E–V–R) congruence and restates the idea from the perspective of effective change management. The *environment* provides opportunities for organizations to benefit from innovation and continuous improvement; on other occasions, the environment will encourage more dramatic, discontinuous change.

Figure 15.2 E–V–R, enterprise and crisis management



This pressure can take the form of a threat (major environmental disturbance) or an opportunity (whereby the organization, 'seeing the future' ahead of its rivals, can shape its environment). The relative strength of the organization's *resources* is reflected in the success of existing strategies; *values* dictate the ability of the organization to manage change effectively. Strategic **effectiveness** demands congruency. The bottom bars confirm that an organization which enjoys E–V–R congruence is likely to be enterprising and relatively crisis averse, whereas strategic drift and lost congruence are matched with crisis proneness and a relative lack of enterprise.

Case 15.1 examines the growth of specialty coffee. The existing 'coffee culture' was disrupted and changed by an increase in awareness of (and subsequent attraction to) specialty coffee. Starbucks played a pivotal role here. A new stability – based around new behaviours and habits – emerged and became established; but this pattern has continued to emerge and develop as new entrepreneurs continue to find new opportunities. In parallel, and as we discussed in Case 3.2, developments in tea drinking have changed this industry as well.

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Case 15.1 Starbucks and the Rise of Specialty Coffee US, Int

This case has been written to be read alongside the cases on Nespresso (Case 6.4) and The Sale of Costa Coffee to Coca-Cola (Case 11.4).

As the popularity of specialty coffee has grown significantly in the last 40 years (and using hindsight), commentators now talk about three distinct waves.

Coffee has long been a popular drink, especially in the United States, where it has always outsold tea, and where the 'refillable' mug is ubiquitous in many diners. This 'refillable' mug generally means a pot of brewed coffee (with water typically drip fed through ground beans) into a large pot which is kept heated until the coffee has been drunk. At that point, a fresh pot is brewed. Instant coffee, always selling better in the UK than the United States, became increasingly popular after World War II. Students of the rise of rock-and-roll music in the late 1950s and 1960s will further realize that this period was one when coffee bars – targeting people too young to drink alcohol in pubs and featuring juke boxes –also grew in popularity. That said, espresso coffee (effectively the bedrock of what we today call specialty coffee) was popular in Italy (and other continental countries) post World War II. Even then, it was not a new product. The idea of using steam through a dedicated machine to create a very strong (short) cup of coffee had been formulated many years before. These years up to the mid-late 1970s have been called the 'first wave'.

Starbucks became a pioneer of specialty coffee and a market leader as well as a market driver of the 'second wave'. Although some coffee drinkers might declare a preference for a rival brand (say Costa Coffee or Caffè Nero in the UK, or Columbus Coffee in New Zealand), the contribution and significance of Starbucks is huge. It grew from a single store on the Seattle waterfront to a worldwide chain, spawning competitors in the United States and elsewhere. The company, though, has never made any headway in Italy, which many still see as the home of 'decent coffee bars'. Founder Howard Schulz succeeded because he found the right way to blend sales of top-grade fresh coffee beans with sales of cups of coffee to drink.

Coffee bars, then, have existed for a long time, but rarely have they featured the strong and distinctive aroma found in stores that also sell fresh coffee. The individual drinks in Starbucks are relatively expensive, but they are individualized and made to order by trained baristas. There is a wide range of piping-hot and ice-cold variants to choose from. Some customers prefer cappuccinos, lattes and flat whites – while others prefer their coffee black and strong. People who prefer skimmed milk or, for example, soya milk (or healthier alternatives, such as oat, almond or hemp milk) can be accommodated. Customers include shoppers and working people from local stores and offices at lunchtime and teatime on their way home – people who take time to relax and converse over their coffee, as well as people who pop out from work to their nearest outlet when they have a short break because the coffee is perceived to be superior to the instant variety that they might otherwise have to drink. Outlets can also be found at airport terminals and in those bookstores where people go to browse and relax. Additionally, drive-through branches are growing in number. Essentially, Starbucks 'sells an emotional experience' and not just a commodity product. It thus adds value.

Schulz, the son of a blue-collar worker from Brooklyn, New York, became a salesman, and, when he was working for a houseware products company, he visited Seattle and was introduced to the Starbucks Coffee Company, a business that sold imported coffee beans. Its founders loved coffee; they had no (declared) ambitions to build a business empire. He joined the business in 1982, when it was around ten years old, with the title of Marketing Director. Enthused by espresso bars on a business trip to Italy – and convinced that a similar concept could be developed for the United States – he attempted to sell the idea to his bosses. The family declined to go along with him and he left to start up on his own. He managed to raise enough money to open one outlet, which he called Il Giornale; and within two years he was in a position to buy out Starbucks. 'I became CEO of Starbucks in 1987 because I went out, as an entrepreneur, and convinced investors to believe in my vision for the company.'

'Vision is what they call it when others can't see what you see … I saw Starbucks not for what it was but for what it could be … I realized it could reinvent an age-old commodity and appeal to millions' (Schulz). It has been estimated that, on average, people now drink 21 cups of coffee a week, with 50 per cent at home, 25 per cent at work and 25 per cent from coffee bars, including takeaway coffee (which was offered 'contactless' during COVID-19 lockdowns). This growth is largely down to Schulz, who, working with a strong team of managers, built an international business. He commented that, as Starbucks grew, his biggest challenge was 'reinvention whilst at the same time becoming an ever-more professional manager'. One new idea, for example, was Frappuccino, a blended

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chilled coffee drink, different from hot brewed coffee cooled with ice. The suggestion came from an employee; initially, Schulz was skeptical, but he agreed to trial it and it subsequently became one of Starbucks' most successful products. Nonetheless, coffee to drink is very much the leading product, but fresh coffee beans and a range of related products (such as cakes, biscuits, mugs, coffee makers and special Starbucks music CDs) are also now on offer. Starbucks is the third largest retailer of fresh coffee beans in the United States, selling mostly through supermarkets.

At the same time, Starbucks is a values-driven business. Schulz claims that his mission has always been to 'educate consumers everywhere about fine coffee'. Customers who visit Starbucks must feel relaxed and enjoy 'a sense of wonder and romance in the midst of their harried lives'. People will pay 'arguably outrageous prices' for their coffee as long as it is seen as an indulgence. If this objective is to be achieved, staff attitudes and behaviours are critical. Service, therefore, is everything. Schulz has created Starbucks as 'living proof that a company can lead with its heart and nurture its soul and still make money'. Employees are seen as partners. Including part-timers, they all enjoy free health insurance, stock options (known as bean stock), training programmes and wages above the industry average. Although many are young and fit, students who will not stay long enough to earn stock options and who will not need health care, 'they feel valued and consequently deliver the desired service'. They matter. In addition, all unsold beans over eight days old are given away free to local food banks. Nevertheless, the company has also been criticized for exploiting cheap labour in coffee-growing countries.

The years since 2000 are seen as 'the third wave'. The popularity of the large chains, such as Starbucks and Costa (with their substantial scale economies), has continued, but alongside them an increasing number of independent coffee shops have appeared. Sometimes these are individual units; sometimes they are small, local chains. Many of them develop a distinctive identity and ambience and offer a selection of coffee beans from various countries around the world, thus adding other dimensions to customer choice. One significant reason why small independents can compete alongside the huge chains is the cushion provided by the high margins in this industry. The prevailing prices for specialty coffee allow for a substantial gross margin, even if relative costs vary, and demand has also provided 'room for all'.

These coffee shops are now more than 'somewhere we buy a cup of coffee'. Many customers go on their own, while for others they are social spaces where they spend time and chat with their friends. For some people, they are effectively workspaces; they take their laptops and use the free wi-fi. The story of author J.K. Rowling writing her *Harry Potter* novels in a coffee shop (The Elephant House in Edinburgh) is well known. Others take a book or newspaper and read. Refills (not free refills!) often mean they stay for long periods and occupy seats and tables. One reason this high occupancy rate is possible – and the business remains profitable – is the very large number of takeaway purchases. There is now a strong element of place attachment, with coffee shops playing an important role in the leisure industry.

Attempts to evaluate their individual popularity will be based on many factors, and certainly not just the quality of the coffee, albeit this aspect is significant.

Questions

1 Taking up the last point in the case, how would you judge the relative popularity of a coffee shop? What matters (most) to you?
2 What does this case tell us about continuous change, with fresh opportunities opening up all the time?
3 However successful any competitor may be, are all competitors always at risk of being caught out by a fresh development somewhere in their industry?
4 Are the different approaches to entrepreneurship taken by Schumpeter (disruptive innovation) and Kirzner (niches of stability in a turbulent industry environment) relevant for our understanding of these three waves? *These arguments were introduced in Chapter 10, Section 10.1.*

Reference

The quotations attributed to Howard Schulz are taken from: Schulz, H. and Yang, D.J. (1997) *Pour Your Heart Into It*, Hyperion.

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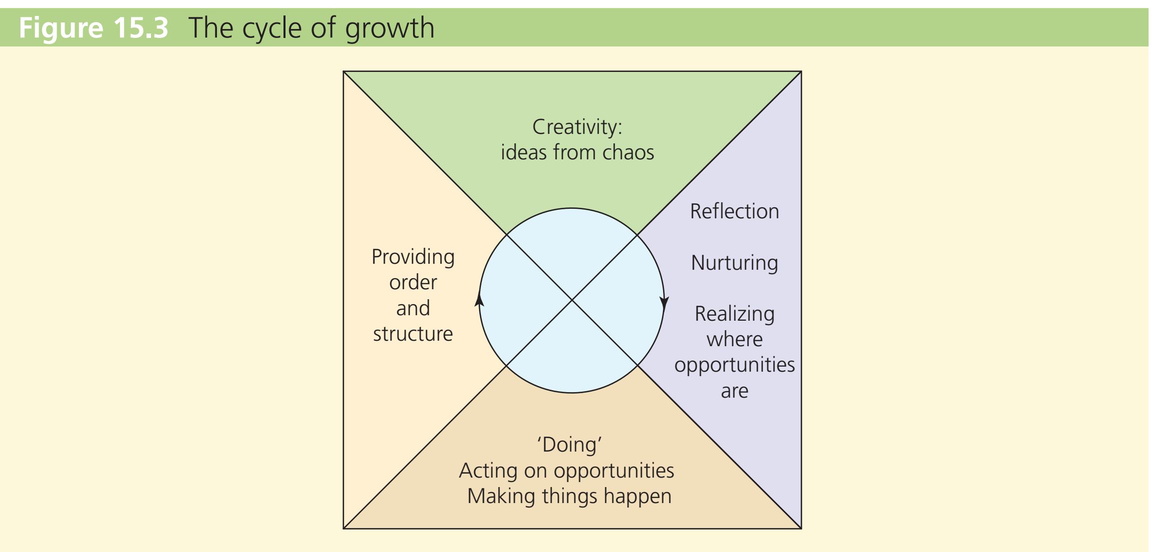
The cycle of growth

Figure 15.3 is based on four stages of organizational development and growth – creativity, nurturing, 'doing' and control – which organizations must be able to accomplish, or face weakness if any is relatively over-abundant or under-achieved. Continued progression around the loop implies that an organization is managing the change agenda, while failing to do so implies a failure to adapt to change pressures.

Figure 15.3 The cycle of growth



The model is iterative and systematic, beginning with creativity – new ideas in a somewhat chaotic environment – followed by more passive reflection and nurturing when the idea is crafted into a real opportunity, often where a new business idea springs up. While many organizations and entrepreneurs spend insufficient time carrying out this essential strategic thinking, it is equally possible to become bogged down in planning and not move on to action. Generally, this action or 'doing' phase brings about success and growth, demanding proper organization and structure in order that there can be management and control. The danger is that this control can stifle innovation through stasis and a loss of entrepreneurial drive. To ensure that the organization can continue to grow, fresh ideas – renewed creativity – are needed once more. We saw earlier in Chapter 8 (Figure 8.5) how some strategic leaders deliberately engineer a (perceived) crisis before a real one takes hold in order to drive the change process.

Ideally, an organization will progress from one stage to another and continue around the cycle; and yet many people have ideas which never become opportunities, and some entrepreneurial organizations are so involved in the doing stage that they only put in the proper structure when it becomes essential. Once systems, rules and control procedures begin to take hold, fresh creativity can easily be stifled. Naturally creative people may not seem to fit in with the more disciplined approach the organization has adopted. Most of us are capable of being creative, but we need to be working in an appropriate organization culture which encourages us to be creative. Consequently, this progression is unlikely just to happen – movement is likely to require triggers and some clear manifestation of need.

In addition, there are sub-loops in the cycle, such as creating and developing an opportunity, or strategic thinking and action; strategy and structure, as we have seen before, are also linked; intrapreneurship is represented by a creativity-reflection-doing sub-loop within an appropriate structure.

Individuals are likely to be comfortable and stimulated in one or two of these four roles and less at ease in the others, such that strategic leaders must build management teams to make sure they secure the help they need to overcome their naturally weaker areas.

Strategic Reflection 15.1 invites you to think about pizzas. Think about changes you might have seen as you have grown up – and about how much you see things changing in the future. Can you envisage radical changes or 'more of the same', vis-à-vis innovation and emergence?

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Strategic Reflection 15.1

Pizzas

The US author J.D. Robb has written over 60 futuristic crime thrillers set in the early 2060s; her heroine is New York Police Lieutenant Eve Dallas, whose favourite meal is meat pizzas. While much has changed in the world, this 'staple food' hasn't! Should it stay in business, Domino's will celebrate 100 years of trading at the beginning of the 2060s.

So, think: what do pizzas mean to you? Are they something you eat regularly? Occasionally? Hardly ever? Do you stand out or fit in with your friends and family in this behaviour?

Domino's is a leading international pizza chain brand; unlike many of its rival chains, it continues as delivery (or personal collection) only. How many of the rival chains can you think of (instantly!), and which of these has a similar business model? How many small independent pizza restaurants close to where you live can you identify? Can you distinguish their business models in any way? If so, what is the basis for the difference? Is it the product range? Both the pizzas and all the ancillaries. Location? Service? Delivery drivers? Do you have a preference for any particular base? How easy is it to be distinctive? Did you include Pizza Hut with its focus on a buffet style and the option to eat individual slices of a variety of different pizzas?

How do you consume pizzas? How significant are takeaways for you and your family? Do you buy from a supermarket to cook at home? Do you make your own, using pre-prepared dough that you buy or making your own dough from scratch?

For the record, Domino's has pioneered various innovations in the industry over the years, including:

- It introduced the sturdy corrugated box for takeaways – the moisture and any fat from the pizzas doesn't make the box soggy and the cheese doesn't stick to the top.
- Later, it introduced the 'HeatWave' delivery bags – each bag contains a heater disc, substantially reducing heat loss during delivery.
- In 1999, Domino's was the first to offer online ordering.
- In 2008, it launched an app which allows people to track the progress of the delivery of their order – it is shown as an advancing bar.
- It pioneered 'commissaries' to provide and deliver dough to every store, so that staff there can focus on finishing, cooking and delivering pizzas.
- Though not universally in service, Domino's has developed a 'Pizza Car' that can carry 80 pizzas at any one time. The car has a 140° oven on board.

What developments (innovations) can you see and/or would like to see?

If, for any reason, you opt to open a pizza business, what would your business model be?

Leading strategic change

We looked at different styles of strategic leadership, at strategic issues in leadership and at intrapreneurial organizations in Chapter 10, and used the term 'meta strategy' for the leader's vision of how strategies should be created, implemented and changed.

In part, their approach reflects an underlying attitude towards change – although different parts of the same organization can reflect different attitudes, based on both people and situations. Seven possible attitudes are listed below:

1. denial
2. resistance
3. acceptance and the adoption of a relatively neutral approach
4. exploration – staying constantly alert to new events and possibilities
5. commitment – to improvement, innovation and intrapreneurship
6. desiring to proactively disrupt the status quo in an industry or market
7. possession of a vision for **transformational change**.

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Clearly, the 1–7 scale above reflects increasing opportunity and entrepreneurship. Some strategic leaders would perceive risk to increase along the same lines, while others would consider risk from a different perspective. For them, being passive and dismissive of change pressures is far riskier than tackling them head on.

Kotter (1990) argues that the leader must 'create and manage change', delineating four important differences between managers and leaders:

- Leaders work with the future in mind and do not always have to be bound by timescales (although time pressures to deliver can be important); managers are more concerned with planning and budgeting within defined time frames.
- Leaders champion organizational communications; managers work with the form of the organization.
- Managers concentrate on problem solving; leaders aim to inspire and motivate others.
- Managers work to targets and can be expected to behave predictably; leaders must, at times, be unpredictable if they are to champion change effectively.

Of course, this delineation separates the leader from the manager. In reality, leaders manage (some of the time, and given a conventional understanding of the role of managers) and managers exercise leadership in their role, especially as they become more senior in the organization.

Kotter (1990) acknowledges that managers can simultaneously be leaders and *vice versa*, such that we may expect changes of strategy and/or structure when the strategic leader changes.

Heifetz and Linsky (2002) warn that 'dangerous' mental health problems may afflict strategic leaders because they must ask people to adapt, such that real leadership – linked to the change agenda – involves confronting people with adaptive challenges that they would often rather ignore and may well rebel against. Some leaders erroneously assume that changes can be dealt with in a 'technical' (or managerial(ist)) way, using existing tools and capabilities; this may result in short-lived change benefits. Adaptive change is quite likely to involve restructuring and job losses . . . hardly popular! Sometimes, certainty must be abandoned for uncertainty. Leadership frequently involves giving people news that they would rather not hear.

Meanwhile, Buchanan *et al*. (1999) suggest that leaders are courting trouble if they encourage or permit what they term 'initiative overload', which occurs when individual managers are unable to deal effectively with the uncertainty facing them, thus causing them to: become cynical about any new change demands, lose motivation, become less coherent and less productive, and possibly even lead to burnout. Change is, therefore, not always managed effectively in the organization, and so when there is any real likelihood of this happening, the leader's role is to clarify priorities and to help people to stay focused on what matters.

The increasing number and popularity of 'my story' books by prominent strategic leaders highlights the potential rewards from organizational success. However, strategic leaders may have to pay the price for failure, since shareholders and other stakeholders will demand that they are held accountable when expectations are not met. That said, they rarely leave empty handed – golden handshakes can be very generous! This phenomenon is especially true in professional sport, where the 'performance culture' often implies short time horizons.

Institutional pressures can ensure that the strategic leader is seen to be responsible for their strategic decisions and the performance of the company. Three years after the stock market crash of 1987, for example, only one chief executive from the ten worst performing companies (measured by share price movements) was still in their post. Visible 'losers' included George Davies, the creator of Next. Davies, though, reinvented himself as the entrepreneurial designer he truly is; he first introduced the hugely successful George clothing range to Asda before creating the Per Una range for M&S. Not all 'losers' are this successful and some disappear from the 'front line' of corporate life but are able to secure (sometimes lucrative) part-time and advisory roles. Change can be a risky business, but change remains essential. We look in greater detail at some of these issues in the next sections of this chapter. We might argue that strategic leaders must ensure their organization stays agile in a turbulent and uncertain world.

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Strategic agility

Denning (2018) defines **strategic agility** as the ability to stay competitive by adjusting and adapting to new innovative ideas and using these ideas to create new products, services and business models. Agility demands:

- a high level of strategic awareness
- adaptable resources that can be fluid and capable of redeployment
- fast (and collective) decision-making
- a positive approach to change.

Denning (2018) stresses that improvement (alone) may not be enough because of the speed and enormity of change in certain industries at certain times. Uber is an often quoted modern example.

The response of some organizations to change pressures might be greater centralization (and organization-wide policies) in an attempt to generate greater control, and/or greater simplification and focus – but it might be becoming more alert and agile, which tends to imply decentralization.

Strategically, the agility challenges (again) concern direction and operations. Directionally, it is important there be a clear grasp of 'big picture' issues but a realization and acceptance that things are complex and that the outcomes of decisions are uncertain. Clarity about purpose and values helps significantly. Operationally, it requires recruiting and developing people who will accept responsibility and accountability, identify and take on opportunities, innovate and manage the implied risks. In such organizations, there is likely to be extensive delegation and elements of servant leadership from the CEO.

Agility demands commitment, curiosity and effort. It is driven by the underlying desire to identify and build new value and thus relates to issues we first discussed in Chapter 2. Please read Strategic Reflection 15.2 to gain some insight into what your own approach might be.

Strategic Reflection 15.2

While this is not an automatic explanation of how you would react to change opportunities in a work environment (assuming you were keen and ambitious about the job), it will provide some insight into your natural and instinctive behaviour and approach.

Think of something that you really enjoy, such as reading books or watching films of a certain genre or – better – listening to music, whatever your taste.

If you encounter an artist that you like, do you simply buy or download their latest music and listen to it constantly? Do you also then keep a watchful eye on any future releases? Do you set out to acquire back catalogue releases to build a collection? Are you selective and opt for the artist's 'biggest hits' or search out all their output? Do you follow up by trying to identify similar artists and buy their music?

Do you prefer to spend time and do the searching yourself or rely on a playlist provided by Spotify or something similar? Such an organization that can be briefed on what you want and then does the work for you can offer value to you.

Do you go further and make an effort to see them perform live? Would this be a minimum level of effort – they are performing near to where you live? Or would you travel, say, 100–150 miles to a concert? Would you try to see them, say, every year if they toured in this way? Would you go to every concert opportunity that you could identify?

Do you tend to focus your interests relatively narrowly or listen to a wide range of music?

Would you be seen by your friends as enthusiastic? Expert? A geek? Boring?

Management of change: forces, dynamics, levels and types

Organizations face change pressures from the environment; the significance, regularity and impact of these pressures will be determined by the complexity and volatility of the environment (see Chapter 4). Whatever the reason for change, a business has grown to a particular level and is now approaching a metaphorical fork

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in the road. A strategic break point (Chapter 13). Continuing straight on – continuing with existing products, processes and services – is not a realistic option. The business must change direction and, if it makes the appropriate decision, it can continue uphill and enjoy renewed growth, albeit with something different. If it makes an inappropriate decision, the route is downhill. The problem is that the business often reaches this fork relatively suddenly and unexpectedly. What Grove (1996) calls **strategic inflection points** are characterized by uncertainty but, for the ready and flexible organization, they can be a real new opportunity. Dealing with these change pressures is always going to be hardest for the successful, entrenched business. Grove (1996) believes it is important to be a first mover at the strategic inflection point by finding new and appropriate ways of adding value that matters to customers – not simply alternatives that are different from rival organizations – and to price at a level the customer will accept quickly. Somehow, then, costs have to be driven down to a level where a margin is possible. Since the timing of strategic inflection points will always be characterized by uncertainty, they must recognize just who in the organization is in the best position to be spotting trends and signals and engage them in discussion.

People who seem to be 'off-the-wall' should not be dismissed because they are 'off-line'. Cassandra foretold danger for the Trojans, but they ignored her – complacent, they never spotted what was inside the horse in their midst! Remember, the time to worry is when you are doing well. Even when he saw the 'writing on the wall' during his impious feast, it was too late for Belshazzar the king to stop the Medes and the Persians invading his city, killing him and replacing him with Darius. Organizations must somehow recognize when it is essential to give up on analysis (of largely historical data) and rely more on someone's intuition. After all, we can never predict the future with certainty unless, for example, we have the help of a divine hand writing on a wall. But we can unlock the secrets of the present if we ask the right questions, think about the answers we are being given, look at signals and triggers in the environment, think about new resource-based possibilities, properly identify problems and look for creative opportunities to make things more as we feel they should be.

At any time, managers may see opportunities and wish to adapt existing strategies. There are, therefore, several forces which encourage change and a variety of different change situations. Change, though, affects people, their jobs and responsibilities, and their existing behavioural patterns. Change can also alter the underlying culture of the organization, making people wary, or even hostile. This is increasingly likely if they fail to understand the reasoning behind the proposed changes and if they personally feel that they are losing, rather than gaining, from the changes. In this section, we consider the various forces for change, the reasons why people resist change, and an outline framework for the effective management of change.

Forces for change

Major forces for change include, first, *technical obsolescence* and *technical improvements* due to change pressures from outside the organization in the form of new developments by competitors and the availability of new technologies which the organization may wish to harness. Internal research and development, and innovatory ideas from managers, can generate technical change internally – a significant issue in high-technology companies and industries – particularly where product life cycles are becoming shorter. Some organizations follow product strategies built around short life cycles, product obsolescence (physical and design) and persuading customers to replace the product regularly, such as with mobile telephones, where handsets that once seemed state of the art are quickly an antique due to dramatic changes in design, screen size, camera mega-pixels and 4G and MP3 capacity.

Second, *political* and *social events* – again, outside the control of the firm – will force companies to respond; for example, increased public awareness of environmental issues. Government encouragement of the use of lead-free petrol (through media coverage and price advantages from lower taxation) forced car manufacturers to respond. New legislation on electric cars will do the same. In the first decade of the twenty-first century, one of the key pressure areas from the public on supermarkets was over the concept of 'Fairtrade' in terms of paying growers a fair price for the produce they cultivate, and the payment policies of major companies when using developing world labour in the goods produced for them. However, these concerns largely stem from guilt-ridden middle-class consumers, whereas those in relative poverty in the UK often have no alternative.

Case 15.2, One Foundation, describes an unusual organization that was established as a response to such change pressures.

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Case 15.2 One Foundation UK, Africa

One Foundation was established for the purpose of generating revenue to support specific needy causes. It sources and markets a limited range of consumer products – each with its own related cause.

It came about, in part, because Duncan Goose, who had a background in advertising and marketing, had made a connection with PlayPumps when he was on a motorbike tour of the world. *PlayPumps was explained in a short case in Chapter 4. PlayPumps itself began in South Africa with the idea of using children playing on a roundabout and having fun to pump water from underground to storage tanks. A £1,000 hand pump can lift 150 litres an hour from a reasonable distance below ground. A PlayPump costs between £3,000 and £5,000 and, by harnessing the energy from the roundabout to power a vertical drive shaft, some 1,400 litres can be captured every hour.*

Things happened, some three years later, when a group of friends was talking about a variety of topics and one of them said that around 1 billion people in the world do not have access to clean and fresh drinking water. Duncan Goose believed they could – and should – do something about this. The conversation was the actual trigger point.

One Water is bottled water from Powys in Wales; One Foundation has it bottled and branded, and distributes it to earn money that was initially ploughed directly into building more PlayPumps, mainly in Africa. Now, One Foundation supports a variety of water aid initiatives. The targeted countries have all, so far, been in Africa; the key determinant is that 30 per cent of the population live 'below the extreme poverty line', using an accepted measure for what this level is. The business started trading in 2004. As is the case with all its products, the company has been able to secure distribution and make its products widely available –the packaging makes clear how the surpluses generated will be used. One Water has been chosen by Virgin Atlantic for all of its flights. Vitamin enhanced water and juiced water have been added to the range, as has a premium water, and these have all widened the revenue generating potential. Both small (carrying size) and large bottles are available, mostly plastic. Glass bottles can be bought.

As well as water, One Foundation also markets organic eggs to support community farming activities; hand-wash liquid soap to fund the sinking of pit latrines with associated hand-washing facilities; toilet rolls to install proper toilets in developing countries with inadequate sanitation; plasters to fund bicycle-ambulances; kitchen foil to pay for smokeless stoves (which improve health and help reduce deforestation) and condoms to help with HIV/AIDS counselling. One Foundation also works with a micro financing agency.

There is a declared clear target customer – the 'questioning middle class who would shop in John Lewis (or somewhere similar) and pay just a tad more for a product that is ethical and environmental'. That said, the products can be found in supermarkets and in Wilco stores.

One Foundation is different from Trade Plus Aid (which features in Case 3.3) in a number of ways, but there is a common ethos. This is a different business and revenue model that changes perceptions on how aid could be brought to Africa (and elsewhere), and what can constitute the mission and purpose of an organization. On the one hand, One Foundation is clearly a charity; on the other, it is developing and marketing products that compete directly with leading brands on the market – many of which are produced by some of the world's leading consumer goods companies. We would, for example, associate bottled water with Nestlé and plasters with Johnson & Johnson.

Questions

1. Do you agree with the argument that this business was established as a reaction to a perceived developing world need?
2. What do you see as the advantages (and disadvantages) of this particular strategic approach and the organizational implications it has?
3. Once you learn about the motives for the business, does it make you more (or less) interested to buy the product?

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Third, *the tendency for large organizations and markets to become increasingly global*, while again providing opportunities and new directions of growth for many organizations, has forced firms to respond to changing competitive conditions. The growing incidence of joint ventures and strategic alliances, discussed in Chapter 12, is a feature of this.

Fourth, *increases in the size, complexity and specialization of organizations* create pressure for further changes, with large complex specialist organizations increasing their use of information technology (IT) in their operations, introducing automation and just-in-time (JIT) systems – which create a need for greater specialist expertise from managers and other employees, possibly necessitating training and changes in their jobs. Effective use of these technological opportunities also requires greater co-operation and co-ordination between functions and managers, which has also led to the massive growth in outsourcing where IT-based product help desks serving the UK are located in places such as Bangalore in India.

Fifth, *the greater strategic awareness and skills of managers and employees* who want job satisfaction and personal challenges need opportunities for growth within the organization, which can be promotion opportunities or changes in the scope of jobs. Such changes require strategic development and growth by the company, and appropriate styles of non-autocratic leadership, and yet many companies may pay lip service to the slogan 'our staff are our greatest asset' and all that this should mean.

The current dynamics of change

The strategic environment – especially competitive forces – determines how proactivity and change orientation make an organization more effective. Peters (1989) highlights factors that, despite industry and firm variations, require receptivity to change:

- the general dynamics and uncertainty of world economies
- time horizons, a strategic weapon in the face of uncertainty
- organization structures designed to enable decisions to be made quickly
- quality, design and service – which must be responsive to customer perceptions and competitor activities – are essential for competitive advantage.

Levels of change

Change decisions can be categorized in terms of their significance to the organization and the appropriate level of intervention (Table 15.1), with six levels forming a vertical hierarchy, enabling needs/problems to be clarified and tackled appropriately. If the problem is one of operating efficiencies, then the intervention should be at functional strategy level, which alone would be inadequate for dealing with higher order needs. As one ascends the hierarchy, the challenges and difficulties increase – as shown in Chapter 7, changing the culture of the organization can be slow and problematical, and structural changes can be difficult to implement, particularly where individuals perceive themselves to be losing rather than benefiting.

In recent years, the recession-hit high-street banks have introduced major changes in an attempt to protect and consolidate their profits, and these have systematically moved up to the highest level. A variety of approaches has been used to improve productivity and reduce costs, but this alone was inadequate. The services provided to customers have been reviewed, resulting, for example, in new branch interiors and the introduction of personal bankers and specialist advisers. These changes have been linked to restructuring, the closure of some small branches, job losses and increased market segmentation of business clients. Banks rethought their corporate strategies, with concentration on core activities now being preferred. During the 1990s, the cultural focus saw a reduced emphasis on image and marketing, and a return to the more productive utilization of assets, harnessing IT to improve margins. And many customers think the banks still need to change further.

Anyone reading or listening to the UK news in recent years will realize that the problems faced by the NHS are intensifying, rather than reducing. Some would argue that these characteristics result from the NHS being state owned and funded like the former nationalized industries, and that a greater element of private ownership and funding would resolve these problems. However, others would then counterargue that inequality might

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result as in the US health system. They 'might think so', but we 'could not possibly comment' (Dobbs, 1989). In the NHS, demand for services exceeds the resource capacity (in terms of staff, beds and time) and the gap is continuing to widen. Waiting times are increasing at GP surgeries and for certain non-emergency surgical procedures. There are staff shortages and unfilled vacancies. All of these problems worsened during COVID-19. Successive governments have driven structural changes, while NHS managers have struggled to decide where their priorities should be and what must inevitably be sacrificed. More funding has been found, but it is not seen to be enough – but does anyone really know what 'enough' is? The challenge of the change pressures has been further intensified as other funding changes (at local government level) have led to reductions in the adult social care budget and consequently placed a greater burden and pressure on the NHS. It almost seems as if NHS managers will never be able to gain real control of these pressures and will need to become ever more creative, flexible and innovative in reacting to them. In saying this, we are implying that one of the largest employers in the world – with all the inherent complexity this brings – needs to be more entrepreneurial. The story of banks and the case on the NHS both flag how difficult it is to create and sustain genuine E–V–R congruence.

Table 15.1 Levels of change

Need	Level of change	Approaches/tactics
New mission; different ways of doing things	**1 Values; culture, styles of management**	Organizational development
New corporate perspective/strategy	**2 Objectives; corporate strategy** **3 Organization structure**	Strategic planning New organization design
Improved competitive effectiveness (existing products and service)	**4 Competitive strategies; strategic positioning; systems and management roles**	Empowerment; management by objectives; performance management; job descriptions; policies
Improved efficiencies	**5 Business processes** **6 Functional strategies; activities; organization of tasks**	Business process re-engineering Method study; job enrichment

Types of change

Summarizing these points, Daft (1983) identifies the four basic types of change which affect organizations as technology, the product or service, administrative changes and people. Invariably, a change in one of these factors will place demands for change on one or more of the others. When an organization decides to launch a new product, it may also need to invest in new technology, modify its existing production plant and either acquire people with, or train existing employees in, the new skills required. Major changes in the strategic perspective, such as an acquisition, will change the organization structure – in turn, necessitating changes in jobs and behaviour patterns. However necessary the changes may be, and however ready the organization may be to implement them, the outcomes may not be positive for everyone affected.

15.2 The change process and resistance to change

Change affects consumers and employees; and resistance might be anticipated from either or both groups. Case 15.3 looks at consumer resistance issues – but our real focus in this discussion is on internal organizational resistance.

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Case 15.3 Magic Water Saver — India

This case is about a new product idea that would appear to offer genuine value for consumers while, at the same time, making a valuable contribution to water conservation and the global environment. But great ideas must be executed and implemented.

The Magic water saver was developed (between 2009 and 2012) by Hindustan Unilever, the Indian subsidiary of the British consumer goods conglomerate based in Mumbai. Magic is a laundry product for customers who must do their washing by hand. In the relevant parts of India, fewer than 10 per cent of households own a washing machine; and the 90 per cent who wash by hand may well have to fetch and carry the water they need – bucket by bucket. They do not have a direct water supply into their house. Particularly in the developing world, water can be scarce, precious and valuable – but generally it is free where it is available. It needs conserving.

There are three types of laundry products sold in India: detergent powders, detergent bars and pre- and post-wash adjunct products such as bleaches, spot and stain removers, and fabric conditioners. Given that most households use powders and/or bars, which are seen as essentials, the adjuncts are the fastest growing products.

Magic was designed to save water. It achieves this objective by enabling clothes to be rinsed in just one bucket of water, when normally three or four buckets are required to get rid of all the detergent residue. A liquid, it works by reducing lather more speedily and with less water. One capful diluted in one bucket is all that is needed. Magic not only saves water but also saves consumers time and energy in both fetching water and using it. The target market is low-income households in particular regions, many of them rural locations. The challenge is reaching and persuading these people to spend scarce money on a value-adding product. Magic was a completely new product for a hard-to-reach customer; people might not believe the promise and they might misunderstand the instructions.

When it was launched, Magic could be bought in single-wash sachets or in bottles with enough liquid for 20 washes – which had a cap of the right size to measure the amount for a single rinse. This feature was seen as important, given that Unilever was concerned that customers may not use the right amount of liquid. The prices were 3 rupees for a single sachet or 40 rupees for a bottle. In today's prices, these amount to €0.03 and €0.47 (€0.02 per rinse). The relative exchange rate in 2012 was very similar.

Hindustan Unilever used television advertising together with a direct push through retailers. They also sent people out into the villages to enact small plays and demonstrate the product, although this is relatively expensive.

Unilever achieved 40 per cent of the sales targets it had set in its first trading year – but it has persevered and the product has become established.

Questions

1. How would you summarize the business model for Magic?
2. Would you have done anything different from Unilever?
3. How much emphasis do you think should be placed on the 'easy washing' message and how much on water conservation?
4. What resistance might have been expected; and what approach and messages would you have thought to adopt?

Change frequently disrupts normality – job security seems threatened, existing behaviour patterns and values are questioned, people are required to be more flexible and to take more risks. While the organization may be facing strong external pressures, managers and other employees are likely to query or resist the need to change – especially if individuals feel threatened, or perceive themselves to be losing out rather than benefiting, or not being rewarded in some way for co-operating.

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People should be encouraged to recognize the need for change and the benefits, and the external threats from not changing, which can involve the engineered crisis. Managed change should be planned and evolutionary, although some organizations have attempted to become more flexible such that people not only accept change but constantly seek new opportunities for change and improvement. Although change can be speedy and dynamic – usually when it is forced by powerful external influences – managing change positively in a growth situation, taking advantage of opportunities rather than responding to threats, requires that the process begins gradually and on a limited scale and then spreads. Advancement needs consolidation and learning. The innovation stage, which can easily go wrong, requires that the change agents (who will not always be the strategic leader) find powerful and influential allies and supporters. Time and effort must be invested in explaining, justifying and persuading, while trial and error leads to incremental learning. Early supporters should be visibly rewarded for their commitment, which will encourage others and begin to consolidate the changes. Conservative people (by temperament, not politics!) are inevitably going to be late joiners; and some older people, together with those who are set in their ways, are likely to be laggards. Because changes can be slow to take off, they often appear to be failing once the process is well under way, which will renew opposition and resistance. During the process, the environment should be continually monitored and the programme may need amendment if circumstances alter.

Remember, it is not always the man on the shop floor who opposes change. It can be the second or third tier of management who are the most reactionary.

Sir Peter Gibbings, ex-Chairman, Anglia Television

No positive changes will occur within a company unless the chief executive realizes that people are basically opposed to change. A climate for change must be created in people's minds.

Changes need to be planned and everyone must be reassured that these changes will be for the betterment of the company, its employees, customers and shareholders. Changes have therefore to be managed against a set of objectives and to a timetable.

Jacques G. Margry, when Group Chief Executive, Parker Pen Ltd

People do not resist change per se . . . they resist loss.

Heifetz and Linsky, 2002

There are several reasons why change pressures may be resisted and certain circumstances where the implementation of change will have to be planned carefully and the needs of people considered. First, some resistance can be expected where people have worked out ways of doing things which are beneficial to them in terms of *their* objectives and preferences and, thus, they may see change as a threat. Similarly, when people have mastered tasks and feel in control of their jobs and responsibilities, they are likely to feel relatively safe and secure personally. Again, change may be perceived as a threat to their security, although the aim may be to ensure the security of the organization as a whole. The university sector is a particularly difficult sector in which to achieve change – in part, because academics are mainly rewarded for being selfish in terms of pursuing their research and getting it published, such that most of, if not all, their energy goes into this process. As a result, they often just do not support change or anything else that would detract from their main aim – their research output – as this output often leads to increased status and financial rewards in a new institution.

Second, resistance to 'sideways change' (expanding certain activities while contracting elsewhere) is likely unless the people affected are fully aware of the reasons and implications. Third, where particular policies, behaviour patterns and ways of doing things have been established and accepted for a long time and, in effect, have become part of the culture of the organization, change will require careful implementation and the need for change may not be accepted readily. Fourth, people often have some fear of the unknown. Feeling comfortable with situations, policies and procedures that they know and understand is, therefore, an important aspect of change.

Fifth, the organization itself – or particular managers – may resist external pressures if the change involves considerable expense, investment in new equipment and the associated risks. This issue can be exacerbated where there has previously been substantial investment in plant and equipment which, technically, is still satisfactory and, although demand may be falling, there may be a reluctance to sell or close. Sixth, resistance is likely to be forthcoming where there are perceived flaws or weaknesses in the proposal. Change decisions

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may be made by the strategic leader and then delegated for implementation. Managers who are closer to the market may have some justified reservations if they have not been consulted during the formulation process.

The opposition may be to the change itself, or to the proposed means of implementation, and both can, and must, be overcome if changes are to be implemented successfully. Casualties are, however, possible – and sometimes inevitable. Some people will leave because they are uncomfortable with the changes.

Kotter and Schlesinger (1979) have identified six ways of overcoming resistance to change, and these are described in Critical Reflection 15.1; they suggest that each method has advantages and disadvantages, and can be appropriate in particular circumstances. Issues raised by some of these alternatives are developed further in this chapter. Organizational development is considered as an approach to gaining support through active participation by managers on a continuous basis. Manipulative approaches are discussed as a Machiavellian use of power and influence. The next section considers a number of general aspects in the management of change before specific strategies are discussed in more detail.

Critical Reflection 15.1 Six Ways of Overcoming Resistance to Change

1. Education and communication
   Education and communication should help people to understand the logic and the need for change. A major drawback can be the inherent time delays and logistics when many people are involved. It also requires mutual trust.
2. Participation and involvement
   The contention is that people will be more supportive of the changes if they are involved in the formulation and design. Again, it can be time-consuming; if groups are asked to deliberate and make decisions, there is a risk that some decisions will be compromises leading to sub-optimization.
3. Facilitation and support
   This can involve either training or counselling – but there is no guarantee that any resistance will be overcome.
4. Negotiation and agreement
   Negotiation and agreement are usually linked to incentives and rewards. Where the resistance stems from a perceived loss as a result of the proposed change, this can be useful, particularly where the resisting force is powerful. However, offering rewards every time changes in behaviour are desired is likely to prove impractical.
5. Manipulation and co-optation
   This encompasses covert attempts to influence people – for example, by the selective use of information and conscious structuring of events. Co-optation involves 'buying off' informal leaders by personal reward or status. These methods are ethically questionable, and they may well cause grievances to be stored for the future.
6. Explicit and implicit coercion
   The use of threats can work in the short run, but is unlikely to result in long-term commitment.

Reference

Kotter, J.P. and Schlesinger, L.A. (1979) 'Choosing strategies for change', *Harvard Business Review*, Vol. 57, No. 2, pp. 106–114.

