Strategic management theory and application

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Some key issues for discussion:

- How much time managers dedicate to strategic thinking?
- What is the role of strategic consultants (what could we expect and what not)?
- Strategy and strategic plan
- How to get out of existing concepts (industry foresight and portfolio of capabilities or what the public phone manufacturer could do in the era of cell phones)?
Section 1: What is strategy?
• fundamental questions in the field of strategic management
• leadership and strategic management
• strategy and organisational culture

Section 2: The origins of strategy
• historical and evolutionary perspective
• different perspectives on strategy:
  - 10 schools of thought
  - 5 P’s about strategy
  - “Recipe” for strategy creation (pragmatic and conceptual knowledge)
  - Strategic choice and emergent strategies

Section 3: The resource based view (RBV) and dynamic capabilities
• capabilities and competencies
• core competencies and products
• competitiveness and competitive advantage
• dynamic capabilities
Section 4: The strategy process (the strategy life-cycle - integration of conceptual and pragmatic knowledge)

- Identification of core capabilities, resources, competences
- Mission, vision and strategic intent
- Development of the industry foresight
- Identification of the current product and market concepts, competencies
- Strategy formation
- Strategy articulation and strategy codifying
- Strategy elaboration
- Strategy evaluation
- Strategy promotion
- Strategy execution
- Strategy re-evaluation and strategy re-design

Section 5: Organisational structure, organisational evolution and organisational strategy

- organisational structure (five basic parts of the organisation)
- basic coordinating mechanisms
- organisational configurations (forms)
- evolution and growth stages of the organisation
- organisational forms and strategy
SECTION 1: What is strategy?

• the words 'strategy' and 'strategic' are well recognised and widely used in the modern business world

• however, the term strategy is so widely used for different purposes that it has lost any clearly defined meaning

• “Despite the obvious importance of strategy, there is surprisingly little agreement on what a strategy really is. However, the fact is that behind every successful company, there is a superior strategy (Markides, 1999).”

• “Nobody really knows what strategy is (The Economist, 1993).”
• “Behind every successful company, there is superior strategy. The company may have develop this strategy through formal analysis, trial and error, intuition, or even pure luck. No matter how it was developed, it is important to understand the logic of successful strategies (Markides, SMR, 1999).”

• strategy is a highly ambiguous word that is usually associated with a long range planning, a hierarchically structured system of objectives and goals, and a selected way of creating a fit between external environment, internal resources and capabilities - this view is not wrong, yet it is too narrow

What is strategy?

• contemporary thoughts in the field of strategic management imply that strategy should be understood as the creation of the company’s future which is the result of collective social activity, considered as an ongoing process (and not as a category) and idiosyncratic in its essence

• common practice shows that corporate identity and strategy are usually built around market and product focused entities

• not enough consideration is given to other essential entities of strategy - resources and competencies;

• the resource perspective is not a natural one for most companies
What is strategy?

- product and market position can be changed relatively easily (if this new position relies on a portfolio of the same or similar capabilities that exist in the present)

- however, changes in the portfolio of resources, capabilities and competences require a longer-term evolutionary process

- strategy is build on assumptions about the future

- strategy has consider the uncertainty

- despite the existence of different definitions of strategy, we will avoid the temptation to offer a generic definition of it

Fundamental issues in the field of strategic management

- How firms achieve and sustain competitive advantage?

- How and why certain firms build competitive advantage?
What is strategy?

Strategy as a fit between

internal environment

new products (industry concepts)
new markets
new competition

could do (new required capabilities & competencies)

want to

can do (existing capabilities & competencies)

should do

existing products (industry concepts)
existing markets
existing competition

Strategy

What is strategy?

Strategy stakeholders

Customers

Owners (share-holders)

Strategy (core-competencies)

Employees

External environment (community)
What is strategy?

Leadership and strategic management

Which basic categories of capabilities (according to ISO9000:2000) build a competent manager (what is competence and what is management - in its essence)?

Sun-Cu (500 B.C.) about the competent leader:

- professional competence (about the essence of the business you are doing)
- management and leadership skills (strategic management)
- tactical skill (how to implement)

There is no general management function!!!

Strategy (strategic management) as an essential tool of a manager!!

What is strategy?

3 major distortions in leadership

Eye Fever

- difficult to face the reality (managers see what they want to see)
- higher you go in the hierarchy more you are affected by it
- ‘kill the messenger’

Hard Tango

- a lack of courage in many organisation – management by fear
- depends on the risk taking
- hard tango with options
What is strategy?
3 major problems in leadership

3 Ps

Politics
• it is everywhere
• it is naive to believe to get on the top to neglect politics
• you should know who is who, who is a sponsor, which networks exist
• ‘high performers’ don’t have to time to deal with politics

Power
• not to perform but accumulate the power (information)

What is strategy?
3 major problems in leadership

Performance
• many organisations (managers) do not appreciate young brilliant people
• ‘don’t be a smart guy’
• the most powerful people in organisations are usually not the most brilliant
What is strategy?

Leadership and strategic management

Leadership is about the creation of an environment (conditions) where people work, think and enjoy.

"People join companies and leave managers."
Marcus Buckingham, Senior Managing Consultant at Gallup

You have to be loyal to yourself, to your family, to professional performance and development and constantly watch for new opportunities.

‘Create your bubble of sanity and excellence.’
What is strategy?

Strategic planning and strategy creation

*Strategic planning is not to create a strategy* but to programme a strategy already created!!

- strategic planning is essentially analytical in nature, based on decomposition, while
- strategy creation is a process of synthesis

*Henry Mintzberg; The Rise and Fall of Strategic Planning: Reconceiving the Roles for Planning, Plans, Planners (Free Press and Prentice-Hall International, 1994)*

Planner vs. strategist

- **strategists** are less conventional, *creative, innovative*, divergent types of thinkers and intuitive
- **planners** are analytical, convergent types of thinkers, who put the order in organisation; they could help identify patterns

What is strategy?

Strategy and corporate culture

- corporate culture represents values, beliefs, attitudes and habits of an organisation
- corporate culture helps than individual to differentiate what is important and what is not
- strategy should be deeply rooted in organisation culture

*strategy* ⇒ *values* ⇒ *behaviours*

*the Intel case study*

“Intel believes in innovation. We're driven by it. We live by it. And it's this principle that led us to create the world's first microprocessor back in 1971.

Today, Intel is behind everything from the fastest processor in the world to the cables that power high-speed Internet. We keep innovating because it's in our blood. Because it's part of our heritage. And because the technology we invent today will shape the world's future.”
SECTION 2: The origins of strategy

- A historical perspective reveals its military roots.
- In ancient Greece, the word 'strategos' was referred to as the role of an individual – a general in command of an army (as a set of behavioural and psychological skills of an individual).
- Pericles 450 B.C. linked the word strategy with managerial skills.
- Alexander 330 B.C. defined strategy as the skill of employing forces to overcome opposition.
- Academic underpinnings of the field of strategic management: Harvard pioneered the course in 'Business policy' (an integration of knowledge about accounting, operations, and finance - giving management students a broader perspective on the strategic problems faced by corporate executives).
The origins of strategy

The Blind Men and the Elephant (John Godfrey Saxe 1816 – 1887)

It was six men of Indostan
To learning much inclined,
Who went to see the Elephant
(Though all of them were blind).

The First approached the Elephant
....
“God bless me but the Elephant
Is very like a wall!”

The Second, felling of the tusk,
Cried, “This wonder of an Elephant
Is very like a spear!”

The Third approached the animal,
And happening to take
The squirming trunk with in his hands.
“I see”, quoth he, “The Elephant
Is very like a snake!”

