Business Strategy And Strategic Planning

A Definition and Definitive Guide

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Business Strategy And Strategic Planning: A Definition and Definitive Guide
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CONTENTS

1 INTRODUCTION

This compendium provides a comprehensive overview of the most important topics covered in a strategict course at the Bachelor, Masters or MBA level. The intention is to supplement renowned strategy textbooks.

This compendium is designed such that it follows the structure of a typical strategy course.

Throughout this compendium theory is supplemented with examples and illustrations.

2 WHY STRATEGY?

In ancient Greek, 'stratos' was the term for the army and so in military terms, 'strategy' referred to 'the act of the general'.

So, the origins of 'strategy' – the 'art of the general' – comes from the military arena – from China came "The Art of War" by Sun Tzu, from Prussia came "On War' by Carl von Clausewitz.

In recent times the defeat of the Nazi regime in Germany was arguably due to a dire strategy by the leader of fighting a war on two fronts – West (USA, UK) and East (Russia) – so while the armed forces were highly skilled and had technological superiority the strategy was a huge mistake.

Strategy nowadays is 'big stuff' – the top levels of the organisation are generally involved in preparing plans for the future – for finance, and growth by acquisitions, innovation in products, developing new markets and increasing internal efficiency. The recent rise of Apple is due to a combination of these factors.

3 THE FORMULATION OF STRATEGY

Introduction

There is a need in modern times for strategies to achieve agreed goals and objectives, giving a sense of purpose and direction to the organisation, because of recent technological and social changes and competition from rival organisations.

So a *strategy* is some sort of future plan of action, usually understood as being undertaken by senior management at a high level of abstraction. Note this is not always the best definition of strategy, as we will see later when we discuss levels of strategy.

Different Definitions

A strategy is

> *"The art of war*, especially the planning of movements of troops and ships etc., into favourable positions; plan of action or policy in business or politics etc."*
>
> – Oxford Pocket Dictionary

We don't usually use dictionaries in academic work – but this is the history of the word. *You can refer to *The Art of War* by Sun Tzu.

Here are some alternative definitions:

Hofer and Schendel define it as

> *"the mediating force or 'match' between the organisation and the environment."*
>
> – Hofer and Schendel 1979

Alfred Chandler Jr. suggests:

> *"the determination of the basic-long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals".*
>
> – Chandler (1962)

(Alfred Chandler Jr. is one of the most famous researchers in strategy).

> *Porter relates strategy to the success or failure of a company "obtaining a competitive position or series of competitive positions that lead to superior and sustainable financial performance".*
>
> – Michael E Porter (1991)

(Porter is even more famous than Chandler now – see "Positioning School" later).

Quinn stresses integration:

> *"the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole… strategy helps marshal and allocate an organization's resources into a unique and viable posture."*
>
> – James Brian Quinn, Strategies for Change: Logical Incrementalism (1980).

Andrews stresses the "raison d'être", the reason for being:

> *"the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be."*
>
> – Kenneth Andrews, The Concept of Corporate Strategy (1971)

Walt Disney's *Peter Pan*

- Lost Boy: "Injuns! Let's go get 'em!"
- John Darling: "Hold on a minute. First we must have a strategy."
- Lost Boy: "Uhh? What's a *strategy*?"
- John Darling: "It's, er…It's a plan of attack." –
  (from Grant 2004)

(Robert Grant is famous for the "Resource-based school" and for his work on the oil industry. He quotes *Peter Pan* in a lighter vein!)

Mintzberg and Waters (1985) suggested there are several major ways to look at strategy, and identified nine types of strategy. Mintzberg and others increased these by one to 10 in later books. We don't need to bother about them now.

However, a major distinction Mintzberg and Waters made is that strategies can 'emerge' over time by a series of actions which are related by some internal managerial culture or paradigm. This is not about strategy being flexible, but invisible! This is discussed later.

4 SCHOOLS OF STRATEGY

Introduction – Definition – there are three 'schools' of strategy

Through the debate three 'schools' of strategy were born:

- The 'planning' school
- The 'positioning' school
- The 'resource based' school

The 'planning' school

Andrews, 1971, Ansoff, 1965

- Achieves a 'fit' between the organisational strategy and the environment in which it operates.
- Requires detailed and inflexible planning not suitable in turbulent markets.
- Uses 'Product Life Cycle' and other marketing theories.
- Based on past trends, forecasts and stable structures and environments eg mature industries, public sector.
- Uses a very bureaucratic and rational process.

	Existing product	New product
Present market	Expansion ie, increase in market penetration	Product development or innovation
New market	Market development (sometimes called 'exploration')	Diversification

Fig 4.1 The Ansoff Matrix

Example: used in mature, stable markets and industries, public sector.

The 'positional' school

- Focuses on a rational, analytical approach of making strategy
- Attempts to place the organisation and its products in a favourable market or environment
- Based on performance measurement and decision making tools
- Emphasises competitive advantage.

Examples include:

- *Porter's (1980) work:*
  'Five forces' model of industries
  Internal 'value chain'
  'Generic' strategies

- *Boston Consulting Group Matrix – BCG – of four cells – cash cows, stars dogs and problem children, based on income from market share and on potential market growth*

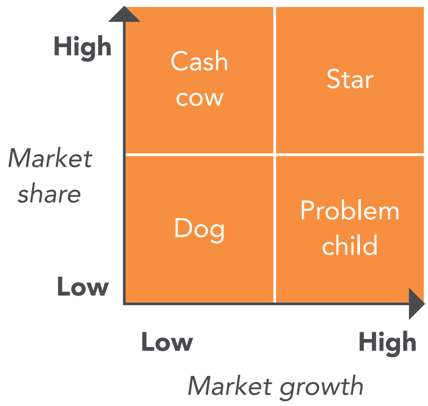


Fig 4.2 The BCG Matrix

The 'resource based' school

Robert Grant 1998, Jay Barney 1991

- Looks to the internal environment instead of the market
- Incorporates the 'core competence' approach of Prahalad and Hamel, 1994
- Based on an '*inside-out*' approach suggesting that the competitive advantage of an organisation is based on its own distinctive resources, capabilities and competences.