Argyris and Schön (1978) concluded that the most knowledgeable and experienced employees are the most likely to feel inhibited and frustrated by change demands. Their sense of inhibition causes disbelief and distrust; employees lose their sense of commitment and they develop defensive routines in an attempt to either impede or prevent change. This becomes so embedded it is hard to overcome – and it cannot be defeated by force under any normal circumstances. Instead, the culture must be transformed until it reaches a state where change is welcomed by what they term 'action science'. Fundamentally, action science requires the generation of powerful, shared knowledge that is relevant to the needs of both the business and its employees with communications, understanding and trust being at the core (Argyris and Schön, 1978). Effective change occurs when managers and employees modify their behaviour in a desired or desirable way, and when the important changes are lasting, rather than temporary.

Lewin (1947) contends that permanent changes in behaviour involve three stages – unfreezing previous behaviour, changing and then refreezing the new patterns; these stages are crucial if changes in culture are required. *Unfreezing* is the readiness to acquire or learn new behaviour. People are willing to accept that existing

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strategies and ways of doing things could be improved and made more effective, and usually this needs a trigger – such as declining sales or profits, or the threat of closure or acquisition. *Change* occurs when people who perceive the need for change try out new ideas; these could be introduced gradually or they may be more dramatic.

Choosing the appropriate change strategy once the need is clarified may involve the selection of one from a number of alternatives; consequently there are opportunities for involving the people who are most likely to be affected. Power structures are likely to be altered and, as a result, resistance may be evident from certain people. Particularly where the pressures for change are significant and where the likely impact of the changes will be dramatic and felt widely throughout the organization, the change strategy will need a champion. Organizations in difficulty often appoint a new strategic leader to introduce fresh ideas and implement the changes, since newcomers are unlikely to be associated with the strategies which now need changing, or they may move general managers to different business units. *Refreezing* takes place when the new behaviour patterns are accepted and followed willingly, such that people are supportive and convinced of the wisdom of the changes. Ideally, the new approaches become established within the culture, and rewards are often influential in ensuring that refreezing does, in fact, take place.

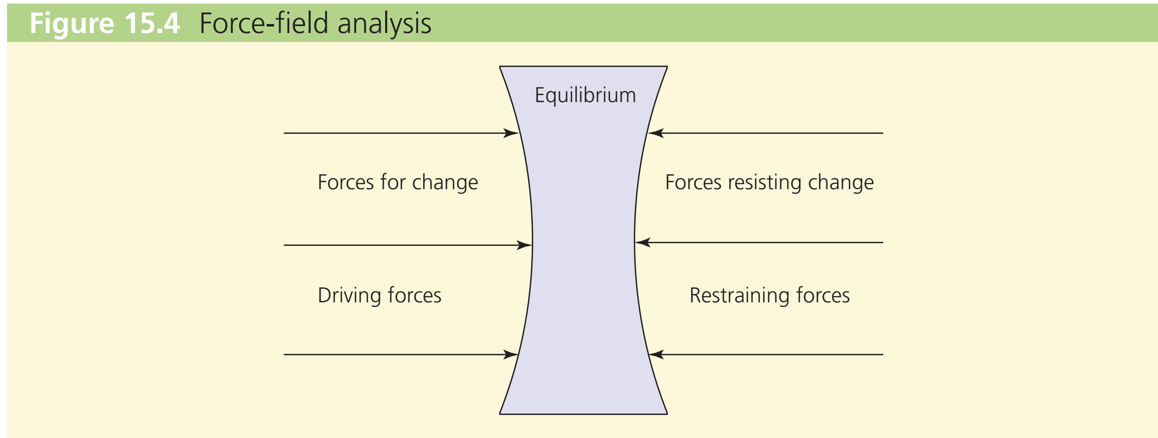
While this simple model provides an excellent outline of the basic stages in a managed change process, if we want to foster a culture which embraces perpetual change we need to be careful about refreezing new behaviour too rigidly. Throughout the change process, people should be aware of why changes are being proposed and are taking place, and they should be enabled to understand the reasons. Indeed, Margerison and Smith (1989) suggest that the management of change exhibits four key features:

1 *dissatisfaction* with the present strategies and styles
2 *vision* of the better alternative – a clear picture of the desired state which can be communicated and explained to others (again, emphasizing the need for a champion of the change)
3 a *strategy* for implementing the change and attaining the desired state
4 *resistance* to the proposals at some stage.

This point is also a convenient juncture to quickly review Figures 11.2 and 11.3 and the associated text. Lewin (1951) has proposed that changes result from the impact of a set of driving forces on restraining forces, and Figure 15.4 illustrates his theme of a state of equilibrium which is always under some pressure to change. The extent to which it does change will depend on whether the driving forces (external or internal in origin, and likely to have economic aspects – for example, increased sales, profitability, efficiency, and so on) or restraining forces (any resistance to change) prove to be stronger. Corporate, competitive and functional strategies may appear in need of change, but existing strategies may have people who are loyal and committed to them, who will be affected and may feel concerned, seeking to abandon or modify change proposals.

Although the driving forces will be concerned with improving organizational efficiency and effectiveness, the opposition is more likely to stem from personal concerns than from disagreement that improved efficiency and effectiveness are desirable. Lewin suggests that the driving forces are based more on logic and the restraining forces on emotion.

Figure 15.4 Force-field analysis



Developed from ideas in Lewin, K. (1951) *Field Theory in Social Sciences,* Harper & Row.

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However, people who are aware of the situation may seek to argue their opposing case in relation to the relative ability of the change proposal to achieve the required improvements. As a result, the ensuing debate concentrates on these issues and opponents may choose not to be honest and open about their personal fears, feeling that their arguments must concentrate on the economic issues. Due to this, the decision, whatever it may be, will not have encompassed important underlying behavioural issues. Effective managers of change situations will be clearly aware of the driving forces and the real restraining forces. They will seek to strengthen the justifications by communication and explanation, and diffuse opposition by exploring the likely impact with the people affected. Critical Reflection 15.2 summarizes important issues for the effective management of change.

To many, uncertainty is a shadow of the unknown, to be avoided; far better, as we are stuck with an uncertain world, is to look upon it as the spice of life.

Sir Peter Holmes, when Chairman, Shell UK

Teach people that change is inevitable and, if embraced, can be fun.

Leslie Hill, when Chairman and Chief Executive, Central Independent Television PLC

Critical Reflection 15.2 Issues in Effective Change Management

- Change programmes must be championed.
- There needs to be a clear purpose to which people can subscribe . . . which can be justified and defended.
- The change proposals will not be backed by everyone.
- Managers must decide how much to communicate and when – there are dangers in both the provision of inadequate information and being too open and candid.
- Senior managers must take responsibility; while empowerment is important, people still need effective leadership.
- Effective change management frequently involves well-led teams and may require process or even structural change.
- Creating and broadcasting early successes speeds up the process, especially as programmes often lose momentum part way through.
- Setbacks must be anticipated and managed, and the momentum maintained.
- It is dangerous to claim victory too quickly; the changes must become anchored in the culture.
- The feelings of people who may be hurt by the changes must not be overlooked.

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15.3 Strategies for implementation and change

Implementation may be viewed as an activity which follows strategy formulation – structures and systems are changed to accommodate proposed changes in strategy. However, implementation, instead of following formulation, may be considered in depth at the same time as the proposed strategy is thought through and before final decisions are made. This is more likely to happen where several managers, especially those who will be involved in implementation, are consulted when the strategy is evaluated. Our second online discussion of military strategy (linked to Chapter 9) is also relevant here.

Strategies may emerge from the operation of the organization structure. Where managers are encouraged to be innovatory and make incremental changes, elements of trial and error and small change decisions are often found. Implementation and formulation operate simultaneously; the changes are contained, rather than dramatic; and resistance may similarly be contained. Innovatory organizations can develop change orientation

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as part of the culture; people expect things to change regularly and accept changes. Bourgeois and Brodwin (1984) have identified five distinct approaches to strategy implementation and strategic change:

- The strategic leader – primarily a thinker/planner rather than a doer, possibly using expert planners or enlisting planning techniques – defines changes of strategy and then hands over to senior managers for implementation.
- The strategic leader decides on major changes of strategy and then considers the appropriate changes in structure, personnel and information and reward systems if the strategy is to be implemented effectively. Quinn (1988) contends that the strategic leader may reveal the strategy gradually and incrementally as they seek to gather support during implementation – a theme that is developed later in this section. (In both these cases, the strategic leader needs to be powerful as both situations involve top-down strategic change.)
- The strategic leader and senior managers (divisional heads, business unit general managers or senior functional managers) meet for lengthy discussions with a view to formulating proposed strategic changes. All the managers are briefed and knowledgeable, and the aim is to reach decisions to which they will all be committed. Strategies agreed at the meetings are then implemented by the managers who have been instrumental in their formulation. While this approach involves several managers, it is still primarily centralized.
- The strategic leader concentrates on establishing and communicating a clear mission and purpose for the organization through a decentralized structure by developing an appropriate organization culture and establishing an organization-wide unity of purpose. While the strategic leader will retain responsibility for changes in the strategic perspective, decisions concerning competitive and functional strategy changes are decentralized to general and functional managers who are constrained by the mission, culture, policies and financial resources established by the strategic leader.
- Managers throughout the organization are widely encouraged to be innovative and come up with new ideas for change. These are evaluated by a framework established by the strategic leader, recognizing that those which are accepted and resourced result in increased status for the managers concerned.

Ghoshal and Caulkin (1998) warn that major, dramatic change is associated with charismatic and tough strategic leaders who attract and reward ambitious high-flying managers who, like them, operate a dehumanizing style of management to drive through the changes; this can lead to 'a lot of change, a lot of stress and a lot of fear'. Instead, they argue, organizations need either people who can exercise power robustly but with wisdom, passion and constraint, or checks to ensure that people are not forgotten in the drive for change.

Ideas for change, of course, can start at the bottom of the organization, rather than always at the top. Change will possibly be seen as both a clearly managed process and the incremental outcome of the decisions taken in an innovative, change-oriented organization where managers are empowered. These basic approaches highlight a number of general themes and ideas, which are considered below.

Top-down strategic change

A number of approaches can be involved in drawing up organizations' strategies, but here, changes in strategy are ultimately centralized decisions, which may be both popular and viable if the strategies that are selected can be implemented effectively. It was mentioned earlier that resistance can be expected if managers who are charged with carrying out changes in strategy feel that there are flaws in the proposals; so, the appropriate level of consultation must take place during formulation. Capable managers are needed throughout the organization to deal with operational issues, and the quality of the information systems which underpin the planning is a crucial issue. The approach is attractive to strategic leaders who are inclined more towards the analytical aspects of strategy than they are towards behavioural issues.

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Quinn's (1988) incremental model is another primarily top-down approach, but it suggests a high degree of political skill (discussed later in the chapter) on the part of the strategic leader who appreciates the difficulties involved in implementing change. Change impacts structures and systems, culture and power relationships, and the strategic leader is either personally or ultimately responsible for the proposed changes in strategy, and for establishing the structure and processes within the organization.

Quinn's (1988) approach is as follows:

- The strategic leader will develop their own informal information and communication channels, both within and external to the organization, and will draw on this as much as using the formal systems.
- The strategic leader must generate *awareness* of the desired change with the appropriate managers within the organization. This involves communication and cultural issues.
- The strategic leader will seek to legitimize the new approach or strategy, lending it authority, if not, at this stage, credibility.
- They will then seek to gather key supporters for the approach or strategy.
- The new strategy may be floated as a minor tactical change to minimize resistance, and possibly keep the ultimate aim unclear. Alternatively, the strategy may be floated as a trial or experiment. Opposition will be removed by, for example, ensuring that supporters chair key committees, and that stubborn opponents are moved to other parts of the organization.
- The strategy will be flexible so that incremental changes can be made in the light of the trials. There will be a strong element of learning by doing, so that any unexpected resource limitations, such as a shortage of key skills, will be highlighted.
- Support for the change will harden, and proposals will become crystallized and focused.
- Finally, the proposed changes will be formalized and ideally accepted within the organization. This should involve honest evaluation and attempts to improve on the original ideas. It is particularly important to look ahead and consider how the new strategy may be developed further in the future.

Quinn's (1988) approach incorporates the likely impact on people and culture, and a pragmatic search for a better way to do things once the change decision is made.

Empowerment and change

Employees must be empowered to sustain a culture of change, but not everyone is comfortable with added responsibilities and accountability – being risk averse – and, again, resistance can be expected. Inevitably, change-focused organizations will be happy for such people to leave, as they are barriers to change and actively seek to prevent changes which may be essential for the future of the business. Unfortunately, many of these people are likely to have experience, knowledge and expertise which are valuable to the organization and may also be useful – at least, temporarily – to a competitor; for this reason, there may be a reluctance to release them.

Empowerment cannot succeed without an appropriate supporting reward system and, while financial rewards will remain important, they are not the complete answer. People must not be rewarded simply because they are holding down a particular job or position; part of their pay must be based on their measured contribution. Outstanding performers must be rewarded for their continuing efforts and – as organizations are increasingly flattened, with fewer layers in the hierarchy – a series of promotions no longer provides the answer.

Empowered middle managers are critically important for the effective management of strategic change, but all too often they are hostile because of fear and uncertainty in a culture of blame. Mistakes are not tolerated, and people are reluctant to take risks. Such managers are portrayed as villains, when really the organizational climate is making them victims. Change and empowerment will only happen when managers are not afraid to 'unfreeze and learn'.

Organizations can benefit from developing people, building their abilities and self-confidence, and then providing them with greater stimulation and challenge. Success will yield the opportunity to take on more responsibility and, initially, the organization motivates them; subsequently they become increasingly

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self-motivated. Part of their reward package is their enhanced reputation in a successful business, together with increased informal power and influence. Also, they can develop the ability to foster and champion innovation and change – strategic changes which they own.

A culture of innovation and gradual but continuous change will impact mainly on competitive and functional strategies – the lowest two levels of the hierarchy featured in Table 15.1 earlier – and, clearly, they also support corporate strategic changes which may themselves be emergent in nature or the outcome of either a visionary or a planning mode of strategy creation.

Nudge theory

Most of the discussion in this chapter focuses on change within organizations and how people deal with the relevant pressures. However, organizations also need to look externally and think about persuading customers to change their attitudes, behaviours and buying habits; maybe to switch suppliers or try new products. In most cases, the emphasis will be on persuasion and not coercion in any manifest form – although when one of the authors was 'persuaded' to switch his broadband to superfast fibre, and also when he last renewed his home energy contract, the suppliers' approach to pricing made switching feel more coercive than optional! Again, it all comes down to the perceived value being provided. This is communicated through the content and the presentation of the relevant sales message.

Nudge theory (see, for example, Thaler and Sunstein (2008)) has particular relevance for this external aspect of strategic (and tactical) change, but it also has internal relevance. Nudge theory offers an explanation about how people can be persuaded to act and change. It requires an understanding of the motives and behaviours of those being persuaded as well as insight into what constitutes value for them; it is, to some degree, underpinned by a belief that people naturally want to avoid crises and disasters and things going wrong more than they want to be high achievers. It suggests that a series of small but incremental and reinforcing messages on the right theme (which nudge people along gradually and not always obviously) can be very effective. The extended television programmes which support Children in Need, Comic Relief and Sport Relief in the UK provide an incentive for people to donate, and thus raise millions of pounds for charity, by using a number of individual case stories showing how the money raised is used. These are small, relevant and relatable details and not sweeping claims.

One key element, therefore, lies in the presentation of the message. Thaler and Sunstein (2008) suggest that placing healthy food choices at eye level on a supermarket shelf has the potential to be more effective than scare-mongering advertising or a campaign to get junk food banned. It is hard for shoppers to avoid seeing the food at eye level and so the message builds slowly and subtly; it is much easier to have a negative response to a proposed ban on something you enjoy and find tasty, even if you accept that it is not totally wholesome and healthy.

The adoption of new products is affected by seeing other people buying and using the product in question – people described as early adopters. Sometimes these early adopters are real people; on other occasions, early adoption is achieved by product placement in television programmes and movies. It explains the gathering momentum in the product life cycle. Each sighting is a nudge. With today's world dominated by social media and constant messaging, there are many more opportunities to nudge people – often without them realizing just what is happening.

Organizational development and innovation

The theme of organizational development (OD) is that developing an appropriate organizational culture will generate desirable changes in strategy. Beckhard (1969) defined OD as effort which is 'planned, organization-wide, and managed from the top, designed to increase organizational effectiveness and health through planned interventions in the organization's processes, using behavioural science knowledge'.

OD is, in essence, planned cultural change. The model which has been used to provide the structure for this book shows strategic leadership and culture as being central to both strategic awareness and

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decision-making. The appreciation by managers of the effectiveness of the current match between resources and the environment, their ability and willingness to make adaptive changes to capitalize on environmental changes, and the formulation and implementation of major changes in corporate strategy are all influenced by the culture of the organization and the style of strategic leadership. Hence, it is crucial for the strategic leader to develop the appropriate culture for the mission and purpose that they wish to pursue. OD helps to develop a co-operative and innovative culture. OD aims to establish mechanisms encouraging managers to be more open, participative and co-operative when dealing with problems and making decisions, and the specific objectives are to:

- improve organizational effectiveness and, as a result, ensure higher profits and better customer service (in its widest context)
- enable more effective decision-making
- enable the firm to make and manage changes more smoothly
- increase innovation
- reduce conflict and destructive political activity
- engender greater trust and collaboration between managers and business units.

Organized OD programmes involve activities such as team-building and collaborative decision-making, bringing managers together and encouraging them to share and discuss problems and issues. The thinking is that, when managers learn more about the problems facing the organization as a whole, and about other managers who may have different technical or functional perspectives, they become more aware of the impact of the decisions they make. In addition, if they collaborate and share responsibilities, they are more likely to feel committed to joint decisions.

Although aiming to change the attitudes and behaviour of people in organizations, OD can also allow and encourage the same people to initiate and implement changes through their discussions. Establishing the programmes is likely to involve outside experts who can be seen as objective. OD programmes are not usually a response to specific problems, but rather a general, longer-term approach to the management of change.

Given that one rationale for OD is collaboration and collective responsibility, a key theme is the reduction of conflict between managers, functions, business units or divisions within the organization. It also implies a reduction in the use of manipulative styles of management, or dysfunctional political activity, whereby managers pursue personal goals in preference to the wider needs of the organization. Functional and dysfunctional political activity is explored in the last section of this chapter, which looks at the bases and uses of power by managers.

Transformational change and strategic regeneration

Powerful environmental issues such as deregulation, globalization, the *imbalance* of the factors of production (land, labour and capital are not always available when and where they could be used effectively) and economic recessions have combined to place enormous pressures on companies to survive and adapt. The significance of these issues varies annually but, in aggregate terms, the outcome is an increasingly turbulent and uncertain business environment for most organizations, private and public sector, manufacturing and service, large and small, profit-seeking and not-for-profit. This is the 'new normal'.

Companies have responded by seeking to manage their assets and strategic resources more efficiently and effectively – the lowest two levels of the change hierarchy. Some have restructured, while others have radically changed their processes through **business process re-engineering** – or some variation on this theme such as Six Sigma (see, for example, Pyzdek and Keller, 2014) which focuses on how things are done in the organization. However, continuous improvement to an organization's *competitive* capabilities, though essential, will not always be sufficient to meet these pressures. Peters (1992) argues that the challenge for some companies is 'not just about a *programme* of change … strategies and structures need to change perpetually'. Drucker (1993), agreeing, contends that 'every organization must prepare to

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abandon everything it does'. Both authors imply wholesale corporate renewal or reinvention, which we call **transformational change**; while the terms 'strategic regeneration' and 'discontinuous change' are synonymous.

Successful transformation requires both an external and internal focus. An external focus is relevant as organizations must search for new product, new service and new market opportunities, working with suppliers, distributors and customers to redefine markets and industries. An internal focus is required on the structures, management styles and cultures capable of creating and delivering these products and services. Innovation is dependent on processes and people, while strategic awareness, information management and change are critically important if the organization is to outperform its competitors.

Achieving this position may require *simultaneous* changes to corporate strategies and perspectives, organizational structures and styles of management. In order to implement transformational change, Goss *et al*. (1993) insist that companies must be able to change their context – 'the underlying assumptions and invisible premises on which their decisions and actions are based' – such that their 'inner nature or being' must be altered. Managers must learn how to think strategically, be open to new paradigms and perspectives, and change what the company is and not simply the things that it does. Companies are being challenged with changing all the levels of the change hierarchy simultaneously – a huge and complex task for any organization.

Incremental change at the competitive and functional levels, trying harder and searching for improvements, must appear to offer an easier, less painful route. The fundamental question is whether that alone is enough to meet the strategic demands of the contemporary business environment and the 'new normal'.

At this point, think again about change in the context of airlines and air travel. For short-haul flights, it is clear that customers have become very price conscious, although flight times and relevant airports do affect their decisions. The most significant industry newcomers have adopted a business model based around price and value-for-money. For long-haul, service and added value play a more significant role, mimicking more of the past. Many of the successful newcomers in the last 40 years have a strong service offering. Obvious examples include Emirates and Virgin Atlantic, which both started in the 1980s, followed later by Qatar and Etihad. Their interventions have kept the older national 'flag carriers' on their toes. With long-haul, there are constant revisions and service offerings for those willing to pay higher prices as premium economy, business and first-class passengers – although the latter is a small and very select segment. All of that said, at the time this edition was written in 2021, the numbers of people flying 'internationally' had not returned to pre COVID-19 levels – with many people still resistant to the idea of global travel and with many businesspeople maintaining a new reliance on behaviours they had been forced to adopt.

Pascale *et al*. (1997) argue that effective transformation requires people to understand the organization and its businesses – the big picture – and that robust straight-talking should be encouraged to tease out the existing weaknesses in the organization as well as ideas for new opportunities, such that transformation then involves 'managing from the future'. A shared purpose and direction sets the agenda, and setbacks must be harnessed in true entrepreneurial fashion. People must accept accountability but, linked to proper rewards, this should be done in an inventive way that ensures people are engaged in the process. 'There has to be a relentless discomfort with the status quo.' Of course, success then requires attention to detail at the activity level. The little picture.

Hamel (1994) contends transformational change needs vision and perseverance, and that companies must invest resources in an attempt to set the new competitive high ground first by changing the key success factors, inevitably implying time and risk, which must be a managed and understood process. Speculative investment in the long term must be risky because *spending precedes understanding*, as companies are heading into unknown territory. Companies which choose to avoid the risk, and rely instead on monitoring and copying competitors (such that *understanding precedes spending*), may be caught out.

Hamel (1994) cites three important barriers to effective transformational change:

1 Too many senior managers in an industry have related, often industry-specific, backgrounds, and this inhibits their creative thinking.

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2 Political pressures to maintain the *status quo* emanate from managers who feel threatened personally – an issue that is examined next.

3 The sheer difficulty of creating new competitive strategies in industries that are changing dynamically, continuously and chaotically.

Abrahamson (2000) implies that major change could be going out of fashion, unless, of course, it becomes essential. Companies that periodically reinvent themselves often face resistance, distress, disaffection and upheaval. All too often, the desired or planned changes are not implemented effectively, prompting another programme of change. Abrahamson, therefore, recommends *dynamic stability* – continuous tinkering with existing businesses, alternating occasional major changes with several incremental ones. His research suggests that:

- First, copying can prove very rewarding – there is no need always to be first. Major leaps forward can be uncomfortable and disruptive for customers and employees, and also the competitors who follow when the situation has settled down again; and they can still enjoy the benefits without incurring the risk of the pioneer. Sustained competitive advantage often comes from staying just ahead of rivals with constant innovation and leadership. It is a matter of degree.

  A number of electronics businesses succeed by offering innovative features in state-of-the-art products which are not the first models available. Apple is an example; that said, Apple's research and thinking is excellent, industry-leading and ahead of many rivals. Apple simply choose their timing well; they are ready when their target customers are ready.
- Second, home-grown processes are invariably more acceptable culturally than those imported from another country with an 'alien' culture.

Clearly, organizations need to ensure that they change in accordance with real external pressures; to recognize that good ideas can always be found by monitoring the world's best performers; and they need to acquire and use this knowledge to craft something that can work for them. Critical Reflection 15.3 provides a summary framework for managing transformational change.

Critical Reflection 15.3 Twelve Steps in Transformational Change

1 Recognize the scale of the challenge and do not ignore it.

2 Consider where the barriers to change may be strongest.

3 Build a guiding team and establish any necessary partnerships.

4 Establish a sense of urgency, and bring the challenge and the issues to the attention of others.

5 Clarify a clear strategic direction or 'vision' for the transformation. This would include a defined business model, key values and drivers, and recognition of the relevant strategic competencies required.

6 Communicate this vision, taking ownership and responsibility for it.

7 Seize the initiative as far as barriers to change are concerned.

8 Empower others to act on the vision. Emphasize the need for innovation, emergence and intra-preneurship. The idea is to involve people as widely as possible so that the drive to change becomes systemic.

9 Seek to generate short-term wins – which can be publicized and used as a vehicle to reward the change-drivers.

10 Consolidate these short-term wins to increase and maintain the momentum.

11 Monitor and evaluate performance and achievements on an ongoing basis.

12 'Institutionalize' the changes.

References

This list of 12 steps has been developed from a number of separate sources, including:

Francis, D., Bessant, J. and Hobday, M. (2003) 'Managing radical organizational transformation', *Management Decision,* Vol. 41, No. 1, pp. 18–31.

Kotter, J.P. (1995) 'Why transformation efforts fail', *Harvard Business Review,* Vol. 73, No. 2, pp. 59–67.

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15.4 Power and politics

The greatest leader is the one who enables people to say: 'We did it ourselves.'

Chinese proverb attributed to Lao-Tsu

(This sentiment has been expressed in many (similar) ways by various people who talk and write about leaders. Leaders influence and persuade others to change and to do things, but achieve this in such a way that people believe it was their own idea and initiative.)

A leader can stop an organization in its tracks but he can't turn it around on his own. In a year you can change things at a superficial level, using the charismatic model, but you need five to change the culture.

Morpeth Headteacher, Sir Alasdair Macdonald, discussing change in secondary schools

Managing change requires that managers have the requisite power to implement decisions and that they are able to exert influence. There are several bases of power, both organizational and individual, that constitute resources for managers. The processes that they adopt for utilizing these power bases, and their styles of management, determine their success in influencing others. The ability of managers to exert power and influence is manifested in a number of ways, including budgets, rewards, organization structure and positions, promotions and management development, information systems, and symbols of power and status.

Managers who regularly attempt to get things done – both with and through other people – and to introduce changes have the problem of generating agreement, consent, or, at least, compliance with what should be done, how and when. Typically, opinions and perspectives will differ and disagreements may or may not be significant, ranging from the polite and friendly to those involving threats and coercion. Each side, quite simply, is attempting to influence the conduct of the other. In this section, we consider the power resources that managers are able to use and how they may use them.

Checkland (1986) defines **organizational politics** as the process by which differing interests reach *accommodation* – a word that he chooses deliberately and in preference to consensus. Accommodation relates to the dispositions and use of power and influence, and behaviour which is not prescribed by the policies established within the organization. As discussed later, political activity by managers in order to influence others, and to ensure that their decisions and strategies are carried out, is essential. Politics can be legitimate and positive, although it can also be more negative and illegitimate (when managers are seeking to influence others in order to achieve their personal goals – often described as Machiavellianism, which is discussed at the end of the section). The need for change is affected by the relative power and influence of external stakeholders (powerful customers and suppliers, policy-makers) in relation to the organization, all of which may represent potential threats and demands for change. In turn, the management and implementation of change is affected by the relative power of the organization. Proposed strategies can be implemented when the organization possesses the appropriate power to acquire the resources which are needed and to generate consumer demand, but other strategies may be infeasible. At the same time, the decisions taken within organizations concerning changes of corporate, competitive and functional strategies are influenced by the disposition of relative power between functions, business units or divisions, and the ways in which managers seek to use power and influence. Internal and external sources of power are discussed further in Critical Reflection 15.4, based on the work of Mintzberg (1983).

Farrell and Petersen (1982) classify political activity in three dimensions: 'legitimate or illegitimate', 'vertical or lateral', and 'internal or external to the organization'. Some examples are outlined below.

A complaint or suggestion by an employee directly to a senior manager, bypassing an immediate superior, would be classified as legitimate, vertical and internal. Discussions with fellow managers from other companies within an industry would be legitimate, lateral and external, unless they involved any illegal activities – such as price fixing. Informal communications and agreements between managers are, again, legitimate; threats or attempts at sabotage are clearly illegitimate. Power and politics can enable managers to be proactive and to influence their environment, rather than being dominated and manipulated by external events, and are key aspects of strategy implementation because they affect managers at all levels of the organization, and decisions concerning both internal and external changes.

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Critical Reflection 15.4 Internal and External Sources of Power

Mintzberg (1983) contends that it is essential to consider internal and external sources of power, and their relative significance, when assessing the demands for, and feasibility of, certain strategic changes. The organization's stakeholders will vary in terms of their relative power and the ways in which they exert influence. The interests of the owners of the firm, for example, are legally represented by the board of directors. While large institutional shareholders may exert considerable influence over certain decisions, many private shareholders will take no active part. Employees may be represented by external trade unions who, again, may or may not exert influence.

The power relationships between the firm and its stakeholders are determined by the importance and scarcity of the resource in question. The more essential and limited the supply of the resource, the greater the power the resource provider has over the firm. According to Mintzberg, these external power groups may be focused and their interests pulled together by a dominant power, or they may be fragmented.

Where there are very strong external influences, the organization may seek to establish close co-operation or mutual dependence; or it may attempt to reduce its dependence on the power source. The historic relationship between M&S and many of its suppliers is a good example of mutual dependence of this nature. M&S encouraged many of their clothing suppliers to invest in the latest technology for design and manufacturing in order that they could both succeed against international competition. M&S has typically been the largest customer of their suppliers, buying substantial quantities as long as demand and quality are maintained. However, it is important that their suppliers are aware of fashion changes because they bear the risk of over-production and changes in taste.

Internal power is linked to the structure of the organization. It is manifested in four ways:

- the personal control system of the strategic leadership
- rules, policies and procedures
- political activities external to these two factors
- cultural ideologies that influence decision-makers.

External and internal power sources combine to determine a dominant source of power at any time. Mintzberg suggests six possibilities:

- *A key external source,* such as a bank or supplier, or possibly the government as, say, a key buyer of defence equipment – the objectives of the source would usually be clearly stated and understood.
- *The operation of the organization structure,* and the strategies and activities of general and functional managers who are allocated the scarce resources: the relative power of business units is influenced by the market demand for their products and services but, generally, external sources exert indirect rather than direct influence; functional managers can enjoy power if they are specialists and their skills are in short supply.
- *Strong central leadership*.
- *Ideologies* – certain organizations, such as charities or volunteer organizations, are often dominated by the underlying ideologies related to helping others.
- *Professional constraints* – accountants' and solicitors' practices, for example, have established codes of professional practice which dictate and influence behaviour. On occasions, this can raise interesting issues for decision-makers. A frequently used example is the television journalist or news editor working for the BBC or ITN and able to influence reporting strategies and policies. When assessing sensitive issues, does the person see themselves as a BBC or ITN employee, or as a professional journalist – and do the two perspectives coincide or conflict?
- *Active conflict* between power sources seeking dominance; while this can involve either or both internal and external sources, it is likely to be temporary as organizations cannot normally survive prolonged conflict.

The dominant source of power becomes a key feature of the organizational culture and a major influence on manager behaviour and decision-making.

Reference

The source of the basic arguments is Mintzberg, H. (1983) *Power In and Around Organizations,* Prentice-Hall.

The bases of power

Seven bases of manager power were introduced and described in Chapter 7: reward, coercive, legitimate, personal, expert, information and connection. The extent to which managers and other employees in organizations use each of these sources of power is a major determinant of corporate culture.

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Reward and *coercive power* (the ability to sanction and punish) are two major determinants of employee motivation, and both can be very significant strategically. Thompson and Strickland (1981) argue that motivation is brought about primarily by the reward and punishment systems in the organization. Blanchard and Johnson (1982) suggest that effective management involves establishing clear objectives for employees, and rewarding and sanctioning performance against objectives appropriately. Strategic leaders who dominate their organizations and coerce their senior managers can be effective, particularly when the organization is experiencing decline and major changes in strategy are urgently required.

Legitimate power is determined primarily by the organization structure and, consequently, changes in structure will affect the power, influence and significance of different business units, functions and individual managers. *Personal power*, which can lead to the commitment of others to the holder of that power, can be very important in incremental changes. Managers who are supported and trusted by their colleagues and subordinates will find it easier to introduce and implement changes.

Expert power can persuade others that proposed changes in strategy are feasible and desirable. While expert power may not be real – instead, being power gained from reputation – it is unlikely that managers who genuinely lack expertise can be successful without other power bases. Moreover, expertise is job related – for example, an expert specialized accountant may lose expert power temporarily if they are promoted to general manager. Consequently, an important tactic in the management of change is to ensure that those managers who are perceived to be expert in the activity or function concerned are supportive of the proposed changes. *Information* and related *connection power* are becoming increasingly significant as IT and networking grow in importance.

These seven power bases are all visible sources plus, in addition, *invisible power* – such as the way in which an issue or proposal is presented, which can influence the way in which it is handled. Managers who appreciate the objectives, perspectives and concerns of their colleagues will present their ideas in ways that are likely to generate their support, rather than their opposition. Membership of informal but influential coalitions or groups of managers can be a second source of power, particularly if the people involved feel dependent on each other. Information that would create opposition to a decision or change proposal may be withheld. In the same way that access to key information can be a positive power source, the ability to prevent other people obtaining information can be either a positive or negative source of power.

Lukes (1974) has identified three further important aspects of power:

- the ability to prevent a decision, or not make one
- the ability to control the issues on which decisions are to be made
- the ability to ensure that certain issues are kept off agendas.

The use of such power by individuals can inhibit changes which may, in the long term, be in the best interests of the organization.

In discussing the nature of power and how it is exercised, we should consider just how the exercise of power needs to be legitimate, if it is to be successful over time. Rawls (1971) outlined two principles of justice:

1. 'with respect to the basic structure of society regarding the basic liberties of citizens based on freedom of speech, thought, assembly, conscience and the rule of law – that is, any exercise of power that took away any of these rights would be unfair, unjust and could be legitimately opposed'; and
2. 'the distribution of income and wealth and the design of organizations that make use of the differences in authority and responsibility, or chains of command. While the distribution of wealth and income need not be equal, it must be to everyone's advantage and at the same time, positions of authority and offices of command must be accessible to all . . . The distribution of wealth and income must be consistent so that everyone benefits or if an unequal distribution is to everyone's advantage. Injustice, then, is simply inequalities that are not to the benefit of all.'

In the case of many businesses facing financial difficulties, there will be a concern about justice, and how justice and fairness are exercised if large financial institutions are bailed out but then fail to lend some of that money to their customers so that everyone benefits in some way. Arguably, that would be an illegitimate

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exercise of power by banks, removing the cloak of fairness and justice from them, making them legitimate targets because they had failed to live up to their part of the social and economic bargain.

Political effectiveness and political ability

Hayes (1984) contends that effective managers appreciate clearly what support they need from other people if proposed changes are to be carried through, and what they will have to offer in return by reaching agreements (or accommodations) providing mutual advantages. The organization as a whole must have effective and politically competent general and functional managers to restrain personal objectives and prevent undesirable changes championed by individual managers. Problems can occur where some managers are politically effective and able to implement change, and others are relatively ineffective and reach agreements with other managers whereby their personal interests and the organization's interests are adversely affected.

Certain sources of personal power are essential for managers who are effective politically and able to influence others (Allen *et al*., 1979; Dixon, 1982), as suggested in certain tactics for managing change featured in Table 15.2. Managers should be perceived by others to have expertise, ability and a reputation built on past successes. Depending on the relative power of outside stakeholders, such as suppliers or customers, external credibility can also prove valuable, as does having access to information and to other powerful individuals and groups of managers. A manager perceived as a radical agent of change can arouse fear and uncertainty, possibly leading to opposition. As discussed earlier, it can be valuable to implement a change of strategy gradually and incrementally, allowing people to make adaptive changes as the learning experience develops. At the same time, opposition should be brought out into the open, rather than being allowed to develop without other people being aware.

Politically effective and successful managers who are able to implement their decisions and proposed changes will generally possess an appreciation and clear understanding of organizational processes; they will also be sensitive to the needs of others. The strategic leader ought also to be an able politician and, indeed, the type and incidence of incremental changes in strategies throughout the organization will also be affected by the political ability of managers – with the most politically able being instrumental in introducing changes. Being politically effective relates to the use of power and influence in the most appropriate way in particular circumstances. Where the strategic leader wishes to encourage managers to be adaptive and innovative, they should consider the political ability of the managers concerned.

MacMillan (1978) argues that introducing and implementing change frequently requires the use of power and influence, which he examines in terms of the control of situations and the ability to change people's intentions. Where a person wishes to exercise control over the behaviour of other people, either within the organization or external to it, they have two basic options: (i) to *structure the situation* so that others comply with their wishes; or (ii) to communicate with other people and thus seek to change their perceptions, so that they see things differently and decide to do as the manager (or leader) suggests. In other words, they succeed in *changing others' intentions*; both of these approaches are regarded as being strategies of manipulation.

Where a manager is concentrating on structuring the situation, they are using certain power bases as enabling resources; where they are attempting to change intentions, they are seeking to use influence. Power – in particular, personal power – is, again, important as a source of influence. The outcome from both the situational and intentional approaches can be either positive or negative such that, when the effect is positive, the other people feel that they are better off as a result of the changes, but the effect is negative if they feel worse off.

MacMillan (1978) identifies four tactics in relation to these points:

1 *Inducement* implies an ability to control the situation, and the outcome is perceived as beneficial by others involved. A large retail organization with several stores may require managers to be mobile as a condition of their employment, rewarding them with improved status, salary increases and relocation expenses every time they move. The situation is controlled; ideally, the managers concerned feel positive about the moves.

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Table 15.2 Political power bases and tactics

Bases of personal power	
Expertise	Particularly significant where the skill is in scarce supply It is possible to use mobility, and the threat of leaving, to gain support for certain changes of strategy – again, dependent on the manager's personal importance to the firm
Assessed stature	A reputation for being a winner or a manager who can obtain results; recent successes are most relevant
Credibility	Particular credibility with external power sources, such as suppliers or customers
Political access	Being well known around the organization and able to influence key groups of managers
Control over information	Internal and external sources Information can be used openly and honestly, or withheld and used selectively – consequently, it is crucial to know the reliability of the source
Group support	In managing and implementing change it is essential to have the support of colleagues and fellow managers
Political tactics to obtain results	
Develop liaisons	As mentioned above, it is important to develop and maintain formal and informal contacts with other managers, functions and divisions Again, it is important to include those managers who are most powerful
Present a conservative image	It can be disadvantageous to be seen as too radical an agent of change
Diffuse opposition	Conflicts need to be brought out into the open and differences of opinion aired, rather than kept hidden; divide and rule can be a useful strategy tactic
Trade-off and compromise	In any proposal or suggestion for change, it is important to consider the needs of other people whose support is required
Strike while the iron is hot	Successful managers should build on successes and reputation quickly
Research	Information is always vital to justify and support proposals
Use a neutral cover	Radical changes, or changes that other people may perceive as a threat to them, can sometimes be usefully disguised and initiated as minor changes; this is linked to the next point
Limit communication	A useful tactic can be to unravel change gradually in order to contain possible opposition
Withdraw strategically	If things are going wrong, and especially if the changes are not crucial, it can be a wise tactic on occasions to withdraw, at least temporarily

- Politically successful managers understand organizational processes and they are sensitive to the needs of others.
- Effective political action brings about desirable and successful changes in organizations – it is functional.
- Negative political action is dysfunctional and can enable manipulative managers to pursue their personal objectives against the better interests of the organization.
- The strategic leader needs to be an effective politician.

Sources: Allen, R.W., Madison, D.L., Porter, I.W., Renwick, P.A. and Mayes, B.T. (1979) 'Organisational politics: Tactics and characteristics of its actors', *California Management Review,* Vol. 22, No. 1, pp. 77–83; and Dixon, M. (1982) 'The world of office politics', *Financial Times,* 10 November

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2. *Coercion* is, again, a controlled situation, but the outcome is perceived negatively, and the same managers may be threatened with no further promotions unless they agreed to certain moves within the company.
3. *Persuasion* is where the manager (or leader) does not try to control or change the situation, but rather argues that the other people can or will benefit by behaving in certain ways, such that the desired outcome is positive. People may be persuaded to agree to a change which is not immediately desirable by suggestions that future rewards will be forthcoming.
4. *Obligation* is another intentional tactic, but the outcome is negative, as people are persuaded to behave in a certain way by being made to feel that they have an obligation. It may be suggested that people:
   - owe the company something for the money that has been invested in their previous training
   - owe particular managers a favour for something that has happened in the past
   - are obligated to the group of people that they have been working with for some years and should not let them down.

Managers may or may not have a number of alternative tactics to select from, and those with positive outcomes are preferable to those causing negative feelings if both are available and likely to yield the desired results. Managers whose power bases are limited and who need speedy results may have to coerce or obligate people.

As an example, think of the (football or other team sport) manager who, on the one hand, believes an individual is playing in the wrong position for their natural abilities, or needs that player to move to a different role/position 'in the best interests of the team'. How might this change be engineered? There are, of course, many examples of such a move being the 'making of a player' but also many other instances where the outcome has been the player resisting and moving to another club.

Kanter (1983) emphasizes that successful managers of change situations are able to keep their power invisible, both during and after the change, since participation in the change is then perceived to stem from commitment or conviction, rather than from power being exercised over people. Kanter (1983) contends that it is important for middle managers in organizations to be skilful in managing change as they implement the detailed strategies, and that strategic leaders must be able to ensure that they have support from their middle managers for the overall corporate strategy.

Culture broadly encapsulates manifest actions and behaviour, and underlying beliefs; effective cultural change must include both (see Chapter 7) with willing support for, and compliance with, the change. Without a change in beliefs, compliance will be reluctant. Strong, political managers who oppose the changes will show either covert, or even overt, non-compliance, their choice reflecting their style and power. Bartlett and Ghoshal (1995) discussed how the radical and forced downsizing of the early 1990s left many companies with a context of 'compliance, control, contract and constraint' such that behaviour changed, but not beliefs – since elements of the old culture remained to create confusion. A challenge of creativity and innovation meant that they must find ways of adding new values for competitive advantage, which required a context of support, trust and liberation, and a willingness to accept stretching objectives, alongside appropriate control disciplines.