The Fourth reached out an eager hand,
And felt around the knee.
“Tis clear enough the Elephant
Is very like a tree!”

...
There is no single, widely accepted definition of the strategy!!!

Historical and evolutionary perspective on strategy:

>> 10 schools of thought (H. Mintzberg):
  - the Design school, the Planning school, the Positioning school, the Entrepreneurial school, the Cognitive school, the Learning school, the Political school, the Cultural school, the Environmental school, the Configurational school

>> 5 P's about the strategy - strategy as (H. Mintzberg): 
  - plan, play, pattern, position, perspective

>> Pragmatic and conceptual knowledge

>> Strategic choice and emergent strategies
The origins of strategy

**10 schools of thought** (H. Mintzberg) – **basic premises:**

The **Design** school:

- the most deeply rooted view of the strategy formation process
- strategy formation should be a controlled, conscious process of thought – deliberate process (intuitive or emergent approach is not allowed); e.g. SWOT analysis
- strategy formation must be kept simple and formal
- strategies should be unique
- strategy should be made explicit and articulated
- CEO is the **strategiest** – the architect of strategy
- model with limited applicability (it provides practical vocabulary for strategic thinking)

The **Planning** school:

- the planning school accepts most of the premises of the design school
- an **elaborated** sequence of steps, supported by different checklists and techniques
- CEO remains the architect; along with planning come the **planners** (involve top mgm at key points)
- detailed attention to objectives, budgets, programs, operation plans and not much about strategy creation
- PPBS (planning, programming, budgeting system) has failed everywhere
- based on forecasting and extrapolation of known trends
- planning school allows an existing strategy to be elaborated and decomposed
The Origins of Strategy

What is common to the Design, Planning and Positioning school?

- strategy is a rational process of deliberate calculations and analysis, designed to maximise long-term advantage.

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The Positioning school:

- the positioning school accepts most of the premises of the design and planning school
- the selection of an optimal strategy is based on context – **strategies are generic in form**
- the strategy formation process is analytical – **analyst** plays a major role in this process
- the application of the positioning school premises and concepts: Porter – 5 forces framework and BCG – growth share matrix

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The Origins of Strategy

What is common to the Design, Planning and Positioning school?

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The origins of strategy

The **Entrepreneurial** school:

- the entrepreneurial school of strategy formation avoiding formal and deliberate process of strategy formation
- it stresses the most innate of mental states and processes – *intuition, judgement, wisdom, experience, insight* – the process of strategy formation is semiconscious
- strategy exists in the mind of the single **visionary leader**
- “*the great man school*” of mngm – business success or failure depends on the vision of CEO

The origins of strategy

The **Cognitive** school:

- strategy formation is a cognitive process
- perception – bounded rationality (H.Simon, 1957): “*The world is large and complex, human brains are small and their information processing capabilities are limited.*”
- “*Smart strategists appreciate that they cannot always be smart enough to think through everything in advance.*”
- strategy formation as an individual rather than a collective process
The origins of strategy

The **Learning** school:

- if strategies cannot rely on procedures and techniques, and if we consider limited capabilities of human brains, how strategies could be created? They **learn** over time!
- various people can interact and so develop a pattern (of decision making) that become a strategy – emergent strategy
- strategies reflect past patterns
- collective system that learn form experience

The origins of strategy

The **Political** school:

- strategy formation process is fundamentally a political one
- strategy formation becomes a process of bargaining and negotiation

The **Cultural** school:

- culture is collective cognition and represents the org. mind with regard to shared beliefs, typically reflected in traditions and habits and in more tangible manifestation (stories, symbols, etc.)
- strategy formation is fundamentally a process of collective behaviour, based on common beliefs
- coordination and control in the organisation are largely normative, based on the influence of the shared beliefs
The origins of strategy

The **Cultural** school - *Systematic perspective*:

- objectives and practices of strategy depend on the particular social system in which strategy – making takes place
- strategies often deviate from the profit maximising – strategy
- strategy should be undertaken with sociological sensitivity
- purely economic–rational men is a fiction; people are deeply rooted in a social system
- strategies are influenced by the interests of dominant groups: “New managers are self-serving, empire building parasites of degenerate capitalism (Chandler, 1990).”

The origins of strategy

The **Environmental** school:

- “environment” – forces outside the organisation
- origin of the idea form biological evolution (population ecology)
- businesses are like a species in biological evolution (competitive process ruthless by selecting only the fittest for survival
- environment is unpredictable – strategic planning is often irrelevant
- the best strategy is to concentrate on maximising chances of survival today (for instance profit – maximising strategies)
- doubts about a manager’s ability to plan and act rationally; the role of organisation and leadership is passive
- it is the market, not managers, which makes the important choice
The origins of strategy

5 P’s about the strategy - strategy as (H.Mintzberg):

- **plan** – strategy is an integrated plan and outcome of the deliberate process
- **play** – strategy as a manoeuvrere to overcome your opponents or competitors
- **pattern** – strategy as a pattern in decisions and actions
- **position** – strategy as a mediator between internal and external environments
- **perspective** – strategy as an internal view on the organisation

- change of the position or perspective (case “Big Mac a l'Orange”)

The origins of strategy

Strategic choice and emergent strategies

**Strategic choice** – it assumes organisations can adapt to environmental changes by restructure; this approach assumes that managers have the ability to intervene and successfully influence the direction of organisation

**Emergent strategy** - strategy can be conceived as the emergence of collective, largely unintended outcomes of interactions; emergent approach takes a view of the world that organisations create differential behaviour which map into advantage, but this advantages cannot be planned for
The origins of strategy

**Pragmatic and conceptual knowledge**

- pragmatist philosophy advocates knowledge to facilitate a **problem solving**
- pragmatic knowledge is usually applied in different frameworks, methodologies, tools
- frameworks concentrate on how to get things done, and are usually prescriptive and deterministic
- the ‘strategic choice’ perspective assumes that managers have the ability to intervene and successfully influence the direction of organisations

*Does any “recipe” for creation of successful strategy exist?*

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The origins of strategy

- the traditional rational-planning mode of strategy has been seriously criticized by the academic community, although it still remains influential in the consulting society selling universal tools for strategy making
- explaining and understanding why firms succeed or fail, why they differ, how they behave, how they choose strategies, and how they are managed, requires **conceptual knowledge**

*There is no recipe for successful strategy making!!!*
The origins of strategy

- the field of strategic management is avowedly normative

- there is no algorithm for creating wealth for the entire industry or successful strategy creation

- prescriptions applied to industries or groups of firms may suggest overall direction and indicate errors to be avoided

- “copy-paste” fashion to strategy creation

The origins of strategy

- conceptual knowledge represents a shift from the search for prescriptions of how to get things done to a more loosely defined activity of sense making and creating understanding
  - Transaction cost economics
  - 'Chaos' school
  - Game theory
  - Resource-based view
  - Dynamic capabilities
SECTION 3: Resource-based view and dynamic capabilities

Resource-based view

Resource-based view and dynamic capabilities – key notions:

• assume that firms can be conceptualised as bundles of resources and capabilities

• the resources and capabilities with which firms compete cannot be bought or sold in markets – VRIN resources:
  - Valuable
  - Rare
  - Inimitable
  - Non-substitutable

• capabilities must be developed rather than being taken as given

• resources must satisfy the user need
The shift from traditional - product/market models of strategy to efficiency – capability strategy models

Resource-based view

A) Models of strategy emphasising the exploitation of market power (Porter’s competitive forces approach)

Industry attractiveness (profit potential of an industry):
- entry barriers
- threat of substitutes
- bargaining power of buyers and suppliers
- rivalry among industry incumbents