However

- Danger of ignoring the external environment.
- Grant and others do not consider culture and HRM.

Key points

These schools are not important in individual analysis but in theoretical essays and assignments.

5 LEVELS OF STRATEGY

Most academics classify strategies into *three levels*:

- Corporate
- Business
- Functional/Operational

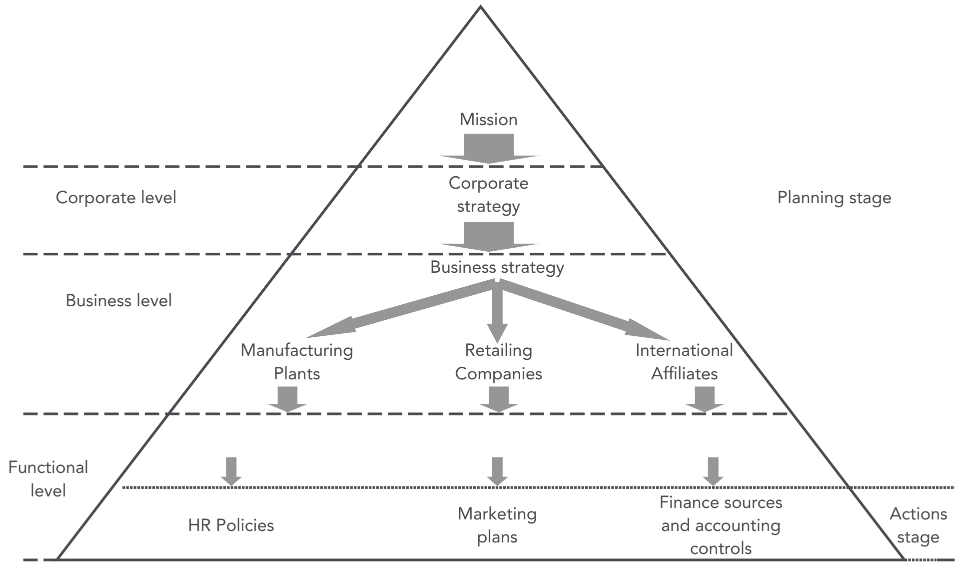


Fig 5.1 Levels of Strategy

Corporate level – finance

- Few books go into the way in which financial strategies are adopted, yet this is important, if not vital.
- Businesses fail ultimately for lack of cash, caused by poor decisions of course, but also by the lack of a solid relationship with banks and/or shareholders, particularly institutional ones, who may put pressure on the Board and even revolt at the Annual General Meeting.

Corporate strategy – what business are we in, or hope to be in? what business or businesses the firm should be in?

It relates to the future formula and structure of the company, and affects the rationale of the company and the business in which it intends to compete.

Example Racal Electronics' decision to float off Vodafone as a separate company.

- **Competitive or business strategy** – Strategic Business Units (SBUs) are a part of an organisation for which there is a distinct external market for goods or services how each business attempts to achieve its mission within its chosen area of activity.

Here strategy is about which products or services should be developed and offered to which markets and the extent to which the customer needs are met whilst achieving the objectives of the organisation. A term that is often used in relation to business strategy is SBU, or strategic business unit. SBU means a unit within the overall corporate entity for which there is an external market for its goods and services, which is distinct from that of another SBU.

- Johnson and Scholes (2002) place Porter's 'generic strategies' here, at the business level: this is because the SBU concept has different markets to address and so different resources and operational strategies will be needed
- In brief, Porter says businesses – but not the Corporate level – must choose between 'cost-leadership' and so compete on price, and 'differentiation' and so compete on quality
- Remember Profit = Volume × Margin so cost leaders need high volume.

We will discuss Generic strategies again later.

Example: Ford's Motor Co's car division – an SBU – launched its Mondeo model, aimed at fleet car buyers, who had not favoured the Sierra, its predecessor.

Operational or functional strategies – departmental level – accounting, HR, manufacturing, marketing – how the different functions of the business support the corporate and business strategies. They are concerned with how the various functions of the organisation contribute to the achievement of strategy.

It examines how the different functions of the business (marketing, production, finance etc.) support the corporate and business strategies. Such corporate planning at the operational level is means oriented and most activities are concerned only with the ability to undertake directions.

Example: revising delivery schedules and drivers' hours to improve customer service or recruiting a German-speaking sales person to assist a UK company's sales drive in Europe.

However, the boundaries between the three categories are very indistinct and much depends upon the circumstances prevailing and the kind of organisation. Overall, corporate planning is concerned with the scope of an organisation's activities and the matching of these to the organisation's environment, its resource capabilities and the values and expectations of its various stakeholders.

- These are not really considered by most text books! Simplistically, a strategy here can be considered to be any forward-looking plan
- We can debate how far HR and Marketing to take two obvious examples, can be considered 'functional' as they are so important
- At this level however we can see that detailed reward policies or marketing communication plans are not Corporate-level activities.

Examples:

Manufacturing – increase yield, decrease waste, accelerate throughput, monitor quality to reduce warranty clams, organise and train employees in cross-functional teams to enable flexible response

HR – use benchmarking such as salary surveys to check labour market, introduce audits of training and recruitment, suggest plans to increase employee commitment – to reduce turnover & absenteeism.

6 PROCESS OF STRATEGY

Strategic management is the organised development of the resources of the functional areas: financial, manufacturing, marketing, technological, manpower etc., in the pursuit of its objectives. It is the use of all the entity's resources.

The complex nature of many large organizations has led to the splitting of strategies into inter-related (we hope) levels comprising the hierarchy of process:

Fig 6.1 The hierarchy of process

Another conception is of a linear chain:

The process is a set of policies adopted by senior management, which guides the scope and direction of the entity. It takes into account the environment in which the company operates.

A sequence of developing plans that move from *general* to *specific* and *intent* to *action* would create several levels of planning, which could be illustrated in the triangle above.

- 'Vision' and 'mission' are often used interchangeably:

Vision is broader and future looking.

- Conveys the unique purpose of a company
- Delimits the scope of activities that the company is, or will be, undertaking

Every organisation will have a purpose for its continued existence. A mission statement expresses their purpose and can therefore be a brief statement. It also links with the idea of Vision – how managers interpret the Mission for their colleagues.