Organizational politics and ethics

Managers can clearly use political behaviour both for and against the best interests of the organization; at the same time, they can also behave either ethically or unethically. But positive and ethical behaviour is required to satisfy all the stakeholders effectively. Negative politics, while ethical, could imply that internal stakeholders (maybe even individual managers and functions) receive priority over external stakeholders. Positive politicking which is unethical may well appear successful in the short term, but possibly with a long-term downside risk. Where negative politics combine with unethical behaviour, there is likely to be corruption.

Machiavellianism is the term often used to describe coercive management tactics which Marriott (1908), translating Machiavelli's sixteenth-century book *The Prince*, uses to cover 'the ruthless use of power, particularly coercive power, and manipulation to attain personal goals'. While coercive power can be used

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effectively by managers, it may not always be easy to justify, especially if other alternatives are available. Coercion may not be practical on a repeat basis, and any fear of threats not carried out quickly recedes. Jay (1967), however, contends that Machiavelli also offers much useful advice for ethical managers. Basing his arguments on Machiavelli's views on strategies and tactics for annexing and ruling nations, Jay (1967) argues that chief executive strategic leaders should concentrate their efforts outside the organization, developing and strengthening the strategic perspective. To feel able to do this, the internal structure and systems must be sound and effective, and managers must be supportive of proposals from the top. This helps explain why some organizations opt for a CEO (with a broadly strategic and directional role) and a COO, Chief Operating Officer, who has overall responsibility for operations and tactics.

General and functional managers should be free to operate and feel able to make certain changes, but their overall power should be contained, and they should exercise leadership based on power which yields the freedom to decide how things should be done. Managers should avoid pursuing personal goals against the interest of the organization as a whole, and need a clear awareness of what is happening throughout the organization, applying the appropriate punishment of offenders and the reward of successful managers.

Pearce and DeNisi (1983) stress that most organizations are managed partially by informal coalitions or groupings of managers superimposed on the formal structure. Managers in key positions in the organization, those in charge of important resources or responsible for products on which the profits or reputation of the organization depend, should be known to be committed and loyal to the strategic leader. Moreover, any informal and powerful coalitions that develop should also be supportive and the strategic leader may have to remove or switch senior managers occasionally as a reminder of their overall power. This is particularly likely to happen after an acquisition, during a restructuring exercise, or on the appointment of a new strategic leader.

Strategic coalitions are a major force behind strategy formulation, especially where the overall strategic leader is relatively weak. An effective leader, therefore, seeks to use coalitions that already exist and to encourage the formation of other loyal ones. In considering the feasibility of changes and how to implement them, it is important to examine the underlying political abilities and behaviour within the firm: who has power, how it is manifested and how it is used. Without taking these factors into account, implementation is likely to prove hazardous.

Research Snapshot 15.1

Leading change within organizations involves organizational development, according to Anderson (2019), which is a process by which leaders can implement changes. While building on strategy implementation (which itself often involves change but equally involves stability and continuity in many organizations), organization development is no doubt of particular relevance to the pandemic (and post-pandemic) climate in which major changes have been foisted on many organizations. However, tensions may arise for middle managers responsible for implementing such changes in organizations, and these may be both 'emotional' and 'political' in nature (Neumann *et al.*, 2019). Similarly, as well as tensions, various conflicts inevitably arise from leading change (refer to Rossi, 2019). Yet, organizational renewal (not dissimilar to strategic renewal, one of the components of intrapreneurship reviewed in Chapter 13) involves 'leading change with intelligence' (Coruzzi, 2020), rather than stupid changes.

Hence leadership is an essential component of leading change, not just the change itself, as people have to make it happen. For example, authentic leadership is often offered as a way of managing change, but scholars have critiqued it because it is unrealistic in many ways and, instead, suggest an approach that 'accounts for unconscious as well as conscious processes, works with less desirable aspects of the self rather than dismissing them, is achieved through reflexive processes rather than prescriptive formulae; and is collectively, rather than individually determined' (Ladkin *et al.*, 2016), whereas other authors have also examined the role of authentic leadership in leading change and influencing followers, but from a more uncritical stance (e.g. Agote *et al.*, 2016; Alavi and Gill, 2017; Bakari *et al.*, 2017). Nonetheless, leadership style, which is categorized as 'transformational, transactional, laissez-faire, and aversive leadership', and the mindset of the followers in terms of how they learn from their errors, are such

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that '**transformational leadership** fosters significantly more positive attitudes toward employee error learning, while laissez-faire and aversive leadership styles actively inhibit employee error learning' (Bligh *et al.*, 2018). In other words, they have a nurturing culture where errors are opportunities for improvement.

The literature on leading change in organizations has been extensively reviewed (By *et al.*, 2011, 2016) and yet, even though there have been 'three decades of transformation and organizational change leadership discourse, leadership is still in crisis' (Burnes *et al.*, 2018, p. 141). Students may find the other more recent literature on leading change in public sector organizations of interest and relevance (e.g. Campbell, 2018; Kuipers *et al.*, 2014; Van der Voet, 2014, 2016; Van der Voet *et al.*, 2015, 2016). Additionally, transformational change (Taborga, 2012; Seijts and Gandz, 2018), adaptive change (Bernstein and Linsky, 2016; Heifetz and Linsky, 2017) and discontinuous change (Morais *et al.*, 2020) are ways of leading change in organizations.

In terms of the private sector, heterogeneity can impact on change in family firms (De Massis *et al.*, 2019). The role of complexity in leading change resulted in an emerging change model (Lawrence, 2015), while there is evidence of the link between change and organizational performance in the insurance industry (Klarner and Raisch, 2013), consideration of the failure rate of change initiatives, and why Kotter's explanations of failure are outdated, respectively (Hughes, 2011, 2016) but nonetheless offer a roadmap for how to manage change effectively and to avoid such failures (Hughes, 2018; refer also to Cameron and Green, 2019; Sansom, 2021). Lewin's three-step model has similarly been critiqued (Bakari *et al.*, 2017; Cummings *et al.*, 2016).

Alongside a masterful text on how to manage the related processes of change, creativity and innovation (Dawson and Andriopoulos, 2017), Dawson *et al.* (2014) have used stories in order to explore changing organizations. Further, they have investigated the role of time and, in particular, temporal practices in organizational change (Dawson, 2014a, 2014b; Dawson and Sykes, 2016, 2019). Creativity is clearly vital for strategy formulation but also in implementing it, and critically so in terms of committing to and then leading change. Richard Florida's Creative Class is considered to be vital to 'urban renewal' but has also been applied to strategic and thus organizational renewal by 'integrating the "creative class" into the exclusive and institutional exercise of setting strategy' (Choain and Malzy, 2019, p. 377). There are parallels here with intrapreneurship, as explored in Chapter 10, which is about change whether innovation or corporate renewal (as per the Guth and Ginsberg, 1990 perspective). Specific contexts of leading change are important too, such as implementing sustainability strategies in the examples of Indian home appliances firms (Thakur and Mangla, 2019); their impact on performance varying depending on the context (Raineri, 2011); and how change can be reversed and its consequences (Mantere *et al.*, 2012).

The articles below provide a deeper understanding of leading change in organizations. Other insights from recent research include the specific challenges of managing and leading change in the COVID-19 context (Amis and Janz, 2020), but also the essential need for firms to adopt a tool such as the 'customer value framework' to 'focus on outside-in thinking – starting from understanding what is valuable and meaningful for the customer, a key stakeholder of any organization' (Yrjölä *et al.*, 2019, p. 145). The further reading from this literature will help students to develop their perception and critical awareness of the topic, and also to highlight the developing thinking in relation to how change can be led within organizations.

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Summary

Most organizations must compete or operate in dynamic environments where change is inevitable, some of which will always be reactive, but the most effective organizations manage – as well as manage in – their environments. The strategic leader and the organization culture realistically drive the whole change process.

Effective *change management* requires a clear perception of need (dissatisfaction with the existing *status quo*), a way forward (a new direction or perceived opportunity), the capability to change (the necessary resources) and commitment (change needs managing). A four-stage cycle of change can be identified: beginning with a creative idea, an opportunity is nurtured before an action stage grows the business. Structure follows to provide control. At this time, new ideas are needed to maintain the cycle of growth.

There are various levels of change: the corporate culture, the organizational mission, corporate strategies, organization structures, systems and processes, competitive strategies, and operational tasks and activities. As we ascend this hierarchy, the complexity and the difficulty of the challenge increase. A simple model of change management has three Lewinian stages: unfreezing existing behaviour, changing behaviour and refreezing new behaviour as common practice.

However, there is an argument that organizations should have a culture that accepts and embraces constant change; consequently, we need to be careful about the implications of refreezing.

Resistance to change is likely as people's jobs are affected and some will perceive themselves to be losing out. Change can be *continuous*, *innovatory* and *improvemental* – or *discontinuous and transformational*, implying simultaneous changes to strategy, structure and style.

Sometimes this is essential, but it can be very disruptive and unsettling for people.

Change management cannot be separated from power and influence, which are required to engineer and effect change – and may also be used in an attempt to stop it. There are two key dimensions: the relative power of the organization in respect of its external environment; and the relative power of different businesses, divisions, departments and individuals within the organization itself. There are seven key *power bases*: reward, coercive, legitimate, personal, expert, information and connection.

The way that individuals use power and influence is a manifestation of their political abilities. *Organizational politics* can be positive if it is used to carry through and implement decisions that are clearly in the interests of the organization. Negative politics is the tool of Machiavellian managers who pursue self-interest at the expense of other colleagues and, possibly, at the expense of the whole organization.

Online cases for this chapter

Online Case 15.1: Apple
Online Case 15.2: Walt Disney Corporation
Online Case 15.3: Blackpool Pleasure Beach
Online Case 15.4: Domino's
Online Case 15.5: The UK NHS between 2006 and 2009
Online Case 15.6: Transformational change at General Electric (GE)

Questions and research assignments

1. Describe an event where you have personally experienced forces for change, and discuss any forces that were used to resist the change. What tactics were adopted on both sides?
2. Describe a strategic leader (at any level in an organization of your choice) whom you consider to be a powerful person. What types of power do they possess?
3. Describe a manager whom you believe is successful at using organizational politics. On what observations and experiences are you basing your decision? How could you measure political effectiveness and the elements within it?
4. As a manager, what are your personal power bases? How politically effective are you? How could you increase your overall power and improve your effectiveness?

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Internet and library projects

1. Select an industry or company and ascertain the forces that have brought about changes in the last ten years. How proactive/reactive have the companies been, and with what levels of success?
2. Analyze the news broadcasts of two rival TV networks, such as the BBC and ITN, or Sky and CNN, and evaluate whether their reporting of industrial and business news is similar or dissimilar. Are they reporting to inform or to persuade about, say, the merits or demerits of government policy? To what extent are they constrained by government?
3. Use the internet to research this story from 1974. At this time, Leeds United was top of Division One (now the Premiership). Their manager was Don Revie, but the team was built around several strong and independent-minded players. Revie was appointed to replace (World Cup winner) Alf Ramsey as manager of the England team. His replacement was Brian Clough, a blunt-speaking Yorkshireman who had a mixed track record as a player and a manager. Clough instantly wanted to change the way the side (and the players) operated. The players resisted and the Leeds Board of Directors gave way to player power. Clough left after just 44 days in charge. In the end, Clough benefited but Leeds United did not. The team's 'finest hour' turned out to be behind it; changes really had been needed. Clough was appointed to Nottingham Forest where he was outstandingly successful.

The story of these events is told in *The Damned United*, which can be found as a film, a stage play and a book.

Can you identify similar, perhaps more recent, cases of 'strategic leader instant failures'?

Strategy activity

Kraft

Measured by value, Kraft is the second largest food company in the world, behind Nestlé. It has become best-known for its 'processed cheese and macaroni'. Its leading brands include Ritz Crackers and Dairylea cheese spread; but, in the United States it is also famous for Oreo cookies, Jell-O and Kool-Aid.

At the end of the last century, there were 175 plants, but soon after that time, 20 had to close with the loss of 8,000 jobs. There were two main reasons for this: hostility from certain consumers worried about problems of obesity, and pressure from own-label brands.

Kraft's CEO at the time, Roger Deromedi, was concerned to develop foods that were healthier. More whole grains were added to cereals and extra calcium was added to processed cheese, for example. Kraft declared it would no longer direct advertisements for junk foods to under-12s. He also concluded Kraft's marketing people were 'spending too much time planning . . . they need to be out with customers'. He sought to streamline decision-making inside the organization and invited customers to suggest new product ideas. New ideas from the public – that Kraft developed – included parmesan cheese packaged with a disposable plastic cheese grater; and a microwaveable hot dog and bun.

More recently, a new issue arose when the cost of milk, a major ingredient for Kraft, started rising around the world.

Questions

1. Do you agree with Deromedi's approach? How much of a strategic challenge did he face?
2. How would you evaluate the strategic logic of Kraft's successful bid to acquire Cadbury in late 2009?

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Chapter 16

Corporate level strategic management

PART 1
Understanding strategy

1 What is strategy and who is involved?

2 The business model and the revenue model

3 Strategic purpose

PART 2
Analysis and positioning

4 The business environment and strategy

5 Resource-led strategy

6 The dynamics of competition

PART 3
Strategy development

7 Introducing culture and values

8 Strategy formulation: strategic alternatives and decision-making

9 The role of planning in strategy

10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues

11 Strategic control and measuring success

12 Issues in strategic growth: Domestic and international

13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation

14 Strategy implementation and structure

15 Leading change

16 Corporate level strategic management

17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

Having read to the end of this chapter, you should be able to:

- describe and explain alternative approaches to, and styles of, managing strategy; and alternative corporate portfolios and control mechanisms **(Section 16.1)**
- define the terms 'heartland' and 'corporate **parenting**' and explain their significance and implications **(Section 16.2)**
- discuss resource management including general managers, human resources and allocating resources **(Section 16.3)**
- reflect on the notion of realistic growth ambitions **(Section 16.4)**.

Introduction

In this penultimate chapter we take a 'whole organization' perspective and examine three key themes – which loosely relate to the E–V–R framework as follows:

E Strategy and strategic change; pursuing relevant opportunities; as appropriate, changing the strategic direction of the organization
V Operationalizing the strategy through the structure, using the available resources.
R Structure; the corporate resources required and utilized

Clearly, organizations are seeking congruency across these themes.

Growth is often an important objective of organizations, frequently involving diversification and acquisitions in either related or unrelated areas (see Chapter 12). In recent years, the strategic logic of large, diversified conglomerates has been questioned as many organizations have, instead, chosen to focus on related businesses, technologies or core competencies, where they can more readily add value across the businesses and generate synergy. Whatever the strategic choice, it must be implemented successfully – for example, General Electric, discussed in Case 16.1, became the world's leading company (by asset value) while remaining extensively diversified but changes of leadership have more recently been associated with a greater focus.

This case, together with Case 16.2 (Smiths Group), have a business history theme and they both show how corporate strategies change and evolve over time. They are important to demonstrate and explain why strategies should be examined with a temporal lens.

Case 16.1 General Electric US

The Welch Years

The first section describes the business in the 1990s when the CEO was Jack Welch, regarded by many commentators as an outstanding corporate leader, and a champion of the diversified (and decentralized) conglomerate. Welch retired in 2001 and died in 2020. General Electric (GE) became diversified into four 'long-cycle businesses' and four 'short-cycle businesses'. The four long-cycle businesses comprised power systems, aircraft engines, defence electronics and medical systems (such as brain and body scanners); the four 'short-cycle businesses' were in plastics engineering, household consumer goods, lighting and NBC Television in the United States. GE also provided financial services (through the specialist GE Finance subsidiary) – which, in terms of monetary assets, was effectively one of the largest banks in the United States.

The company became truly global, selling more in Europe than British Aerospace, one of the UK's leading manufacturers and a direct competitor. GE proved that a business does not have to be 'focused on one or two related activities' to be successful and profitable. Before he retired, Welch changed the culture, 'turned people on' and delivered results through carefully crafted incentives.

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Unlike many other diversified conglomerates, GE sought to gain 'maximum' value from its disparate activities by investing in order to provide a platform for growth. GE wanted to be number one or number two in every market segment in which it competed. It sought to exploit the breadth and diversity of its portfolio to find new ways to add value and new customers.

> *Being a conglomerate makes no sense unless you can leverage the size and diversity of the company and spread learning and best practices across the company.*
>
> Larry Johnston, ex-GE Executive

The company was decentralized and employees were encouraged to speak out and pursue ideas. External contacts and sources were constantly monitored for new leads and opportunities. 'We'll go anywhere for an idea.' Welch always believed, 'the winners of the 1990s would be those who could develop a culture that allowed them to move faster, communicate more clearly and involve everyone in a focused effort to serve ever more demanding customers'. GE created its own 'university' bringing managers of various levels in all the businesses together regularly to explain what they were doing and to share new ideas.

> *We have this incredible intellect in GE … we are exposed to so many industries that when we [senior managers] all get together we have the opportunity to maximize our intellect. That's the advantage of a multi-business company … we can share ideas.*
>
> Welch

Much of this was facilitated through the quarterly meetings of Management Councils – comprising people from different businesses and divisions. Every member of a council must bring to every meeting at least one idea from which other managers could learn something valuable or useful. One notable example was the idea of 'reverse mentoring' to deal with the demands of e-commerce. Older managers were encouraged to use younger and more aware managers as their mentors, even though they may be lower in the current hierarchy.

Fortune magazine declared Welch to be the 'manager of the [twentieth] century' for his achievement in turning a 'slumbering dinosaur' into a 'lean and dynamic company with a paradigm of a new management style'. He believed 'small is beautiful' and that innovation and intrapreneurship are critical. The decentralization at GE aimed to, 'inject down the line the attitudes of a small fast-moving entrepreneurial business and thereby improve productivity continuously'. Integration strategies promoted the sharing of ideas and best practices.

There was a developed strategy of moving managers between businesses and countries to transfer ideas and create internal synergy, together with a reliance on employee training. It was said that 'if you sit next to any GE executive on a plane they will all tell the same story about where the company is going'. There was a shared and understood direction and philosophy, despite the diversity. Promotion was usually given to those managers who could prove they were 'boundary-less'.

Welch regularly attended training courses to collect opinion and feedback. 'My job is to listen to, search for, think of and spread ideas, to expose people to good ideas and role models.' GE's *work out* programme involved senior managers presenting GE's vision and ideas to other managers and employees, and then later reconvening to obtain responses and feedback on perceived issues and difficulties. All employees in a unit, regardless of level, were thus provided with an opportunity to review and comment on existing systems and procedures. The check was always based on whether they added value. External advisers (such as university academics) monitored that communications were genuinely two-way. Under Welch, GE also developed *Six Sigma Quality Management*, which has been adopted by companies around the world.

Managers were actively encouraged to work closely with suppliers and customers, and they had '360 degree evaluations', with inputs from superiors, peers and subordinates. 'People hear things about themselves they have never heard before.' If products and businesses that should be number one or number two in a market were not achieving, their managers were expected to ask for the resources required to get there.

Welch summarized his philosophy as follows:

> *If we are to get the reflexes and speed we need, we've got to simplify and delegate more – simply trust more. We have to undo a 100-year-old concept and convince our managers that their role is not to control people and stay on top of things, but rather to guide, energize and excite. But with all this must come the intellectual tools, which will mean continuous education of every individual at every level of the company.*

Nevertheless, some felt that Welch's reign spawned an emphasis on cost-cutting and leaner management.

Jeffrey Immelt

It was inevitable that people would question whether GE could survive when Welch retired in 2001. His chosen successor, Jeffrey Immelt, made changes immediately – but only limited ones to the structure and style – and (initially) the company continued to thrive and prosper.

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Immelt had a marketing background and was promoted from chief executive of GE Medical Systems. After he had established himself, he started to make changes to the GE strategy, but the Welch style and approach largely remained intact.

In 2003, Vivendi Universal (entertainment) was merged with GE's NBC. Also in 2003, GE acquired the UK health care group, Amersham, which had various important biotechnology activities. This was followed, in 2004, by the acquisition of a leading airport security scanning system business. Since 9/11, airport security has been a growing business around the world.

In 2004, Immelt declared GE was to 'evolve from an industrial and financial conglomerate dedicated to the relentless pursuit of profit to an innovator bent on finding long-term growth opportunities'. Reflecting his background in marketing, Immelt emphasized the need for organic growth, saying there was to be a real focus on generating such growth. Health care and energy would be the targeted industries. Science – including nanotechnology – would be instrumental. Developments could and would be applied across the GE businesses. One significant innovation was satellite tracking systems. These were utilized by TIP, GE's recently acquired European trailer leasing business, to track any vehicles or loads that had been hijacked. Throughout 2004, GE acquired a series of businesses to support its existing activities and priorities. Altogether, some US$17.5 billion was spent.

Some previous critics of Welch still maintained that his style had spread a fear of failure and stifled risk-taking, which had not gone away. To contribute to Immelt's planned changes, various managerial competencies were now to be stressed, namely external focus, clear thinking, imagination, inclusive leadership and confident expertise. The percentages of revenues and profits generated outside the United States should be increased.

In 2005, GE's insurance business activities were sold to Swiss Re – its recent profits had been disappointing. In 2006, the nuclear power units were moved into a joint venture with Hitachi. Profits were holding up but GE's stock was under-performing the main indices.

In 2007, GE paid US$4.8 billion to buy the aerospace division of Smiths Industries (see Case 16.2 on Smiths). This business makes components including computer systems, cockpit displays and landing gear. The detection and security businesses of the two groups would also be joined together in a new joint venture, Smiths GE Detection.

In 2008, early in the financial crisis of that year, first quarter profits fell below declared projections and analysts' expectations. Maybe Immelt's investments were not paying off . . . however strategically logical they might appear to be. Investors declared they had problems in predicting results for diverse conglomerates like GE in such turbulent times. Welch went on record and said Immelt 'had a credibility issue'. At the same time, he defended his successor's strategy.

In 2009, NBC/Universal became a joint venture with the cable company, Comcast. GE held a 49 per cent stake, Comcast 51 per cent.

In 2010, GE acquired the gas turbines manufacturer, Dresser, which is a US business that had spread overseas. The cost: US$3 billion. This was followed by the purchase of a British oil drilling pipe-maker. There were further oil and gas acquisitions in 2011.

The main product areas had become aviation, power generation, health care and transport. These were structured as GE Energy, GE Technology Infrastructure, and GE Home and Business Solutions. GE Capital continued to contribute over half the total revenue.

GE had, rather inevitably, not been able to avoid the impact of the global recession. Rounding the figures, GE's global revenues amounted to US$180 billion in 2008, but they declined year-on-year to US$150 billion in 2011. Net earnings for these four years were successively: US$17 billion, US$11 billion, US$12 billion and US$14 billion.

Since this time, GE has made further acquisitions of energy businesses but divested some properties and finance businesses. Revenues of US$149 billion in 2014 were similar to those of 2011; however, net earnings had improved to US$15 billion.

GE Capital was largely sold (piece by piece, as there were several businesses involved in GE Capital) between 2015 and 2017.

By 2017 earnings had declined to $122 billion; but simply comparing annual reported revenues without qualification hides the impact of the various acquisitions and divestments. GE was still a robust business, although there were reported cash flow issues. Profits fell in 2018, recovering somewhat in 2019 before GE was again profitable in 2020.

GE post-Immelt

It was announced that, after 16 years as CEO (and 35 years with GE), Jeffrey Immelt would retire at the end of the year and be replaced by John Flannery. Again,

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this was an internal promotion; his most recent post had been Head of Healthcare. Flannery lasted one year; he was 'fired' when he lost the confidence of the GE Board of Directors. He was replaced by Lawrence Culp, who was not a GE veteran. Although an outsider he was an existing Board member of GE.

A restructure took place in 2018. The core areas were now Aviation, Power, Renewable Energy and the residual elements of Financial Services. Healthcare was expected to become a standalone business at some point, but perhaps with the shares being gifted to existing GE shareholders. Baker Hughes General Electric (BHGE) would also be separated as an oil and gas servicing equipment business. GE's Transportation business (locomotives and railroad equipment) was to be combined with Wablec Corporation and thus divested. It seemed that GE might be redefining its heartland. The really significant changes were announced later, in 2021. Healthcare would be fully spun out in 2023, followed by Energy Transition in 2024. At this point GE would be focused on Aviation and a very different business from the time of Jack Welch.

General Electric **www.ge.com**

Questions

1. Do you think Welch's management style could be easily copied by other organizations? Why? Why not? What do you think are the main lessons?
2. Instinctively, and in the context of the themes discussed in this book, how would you evaluate the Immelt years?
3. How difficult is it to balance long-term growth and investments with the need for regular profits?

When the strategic challenges increase in intensity in an uncertain and turbulent 'new normal' world, any **corporate strategy** should be 'put under the microscope'. The **strategy** and strategic direction must be capable of being operationalized and executed efficiently, effectively and profitably. Of course, different strategic leaders bring different perspectives and capabilities to this task and challenge.

Conglomerate, diversified businesses cannot be dismissed automatically since they can be both successful and profitable if they can find new suitable businesses to acquire and opportunities for growth with their subsidiary businesses, and if their **strategic control** system is appropriate. Simply, the strategy can still be justified if it can be implemented successfully. This chapter explores alternative approaches to the strategic control of multi-activity businesses examining the relationship between the corporate centre and individual businesses.

The implementation of intended strategies – and the ability of the organization to be responsive in a dynamic, competitive environment – require the organization's strategic resources to be deployed and managed both efficiently and effectively. The organization must, on the one hand, seek to be resilient and crisis averse, rather than crisis prone; on the other, it must be able to deal with crises if and when they do occur. All these issues are a reflection of the organization's ability to appreciate and manage uncertainty and risk. They are also discussed in this chapter and Chapter 17.

Figure 16.1 highlights that the topics we discuss in this chapter are key delivery elements of the business and revenue models we discussed in Chapter 2. Value creation and relative competitiveness (via distinctiveness) are at the core of the business model, which also reflects the basic purpose of the organization. To be effective (and profitable), strategies that have been chosen to deliver the business model must be actioned and executed – in other words, strategy implementation. This approach embraces everything that is involved in producing (or sourcing, or creating) products and services, attracting customers for them and delivering them to these customers. Doing this efficiently by managing key cost drivers is important, if there is to be a viable revenue model. As we saw in Chapter 14, it is quite normal for organizations to be structured such that individual products (or clusters of related products) and services are separated and ring-fenced so that they can be resourced and managed properly. There is then the separate challenge of linking these distinctive businesses into a cohesive whole – 'corporate strategy'.

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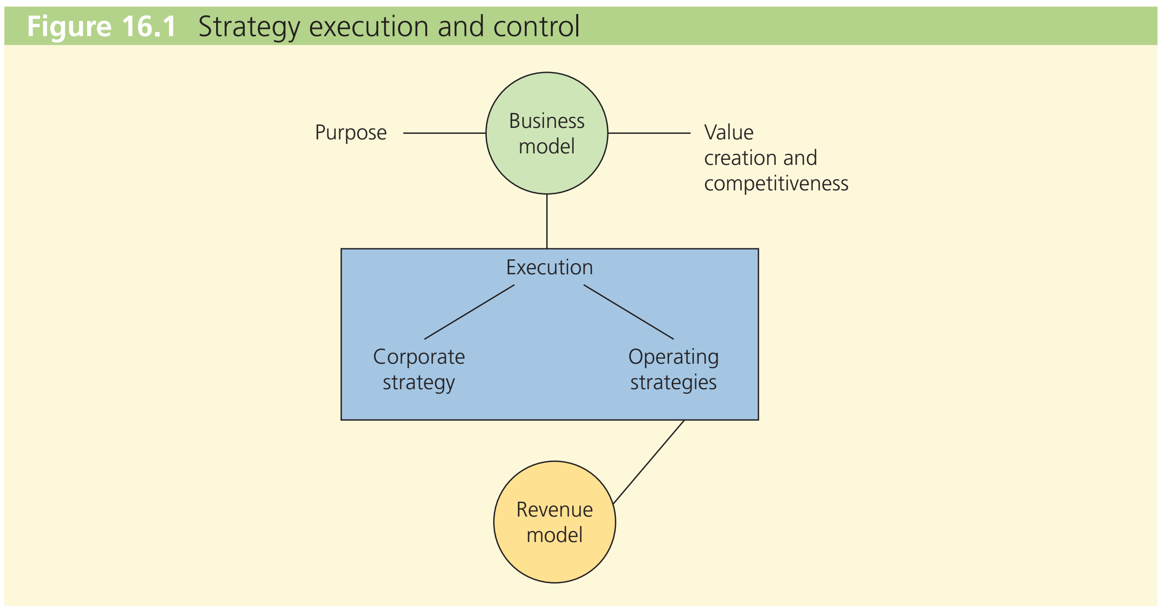
In essence, each product or service 'activity' is a 'business' that needs resources and creates **value for customers** – or at least, should do! The corporation which owns these activities operates at a higher level than the businesses themselves; its role is to acquire and/or distribute resources and create **value for the businesses** and **financial value for the whole organization** by organizing and controlling the businesses.

This chapter includes debates, opinions and interpretations, but few clear-cut answers, since both the strategy and the structure need to change but remain complementary as the business environment changes. If it were straightforward and clear-cut, many organizations would be more successful (and consistently successful) than they actually are.

Figure 16.1 Strategy execution and control



16.1 Managing corporate strategy and implementation

Good choices and effective implementation matter; they are related but are different, as Table 16.1 shows, since decisions about what to do require competency in strategic thinking with a focus on ideas and direction. Implementation is more operational and tactical, demanding expertise in systems and management; new strategic ideas can be seen as potential new projects with a need for project management competency.

Table 16.1 Managing strategy and implementation

Managing corporate strategy	Strategy implementation
Need to think strategically	Tactical and operational perspective
What we call 'strategic management'	Realistically resource management
About direction	About systems, management and operations
Focus on new ideas and options	Focus on delivery
What the organization is doing	How the organization does things
Choices concern businesses to be in or not be in – and how to be competitive	Choices relate to the management of projects and activities – operational rather than strategic

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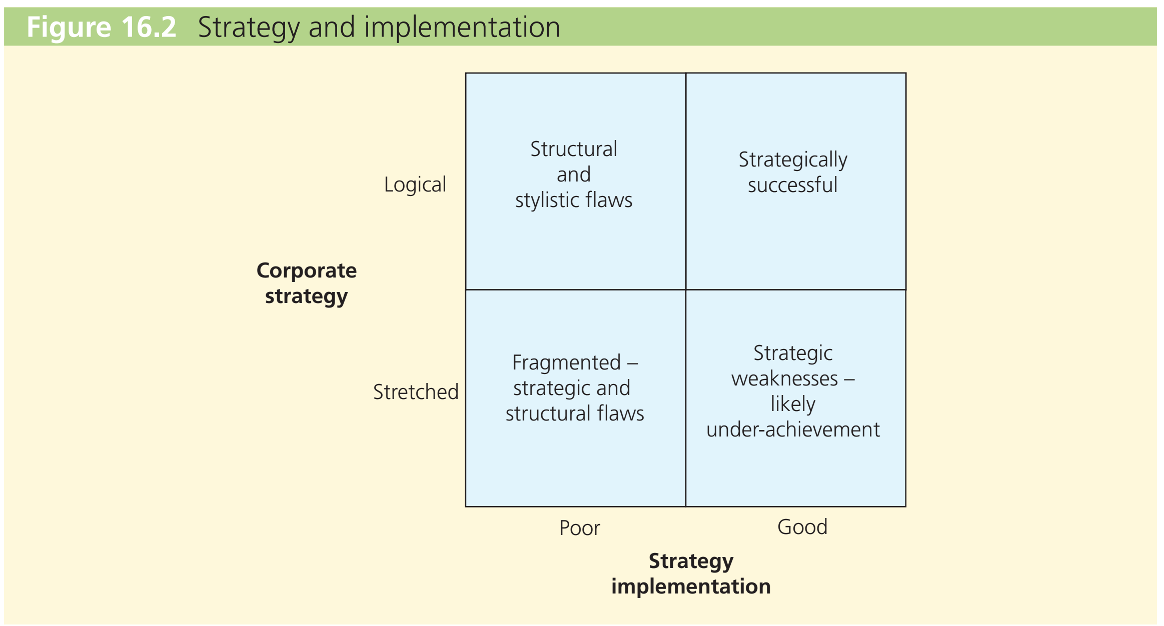
A synergistic, successful and profitable portfolio of businesses has, first, related competencies and capabilities which can be transferred between businesses, or between each business and the corporate headquarters or the overall strategic leader. Second, the portfolio of businesses has the ability to create and build value, both individually and collectively, by the businesses and the corporate headquarters. Third is the ability to implement strategies and strategic ideas to achieve their potential – a contribution that is, again, individual (e.g. in the form of profit streams because of a strong competitive position) and collective (through learning, sharing and the transfer of skills and resources).

We have, therefore, brought together a number of key themes in this chapter, including the relatedness of the actual businesses in the portfolio and the management of the portfolio of activities to ensure that strategies are implemented effectively.

Figure 16.2 shows how strategy and implementation must work together harmoniously for competitive, strategic and (where relevant) financial success. Where the strategy is stretched or particularly demanding for the resources possessed by the organization, under-achievement will probably occur even where there is sound implementation. If the accompanying implementation is also weak, the organization will probably seem fragmented and fragile. A basically sound strategy, poorly implemented, would typically suggest structural and stylistic flaws.

Figure 16.2 Strategy and implementation



Many organizations face a basic dilemma of understanding why something is wrong when progress through strategic break points is disappointing – for example, if the strategy or the implementation is mainly to blame where performance is below expectations. Many businesses have reacted to the current very competitive and increasingly global business environment to work on both, such that strategies have typically become more focused and structures less hierarchical. Richter and Owen (1997) found evidence of refocusing and simpler structures starting to happen some 25 years ago.

In their early work on corporate strategy, Goold and Campbell (1988 and revised in 1993) contrasted the views of Sir Hector Laing, ex-chairman of United Biscuits, with those of the late Lord Hanson. Laing contended that it takes a number of years to build a business and that during this period corporate headquarters should help the general managers of business units to develop their strategies. Goold and Campbell called this 'strategic planning'. Hanson argued that it is more appropriate for the head office to remain detached from operations and, instead of becoming involved, to set strict financial targets – this in the context that all Hanson businesses were reputedly for sale at any time. This is 'financial control' (Goold and Campbell). We can compare Hanson with Melrose, discussed in Chapter 12. Both approaches have been shown to work, but with different levels of overall performance and strategic growth patterns and, in essence, the outcome is determined by the quality of

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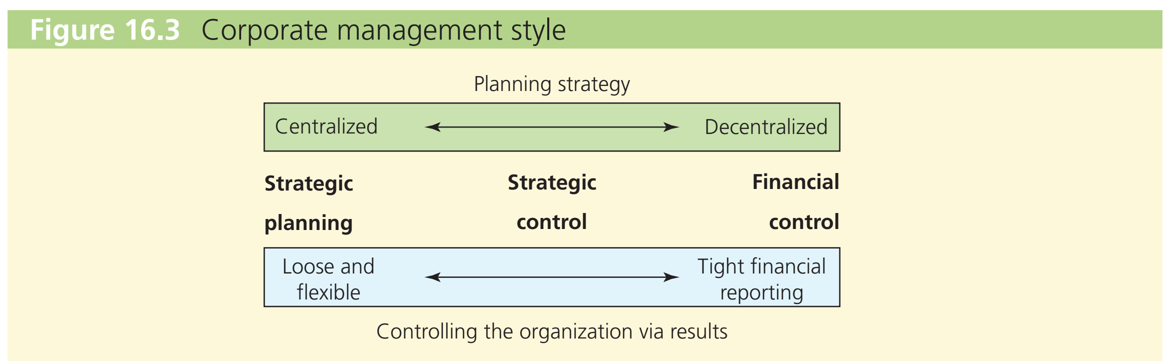
management! The Hanson approach typified that of many diversified conglomerates in the 1980s, but it lost favour with investors in the 1990s, something which caused many conglomerates to refocus or break up, as the online cases on Hanson and BTR *et al*. show.

These two approaches represent two ends of a spectrum; a third approach is a compromise between the two. Here an organization will devise its own way of balancing the key elements of planning support and financial oversight; Goold and Campbell call this 'strategic control'. Much top-level strategy could be essentially based on the view that the strategic leadership and management make things work, whereas often failure is about the adoption of a 'me too' strategy simply because it has worked elsewhere. Figure 16.3 illustrates this spectrum and the determining variables: the extent of centralization and decentralization (which influences the nature and role of strategic planning in the organization) and the nature of key reporting systems (the extent to which they are loose and flexible, or tight and financial).

Figure 16.3 Corporate management style



Managing the corporate portfolio

Porter (1987) argues that corporate strategy makes the corporate whole add up to more than the sum of its parts, and further contends that the corporate strategies of too many companies dissipate, rather than create, shareholder value. He comments:

> *Moving from competitive strategy to corporate strategy is the business equivalent of passing through the Bermuda Triangle. The failure of corporate strategy reflects the fact that most diversified companies have failed to think in terms of how they really add value.*

Porter's (1987) arguments are as follows. Corporate strategy involves two key questions or issues. First, in which businesses the company should choose to compete; and, second, how strategically distinct businesses should be managed at the corporate level.

While synergy has been held out as the justification for strategic changes (especially if they involved diversification) and the ideas behind synergy are defensible, synergy *potential* alone cannot justify change. Implementation matters and, realistically, synergy is frequently based on intangibles and possibilities, rather than the definite. Reflecting on acquisitions that fail to deliver promised synergies, we can never be sure how much of the problem was the strategic logic and how much was implementation. Hence, portfolio management, backed by the analytical techniques discussed in Chapter 9, was attractive when developed by management consultants.

Portfolio management assumes that competition occurs at the business level and is where competitive advantages are developed. Businesses should compete for centralized corporate investment resources, and should be divested if there are no further opportunities for developing new values. A cost-effective organization structure should enable cross-fertilization between the businesses while maintaining overall control. The role of the corporate headquarters was to seek and acquire attractive (potentially highly profitable) businesses, fit them into the organization, assess their requirements and allocate strategic resources according to their position in the relevant matrix. Of course, in reality, many low-performing businesses were retained, diluting the earnings potential and, as a consequence, shareholders sometimes became sceptical. Their belief was

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that they could diversify their own portfolio of investments as a hedge against risk – they did not need the businesses to do so on their behalf.

However, restructuring, which is one variant of portfolio management, requires the identification of industries and companies with the potential for restructuring and transformation with new technologies, new people and/or consolidation, such that there is no need at all for them to be related to the existing businesses in the portfolio.

The new parent intervenes to turn the business around, first, by cost-cutting and increased efficiency and, second, by adding new values to build a stronger competitive base and position. Once there are no further opportunities to add value, the business should be sold to raise money for further acquisitions. Restructuring works well when the strategic leadership can spot and acquire undervalued companies and then turn them around with sound management skills, even though they may be in unfamiliar industries. In a sense, there is an underlying belief that good managers can manage anything and, to a degree, there is some truth in this assertion. Whether they manage the renewal as well as the consolidation determines its success, as does having an appropriate structure and style of corporate management. Naturally, if suitable undervalued businesses cannot be found – which is typically the case when a country's economy has been tightened and weak competitors have already disappeared through closures or acquisitions – restructuring has no basis. In recent years, of course, venture capital businesses (rather than conglomerates) have been the champions of restructuring.

Another approach is sharing activities and transferring skills where, as Porter (1987) argues, there are inter-relationships between the existing and new businesses, whether tangible or intangible. Activities, know-how, customers, distributors and competitors can all be shared, and their benefits must outweigh the costs involved. The outcome of sharing can be clearly tangible (such as better capacity utilization) or intangible (e.g. through learning and intelligence). While, for example, a shared salesforce is often a possibility, higher calibre people can sometimes be recruited. However, different selling skills may be required for different products (some being sold on price, others on performance differences) and the attention given to certain products may be inadequate. The greatest returns should usually be found where activities are actually shared; alternatively, transferring skills can also be beneficial where businesses must be sufficiently similar that sharing expertise is meaningful, and the potential advantage will always be greater if the capabilities involved are fresh to the new industry.

16.2 Corporate parenting and the heartland

Goold *et al*. (1994) reinforce Porter's (1987) arguments by contending that acquisitions can be justified where the corporation can add value to the business, generating either synergy or valuable emergent properties. Any business must add value to its parent corporation which, in turn, must add value to the subsidiary, it being better off with its existing parent than it would be with another parent or on its own. In an updated book, Campbell *et al*. (2015) confirm their belief that successful corporate strategies are all about value: value for customers (through products and services, and delivered by individual businesses); and value for the organization (which is a two-way flow between the corporate centre and the businesses, and involves **parenting** skills). GE under Jack Welch, they argue, was able to integrate the diverse activities with common themes, such as striving to be number one or number two in an industry and also Six Sigma. Significantly, these themes have been seen as relevant by other organizations, which have thus followed the GE lead – or, at least, attempted to follow! In a different way, the less diverse Procter & Gamble (P&G) has been able to design an effective structure that links products and their production with their different markets, given that many P&G products are sold in the same stores worldwide, regardless of where they may have been manufactured. Central support has focused on brand management – P&G sells a vast range of products with their own brand name, identity and promotional needs. We saw in Chapter 14 that this structural challenge comes with no easy answers. Apple meanwhile concentrates on applying core values across its product range; these relate to design, style and ease of use. These values must be consistent and ubiquitous. By contrast, Federal Express (see Case 9.2) has created value by efficient, cost-saving systems that integrate hugely complex operations all around the world.