Framework:
• helps to find a position in the industry from which the firm can best defend itself against competitive forces
• provides a systematic way of thinking about how competitive forces work at the industry level
• contains a number of underlying assumptions about the sources of competition
Resource-based view

5 forces approach utilises the tools of game theory to:
• analyse the nature of competitive interaction between rival firms
• how a firm can influence the behaviour and actions of rival firms and thus the market environment
• rents are results of the manager’s ability to “play a game”

The strategy formulation process (based on 5 forces framework):
1. pick an industry (based on its structural attractiveness)
2. choose an entry strategy
3. if not already possessed, acquire the requisite assets to compete in the market

Wrong assumptions:

• identifying & developing the requisite assets is not particularly problematic

• the process of strategy creation involves nothing other than choosing rationally among a well-defined set of investment alternatives
**Resource-based view**

B) Models of strategy emphasising **efficiency**

*Underlying thesis:*

• firms with superior systems and structures are profitable not just because they engage in strategic investments or management capability to “play the game” and “tricky strategic moves”

• the real key to a company’s success or even to its future development lies in its ability to find or create “a competence that is truly distinctive”

• competition as a process involving the development, accumulation, combination and protecting unique skills and capabilities

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**Resource-based view**

*The strategy formulation process (based on RBV & DCA):*

1. identify your firm’s unique resources

2. decide in which markets those resources can earn the highest rents

3. decide whether the rents from those assets are most effectively utilised
Resource-based view

Resource-based perspective focuses on strategies for:

• exploiting existing firm-specific assets and
• development of new capabilities

Strategic issues through the perspective of RBV:

• capability acquisition
• management of knowledge and know-how
• learning

Resource-based view

Resources and capabilities - Knowledge Based Ontology Model
Resource-based view

Business Process

• organisation incorporate many different business processes & activities to deliver a final product (goods or services) to the market or customer

Resource-based view

Business processes / activities could utilise (for their execution):

• people (characterised by their knowledge, experience, skills and talents),

• machines, devices and tools (characterised by their technical characteristics and constraints),

• methodologies, tools and models installed in the organisation, and/or

• various types of tangible assets (e.g. buildings, real estate, etc.) and intangible assets (like patents, brand names, etc.).
Resource-based view

Resources

- are entities which can play a role in the realisation of a certain class of tasks
- are utilised for activity/process execution (but not transformed)
- have two different forms of physical manifestation:
  - software (SW) – information resources capable of controlling the execution of the operational tasks
  - hardware (HW) – physical resources that have the capability to perform some sets of tasks
- must meet certain predefined requirements for activity / process performance

Resource-based view

- could be owned or ‘borrowed’
- could be divided into non-specific resources of the company (general purpose resources acquired on the market, like machines, computers, software, etc.) and company-specific resources (which are VRIN resources)
- the governance of company-specific resources is strategically important
Resource-based view

Assets

- sufficient property to pay debts and legacies
- considering as having positive monetary value
- anything owned by an individual or business
- the items on the balance sheet

- include holdings of obvious market value (cash, real estate), harder – to – measure (inventory, aging equipment) and other quantities (e.g. goodwill – reputation, brand name, intellectual property, good customer relationship, high employee moral, and other factors which improve the company’s business)

Resource-based view

Assets

Tangible
- cash
- inventory
- real estate
- equipment

Intangible
- reputation
- brand name
- intellectual property
- patents
- know-how
- business processes
- organisational culture

People

- knowledge
- experience
- skills
- talents

External Resources

internal resources external resources
## Resource-based view

### Capability

- is a firm’s ability to **execute** (relevant) business processes and activities to transform process inputs into a required **product** (outputs) through the **employment** of the firm’s **resources**

- is a **permanent** or **temporary aggregation** and configuration of a) non-specific and/or specific and b) owned and/or ‘outsourced’ resources needed to execute certain business processes

- could be considered as a cluster, structure and integration of resources

- is collectively held knowledge which arises form integration and coordination of specialised knowledge (capability as a meta-knowledge)

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## Resource-based view

- is never a singular or a distinctive item

- elements that constitute a capability do not exist in isolation from each other; they only have meaning and value when linked

- **gives / improves the productivity** of other resources
  - two identical sets of machines, SW, etc. but different productivity
  - companies can accumulate a large stock of valuable technology assets and still not have many useful capabilities

- defines a **behaviour** of the system (a systematic property)

- has an **integrative property** (function)

- could have different levels of complexity
Resource-based view

- is a complex entity (possibility of imitation, replication and emulation)
- usually is non-tradable (because of the complexity and codification problems)
- has an evolution (characterised by life-cycle stages)

The Wal-Mart case study

Firm’s assets:
- real estate
- truck fleet
- information technology

productively linked

powerful logistic capability

integrating function
Resource-based view

- strategic capabilities which directly contribute and improve the value perceived by the market/customers are core competencies
  - competence as demonstrated capability

- a core competence is a company-specific capability that distinguishes the company from its competitors, and defines the essence of the company’s business

- firm specific (core) capabilities (distinctive capabilities) may also be considered through the perspective of the firm’s competitive advantage
  - key criterion – delivering of exceptional value to customers

- distinctive competence / capability cannot be acquired – it must be built!!!
  - core competencies and outsourcing

Resource-based view

Core competencies and core products – the Canon case study

- tangible link between core competencies and end-products
  - core product is the physical embodiment of one or more core competencies
Resource-based view

How can a company improve its competitiveness or competitive advantage?
RESOURCE-BASED VIEW

STATEMENT 1:
The newly purchased SIEMENS technology and high-tech machines will improve our competitive advantage.

STATEMENT 2:
Copying “industry best practice” improves competitive advantage.

• imitation and emulation
• industry best practice could help in a design process (not from scratch)

Is this true?

RESOURCE-BASED VIEW

Imitation occurs when firms discover and simply copy a firm’s organisational routines and procedures.

Replication involves transferring or redeploying competences from one concrete economic setting to another.

Emulation occurs when firms discover alternative ways of achieving the same functionality.
Resource-based view

- since productive knowledge is embodied, replication cannot be accomplished by simply transmitting information
- only in those instances where all relevant knowledge is fully codified and understood can replication be collapsed into a simple problem of information transfer
- replication is often impossible without transferring people (this could minimise investment in conversion of non-externalised knowledge)
- some sources of competitiveness or competitive advantage (capability) are so complex that the firm itself does not understand them (many organisational routines are quite tacit in nature)
- self-replication is difficult, imitation is likely to be harder

Dynamic capabilities

Key issues to be answered:
- How to sustain a competitive advantage?
- How to adapt to a rapidly changing business environment?
- What is the impact of these changes on the company's capabilities (in terms of their future evolution)?