Mission statements can be long or short. A statement should include the basic function or tasks of an organisation, particularly why it exists, the nature of the businesses it is in, and the customers or clients it seeks to satisfy. A formal mission statement provides a driving force behind the organisation's other plans and more specific objectives. A mission statement is a formal commitment to the vision that incorporates the company's strategy.

So a good way to see if an organization has a deliberate strategy is to see if it has a Mission Statement and what that says about its raison d'etre and direction for the future. Check out its website and/or Accounts.

Mission statements contain two main elements:

- *A declaration of the overall mission*
- *An articulation of key organisational goals*

(see Fortune/Mission)
http://www.missionstatements.com/fortune_500_mission_statements.html

Examples

ConocoPhillips (oil)

"Use our pioneering spirit to responsibly deliver energy to the world" [my emphasis]

Harley-Davidson (motor-bikes)

"We fulfill dreams through the experience of motorcycling, by providing to motorcyclists and to the general public an expanding line of motorcycles and branded products and services in selected market segments." [my emphasis]

Avis (car hire)

'we try harder'

How about these visions?

BP 'beyond petroleum' – what is beyond petroleum??

Virgin – Pacific Blue, Virgin Credit Card, Virgin Trains, Virgin Records – what is Branson's 'vision'.

Coca-Cola: my vision for Coke – seeing Vladimir Putin, President of Russia, drinking it out of a can on TV.

Goals, Objectives and Strategies

Goals: General statement of aim or purpose

Objectives: Quantification if possible or more precise statements of the goal." Objectives do not only represent the end point of planning but are the ends towards which management activities and resource usage is directed. They therefore provide a sense of direction and a measure of success achievement.
(Johnson and Scholes 2002)

In a way, objectives are easier as they are nearer 'now' and can be seen at the bottom levels – such as "reduce absenteeism by 5% by end-year". These are often 'SMART' – Specific, Measureable, Achievable, Relevant/Realistic and Time-bound.

Strategies – relate to broad areas of an enterprise's operations. Their purpose is to furnish a framework for more detailed tactical planning and action.

Tactics – are actions carried out to put into effect the details of a strategic decision – tactics can therefore be seen as the detailed implementation of a strategy. In addition, some tactical decisions will be made in response to changing circumstances.

Actions, programmes and rules – are the operational practices that will translate the intention of the tactics into action by individuals and are therefore detailed, short term and subject to immediate control.

Goals

Formulating appropriate goals is a vital component of the process of strategic planning and decision-making. The 'goal model of effectiveness' stresses external achievement. Organisational goals are important because they provide a sense of direction and help to focus management decision-making; they also provide a standard against which progress can be evaluated.

Usually goals are thought of as more long-term or higher level abstractions, than objectives. Such goals may be derived for functional activities and departments – to create a more efficient factory, or implement a better management information system for example. Also, there may be more general performance goals such as 'to increase the return on assets', or 'to raise productivity'. These are desired results linked to particular timescales.

Problems of goal identification

If the concept of organisational goals is examined carefully a number of important theoretical and practical problems begin to emerge. It is useful to list these in summary form and then go on to explain each one.

- Whether organisations have goals at all
- Whose goals to take into account
- Whether official and actual goals are the same
- What relationship exists between goals at different levels within the organisation?
- How to establish priorities among goals.

Individuals

Within the organisation people too have goals, and, as a result, identifying overall organisational goals cannot be achieved simply by adding together every individual's personal goals. This leads us to the second problem: whose goals to take into account.

What senior managers want the organisation to achieve and what other people in the organisation actually do are not inevitably the same thing. Goals at different levels of the organisation have to be compared, to establish whether overall goal congruence exists.

Identifying the goals of a particular organisation certainly requires inputs from those in charge. In owner-managed business organisations this group is clearly identified. However, in a large public limited company, or a public sector organisation, the identification is much more difficult. The process will be made easier where there is a formal written statement of the organisation's goals.

Formal goals are an essential starting point, but they will not necessarily reflect in every respect the goals that are actually pursued in the everyday management of the organisation. These actual goals may only be discovered by talking to a much wider group of members of the organisation, or by participating in the making of key decisions.

An environmental analysis of opportunities and threats should include a stakeholder analysis because profitability and other external measures are evaluated by this powerful group and in terms of the organisation's goals or mission, a miscalculation of the expectations of stakeholders could prove disastrous for the management.

The goal model of effectiveness

> *'Originating in traditional measures of performance used in accounting, the goal model…is unquestionably the most commonly used and widely discussed approach for assessing effectiveness.'*
>
> – Bedeian, 1984, p. 144

External measures of these goals might include any or all of the following:

- profit
- growth/turnover
- market share

- delivery time
- time-to-market
- reputation.

The popularity of the goal model stems from its apparent simplicity, but it is also important to be aware that this simplicity is apparent rather than real. The key assumption underpinning the goal model is that the goals of an organisation can be clearly established, and that the necessary human and material resources can then be managed to achieve these objectives.

The discussion in the previous section indicates that the identification and prioritisation of organisational goals may be more difficult than is recognised by a simple goal model. A further complication concerns the period of time to be taken into account when assessing performance using this approach. Organisations are dynamic entities, and a measurement of goal attainment at any one time may not give a complete picture of organisational performance.

The system resource model

The interdependence between an organisation and its environment provides the starting point for the system resource model of organisational effectiveness. When considering a systems approach to organisations earlier in the chapter, the concept of an organisation as a processing sequence was introduced: this highlights the fact that organisations depend on being able to acquire inputs from their environment, to be processed and returned as outputs to others in the environment who will value them.

Such factors might include:

- bargaining expertise;
- bargaining power;
- effective environmental scanning (e.g. predicting the environment changes);
- adaptability to changes (e.g. contingency planning).

The internal process approach

This is most often used in 'not-for-profit' organisations such as charities for whom financial measures are not always appropriate, and as can be imagined, this model (like the system resource model) is more akin to a concept of efficiency than effectiveness. However, certain measures can overcome this such as those used by Peters and Waterman.