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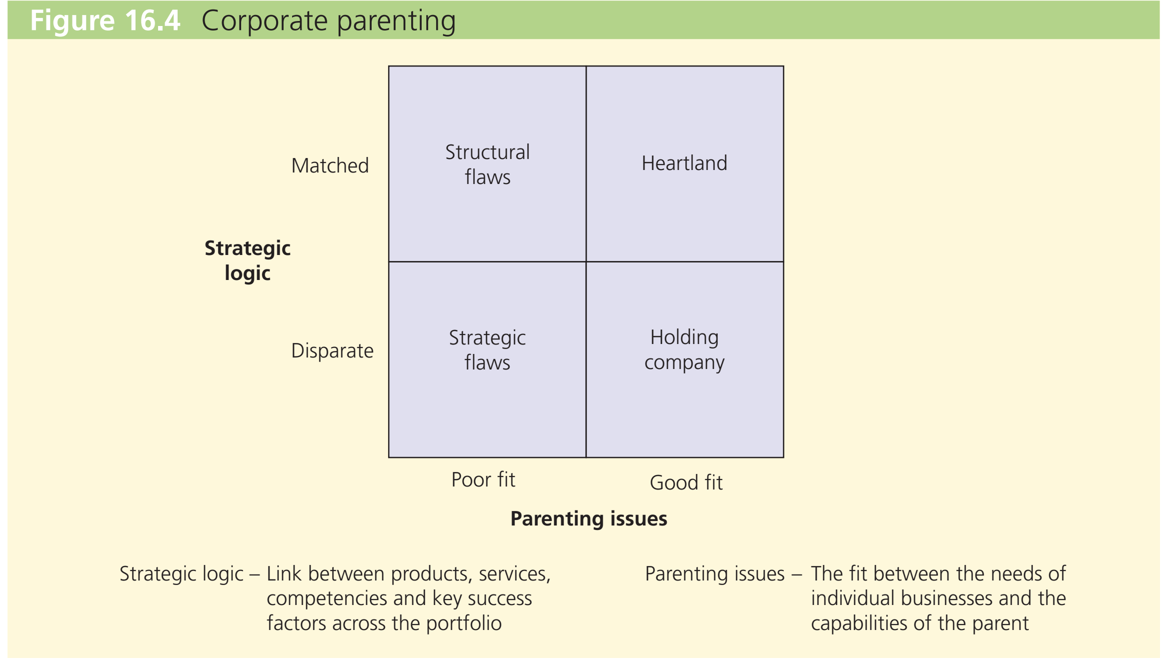
Parenting skills, therefore, relate to the ability of a head office and strategic leadership to manage a portfolio of businesses efficiently and effectively, and to change the portfolio as and when necessary, such that head offices can destroy value if a subsidiary does not fit with the rest of the portfolio and is consequently held back.

Parenting skills vary between countries and cultures. An example is Japan, where the most successful companies effectively secure and sustain access to government, power and influence; access investment capital; and retain skilled managers. As we touched on earlier (in Chapter 7), much of this activity is facilitated by the *keiretsu*, families of companies interlinked by share ownership and characterized by inter-trading, regular meetings of senior executives and, sometimes, geographical proximity in a single 'corporate village'; the companies are interwoven and can operate without any overall corporate headquarters.

Figure 16.4 builds on the arguments of Goold *et al*. (1994), drawing these points together. On one axis is strategic logic, the link between products, services, competencies and key success factors across the corporate portfolio; on the other axis are the parenting issues, the fit between the needs of individual businesses and the corresponding capabilities of the parent organization. Where they fit together well, there is a **heartland** of related businesses, which is explained below.

Figure 16.4 Corporate parenting



Where there is no natural synergy between the businesses, the organization can be successful to some degree if the parent company uses a *holding company* structure.

Where the parenting issues are not addressed properly, either strategic or structural flaws, and the consequent underperformance, will be evident and, here, *strategic flaws* again imply fragmented businesses that have no real synergy potential but which are linked to an inappropriate structure and style, with a real likelihood of poor performance. *Structural flaws* reflect a potential for synergy but a potential that is not being realized because of structural and stylistic weaknesses.

The heartland

Goold *et al*. (1994) use the term *heartland* to describe a range of businesses to which a corporation can add value and avoid destruction. A heartland may be constituted by common key success factors, related core competencies and/or strategic capabilities, and/or a common or related industry or technology.

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Any individual business within the heartland should be able to achieve levels of success that it would not be able to achieve either as an independent business, or with another parent. At the same time, the parent organization should benefit financially and strategically – in other words, other businesses in the portfolio benefit from the presence of the one under the spotlight – thus implying a 'win–win' situation, whereas it can easily be a 'win–lose' or even a 'lose–lose' where the fit is so poor that there is a real resource distraction. The corporate portfolio should be based around a heartland of businesses that are in some way related; any which are not, especially where they are a potential or actual distraction, should be divested. As an organization divests in this way to refocus, it is quite normal for this to be followed by, or concurrent with, acquisitions of related businesses to strengthen the core of the new focus, as illustrated in Case 16.2 on the Smiths Group. We include in this case an outline of the relationship between the corporate headquarters and the five relevant Smiths businesses, and the contribution each is expected to make.

Case 16.2 Smiths Group: Developing a New 'Heartland' UK

In the 1990s, Smiths Industries (as it was then called) owned an 'apparently widespread portfolio of engineering businesses' but argued that there was a related heartland. The stock exchange categorized Smiths as an aerospace business, but it comprised:

- aerospace components
- telecommunications products
- flexible hoses for vacuum cleaners
- medical products
- electrical instruments for cars.

Structurally, there were three divisions:

- aerospace – civil, military and after-sales service
- medical – equipment and consumables
- industrial.

Chief executive, Keith Butler-Wheelhouse, was recruited from Saab and he argued that the company was about 'clever engineering'. Between 1996 and summer 2000, under his leadership, there were 26 acquisitions – mainly bolt-on related businesses. The company delivered above average returns and profit growth from some unpromising sectors and its share price performance was better than most engineering companies.

Butler-Wheelhouse argued that Smiths was:

- focused on niche markets and relatively small businesses
- spread across eight distinct markets such that no single business could make or break the whole organization
- able to generate a cash flow which can fund organic growth and further acquisitions.

In 2000, Smiths acquired a 'big one'. Tube Investments – long associated with motor vehicles components – was diversified into seals (mechanical and polymer), fluid storage (cars and refrigerators) and aerospace (Dowty landing gear and general systems).

The new, larger Smiths would continue to build its heartland around 'clever engineering', but the business was to be reinvented as an aerospace engineering business with interests in other high-growth niche opportunities – such as medical equipment and systems for detecting explosives. Various automotive businesses were put up for sale, with mixed success. Those that would not sell were eventually floated off as an independent group. Polymer seals was sold in 2003 – at a loss, because of an anxiety to divest this non-core activity. Butler-Wheelhouse commented in 2003 that:

> *in the past year we've spent 5 minutes wondering whether we've got a balanced portfolio of businesses and the rest of the time being concerned about how to run the company and generate profits.*

In 2004, Smiths acquired the US medical equipment business Medex and, thus, became a much bigger player in this industry. The argued logic was based more on complementary products (easier to sell a larger range) than on cost-saving opportunities.

In 2007, the aerospace interests were sold to General Electric for US$4.8 billion. The detection interests of both companies were amalgamated as a separate joint venture company, in which Smiths had a 64 per cent controlling holding. Neither company wanted to sell their detection interests to the other, or to anyone else.

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One year earlier the various contributions to revenue and profits had been:

2006	% of revenue	% of operating profits
Aerospace	36	29
Detection	12	15
Medical equipment	21	27
Specialty engineering	31	29

Butler-Wheelhouse retired in 2008. What exactly was his successor, Philip Bowman, inheriting? Would he split the rest of the business up or keep it intact? After all, his leading investors were arguing that the business was worth less than the sum of its parts.

Bowman decided to divide the group into five parts – Medical Equipment (which would be based in the United States), Detection (based in Watford in the UK) and three speciality engineering businesses, all to be based in the United States. The size of the UK headquarters was reduced substantially and more power devolved to the divisions.

Detection makes sensors that detect explosives, weapons, narcotics and the like; they are used at airports and, really, anywhere that cargo is handled. Some 75,000 Smiths scanners are in use around the world. Medical Equipment manufactures a wide range of devices. John Crane produces for a raft of process industries, but especially oil and gas. Interconnect is electrical components; Flex-Tek's business is engineered components for moving fluids and gases. They are all about leading-edge technologies, and products and services that touch everyone's lives every day – but remain largely hidden from view.

The 2015 performance figures were:

Division	Revenue £ million	Revenue % of total	Operating profit margin %
Detection	467	16	11.9
Medical	836	29	19.8
John Crane	905	31	24.8
Interconnect	420	15	11.6
Flex-Tek	269	9	18.5

The Group head office manages the complete portfolio to create value for shareholders; the five divisions each manage their operations to meet customer needs while creating value for the Group.

The Group establishes strategic priorities; handles mergers, acquisitions and divestments; allocates capital to manage the portfolio; co-ordinates interdivisional initiatives; and fosters corporate values.

The divisions each manage their supply chains, manage operations, develop and launch innovative new products, market and sell their products and services, and deliver after-market services. Their challenge is to generate cash, some of which can be used directly for organic investments rather than being returned to the Group.

There have been further changes at strategic leader level. Sir George Buckley has been chairman since 2013; prior to this, he was CEO of the very innovative 3M in the United States. In 2021, Paul Keel, who had also been with 3M, replaced Andy Reynolds Smith who had been in post as CEO for six years. During this period the main acquisition had been an addition to the Detection division. Otherwise the structure was very much the same.

Smiths group **www.smiths.com**

Questions

1. How would you summarize the 'heartland' of Smiths Industries before and after the acquisition of Tube Investments?
2. What are your views on the 2003 quote from Keith Butler-Wheelhouse?
3. How significant (relatively) is corporate strategy and how significant is operational strategy to deliver results?
4. Do you believe that, since 2009, the company has had a strong heartland, or is it realistically a holding company of diverse interests?
5. Are further changes either necessary or appropriate?

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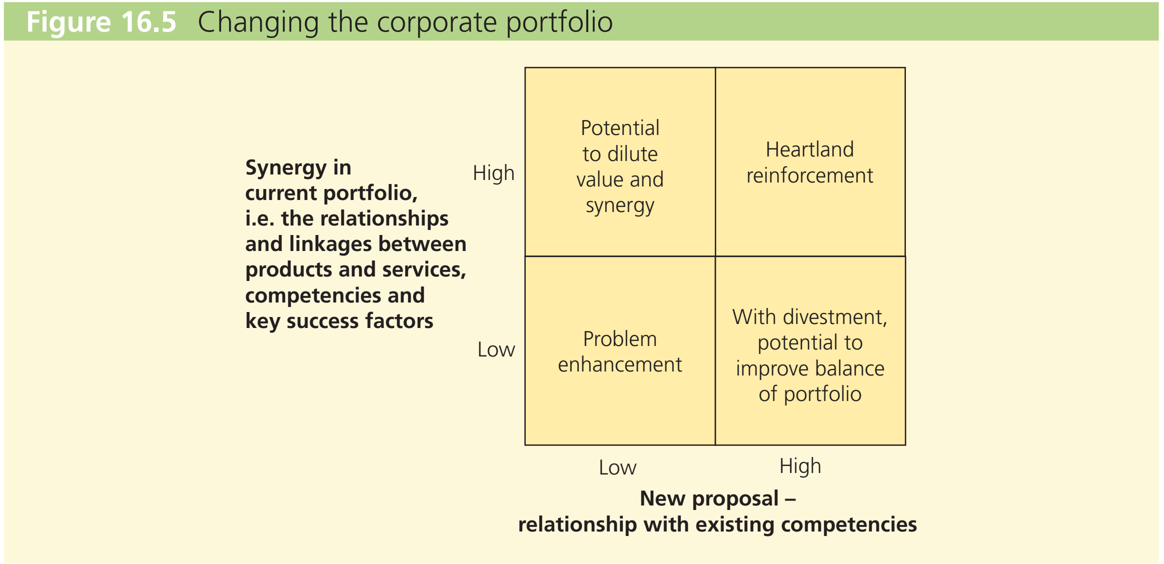
Figure 16.5 offers a framework for assessing the strategic logic of a proposed addition to the corporate portfolio. On one axis is the extent of the linkages and synergy in the existing portfolio; on the other axis is the relationship between the competencies required to run the new business effectively, and the organization's existing competencies and capabilities. Logically, we are looking for a match – the top right quadrant. Where the existing match is low but the newcomer has similar competencies to certain existing businesses, there could be a logic in going ahead and divesting non-related activities at the same time – the bottom right quadrant – which could have the effect of strengthening the portfolio. The top left quadrant of Figure 16.5 has the potential for an unrelated business to dilute value and synergy, while an unrelated business added to a non-synergistic portfolio would merely enhance the strategic problems.

Figure 16.5 Changing the corporate portfolio



Determining the heartland concerns, first, whether the parent is able to provide – and is actually providing – the services and support the individual businesses need; and, second, whether the businesses have the people and competencies to fulfil the expectations of the parent. Goold *et al*. (1994) offer the following framework as a starting point for assessing the existence of, or potential for, a heartland:

1. Mental maps (or philosophies) of the parent, incorporating issues of culture and values, and broad policies for dealing with events and opportunities.
2. Issues of structure, systems and processes, incorporating the style of corporate management and including procedures for appointing, promoting and rewarding people, the relative significance of budgeting and financial reporting, strategic planning systems and capital allocation procedures.
3. Central services and resources, provided centrally or devolved.
4. Key people throughout the organization – their functions, skills and competencies.
5. The nature of any decentralization 'contracts' and expectations, linked to issues of power, responsibility and accountability, reward and sanction systems; and the expectations that subsidiaries can have for the support they receive from corporate headquarters.

Letting go

It was earlier highlighted that deciding what not to do in strategy is arguably more important than decisions concerning what to do. Size often brings economies from critical mass but it can also create additional complexity. As a consequence, knowing what to let go – or divest – and when and how to do so is an important strategic capability: to achieve the right balance between quality (value added and profitability) and quantity (size and power).

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A business (or product) might well be divested when it is individually still strong, profitable and valuable – assuming this divestment does not have a significant impact on corporate value creation – because it would be the time to secure a high price. Once the business is more mature and perhaps declining, its value might well be less.

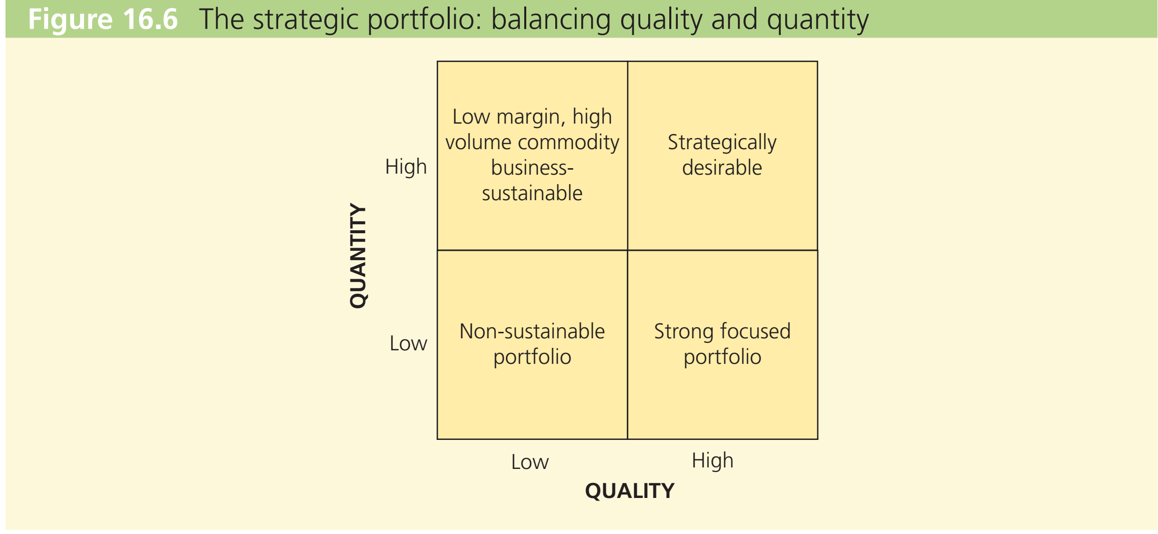
However strong an individual business might be, and however profitable when evaluated in isolation, if it is having a negative impact on the corporation as a whole for some reason, then it would be easy to make a case for divestment.

In his autobiography (published in 2020), Arsène Wenger, manager of Arsenal football club from 1996 to 2018, discusses the timing and impact of key players leaving a club. A top player may opt to leave a successful club (sometimes, but not always, at the end of a contract) because they feel a move would benefit their career – or their future earnings! – and this has the potential for disruption to the team as a whole – until, perhaps, they are replaced. This is different from a disruptive player (or one who does not seem to fit in) being transferred, however good they might be individually. The decision itself might be made by the player (or sometimes their agent) or by the club. In football, as in sport generally, transfers in and out can make a huge difference – although, really, it is how all the players are deployed, trained and managed that creates any competitive edge.

Simply, what fits and what does not fit is based on what the organization 'is all about' and, of course, in a changing world, things change. The core purpose might not change, but what happens to support this purpose might well change.

The strategic balance being targeted is summarized in Figure 16.6. This proposition can be linked back to balancing the competitive themes of cost management and distinctiveness (refer to Chapter 6 and Figure 6.4).

Figure 16.6 The strategic portfolio: balancing quality and quantity



Corporate head offices

Typically, head offices have been larger and grander in centralized organizations but, while being reduced in size with their activities distributed to subsidiaries, they serve the global legal and financial needs of the business, and support strategy-making. In general, they add and subtract businesses from the corporate portfolio; create linkages to drive synergy throughout the organization; design, support and maintain the organization structure; and provide certain key services. However, many head offices have provided a more extensive range of services, including marketing, management development and personnel, property management, centralized research and development, corporate public relations and industrial relations.

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Head offices clearly need to add value to the corporation and, with the recent trend for organizations to slim down the size and scope of head offices, in many cases only corporate strategy, financial reporting and control and secretarial/legal services remain centralized while some are only responsible for *policies* but not the activities.

Head offices can best add value to the business as a whole by addressing how they: (i) control and co-ordinate the constituent businesses (structure, corporate leadership, and internal communications and synergy); (ii) advise the strategic leader and keep them strategically aware; (iii) drive performance and improvement through effective reward systems; and (iv) decide which activities should be provided from head office (for which a fee should be levied), devolved to the individual businesses or bought in from outside specialists.

Alternative approaches include the stand-alone holding company, financial control approach; centralizing specific functions and services; controlling strategic change at the corporate level; and fostering linkages, learning and sharing good practices.

Head offices can destroy value if they become established as *the* perceived centre for expertise in the corporation, assume that potential linkages and synergy will happen automatically, duplicate effort and costs unnecessarily, buy and sell businesses at the wrong prices, and/or create or perpetuate a culture where internal competition takes precedence over the need to compete with external rivals.

Campbell *et al*. (2015) stress that portfolios and heartlands should be reviewed relatively frequently because of the dynamism of the 'new normal'. For Apple, for example, the iPod became a mature 'cash cow' but continued to evolve as a product and as a market leader. Meanwhile, the iPhone is subject to more dramatic evolution, in part because of competition from Samsung and others. Each new generation of this smartphone is an advance on the previous one, and many customers will buy the new model, rather than stick with the older one. Campbell *et al*. (2015) summarize corporate strategy by reiterating Porter's view that the attractiveness of both the industry and the product matter; and by acknowledging that growth can be internal and organic or by acquisition, and that both opportunities matter and deserve attention – while bringing quite different challenges. In the context of acquisition opportunities, they stress the impact of private equity investment, which has opened up a new selling or divestment opportunity for organizations looking to offload a business that is now perceived to be non-core or surplus to requirements – and which may readily be strengthened or turned around in the hands of fresh management.

Case 16.3 concludes this section. The story of how (and why) Comcast bought Sky (Broadcasting) allows you to consider a number of issues in corporate strategy that have been discussed in this chapter and earlier chapters.

Case 16.3 The Acquisition of Sky by Comcast — UK, US

In 2018 the US cable television giant Comcast bid £30.5 billion (at an auction) to acquire the broadcasting company Sky. Sky was nearly 30 years old. Established by Rupert Murdoch in 1989, it initiated a move that has completely changed the way we watch television. To older people, Sky 'started a revolution'; to younger people, it is something they have always been accustomed to. This successful bid was the outcome of a year-long competitive battle aimed at increasing power and influence in the very lucrative entertainment industry where in more recent years Netflix, Amazon Prime, Facebook and Google (YouTube) have challenged the more established businesses who were once dominant. The challenge lies in building strengths in content production and its distribution.

How had it all unfolded, and what were the implications for the various interested parties?

Rupert Murdoch might be described as a 'media mogul'. Born into a newspaper family in Australia in 1931, he had started and run successful newspapers in Adelaide and Sydney before coming to England in the 1960s, where he set up News Corporation, which first acquired the *News of the World*, followed by *The Sun* in 1969. By 1980 *The Sun* was the best-selling daily newspaper; and it still is. He later acquired *The Times* and *The Sunday Times* in 1981. His personal reputation – along with his businesses – took a metaphorical hit a few years ago (in 2013) when his journalists were found guilty of illegal mobile phone hacking to obtain information (mainly on well-known people) that they subsequently published.

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He established Sky in the UK to provide satellite broadcasting of sports, films and other TV programmes. A year later, financial problems forced a merger with rival provider BSB. The new business was BSkyB, but generally known as Sky; while Murdoch and News Corporation had a sizeable 39 per cent stake in the business, they had lost control. This never changed. Murdoch himself relocated to the United States where News Corporation has thrived.

Among its media and entertainment interests are 21st Century Fox, which it bought in 1985. (At this time, it was called 20th Century Fox). Corporately, News Corporation became part of 21st Century Fox.

During 2017, 21st Century Fox started the ball rolling for a proposed takeover of Sky – in reality, of course, this move meant acquiring the 61 per cent of the shares that Fox did not already own. Fox also owned the Fox News Channel, which was often favoured by former US President Donald Trump when he provided one-to-one interview opportunities. The rival Sky News was part of Sky – but at this time it was not operating profitably. Both Fox and Sky broadcast to several countries. Sky has some 23 million customers in the UK, Germany, Italy, Spain and Ireland. Fox had attempted (unsuccessfully) to acquire rival Time Warner in 2014.

At the end of 2017 Rupert Murdoch and his two sons held the following positions:

Rupert Murdoch	Chairman, 21st Century Fox
Lachlan Murdoch	Chairman, News Corporation
James Murdoch	CEO, 21st Century Fox and Chairman, Sky

Early in 2018 the UK Competition and Markets Authority (CMA) declared that a Fox takeover would not be in the public interest; it would give the Murdoch family too much control over news provision in the UK. However, the CMA also commented that it did not see there being a threat to broadcasting standards in the proposal.

Meanwhile, the Disney Corporation had been negotiating with Fox, and the two had reached a provisional agreement whereby Disney would buy a substantial number of Fox's entertainment assets for around $60 billion. The relevant assets were the FX and National Geographic channels, 22 regional sports networks and the Hulu streaming platform. Disney would acquire various Fox movie studios, as well as rights to existing movies and TV programmes such as *The Simpsons* to add to its library. Fox News, Fox Sports and Fox TV were not included – but the 39 per cent stake in Sky that Fox owned was. Among its many assets, Disney already owned ABC Television, ESPN and Marvel (Case 1.2). This time the bid would be subject to regulation in the United States; further down the line, of course, it might lead to Disney becoming the new owner of Sky.

Comcast, which had bought a 51 per cent stake in the broadcaster NBC from General Electric (GE) and, through this acquisition also held a majority stake in Universal Studios in a joint venture with GE, had also been expressing an interest in acquiring Fox, but it now backed away. It was reported that one of the reasons that the Murdoch family was supporting the deal was because of the Disney stock they would be acquiring as part of a cash and share deal.

In March 2018 Sky announced that it had reached an agreement with Netflix (Case 4.3) to show a number of its programmes on the Sky Q platform, and that it had secured most of the rights to Premier League football for the years up to and including 2022.

A further twist in the tale came when Comcast tabled a £22.1 billion bid for Sky. The earlier Fox bid valued the whole of Sky at £18.5 billion. As well as NBC and Universal, Comcast owned various other entertainment businesses, especially cable television channels. The obvious benefit for Comcast in such a deal would be a stronger presence in Europe (where it was relatively weak) and access to European football. It was also being suggested that – having been outbid by Disney for Fox, and because of the involvement of Sky in both deals – Comcast was throwing in a spoiler to the Disney-Fox deal. The Comcast bid for Sky was not seen (by commentators) as one that was likely to concern the UK CMA.

Yet another twist came when Fox – to allay the fears of the CMA concerning control over news in the UK – offered to ringfence Sky News (if it was able to secure control of Sky), and either sell it to Disney or demerge it as an independent business, while guaranteeing funding given that it was currently not profitable. The sale-to-Disney option would be a separate deal from the other entertainment businesses and, therefore, not subject to the same regulation process.

In June, when the UK Government cleared the Comcast bid for Sky, it was still deliberating on the various Fox proposals *vis-à-vis* Sky – although approval for this acquisition would soon be granted as long as Sky News was demerged.

In addition, the US competition authorities gave the Disney-Fox deal a green-light. Comcast then 'stirred the waters' even more when it counter-bid Disney and offered $65 billion (all cash) for the same Fox assets.

In July a new bid from Fox for the 61 per cent shareholding in Sky valued the business at £24.5 billion.

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Comcast retaliated immediately with a £26 billion bid for Sky. Around the same time, Disney increased its bid for the Fox businesses to $71 billion (£54 billion).
How could this dilemma be resolved?

Sky News was granted independence (with guaranteed funding from Fox for 15 years) and with editorial freedom. The UK Takeover Panel then set up a blind auction. The Comcast bid was the successful one. Valuing Sky at £30.5 billion (with a share price approaching double that before the bidding war started), Comcast bid 10 per cent more than Fox was offering. Both Comcast and Sky declared it to be a 'great day for the businesses'. Soon afterwards, 21st Century Fox agreed to sell its 39 per cent shareholding in Sky to Comcast. Murdoch was finally walking away from the business he had started and had wanted to own again. It was suggested that Sky customers might soon have to pay higher subscriptions to help pay for the premium price, but this increase would be constrained by competition.

The sale of Fox assets to Disney was finalized. Disney pronounced that it was happy with the outcome and started to offload some of the assets it had acquired. It saw the regional networks as 'surplus to requirements'; the money it realized would be invested in the Hulu streaming services.

The Murdoch family's business portfolio changed markedly. The sales and circulation figures for UK print newspapers were continuing to decline. *The Sun* had once been achieving sales of 4 million copies per day; now, and although it was still the leading paper, this figure has dropped to 1.4 million. But as well as the newspapers, Fox still exists and owns Fox News in the United States, Sky News in Australia and the *Wall Street Journal*. It had also acquired Virgin Radio in the UK (and secured Chris Evans from the BBC). Perhaps a new empire would emerge.

Questions

In terms of detail, this case is a complex one, but it allows for discussion of a number of important themes (to which there are no definitive answers).

1 Which parties in this story (do you think) used the best tactics? Were the real winners Comcast, Sky Shareholders, Disney or Fox? Why? Who were the best 'game players'?
2 Down the line can you see Sky customers benefiting from fresh creative ideas even if these ideas come with higher prices?
3 While there are clear beneficiaries, is value actually created when bidding wars double the value of a business?
4 What can we learn about value creation in the entertainment industries from this case? To what extent is it about content? Distribution?
5 What constitutes a winning business model in respect of content and distribution?
6 Who do you think might be the dominant players in the industry five years from now?

16.3 Resource management

The role and skills of general managers

There will always be a challenge in blending directional and operational elements at different levels in a complex organization; this section, therefore, expands on the points made above. General managers (a generic term which embraces corporate chief executives and managing directors, as well as divisional and business unit heads) co-ordinate the work of subordinate specialist managers. They carry direct responsibility for corporate and/or competitive strategy and oversee functional strategies as the line managers of functional specialists. They are responsible for the management of strategy implementation and, depending on their role in the organization, strategy formulation. They must match the resources they control with their particular environment effectively and thus achieve E–V–R congruence. On paper, of course, people are not given the title 'general manager'.

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General managers in divisions and business units (Chapter 14) do not have full responsibility for strategy creation and implementation, and can be pressurized by corporate headquarters. Also, they can turn to head office in their search for additional finance and other resources, which may operate differently from the external market – but justification should still be required. The relationship between divisional general managers and head office will determine whether they are free to change their portfolios of business units and products, or just to adapt competitive and functional strategies, which will also be affected by performance measures and expectations. Where specific short-term objectives and targets are set and monitored strictly, general managers are less likely to focus on corporate changes and, instead, will concentrate on more immediate changes which can yield faster results. Their flexibility to make changes will increase as their targets become more vague and directional and less specific. Even though the general managers of business units may not be responsible individually for the formulation of changes in the corporate strategy which will affect their sphere of influence, they will invariably be responsible for the implementation of the changes.

Effective strategic management concerns issues of formulation and implementation; strategic choices concern the nature and orientation of the organization (the strategic perspective) and the deployment of its resources (ideally to achieve and sustain competitive advantage). It will always be people dependent – 'the right person in the right place at the right time'. Strategic choice is implemented by strategic leaders who, as observed in Chapter 10: (i) exhibit different patterns of behaviour and styles of management, and (ii) will have different technical skills and biases as a result of their background. Arguably, alternative general managers would seek to implement basically the same strategy in different ways. The views of a number of authors concerning the relationship between general managers' skills and particular strategies are discussed below.

Herbert and Deresky (1987), examining the issue of match between the general manager and the strategy, identify the important orientations and styles given below:

Strategy	*Styles and qualities required*
Development (start-up and growth)	Aggressive, competitive, innovative, creative and entrepreneurial
Stabilizing (maintaining competitive position)	Conservative, careful and analytical
Turnaround	Autonomous, risk and challenge oriented and entrepreneurial

They contend that financial skills are important for all strategies, with marketing skills being particularly important at the development stage, and production and engineering skills invaluable for stabilizing strategies, thus raising three issues:

1. Which specialist functional managers may be most appropriate for promotion to general management in particular circumstances?
2. Is a change of general manager appropriate as products and businesses grow and decline, and need changes in their strategies?
3. As strategies develop and change, should general managers adapt their styles of management accordingly?

Dixon (1989) suggests that *innovatory general management skills* are most required in the early and late stages of the life of a business or product in its present form, and that these skills are required to establish or recreate competitive advantage. In the case of terminal decline, skills are also required to find an alternative product, service or business. These changes are often best accomplished by outsiders with fresh ideas and, correspondingly, the constant search for efficiencies and improvements while an established product or business is maturing, is usually best carried out by specialists. Changes in senior management, structure or values may be involved and, since the outlook and styles of general managers are likely to be different, and their responses to different sets of expectations and performance targets will vary, this raises the issue of which managers are most appropriate for managing particular strategies.

There are similarities and differences in these various conclusions – reflecting, again, that there is no single best answer. The issue of match between general manager and strategy is important, such that we may expect that changes in one will lead to changes in the other. Clearly, as organizations become flatter and more decentralized, skills in synthesis and integration are critically important.

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Kanter (1989), researching the general management skills required to run businesses effectively in the competitive environment of the late 1980s and the 1990s, argued that large companies must be able to match corporate discipline with entrepreneurial creativity in order to become leaner and more efficient, while being committed to quality and innovation. Suggesting that *process is more important than structure*, three strategies, explained in Critical Reflection 16.1, are important:

1 restructuring to improve synergy from diverse businesses
2 the development of joint ventures and strategic alliances to input new ideas
3 the encouragement of intrapreneurship within organizations.

Handy (2015 but first articulated in 1994, 1995) continues to contend that, in order for companies to remain competitive internationally, they have had to rethink their basic structures: 'Fewer key people at the heart of the organization, paid very well, producing far more value.' Handy (2015) acknowledges that it is quite feasible that corporations will continue to grow, either organically or through acquisition, but believes that, either physically or behaviourally, they need to be in small units, focused and closely networked to their suppliers and customers. More activities and components will be bought in from specialists than is the case at the moment; internally, they will also comprise networks characterized by subsidiarity, with the centre (as distinct from a traditional head office) doing only what the parts cannot do themselves. The real power will switch from the top of the organization to the businesses and, consequently, a co-ordinating mission and purpose will be essential. Handy favours 'federalism' or reverse delegation – the centre acts on the bidding of, and on agreement with, the parts – and he is basically supporting a decentralization trend, but goes much further.

Critical Reflection 16.1 Rosabeth Moss Kanter on Competitiveness

Future success lies in the capability to change and to accomplish key tasks by using resources more efficiently and more effectively. Organizations must be innovative and, at the same time, control their costs. Sustainable competitive advantage, however, does not come from either low costs, or from differentiation or innovation alone. It needs the whole organization to be *focused*, *fast*, *flexible* and *friendly*.

Being *focused* requires investment in core skills and competencies, together with a search for new opportunities for applying the skills. Intrapreneurship should be fostered to improve the skills constantly; managers throughout the organization should be strategically aware and innovative. They should own the organization's mission, which, by necessity, must be communicated widely and understood.

Fast companies move at the right time and are not caught out by competitors. New ideas and opportunities from the environment will be seized first. Ideally, they will be innovating constantly to open up and sustain a competitive gap, because gradual improvements are likely to be more popular with customers than are radical changes. However, instant success takes time – the organization culture must be appropriate.

Flexibility concerns the search for continual improvement. The implication is a learning organization where ideas are shared and where collaboration between functions and divisions generates internal synergy. This, in turn, suggests that performance and effectiveness measures, and rewards, concentrate on outcomes.

Internal synergy can be achieved with cross-functional teams and special projects, and by moving people around the organization in order to spread the best practices. General Motors allows components and assembly workers, who work in separate plants in different locations, to contact each other by telephone to sort out problems and faults without relying on either written communications or messages which go up, across and down again. These workers see each other as colleagues in the *whole* organization. It is important that internal constraints (imposed by other functions and divisions) which restrain performance are highlighted and confronted. To be effective requires a clear and shared vision and purpose for the organization, decentralization and empowerment.

Friendly organizations are closely linked to their suppliers and customers to generate synergy through the added value chain. Such external collaboration may be in the form of strategic alliances.

Reference

Kanter, R.M. (1989) *When Giants Learn to Dance*, Simon & Schuster.

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Supported by sophisticated information technology and systems, people will become recognized as the most important strategic resource and, because their expertise and intelligence are intangible assets, largely unquantifiable, it will become harder to value the real assets of a business. Consequently, the appropriate measures of performance must be carefully evaluated, and reward systems will have to be derived which motivate and keep those managers who are potentially the most mobile. The valuable managers will not all be at the most senior levels. Disagreeing with many strategic leaders of global organizations, Handy believes that switching jobs regularly and moving people between different parts of the organization, perhaps to other countries, can be dysfunctional. Simply, they will not be in place long enough to become known and, in the future, trust will be an essential element in management, strategic change and strategy implementation.

> *We have designed organizations based on distrust. We have designed organizations so that people will not make mistakes. And, of course, we now encourage people to make mistakes because that is how they learn.*
>
> Handy

Handy's arguments imply major changes to strategies, structures and styles of management for many organizations. Where these changes are simultaneous – amounting to strategic regeneration in effect – the changes are dramatic, painful and often difficult to carry through.

Bolton and Thompson (2015) developed these themes and argue that the challenges of the 'new normal' are demanding senior corporate executives who can seamlessly blend capabilities in a 'big picture' direction with operational competency, while still seeking new opportunities. They contend that such people are more than leaders (as we conventionally think of leaders), and more than managers (again, in terms of conventional wisdom). They are also, in part – but again more than – entrepreneurs (because they are driven by opportunities); simply, they also make sure strategies to seize the opportunities are implemented and that people throughout the organization appreciate the 'big picture' and how they contribute as strategy-makers. They emphasize that such people, whom they have called 'entirepreneurs', are transformative and flexible, because they are able to move seamlessly between corporate issues and detailed operations and opportunity. A number of the strategic leaders we have discussed in this book and in the online cases – including Steve Jobs, Jack Welch and Richard Branson – could all be described as 'entirepreneurs'. We have typically referred to them as leaders, adopting conventional wisdom, but this term fails truly to capture the contribution they make.

Strategic resource allocation, management and planning

Figure 16.7 recapitulates how the corporate mission and purpose provide the basis from which corporate and competitive strategies are derived. The corporate portfolio provides a number of ways for the organization to pursue its mission – but each business in the portfolio will require different levels of attention and resourcing. These decisions relate to priorities linked to the potential of, and desired outcomes from, each business. The achievement of competitive advantage and success comes down, ultimately, to individual contributions; in order to guide and manage these contributions, objectives, targets and milestones will be set.

Once broad or detailed intended strategies have been determined, the key people in the organization must plan their implementation, making the required resources available where and when they are needed, then *allocating* them to different managers, functions and businesses, and ensuring they are *co-ordinated* to generate synergy. Managers responsible for implementation must understand what is expected of them and must be empowered and motivated to take the necessary decisions and actions. Indeed, *monitoring* and *control* systems are required.

At the corporate strategy level, organizations may establish priorities for different divisions and businesses using portfolio analysis, and evaluate the strategic and financial implications of alternative investments. Decisions may be taken within the constraints of existing capital, financial and human resources; if they demand new resources, these must be obtained in an appropriate timescale.

Proposed acquisitions may require that an organization raise funding externally; organic development of new products may require new skills and competencies. Resources can be switched from one part of a business to another.

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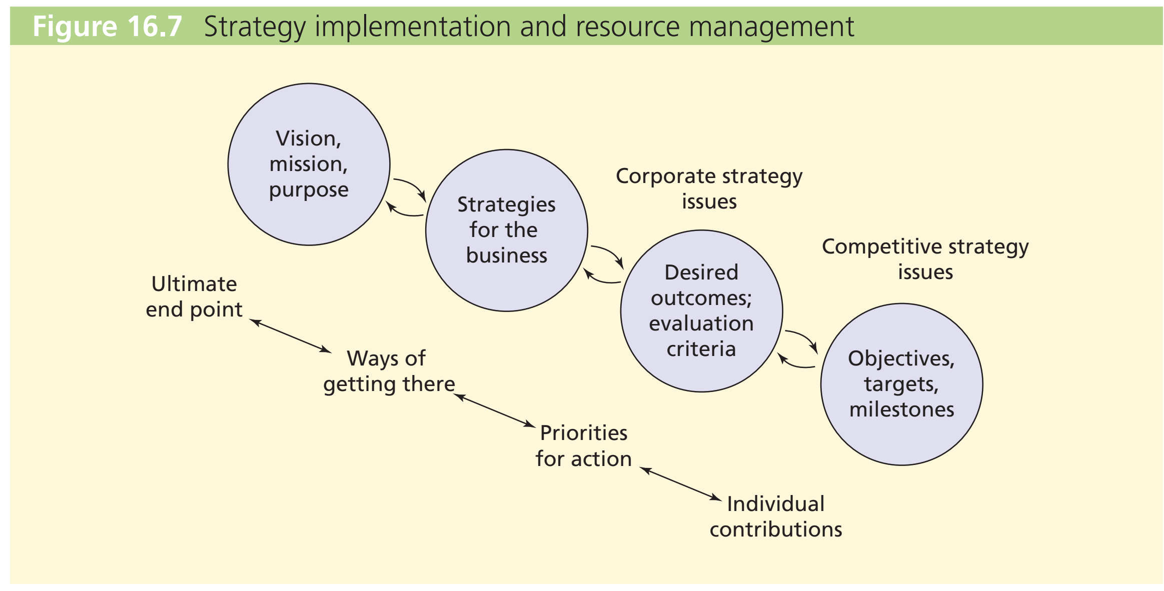
Figure 16.7 Strategy implementation and resource management



At the functional level, *policies* and procedures can guide managers and other employees in the utilization of these corporate resources to add value, create competitive advantage and achieve the desired objectives. These policies can be tightly defined to maintain strong, central control, or very loose and flexible to enable people to use their initiative and be flexible. The ongoing management of the resources will then use action plans and budgets.

Action plans relate to the detailed strategies and plans for the various key functions – the activities which must be carried out if competitive and corporate strategies are to be implemented successfully. Together with *budgets*, action plans attempt to integrate sales, supply potential production activities and cash flow to ensure that resources are available to produce goods and services where and when they are required. The organization would like to avoid a situation where it has requests that it would like to take, or worse, it has booked orders, but it does not have the resources to enable production or supply (i.e. over-trading and over-commitment). Both its bank and its customers can easily end up disappointed. It would also wish to avoid situations where it has idle capacity and no orders, or instances where it is producing for stock rather than for customers. This dilemma is one faced continually by many small businesses, which endeavour to balance the resource-based perspective of strategy with the opportunity-driven approach. There are a number of valuable project planning techniques that might be used, especially Gantt Charts (named after their creator), which are bar charts for sequencing events and actions.

This planning process then provides a useful check that the corporate and competitive strategies that have been formulated are appropriate and feasible, in the sense that they can be implemented. At the same time, this planning and budgeting must not be so rigid that the organization is unable to be responsive. Forecasts and judgements will never be completely accurate; when intended strategies are implemented, there will need to be incremental changes and revisions to plans. The plans should incorporate clear milestones – target levels of achievement against a timescale. By constant monitoring, the organization can check whether it is booking sufficient business, whether it is producing the necessary quality on time, whether it is under-producing or over-producing, whether its costs and prices are different from those that it forecast, and whether it is managing the movement of cash in and out of the business to the budgeted targets.

A review of progress can highlight potential deficiencies to either resource requirements or likely outcomes. If orders are exceeding expectations, additional resources may be required if the organization is to properly satisfy the new level of demand. If these cannot be found, schedules will need to be changed and, perhaps, future supplies rationed. If orders are below expectations, then either new business opportunities will need targeting at short notice, possibly implying very competitive prices and low margins, or end-of-year

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targets revised downwards. Vigilance and pragmatism here can help to ensure that the organization does not face unexpected crises, while effective communications and management information systems are essential for planning, monitoring and control.