Dynamic capabilities

- emphasises the key role of strategic management in appropriately adapting, integrating, and reconfiguring resources/capabilities
to match the requirements of a changing business environment
**Resource-based view**

Path dependency or history matters:

\[ \text{where a firm can go} = f \left( \text{path behind, current position, paths ahead} \right) \]

- firms follow a certain trajectory or path of competence development
- choice about domains of competence are influenced by past choices

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<th>Image 1</th>
<th>Image 2</th>
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- firms make long-term, quasi-irreversible commitments to certain domains of competence (an organisation’s core capability can just as easily create core-rigidities)
- paths ahead – industry foresight (understanding of technological, life-style, demographics, economics, regulatory changes and trends)
Resource-based view

Causal ambiguity

• is a particular form of uncertainty and refers to the fact that the knowledge of the capability’s underlying structure is always incomplete

Resource-based view

Dynamic capabilities as meta capabilities:

• DC are the firm’s ability to integrate, build, and reconfigure internal & external capabilities/competences to address rapidly changing environments

• DC reflects an organisation’s ability to achieve new and innovative forms of competitive advantage given path dependencies and market position
Resource-based view

**Meta capabilities (dynamic capabilities)**

1. **Learning & KM**
   - Reconfiguration & transformation
2. **Management**
3. **Leadership**

**Company (specific) capabilities**

- Organisational culture
  - HRM

**Specific resources**

1. Technological assets (resources)
2. Complementary assets
3. Reputational assets
4. Structural assets
5. Locational assets
6. Institutional assets

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Resource-based view

**Meta capabilities – dynamic capabilities**

1. **Learning & Knowledge Management (KM)**

**Learning**

- a capability by which repetition and experimentation enable tasks to be performed better and quicker
- learning involves organisational as well individual skills

**Reconfiguration & transformation**

- an ability to reconfigure the firm’s asset structure

**Knowledge Management**

- from internalised to externalised
- from tacit to explicit
- from unformalised (unstructured) to formalised (structured)
2. Management
• efficient and effective coordination of internal & external activities
• management capability
• e.g. virtual enterprises, strategic alliances, buyer-supplier relationships

3. Leadership
• strategic decision making

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Specific assets

1. Technological assets
• e.g. specific, own developed technology, machines, sw

2. Complementary assets
• knowledge, know-how, processes

3. Reputational assets
• e.g. brand name

4. Locational assets
• uniqueness in certain business can stem from locational assets (e.g. environmental restrictions)
• e.g. position of a refinery in a certain geographic market
5. Structural assets

- formal and informal structure & external linkages
- level of vertical and lateral integration

6. Institutional assets

- environments cannot be defined in terms of markets alone
- public policies are recognised as important in constraining what firms can do
- institutions are a critical element of the business environment
- e.g. regulatory systems, intellectual property regimes, fort laws, antitrust laws

Specific capabilities (examples)

Superior product development

- innovation (organisational culture)
- development lead-times
- development cost and quality

Superior manufacturing capabilities

- production and inventory cost
- production lead-times
- contemporary manufacturing concepts – lean production (lean production requires distinctive shop floor practices and processes as well distinctive high order managerial processes)
- application and adaptation of new technologies (“flexibility” of distinctive organisational processes to support application and adaptation of new technologies)
Real options analysis

**What is one of the key strategic issues?**

- the issue of uncertainty in evaluating investments in new capabilities (production opportunities)

**What is a Real Option?**

- in a financial sense, options refer to the right (but not the obligation) to buy or sell shares of a security, at a predetermined price on or before a given expiration date
- in the capability (strategic) sense, a primary distinction is the non-financial nature of the underlying asset being acquired

Real options analysis (continue)

- this approach considers the level of risk associated with an investment and recognises the ability of a corporation to defer this investment toward a later date or make a partial investment
- investment appraisal techniques such as net present value (NPV) have been widely criticized because of their inability to model uncertainty, a factor that is particularly relevant in the context of capability development investment decisions
- even where an capability development investment appraisal yields a negative NPV (usually taken as a signal that the investment should not take place), an investment could still generate potentially valuable options, which in favourable circumstances (meaning technical risk or other sources of uncertainty become less critical) could make the initial investment worthwhile
SECTION 4: The strategy process

The strategy process

STRATEGY FORMATION

STRATEGY IMPLEMENTATION

STRATEGY RE-FORMULATION

Strategy life-cycle model
The strategy process - the **strategic identity**

1. The creation of the strategic identity

- the process of strategy formation is a highly iterative process, where activities from different life-cycle phases continuously exchange information
- the creation of a strategic identity and the execution of strategic analyses often are the most difficult, demanding and time consuming parts of the strategy formation process
- the development of strategic identity asks for an in-depth conceptual discussion, supported by analytical tools

The strategy process - the **strategic identity**

**Mission** statement defines who we are and what is the fundamental purpose of our existence

- what are the company’s positions in its markets?
- what kind of customers or markets are targeted?
- what kind of products and services does the company intend to provide to the customers?
- what is the market context in which the company sees itself (is it a sole provider, OEM manufacturer, niche market competitor, what are the relationship to customers, suppliers, competitors)?
- how does the company want to be perceived by its customers and by players in its external and internal environment?
- what is the company relation and how company fulfil requirements and expectations of owners, employees and community?
The strategy process - the **strategic identity**

*Mission statements in practice:*

- a survey (Rodin & Hartman) showed that 90% of US companies have defined a mission; however less than half of the executives believes that their company's mission statements were significant.

- many mission statements are being formulated on a too generic level, rather then referring to concrete markets, customers and products.

- mission statement should be visible and understandable to all, and practiced daily.

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**Example of a generic mission statement:**

*We are an electronic component manufacturer for world markets.*

**Improved mission statement:**

*We are an OEM electronic manufacturer with an international supplier base, manufacturing specialist components for global white goods, a company with innovative designs, concentrating on high reliability and low whole-of-life cost products.*
The strategy process - the strategic identity

Vision statement could be simply an answer to the question “What do we want to be known for in the future of 5 to 10 years”.

- A vision statement should paint a picture of the company’s future environment and opportunities (products/services) and characterises the company’s future competencies and capabilities.
- The vision does not necessarily have to be a futuristic idea and it must be considered feasible.
- The vision is not a plan, but a well-articulated idea, that should provide a focus for the company’s future evolution and development.

The strategy process - the strategic identity

- Vision result you want
- GAP
- Current reality what you have now
- TENSION
- To energise people
The strategy process - the **strategic identity**

**Fundamental questions to be answered:**

- how different would be industry ten years in the future, and how is this understanding shared by senior management?
- what is the basis for the company’s competitive advantage today and in the future?
- is the company more a rule-maker than a rule-taker within the given industry?
- in what end-product markets does the company participate today and in which ones does it plan to do so in the future?
- what are the dangers posed by new, unconventional rivals?
- are potential threats to the current business model identified and widely understood?

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The strategy process - the **strategic identity**

**Strategic intent**

- besides the long-term objectives (defined by the company’s vision), the company needs some more **tangible and short-term objectives**, which provide **emotional** and **intellectual energy** for employees in their journey into the future.

  - ‘*While the strategy defines the way to the future, an ambitious and compelling strategic intent represents this tangible goal, an animating dream that energises a company*’ (Hamel and Prahalad, 1994).

- by declaring a strategic intent, we try to identify clear corporate challenges that focuses everyone’s attention on the next key advantage (the *sense of direction and destiny*) or capability building (e.g. entry to the US market, ultimate quality improvement, win over the main competitor, etc.)
The strategy process - the strategic identity

Identifying core competencies and core products

• a firm cannot actively manage its core competencies if those competencies are not recognised

• irrespective of the strategic importance of core competencies, management could be confused about what is and what is not a core competence

• typically, the first attempt to define core competencies produces an extended ‘laundry list’ of skills, technologies, and capabilities – with some core but most not really qualifying when investigated more deeply

• to define a core competence it is necessary for it to cluster and aggregate skills and technologies in some meaningful way

The strategy process - the strategic identity

• a core-competence must ‘pass’ the tests and meet the criteria:
  • *customer value* – a core competence must make a disproportional contribution to customer-perceived value
  • *competitor differentiation* – the capability must be competitively unique
  • *extendibility* – a core competence is not merely the ability to produce the current product configuration (however excellent that product line may be), but it also must be able to be used as a basis of potential new products

• **stretch** your core-competences
The strategy process - the strategic analyses

2. The strategic analyses

Industry foresight
• supports the long-term process of capability development
• industry foresight and intellectual leadership requires a deep understanding of technological, demographic, regulatory, and life-style changes
• the creative process of creating foresight may extract ideas from the answers to some conventional questions:
  • whose product concept will ultimately win out?
  • what are the potential customer benefits to be provided in the future?
  • which standards will be adopted?
  • how will coalitions form?
  • how do we increase our ability to influence stakeholders in the industry / market?