Others could include:

- high morale
- strong culture
- quick decision-making
- effective reward systems.

In any case, it can just as easily be applied to a profit-orientated organisation as part of a simplified value chain.

Thus the three approaches outlined above can be thought of as a continuous system, where, if a Total Quality Management (TQM) technique were applied, different measures could be used as appropriate for each part of the whole system.

Stop! What would you expect to be the main problems of applying the system resource model to an organisation?

Although the basic idea behind the system resource model has merit, it is not difficult to see the problems it entails:

a. It is difficult to make operational decisions; in particular there is no clear way of determining what is an 'optimum' balance between an organisation and its environment.
b. There is a danger of confusing the concepts of efficiency and effectiveness, when indicators such as productivity are used to assess the health of the organisational system.
c. It is not clear how any system can be evaluated without reference to the purposes it is supposed to fulfil, i.e. its objectives.

It can be argued that a method of assessing organisational effectiveness that is both valid and useful will probably need the following features:

- Some way of identifying organisational goals and of assessing the importance of each.
- A method of assessing these goals from the point of view of key interest groups – such as customers, shareholders and the local community – as well as senior managers
- The means to assess the relative importance of the key interest groups, which may have conflicting expectations of the organisation
- Guidelines about where to look for the relevant information and who to discuss goals and goal attainment with
- A way of distinguishing between organisational goals and strategies
- If possible, practical guidance about how an organisation should change to ensure continued success
- Practicability, in the sense that meaningful measures of performance can be found.

7 TYPES OF STRATEGY

Strategies may come about in different ways and Mintzberg and Waters recognised that there are different modes of strategy formulation, which are described below.

The figure below shows the alternatives:

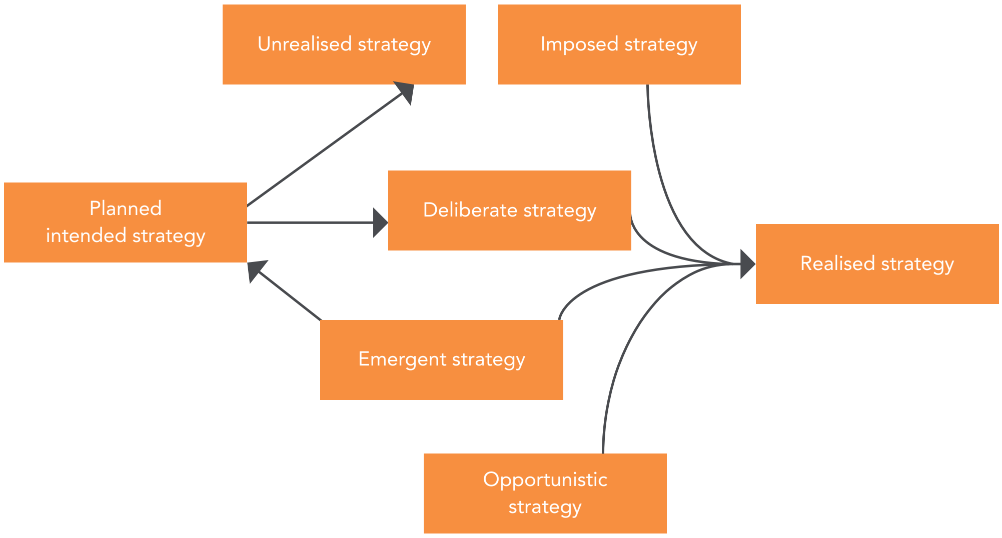


Fig 7.1 Planned intended and deliberate strategy – the Rational model

Planned or deliberate strategies come about where there are precise intentions, which are written down and imposed by a central leadership. Key features include a large number of controls to ensure surprise-free implementation in an environment, which is controllable, with managers who are able to ascertain, review and evaluate every option available, and they are then able to choose what appears to be the best option in the light of rational criteria. Often there is a specialist Strategy Department.

Organisations using this strategy should

- be large enough to afford the costs of formal analysis
- have goals that are operational
- operate in an environment that is reasonably predictable and stable
- take a systematic and structured approach to its development
- collect internal and external information and integrate decisions into a comprehensive strategy
- focus on systematic analysis, particularly in the assessment of the costs and benefits of competing proposals.

Strategic planning is seen as a way of preparing for changes and providing direction for the organisation. It also allows the organisation to co-ordinate its activities internally.

Emergent Strategy

According to Mintzberg and Waters, strategies can be *deliberate* or *emergent* or a stage in-between. There is a corporate intent followed by its interpretation. Sometimes this intent is not formally written down but emerges over time as part of the culture.

Example Top-down

A culture of like minded people who have values which coincide on a focus – on quality or a desire to be internationally known etc.

Opportunistic Strategy

Strategies may come about in or entrepreneurial ways. An organisation may take advantage of changes in the environment or recognise new skills in an opportunistic manner. Alternatively, a firm may be set up by an entrepreneur because of an opportunity in the market place.

In the entrepreneurial mode, strategy-making is dominated by the active search for new opportunities, and is characterised by dramatic leaps forward in the face of uncertainty. Strategy is developed by significant bold decisions being made. Growth is the dominant goal of the organisations, and in uncertain conditions, this type of mode can result in the organisation making significant gains. Entrepreneurial mode – requires the strategy-making authority to rest with one powerful individual. The environment must be flexible, and the organisation oriented toward growth. These conditions are most typical of organisations that are small and/or young.

The organisation operating in this mode suggests by its actions that the environment is not flexible, it is a force to be confronted and controlled. Power is centralised in the chief executive, with an unwillingness to 'submit' to authority.

Imposed strategy

Strategy may be imposed on the organisation. Government policies may have an impact on the strategy; this has been the case for those public utilities recently privatised. Recession and threat of a takeover may force a strategy of cost cutting and retrenchment. Technological developments may cause an organisation to develop new products to replace the ones that have become obsolete.

Realised And Unrealised

The strategy however my be *realised* and thus be successfully implemented or it may fail and remain unrealised in practice.

Other Types of Strategic formulation

Muddling through

Lindblom (1959) has argued that the rational model in strategy simply does not reflect reality – and reject the very idea of formulation – managers just make on the spot decisions as issues arise and so just 'muddle through' without a plan.