The allocation of resources at a corporate level is closely tied to the planning system through which priorities must be established. Portfolio analyses such as the directional policy matrix may well be used to help determine which products and business units should receive priority for investment funding; and any new developments that are proposed will require resources.

Corporate resources may be allocated in different ways in line with the speed of growth of the organization and the degree of instability in the environment:

1. *Rapid growth*. The resource allocation process must be able to accommodate this growth and the consequent, and possibly continual, demand for additional resources. In all cases, the decisions should balance the potential financial gains with the strategic logic implied. While divisions or business units may be making individual requests for resources to support certain programmes, the opportunities for synergy, sharing activities and transferring skills across activities should be assessed, along with the desirability of the implications of the various proposals for the overall strategic perspective of the organization.
2. *Limited change and stability*. Resource allocation for continuing programmes could be a straightforward extrapolation of previous budgets, incorporating an allowance for inflation. However, a mere continuation of present strategies without evaluation and proper review may lead to ineffectiveness. Established policies, such as fixing advertising budgets at an agreed percentage of projected sales revenue, or maintaining particular levels of stocks, are likely to be a key feature of this approach.
3. *Decline situations*. Some quite tough decisions often have to be taken and, where the organization as a whole is in difficulty, the strategic leadership must search for new opportunities for redeploying resources. Unless they have opportunities for turnaround, selected business units that are experiencing decline should transfer resources to activities with better growth and profit potential. Once resources are allocated to divisions, business units and functions, there will be further allocations to individual managers within each area – which, to a greater or lesser extent, will be delegated to the general manager or functional manager in charge of each area (**functional** or **operational** resource planning); also, interdependencies between the budget holders should be considered.

Functional resource planning raises a number of essential considerations: (i) the relative importance of each function, using perhaps the value chain; (ii) competitive advantage derived from functional activities, along with an appreciation of key success factors and competitive opportunities to ensure strategic effectiveness; (iii) linkages between functions, which are the sources of potential synergy, should be considered such that any appropriate sharing of resources should be encouraged; activities should be complementary and supportive; and (iv) the whole resource allocation process must take account of sequential dependencies where they exist.

In terms of efficiency and effectiveness, measures in relation to the allocation and deployment of resources, savings in time and costs (without threatening quality) lead to higher productivity, higher profits and the freeing up of resources which can be deployed elsewhere. Organizations should evaluate whether resources are being allocated to those products, services and activities which are most important for the organization as a whole and for the achievement of its objectives. This analysis is applicable at organizational, divisional and business unit level, where these resources have an opportunity cost – especially where resources are finite and limited. If growth or profitability, or both, are important objectives, the resources should be allocated to those products and services which can best fulfil the objectives. However, sufficient resources should be allocated to development programmes that lead to growth and profits in the future. Decisions made to alter resource allocations and concentrate them in different areas lead to issues of managing change (Chapter 15). Resource reductions in favour of alternative products may be resisted by certain managers, and their ability and willingness to resist change pressures from higher management will be related to their power bases and their ability to influence decisions, also considered in Chapter 15.

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The need to measure and evaluate performance, and to make changes when necessary, applies at all levels of the organization. The attention of managers must not be focused too narrowly on only their areas of responsibility, as their contributions to other managers and their commitment to the overall interests of the organization are the sources of synergy. While these measures of individual performance are crucial, the effectiveness of all functional, competitive and corporate strategies, and their abilities to achieve corporate objectives, are the ultimate measures. The effectiveness of the contribution of such activities as research and development is difficult to assess, but this aspect is no excuse for not trying.

We conclude this section with a short commentary on how the public sector has tackled the issue of a lack of financial resources for investment. New hospitals, new schools – really, any new public infrastructure projects – require serious financial investment that has to be paid back over many years. As we have seen, a typical analysis of an investment will evaluate the net present value of the revenues generated by operating activities over a period of time. Some organizations in the public domain that make a direct charge for the services earn income along similar lines, but many do not generate revenues in quite the same way; instead, they rely on government money (in effect, taxpayer-generated) which is provided to enable a particular service to be offered and provided. This is the underlying principle of the National Health Service. Hospital Trusts are given a financial allocation which covers their staff and other costs in exchange for an agreed level of activity and operations. Historically, public money has been provided as 'capital' (to build new infrastructure) alongside 'revenue' (to cover ongoing direct costs). In recent years, this has changed. The so-called Private Finance Initiative has been used to generate the capital funding required; a typical example, in the form of a Public-Private Partnership, is explained in Strategy in Action 16.1.

One significant risk with these initiatives is the potential collapse of the private sector construction contractor. One of these, Carillion, folded in early 2018. Carillion built and maintained properties and infrastructure projects; two hospitals under construction in Sandwell (near Birmingham) and Liverpool – as well as a bypass around Aberdeen – were all delayed as a consequence. These projects were worth £350 million, £335 million and £745 million respectively. There were a variety of reasons behind the Carillion collapse, but in the end the business ran out of cash and was unable to service its own debts. Clearly, private sector jobs and public services were affected – and who was in a position to rescue the situation?

Strategy in Action 16.1 Public-Private Partnerships

Public-Private Partnerships (PPPs) have become popular in Australia and the UK, and also in Spain, as an effective means of funding new public infrastructure. Their introduction in the UK was in 1991, under the Conservative government of John Major. Criticized at the time by the opposition Labour party, Tony Blair and Gordon Brown each used them extensively when Prime Minister.

A PPP brings together a consortium of related people: architects, planners, engineers, building contractors, facilities managers, equipment suppliers, experts in the relevant service, and, critically, financiers. Together, they deal with specifying, tendering, building, handing over and then managing facilities for an agreed period of time. In simple terms, private sector finance is used to create new infrastructure projects for public use; the relevant public sector body is then responsible for paying back the interest and the loan capital over a period of (generally) 25–30 years. The private sector thus takes the real financial risk; their returns are reduced if they fail to deliver in full at the build stage or provide inadequate services during the period of the agreement. The challenge for the public sector is to generate sufficient income to deal with the payments they have to make. In the case of the National Health Service (NHS), several hospitals have been built with PPPs – government money is effectively being set aside for interest and debt payments, rather than either staff salaries or patient care. In 2015, for example, it was claimed in the press that the NHS was spending £3,700 every minute on PPPs. This amounted to some £2 billion in annual payments. Hospitals, schools and new infrastructure and rolling stock for the London Underground have all been dependent on PPPs. By 2012, some 130 projects were either completed, under way or agreed, amounting to £12.6 billion in funding.

The first new NHS hospital to be built with a PPP was in Norwich. The 1,000-bed hospital was commissioned in 1996 and completed five months early (and on budget) in 2001. The 2006 £1.1 billion PPP to renovate the

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existing St Bartholomew's and Royal London hospitals was – and is – the largest contract. The hand-over took place in 2016, but one and a half floors in the Royal London have not been completed because of a shortage of funds for all the necessary equipment. The ultimate cost of the St Bartholomew's PPP is estimated to be £7.1 billion. Interest payments in 2015/16 were £127 million; the payments vary year-by-year to reflect the payment of loan interest, capital repayment and the costs of the ongoing services provided by the contracting team. Significantly, the relevant Hospital Trust reported a deficit of £90 million in 2015/16.

The following advantages have been claimed for PPP's:

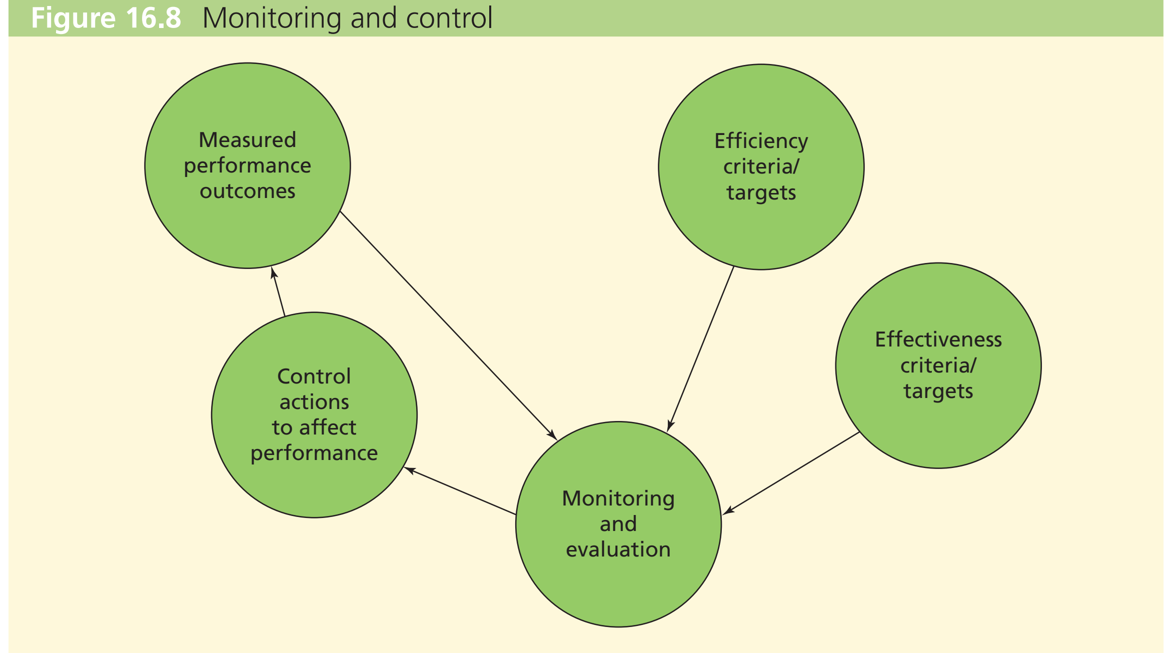
- New buildings go up quicker if the private sector manages the project.
- Running costs are reduced as private sector employees can be found who will work for less than public sector salaries.
- The audit trail is clearer and therefore people can be made more accountable.
- Buildings maintenance is built into the contractual agreement and so cannot simply be put on hold if money is tight.
- Overall, they provide 'value for money' for the public sector, despite the gap between the stated contract figure and the ultimate payment.

That said, there is a counter-argument that a PPP generates a fixed priority charge for an organization such as a hospital in a world where predicting (and managing) demand and the cost of providing the relevant services is inherently uncertain and complex. In the case of a school – where demand could easily fall with the migration of young families away from an area, or fresh competition from, say, the building of a new free school – then the debt burden can become very real and serious.

Measurement and control issues in resource management

The Carillion story highlights the need for effective monitoring and control – as illustrated in Figure 16.8. The culture of the organization will dictate which measures are given priority, but establishing such excellence measures requires a real attempt to reconcile the different expectations of the stakeholders. Where there is no common agreement, the objectives and measures selected will reflect the relative power of the various stakeholders. In any case, commercial pressures invariably focus attention on resource management and efficiencies, which are easier to set and monitor. Also, because efficiency measures are possible and often straightforward, they may become elevated in significance and be seen as the foundation for the objectives – hence, measurement potential, and not stakeholder satisfaction, dictates objectives.

Figure 16.8 Monitoring and control



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Arguably, the central linked issues in measurement and control are: (i) what is communicated to managers in terms of performance expectations, and (ii) how they are rewarded and sanctioned for their success or failure to achieve their targets. Resources should be allocated to enable managers to perform as required and, at the same time, to motivate them. Reed and Buckley (1988) argue that, when handled effectively, strategy implementation through action plans can be proactive such that strategies can be adapted in line with changes in the environment. Where these have been ill-conceived, there is likely to be more reaction to events and external threats. However, this aspect of implementation is difficult to achieve. Wernham (1984) contends that managers benefit from appreciating 'superordinate organizational goals' and the overall strategic perspective. He also contends that perceived internal inconsistencies between the performance expected of different managers can be demotivating. Communication and information systems should, therefore, make managers aware of where the organization is going strategically and how well it is doing. Wernham (1984) also implies that resource allocations and strategic priorities should be seen as fair and equitable, and that political activity to acquire or retain resources for the pursuit of personal objectives, or to support ineffective strategies, must be contained.

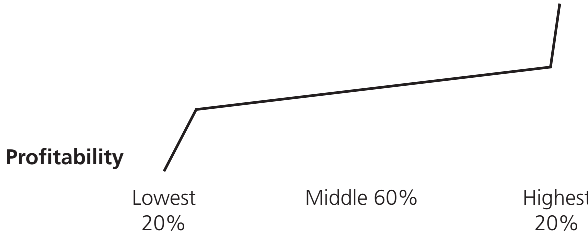
McMahon and Perrit (1973) earlier demonstrated that the effectiveness of managers in achieving their objectives is enhanced when the control levers are high, but Lawrence and Lorsch (1967) indicate that these controls also need to be loose and flexible if the environment is volatile. Again, we must conclude that there are no simple or obvious answers to the challenge of strategic control.

Resources are allocated through the budgeting process, which establishes a quantitative short-term link between expectations and resources. Managers need to be aware of wider strategic issues and their attention should be focused on long-term strategies, as well as short-term tactics and actions designed to bring immediate results – an approach that necessitates that managers are aware of the key success factors for their products and business units, and of how their competitive environments are changing. While they must achieve budget targets, there must also be a continuing search for new ways of creating, improving and sustaining competitive advantage. While budgeting is essential for allocating resources on a short-term basis and progress against budget targets is a vital efficiency measure, organizational effectiveness also depends on longer-term flexibility. New developments and strategies, and improved ways of doing things, must also be considered. These may well involve changes in structures and policies, as well as in the status of individual business units and managers. Issues in the implementation and management of change were the subject of Chapter 15.

16.4 The challenge of strategic growth

Bradley *et al*. (2018) show how the basic Pareto rule (80 per cent of a company's revenue comes from 20 per cent of the products or businesses, with the remaining 80 per cent of activity contributing just 20 per cent) can be extended to a study of a country's business community. They argue that 20 per cent of businesses in the economy are low profit or even loss making; 60 per cent produce average returns; with the remaining 20 per cent being the 'winners' who make above-average returns. Over time, the companies comprising the top 20 per cent will change with circumstances; but moving up into the top 20 per cent is a serious challenge.

Bradley *et al*. illustrate these businesses in the form of a '**power curve**' (loosely drawn below). The vertical axis represents the relative profitability; the horizontal axis the percentage of businesses. The slope of the lines is significant. The shape of the curve for the lowest and highest 20 per cent is steeper (with the top 20 per cent being the steepest), and thus demonstrates a relatively wide range; the middle 60 per cent of companies have a much narrower range of profitability.



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Developing the themes in Figure 16.6, there is no direct link between size and profitability; biggest is not automatically best. Bradley *et al*. (2018) cite Walmart as a large and successful business, but one with massive underlying investment; and Starbucks as a much smaller business, but one that requires much less capital to generate the revenue.

The challenge then might appear to be one of becoming a top 20 per cent company – as long as this ambition is realistic. For many organizations, it simply is not realistic. The prospects depend on certain variables:

- The accumulated resources (from the past) possessed by the business; this aspect would include reputation.
- Trends and prospects in the industry and with relevant target customers; this aspect would be the source of opportunities.
- Decisions, choices and actions available to engineer change; this aspect would imply innovation, new technology and access to the necessary finance.

What an organization opts to do should be a blend of ambition and realism. Being bold matters; but it is essential to be realistic about the prospects. In this context, the strength and strategies of competitors can never be ignored. Equally, the fact that resources chase organizations as much as organizations chase resources cannot be overlooked. Key people with essential skills are marketable and can choose who they work for; investors look for the best prospects. Similarly, different countries around the world seek to attract various businesses by offering favourable tax regimes.

There are a number of relevant strategies to consider. 'Good' mergers that create value (with either horizontal or vertical integration themes) can help. Identifying the best investment opportunities and allocating resources to these is essential. Investment will always matter but it must bring positive outcomes, such as greater productivity or valuable innovation.

Resource limitations and competition, as highlighted above, can be constraints – but there are other 'softer' constraints to factor in. Personal preferences and biases among key decision-makers can get in the way. Board members and leading shareholder groups, financial analysts (through reports and recommendations), activist shareholders along with political and economic dogma influencing business and economic prospects are all potential barriers to 'getting it right'.

We might well conclude from this that strategy is more than an intellectual exercise. It is this, but it is certainly not just this! Sometimes organizations and decision-makers 'mean well', but they simply do not know what they need to know. Judgement, intuition, forecasting and prediction apply, and people can inadvertently make a poor choice. They are, after all, human – and sometimes rapid adjustment is not available as a remedy. Decision-makers create and use budgets – but these are again based around ranges of possibilities and forecasts. One key question will always be how long does it take to realize something is not working as it should and changes must be made? It has been said that 'instant success takes time', implying a period of investment and belief as the basic groundwork is done to support change and new products – but how long a period?

Finally, it is worth mentioning the notion of an 'uneven playing field'. When thinking about expectations and targets there is an uncertainty over how hard (difficult) something is to achieve and the effort that will be required to achieve a particular target. If this is over-estimated those concerned will have something of a comfort blanket and earn their bonuses relatively easily; where it is under-estimated people may work incredibly hard but still struggle to deliver. While some attempt will always be made to factor in this reality, in the 'new normal' things change all the time. The betting industry is lucrative for a minority of punters and certainly for the informed businesses – we can see evidence all the time of teams and individuals who perform below their expected level and others who surprise everyone. Leicester City winning the English Premiership, for example, took most people by surprise.

We now move to the final chapter of the book where we reprise the thinking behind 'good strategy' and what it takes to be successful, but we also consider again the strategic realities of the 'new normal' and the eternal challenge of maintaining resilience in the face of uncertainty. Organizations must seek out and chase opportunities; but every opportunity carries a risk. Corporate life is uncertain.

Note

Given this chapter focuses on complex strategy, and thus covers cross-cutting themes and builds on previous chapters, we have not included a Research Snapshot.

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Summary

Strategies must be implemented if they are to be judged successful and effective, accomplished through the structural framework, as we have seen earlier. There are two key variables:

- First, the logic of the *corporate portfolio*. Is synergy a realistic possibility? Is the range too diverse? Is the portfolio built around activities and businesses with overlapping or similar competencies?
- Second, are the *structure* and *style* of management appropriate for the actual portfolio and its diversity? Does the style of managing the corporation ensure that the potential synergies are achieved?

Goold and Campbell (1988) have described three broad styles of corporate management: the *financial control style* akin to a holding company, the *strategic planning style* based on centralization and the *strategic control style,* which is a sort of half-way house that attempts to build on the strengths of the other two.

Defining corporate strategy as the overall strategy for a diversified firm, Porter described four approaches to managing a corporate portfolio. *Portfolio management* is the approach whereby each business is looked at independently to assess its worth to the firm; *restructuring* is the attempt to make an industry and a business more attractive by improving competitiveness – when an organization can no longer add any further value, the business should be divested; *sharing assets* offers the best opportunity for creating and exploiting synergy across a range of businesses; but *transferring skills* can also prove valuable. Goold *et al*. (1994) have highlighted the importance of *corporate parenting* – essentially, the fit between a head office and the subsidiary businesses in an organization and the opportunities for two-way benefits. Where each business can benefit from being part of an organization, and also make a positive contribution to the whole organization, we have what Goold *et al*. (1994) call a *heartland* of related businesses. Businesses should be acquired and divested to strengthen the heartland.

The *corporate headquarters* drives the strategy of the business and provides the structural framework. The range of services which remain centralized is a reflection of the adopted style of corporate management. Head offices should add value and not merely spend money earned by the subsidiaries. In recent years, head offices have been slimmed down.

In conjunction with decentralization, an appropriate role must be found for the general managers in charge of each subsidiary business.

To cope with the pressures and demands of contemporary business environments, Kanter (1989) contends that firms must be *focused*, *fast*, *flexible* and *friendly*, arguing that competitive advantage comes from how everything is integrated and works together. Handy (2015, but first articulated in 1994, 1995) suggests a more radical thesis and argues for *federal organizations*, where head offices are merely there to serve the needs of subsidiaries.

Successful strategy implementation requires that strategic resources be allocated and controlled efficiently and effectively. In reality, the availability and suitability of resources is a determinant of the feasibility of a particular strategic option. Of course, the existence of resources does not, in itself, guarantee effective implementation – resources have to be managed. In addition, resources should be flexible to allow adaptive and incremental change. We can think of *resource allocation* at two key levels:

- The allocation of *corporate resources* to particular businesses or divisions, based on perceived needs and priorities, and often linked to the growth of the business or industry in question.
- The allocation of *functional* resources to build and add value in order to create and sustain competitive advantage.

Policies are designed to guide the use of resources by managers.

Budgets are used to allocate resources for particular activities and tasks. Budgets, however, are often short term in scope and the measurement of performance against budget targets may be more an evaluation of efficiency in the use of resources than of longer-term strategic effectiveness.

Resource allocation and management reflects the way in which the organization and its managers deal with the risks they face, which is discussed further in the next chapter.

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Online cases for this chapter

Online Case 16.1: Hanson
Online Case 16.2: Three Diversification Strategies: BTR, Tomkins and Williams
Online Case 16.3: ICI and Zeneca
Online Case 16.4: The AA, RAC and Green Flag
Online Case 16.5: Black Cat/Standard Fireworks

Questions and research assignments

1 For which (general) corporate strategies are the financial control, strategic planning and strategic control styles of corporate management most appropriate?

2 How do you think the need for general managers may have changed as organization structures have generally been flattened and delayered?

3 Reflect on the work of Kanter and Handy in the late twentieth century – Section 16.3 in the text. What view, if any, has best profiled the nature of the modern organization?

Internet and library projects

1 Update the material on any or all of the four conglomerate businesses discussed in the two online cases on Hanson and BTR, Tomkins and Williams.

Using this and details of the corporate strategies pursued by other large companies with which you are familiar, which of the following two statements do you most agree with?

- 'Conglomerate diversification has now given way to focus strategies – focus is here to stay.'
- 'Focus strategies cannot generate sufficient growth long term to satisfy shareholders – diversification will make a comeback – and the era of the venture capitalist will wane.'

2 Take any large organization with which you are familiar. How have its head office structure and roles changed in recent years?

3 For an organization with which you are familiar, ascertain the main stated policies for finance, production, personnel and marketing.

How are these policies used? How were they created? How do they rate in terms of the principles of good policies discussed in the text?

4 Ascertain the budgeted resources and targets allocated to one manager whom you are able to interview.

What measures of performance are utilized? What feedback is provided? What does the manager do with the feedback? What do you believe is the personal impact of the budget and measures of performance on the manager? Are they motivated? Are they rewarded or sanctioned for success or failure?

Strategy activity

Apple

Apple has become a business valued well in excess of US$1 billion, yet it began in the 1970s in a garage in California, when two friends (the late) Steve Jobs and Steve Wozniak started making personal computers. The story is told in detail in Online Case 15.1, which you should read and update.

Some ten years later (and after Wozniak had left the business), Steve Jobs was forced out by a new CEO of what was now a public corporation. He then helped start other businesses, including Pixar (animations), which became part of the Disney Corporation, but by 1998 Jobs was back at Apple and firmly in charge. His earlier perceived weakness (attention to detail and the supply chain) was

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remedied by the appointment of Steve Cook as his deputy and Chief Operating Officer. The iPod, the iPad and the iPhone all followed and helped Apple become a global leader. Cook would eventually replace Jobs as CEO.

Question

In the early years, Apple was visionary and Jobs' focus was on directional themes. He arguably allowed operational weaknesses to threaten the future of Apple. Yet new CEOs, without his visionary capability but proven operational strengths, were not the answer. Would the history and later evidence have supported Cook's promotion to CEO? How has Apple been able to retain its visionary edge? Head designer Jonathan Ive (credited with designing the iPod, iPad and iPhone among other innovatory products) chose to leave Apple in 2019 to set up as an independent designer: how serious a loss for Apple might this prove to be?

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Chapter 17

The strategically resilient organization

PART 1
Understanding strategy
1 What is strategy and who is involved?
2 The business model and the revenue model
3 Strategic purpose

PART 2
Analysis and positioning
4 The business environment and strategy
5 Resource-led strategy
6 The dynamics of competition

PART 3
Strategy development
7 Introducing culture and values
8 Strategy formulation: strategic alternatives and decision-making
9 The role of planning in strategy
10 Strategic leadership, entrepreneurship and intrapreneurship

PART 4
Strategic growth issues
11 Strategic control and measuring success
12 Issues in strategic growth: Domestic and international
13 Failure, consolidation and recovery strategies

PART 5
Strategy implementation
14 Strategy implementation and structure
15 Leading change
16 Corporate level strategic management
17 The strategically resilient organization

STRATEGIC MANAGEMENT: AWARENESS AND CHANGE

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Learning objectives

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

- summarize the purpose of strategy and strategic management **(Section 17.1)**
- discuss the key elements of strategy **(Section 17.2)**
- explain organizational resilience; define risk; identify the risks faced by organizations, and discuss how they may be approached and managed; and examine their relationship to crisis avoidance and crisis management **(Section 17.3)**
- make sense of the various paradoxes that make mastery of strategy both complex and challenging **(Section 17.4)**.

Success is never final.

Winston Churchill

Things may come to those who wait – but only the things left by those who hustle.

Abraham Lincoln

Introduction

Strategy and our study of strategy is built around straightforward themes and principles. By breaking it down and studying these themes, we can start to make sense of what is really a complex subject with no obvious or guaranteed answers. In part, the complexity comes from a set of paradoxes or conflicting pulls that we have to deal with. Success in dealing with these makes an organization what we might describe as 'strategically savvy' – but there is also a need to be crisis averse in today's 'new normal' world. **Strategic management**, therefore, is a mix of idealism and pragmatism. Knowing what you should be doing, and how to do it, is not the same as actually doing it and delivering on intent and promises. Years ago, there was television series called *Tales of the Unexpected*; this title sums up strategy and strategic management.

In this final chapter, and before exploring the key theme of **strategic resilience**, we synthesize the main ideas from this book to reinforce them and also to address two questions:

1. What is strategy?
2. What is the purpose of strategy?

Here, we revisit the key issue of what 'strategy' and the practice of strategy really involves. Whittington (2001) is one author who has defined strategy and he has addressed the question of its importance; his prominence in researching 'strategy as practice' (see also Whittington, 1996) is highlighted in Chapter 1 in Critical Reflection 1.1 and also the Research Snapshot.

Many organizations now operate or compete in dynamic, turbulent, uncertain and chaotic financial and business environments which, in business terms, partly result from industries and markets becoming ever more global – as well as continual improvements in technology, *inter alia*, causing product, service and **strategic life cycles** to shorten. In addition there are unexpected events, which can range from local to global in their scale and impact. Organizations must, therefore, act, react and change more quickly, some changes being continuous and emergent, as vigilant, responsive organizations seize opportunities and innovate ahead of their rivals. Other changes will be discontinuous and imply changes in competitive paradigms. Technology can both create and destroy industries, markets and windows of opportunity, while **break points** – or switches to new competitive rules and agendas – happen increasingly frequently. Organizations cannot ignore this reality and the pressures that they bring, however disruptive the changes may be.

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As you have read through the first 16 chapters of this book you will have realized that products, strategies, business models and businesses themselves have finite lives. Some literally die at birth (or shortly afterwards), some are (or have to be) 'adopted' by a new parent, some disappear because they 'get sick', while others thrive for many years. Similar to people, the more successful ones grow, change their behaviour and accept that the world changes, forcing them to adapt accordingly. Throughout their lives, people (and organizations) have to deal with surprises and unexpected events which might sometimes be described as setbacks and sometimes as crises. Consequently they need to be (as far as possible) 'future-proofed', as we discuss in Section 17.3. This 'readiness for uncertainty' embraces both direction (for the organization) and operations, particularly vis-à-vis supply chain continuity, information and communications and people flexibility. Although we discuss the vital importance of organizations being able to deal with crises when they occur, strategic resilience is much more than this **crisis management**. It encompasses crisis avoidance (as far as one ever can) and **risk management**; and it implies 'staying ahead of the game'. Organizations need to be able to always be alert, discern trends, spot opportunities, build their resource strength, find new customers and outperform competitors who might be a threat to their prosperity and maybe even their survival.

We can think of an alternative metaphor. While the timescales might be beyond our understanding, species in nature survive by becoming stronger and developing to be better able to deal with natural trends and changes in the environment. All the time they have to deal with potentially destructive forces; these can include anything from severe weather to other predators that will kill and maybe eat them if they catch them. Similarly, trees and other plants find ways to reseed after natural disturbances. Organizations operate in a business environment that both changes and exhibits turbulence and uncertainty. They are also subject to competition from businesses they recognize and know (that want to simply steal their customers) and other businesses which create new business models that 'change the rules' such that customers lose interest in existing products and services. In this chapter, we reaffirm the importance of establishing and (with changes) maintaining E–V–R congruence; and in this context we would refer you back to Figure 4.3. The current link between resources and opportunities is always under some threat from competitors and other forces that can either threaten organizational resources or create new value that persuades customers they are offering something more compelling than what you are offering.

In summary, strategic resilience is about the ability to withstand shocks. Historically (see, for example, Bourgeois (1981)) the term 'organizational slack' has been used to explain the potential value of spare capacity, redeployable resources and financial reserves to provide what amounts to 'wriggle-room' in the face of uncertainty. However, in today's world, many would see such slack as unnecessary under-utilization of resources. As a consequence, the emphasis will be on flexibility and speedy response, which takes us right back to the sub-title of this book: Awareness and Change.

17.1 The purpose of strategy

In the simplest terms, the purpose of strategy is to enable organizations to cope with the challenges of an uncertain, dynamic and (for some) competitive 'world', to find and seize fresh opportunities and, thus, to deliver an acceptable and sustainable level of performance. It may seem simple! In reality, it is more complex and requires vision, attention to detail, and constant vigilance and flexibility.

Famous and long-standing organizations, such as Coca-Cola, Microsoft and Walt Disney, continue to survive these break points, sometimes actually creating them. As a result, they thrive, grow and prosper and exploit their competencies and reputation. They create Environment–Values–Resources (E–V–R) congruency and sustain it with carefully managed change. Figure 17.1 returns to our original presentation of E–V–R (in Chapter 1) and offers two fresh presentations. The first (Presentation A on the left) takes a more entrepreneurial perspective than Presentation B (on the right), which is more cautionary and in line with the resilience theme of this chapter. Presentation A gives E–V–R a future orientation by replacing 'Values' with 'Aspirations'. The figure might actually be titled 'Moving to a new ERA', as it looks at the notion of maintaining congruence by merging opportunities (in the ***e***nvironment) with both existing and new strengths and capabilities (***r***esources) in line with ***a***spirations. Aspirations may or may not imply growth, as we have discussed earlier in the book; they should certainly embrace sustainability. Presentation B is more pragmatic and, in effect, demonstrates that aspirations (with an opportunity-driven approach) and backed up by innovation must never sacrifice resilience.

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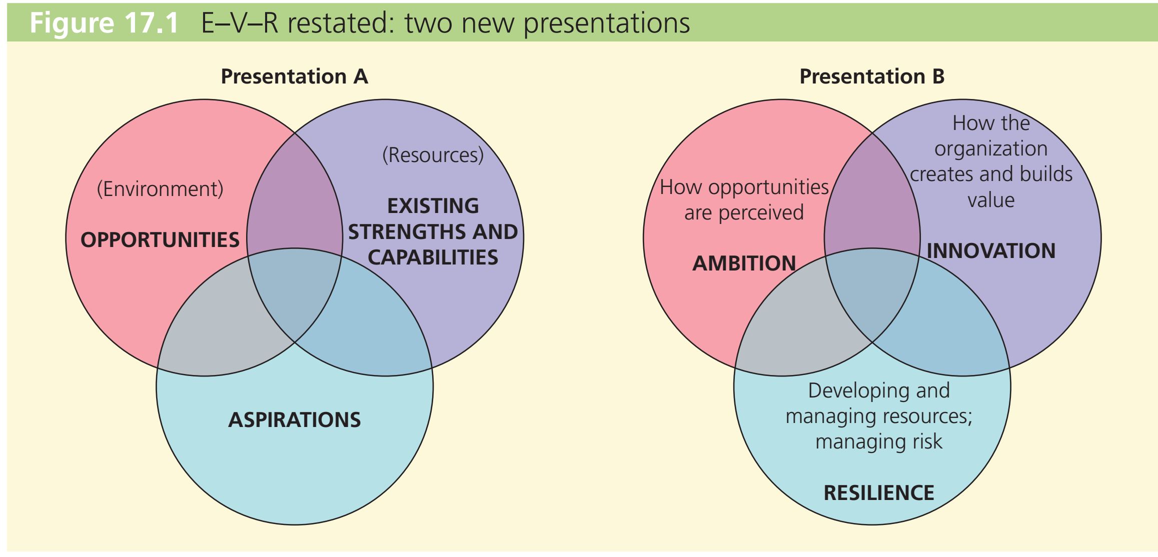

Figure 17.1 E–V–R restated: two new presentations

Outstanding organizations can be many things – perhaps entrepreneurial, perhaps professional – and are exceptional. We can learn from their actions, strategies and behaviour, although it will always remain difficult to explain fully all of the reasons for their success. Simply attempting to copy their behaviour is not an adequate answer to the challenges facing organizations.

Other companies grow more steadily and uncertainly, never seeming to have the same command over their environment. Nonetheless, they do survive – partly with innovation and partly with contingent reaction. Other organizations survive for some period of time, but then decline as they lose E–V–R congruency; others still only survive with a change of leadership, style and culture. However, some businesses disappear every year, some due to takeover or liquidation. It is, therefore, all too easy for currently successful firms to lose their edge and their competitive advantage, due to four main reasons (Miles and Snow, 1994):

- a lack of awareness and a failure to be alert to new opportunities and threats
- retaining a belief in a successful competitive paradigm for too long, which market leaders seem particularly prone to do by relying on *continuous* change to retain their leadership
- an unwillingness to accept the need for structural or cultural change
- poor judgement, causing a company to make poor, inappropriate decisions.

There are important lessons to be learned from their relative demise, and we can see how these four reasons relate to four key themes in strategy: strategic thinking and awareness, competition, strategy implementation and strategic decision-making.

Two related but distinct perspectives allow us to examine strategic effectiveness, the first being about success and the second about survival:

1. What reasons lie behind the relative prosperity of our most successful organizations – those which continue to add value for their customers, differentiate their products and services, and control their costs?
2. What factors distinguish a crisis-averse from a crisis-prone organization (i.e. lurching from crisis to crisis, never really managing its environment)?

While it is arguably fashionable to talk about competitiveness, competitive advantage and success, it is less fashionable but equally important and relevant to explore the issues behind crisis aversion – given that too many organizations hover on the narrow line separating survival from failure.

Organizations are systems that comprise people who are trying to act purposefully, rather than thrash around without any real purpose (Checkland, 1981). However, people differ in their perspective and perceptions, and use their personal meaning systems to interpret events, actions, opportunities and threats, and to decide on responses. While their personal strengths must be captured and exploited, organizational information systems

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should ensure that they work within the parameters of the corporate purpose, vision and policies, and that their initiatives and contributions are shared and understood.

Remember opportunity and risk: success over time requires organizations to be entrepreneurial, to find new opportunities and to manage the inherent and inevitable risks.

The new technological revolution and the increase in globalization have forced change on organizations everywhere, regardless of their type, size and sector. Few are unscathed, some have embraced change positively and willingly, and others more reluctantly. Those who have failed to change have probably been sold or liquidated, leading perhaps to a more flexible but slimmed-down workforce.

On the positive side, many managers and employees are better educated, given that they are information technology (IT) literate knowledge workers in a knowledge-based society and, indeed, some of them possess scarce skills. In some organizations, people have become less constrained and more empowered, willing to be creative and show initiative in a more open, less hierarchical firm. And, of course, COVID-19 forced more home-working, which some people were keen to give up and return to their offices and colleagues, while others had developed a preference for working from home. Finally, information often flows more horizontally and freely, enriching and speeding up decision-making.

In addition, many workers are now part-time and 'peripheral', as opposed to 'core'. When re-engineering their processes and changing their structures, too many companies went too far – they downsized but not '**rightsized**', and important skills and competencies were lost. Indeed, strategies focusing on core activities and competencies by divesting those which are non-core have created an increasing incidence of strategic alliances and networks. Managing these networks effectively demands new capabilities, which many organizations have failed to develop fully. People today feel under greater pressure and stress, and there is more fear and insecurity. To some extent, the bounty of globalization and technology is stress. 'Hard', as distinct from 'soft', human resource strategies are practised in too many companies, and many employees – instead of committing themselves to a single company – look to switch organizations and industries as they take more control of their working lives, despite widespread managerial unemployment and insecurity.

Sadly, many large organizations, composed of very intelligent people, are still slow to respond to change pressures and, when they do, their behaviour is often ponderous. In the new world of rapid change, having the 'right' strategic leader is ever more important. Individuals can, and often do, act dynamically and entrepreneurially; yet, many organizations have still to work out how to capture the intelligence and learning in order to facilitate the change process, and still do not manage their human assets well. Thus, the paradox of the large organization is learning how to behave like the archetypal small business. The problem of embracing both the 'hard' and 'soft' elements of strategic management to increase strategic awareness and manage strategic change more effectively remains a major challenge for many organizations, and is more likely to intensify than to disappear.

Hence, we next identify ten key elements of strategy, then explore resilience, risk management and crisis aversion, before finally reviewing the strategic paradoxes already debated throughout the book. We conclude with a summary view on what strategy is and the practice of strategy.

17.2 Ten key elements of strategy

Figure 17.2 shows ten elements of strategy discussed at various points in the book which help us to understand the breadth and complexity of the subject: the first six (in the central box) are interdependent and, if interwoven effectively, the organization should be more crisis averse than crisis prone; the remaining four elements impact on the whole process of strategy creation and implementation:

1 **Perspectives of strategy** Strategy can be about the past (emergent patterns from previous decisions), the present (strategic positions) and the future (strategic plans), or at the levels of broad purpose and narrow tactical ploys. Such perspectives are relevant to the debate about what strategy is, since its relevance varies: for the strategic leader, it is the overall corporate strategy for the whole organization; for other senior managers, competitive positions and the competitive strategies determining its competitive advantage; for lower-level middle and junior managers, activities and functional strategies, but they must understand the wider picture and the contribution that they make.

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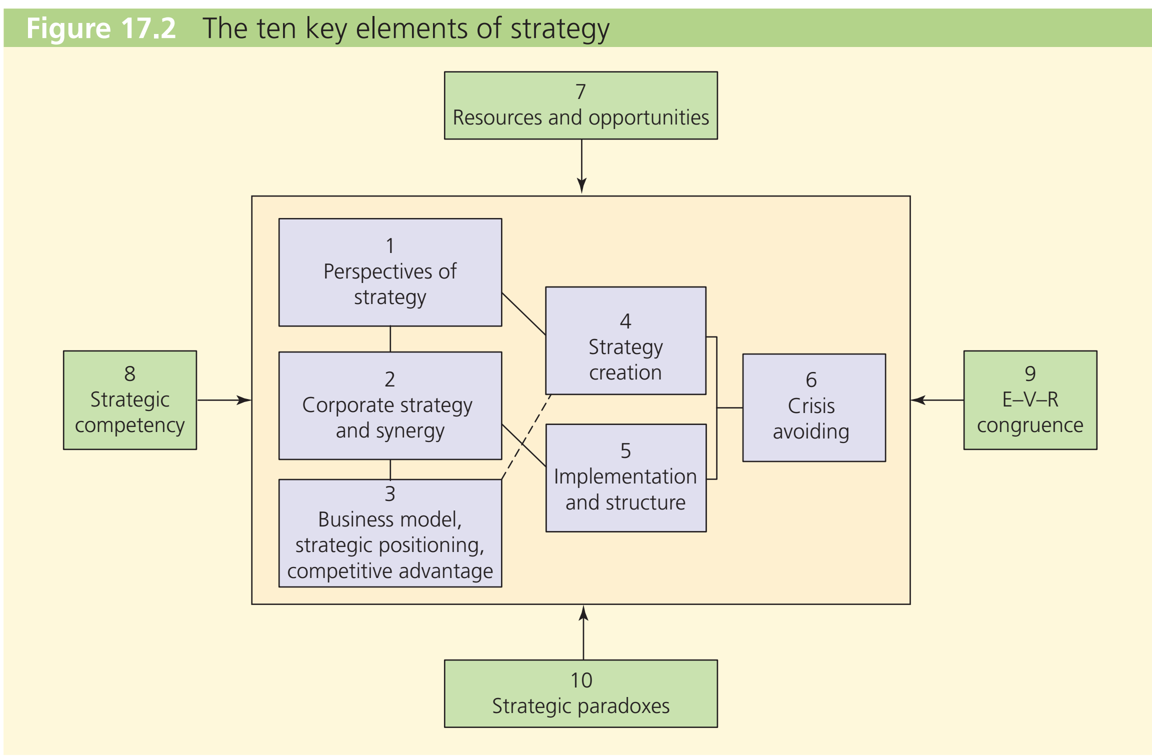
Figure 17.2 The ten key elements of strategy



2 **Corporate strategy and synergy** As discussed towards the end of the book, we need to ask whether or not there is a logical and defensible heartland of related businesses comprising the corporate portfolio. This determines if, in an ideal scenario, each business is individually competitive and successful in its own right, while contributing synergistically to the corporate parent and to other businesses in the portfolio – with the parent organization equally being able to contribute value to each business.

3 **The business model, strategic positioning and competitive advantage** To be successful and to achieve competitive advantage, each business or activity will need to establish, and sustain with change, a clear and strong competitive position, delivering either a cost advantage (compared with rivals) or a differentiated position which customers perceive as relevant and valuable – or, ideally, both. Its competitive advantage is the position itself, but comes from the activities – competencies and capabilities – creating and sustaining the position of advantage. In turn, this aspect determines the ability of the organization to create and add value for all its stakeholders.