The strategy process - the strategic analyses

the McDonald’s case study (turnover 40 bn$) – the case of the absence of industry foresight

60’s
• quality
• cleanliness
• service
• mass-produced food

Y2K
• quality, cleanliness and service are a given as standard
• doubts about nutritional value of fast food
• BSE
• anti-American sentiment
Wrong move!

- McDonald’s has slashed prices
- this has even increased distance between burgers and premium products (that are growing more popular)

The strategy process - the strategic analyses

What to do?

- like Coca-Cola, McDonald’s finds itself with a core product whose growing is slowing (decreasing)
- Coca-Cola has diversified into faster-growing soft drink categories (juice, bottled water, sport energy drinks)
- McDonald’s must explore faster-growing food categories while considering underlying competences
The strategy process - the strategic analyses

The success story – JVC as the world leader in VCRs

• JVC began to developing videotape competencies in the late 50’s and early 60’s
• late 70’s JVC hit the market with its VHS standard machines (technical approaches)
• VHS has become the industry standard (compared with Sony’s beta, Philip’s – V2000
• JVC has made a lot of money (beside of the effect of firstmover) based on its own standard setting and consequently from licensing, economy of scale in component production, etc.

• leadership in fundamentally new industry is seldom built in anything less than 10 to 15 years
• which and how to acquire the competencies that would be necessary for the industry leadership

The strategy process - the strategic analyses

Identification of current product, market and capability concepts

• SWOT analysis

• PEST (Political – legal, Economic, Socio-cultural, Technological) analysis

• benchmarking with the competitors (not just with traditional competitors but also with potential new-comers)
  - ratio analysis
  - process analysis
  - product analysis (quality, performance, market share, price, profitability)

• Porter’s five competitive forces: evaluation of the negotiation position of existing customers and suppliers, entry barriers, threat of the appearance of new substitutes, and competition - including the intensity of such competition
The strategy process - the **strategic analyses**

- **product portfolio life-cycle analysis**
- **profit margin analysis** *(profit margin/asset turnover)*
- **perceived value / delivered cost diagram**
- **BCG matrix**
- **company analysis** *(maturity of business processes, employee satisfaction, etc.)*
- **business chain analysis**

---

**The strategy process - the strategic analyses**

**Benchmarking** against the competitors *(ratio analysis, process analysis, product analysis) – benchmarking process:*

- identify what is to be benchmarked
- identify comparative companies (not just with traditional competitors but also with potential new-comers)
- determine data collection method and collect data
- determine current performance levels
- project future performance levels
- communicate benchmark findings
- establish functional goals
- develop action plan
- implement actions and monitor progress
The strategy process - the strategic analyses

A lack of understanding of industry foresight and consideration of new (unconventional) competitors and substitutes – the Encyclopedia Britannica case study

• In the early 1990s, Encyclopedia Britannica’s competitors were limited to companies like World Book and Colliers

• such a view lulled the managers of Encyclopedia Britannica into believe that their competitive position was unassailable

• Encyclopedia Britannica management hasn’t consider requirements for new ways for information delivering and accessing (possibilities which new IT solutions bring)

• today a biggest seller of encyclopedia is Microsoft

The strategy process - the strategic analyses

Product portfolio life-cycle analysis

• life-cycle phases
• industries have life-cycles just like products

<table>
<thead>
<tr>
<th>Different stages of industry life-cycle</th>
<th>creation</th>
<th>growth</th>
<th>maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Medium to high</td>
<td>Small to medium</td>
<td>Small</td>
</tr>
<tr>
<td>Economy of scale</td>
<td>Small</td>
<td>Small to medium</td>
<td>Medium to high</td>
</tr>
<tr>
<td>Brand loyalty</td>
<td>Small</td>
<td>Small to medium</td>
<td>Medium to high</td>
</tr>
</tbody>
</table>

- improvement
- new innovations
- introducing products more rapidly than competitors
- cost efficiency, economy of scale
- repositioning in a new market

creation  growth  maturity
The strategy process - the strategic analyses

Perceived value / delivered cost diagram

- Image
- Quality
- Technology
- Service
- High customisation/individualisation

Toyota:
- Large series
- Standardisation

Fiat

The strategy process - the strategic analyses

Change of value curve is typically related to innovation:
- Product / technology
- Business processes

Perceived value factors:
- Design
- Performance
- Reliability
- Ease of use
- Individualisation of product
- Time to delivery
- .....
Business chain analysis

The strategy process - the strategic analyses

Raw material → Product → Agent → Wholesaler → Retail → Customer

$  $  $  $  $  $

value

cost

$  $  $  $  $  $

Primer ETIMAT5 16A 1p

Raw material → Product → Wholesaler → Retail → Customer

0.61 EUR 1.33 EUR 1.45 EUR 2.3 EUR 2.9 EUR
0 EUR 0.72 EUR 0.84 EUR 1.69 EUR 2.29 EUR

0.72 EUR 1.45 EUR
31% 63%

0.12 EUR 0.84 EUR
6% 37%

0.85 EUR 1.45 EUR
37% 63%

0.6 EUR
26%

Added value (cumulative)
The strategy process - the strategic analyses

Identification of required new competences

<table>
<thead>
<tr>
<th>Core competence</th>
<th>Premier plus 10:</th>
<th>Mega-opportunities:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What new CC will we need to build to protect and extend our franchise in current markets?</td>
<td>What new CC would we build to participate in the most exciting markets in the future?</td>
</tr>
<tr>
<td>Fill in the blanks:</td>
<td>What is the opportunity to improve our position in existing markets by better leveraging of our existing core competencies (CC)?</td>
<td>White spaces: What new products could we create by creatively redeploying of our current CC?</td>
</tr>
</tbody>
</table>

The strategy process - the strategic analyses

The Motorola case study - Industry foresight and leadership

Motorola’s dreams are of a world:
• in which telephone No. will be assigned to people, rather the places
• where small hand-held devices will allow people to stay in touch no matter where they are
• where new communications can deliver video images and data

New required competencies
Motorola knows that it will have to strengthen competencies in:
• digital compression
• flat screen display
• battery technology
The strategy process - the strategic analyses

From Manufacturing to Marketing to Stock oriented enterprise

The market driven enterprise transformation – the Swatch case study

*Old economy:* orientation of Swiss watch makers to luxury timepieces, characterised by high cost of labour

*New opportunities:*
  • to get the market of low cost products (for 40$)
  • production of fashionable watches

*New economy – company restructuring in:*
  • design
  • marketing
  • distribution

The strategy process - the strategic analyses

Key Success Factors - requirements for the design of products, processes, resources and capabilities

• understanding of customer needs, satisfaction and willingness to pay (all reflected in KSFs) is crucial in the design of products and operation model of a company

• serving different market segments and different markets (on a regional and geographic base) requires customer and market segmentation

• each customer and market segment, based on relevant KSF, should be served by dedicated services (or products in general) which may require specific and tailored processes, resources and capabilities
The strategy process - the strategic analyses

Key Success Factors - the grocery retailer case study

- traditional market segmentation programs tend to focus only on customer behaviour linked to pricing and promotion programs

- at most supermarket chains these programs influence the behaviour of lower spending customers more than that of their best customers

*The key issue: What the grocery retailer could do to improve all aspects of their relationship, not simply pricing and promotions?*

- the fact is that customers are loyal for reasons beyond price and discount coupons