Lindblom therefore argued that strategic choice takes place by comparing possible options against each other and considering which would give the best outcome. Lindblom called this strategy 'successive limited comparisons'.

NB See also the adaptive mode below for a similar view.

Logical incrementalism

Definition

Logical incrementalism incorporates both the behavioural realism of 'muddling through' and the advantages of a planned, analytical approach. This view has been championed in particular by James Brian Quinn.

The outcome of this approach is a deliberate policy of small strategic changes within the framework provided by a general sense of strategic direction.

Managers have a view of where they want the organisation to be in the years to come, but they try to move towards that objective in an evolutionary way. They do this by attempting to develop a strong, secure but flexible core business whilst also continually experimenting with 'side issues'. Quinn argues that the decisions taken by management as part of this process should not be reviewed in isolation.

While managers are continually learning from each other, this results in continual testing and gradual strategy implementation, which provide improved quality of information to help decision-making. Because of this continual readjustment, the organisation should be in line with the environmental demands being placed on it.

Quinn's studies recognised that such experiments could not be the sole responsibility of the top managers but they should be encouraged to come from the lower levels of the organisation.

Crafting

Mintzberg likens strategy development to a potter crafting clay.

'The crafting image captures the process by which effective strategies come to be. The planning image, long popular in the literature, distorts those processes and thereby misguides organisations that embrace it unreservedly.'

It must be realised at the outset that there is no one best way of managing the strategy of an organisation. A flexible, reactive style may suit a small firm in a rapidly changing environment, whereas a large company may need to take a long-term view and plan accordingly.

Strategies may come about in different ways and Mintzberg has recognised that there are different modes of strategy formulation, which are described below. His views on planned strategies dovetail with what we have already described as the rational model, but his other two modes of strategy formulation lead on to a wider discussion.

Adaptive mode

It is called the adaptive mode because it fits the description that managers give of how strategies come about in their organisations. They see their role as strategists as being involved in a continual proactive pursuit of a strategic goal, countering competitive moves and adapting to their environment whilst not rocking the boat too much.

This mode is commonly found in the public sector, non-profit making organisations and in organisations that face relatively stable environments. Strategies are developed as a result of the interaction and bargaining among various power/interest groups. As there is no one source of power or influence, strategies are not always automatically clear.

Major characteristics distinguish the adaptive mode of strategy-making:

- There is no one central source of power, no one simple goal
- strategy-making reflects a division of power among stakeholders – unions, managers, owners, lobby groups, government agencies, and so on
- The organisation cannot make decisions to 'maximise' any one goal such as profit or growth; rather it must seek solutions to its problems that satisfy the political forces of stakeholders
- Strategy is characterised by a 'reactive' solution to existing problems rather than the 'proactive' search for new opportunities
- It seeks to reduce uncertainties by, for example, negotiating long-term purchasing arrangements to stabilise sources of supply
- Decisions are in incremental, serial steps
- Strategy focuses on what is familiar, considering the convenient alternatives
- Disjointed decisions are characteristic sometimes contradictory.

8 STAKEHOLDER THEORY

Introduction – definition of Stakeholders

Groups or individuals that have an interest in the well-being of the company and/or are affected by the goals, operations or activities of the organisation or the behaviour of its members. They have a 'stake' in what the organisation does.

Explanation

Stakeholders can be broadly categorised into:

a. internal stakeholders – employees, management
b. connected stakeholders – customers, suppliers, competitors
c. external stakeholders – government, pressure groups

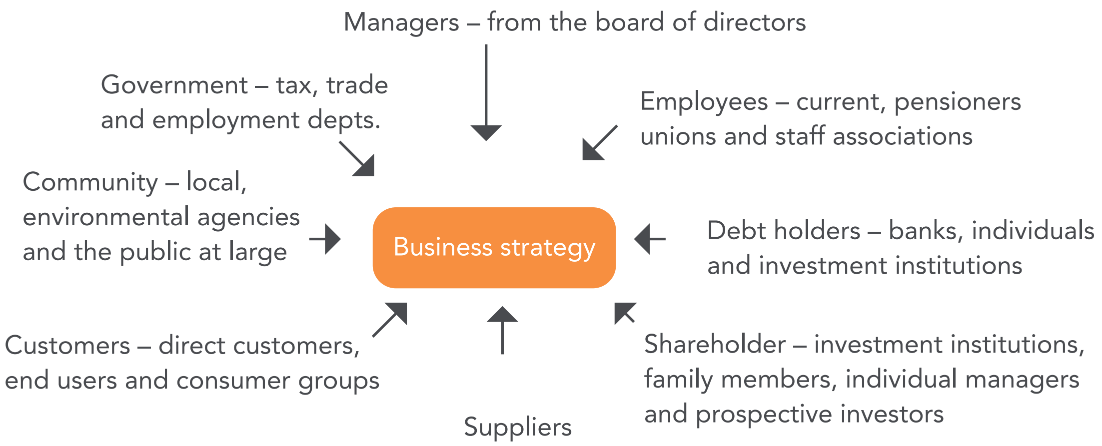


Fig 8.1

Internal stakeholders

These include:

Managers – are likely to have a particular interest, and concern for, the size and growth of the organisation and its profitability, job security, status, power and prestige (office size, type of company car, number of staff working for them).

Non-managerial employees – normally concerned with improving pay and conditions and, particularly in the current economic situation, job security. Safety, freedom from discrimination, and industrial democracy are also of concern.

Employees are more productive when they have a sense of participation in the decisions affecting them. Human resource development has become a major organisational objective for many companies. German companies have labour representation on management boards, and the Swedish company Volvo has pioneered the concept of job enrichment for assembly-line workers.

Connected stakeholders

These include:

Customers and final consumers – are interested in value for money, ethical advertising and consumer protection. A customer may be an institution, such as a hospital or government agency; it may be another firm, such as a distributor or manufacturer; or it may be an individual consumer.

Suppliers – want a fair price, regular business and payment on time. Every organisation purchases raw materials, services, equipment and labour from the environment and uses them to produce its output. What the organisation brings in from the environment will determine both the quality and the price of its final product.