4 **Strategy creation** Strategy creation is about change and, consequently, the organization's approach is dictated by the strategic leader and influenced, and possibly constrained, by the culture of the organization. Three broad approaches were identified: (i) **visionary** or **entrepreneurial strategy** creation, itself a reflection of strong strategic leadership; (ii) *planned strategy*, the outcome of analysis and possibly the outcome of a planning system (which, with *visionary strategy*, reflect intended strategies); and (iii) emergent strategy creation, which takes two forms: incremental changes to intended strategies during the implementation phase, and adaptive strategy creation in a dynamic and turbulent environment. Organizations need to find an effective blend of the three, all of which are likely to be present to some degree. Remember the challenge of distinguishing between strategy and tactics (actions and activities), and how we explained in Strategy in Practice boxes 3.1 and 8.1 that tactical decisions can drive strategy – rather than, as is often assumed to be the case, the other way around. Strategy in Practice 17.1 revisits the theme.

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Strategy in Practice 17.1 Reflections from Formula 1

Formula 1 motor racing is fast, competitive and exciting. Fractions of a second can differentiate race winners from the rest of the field. It is international and involves 'big money'. Some of the world's leading companies are involved as both competitors and sponsors. The sport's governing body places constraints on design, tyres and other operating elements to make sure there is real competition and racing. The quality of the cars (technology and design; performance and reliability), the individual drivers and the behind-the-scenes teams all affect the outcomes. But so, too, do luck and circumstance.

Something unfortunate can happen to any driver or their car in any race – the leader may have a puncture (foreseeable but unavoidable); they may run out of fuel (foreseeable and avoidable). This can deprive that driver of a win that seemed to be theirs; at the same time, it can also present a wonderful opportunity to any rival in a position to capitalize. Equally, a driver can be taken out through no fault of their own if, say, someone drives into them. Any driver can make a mistake in a split second misjudgement. If the car ahead runs off the road momentarily, the car behind will probably have to swerve; this can be threatening but it can also be an instant window of opportunity to seize an advantage.

Now, take as a potential scenario that a safety car has come out after some incident and is slowing down the race. Drivers are required to stay in race order – unless they take the opportunity to do a pit stop and change their tyres – but the gaps between the cars will close. Hard-won advantages by race leaders can easily be lost. Yet, a tyre change is a typical strategy for drivers to choose if they are likely to have to take a stop at some point later in the race. Let's say the race leader – and maybe the car in second place – both opt to take pit stops (expected) but the driver in third place does not (unexpected). Once the race resumes, this 'third place' driver will now be at the head of the field with clear track ahead – he could surge ahead and open up a lead. If he can delay his next pit stop – or even avoid it – he could have a massive advantage. It is a huge gamble – one affected by the stage of the race and the state of their tyres and fuel – but it could pay off. Clearly, once any decisions are made, they will be known to the rival competitors who are in a position to evaluate any potential consequences. Any reactions will have to be almost instantaneous. There is, therefore, an opportunity to take your rivals by surprise – but also the potential to be surprised.

All drivers and teams will start with a race plan or a strategy for how they plan to race. There will be policies for how they deal with certain incidents, such as a safety car. Sometimes they will follow this plan to the letter; sometimes they will make changes. Who decides this – the driver or the team boss? And how long may they have to make up their mind? In practice, the team boss in the pits has access to detailed information about their own drivers and the position (and some of the tactics) of every other driver in the race. They have a 'big picture' that it is only available to an individual driver from the pits via communication channels. But the driver is the person who can see what is happening directly around them in real time and has to deal with it instantaneously. The two must work together.

This scenario illustrates opportunity and risk. Experience will help with the decision – but the 'right' decision (right with hindsight!) requires far more than experience.

5 **Strategy implementation and structure** Strategies must be implemented before they can be deemed successful and, while organization structures are designed to ensure that intended strategies can be implemented effectively, the very operation of the structure is the foundation for emergent strategy creation. This element is naturally connected to the relative significance of centralization and decentralization and the extent of manager empowerment.

6 **Crisis avoidance** If these first five elements are being dealt with effectively, the organization should be relatively crisis averse in a dynamic environment; if they are not, the organization is likely to be more crisis prone. We elaborate on this key determinant of strategic resilience below.

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7 **Resources and opportunities** Three approaches to the management of strategy, while different but not mutually exclusive, comprise: (i) the **opportunity-driven** approach, beginning with a scan of the external business environment to seek new opportunities to be exploited; (ii) the **resource-based** approach, simultaneously attempting to open windows of opportunity because they possess (or can obtain) the necessary strategic resources, and exploiting further their distinctive competencies and capabilities; and (iii) the **competition-based** approach, more tactical and reactive in nature, concerning the ability and willingness to deal with competitor tactics and initiatives.

8 **Strategic competency** Going beyond core (technological) competencies and strategic (process) capabilities discussed above, strategic competency embraces everything an organization must be capable of doing effectively, or at least satisfactorily, if it is to survive, grow and prosper – for example, strategic thinking, stakeholder satisfaction, the capability to deliver consistent quality, change competencies, social responsibility and crisis avoidance (see Thompson and Richardson, 1996).

9 **E–V–R congruence** Successful organizations create and sustain congruency between the external **environment** (the source of fresh opportunities and threats), their **values** and their **resources** (competencies, capabilities and strengths) governing their ability to change continuously (incrementally) and discontinuously (occasionally to new competitive paradigms).

10 **Strategic paradoxes** Discussed in more detail in the final section of the book.

17.3 Resilience, risk and crises

Strategic resilience is concerned with preparedness for surprises – and the speed and nature of organizational responses when shocks and surprises happen. COVID-19 showed that trouble can strike at any time – and come from almost anywhere. In Chapter 4 we described COVID-19 as a 'black swan' event – because it came as a surprise and had a major impact.

Shocks (and the crises they cause) can affect a wide range of people and multiple organizations – as, obviously, was the case with COVID-19. Sometimes, of course, they affect just one organization. This might be 'you' but, equally it might be 'someone else' – but that 'someone' could be an essential part of your supply chain. These all suggest threats, whereas a crisis that affects a competitor can provide an opportunity for an organization that is vigilant and prepared to act quickly. The latter scenario further suggests there is an element of luck involved – but bad luck doesn't stop something being real and critical for someone. Cases 17.1 (The UK COVID-19 Vaccination Programme) and 17.2 (Ubuntu Beds) cover these themes.

While it is not realistic to believe that any organization can ever be prepared for every eventuality, there are some behaviours that will increase its readiness. Typically, these are rooted in people – so when crises happen, engagement, communications, sharing (information) and trust all matter. And these embrace internal and external stakeholders. There is a further argument that organizations with a clear identity, image and purpose (that people inside and outside the organization understand) have something of an advantage. Organizations and people who are opportunistic and innovative, willing and able to act quickly in the face of threats and opportunities, should also have an advantage – and here the structure would be enabling effective strategy to happen. However, one of the important elements of the response to COVID-19 (in the UK, certainly, but many other countries as well) was the switch from office to home working for many people. Instead of being able to meet 'round a table' and make collective decisions as a group, people now relied on Teams and Zoom meetings 'at a distance'. This worked well for some (who saw it as a genuine opportunity) and less well for others who felt more isolated. In this context, de Smet *et al.* (2021) discuss 'future-proofing', arguing that these COVID-related changes have, for many organizations, improved information sharing, while, at the same time, raising issues of effective talent management. How easy or difficult is it to develop staff and managers if they are working remotely?

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Case 17.1 The UK COVID-19 Vaccination Programme during 2020 and 2021 UK

This case was written in 2022 and was, at that time, up-to-date. However, readers will realize that it deals with a fluid and fast-moving situation. It can be discussed as it is presented (as there are clear themes, decisions and lessons to debate) or updated to reflect new decisions that were made to deal with the emerging (at that time) Omicron variant – and any subsequent variants.

COVID-19 was a shock that, at some level, surprised everyone. Pandemics might be predictable, and some contingency planning might be possible and relevant, but it was hardly a surprise that the UK (like every other country) was not prepared for what would follow. It was not too long before the National Health Service (NHS) was effectively overwhelmed with all beds taken, and many of the intensive care beds, sometimes most of these, reserved for coronavirus patients. Relevant death rates grew; the Prime Minister caught COVID-19 and was seriously ill in hospital for a period. It would be realized (but not at the outset) that large numbers of people can be infected but asymptomatic, and that some people are affected much more severely than others. All the time doctors were learning about the most efficacious and effective treatments. The UK Government and the NHS had to react, and fast, and dramatically, sometimes with more successful outcomes than was the case on other occasions. Different countries around the world adopted different strategies, with varying outcomes. Countries compared their data, although whether everyone was collecting data in exactly the same way was an issue in drawing firm conclusions. Alongside, for the UK, Brexit was a distraction for several months.

It took some time to secure enough supplies of appropriate quality PPE (personal protective equipment). There was a shortage of ventilators (required for the most seriously ill patients) and various companies were approached to bridge the gap; some of them had never made ventilators in the past. The media suggested that mistakes had been made in the selection of suppliers, and that unnecessary spending had taken place. In other words, there had been waste. That said, decision-makers were under pressure and short of essential information. The (essential) Test and Trace system also took time to become properly established, and it has never been free of criticism. It is a complex challenge, of course. Not everybody wants to be found, given the outcome is self-isolation – but we might assume most people will want a vaccine that works. The Government was criticized for its timing of lockdown requirements and border controls, but praised for its willingness to pay for employees to be furloughed and for its loan and grant schemes for selected businesses. Again, accusations of mistakes and waste were made. Medical, social and economic elements all came together. The level of Government borrowing soared to unprecedented levels; the economic consequences could and would be dealt with later. Schools and universities were largely closed for in-class learning, and many businesses switched their employees to home-working. Washing hands and staying at home became ubiquitous; eventually, wearing masks in public places was added to this. Public transport continued, but with few passengers. Hotels, pubs, restaurants, shops, theatres and hairdressers were sometimes closed, sometimes open.

There were daily televised briefings, involving scientists and ministers. The politicians and the scientists joined forces. Each had their own 'world view' but a shared perspective on the outcome they sought. Decisions were declared 'science-led'. That said, the Government could never do enough to satisfy everyone. New Nightingale Hospitals were designed and built very quickly with help from the Army. However, while there was physical bed capacity, if they were to open and take patients, already over-stretched medical staff would need seconding from their existing positions. Although some staff did come out of retirement to help, some of these staff succumbed to the virus and needed to self-isolate at home. In the end, the capacity offered by these new hospitals was never taken up and most were closed. Different countries shared knowledge and expertise, but everyone was on a steep learning curve.

It soon became apparent that the 'way out' would rely on a successful vaccination programme. Typically, and historically, it has taken at least three years to develop and test a new vaccine and get certification from the relevant country authorities. Although past research had prepared the 'basic groundwork' for creating a new vaccine for a coronavirus, there had never been one developed for COVID-19. But the comment that 'no one would be safe until everyone was safe' (around the world) reinforced the urgency of the researchers' challenge. Once a vaccine was created, tested and available, the faster people could then be vaccinated

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with it, the quicker the country could return to some sort of stability and normality.

As well as development and testing, there were other issues to deal with: manufacturing and transportation, opening and staffing vaccination centres, recruiting staff and volunteers, designing a vaccination programme when priority groups have to be selected, and persuading people to be vaccinated, were all obvious challenges. Additional challenges included managing second doses of vaccines where two were required for the desired level of protection, and doing these follow-ups when many people were still waiting for their first one. Later, preparation was needed for a third booster jab to help deal with the increasing number of coronavirus variants that were emerging. It became apparent that, once the Omicron variant was spreading rapidly late in 2021, three jabs were required for effective protection. And, as this happened, it also became important to check that particular vaccines available were efficacious with the new variants.

Individual country programmes would be part of an international effort; some countries would be perceived to be 'doing well' while others lagged behind. Manufacture would not necessarily be in countries where the actual vaccines would be used – typical of multinational business. Universities would work with pharmaceutical companies – large international ones and smaller biotech businesses. The vaccines would help certain pharmaceutical and bio-tech businesses to earn 'serious money'. There would be friendly competition. Speed was essential, but safety, quality and rigour could not be sacrificed. Buyers would be governments – and political themes would intercede.

In May 2020 UK Prime Minister Boris Johnson appointed (with no formal selection process appearing to be involved) Kate Bingham to run the country's vaccination programme. Johnson, allegedly, used the phrase: 'We need to start saving lives and I need you to help.' It would be a form of secondment. Bingham, a qualified scientist with an MBA, currently managed a healthcare venture capital investment fund. Some 'eyebrows were raised'. Bingham was a friend of the Government's Chief Scientific Adviser, Sir Patrick Vallance, at one time unknown to the general public, but now a recognized figure through his frequent appearances on the televised coronavirus briefings. Moreover, she was married to the Financial Secretary to the Treasury. Through these links, of course, she was extremely well connected with the people she would need to know – and she did prove to be an outstanding appointment! She was able to appoint her own team to work with her.

In parallel, but separately, a research team at Oxford University, spearheaded by Professor Sarah Gilbert, had begun to invest their energy and effort to build upon their past research and create a new COVID-19 vaccine. To speed up the process they took (calculated) risks. They had faith in what they were doing and achieving, and opted to move from phase to phase with modest sample testing. They continued to gather more results to confirm their belief, of course, but they did not wait to move on until all the evidence was available. In the event, their ongoing testing confirmed this was a sound approach that sped up the process. They did not cut corners; they simply carried on knowing they might have to abandon something and start again. A real example of trial and error. Funding for their research was essential and a genuine challenge. Grants from private foundations as well as some Government funding helped. As did securing advance orders from Kate Bingham's team. Oxford University, of course, was never going to be in a position to manufacture vaccines in any real quantity, and for that they would need to find a partner. This partner was UK pharmaceutical business AstraZeneca, which could provide capacity in various plants and locations. When put in the context of past practice for vaccine development and approval, the process was remarkably fast and this, in part, reflected the resourcing and the commitment by the research teams.

One key reason the UK was successful – one of the most successful in the world – with its vaccination programme was that it bought speculatively and secured a substantial early supply of vaccines (by pre-ordering before vaccines were fully tested and approved) in large numbers. The Government actually placed orders with six different suppliers – with some inevitable pre-payments. By doing this it took risks, but it also spread the risk. It was opportunistic and entrepreneurial while planning to make sure there would be enough vaccines when vaccines became available. Multiple vaccination centres were opened – in phases. The programme was emergent and sought to match demand and supply. Large regional centres were opened in such places as arenas and large car parks – along with football stadiums and hospitals and small local ones in doctors' surgeries. NHS staff were inevitably involved in certain roles; many volunteers came forward, including a handful of well-known celebrities. At one centre, people were surprised

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to be assisted with car parking by the fictional Earl of Grantham from the long-running UK drama, *Downton Abbey*. The first vaccine (outside of the actual testing programme) was issued in Coventry in early December 2020; three months later around half the adult population in the UK had had their first vaccine. The programme was in part linked to age (with the oldest first) and with additional preference given to all NHS employees and those vulnerable people with certain underlying conditions. Individuals were sometimes told 'when and where'; at the same time, they could take some responsibility and book themselves a time and place – as long as they qualified. One year later well over 100 million vaccines had been administered in the UK. Some people had one, most two, and an ever increasing number, three jabs.

The first vaccine to receive regulatory approval (in early December 2020) was the one developed jointly by Pfizer (a US pharmaceutical giant) and BioNTech, a much smaller, specialist, research-focused organization. Two jabs were required, the second one between 3 and 12 weeks after the first. The first jab gave good immunity; the second reinforced and built higher immunity. Results would show this to be a particularly effective vaccine – but it was one that needed to be stored at a temperature of –78 degrees centigrade, and therefore needed to be kept in a particular type of freezer at all times until it was administered. It was also relatively expensive, at just under £30.00 per dose. The second vaccine, which was just behind it vis-à-vis approval, and which would also be approved before the end of the year, was the Oxford University/AstraZeneca vaccine, which was stored at 'normal' fridge temperatures. This vaccine gave high effectiveness, but its protection was (slightly) less than the Pfizer vaccine. However, at £2.23 per dose, it was under a tenth of the price. The UK Government had placed pre-orders for 40 million Pfizer and 100 million AstraZeneca vaccines. Six more vaccines were in the pipeline, at different stages of development/approval; altogether the UK had another 300 million on order. At least one of these (from Janssen) only required a single jab. That said, the positive number of orders would not, in itself, guarantee 'right number, right place, right time'.

Vaccines have to be **efficacious** – they have to work and be safe to have – if they are to be approved. But how **efficient** are they? Ease of manufacture (affected by the availability of the constituents), transport and storage are critical here – as they affect the cost and price. The ensuing protection rate then determines how **effective** the vaccine is. Any concerning side effects are also relevant. Ongoing, effectiveness is also dependent on the ability of a particular vaccine to remain efficacious (perhaps with improvements and 'tweaking') as new variants of COVID-19 appear – such as the Beta, Delta and Omicron variants – as the virus mutates.

Large drug companies are international; they spread R&D work and manufacturing plants across various countries. Some COVID-19 vaccines are manufactured in the UK – but not all of these will stay in the UK. Similarly, the UK buys vaccines manufactured overseas, from, for example, Belgium and India. An international body (COVAX) has been established to co-ordinate international distribution, and help poorer countries obtain vaccines for their citizens, which the UK Government (and AstraZeneca) supported.

The European Commission (of the EU) took responsibility for Member States, but it was more risk averse and reluctant to place orders before approval. In part because AstraZeneca vaccines (which had been pre-ordered) were being moved from Belgium (where they were being manufactured) to the UK, this led to some friction between the EU, France and Germany and the UK. By not taking risks and pre-ordering, the EU had, it appeared, created a self-imposed crisis. Suddenly, politics and image protection were significant variables. Reported concerns about possible side effects (blood clots in younger women) – albeit in very small numbers – led to some countries refusing to use the vaccine for certain age groups; some of these decisions were partially overturned when (subsequently) the European Medicines Agency concluded there was no case to be answered. There was, they said, a far greater risk from COVID-19 than from a possible side effect. That said, the publicity had raised concerns among people in the community, and some were now reluctant to be vaccinated. Public trust was being eroded and this could have dangerous consequences. Would this be 'music to the ears' of people who are against vaccination? Might it even draw suggestions that the AstraZeneca vaccine had been fast-tracked such that scientists didn't pay great attention to every small detail?

Kate Bingham stepped down from her role early in 2021, handed over to her deputy, and returned to her venture capital post. One might say '**her** job was done'. But **the** job was not yet complete, by any means.

At this time, many millions of people around the world still needed their first jab. All those needing a second jab had a window of time in which to receive it.

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All the time new variants of the virus were emerging, and it was clear that booster jabs would later be required. The COVID-19 jab might be an annual event, along the lines of flu jabs. Some people were reluctant to be vaccinated; of these, some actively campaigned against vaccination. During 2020 many residents in care homes had succumbed to COVID-19, leading to lockdowns and no visitors. When it emerged (in 2021) that some care home staff were not vaccinated, and did not want to be, there was something of a groundswell of (controversial) opinion that vaccination should be a requirement for a job in a care home. Later, in 2021, a difficult decision was made – staff who worked in care homes and (later) front-line NHS workers had to be vaccinated or they would lose their jobs. Much later this restriction on front-line NHS staff was removed.

At the same time during 2021, the issue of whether people would need proof of vaccination (a 'Vaccination Passport') if they were to be free to travel internationally, became a discussion point – and a reality. These passports would also (at various times) be required to gain access to venues where large numbers of people were gathering together or, eventually perhaps, even to cafes, restaurants and bars. This was in the form of a paper copy or, for many, a record on their smartphone. The situation was, and would continue to be, fluid for a long while – but, at least, from a very strong base.

Question

The main question for this case is open-ended. Think about the extent to which you believe the COVID-19 vaccination programme justifies stating that – with this programme – the UK Government proved a genuine degree of agility and resilience. What, for you, are the most significant and obvious themes of strategy and strategic management that are in evidence? What are, again for you personally, the most important lessons? And how might these lessons aid future preparedness for anything similar that might occur?

Footnote: AstraZeneca

The UK Government, anxious that a UK pharmaceutical company would partner with Oxford University to help develop an effective but low cost and affordable vaccine, had encouraged AstraZeneca to become involved. The contribution was 'at cost'; no profits were being generated for the company and its shareholders. There was the potential for excellent publicity and reputational benefit, but there was an opportunity cost from the profitable business that was being sacrificed. Ironically, having developed a low-price but effective vaccine remarkably quickly, AstraZeneca found itself being criticized by European governments for 'over-promising and under-delivering'. It was accused of reneging on supply agreements. The company had become 'a political football in a European blame game'. Some commentators in the media questioned the safety of the vaccine, although the relevant scientific community was overwhelmingly supportive. This possibility was influenced by the speed at which trials had taken place and the numbers engaged in them. In essence, if a single person in a modest (but still rigorous, reliable and successful) trial showed a possible bad side effect, that provided a great negative headline. But as the trials continued and a vaccine was rolled out, with very few (if any) similar incidents, the likelihood of the side effect would be shown to reduce. That said, it did mean AstraZeneca was 'on the front pages' day after day, and some of the reporting was not necessarily positive. Scientists are not necessarily good at media communications; they would rarely be asked to do it. COVID-19 was different, and they were on a steep learning curve.

In the United States, AstraZeneca was criticized for not having supplied all relevant data when applying for authorization. This meant a delay in approval. Late in 2021 it was still not formally approved, although, when overseas travellers were allowed back into the United States (in November) the AstraZeneca vaccine was included on the 'OK list'. It seems that, in the end, the problem and delay in the United States was linked to (relatively minor) variations in effectiveness levels for different age groups discovered during trials. This outcome was in part affected by different batches

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being tested and there being some inevitable (minor) variations in the properties of the different batches. This controversy was additional to the suggestion that there might be a link with blood clots, mainly affecting women of a certain age group. But why had an issue been made, and made so public? Some commentators mused that in the United States there might have been an element of payback from seven years earlier, when AstraZeneca had fought off an acquisition bid from its US rival, Pfizer. UK investors and shareholders might have benefitted from the sale of the business at that time, but there was some desire for the company to remain British. The origins of Zeneca – before its merger with the Swedish company, Astra – were in ICI, historically a giant of the UK chemical industry. Parts of the UK media further speculated that, in the EU, it might be a convenient attempt to cover up blame for misjudgements. Regardless, there were consequences from these actions.

While a handful of commentators did suggest that the company's best strategy, following the criticisms, would be to, in effect, 'walk away', there were many others who said that AstraZeneca, a business with no previous experience in the manufacture of vaccines, could and should be very proud of what it had achieved. AstraZeneca, it seems, was able to declare that 'it had saved one million lives'.

Question

Check what has happened with AstraZeneca during late 2021 and to date, and consider whether you would describe the business as resilient, based on its contribution to the COVID-19 vaccination programme.

Nichols *et al*. (2020) suggest that the necessary urgency of decisions and actions is making speed more important and precision less significant. After all, choices can be adapted and tweaked, but action cannot be delayed without risking a situation deteriorating rapidly. Organizations and their leaders need to be bold; some leaders have needed to adapt their behaviour, possibly in ways they have not been comfortable with. We discussed the significance of sense-making in Chapter 14; speed demands an ability to 'see what the information is telling us' (to the extent that we can, of course).

Resilience is, therefore, linked to strategic agility in the face of (realistic) expectations in a very uncertain world. It is, perhaps, why some commentators suggest an aspiration to be Number One or Number Two in an industry (or segment) should now be replaced with an aspiration to be in the top quartile. Aspirations should be authentic (realistic) and hubris (being too self-confident) avoided. This point can be linked back to Section 16.4 in the previous chapter where we argued that only a minority of businesses are typically delivering high growth and profitability. It would also reinforce the arguments we have made earlier about the willingness to walk away from some strategies that might have worked well in the past – and could conceivably work well again in the future – but at the moment are no longer relevant. We have argued that deciding what not to do (or what to stop doing) is sometimes more important than deciding what to do.

Kolter (2020) discusses the relevance here of the strategy adopted by investor Warren Buffett. Buffett started his investment vehicle, Berkshire Hathaway, in 1965; a one-dollar investment at this point is now worth $27,273 – in comparison to the Standard and Poor's 500 (the S&P stock market index) which increased from $1 to $198 in the same period. Buffett's strategy was to avoid businesses where future value was (particularly) uncertain through volatility and to look for those with a (relatively) reliable cash flow. As one example, he invested heavily in Coca-Cola, which he saw as an always popular 'staple' product. Buffett has always preferred businesses that stay focused and 'stick to the knitting'. He also invests with the long term in mind and believes in patience. He is also, it seems, drawn towards businesses that look after all their stakeholders. Nichols *et al*. (2020) make a related point when they emphasize the importance of factoring in environmental issues and concerns.

I run a very large organization; and I spend all my time thinking about what might come up … and the implications

Sir Jim Ratcliffe, CEO, INEOS (a global chemicals business)

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Heimans and Timms (2018) contend that different strategies can help make (and keep) an organization future-proof; the relevant approach is influenced by the industry context. There is no 'one-size-fits-all' approach:

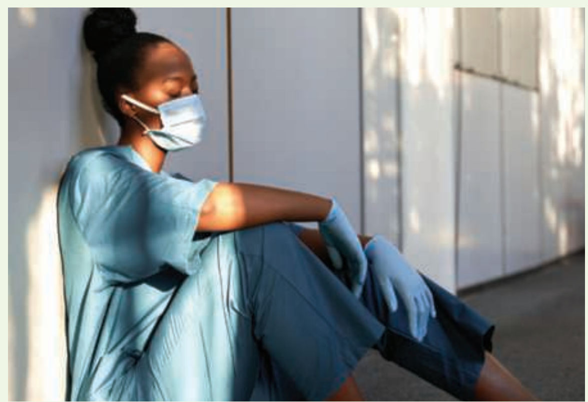
- Organizations such as Uber and Facebook have established devolved structures to increase their awareness and change-ability. They have relied on tweaking their basic business model but not attempted to become futuristic.
- Google has also created a devolved structure but been much more futuristic, embracing (and driving) new ways of thinking and working.
- Many daily newspapers have adapted to trends in consumer behaviour by developing online (subscription) options alongside their actual papers – but without changing their structure and, particularly important, their approach to journalism and reporting.
- Meanwhile the military remains hierarchical, sticking largely with its traditional approach. As explained in the web supplements on military strategy, there may be consultation and discussion when strategies are formulated, but once decided, the structure and culture of 'command and control' drives their strategy implementation.

Case 17.2 Ubuntu Beds — South Africa

Ubuntu Beds is a South African social enterprise (covering several provinces in the country), established when its founder realized there was an opportunity to help hotels and bed-and-breakfast properties which had lost all of their customers through COVID-19 lockdowns and travel bans, and front-line health workers who, because they were working long shifts and extensive overtime, were struggling to get home to their families on a daily basis. In addition, these doctors and nurses were concerned with the risks of transmitting any possible infections they might have picked up, particularly if any of their relatives were vulnerable. The accommodation was seen as safe in a number of ways.

The idea itself was simple – to create and utilize a digital booking system to match supply and demand. 'Ubuntu' can loosely be translated as 'humanity'. While the idea itself was not new – it had been practised in China, where SARS-COVID2 originated – it was an online story from Italy that triggered Ubuntu. The initiative has also been in evidence in the UK, although not necessarily organized by independent social enterprises. Volunteers were invited to help – some of whom were able to provide mental health support to a stretched and stressed workforce. The Healthcare Workers Care Network Fund agreed to provide some financial support – as did other recognized medical charities.

The founder of the initiative was Kim Whitaker who had, herself, recovered from COVID-19. She had previously started and run a travel business targeted at young people; and she had been running a youth hostel which, basically, had been forced to close.



Questions

1. Briefly summarize the business model for Ubuntu and apply the E–V–R model to it.
2. Given the speed at which this would have needed to happen, what do you think were the priority decisions and actions that would have been needed?
3. Do you see Ubuntu as something that was potentially scalable, or would several local initiatives be more realistic?

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Project

Ubuntu relies on IT and, for many, smartphone access, to deliver a valuable service quickly, efficiently and effectively. A quite different, but for its target customers an equally valuable service delivered in the same way in a different part of Africa, is provided by the Hoja App. In Kinshasa, in the Democratic Republic of Congo, young women were being harassed and often sexually assaulted by taxi drivers. This app was designed to provide and record information that made this far less likely – unless drivers were 'inviting themselves to get caught'. Research how this app worked and apply the same three questions listed above to this case.

Resilience concerns an organization's ability to be sustainable and to deal with the challenges of the 'new normal' (business) environment. Many industries and markets have become global and fast-moving; they are as unpredictable as much as they are dynamic, as customer opportunities change and competitors spring surprises. Developing the theme of 'entirepreneurship' (Bolton and Thompson, 2015), organizations may – indeed, should – be constantly searching for new opportunities; they must be in a position to act on them when they spot them – this approach implies an entrepreneurial capability. At the same time, they must be able to respond and 'not lose the plot' in the face of unexpected events and setbacks. Strategies and tactics may have to be changed quickly; whatever an organization has opted to do (its chosen strategies and tactics) – and how these decisions are being executed – may need to be changed. And very quickly! Awareness (of possibilities and risks), preparedness and reaction (to events and crises) all matter. Ideally, the organization will become stronger because of its flexibility and resilience; it will be a more robust competitor. But this may well not be the outcome of a crisis situation, and can be a significant problem.

In late 2015, the UK telecoms provider TalkTalk was subjected to a cyber attack. The names and details of some of its customers were accessed by hackers – the personal and bank details of these customers were not fully encrypted. The complexity of an incident such as this is compounded by the structure of the industry; many organizations rely on independent specialist data centres to provide this service from remote locations. Organizations know that cyber hacking is always a possibility and will guard against it; it sometimes happens because would-be hackers set out to prove they can actually break through systems security. Their underlying intent may not be to steal data and use it to defraud, but they may well share their 'treasure' with others, and who knows what may then happen. Simply, the risk can be recognized – the issues are how to guard against (and, perhaps, minimize) the risk in the first place, and then how to deal with the crisis when something happens. In this case, the media quickly found out and the CEO appeared on television every day explaining how TalkTalk was dealing with the fall-out. Two other recognizable risks that both became serious organizational issues are worthy of mention. The likelihood of Caribbean hurricanes in 'hurricane season' is known – but just when and where they might strike isn't. Cruise lines have to accept that at short notice they will occasionally have to change their schedules; equally passengers have to realize the sea conditions might be choppy! In 2017 Ryanair cancelled several flights at very short notice, leaving some passengers stranded; the company had mismanaged pilot rosters and holidays. This was avoidable. The sections below explore risks and crises.

The organization's response will depend on people and how they choose to act. In the case of major crises, the CEO or strategic leader will play an important and visible role. In other instances, other executives in leadership positions will need to intervene and act. They need both the freedom and willingness to take and execute decisions that imply change. If people, for whatever reason, are relatively new to their post, or if the prevailing culture is one of relative centralization, this may slow down the response time. Hence, resilience is affected by organizational structures and processes, as well as by individual personalities.

Risk-taking and risk management

It is less about mitigating risk and more about preparing for uncertainty.

General Stanley McChrystal, US Army (retired)

While risks are inherent in the choices that organizations make and (though different) strategy implementation, the key elements in any risk are the potential upside and downside from future events,

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and the likelihood of certain things happening. Forecasting and scenario planning are uncertain but are still important as managers exercise judgement in the decisions that they take: the greater their awareness, insight and understanding of emerging trends and opportunities, the more informed their decisions should be. Decisions and risk are linked irrevocably, as the strategic decisions made by organizations and managers reflect their management of the risks they face. Organizations that manage risks effectively will be less crisis prone and in a stronger position to deal with potential crises and unexpected events when they do occur.

Risk can be best understood as an uncertain prediction about future behaviour in a market or industry, with a chance that the outcome of this behaviour could be detrimental to an organization. Clearly, an organization must try to manage these risks to reduce both the likelihood of a particular event and the extent of any possible downside which, in turn, demands an understanding of inherent risks in decisions.

Opportunities and strategies that involve new customers, new markets, new countries and/or new competencies all imply risk – an element of chance that something can go wrong. The greater the potential impact (the downside) of what could go wrong, the greater the risk – thus reinforcing the value of a heartland of related businesses which, in turn, should reduce the number of risk variables involved. When a company moves away from what it knows, it increases its risk because there are more unknown uncertain future factors; at the same time, not changing in a dynamic environment can also be very risky!

Companies must, therefore, make strategic choices – which, sometimes, they get wrong. But what appears to be a poorly judged choice can sometimes be turned around with appropriate changes during the implementation phase, such that risk is best managed in an organization that has a culture of flexibility and innovation, and that is successful at getting its people involved and committed.

Certain business environments involve higher levels of risk than others. Examples of this are high-technology industries where there is constant innovation and technological change; or pharmaceuticals with their normally long pipeline to develop, test and market a new drug; or oil exploration with expensive investments in the hope of finding oil.

In April 2010, BP's Deepwater offshore rig exploded and burst into flames in the Gulf of Mexico; 11 employees were killed. Afterwards, there was a considerable effort required to stem the flow of oil and clear up the oil that had been spilled into the sea. The adverse publicity – let alone the cost to BP – was significant. A whole range of businesses and local residents – as well as wildlife – suffered from the oil spillage, and people demanded action and compensation. The event became politicized. The ensuing (federal) investigation confirmed that such an event was not an unexpected surprise; it was known it could happen. After all, oil rig explosions had happened with BP in the past. The key question concerned whether lessons had been learned and better protection put in place. Before Deepwater exploded, it had been suggested that BP had a history of 'taking too many risks and cutting corners in pursuit of growth and profits'. In the case of Deepwater, it was confirmed that warning signals had suggested something was not working properly and that actions taken had actually increased the risk of an explosion. BP suffered serious reputational damage; key executives resigned.

Four criteria are typically important in relevant decisions and these are: (i) the attractiveness of each option to the decision-maker, (ii) the extent to which they are prepared to accept the potential loss in each alternative, (iii) the estimated probabilities of success and failure, and (iv) the degree to which the decision-maker is likely to affect the success or failure.

Organizations are likely to create (maintain and update) some form of risk register – and there are many ways to do this. Complex colour-coded spreadsheets are typical! Figure 17.3 is one diagrammatic used to summarize (but not replace) the more detailed spreadsheet. The important data to capture is what the risk is, how and where it would impact if it happened – basically which parts of the business would be most affected – and how likely it is. The two axes are both numbered 1–10, meaning every risk included can be allocated a score out of 100, thus allowing them to be ranked and prioritized. From this first-level understanding, possible actions can be determined. Ideally, there should be a 'plan' of some form for dealing with each one, but realistically it is unlikely that an organization will be able to 'gear up' resources to cover every eventuality.

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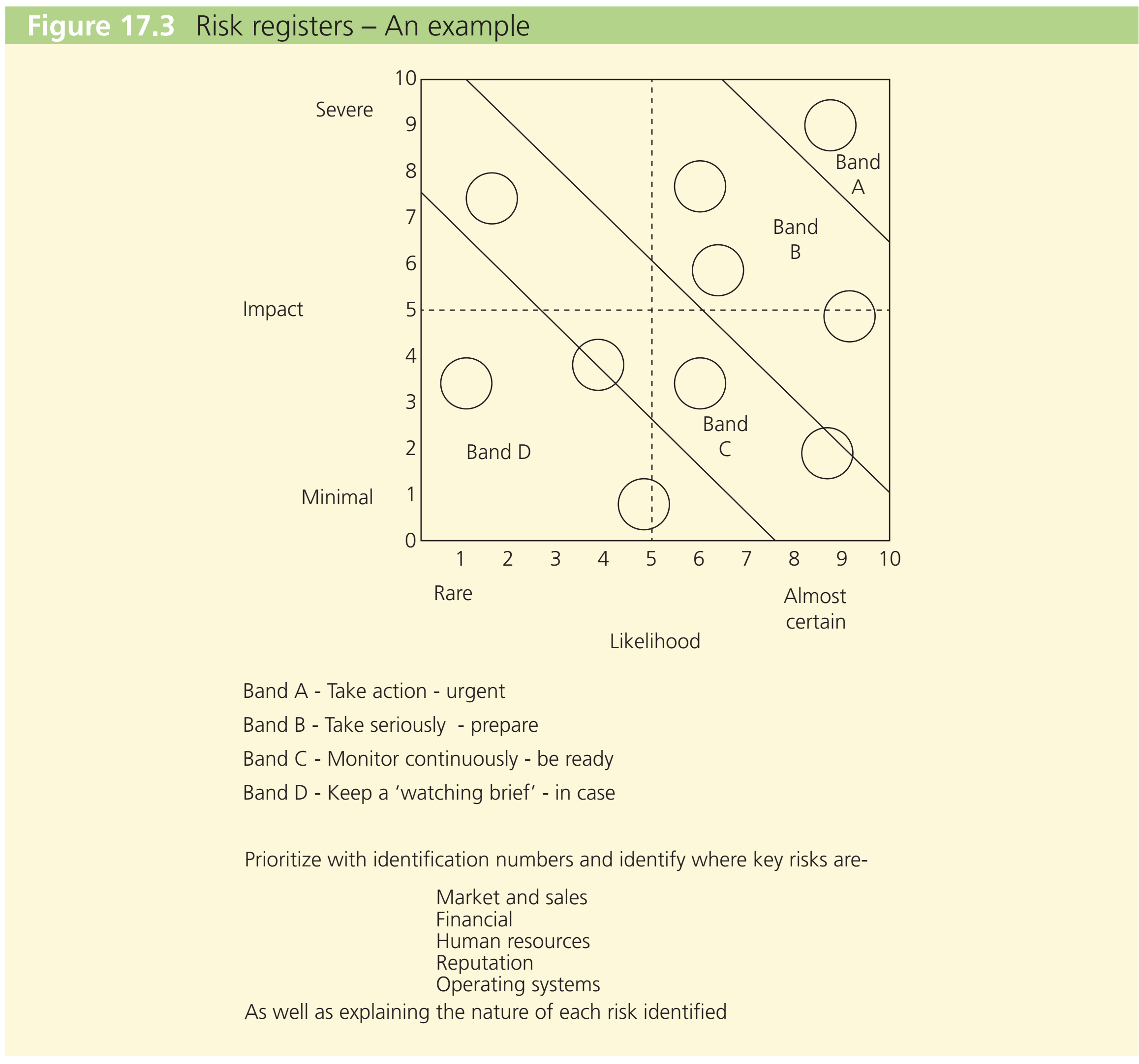
Figure 17.3 Risk registers – An example



Risk, entrepreneurship and decision-making

Entrepreneurs (as introduced in Chapter 10) are often described as risk-takers, including a personal risk – it is their business, often their money and usually their reputation that are at stake. The personal risk to an entrepreneur can increase as the business becomes more successful and visible and, while the rewards for entrepreneurial success can be very high, the social stigma of a major failure can be traumatic.

At this point, the distinction between uncertainty and risk should be revisited and reinforced. Uncertainty is something that every organization, strategic leader and manager has to face (and deal with) in a complex, dynamic 'new normal' world. The more quantification that is possible (linked to likelihood and impact), the greater the potential for planning remedial action – and also, sometimes, insuring against. This makes the issue more of a tangible risk, and organizations and strategic leaders can (sometimes, just not always) decide not to take a particular risk because they feel things are too uncertain or the potential downside is too great.

Arguably, risk awareness and opportunity awareness should also be separated – risk concerns that which can be quantified (but is unpredictable); opportunity concerns that which is much more judgemental. While a University Business School trained professional manager may seek to measure and evaluate the risk in the decisions that he/she has to take – such that where there is an uncertain opportunity they may well perceive the risk to be too great – entrepreneurs are aware of both but are frequently attracted by the opportunity.

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Indeed, sometimes entrepreneurs have a feel for, or an insight into, a situation and an opportunity which may be the outcome of learning from previous experiences. That is, they firmly believe they know what they are doing and, in many instances, they do not see themselves as taking major risks – in which case, they are really *managing* the risks, even though they may not be able to quantify them, and are accepting and retaining the inherent risk and going ahead. Other people, whose understanding of the situation and perception of the inherent risk are different, may be unwilling to take the same risk and, hence, they do not pursue the opportunity. Some successful entrepreneurs also recognize when an opportunity is beginning to disappear; they time their exit carefully and focus their endeavours on a new opportunity – an excellent illustration of risk management, for they are seeking to avoid future risks.

Their perception of risk will change over time and with experience such that, once an entrepreneur has grown one venture successfully, they are likely to develop confidence alongside their experience – the concept of entrepreneurial learning – in which entrepreneurs (at least, some entrepreneurs) learn from their mistakes. Some entrepreneurs start with a failure. Kets de Vries (1997) argues that many entrepreneurs start in this way but are then determined to start all over again with a fresh risk. Despite being convinced that 'the world' is against them ('the world' is full of people who resent other people who succeed and enjoy it when they do not succeed, and so failure can be expected), their challenge is to have another go – but this time to succeed. Attitudes towards risk affect the way in which managers make decisions, and Dunnette and Taylor (1975), researching industrial managers, conclude:

> *High risk takers tended to make more rapid decisions, based on less information than low risk takers, but they tended to process each piece of information more slowly . . . although risk-prone decision-makers reach rapid decisions by the expedient of restricting their information search, they give careful attention to the information they acquire.*

In the light of this comment, you may like to reflect on how you personally process and act on information – and the extent to which you would describe yourself as a risk-taker.

Environmental factors may prove significant – for instance, the availability and cost of finance, forecasts of market opportunities and market buoyancy, and feelings about the strengths and suitability of internal resources will all be important. For other managers within the organization, the overall culture and styles of leadership and the reward systems will influence their risk-taking.

Managing risk

While the term 'risk management' is often associated with the idea of insurance, it is too narrow a perspective, since organizations often pursue strategies that seek to manage or minimize risk. The first main step in risk management is clarifying the risks involved and building the Risk Register. These comprise four elements: personal risk, opportunity risk, (business) environmental risks and resource-based risks. Table 17.1 provides a framework for evaluating some environmental and business risks. In light of the impact of COVID-19 – which few had been truly prepared for – pandemics, and maybe also today, adverse severe weather conditions, might well be added to the list. Strategy in Action 17.1 develops the list approach of Table 17.1 and considers risk in the context of the charity sector.