---

The strategy process - the strategic analyses

Key Success Factors - the grocery retailer case study

a) understand customer requirements – definition of KSFs

b) segmentation of customers (according to demographics data, lifestyle characteristics and behaviour) and 'neighbourhood segmentation' (upscale, traditional family, urban and rural)

c) each segment must have specific, identifiable characteristics that will drive market strategies (considering right growth levers - for instance category mangm, pricing and promotions, customers loyalty, customer experience) and operational models (in terms of products, processes, resources and capabilities)
Key Success Factors - the grocery retailer case study

e.g. **Suburban store:**
- caters to middle-income career professionals and families, to soccer moms driving SUVs or station wagons
- stores feature a wide range of brands and mixing value
- the layout are specious and family friendly – they are design in children in mind

e.g. **Inner-city store:**
- caters toward middle- and lower-income shoppers
- shops provide basic product assortments that don’t cost a lot
- stores provide a fast, straightforward shopping experience

**Following proposed guidelines the grocer could identify X number of groups (based on customer and 'market' segments) and translate groups into X number of operational models (X number of supply chains, store experiences and product portfolios).**

3. The strategy formation
- during the strategic analyses, many important strategic decisions have already been made
- these decisions need co-ordination for their synchronisation and integration into a cohesive strategy
- in this phase, we have to:
  a) create or confirm strategic directions
  b) define the way to implement strategic directions (definition of migration paths)
  c) prepare and investigate some possible scenarios

**Balanced portfolio of capabilities**
- the ability to integrate diverse functional skills from R&D to production, marketing and sales
- in the absence (or shortage) of any of the key competence pillars, the company will be unable to fully exploit areas of strength
The strategy process - the **strategy formation**

**Resource and capability acquisition agenda**

- most management text books on innovation and product development assume that the company controls most of the resources needed for the commercialisation of that innovation
  - such assumptions are increasingly likely to be wrong
  - different forms of capability acquisition:
    - tight links with suppliers to better exploit their innovation
    - sharing development risks with critical customers
    - borrowing resources from more attractive sources
    - participating in international research consortia
    - cooperation with competitors – usually in the early stages of market evolution

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The strategy process - the **strategy formation**

**The Biogen case study**

**Biogen business model:**

- a simple, research-centred business model
- its scientists use biotechnology to discover compounds that might be used to create new drugs
- it would license those compounds to big pharmaceutical companies

**Milestone:** in 1994 the company received preliminary FDA approval for a breakthrough drug (new opportunities)

**Obstacles:** Biogen has found that development of the delivery system will take to long and will be to expensive

**New concept:** the company has embraced an entirely new way to organize and manage production and distribution/supply chain
The Biogen new business model:

- it works with a network of partners – network organisation

**Project steps:**

- to determine which tasks Biogen would perform and which it would outsource

- Biogen identified four core tasks for drug production: formulation, bulk manufacturing, packaging, and warehousing & distribution

- criteria for partner selection: Biogen looked for organizations that were big enough to accommodate rapid growth but small enough to give the Biogen account top priority

- Biogen also set tough standards for the performance of the network, establishing world-class objectives for execution and quality

- Biogen kept tight control over managing the network
Project deliverables:

- Biogen has achieved a competitive cost structure despite its limited production experience and small scale
- Biogen keeps its fixed assets low, even when production volume increases dramatically
- The required capital investment was modest relative to the size of the business
- The investment risk would be shared with partners
- Focus on the core competencies

Strategic positioning

**Miles & Snow organisation typology**

- **Prospector** (high risk taking, significant emphasis on new product development)
- **Analysers** (medium risk taking, without emphasis on new product development)
- **Defenders** (low risk taking, without emphasis on new product development)
- **Reactors** (low risk taking, significant emphasis on new product development)
The strategy process - the **strategy formation**

<table>
<thead>
<tr>
<th>Prospector</th>
<th>Analyser</th>
<th>Defender</th>
<th>Reactor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emphasise on new product development</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk taking</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Prospector**
  - Emphasise on new product development
  - High risk taking
  - Always seeks new opportunities and experiments with innovations
  - Because of the uncertainty in the development of new product concepts or industries, this type of company takes high risks, emphasizing technological leadership and heavily investing in technology.
  - Promote creativity and flexibility; they are often decentralised, capable of fast reaction, and able to redefine existing products and markets.

- **Analyst**
  - Follows an intermediate strategy.
  - More careful than the prospectors and decides upon investments in new technologies only after thorough analysis of the possibilities.

- **Defender**
  - Imitates, or copies the success of prospectors, with the ability to respond to prospector initiatives and to maintain operating efficiency at current markets (defender behaviour).
  - Follows an intermediate strategy.
  - More careful than the prospectors and decides upon investments in new technologies only after thorough analysis of the possibilities.

- **Reactor**
  - Without emphasis or emphasis.
  - Low risk taking.

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63
The strategy process - the strategy formation

Prospector | Analyser | Defender | Reactor

Emphasise on new product development

Risk taking

- significant emphasise
- without emphasise

Prospector
- seeks stability with a limited number of products in a well-defined industry
- is more conservative in their investment in technology and focus on technological areas directly related to their line of business

Reactors
- responds to environmental pressures and events without a clear focus or rationale
- has relatively little strategic vision
- decisions are usually more short-term oriented than long-term
The strategy process - the strategy formation

Generic product strategies

Porter’s generic strategies to achieve competitive advantage:
• cost leadership
• differentiation
• focus

Cost

Differentiation

<table>
<thead>
<tr>
<th>Broad</th>
<th>Narrow</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow range of products, high automation, low prices, limited customer service (commodity products)</td>
<td>Narrow range of products, high-tech products, high prices, high quality, high customer service (niche player)</td>
</tr>
</tbody>
</table>

Focus

Cost

Differentiation

Strategic positioning (H. Mintzberg):
• low cost or price differentiation strategy (e.g. low volume, commodity type of production),
• image differentiation strategy (e.g. distinctive design),
• support differentiation strategy (e.g. provision of a quality after sales service),
• quality differentiation strategy (e.g. more reliable, more durable products),
• design differentiation strategy (e.g. added, improved functionality of the product)

Examples of companies using these strategies:
• price differentiation
  GE: Six sigma
  Chrysler: extended enterprise model
• image differentiation
  3M: innovation;
  Sony: advanced technology
  Federal Express: distribution efficiency

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The Ryanair case study - price differentiation strategy

- successful business model
- trade-offs: quality and level of service vs. price
- customer segment: the cheapest air fares
- the content of the service:
  - sales (Internet based, no agents, in advance, not refundable)
  - check-in (no seat allocation)
  - on board (no meals, no cleaning between flights)
  - airports (lower airport taxes, no waiting for landing)
- slashing of services, optimisation of processes and standardisation (standard aircrafts Boeing 737, low maintenance costs, etc.)