Advances in inventory control and information processing have changed organisational relationships with suppliers. Some companies keep zero inventory, relying on several 'just in time' (JIT) deliveries each day. If JIT methods are in operation, this obviously results in a much closer relationship between organisations and suppliers, not only in terms of lead-time deliveries, but also in terms of quality control.

Competitors – competition in an industry is rooted in its underlying economics, and competitive forces exist that go well beyond the established combatants in a particular industry.

Competitors will therefore be concerned with the degree of rivalry between themselves in their own industry and the degree of potential rivalry or threat of entry from others.

Shareholders – are the owners of companies and are the suppliers of any additional risk capital, which may be required. The type of shareholder or shareholders that a company has, will largely determine the sort of information that can be gained from them. There are basically two main types of shareholder:

1. institutions, usually of a large size; and
2. private shareholders, either individuals or small groups of investors.

An *institutional investor* is the general name given to those institutions, or firms, which make investments in stocks and other securities as principals but raise funds for investments from individuals and other firms. There are four main types of institutional investors.

Pension funds – These invest on behalf of the pension fund members in order to provide members with a retirement pension.

Insurance companies – These operate on behalf of holders of life and endowment policies.

Investment trust companies – These are limited liability companies, who invest in shares, property, etc., on behalf of their own shareholders.

Unit trusts – These are trusts, which invest on behalf of its unit holders.

External stakeholders

The external stakeholders include:

Governments

seeking finance through taxation and other means
legislated activities which catch votes and political support
Safety
Industrial harmony
Deregulation/privatisation which aims to increase efficiency and competition.

Pressure groups – such as Friends of The Earth desire an improvement in the 'quality of life' through:

- the reduction of pollution and
- the maintenance of an ecological balance by ceasing to rely on non-renewable resources
- the minimisation of poverty
- assistance with local community projects
- help with the young and elderly.

Example, the development of the catalytic converter as part of a car's exhaust system reduces engine performance and adds to the overall purchase price of a car. Managers, however, have no choice but to take into account today's current climate of broad and genuine concern for the environment.

9 EXTERNAL ANALYSIS

There are generally considered to be two parts or levels – *Environmental analysis* of the 'far' or 'macro' environment affecting all firms, and the *industry analysis* of the 'near' or 'micro' environment which is much more specific.

Benefits of external analysis include

- Increasing managerial awareness of environmental changes
- Increasing understanding of the context in which industries and markets function
- Increasing understanding of multinational settings
- Improving resource allocation decisions
- Facilitating risk management
- Focusing attention on the primary influences on strategic change
- Acting as an early warning system.

Explanation

The far or macro environment

The macro-environment represents forces that affect all firms across all industries.

There are various suggestions as to how to define parts of an environment so as to understand them in depth. There are common issues such as the Political, Economic Social and Technological influences, the PEST factors. Sometimes these are extended:

- PESTEL separates out Legal from Political activity and adds Environmental
- STEEPV adds Values or ethics
- SPENT adds Natural environment.

The PEST classification is rather simple and we need to take account of the fact that when we refer to political factors we are including legislation arising from political activity as a key influence.

In more detail the aspects of the macro-environment are as follows:

Political factors act at three levels

Supranational (e.g. the EU)
National, and
Sub-national or local level.

Government active areas include

- Policies on healthcare, unemployment, exchange rates, inflation, economic growth.
- Government employment and the public sector generally.
- Fiscal policies on taxation.
- Government Agencies regulating competition pollution and industrial relations.
- Laws of various kinds such as those relating to protection of the environment or the safety of employees in the work place or those relating to Customer protection.

Economic factors refer to all the key economic variables often related to Political action, such as

- GDP gross national product
- growth
- inflation
- Central Bank lending rates
- Currency exchange rates
- Fiscal policy tax on corporations and individuals
- Regional issues like land process and labour rates
- Distribution of economic rewards in society
- Freedom to move monies
- Stock exchanges and money markets.

Social factors refer to

- attitudes, values and beliefs tastes of held by people including ethnic minorities
- Culture: Attitude to work, savings and investment, ethics, etc
- Demography: Size and structure of the workforce, population shifts, aging
- Social structure: class and segmentation of the market.

These affect economic factors and increasingly it is necessary to take account of the above list of factors not only at the domestic/national level but also at the global level as companies internationalise their activities.

Technological factors

These can be internal and external. Organizations use technology – not hardware but software too such as Quality Control – and produce products and services of varying complexity.

They include

- Goods and services
- Production processes
- Information and communications
- Transport and distribution
- information technology, computing and associated implications for production
- biotechnology and new industries.

How to use the analysis tools:

- Scan the macro-environment for actual or potential changes in the PEST factors
- Assess the importance of the changes for the market, industry and business
- Analyse each of the relevant changes in detail and the relationships between them
- Assess the potential impact of the changes on the market, industry and business.

The 'near' or 'micro' environment

This is the 'Industry or competitive environment analysis' of Porter (1979).

His 'Five Forces' model of the competitive environment is as follows:

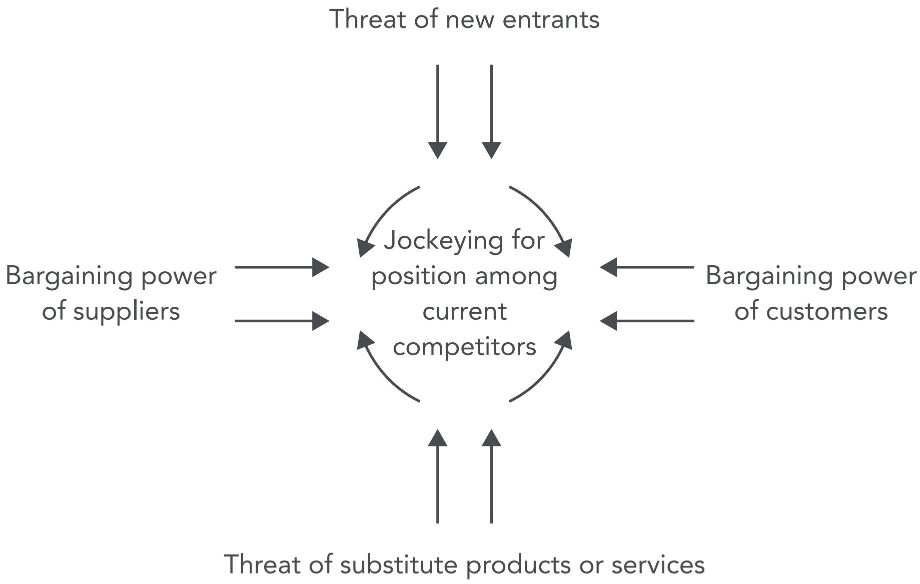


Figure 9.1

Barriers to entry: include such factors as capital requirements, economies of scale, product differentiation, switching costs, brand identity, access to distribution channels, and threat of retaliation. The higher the barriers to entry, the higher the potential profitability of the firms in the industry.