The second step is to select (from alternatives) what to do about the various risks: (i) *retain* the risk and prepare for possible eventualities – the risks have to be taken or an opportunity or a venture would have to be abandoned; (ii) *transfer* the risk, which could be achieved by switching it to someone else (divesting a business), diluting it (through a joint venture or strategic alliance), or insuring against it; and (iii) *regulate* the risk, perhaps by investing to reduce it.

Some believe that, in some instances, organizations do not take certain risks sufficiently seriously and thus place people's lives in danger – either by not appreciating the existence of a risk, or by ignoring the dangers.

Clarke and Varma (1999) argue that changes in the external business environment mean that satisfying stakeholders effectively is more risky and uncertain for organizations than it was in the past, such that risk management has become a strategic issue – yet, many firms treat it tactically and piecemeal. Therefore, they are more crisis prone than ideally they should be. This is considered below.

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Table 17.1 Assessing business risks

Type of risk	Example
External environmental risks	
Supply risks	Over-dependency on a supplier Outsourcing something which is strategically critical
Market/demand risks	Customer preference changes
Stakeholder risks	Misjudged priorities
Social responsibility and ethical issues	Failure to deal effectively with a chemical spill or a major incident
Politico-economic risks	Turbulence in an overseas market
Innovation risks	Misjudging market acceptance for a new idea
Competitive risks	Existing competitors 'out-innovate' the business Price competition Powerful new rivals enter the industry
Resource-based risks	
Materials risks	Need to handle/transport dangerous materials
Process risks	Corner-cutting to save time and money
Managerial risks	People's ability to cope with the dynamics of change in the organization
People risks	Inadequate or inappropriate training
Commitment risks	Individuals do not pull their weight, especially in a crisis
Structural risks	Inappropriate balance between centralization (for control) and decentralization (for flexibility) Internal barriers to co-operation
Complexity	The spread of activities is too complex and leads to fragmentation and internal conflict
Financial risks	Undercapitalization, cash flow problems
Technology risks	Inadequate information systems Cyber attacks

Strategy in Action 17.1 Charity Risk Management

Charities share many risks with other types of organization. While some charities are sizeable organizations with developed structures, policies and processes, many others are small and relatively informal. Certain risks can render such charities particularly vulnerable. *There is, in part, a parallel experience with many very small businesses*.

Financial risks All charities depend on income from a variety of sources to fund their services; some of this will be regular trading income but much will not. Donations are crucial; but barriers to entry are generally low in the charitable sector and so continuing donations may not be reliable. In a very competitive market, new givers always need to be found. Any charity would logically like to anticipate donations rising year-on-year, especially when economic conditions are challenging. When there is austerity, this increase may well not happen and can threaten the work the charity does.

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Charity fundraising received adverse publicity in 2015, after an elderly person was shown to have been overwhelmed by constant telephone and direct mail demands from certain charities. She had given away a large amount of money – more than she could realistically afford. The rules for fund raising in the sector were tightened up, making cold-calling and direct approaches much trickier.

Some charities, of course, have received a major donation which is 'ring-fenced' for a specific activity, or with the expectation that this investment stays intact as a capital sum and the charity is free to spend the income it can earn. When interest rates are low, it may be tempting to opt for higher risk investments – which may not always work out.

Others depend heavily on providing commissioned services, which are often contracted for fixed periods of time, say two or three years. At the end, the charity has to re-bid and it may not be successful; it may certainly be under pressure to offer the same services for less money or an improved service for the same money. Dealing effectively with this issue demands sound cost management – the charity may not have suitably qualified staff and projected costs may simply be guesstimates. Sustained service quality can then be under threat, in which case there may be an issue for clients, staff and/or the funding agency.

Regulation Charities are regulated by the Charities Commission; among other things, fund raising is a key area. Although it is a 'known' in the short term, circumstances can change.

Governance Charities have an executive team who run things on a daily basis; but there is also a board of trustees, who assume the ultimate risk. Sometimes, there is a split between the two on certain strategic decisions – such as, for example, whether to merge with another charity either to yield critical mass or to allow for savings.

Technology problems Charities often have a great deal of sensitive information stored in their databases, which can be subject to cyber attack. Small charities may not be able to invest in the same levels of security as larger organizations and, thus, data protection can be an issue. In addition, small charities may not have direct and instant access to expert help to deal with such attacks, thus exacerbating the risk for them.

Fraud Potential fraud is seen as a major risk for the charitable sector; cyber fraud is just one possibility. Charities are at risk from service providers (to whom they sub-contract) and clients, as they may not have either the resources or the capability to carry out truly robust checks on the people they work with. Organizations are always at risk from staff fraud; where there is a trading arm – as with a charity shop, for example – it may be easier to manipulate the tills, as conventional receipts may not be the norm. Security from shop-lifting may be limited because of relatively slim staffing levels, given a large reliance on volunteers.

'Being let down' Charities often possess ageing assets – such as old vehicles, or past-generation computers – and they may well break down. Volunteers may not turn up; it will certainly not always be the case, but some volunteers may be less reliable than paid staff. Volunteers and low-paid staff *may* be less qualified and less able than the charity would really like, but anything different may be unaffordable. When there have been proven cases of patient bullying in care homes, you may question whether it was the underlying reason. Again, the issue of being able to carry out really robust checks on prospective staff and volunteers is an issue. If, as is often is the case, a charity pays only modest wages, it may be affected by high staff turnover. That said, if staff are committed to the cause, they may be willing to accept the situation.

Dealing with crisis situations Resilience depends on staff, as explained in the main text. Where many are low-paid and/or the charity is reliable on volunteers, is there a real risk that the charity may struggle to act quickly and decisively in the case of an unexpected crisis? Charities often deal with people who have various needs in their own homes; these will always be an uncertain environment and the unexpected can always happen and catch staff out – they will need to be vigilant and flexible if they are to react positively.

How may charities prepare? *It makes sense to evaluate potential risks and have some form of plan to deal with foreseeable eventualities; where it is possible and affordable, insurance can be valuable. Training programmes can also help to familiarize staff with the potential risks and prepare them to react. It can also be sensible to recruit people with valuable expertise in critical areas to become trustees.*

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The risk-taking organization

Birch and Clegg (1996) list a number of characteristics that will restrict risk-taking by individual managers and employees:

- centralized and/or committee decision-making
- adherence to formal systems and budgets
- reliance on performance rewards based on pre-set (and inflexible) plans
- early evaluation of new ideas and proposals
- mistakes being sanctioned too readily (Arguably making the same mistake more than once should be disciplined, of course!)
- management by fear
- a culture of caution.

They also suggest that risk-taking can be encouraged by:

- decentralization and informality
- initiatives and projects which cut across organizations
- rewarding managers and employees for new initiatives which have succeeded
- providing resources to develop new ideas
- limited adherence to 'badges of office' and job titles
- encouraging and respecting learning
- trusting people and encouraging them to enjoy what they do – a culture with an element of fun.

Crisis avoidance and management

Crisis management involves managing certain risks and future uncertainties, dealing with opportunities and surprises, and managing resources to cope with unexpected and unlikely events in the organization's environment. Environment–Values–Resources (E–V–R) congruence again – strategically key, as failure to deal effectively with crises leads to losses of confidence, competitiveness, profits and market share.

Crisis management involves elements of planning and management. Crisis planning entails the prevention or avoidance of a crisis – that is, the search for potential areas of risk, and decisions about reducing the risks; crisis management involves being able to deal with crises if and when they occur. How organizations deal with crises either enhances or damages their reputation, since there will always be an economic cost and little logic in trying to avoid it.

Simplified, there are three decision areas in determining the crisis strategy:

1. Decisions concerning what can go wrong, the probability of it happening, and the impact it will have if it does happen.
2. Crises planning, which involves decisions about investing in prevention in order to reduce or minimize the risk and which invariably implies cost increases, such that less is often done than conceivably could be done.
3. Mechanisms for contingency management.

The decisions involve trade-offs between costs and risks to find the best balance between points 2 and 3. Successful management of crisis situations involves both awareness and the ability to deal effectively with unexpected change pressures.

The word 'crisis' covers a number of different issues and events, including a mixture of technical and managerial elements. Some incidents are clearly 'thinkable' and efforts can be made to avoid them, or to reduce their potential impact; others remain more unthinkable. Fires, fraud and computer failure are typical crises that may affect any organization at almost any time. Poisoning scares or contamination of food products, and oil or chemical spillages,

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are foreseeable crises for particular companies. Major transport accidents, when they happen, are crises for the railway, shipping company or airline involved. Sometimes, but not always, the accident will prove to have been preventable, such that there is an obvious logic in making contingency plans and being prepared. In addition, organizations can sometimes be affected by natural disasters – events outside their control. Shrivastava *et al*. (1988) define major crises as: 'Organizationally based disasters which cause extensive damage and social disruption, involve multiple stakeholders and unfold through complex technological, organizational and social processes.'

Case 17.3 describes a 'live story' that will happen around the time this book is published. You will be able to evaluate the outcome! In the context of this case, you might also reflect on the 2021 Olympic Games in Tokyo, which, because of COVID-19, had been postponed from 2020. To a large extent, spectators were not allowed to attend if events were indoors or in large stadiums. Television covered everything, of course, regardless, but serious revenue from ticket sales was lost.

Case 17.3 The 2022 FIFA World Cup — Qatar

FIFA, the International Federation of Football Associations, is the governing body of world football. The Football World Cup (every four years) is a high-profile and very lucrative global sporting event. The 2022 competition was awarded to Qatar in 2010, giving the country 12 years to prepare. The decision was the outcome of a ballot of FIFA's member representatives. Allegations of corruption in the process have persisted.

FIFA's president in 2010 was Sepp Blatter, who had been in charge since 1998. In 2015, he was re-elected for another term in office, despite being nearly 80 years old – but, within months, he was suspended after a series of allegations relating to bribery and corruption in FIFA, championed by the US Federal Bureau of Investigation (FBI). *Panorama* investigations for UK television, alongside *Sunday Times* investigations, had been criticizing activities at FIFA for quite some time. Among the various allegations was one of bribery by Qatar's bid committee to help secure the World Cup – which some had thought had been destined for the United States. The award of the 2018 competition to Russia was also questioned at the same time; it was claimed that this was the outcome of a clandestine 'behind-the-scenes' 'stitch-up'. England had been one of the losing bids for 2018, having invested millions of pounds in the bidding process. Nevertheless, this competition turned out to be an unqualified success.

Why is hosting the World Cup attractive? It is highly visible and prestigious; 'the world comes' for the competition and matches are shown around the world to massive television audiences. Sponsorship comes from some of the world's leading brands. It was estimated that the 2022 competition would bring 400,000 visitors to Qatar. For an ambitious emerging nation (as Qatar is), the World Cup would be a real spur to economic development.

Qatar is a relatively small Arabian Gulf state, but it is wealthy from its gas reserves. That said, it is a minor oil and gas producer in terms of its share of world output. It is a near neighbour of Dubai, which has been developed as a major tourist and shopping destination. Qatar is also the home of one of the world's largest airlines, Etihad. The Etihad brand, of course, is a significant sponsor of various sporting teams, football included. Qatar may not have a national football team of any serious renown, but the country has hosted a number of major sporting events, including the Asian Games (athletics), World Tour tennis and some motorsport. It was also the host country for the 2019 World Athletics Championships.

However, it is often the case (similar to the Olympic Games) that new stadia have to be built (and funded). Qatar needed to expand three existing stadia and build nine new ones. It was also the case that the transport and hotels infrastructure required investment and new builds. The World Cup is typically played in June and July, in between domestic seasons in many of the competing countries, and certainly for the Northern hemisphere teams. Temperatures in Qatar at this time of the year exceed 40 degrees centigrade; such temperatures, combined with exposure to a very strong sun, would be challenging for players and spectators. Concerns over the temperatures grew to the point where FIFA announced that they would change the date to mid-winter in the Northern hemisphere. This change, of course, would be mid-season for all of Europe's domestic leagues, such as the English Premiership, and thus very disruptive, although some Eastern European countries have a mid-season break. The stadia could not all be closed and would not be fully air-conditioned. It has also been pointed out that Qatar is a Muslim country with relatively strict rules about alcohol consumption.

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The response was that this issue could be dealt with; and that, in any case, Bahrain is just 40 kilometres away on a fast, modern highway and alcohol restrictions there are much more relaxed!

Preparations were soon under way in Qatar and a building programme was started. Within a few years, Amnesty International was expressing concerns. They claimed that 1.5 million migrant workers had been brought in from a variety of low-income and developing countries, and this number would need to be increased to 2 million. Wages, they said, were low and not being paid on time. Because much of this money was being sent 'home' to families as remittances, it was a huge issue. In addition, there were few workers' rights; employees could not change their jobs, leave the country or join a trade union. There were no proper site inspections and working conditions were dangerous.

Questions

From the point of view of the following stakeholders, how would you see the inherent risks of a World Cup in Qatar?

- National Football Associations and the clubs – who would supply the players – and who would need to agree to release them?
- Sponsors such as Coca-Cola – given the allegations of corruption.
- FIFA – whose reputation is already tarnished.
- TV and other broadcasters – because of the timings.
- Qatar – which must invest despite some uncertainty over what may eventually happen.
- Spectators – who need to attend to make a World Cup financially viable and a true sporting spectacle.
- Players – who surely cannot relish playing in really hot temperatures.
- Businesses generally – given that the Qatar World Cup is now not happening during a traditional holiday period.

Strategic changes can also lead to crises of confidence, particularly among employees. Rumours that a firm may be taken over often imply redundancies; falling sales and profits suggest possible cutbacks or closure. Good internal communications and openness are required to minimize the potential damage, especially as competitors may see these situations as competitive opportunities. Smith (1990) explains why some crises happen when they may have been avoided:

1. A set of organizational problems making the organization crisis prone, which relate to issues of culture and power, misguided strategies and poor control systems. There may be evidence of dangerous cost-cutting or simple neglect.
2. The incident itself often provoked when particular external events clash with the organizational problems.
3. Legitimation – that is, when the incident or crisis is investigated there is a ready willingness to apportion blame and a failure to learn properly from the experiences. Organizational change does not take place and the problems are merely reinforced, so the same type of crisis could easily happen again.

Many organizations are actually frail, rather than strong; they are relatively crisis prone with an often over-inflated view of their strengths and competencies, and too much belief in their infallibility. This provides us with a 7–Cs framework for investigating crises, summarized in Table 17.2 (Smith, 1990). We tend to focus our interest on the cold factors and, by ignoring the warm ones, the organization becomes more crisis prone (Smith, 1990). Strategy in Action 17.2 applies these points to the Millennium Dome, which has been 'reinvented' as the O2 Arena in London; the issues are tracked – for some people, the mistakes were made at the outset. In the event, the Dome has been transformed into capacity-wise the second largest arena in the UK. The annual ticket sales for the O2 (for its various music and sporting events) has exceeded 1.8 million every year since 2014; it is actually the most popular concert arena in the world in terms of attendance numbers.

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The second most popular UK arena (in Manchester) was 750,000 visitors short of this number before the bomb explosion after the Ariana Grande concert in 2017 affected attendances in the short term. May we think of the O2 story as a crisis creating an opportunity, albeit one from which other entrepreneurs were able to benefit?

Table 17.2 The 7–Cs crisis management framework

Warm factors – people-related	Culture Communications Configuration – issues of power and influence
Cold factors – technocratic	Control Coupling and complexity – the nature of the event itself Costs Contingency planning

Strategy in Action 17.2 The Millennium Dome: An Application of the Crisis Management Framework

The intention of the Millennium Dome was to build a lasting structure in Greenwich, London, funded by a mixture of government funding, lottery money and private sponsorship. It would be opened on the evening of 31 December 1999 to celebrate the new millennium and then used for one year as a special exhibition with individual zones designed and funded by the sponsors. It was not to be a theme park, but it was to be a signal to the world that Britain could manage a major and ambitious celebratory project as well as, if not better than, anyone else in the world. After 2000, the Dome would be sold to a private company for a use to be determined later. The whole project was tied in to public-transport developments – notably, the Jubilee Line Extension of the London Underground; parking at the Dome was to be severely limited.

The initial outcomes

- The Dome was opened on time.
- However, many of the guests at the special opening night ceremonies had not received their tickets and had to queue for them at an underground station.
- There was hostile media criticism from the moment the Dome was opened. Many visitors commented on the lack of any 'wow' factor. Ironically, the London Eye, the viewing wheel built by British Airways – which experienced technical difficulties and a delayed start – received a better reaction and has proved very popular and lucrative.
- It quickly transpired that the sales and revenue projections were over-optimistic and were never going to be met. They were revised downwards more than once.
- Additional money from the National Lottery was provided on more than one occasion to prevent bankruptcy.
- The person appointed as chief executive of the New Millennium Experience Company (which managed the whole project), Jennie Page, was forced to resign, as was the non-executive chairman of the board, Robert Ayling of British Airways. Jennie Page was replaced by Pierre-Yves Gerbeau from Disneyland Paris who had an enthusiastic and confident demeanour. Ayling was replaced by David Quarmby, chairman of the British Tourist Authority. After just a few weeks in the post, Quarmby returned to his original non-executive role on the board. David James, an experienced 'company doctor', was recruited to rescue a rapidly deteriorating situation. James took over some of Gerbeau's responsibilities.
- After just one day in the post, James commented publicly that he was 'appalled' at the financial systems that he had inherited. Controls were inadequate and there was no proper register of assets.

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Visitor projections (already reduced substantially) were still unrealistic and yet more lottery funding was required if the Dome was to remain open until the end of 2000.

- The Conservative (opposition) party called for the Dome to be closed early and for political resignations. Both demands appeared to fall on 'deaf ears', although Prime Minister Blair acknowledged that mistakes had been made. It was also commented that the Dome had always been a regeneration project and not a 'visitor attraction'.
- Nomura (the Japanese Bank) initially agreed to buy the building, to develop theme park activities in 2001, but pulled out of negotiations when it was unable to gain access to the financial information that it needed for its planning.

Applying the crisis management framework

Culture

- Arrogant assumptions were made about what people (paying customers) would want.
- There was an arrogance about British achievements – in the event, France's lighting of the Eiffel Tower received more praise.
- There was a clear culture of blame.
- There was a failure to synthesize the political agenda of the government and private sector project management.

Communications

- The project was clearly fragmented.
- There was a lack of cohesion among the stakeholders.
- Some 'truths' were kept hidden.
- Arguably, the general public was never fully clear about the project and what it stood for.
- What was to be a 'triumph' became an embarrassment linked to 'face saving' and damage limitation.
- The media generally became hostile towards the project.

Configuration

- There was a clear political agenda, driven by the early leadership of Peter Mandelson – the project had to be seen to be a success.
- There was also a secondary agenda – it was to be linked with public transport developments – the Jubilee Line itself was fraught with problems and was handed over to US contractors to complete.

Control

- There was a lack of clear governance and responsibility – who actually 'owned' the project?
- Financial controls were inadequate.
- The immovable completion deadline added a new dimension with extra pressures.

Coupling and complexity

- There were too many perspectives and expectations.
- This was exacerbated by the underlying desire to demonstrate creativity, innovation and 'great achievement'.

Costs

- Poor forecasting – especially concerning paying visitors – meant that the costs and break-even projections were never realistic.
- There was a very visible need to 'beg' for more subsidy, which reinforced a perception of mismanagement.

Contingency planning

- An early closure was never a realistic option for the government.
- This made cost over-runs more likely and sponsorship more difficult.
- Revenue shortfalls would be allowed, but only in a culture of blame.

Final outcomes

A number of potential bidders – interested in developing homes and leisure facilities – came forward after the Dome closed, only either to withdraw or be rejected by the government. After protracted negotiations, a developer was found for the Dome site, which would become a 20,000 seat concert arena. An initial opening date of 2006 was put back to 2007 but, since it opened as The O2 Arena, it has been very successful with a wide mix of concerts and events. By 2008, it had grown to become the busiest music arena in the world. When the Millennium Dome closed, some £800 million of public money had been sunk into the project and there were additional maintenance costs. It was estimated the proposed developments should, over time, recoup

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some £550 million of this. The US private investors stood to make a great deal of money if the O2 Arena was a success.

Activities

Given these figures, it is interesting to check the current events schedule at The O2 Arena – and the ticket prices – and consider the current financial returns. It is also important to factor in the wide range of restaurants, bars, shops, snack outlets and concession stands which add to the revenues. The Arena itself takes up just 40 per cent of the Dome; there are many opportunities for revenue generation.

How may we evaluate the Millennium Dome project? As a second activity, you could compare this story with that of the London 2012 Olympics and the issues associated with the main Olympic (athletics) Stadium becoming the home of West Ham United football club. Finally, you might examine the subsequent career of Pierre-Yves Gerbeau. He left in 2000, when the Millennium Exhibition closed, and became CEO of X-Leisure, operator of the X-Scape Centres.

Organizational difficulties and crises occur in several ways and take many forms. Weak strategies (which may have been strong in the past), substandard products and services, unacceptably low prices or excessive costs can often be remedied by diagnosing and acting on the problem with a hard/cold element and an external focus. They are a relative weakness because of the relative strengths of competitors, and can be observed and measured by monitoring competitor activities, tracking sales and market shares, and simply talking to customers and distributors. Ineffective management practices, the softer or warmer side, have internal origins; they require a different approach and may be hidden, as people divert attention from them by blaming problems and crises on external competitive factors or unexpected events.

Crisis fighting in organizations

Organizational environments have become increasingly dynamic and turbulent in recent years. As environments spring progressively more shocks and surprises on them, organizations must develop new ways of dealing with uncertainty. Some organizations actively seek to influence, and even manage, their environments; others rely more heavily on their ability to react and respond quickly, and they may make a virtue out of their ability to crisis fight. However, extensive crisis fighting is time-consuming, reducing the time and space available for wider strategic thinking, such that real growth opportunities may be missed. Over a period of time, no organization is successful, seen as successful and able not to be affected by crises. However, most could manage their resources more efficiently and more effectively and, as a result, be less prone to crises (whether externally generated crises or self-created). The long-term situation is made worse when an organization which has dealt with a crisis fails to learn and make itself less crisis prone for the future. Managerial competency in crisis fighting is often perceived to be both a strength and a virtue. People complain about stress levels but, paradoxically, enjoy the challenge of a crisis. Dealing with the problem quickly and pragmatically gives people satisfaction and a sense of achievement. Even laid-back people can find new motivation and strength. In turn, those with expertise also have to improvise on many occasions, since instructions and procedures cannot predict every eventuality.

Crisis fighting in organizations takes up time, and managers are pragmatic but often not thoughtful beyond the confines of their immediate span of responsibility. Internal rivalry may well be reinforced, such that people's competitive energy is focused on beating other parts of the organization (who are perceived as rivals, rather than colleagues) instead of the real external competitors. This forces a short-term time horizon on many issues and decisions, making people frustrated and losing confidence in their organization. Ironically, though, crisis fighting can be customer-oriented, as managers react to customer pressures and requests. Consequently, the long-term damage to the organization, which it is fostering through a failure to learn properly, can be hidden behind short-term successes – further reinforced by people using the short-term successes to hide and ignore the deeper problems.

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In contrast, trying to eliminate the regular and ubiquitous crisis fighting and replace it with a more harmonious culture where people share information and trust and help each other may seem positively boring, but it can free up time and can foster valuable innovation. It goes further than opening up new windows of opportunity for a firm and can elevate it to a new level of (previously inaccessible) opportunity. Scenario building, contingency planning and crisis management strategies can all help with unexpected events – which, to some large extent, are often foreseeable but not necessarily avoidable. Well-managed innovation and new product and service developments can strengthen an organization's competitiveness and reduce its crisis proneness. Internal crises generated by complacency with current good fortune, a reluctance to change, poor decisions and weak management, demand a change in culture and style. Understanding, trust and commitment must be fostered.

Crisis proneness and crisis aversion

Characteristics indicating crisis proneness in an organization are listed in Table 17.3, and organizations need to determine the extent to which they are manifest. In 2015, drug manufacturer Reckitt Benckiser was forced to remove packets of its Neurofen painkiller tablets from shelves in Australia. Analysis had shown that tablets which specifically targeted back pain, period pain, migraine pain and tension headaches were identical. Other countries seemed more relaxed about the point and, in their defence, Reckitt Benckiser managers argued that customers seek pain relief for specific symptoms and this branding helps them to find what they want. Would describing the organization as crisis prone be an exaggeration? After all, this example is nowhere near as serious as the problem of Volkswagen deliberately doctoring emissions monitoring, which happened earlier in the same year. The long-term implications of this for VW are worth examining.

Table 17.3 The crisis-prone organization

- specialist functions that cannot or do not think and act holistically
- a tendency to look inwards at the expense of looking outwards – internal-competition not external-competition focus
- a strong, rigid belief in present (even past) competitive paradigms
- a reluctance or inability to properly embrace the demands of a changing environment
- inadequate communications – e.g. vertical but not horizontal; horizontal at discrete levels but only vertical downwards
- an inability correctly to interpret triggers and signals
- willingness of individuals to break rules and procedures readily for short-term results – and hide the detail

Managers often believe that they are better at knowing what needs to be changed than actually managing and implementing the changes – which may be based on personal opinion and judgement. Without openness, trust, sharing and learning, organizations may not realize what they already know and may not be able to leverage and exploit a strategic resource – their knowledge. Moreover, they may not realize what they do not know and may not fully appreciate the opportunities available to the privileged competitors in an industry.

A fragmented short-termist firm will spend too much time and waste resources in crisis fighting. If it fails to manage the soft issues involved in establishing trust and co-operation, it is likely to under-achieve as it develops longer-term strategies. If, however, it can manage the people issues more effectively, it can single-loop learn and foster innovative improvements with existing products and services. Now, as it develops longer-term strategies, it will be better placed to take a more holistic view and improve its overall effectiveness with double-loop learning.

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> *It's not going to be one heroic act or gesture by me that's going to make the real difference; it's going to be thousands and thousands of separate actions by people in the company, every hour of the day, that will make the difference. Add all these up and the combined power is enormous.*
>
> Beverley Hodson, ex-Retail Managing Director, WH Smith

These actions should be self-supporting to foster synergy, rather than fragmented.

Crisis avoidance

Bartha (1995) suggests that many, but not all, crises develop gradually and nobody spots their progress, but they can be prevented if organizations objectively monitor their environment and assess the emerging strategic issues. An organization can, hence, develop a relative aversion to crises – as opposed to being crisis prone – if it develops associated competencies in awareness, learning and stakeholder management. It must do so to identify, assess and deal with potential opportunities and threats before opportunities disappear (perhaps because they have been exploited by a competitor) or threats turn into crises. Another emerging threat would be a gap between the performance level expected of the organization by its stakeholders, especially its shareholders, and the actual performance level.

A number of elements are involved in *scanning the environment*, including monitoring competitor activity; constant contact with key stakeholders – such as customers, distributors and suppliers; and awareness of pending government legislation and pressure group developments – perhaps informed by the media.

Opportunities will emerge where the organization can build on its strengths or tactically outmanoeuvre a rival. The crisis may occur if the opportunity is missed by the organization but picked up by a competitor. A potential threat can be present in a number of ways: new legislative restrictions, a disappearing market, or financial difficulties for an important supplier or distributor. Information and triggers can be received anywhere in the organization at any time. The firm must make sure that their significance is appreciated and that they are channelled to those people, functions and businesses that could benefit. Networking and communication systems, and the ability of individual managers to take an organization-wide, or holistic, perspective, are crucial.

The ability of managers to act on the information will, in turn, depend on organizational policies and the extent of their empowerment; their willingness to act will be affected by their personality, their competencies, their motivation and the reward/sanction system practised by the organization.

Crisis management

There are a number of identifiable steps in attempting to manage crises effectively: identify the most obvious areas of risk; establish procedures and policies for ensuring that risks do not become crises by discussing possible scenarios; identify, train and prepare a crisis management team in advance; build the team; and conduct stakeholder analysis by clarifying which stakeholders are most likely to be affected by particular crises – and how. After a crisis, customers either exhibit loyalty or switch to competitors, while the confidence of distributors and the banks may also prove important. The media often play a significant role and their stance is likely to influence the confidence of other stakeholders; where stakeholder perspectives and expectations differ, they may need to deal with each group on an individual basis.

Finally, a clear communications strategy is essential, since ethical issues may be involved, and the company will be expected to be co-operative, open, honest, knowledgeable and consistent. They must be seen to be in control and not attempting to cover up, since the media will want to know what has happened, why, and what the company intends to do about the situation. 'No comment' may well be interpreted as defensiveness or incompetence, so an effective information system will be required for gathering and disseminating the salient facts.

Regester and Larkin (1997) offer the following advice to organizations:

1. Be prepared.
2. Demonstrate human concern when something happens.
3. Consider the worst possible outcomes.

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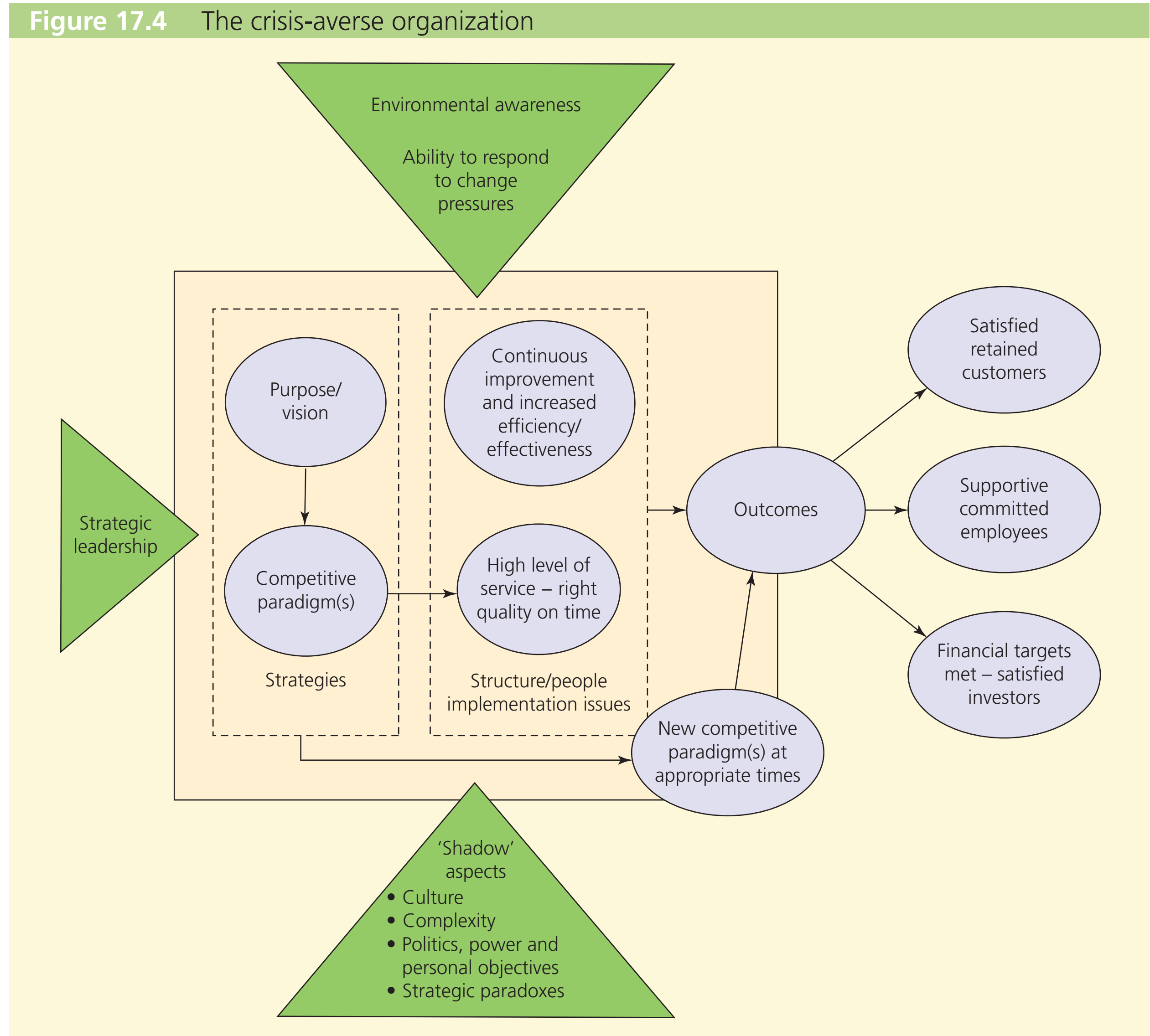
4 Communicate at all times, at all levels.
5 Avoid obsequious people as spokesmen or women.
6 Do not believe that procedure manuals prevent incidents.
7 Do believe 'there is a first time for everything'.

The crisis-averse organization

Figure 17.4 (which can usefully be looked at alongside Figure 17.2 earlier) highlights that, to survive, a firm must retain customers, acquire new customers, obtain employee support and commitment by motivating and rewarding them, and meet financial targets to ensure shareholder loyalty. Achieving these outcomes depends on both strategy and structure. These, in turn, depend on effective strategic leadership. A sound, appropriate, communicated and shared purpose and vision should be manifested in appropriate, feasible and desirable corporate and competitive strategies which must be implemented with a high level of customer service, improved continuously and changed to new corporate and competitive paradigms at appropriate times and opportunities.

Figure 17.4 The crisis-averse organization



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These aspects demand environmental awareness and the ability of the organization to respond to change pressures and to external strategic disturbances. While we talk about an organization-wide response, the real challenge lies with individual managers and employees, who are closest to customers, suppliers and distributors. Innovative people drive functional-level improvements which can strengthen competitiveness; but they must be empowered and committed to issues of structure, style and implementation. The hard aspects of strategy – leadership, vision and ideas – must be supported by the soft people aspects. People and processes determine whether managers and other employees support and facilitate change, or inhibit the strategic changes that are necessary for survival.

Egan (1993) adopts the term the 'shadow side' of organizations to embrace issues of culture, complexity, politics, power, personal objectives and the ability of the organization to deal with the range of strategic challenges discussed above; the shadow side can be positive or negative influences. Where they are negative, the organization is likely to be more crisis prone; for the organization to be crisis averse, they must be largely positive. Organizations must find ways of empowering their employees, harnessing their commitment and promoting organizational learning if the shadow side is to make a positive contribution to strategic management and change.

The most proactive strategy for crisis management can be compared with the notion of total quality management, as the organization is looking for a culture where all employees think about the implications and risks in everything they do. Reactions when a crisis has happened can prove to be effective or ineffective, as effective management is likely to mean that confidence is maintained and that there is no long-term loss of customers, market share or share price. That is more likely to happen in an open, flexible structure than it is in one which is bureaucratic (Booth, 1990).

Kabak and Siomkos (1990) offer a spectrum of four reactive approaches: (i) one extreme (and usually ineffective) is *denial of responsibility*, arguing the company is an innocent victim or that no harm has been done; (ii) a better, but still ineffective, approach is *involuntary regulatory compliance*; (iii) *voluntary compliance* involves a positive company response towards meeting its responsibilities; and (iv) the other extreme strategy, the *super effort*, whereby the company does everything it can, openly and honestly, and stays in constant touch with all affected stakeholders.

While there is little argument against the logic of planning ahead of a crisis, some organizations are cautious about the extent to which one should attempt to plan.

As we conclude this section, we ask you to reflect on the following question. Does it actually matter if crisis averse businesses fail to avoid or manage crises? Or is it a case of 'survival of the fittest' and if a business collapses it will be replaced by either a new rival or a stronger existing competitor? On the one hand, of course, shareholders and employees of the stricken company are likely to lose out, certainly in the short run; on the other, customers may benefit with the emergence of a stronger supplier. Equally, of course, employees might well find jobs with the replacement business (if they have relevant experience and expertise), and a more robust business might see an opportunity to harden prices.

17.4 Strategic paradoxes

Strategic paradoxes help explain the realities of strategy and the strategic challenges facing organizations; and they concern aspects about which the organization must make decisions. The answers are not clear-cut, and yet these choices – and the relatedness of the decisions taken on each of the issues – will have a marked impact on an organization's strategic effectiveness. This section recaps the main strategic paradoxes, which have all been previously addressed within the book.

Our study of strategic paradoxes adopts the same approach that Johnson *et al*. (2008) term **strategic lenses**. The argument being that our perspective (and the resulting action) is affected by how we are looking at the issue. In turn, Johnson *et al*. (2008) link this aspect back to the work of Mintzberg (1998) that we discussed in Chapter 1. There is, they argue, the opportunity to see strategy as one or a mix of the following:

- a design challenge – adopting a conscious process approach
- an experience – with an emergent, effectual approach

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- ideas – which require creativity and imagination
- choices – arguing decisions that demand judgement.

Hence, we would conclude that how organizations deal with the various paradoxes affects their approach to strategy.

Paradox 1: Past and future?

All organizations build on the past, sometimes learning from their successes or from their mistakes. This may imply continuous improvement around the same competitive paradigm – and yet the future may require more dramatic and discontinuous change, leading to the abandonment of past and current competitive paradigms. Balance is needed, rather than either: (i) mistakenly persisting with products whose life cycle is heading for decline, or (ii) changing for the sake of change (which is disruptive and may threaten control and quality).

Paradox 2: Ideas and analysis

Sometimes we refer to this as mixing right- and left-brain approaches for establishing a way forward. Analyzing and making sense of the past, analyzing recent events and data, monitoring competition – the 'left brain at work' – are all important, certainly, but so too are curiosity, creativity and imagination. Organizations need both, with the significance of each varying with circumstances. Some people are stronger at, and happier with, one of these approaches. So, metaphorically, people 'have their time in the sun' at different times. Strategic Reflection 17.1 invites you to ponder on this paradox in today's world.

Strategic Reflection 17.1

Ideas and analysis

IT-driven operations are becoming ubiquitous in circumstances that are predictable and quantifiable, often making them highly efficient. To achieve this, patterns are required. For example, many UK GP (general practitioner) doctors offer ten-minute appointments – and this is meant to include time for writing up the patient notes. However, the patient sometimes refers with certain symptoms, only for the discussion to identify something more – which can take longer and then affect scheduling. The doctor has to decide on the spot how long to spend with the patient and how to proceed. System modellers can identify what might happen, but not when, why and how.

Many manufacturing plants have become dependent on 'just-in-time' deliveries from their suppliers, to reduce inventory and costs, and this can result in very efficient operations. But the importance of 'just-in-case' preparation should never be ignored. Supply chains can – and do – break down, albeit maybe only temporarily. COVID-19 saw delays in the movement of goods by sea and road. Hence the contention that while planning and scheduling matters, it cannot be relied on, and preparing for surprises is essential.

Referring back to Case 17.1, the UK government championed the work by Oxford University and AstraZeneca but still placed orders with other vaccine developers, including Pfizer and Moderna. Ordering early, they did not want to try to predict which vaccines in development would gain approval when – and they did not want to be caught without adequate supplies.

When people start discussing possibilities and contingencies and coming forward with ideas and suggestions for discussion, then openness and trust become essential. People are working in teams and not individually. Dealing with the significant challenges of today's uncertain world requires challenge and disagreement. People must not be afraid of positive conflict. But as people have come to rely more and more on IT and computerized operations, many have become more independent workers. There is also an argument that ready access to information can reduce people's thinking ability.

For further insight on this paradox you might like to watch:
TED Talk – Margaret Heffernan, 20 September 2014, Dare to Disagree: The Human Skills We Need in an Unpredictable World.

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Paradox 3: Intended and emergent strategy?

Strategic analysis and planning play important roles in strategy, as does the contribution of a strong and charismatic entrepreneurial leader. However, plans and intentions must be seen as flexible and it is dangerous to be reliant on just one main source of ideas. In such a dynamic and competitive environment, learning and emergent strategy will always be vital, such that the challenge is, again, one of balance.

Paradox 4: Reactive or proactive?

Some commentators argue that the real challenge for organizations is one of coping in an environment that is chaotic, unpredictable and uncertain; that organizations must be able both to manage in and to manage their environments by responding to unexpected events by leading the change agenda.

Paradox 5: Resource based or opportunity driven?

As explained earlier in this chapter, both approaches need to be adopted simultaneously. Inevitably, one or the other will take priority: but which, and with what emphasis?

Paradox 6: Cost or differentiation?

Again, the answer is both! In their search for competitive advantage, organizations can never ignore costs, though we can distinguish between striving to be the cost leader (with lower costs than the business's main rivals for the same product or service) and effective cost management. Organizations that look to add new values and differentiate their products and services in distinctive ways must invest (and increase their costs) to create this difference. At the same time, they must not pointlessly add costs and benefits that are of little consequence to customers. The secret lies in understanding and managing the key cost drivers.

Paradox 7: Focus or diversify?

Contemporary strategic logic says focus, and that the era of the diversified conglomerate is over for the moment. However, a very tight focus can restrain growth and, consequently, most growth-oriented organizations will diversify in justifiably related areas. The link may be technology or markets.

Paradox 8: How big?

The focus/diversify dilemma is related to growth ambitions such that a large organization may be able to claim critical mass, perhaps important in its industry, especially where it has ambitions to be a global competitor. Some very successful organizations deliberately set out to be number one or number two in every market segment in which they compete. The challenge, however, is to retain the flexibility and the innovation of the small, entrepreneurial business as they grow to ensure that they do not reach a position of stasis in the cycle of growth – and, perhaps, have to engineer a crisis to address the need for renewed creativity. Even the largest global organizations need to be relevant locally around the world. There is a phrase – 'too big to fail' – which, at one point in recent years, was linked to how some people saw the powerful global banks. But is there any organization that qualifies as too big to fail? Of course, much depends on how we are defining failure. Serious under-performance can be viewed as failure – a business does not have to disappear into oblivion – and sometimes this situation can be tolerated for longer than might truly be justified.

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Paradox 9: Centralize or decentralize?

Although centralization enables retention of control at the top of the organization and allows for hands-on leadership from the strategic leader, it can unfortunately make the organization slow to respond in a dynamic environment. Decentralization and empowerment can increase flexibility, in conjunction with a hands-off leadership style, but now control has to be achieved through a carefully crafted information system. While balancing the two satisfactorily may seem impossible, with organizations continually swinging from one to the other, there may be minor adjustments or perhaps major structural changes.

Paradox 10: Long-term or short-term?