The strategy process - the strategy formation

Boston Consulting Group (BCG) matrix

market share

<table>
<thead>
<tr>
<th>growth</th>
<th>high</th>
<th>low</th>
</tr>
</thead>
<tbody>
<tr>
<td>high</td>
<td>&quot;Stars&quot;</td>
<td>&quot;Problem child&quot;</td>
</tr>
<tr>
<td>low</td>
<td>&quot;Cash cows&quot;</td>
<td>&quot;Dog&quot;</td>
</tr>
</tbody>
</table>
The strategy process - the strategy formation

Typical product portfolio problems

<table>
<thead>
<tr>
<th>Problem</th>
<th>Symptom</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too many losers (dogs)</td>
<td>• bad cash flow</td>
<td>• harvest losers</td>
</tr>
<tr>
<td></td>
<td>• low profit</td>
<td>• integrate winners</td>
</tr>
<tr>
<td></td>
<td>• low growth</td>
<td></td>
</tr>
<tr>
<td>Too many question marks (problem children)</td>
<td>• bad cash flow</td>
<td>• focus investments</td>
</tr>
<tr>
<td></td>
<td>• low profit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• volatile market share</td>
<td></td>
</tr>
<tr>
<td>To many cash cows</td>
<td>• low growth</td>
<td>• develop ?</td>
</tr>
<tr>
<td></td>
<td>• excessive cash</td>
<td></td>
</tr>
</tbody>
</table>

Key product and market related issues (strategy as the answer on the question how to)

- **defend** (keep) of existing positions (in terms of turnover, customers, market positions, products)

- **grow** (to increase the turnover by redeployment of existing product and market concepts – new customers, new markets)

- **develop** (in terms of drivers and generators of future company turnover and growth – new product and market concepts, new market segments)
The strategy process - the **strategy formation**

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Leverage</th>
<th>Mega-opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td>Existing</td>
<td>New</td>
</tr>
</tbody>
</table>

**Leverage**

**Defend**

**Replacement**

**Product & market concepts**

The strategy process - the **strategy implementation**

**Strategy articulation and codification**

**Strategy articulation** represents the externalisation of the strategy and its formulation in an explicit way.

**Strategy codification** translates the strategy into:
- strategic objectives that are tangible and measurable
- actions and projects through which strategies are achieved
- key-success factors and performance indicators (financial and non-financial as well as quantitative and qualitative indicators),
- different policies

**Key programs / projects**

- Strategic vision
- Strategic objectives
- Key success factors (goals)
- Key performance indicators
The strategy process - the **strategy implementation**

*Balanced Scorecard*

- **Strategic vision**
- **Strategic objectives**
- **Key success factors (goals)**
- **Key performance indicators**

**Enablers**

- Leadership
- People
- Policy & Strategy
- Partnerships & Resources

**Results**

- People results
- Customer results
- Society results
- Key performance results

**EFQM model**

---

The strategy process - the **strategy implementation**

**Strategy evaluation:**

- **consistency** between objectives, goals, actions, policies and organisational values

- **consonance** - the strategy should represent an adaptive response to the external environment and to the critical changes occurring within it

- **advantage** - the strategy must create a competitive advantage in the selected area of activities (difficult to replicate)

- **feasibility** of the strategy
The strategy process - the **strategy implementation**

**Strategy elaboration**
- transform strategy into executable and operational plans, in the form of a strategic plan and subsequent annual plans
  - plans are the translation of strategic objectives into tactical and operational goals, and incorporate a detailed definition of actions and projects, task allocation, required resources, budgeting, etc.
  - overall **strategic plan decomposition** into detailed plans for business units, departments, etc. down to the explicit definition of individual goals of employees
  - development of a manager’s ‘control panel’ - to monitor and control the strategy

**Strategy promotion**
- strategy is of little value if it is not widely debated and ultimately understood by all employees
  - organisations usually launch an extensive and deliberate ‘advertising’ campaign for the recognition of the new strategy or significant changes in the existing strategy
- **strategy should be understood at all hierarchical levels** and gives space for contribution by every employee in the company
  - the provision of **feedback about the strategy’s success**
The strategy process - the **strategy implementation**

- management should also encourage the **recognition and rewarding of individual contributions** in the achievement of strategic objectives

- write strategic business plans in narrative rather than bullet form

---

**Strategy execution**

- strategy execution incorporates the actions for the strategy implementation and continuous control of strategy performance

- project management methodologies can be employed for the definition and set-up of strategic projects as well for their execution and control
The strategy process – the strategy re-evaluation and re-formulation

• due to constant changes in the internal/external environment of the company and certain assumptions/forecasts used in the strategy formation process, strategy must be regularly reviewed and validated

• strategy re-evaluations may be triggered:
  - by a regular annual re-evaluation process
  - as a consequence of unsatisfying business results
  - as a consequence of serious mismatch between the expected and actual performance indicators
  - as the result of changes in the company’s top management (owners)

• a good strategy should not need constant re-formulation

SECTION 5: Organisational structure, organisational evolution and organisational strategy
Organisational structure, evolution and strategy

Organisational structure (five basic parts of the organisation)

Organisational structure should reflect the organisation situation

• age of the organisation
• size of the organisation
  - number of employees and sales volume increase
  - problem of coordination and communication magnify
    - new functions emerge
    - levels in the mngm hierarchy multiply
    - jobs become more interrelated
• stage of evolution (maturity model)
• growth rate of the industry (the speed at which an organisation experiences phases of evolution and revolution)

The Strategic Apex

• where the whole system is overseen
• responsible for strategy making
• consisting of the CEO and a board of directors

A technostructure

• perform administrative duties
• planning and controlling

E.g. accounting & controlling dep.

Support units

• performing functions that are not directly related to the mission of the company, but are needed for the organisation to function

The middle line

• typically line managers for sales R&D, operations

Operating core

• the units that perform the company’s mission
• carrying out the production and service tasks
Organisational structure, evolution and strategy

Basic coordinating mechanisms

What does the notion “organisation” really mean?

*Stereotype perception:*
• organisation is an organisational structure described by an organisational chart
• organisation is how people are organised and allocated (in means of organisational units and who is boss of who)

Organisation defines:
• division of labour (who should do what) – functional needs
• responsibilities and authorities over decisions
• coordination over activities / tasks to be accomplished (information gathering and distribution)
• creation of organisational units (aggregates)
Organisational structure, evolution and strategy

a) Mutual adjustment

• coordination is achieved by the simple process of information communication
• people interact with one another to coordinate
• mechanism is used either or a) in the simplest cases, or b) in the complex cases where circumstances are extremely difficult and unpredictable

b) Direct supervision

• person coordinates by giving order to other
• case where certain number of people must work together

c) Standardisation of work process

• the content of the work is programmed (for instance by procedures)
• procedures have to be followed

d) Standardisation of outputs

• specification of results (but not what has to be done)
• predetermination of interfaces between jobs
Organisational structure, evolution and strategy

e) **Standardisation of skills** (as well as knowledge)
   • prerequisite knowledge and set of skills are defined
   • standardisation takes place outside of the organisation

f) **Standardisation of norms**
   • workers share a common set of beliefs and can achieve coordination based upon it

Organisational structure, evolution and strategy

**Organisational configurations** (forms)

a) **Entrepreneurial organisation**
   • structure is simple
   • absence of standardisation; little of the behaviour in the organisation is formalised
   • support staff is minimised to keep the structure lean
   • organisation is flexible
   • organisation is often young & small
   • organisation is often controlled tightly and personally by its owner
   • under crisis conditions large organisations sometimes revert temporarily to the entrepreneurial form
b) Machine organisation

- jobs become highly specialised and work highly standardised (for instance in form of ISO 9000:2000 standards)
- machine organisation requires large technostructure to design and maintain its system of standardisation & behaviour and its actions
- large hierarchy of middle-line managers (standardisation of tasks, conflict resolution; support of vertical information exchange)
- structure tends to be centralised
- organisation environment must be stable
- “no standard procedure” to handle non-standard / exceptional events
- machine organisation fits most naturally with mass production

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c) Professional organisation

- based on standardisation of skills
- people are highly specialised but with considerable control of their work
- little need for technostructure
- structure emerges highly decentralised
- organisations like universities and hospitals
Organisational structure, evolution and strategy

d) Innovative organisation

- coordination is achieved by the mechanism of mutual adjustment
- bureaucratic structures are too inflexible; and entrepreneurial structure is too centralised
- such organisations require “project structures”
- highly trained and highly specialised experts
- organisations like consulting companies