- Economies of scale
- The capital requirement of entry
- Access to distribution channels
- Cost advantages independent of size
- Expected retaliation
- Legislation or government action
- Differentiation.

Competitive rivalry: the intensity of competition depends on a number of factors whether or not a strong industry leader exists, the number of competitors (degree of concentration), the presence of exit barriers, the importance of fixed costs in determining capacity, degree of product differentiation and the growth rate of the industry.

Usually, rivalry is more fierce and intense when there is

- no industry leader
- a large number of competitors
- high fixed costs
- high exit barriers
- little opportunity to practise product differentiation and
- slow rates of growth
- Extra capacity.

Supplier power is determined by such factors as importance of product to buyer, switching costs, degree of supplier concentration to an industry and the supplier's ability to enter an industry.

Supplier power is likely to be high when:

- there are few suppliers
- The cost of switching to another supplier is high
- The brand of the supplier is powerful
- There is a possibility of forward integration by the supplier
- The supplier's customers are highly fragmented so their bargaining power is low.

Buyer power. The bargaining power of buyers depends on several factors, including buyer knowledge, purchase size, product function, degree of buyer concentration in an industry, degree of product differentiation and the buyers' ability to enter the industry.

Buyer power is likely to be high when:

- There is concentration of buyers
- There is a large number of small operators in the industry
- There are alternative sources of supply
- Material costs are high
- The cost of switching to another supplier is low
- There is a threat of backward integration by the buyer.

Threat of substitutes is important because they can de-stabilize the current industry structure by offering customers better-valued or more useful products.

Forms of substitution:

- Product-for-product substitution e.g. email substitutes for fax – does the same job better
- Substitution of need – e.g. better toothpaste leads to fewer dentists
- Generic substitution – the currency in your pocket – petrol for haircut
- Product not a necessity – cigarettes, alcohol, luxuries.

It is important to note that each industry will have its own unique interrelationship of the five forces and that the relative bargaining power of each of the five forces together determines the overall attractiveness or profitability in an industry.

10 INTERNAL ANALYSIS

Competences, Core competences and Resources

Competence:

- Is an attribute or collection of attributes possessed by all the companies in an industry
- Develop from resources and include skills, technology or 'know-how'
- Are essential for survival in a particular industry
- Have the potential to be developed into core competences.

Core competence or "distinctive capability"

Definition:
Superior acquisition and employment of resources
AND
Superior development of 'general competences'
(Prahalad and Hamel, 1990)

They are an attribute or collection of attributes specific to a particular organization which enables it to produce above industry average performance.

They develop from the way in which the organization has employed its competences and resources more effectively than its competitors.

- They are only possessed by those companies whose performance is superior to the industry average
- They are unique to the company
- They are complex
- They are difficult to copy
- They relate to fulfilling customer needs
- They add greater value than 'general' competences
- They are often based on distinctive relationships with customers, distributors and suppliers
- They are based upon superior organizational skills and knowledge.

Resource analysis

Definition:

Resources are “inputs employed in the activities of the organization”.

- Analysis by category:
  - Human
  - Tangible
  - Intangible.

- Analysis by specificity:
  - Industry-specific
  - Non-industry-specific.

- Human
  Skills, know-how, capacity for communication and collaboration, motivation.

- Tangible
  Financial (cash, securities, borrowing capacity)
  Physical (plant, equipment, land, mineral reserves).

- Intangible
  Technology (patents, copyrights, trade secrets)
  Reputation (brands, relationships)
  Culture.
  (Grant 2008 p 131)

Analysis by performance:

- Contribution to internal and external measures of performance.
- Internal measures:
  - Business objectives and targets
  - Historical comparisons
  - Business unit or divisional comparisons.
- External measures:
  - Comparisons with competitors
  - Comparisons with companies in other industries.

Introduction and Definition of The Value Chain

Internal organisation can affect the cost and even the feasibility of some strategies. There must be a 'fit' between a strategy and the elements of an organisation. If the strategy does not fit well, it might be expensive, or even impossible, to make it work. This related to the Resource-Based view of the firm supported by Grant 1995.

The value chain can be defined as 'a framework to differentiate the value-adding activities in an organisation'. Ii comprises *primary* and *support* activities.

Below this section is a suggested audit of human resources and cultural aspects which are often hidden.

We need to:

- Understand the nature and sources of particular core competences;
- Identify the need for and methods of adaptation of existing core competences;
- Identify the need for new core competence building;
- Identify potential sources of core competences based on resources and competences;
- Ensure that core competences remain focused on customer needs.

Explanation

Each of the activities can be considered as adding value to an organisation's products. For example, the activity of operations in a car assembly plant. While the separate components do have a value in that they can be sold and bought as individual items, as engines, wheels, etc., but when they are assembled into a complete vehicle then they have added value to customers far in excess of the individual parts.