A long-term time horizon will imply a directional perspective, with an emphasis on the visionary element and also sustained resilience, while a short-term perspective is more pragmatic in nature. Here tactics and operational-level decisions are important. We might loosely argue that short-term results sometimes imply a focus on one particular stakeholder group, while long-term success demands satisfying all stakeholders.

Paradox 11: Culture versus operations

This links to Paradox 9 and also to the levels of change we discussed in Chapter 15. It is easier to change things at the tactical, operational, activity level than it is at the higher-level cultural end of the change spectrum – and therefore, often tempting to focus energy here. But really it is culture that drives strategy.

Paradox 12: Heroic or servant leadership?

Leadership, as we have seen, is more complex than using simple terminology such as this. That said, a powerful and charismatic leader will often adopt a visionary approach (perhaps with transformational ambitions) based in large part around their own ideas, creativity and intuition; a servant leader style leads to greater devolution to bring in the lower-level (and more operational) insights of people across the organization.

Note

Please see Chapter 1 for a Research Snapshot that focuses on 'Strategy as Practice'. As yet, the literature on strategic resilience remains emergent.

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Summary

The purpose of strategy is to enable organizations to become and remain resilient in the face of the challenges of the 'new normal' world. E–V–R congruence, which we have used throughout the book, is an ideal anchor for understanding how well an organization is dealing with this challenge.

Strategy is based on ten key elements which combine to determine strategic success. At the heart is resilience, linked to risk, crisis avoidance and crisis management.

Organizations need to develop resilience. In a 'world full of surprises' they must endeavour to be ready, fit and able to respond when the unexpected happens. The commentary on resource allocation in Chapter 16 reflects the way in which the organization and its managers deal with the risks that they face.

The key dimensions of risk are:

- the likelihood of certain eventualities – some of which could imply a detrimental impact for the organization.
- the extent of the downside (perhaps a loss of orders, revenues or confidence) if the particular incident in question does occur.

While there is always a personal risk for entrepreneurs and strategic leaders in corporate strategy changes, a useful framework for clarifying and analyzing risks is based on external (environmental) and internal (resource-based) factors.

Risks can be retained, transferred or regulated. The relative success or relative failure of an organization to deal with the risks that it faces determines the extent to which it is crisis prone or crisis averse. Crises can be major or minor, 'thinkable' in advance or, more realistically, unforeseeable. Consequently, organizations need strategies for avoiding crises in the first place and then for dealing with those crises that do occur: handled well, a crisis can enhance the reputation of an organization; handled badly, the impact can be substantial and prolonged.

Crises and disasters contain a mixture of 'cold' (technocratic) and 'warm' (people-related) elements. All too often, organizations focus their attention on the cold elements when it is the warm ones that hold the key. By not learning lessons and by apportioning blame too readily, organizations can legitimize crises and simply increase the likelihood of them happening again.

It remains a paradox that many managers are proud of their ability to crisis fight and deal with problems as they arise, which merely reinforces a reactive attitude and a short-term perspective, and can be short-sighted. Risks and approaches to crisis prevention and management affect the extent to which an organization can be described as resilient and sustainable.

While the building blocks of strategy are readily understandable at one level, the need to make certain choices (all the time) and deal with a number of paradoxes helps explain why, at the proverbial end of the day, strategy is complex – and success today (with E–V–R congruence) is no guarantee of future success.

In conclusion: what is strategy?

At this point, we recommend you revisit Figure 1.11, which illustrates that strategy in practice (and in reality) concerns who decides … what to do … why and how … and when things need to change. Since strategy is about being aware and being in control of the change agenda, requiring organizations to have clear answers for key strategic questions, strategy is, therefore:

- *Knowing where the organization is and how well it is performing*, demanding a clear understanding of strategic positioning, supported by effective performance measures.
- *Ensuring that employees know and support what the organization stands for and where it is going*, implying that strategies are value driven and that employees appreciate the role and significance of their contribution, and that they are accomplished with a sound and shared mission, purpose and direction.
- *Knowing how the organization intends to follow this direction*, requiring intended strategies which build on, and exploit, key resources, competencies and capabilities in the context of identified opportunities.
- *Ensuring that strategies and strategic ideas are resourced and implemented, while recognizing that there is a constant need for vigilance and flexibility* – specifically, an organization that can respond to environmental turbulence, competitor actions and occasional setbacks, and innovate to change its strategies, in which people have some control over the work they contribute.

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The appropriate performance measures concern efficiency (doings things right) and effectiveness (doing the right things). Effectiveness encompasses the interests of all key stakeholders – in particular: employees, who contribute ideas and ensure that strategies are implemented; customers, for whom the value is created and built; and the shareholders who retain faith in the business and support it financially. Where these are in place, we should have an organization which can demonstrate E–V–R congruence and which will be more crisis averse than crisis prone.

In a nutshell, strategy is about what organizations do. It is about doing the right things in the right way – and for the right reasons.

These activities are carried out by everyone in the organization. Managers 'everywhere' and at all levels affect the choices, decisions and tactics. It is, therefore, important that managers think strategically and appreciate the (holistic) impact of their decisions, choices and actions.

We bring the book to a conclusion with Figure 17.5 which summarizes strategy from the perspective of what is critical for an organization to master, as distinct from what is important as a framework for studying the subject. Everything included in the diagram has been covered at different points in this book.

The top bar represents both opportunities and constraints for any and every organization. Strategic leaders should be clear about – and share with others – their motivations and ambitions for the business, and the level of risk they are willing to accept, as well as the mission and purpose of the organization. These factors will help determine the appropriateness and desirability (and, in part, the feasibility) of existing and possible new strategic choices. They will also have some influence on corporate values.

We have stressed at various times that an organization needs a clear and understood business model. This business model is affected by various factors which, again, represent either opportunities or constraints:

- the attractiveness of the industry in which the business competes, which affects its potential to make profits and which, in turn, affect its ability to attract and pay high-quality staff and generate cash to re-invest
- its potential for creating value for its target customers – what we have called 'establishing a compelling reason to do business with the organization'
- the linked potential the organization has for creating and adding that value, affected by
- the quality of the resources that organization has to hand and can obtain, which is further affected by
- sound relationships with key supply chain partners who are essential for ensuring the organization has access to the supplies and components, finance and people it will need; and, in turn, all of these affect
- a positive revenue model resulting from income exceeding costs.

Our final thoughts and message then are that we know what the drivers of strategy are. At one level, we can argue that we know what we should be doing and how the organization should feel. This approach is along the following lines:

- we should be creating value for all our stakeholders by
- identifying and chasing opportunities that will satisfy old and potential new customers by
- building our resource base, especially our people and
- challenging conventional wisdom and innovating, always looking
- to collaborate internally and externally in order
- to control our cost drivers, while continuing to deliver high quality, affordable, differentiated and valued products and services, being
- driven by clear and shared values and
- staying resilient by remaining competitive, flexible and vigilant to changing circumstances.

How we take this approach and maintain it is the challenge. You might well conclude that, in a sense, strategy is not rocket science. We know what we should be striving to achieve. It is not an unknown unknown. And yet the devil remains in the detail. Some organizations do well for a while; some continue to be successful year after year; others fall by the wayside and disappear. Some entrepreneurs are short-term 'one hit wonders'; some start and build high-growth organizations; some behave in a serial manner and start business after business, selling and moving on as appropriate; some promise a great deal and fail to deliver; and others should never start in the first place.

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Figure 17.5 What is strategy? An organizational perspective

Motivation and ambition	'Mission fit'	Risk level and tolerance
Industry attractiveness	Target market potential and attractiveness	Ability to create and add value
	Business model	
Resources and capability	Value chain and ability to reach market	(Positive) revenue model

Online cases for this chapter

Online Case 17.1: Air France, and the Concorde Disaster
Online Case 17.2: The 2012 Olympics
Online Case 17.3: TWA and Swissair
Online Case 17.4: Perrier
Online Case 17.5: BAA and Heathrow's Terminal 5
Online Case 17.6: McDonald's in Russia
Online Case 17.7: Huawei
Online Case 17.8: Jollibee

Question and research assignment

1 Are you personally risk-averse or perceived as a risk-taker? On what evidence are you drawing this conclusion?

Internet and library projects

1 In the run-up to Christmas 2021, Tony's Chocolonely, Dutch-based (self-styled) ethical chocolate company, deliberately left an empty window in its Advent Calendar, arguing that this demonstrated inequality in the world – something that affected cocoa farmers in many countries. Small children were expecting a chocolate treat in every window, and some were distraught as well as disappointed. The company's message made little sense to them. Children who had neurodivergent conditions (such as Attention Deficit Hyperactivity Disorder (ADHD) and autism) were reported as being particularly hard to pacify. Would you expect any reputational damage to the company to be short-lived or longer term? Follow this through and check what happened in 2022.

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2 One of Ocado's food warehouses (in Andover) suffered a major fire in February 2019. Use the internet to research the details. Evaluate the impact of the lost stock (which would be insured) and the loss of subsequent sales because of the interruption to the operations.

3 In August 2000, the Russian nuclear submarine *Kursk* sank in the Barents Sea after an internal explosion. The whole crew was lost and the Russian government was criticized for not calling on foreign help and expertise as quickly as it may have done. What are the lessons in risk and crisis management from this incident?

4 Use the internet to assess the possible long-term damage to Ford Motors when it was discovered (in 2000) that the Bridgestone/Firestone tyres used on its Explorer four-wheel drive vehicles were potentially dangerous and had been the cause of a number of accidents over a period of time. How do you think both Ford and Bridgestone handled the crisis – effectively or ineffectively?

5 Perhaps using the online case on the 2012 Olympic Games, consider whether this was genuinely a risk worth taking. The 'feel-good' factor generated cannot be questioned – but will there have been a financial cost to the nation, albeit partially hidden? Given the issues with security staff shortly before the Games opened – and the reality that some teams insisted on providing their own security – were all the risks under control?

6 Review the causes of the Deepwater Horizon drilling rig (operated by BP) oil spillage into the Gulf of Mexico in 2011. Was this, as many commentators believe, avoidable? Was the situation handled well after it happened? Can you apply the 7–C's framework to this event?

7 Based on the brief comments on the cyber attack on TalkTalk in 2015, consider the challenge for managers and operatives in data centres that contain vast amounts of sensitive information. To a great extent, their role is to 'be there' in case something goes wrong, but not to interfere if it does not. If there is a setback of some form, they have to spring into action and know exactly what is expected of them. Does this mirror an airline pilot – who, for much of the time, relies on an auto-pilot?

8 Use the internet to determine how well you feel Marriott handled a major data breach (publicized in 2019) which meant confidential details of all the customers linked to its Sheraton brands (including financial data) were hacked into and stolen.

Strategy activity

Product recalls in the toy industry

When products that have been sold through retailers have to be recalled because there is some problem or danger, then costs can be substantial and corporate reputations can be damaged. For companies, there are issues of public relations, supply chain management and crisis management. In recent years, a number of toy products have been recalled and replaced. It is not the only industry where this problem occurs; and although there is a common theme to the instances related here – manufacturing in China – this is not the only reason recalls happen.

Mega Brands is a Montreal-based distributor of children's building sets – its Mega Blocks compete with Lego, for example – art materials and magnetic toys. Sales in 2006 amounted to some US$500 million.

In November 2005, a toddler in Seattle died after swallowing some small magnets that had become detached from a Magnetix toy sourced from a New Jersey (US) company that Mega Brands had acquired six months earlier. The toys originated in China and Mega 'did everything it could' to make sure new toys coming through were safe. Products were redesigned to ensure the magnets were embedded more securely, and new production standards and inspection procedures put in place. Labelling and instructions were also made clearer. But hostile press coverage continued and, eventually, in 2006, this led to a huge number of products being recalled and replaced, although there did not appear to have been any further serious incidents. Continuing stories suggested, for example, that the company might have gone further. Labelling may have been improved, but the basic packaging had been retained. Did it need to be changed, or not? The *perception* was that it did. In 2007, there was a second recall.

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It also became apparent that, in today's world of selling old toys on auction sites such as eBay, typical recall programmes may not be enough. Mega set out to buy any items it spotted being sold on in this way. Although there is still a handful of outstanding lawsuits, the number of customer complaints now seems to have died down.

In August 2007, leading toy distributor **Mattel** recalled 18 million Chinese-made toys after concerns over lead paint and magnets. These included Barbie dolls and die-cast cars. Mattel has contract manufacturing plants in China – but it emerged these had been subcontracting the painting operations.

Two months earlier, in June 2007, **Fisher Price** recalled 1.5 million toys over concerns related to lead content. Just before this, a New York-based distributor had recalled 1.5 million Thomas the Tank Engine products – again, for lead. **Toys R Us** had recalled vinyl baby bibs – yet again, for lead.

Moreover, these problems were not confined to the United States. Leading New Zealand distributor, **The Warehouse**, had recalled children's pyjamas containing formaldehyde – some children had been badly burned when their night-clothes accidentally caught fire.

The US Consumer Safety Commission began to argue that toys must be tested more rigorously before they left China – which would increase costs and slow down supplies. But undoubtedly a price worth paying …

It is perhaps useful to think of these issues in the context of the Chinese baby milk contamination stories that happened in 2008. Products had been contaminated with melamine to reduce production costs – over 50,000 children, most of them in China itself, became quite seriously ill and four died. The issue was taken seriously, executives charged with murder, convicted and sentenced to death.

Questions

1. Although recalls and replacements can prove very costly, it will arguably always be tempting to look for cost reduction opportunities wherever they can be found – as these can lead to either lower prices or higher profits – or both. But can we ever legislate for companies that either cut corners or seek to take what turn out to be inappropriate risks?
2. These examples are all from the early to mid-2000s. Can you identify more recent examples? Has any real progress been made? Lessons learned? Which of the 12 Strategic Paradoxes listed in Section 17.4 are relevant for a debate on this topic?

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Glossary

acquisition—the purchase of one company by another, for either cash or equity in the parent. Sometimes the word *takeover* is preferred when the acquisition is hostile, and resisted by the company being bought. Similarly, *mergers* are when two companies simply *agree* to come together as one.

activities—those things – acts and tasks – undertaken by an organization which, when aggregated, dictate the strength of a *strategic position*.

adaptive strategic change—strategies that emerge and develop on an ongoing basis as companies learn of new environmental opportunities and threats, and adapt (or respond) to competitive pressures.

adding value—technically, the difference between the value of a firm's outputs and its inputs; the additional value is added through the deployment and effort of the organization's resources. Successful organizations will seek to add value to create outputs which are perceived as important by their customers. The *added value* or *supply chain* is the sequential set of activities from suppliers, through manufacturers and distributors, which is required to bring products and services to the marketplace.

agency—having responsibility for, and control over, actions; and being accountable for the consequences and outcomes.

alliance (strategic alliance)—an agreement, preferably formalized, with another organization. The alliance may be with an important supplier, with a major distributor, or possibly with a competitor – say, for joint research and development.

appropriability—the ability of an organization to ensure that at least some of the benefits earned from the value that it creates and adds come back to the organization, rather than only benefiting others, such as suppliers, customers or even competitors.

architecture—a relational network involving either, or both, external linkages (*refer to alliance*) or internal linkages between managers in a company or businesses in a conglomerate. The supply chain is one such network. The main benefits concern information exchanges for the mutual gain of those involved, and *synergies* from interdependencies. Sometimes linked with reputation and innovation as key strategic resources for an organization.

backward (vertical) integration—the process by which a manufacturer acquires direct control over its inputs, such that it makes what it previously bought in. Refer also to *vertical integration*.

benchmarking—a process of comparative evaluation – of products, services and the performance of equipment and personnel. Sometimes companies attempt to benchmark their competitors; on other occasions, they will benchmark those organizations which are seen as high performers.

Black swan events—are a metaphor for surprise events that have a major impact on organizations and demand a reaction. There is considerable uncertainty, and sometimes decision-makers will use hindsight to try to rationalize their responses. *Refer also to: strategic shocks*.

Blue Ocean Strategy—is where organizations discover radical new opportunities for competitive advantage and thus reduce the likelihood of damage from aggressive price competition.

branding—the additional value and reassurance provided to customers through the reputation of the business, represented by the strength and visibility of its brand name.

break-even—the level of activity where the total costs incurred in producing and selling a product or service – or pursuing a particular strategy – are equal to the total revenues generated.

business environment—*refer to environment*.

business ethics—the principles, standards and conduct that an organization practises – and sometimes states formally – and the way in which it deals with its people, its external stakeholders and environmental issues that arise.

business model—a concise summary of the organization and its strategy which answers three questions – what, for whom and why? What products and business activities the organization will engage in – and what it will not, who the target market is for each product or business and what their compelling reason to buy is – the why element.

business model canvas—framework developed to provide a logical means for crafting a business model; based on a series of questions and key themes.

business process re-engineering—the analysis and redesign of workflows and processes within organizations and between them (i.e. along the supply chain).

centralization/decentralization—*refer to decentralization/centralization*.

combination strategies—term used where more than one discrete strategic alternative is pursued at the same time. Particularly relevant for a mixture of market penetration, market development and product development strategies; and invariably implies innovation.

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competitive advantage—the ability of an organization to add more value for its customers than its rivals, and thus attain a position of relative advantage. The challenge is to sustain any advantage once achieved.

competitive logic—linked to *competitive advantage*, competitive logic concerns the robustness and viability of the competitive strategy for a product, service or business.

competitive platforms—the important bases of competition in an industry and for an individual competitor.

competitive strategy—the means by which organizations seek to achieve and sustain competitive advantage. Usually the result of distinctive *functional strategies*. There should be a competitive strategy for every product and service produced by the company.

competitor gap analysis—a comparison of the organization with its leading competitors in terms of their respective ability to satisfy key success factors. Ideally, this will involve an input from relevant customers.

competitor-influenced strategy—strategies and tactics that arise from a need to compete in an industry or environment – for both markets and resources. When an organization introduces changes, competitors are likely to react, forcing further incremental changes. At the same time, competitors introduce new strategic ideas that vigilant organizations will respond to.

concentration ratio—normally the degree to which added value and/or turnover and/or assets in an industry are concentrated in the hands of a few suppliers. High concentration is reflected in monopoly and oligopoly industry structures. Sometimes measured in terms of aggregate output controlled by the largest companies in a country.

controls—means by which progress against stated objectives and targets is measured and monitored, and changed as necessary.

core competencies—distinctive skills, normally related to a product, service or technology, which can be used to create a competitive advantage. Refer also to *strategic capability*. Together, they form key resources that assist an organization in being different from (and ideally superior to) its competitors.

corporate entrepreneurship—term used to embrace a number of actions that would demonstrate entrepreneurial behaviour from an established business. An acquisitive strategy, buying up other businesses (especially if they are unrelated), would qualify. Establishing joint ventures and management buy-outs are other examples.

corporate governance—the selection, role and responsibilities of the strategic leadership of the organization, their conduct and their relationships with internal and external stakeholders. Sometimes responsibility for overall strategy and ongoing operations will be separated.

corporate strategy—the overall strategy for a diversified or multi-product/multi-service organization. Refers to the overall scope of the business in terms of products, services and geography.

cost focus—is a competitive strategy based on cost rather than differentiation. The assumption is that lower costs for equivalent quality (equivalent to competitors) will allow for superior margins and profits with pricing at or near to competitor prices.

cost leadership—the lowest cost producer in a market, after adjustments for quality differences. An important source of competitive advantage in either a market or a segment of a market. Specifically, the cost leader is the company that enjoys a cost advantage over its rivals through the management of its resources, and not simply because it produces the lowest quality.

cost of capital—the cost of capital employed to fund strategic initiatives, combining the rate of interest on debt and the cost of equity. The typical formula used is the weighted average cost of capital which encompasses the relative proportions of debt and equity. Should normally be lower than the discounted rate of return from the investment or initiative – *refer to discounted cash flow*.

credit crunch—a term used to explain a shortage of credit in an economy. The impact is felt by organizations which experience difficulties in borrowing money to invest and expand.

crisis management—how the organization: (i) seeks to reduce the likelihood of, and (ii) manages in the event of, a major disturbance which has the potential to damage the organization's assets or reputation. Some crises are the result of mismanagement or inadequate controls; others begin outside the organization and may be unavoidable.

critical mass—relates to the actual and relative size of an organization in terms of its ability to be influential and powerful in its industry or environment.

critical success factors—*refer to key success factors*.

culture—the values and norms of an organization, which determine its corporate behaviour and the behaviour of people within the organization.

decentralization/centralization—the extent to which authority, responsibility and accountability are devolved throughout the organization. Centralization should yield tight control; decentralization motivates managers and allows for speedier reactions to environmental change pressures.

delayering—the flattening of an organization structure by removing layers of management and administration.

differentiation—products and services are differentiated when customers perceive them to have distinctive properties that set them apart from their competitors.

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directional policy matrix—a planning technique used to compare and contrast the relative competitive strengths of a portfolio of products and services produced by an organization. Used to help in evaluating their relative worth and investment potential.

discounted cash flow (DCF)—the sum of the projected cash returns or flows over a period of years from a strategic investment or initiative. Future figures are reduced (specifically, inflation is removed) to bring them in line with present values and thus have investment and projected returns valued in the same conceptual time period.

diversification—the extent of the differences between the various products and services in a company's portfolio (its range of activities). The products and services may be *related* through, say, marketing or technology, or *unrelated*, which normally implies that they require different management skills.

divestment—term used when an organization sells or spins off (or maybe even closes) a business or activity. Usually linked to a strategy of increased focus.

divisionalization—a form of organization structure whereby activities are divided and separated on the basis of different products or services, or geographical territories.

dot.com companies—organizations that have emerged as the power and potential of the Internet has been realized and exploited – dot.com companies will normally trade over the Internet, but some are essentially service providers.

double-loop learning—an assessment of the continuing appropriateness and value of existing competitive positions and paradigms, and the ability to create new competitive positions, ideally ahead of competitors. Refer also to *single-loop learning*.

downsizing—sometimes associated with business process re-engineering, downsizing occurs when organizations rationalize their product/service ranges and streamline their processes. People, in particular layers of management, are removed. Refer also to *rightsizing*.

e-commerce—short for electronic commerce, and meaning trading over the Internet.

economies of scale—cost savings accrued with high volume production, which enables lower unit production costs.

effectiveness—the ability of an organization to meet the demands and expectations of its various stakeholders, those individuals or groups with influence over the business. Sometimes known as 'doing the right things'.

efficiency—the sound management of resources to maximize the returns from them. Known as 'doing things right'.

emergent strategy—term used to describe and explain strategies which emerge over time and often with an element of trial and error. Detailed implementation is not prescribed in advance. Some emergent strategies are *incremental changes* with learning as intended strategies are implemented. Other *adaptive strategies* are responses to new environmental opportunities and threats.

empowerment—freeing people from a rigid regime of rules, controls and directives, and allowing them to take responsibility for their own decisions and actions.

entrepreneur—someone who perpetually creates and innovates to build something of recognized value around perceived opportunities.

entrepreneurial mindset—curious people who spot and/or conceive opportunities that might create and add value for consumers, often using creativity and innovation, might be said to have an entrepreneurial mind. Those with an entrepreneurial mindset are minded to seize and to act on these opportunities, and deliver on their promise.

entrepreneurial/visionary strategies—strategies created by strong, visionary strategic leaders. Their successful implementation relies on an ability to persuade others of their merit.

environment—everything and everyone outside the organization or organizational boundary – including competitors, customers, financiers, suppliers and government.

E–V–R (Environment–Values–Resources) congruence—the effective matching of an organization's resources (R) with the demands of its environment (E). A successful and sustained match has to be managed and frequently requires change; successfully achieving this depends on the organization's culture and values (V).

experience curve—the relationship between (reducing) unit costs and the total number of units ever produced of a product. Usually plotted as a graph, and often with a straight-line relationship on logarithmic axes. The percentage unit cost reduction holds steady every time output is doubled.

financial control—term used to describe the form of control normally found in a *holding company* structure. Strategy creation is decentralized to independent business units which are required to meet agreed financial targets.

focus strategy—concentration on one or a limited number of market segments or niches.

forward (vertical) integration—when an organization takes control of aspects of its distribution, transport or direct selling. Refer also to *vertical integration*.

functional strategies—the strategies for the various functions carried out by an organization, including marketing, production, financial management, information management, research and development, and human resource management. One or more functional

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strategies will typically be responsible for any distinctive competitive edge enjoyed by the company.

functional structure—a structure based around individual functions, such as production, sales and finance, all of which report to an identifiable managing director/chief executive.

generic strategies—the basic competitive strategies – based on cost leadership, differentiation and focus – which are open to any competitor in an industry, and which can be a source of competitive advantage.

global strategies—strategies for companies which manufacture and market in several countries and/or continents. Issues concern, for example, the location of manufacturing units and the extent to which control is centralized at a home base or decentralized on a local basis.

governance—the location of power and responsibility at the head of an organization. Refer also to *corporate governance*.

heartland—term used to describe a cluster of businesses (in a multi-business organization) which can be justifiably related and integrated to generate synergies.

holding company—a structure where the various businesses are seen as largely independent of each other and managed accordingly. The term holding company is derived from the fact that the business is, in effect, holding the majority of the shares in the subsidiaries.

horizontal integration—the acquisition or merger of firms at the same stage in the supply chain. Such firms may be direct competitors or focus on different market segments.

implementation—Refer to *strategy implementation*.

innovation—changes to products, processes and services in an attempt to sharpen their competitiveness – through either cost reduction or improved distinctiveness. Strategically, it can apply to any part of a business.

intangible resources—resources which have no physical presence, but which can add real value for the organization. Reputation and technical knowledge would be typical examples.

intellectual capital—the hidden value (and capital) tied up in an organization's people which can set it apart from its competitors and be a valuable source of competitive advantage and future earnings. Difficult to quantify and value for the balance sheet. Linked to *knowledge*.

intended strategies—prescribed strategies the organization intends to implement, albeit with incremental changes. Sometimes the result of (formal) strategic planning; sometimes the stated intent of the strategic leader. May be described alternatively as *prescriptive strategies*.

intrapreneurship/intrapreneur—the process of internal entrepreneurship or the person providing this. Occurs when managers or other employees accept responsibility and actively champion new initiatives aimed at making a real difference.

joint venture—a form of strategic alliance where each partner takes a financial stake. This could be a shareholding in the other partner or the establishment of a separate, jointly owned business.

just-in-time (JIT)—systems or processes for ensuring that stocks or components are delivered just when and where they are needed, reducing the need for inventory.

key (or critical) success factors—environmentally based factors which are crucial for competitive success. Simply, the things that an organization must be able to do well if it is to succeed.

knowledge—an amalgamation of experience, values, information, insight and strategic awareness – which goes beyond the notions of data and information. Retained, managed and exploited, it can be a valuable source of competitive difference and advantage. Refer also to *intellectual capital*.

leadership—Refer to *strategic leader*.

lean start-up—approach to developing new products and businesses based on asking key questions to establish priorities and then adopting a trial-and-error approach to ensure resources are conserved and risks limited.

learning organization—one which is capable of harnessing and spreading best practices, and where employees can learn from each other and from other organizations. The secret lies in open and effective communications networks.

leverage—the exploitation by an organization of its resources to their full extent. Often linked to the idea of *stretching resources*.

life cycle—refer to *strategic life cycle*.

liquidation—the closing down of a business, normally because it has failed. Typically a last resort, when a rescue or sale has either not been possible or not successful.

logical incrementalism—term adopted by John B. Quinn to explain strategy creation in small, logical, incremental steps.

long tail—relates to an extended product life cycle, especially for products (or services) whose popularity rises and falls rapidly due to 'fashion'. Through e-commerce, products (such as CD titles and books) can remain available without normal distribution channels needing to carry expensive inventory.

Machiavellianism—where individuals use power and influence to structure situations and events and bring about outcomes, which are more in their own personal interests than those of the organization. Linked to *organizational politics*.

market development—continuing with existing products and services but, and possibly with modifications and additions, seeking new markets and new market segment opportunities.

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market-driven strategy—alternative term for *opportunity driven strategy*.
market penetration—persisting with existing products/services and existing customers and markets but accepting that continuous, incremental improvement is possible to strengthen the relevant strategic position. The assumption is that sales and revenue can be increased.
market segment(ation)—the use of particular marketing strategies to target identified and defined groups of customers.
merger—refer to *acquisition*.
milestones—interim targets which act as indicators or measures of progress in the pursuit of objectives and the implementation of strategies.
military strategy—strategy and planning in the context of warfare through the ages. Strategy has its origins in warfare and, consequently, a study of military strategy can provide valuable insights into corporate behaviour.
mission—a statement of the organization's present main activities.
mission statement—a summary of the essential aim or purpose of the organization; its essential reason for being in business.
monopoly power—the relative power of an individual company in an industry. It does not follow that a dominant competitor will act against the best interests of customers and consumers, but it could be in a position to do so.
monopoly structures—term for an industry with a dominant and very powerful competitor. Originally based on the idea of total control, competitive authorities around the world now consider a 25 per cent market or asset share to be a basis for possible monopoly power.
multinational company—a company operating in several countries. Refer to *global strategies*.
new business model—term for business models that are (radically) different and can on occasions change the 'rules of competition' in an industry.
new normal—Increasingly popular term for describing the uncertain and turbulent modern business environment. The term is taken to mean the only certainty as such is change, implying considerable unpredictability. Heralded by the global financial crisis of 2008–2012, the abnormal has effectively become the normal.
niche marketing—concentration on a small, identifiable market segment with the aim of achieving dominance of the segment.
not-for-profit organization—term used to describe an organization (such as a charity) that does not have profit as a fundamental objective. Such organizations will, however, have to achieve a cash surplus to survive.
nudge theory—aspect of change management related to persuasion as opposed to coercion. The argument is that people can be (gently) nudged towards new behaviours by a series of small, incremental steps.
objectives—short-term targets or milestones with defined measurable achievements. A desired state and hoped-for level of success.
oligopoly—(structure) an industry dominated by a small group of competitors.
open business model—business models that 'borrow' ideas from elsewhere and, using innovation, adapt them for different circumstances.
opportunity-driven strategy—strategy creation and development that begins with an analysis of external environmental threats and opportunities. Refer also to *resource-based strategy*.
organizational politics—the process by which individuals and groups utilize power and influence to obtain results. Politics can be used legitimately in the best interests of the organization, or illegitimately by people who put their own interests above those of the organization.
outsource/outsourcing—procuring products and services from independent suppliers rather than producing them within the organization. Often linked to strategies of focusing on core competencies and capabilities.
paradigm—a recipe or model for linking together the component strands of a theory and identifying the inherent relationships, a competitive paradigm explains the underpinning logic of a competitive strategy or position.
parenting—the skills and capabilities used by a head office to manage and control a group of subsidiary businesses. The head office should be able to add value for the businesses, while the businesses should, in turn, be able to add value for the whole organization.
performance indicators or measures—quantifiable measures and subjective indicators of strategic and competitive success.
PEST analysis (also PESTLE analysis)—an analysis of the *political*, *economic*, *social* and *technological* factors in the external environment of an organization, which can affect its activities and performance.
plan—a statement of intent, generally linked to a programme of tactics for strategy implementation.
planning—refer to *strategic planning*.
planning gap—a planning technique which enables organizations to evaluate the potential for, and risk involved in, seeking to attain particular growth targets.
policies—guidelines relating to decisions and approaches which support organizational efforts to achieve stated (intended) objectives. Can be at any level in the organization, and can range from mandatory regulations

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to recommended courses of action. They may or may not be written down formally.

portfolio analysis—techniques for evaluating the appropriate strategies for a range of (possibly diverse) business activities in a single organization. Refer to *directional policy matrix*.

power—the potential or ability to do something or make something happen. Externally, it refers to the ability of an organization to influence and affect the actions of its external stakeholders. Internally, it concerns the relationships between people.

power curve—idea that 20 per cent of businesses in the economy are low performers in respect of financial returns, 20 per cent are high performers and 60 per cent are 'average'. Progressing through the mid-section (the average businesses) is along a relatively flat part of a curve – but the upper and lower ends of the curve are much steeper. Therefore, once an organization is underperforming, the deterioration can be rapid; equally it is difficult to make serious progress in the top 20 per cent, although this can be highly rewarding.

prescriptive strategies—refer to *intended strategies*.

private equity funds—venture capital funds whereby professional investors secure funds to invest in organizations, sometimes parachuting in a new management team when they take ownership. The funders are usually looking to sell or float the business in a relatively short timescale to recover their funds and, at the same time, make a healthy return.

product development—developing additional and normally related products and services to enhance the range available to existing customers and markets, and thereby increase sales and revenue.

profit—the difference between total revenues and total costs. Often profit is a fundamental objective of a manufacturing or service business.

profitability—financial ratios which look at profits generated in relation to the capital that has been employed to generate them. Two different ratios relate (i) trading profit (or profit before interest and tax) to total capital employed (known as the return on capital employed), and (ii) profit after interest and tax to shareholders' funds (known as the return on shareholders' funds).

public sector organizations—organizations controlled directly or indirectly by government and/or dependent on government for a substantial proportion of their revenue. Includes local authorities, the National Health Service in the UK and the emergency services.

quality—strategically, quality is concerned with the ability of an organization to 'do things right – first time and every time' for each customer. This includes internal customers (other departments in an organization) as well as external customers. *Total quality management* is the spreading of quality consciousness throughout the whole organization.

reputation—the strategic standing of an organization in the eyes of its customers and suppliers.

resource-based strategy—strategy creation built around the further exploitation of core competencies and strategic capabilities.

retrenchment—strategy followed when an organization is experiencing difficulties and needs to cut costs and consolidate its resources before seeking new ways to create and add value. Sometimes involves asset reduction (perhaps the sale of a business) and job losses.

revenue model—linked directly to the Business Model, the revenue model illustrates why and how a product, service or business is profitable.

rightsizing—linked to downsizing, implies the reduction in staffing is at a level from which the organization can grow effectively. On occasions, downsizing can mean that strategically important skills and competencies are lost; rightsizing implies this is not the case.

risk management—the understanding of where and how things can and could go wrong, appreciating the extent of any downside if things do go wrong, and putting in place strategies to deal with the risks either before or after their occurrence.

scenarios—conceptual possibilities of future events and circumstances. Scenario planning involves using these to explore what might happen in order to help prepare managers for a wide range of eventualities and uncertainties in an unpredictable future environment.

servant leadership—an approach to leadership based on delegating, empowering, supporting and mentoring rather than directing 'from the front'. Assumes people respond well when given responsibility and some freedom to make their own decisions.

single-loop learning—the ability to improve a competitive position on an ongoing and continuous basis, acknowledging there is always the possibility of improvement. Sometimes the competitive paradigm itself has to be changed – refer to *double-loop learning*.

small- and medium-sized enterprises (SMEs)—term used to embrace new and growing businesses, and those which (for any number of reasons) do not grow beyond a certain size.

social responsibility—strategies and actions that can be seen to be in the wide and best interests of society in general and the environment. Sometimes associated with the notion of mutual self-interest.

spheres of influence—building an arsenal of products and services that enable real influence across a wide range of critical interests. Routes to growth around a key *heartland*. Also related to protecting existing interests in the face of competition.

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squirrel approach—to strategic management resembles a squirrel climbing a tree, cautiously moving upwards from the trunk. The squirrel has limited options and makes many small well-informed decisions. This approach is viewed as less risky, as the squirrel is on familiar territory.

stakeholders—any individual or group capable of affecting (and being affected by) the actions and performance of an organization.

strategic agility—being able to stay competitive in the face of uncertainty and surprises by adjusting and adapting, using innovation to create new products, services and business models.

strategic alliance—refer to *alliance*.

strategic architecture—refer to *architecture*.

strategic awareness—appreciating the strategic position and relative success of the organization. Knowing how well it is doing, why and how – relative to its competitors – and appreciating the nature of the external environment and the extent of any need to change things.

strategic break points—occur periodically over a period of time, but without any obvious pattern to the timescale. They imply changes of direction, strategy or tactics. Organizational performance can either improve or deteriorate (or remain much the same) as a consequence of the decisions and actions taken. The challenge over time is to maintain an upwards trajectory although there are likely to be setbacks in and among the successes.

strategic business unit—a discrete grouping within an organization with delegated responsibility for strategically managing a product, a service or a particular group of products or services.

strategic capability—process skills used to add value and create competitive advantage.

strategic change—changes that take place over time to the strategies and objectives of the organization. Change can be gradual, emergent and evolutionary, or discontinuous, dramatic and revolutionary.

strategic changes—changes to intended (possibly planned) strategies as they are implemented. Result from ongoing learning and from changes in the environment or to forecast assumptions.

strategic control—a style of corporate control whereby the organization attempts to enjoy the benefits of delegation and decentralization with a portfolio of activities which, while diverse, is interdependent and capable of yielding synergies from co-operation.

strategic heritage—the loose collection of real and story-based experiences, based, for example, on products, decisions and events, that together have created the organization's 'timeline' and provide some explanation for 'where the organization is now'.

strategic inflection points—introducing important changes at the right moment – related to both competition and customer expectations. Can act as a transformation point in the history of an industry.

strategic issues—current and forthcoming developments inside and outside the organization which will impact on the ability of the organization to pursue its mission and achieve its objectives.

strategic leader/leadership—generic term used to describe a manager who is responsible for changes in the corporate strategy.

strategic lens—term used to explain that strategy can be examined from a number of different perspectives, all of which have logic and merit. Different individuals and stakeholders might well take different views of events and outcomes, given their particular point of view.

strategic life cycle—the notion that strategies (like products and services) have finite lives. After some period of time they will need improving, changing or replacing.

strategic management—the process by which an organization establishes its objectives, formulates actions (strategies) designed to meet these objectives in the desired timescale, implements the actions, and assesses progress and results.

strategic planning—*in strategy creation*: the systematic and formal creation of strategies – to be found in many organizations, and capable of making a very significant contribution in large, multi-activity organizations. In *strategic control*: centralized control, most ideal where there is a limited range of core businesses.

strategic positioning—the chosen or realized relationship between the organization and its market. Clearly linked to competitive strategies and competitive advantage. The position itself is not a source of advantage, but the activities that underpin the position are.

strategic regeneration (or renewal)—major and simultaneous changes to strategies, structures and styles of management. Refer also to *transformational change*.

strategic resilience—the ability of any organization to withstand surprise events and crises and survive and thrive in an uncertain business environment. Linked to being strategically aware and strategically agile, able to change quickly when necessary.

strategic shocks—are unexpected changes or events in the (external or internal) environment that organizations must respond to. It is their depth and significance that demands a stronger term than 'surprises'. Some might be described as *Black swan events*.

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strategic thinking—the ability of the organization (and its managers) to: (i) synthesize the lessons from past experiences and to share the learning; (ii) be aware of current positions, strengths and competencies; and (iii) clarify the way forward for the future.

strategy—the means by which organizations achieve (and seek to achieve) their objectives and purpose. There can be a strategy for each product and service, and for the organization as a whole.

strategy creation—umbrella term for the formulation and choice of new strategies. Encapsulates direction from the strategic leader (or an entrepreneur), strategic planning, and emergent strategy. Refer to: *emergent strategy*; *entrepreneurial strategies*; *strategic planning*.

strategy implementation—the processes through which the organization's chosen and intended strategies are made to happen.

stretching resources—the creative use of resources to add extra value for customers – through innovation and improved productivity.

supply chain—the linkage between an organization, its suppliers, its distributors and its customers.

sustainable competitive advantage—a sustained edge over competitors in an industry, usually achieved by first creating a valuable difference and then sustaining it with improvement and change.

SWOT analysis—an analysis of an organization's *strengths* and *weaknesses* alongside the *opportunities* and *threats* present in the external environment.

synergy—term used for the added value or additional benefits which ideally accrue from the linkage or fusion of two businesses, or from increased co-operation either between different parts of the same organization or between a company and its suppliers, distributors and customers. Internal co-operation may represent linkages between either different divisions or different functions.

tactics—specific actions that follow on from intended strategies but which can also form a foundation for emergent strategy.

tangible resources—the organization's physical resources, such as plant and equipment.

task and finish teams—a self-explanatory term for what often used to be described as (temporary) project teams. Typically, a group of people (at various managerial levels) will be brought together to deal with a one-off problem, challenge or opportunity. These projects can replace an individual's normal job for a period of time or (more likely) be an adjunct to them continuing their main role in the organization.

transfer price—associated with the transfer of products, components or services between businesses in the same organization. A particularly important issue where there are considerable interdependencies between businesses. The (corporately) imposed or agreed transfer price can be of markedly different attractiveness to the buying and selling businesses, and can be a source of friction.

transformational change—major and simultaneous changes to strategies, structures and styles of management. Refer also to *strategic regeneration*.

turnaround strategy—an attempt to find a new competitive position for a company in difficulty.

values—the underpinning attitudes and manifest behaviours (perhaps desired as well as actual) that an organization wishes to have and to demonstrate.

value chain—framework for identifying: (i) where value is added, and (ii) where costs are incurred. There is an internal value chain and one that embraces the complete supply chain. Internally, it embraces the key functions and activities.

value creation—the process(es) through which organizations create, add and deliver value that clients and customers perceive is worthy of action, such as using a service, buying a product and/or choosing one organization (product or service) as opposed to a competing one. It is critical to emphasize the word 'perceived' as this value may not always be fully quantified and fully understood. It results in a **value proposition**.

value networks—the network of interested parties, both internal to an organization and external partners, that support value creation. The networks can be informal or formally established. Relates to *architecture*.

value proposition—the value that can yield competitive advantage to an organization because (a) it is distinctive and (b) it provides a compelling reason for customers to buy a product or service. Also refer to: *value creation*.

vertical integration—where firms directly enter those parts of the added value chain served by their suppliers or distributors, the term used is vertical integration. To achieve the potential benefits of vertical integration (specifically synergy from co-operation) without acquiring a business which normally requires specialist and different skills, firms will look to establish strong alliances and networks.

vision—a statement or picture of the future standing of an organization. Linked to the mission or purpose, it embraces key values.

visionary strategy—*refer to entrepreneurial/visionary strategy*.

wayfinding—strategies are fundamentally means to ends, the paths organizations follow to pursue goals and objectives. Underpinned by sense-making and changes of direction, the term 'wayfinding' explains the process.

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