Mutual adjustment

Organisational structure, evolution and strategy

e) Missionary organisation

- organisation dominated by its ideology
- loose division of labour, little job specialisation
- minimal use of planning and control
- no technostructure
- standardisation of norms and common sharing of values and beliefs

Standardisation of norms
**Organisational structure, evolution and strategy**

**f) Diversified organisation**

- independent entities coupled together by loose administrative structure
- each division has its own structure
- organisation divisionalisation is based on product-line diversifications
- little need for technostructure
- headquarters provide certain common services
- coordination is done based on performance control – standardisation of outputs
- large and mature organisations (holding)

**Evolution and growth stages of the organisation**

**Phases of Evolution** \( = f \) (organisation’s age, growth)

- most growing organisations do not expand for several years (stability) and then contract for one (crisis enabler)
- those that survive a crisis usually enjoy four to eight years of continuous growth
- the term **evolution** seems appropriate for describing these quiet periods where only modest adjustments are necessary for maintaining growth under the same overall pattern of management
Phases of Revolution

- it cannot be assumed that organisational growth is linear
- evidence from numerous case histories (Fortune 500 during the last 50 years) reveals periods of substantial turbulence interspersed between smoother periods of evolution
- we can refer the turbulent time periods as revolution
- traditional management practice no longer work
- during such periods of crisis many companies are unable to abandon past practice and effect major (necessary) organisational changes
- the critical task for management is to find a new set of organisational practices to support future growth

Evolution and growth stages of the organisation (L.E. Greiner, 1972)
Organisational structure, evolution and strategy

Five phases of growth (L.E. Greiner, HBR, 1998)

- each evolutionary period is characterised by:
  - dominant management style used to achieve growth
  - dominant management problem that must be solved

• the evolutionary process is not reversible
**Organisational structure, evolution and strategy**

**Phase 1: Creativity** (the birth stage of an organisation)

*a) Characteristics*

- the founders of the company are usually technically or entrepreneurially orientated
- founders generally disdain management activities
- their physical and mental energies are absorbed entirely by making and selling a new product
- creative activities are essential for a company to get off the ground
- decisions and motivation are highly sensitive to market place feedback (managers act as customers react)

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**Organisational structure, evolution and strategy**

- organisational structure: entrepreneurial organisation
- long hours of working are rewarded by modest salaries and the promise of ownership benefits

![Company grows icon]
**Organisational structure, evolution and strategy**

*b) Strategic conflict*

- Large production requires knowledge about the efficiency of manufacturing
- Increased numbers of employees cannot be managed exclusively through informal communication
- New employees are not motivated by the “old reward” system
- New accounting procedures are needed for financial control
- The company’s founders are burdened with unwanted management responsibilities

*A crisis of leadership*

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**Organisational structure, evolution and strategy**

*c) How to solve the managerial problems?*

- A strong manager is needed – one who has the necessary knowledge and skills to introduce new business techniques
- The founders often resist stepping aside
- First critical choice - to locate and install a strong manager:
  - Who is acceptable to the founders and
  - Who can pull the organisation together
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Phase 2: Direction

a) Characteristics

- a functional organisational structure is introduced to separate manufacturing from marketing activities
- job assignment becomes increasingly specialised
- accounting systems for inventory and purchasing are introduced
- organisational structure: machine organisation
- incentives, budgets and work standards are adopted
- communication becomes more formal and impersonal as a hierarchy of titles and positions grows

Organisational structure, evolution and strategy

- the new manager and his/her key supervisors assume most of the responsibility for instituting direction
- lower level superiors are treated more as functional specialists than as autonomous decision – makers

Sustained growth
b) Strategic conflict

- directive techniques become inappropriate for controlling a more diverse and complex organisation
- lower level employees find themselves restricted by a cumbersome and centralised organisation
- employees possess more direct knowledge about markets or machinery than do their leaders - consequently, they feel torn between following procedures and taking initiative on their own

A crisis of autonomy

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c) How to solve the managerial problems?

- the solution adopted by most companies is to move toward more delegation (giving greater responsibility to lower – levels)
- yet it is difficult for top – level managers (previously successful) to give up responsibility to lower – level managers
- moreover the lower – level managers are not accustomed to making decisions for themselves
- as a result, during this revolutionary stage, numerous companies become even more centralised
Organisational structure, evolution and strategy

Phase 3: Delegation

a) Characteristics

• decentralised organisational structure: much greater responsibility is given to lower – levels
• organisational structure: diversified organisation
• profit centres and bonuses are used to motivate employees
• management by exception is not preferred
• communication from the top is infrequent
• managers at lower – levels are able to penetrate larger markets, respond faster to customers, and develop new product

Organisational structure, evolution and strategy

b) Strategic conflict

• autonomous field managers prefer to run their own shows without co-ordinating plans, money, technology, personnel and considering common company's interests
• freedom breeds a parochial attitude
• top-level executives sense that they are losing control over a highly diversified field operation
c) How to solve the managerial problems?

- top managers seek to regain control over the company as a whole
- centralised management usually fails because of the organisation's newly vast scope of operations
- introduction of new special co-ordination techniques

Phase 4: Co-ordination

a) Characteristics

- use of formal systems for achieving greater co-ordination
- formal planning procedures are established
- numerous staff members are hired and located at headquarters to control line – managers
- each product group is treated as an investment centre where the return on invested capital is an important criterion used in allocating funds
- certain technical functions (e.g. IT) are centralised at headquarters
- stock options and company – wide profit – sharing are used to encourage employees to identify with the organisation as a whole
Organisational structure, evolution and strategy

b) Strategic conflict

- line managers increasingly resent direction from those who are not familiar with local conditions
- staff complain about uncooperative and uninformed line managers
- a lack of confidence gradually builds between line and staff, and between headquarters and the field
- both groups criticise the bureaucratic system
- procedures take precedence over problem solving
- organisation has become too large and complex to be managed through formal programs and rigid systems

A red tape crisis

Organisational structure, evolution and strategy

Phase 5: Collaboration

a) Characteristics

- social control and self-discipline replace formal control
- flexible and behavioural approach to management
- the focus is on solving problems quickly through team action
- cross functional teams
- staff experts at headquarters are reduced, combined into interdisciplinary teams that consult with, not direct, field units
- a matrix-type structure is frequently used to assemble the right teams for the appropriate problems
- formal control systems are simplified
Organisational structure, evolution and strategy

• conferences of key managers are held frequently to focus on major problems

• educational programs are used to train managers in behavioural skills to achieve better teamwork and conflict resolution

• economic rewards are geared more to team performance than to individual achievement

• experimenting with new practices is encouraged throughout the organisation

What is the next crisis?

Organisational structure, evolution and strategy

• will the crisis centre around psychological saturation and physical exhaustion, from the intensity of teamwork and the heavy pressure for innovative solutions

• new structures and programs that allow employees to periodically rest, reflect and revitalise themselves

• companies with dual organisational structure
  - a habit structure for getting the daily work done
  - a reflective structure for stimulating new perspective and personal enrichment
Key issues for a discussion

- Where we are today (in stage of life)?
- How to overcome the key management issues?
- How to improve ROI (the role of downsizing approach)?

Organisational forms and strategy

Statement 1:
Strategy is a written document, usually called a strategic plan. Strategic creation is a process, which delivers the strategic plan, all the rest is the strategy implementation.

Statement 2:
The company which has a strategic plan, has a strategy, otherwise it doesn't have one. The company is successfully following the strategy if delivers on planned KPI values.
Organisational structure, evolution and strategy

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Smart luck beats dumb luck!