The value chain can best be described by use of a diagram as follows:

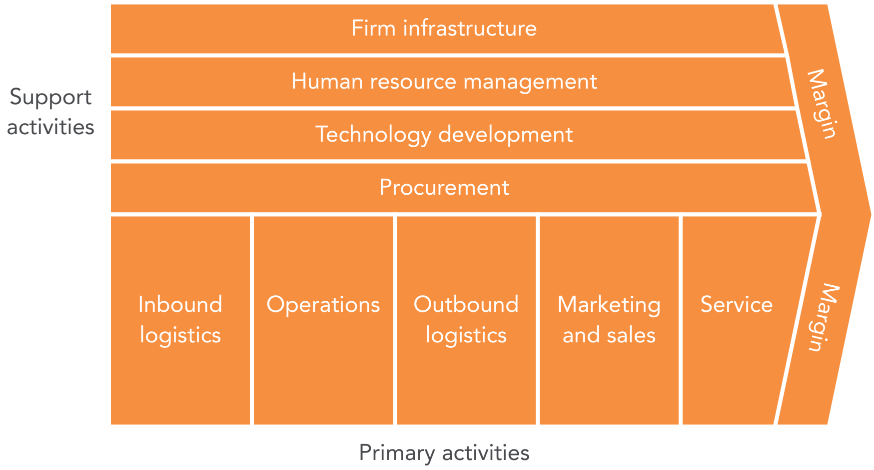


Figure 10.1 The value chain

The primary activities:

- *inbound logistics:*
  - these deal with the delivery. movement and handling of raw materials from suppliers
- *operations:*
  - transformational activities which create end products from raw materials, inputs and
- *outbound logistics:*
  - refers to the processes which transfer products to distribution channels
- *marketing/sales:*
  - includes such activities as advertising, promotion, product mix, pricing, working with buyers and wholesalers, and sales force issues
- *service:*
  - customer service issues include warranty, repair, installation, customer support, product adjustment and modification.

The support activities:

- *procurement:*
  - the firm's purchasing of material and supplies for its activities
- *technology development:*
  - focuses on improving the processes in primary value-adding activity
- *human resource management:*
  - hiring, training, compensating, developing and relations with the firm's people
- *infrastructure:*
  - a broad term for such activities as finance, accounting, legal, government relations.

Definition: margin:

The difference between the cost of operations and the income from sales.

Examples:

The flexible, entrepreneurial organisational structure of organisations such as 3M, where new project teams and divisions are continually created, is a key to its growth.

An established centralised organisation with a background oriented to one country may have difficulty implementing a diversification strategy requiring a decentralised organisation and an entrepreneurial thrust – as the UK retailer Marks and Spencer failed in its expansion into France.

11 INTEGRATION

Two major types exist – Horizontal and Vertical.

Horizontal integration

- seeks to sell a single type of product in several different markets.
- Horizontal integration occurs when a firm is being taken over by, or merged with, another firm which is in the same industry and in the same stage of production as the merged firm, e.g. a car manufacturer merging with another car manufacturer. It also enables pressure to be put on suppliers' prices etc. by a now-larger customer.

The goal of horizontal integration is:

- to consolidate like companies and reduce the number of competitors so as to try and monopolize an industry or sector

- to control prices, quality, and other inputs (like delivery times and methods) and standardize components so reducing costs.

Vertical integration

- **Vertical integration** relates to production and is much less common than Horizontal integration in marketing
- There are two main varieties: backward (upstream) integration, forward (downstream) integration
- It is a consolidation of many firms that handle the same part of the production process
- It is typified by one firm engaged in different parts of production (e.g. raw materials sourcing, manufacturing, transporting, marketing, and retailing)
- Vertical integration is not inherently good. For many firms, it is more efficient and cost effective to rely on independent distributors and suppliers.

Backward (upstream) integration

This involves the development of or purchase of supplies/ers.

Companies will pursue backward integration when it will result in improved efficiency and cost savings. Backward integration might cut out suppliers' profit margin and transfer it to the buyer, reduce transportation costs, improve profit margins.

Example: Apple makes both hardware and software, but Microsoft only software and misses the 'lock-in' effect.

Forward (downstream) integration

This is the move to create or buy organisations further down the value chain, thus adding value and profits from each subsequent stage of value-creation.

Raw materials suppliers might move from wholesale to retail chains, or to manufacturing.

Apple's forward integration is relatively new, from Apple-approved Resellers to the online Apple Store and its own retail stores which only sell Apple hardware, software and services. It also has retained some, and extended the range of other resellers.

Advantages of Vertical Integration

- Lower "transaction costs" between stages
- Synchronization of supply and demand leading to just-in-time
- Lower uncertainty of supply failure
- Lower risk – not all eggs in one basket
- Strategic independence from suppliers (especially if important inputs are rare or highly volatile in price)
- Acquisition of rents from different stages.

Disadvantages

- High capital costs of maintaining different businesses e.g. Unilever sold off profitable businesses as it could not afford the rising cost of R+D
- Loss of 'core competences': management now are in different industries with different cost drivers. Danger of 'bounded rationality' and path-dependency
- Weaker motivation for good performance since sales are guaranteed and poor quality may be blended into other inputs at later manufacturing stages.

12 HUMAN RESOURCES MANAGEMENT HRM

HRM and Strategy

HRM includes four key aspects – reward, relations, resourcing and training and development according to the UK's Chartered Institute of Personnel and Development (CIPD 2005). In recent times, Resourcing has become a key issue due to economic and competitive forces. A significant model, which generated a great deal of research, was the 'flexible firm model' of Atkinson (1984), in which a divide was made as between 'core' and 'peripheral;' workers. This was not merely a restatement of what is in effect a dual labour market theory, but was seen as a new, strategic, phenomenon.

Atkinson's seminal work was entitled *"Manpower strategies for flexible organisations"* and this *strategic* level of HR is identified by authors such as Wood (1988) as a key issue for society, mirroring as it did the thesis of 'flexible specialisation' forwarded by Piore and Sabel (1984).

Unfortunately there has been little attempt to attach a theoretical approach to the decision to sub-contract.

However, the literature on 'HRM as strategic' fails entirely to identify this kind of strategy and instead concentrates on the 'core' workers, on HRM's commitment, best practice and strategic performance without reference to the periphery or the process of implementing such a strategy.

In looking at this HRM literature, some clear problems emerge. Firstly, the literature in inconsistent and its terminology is vague, leading to problems of identifying variables accurately and to issues of their subsequent measurement.

The confusion of terms continues in the literature: 'high-performance work practices' 'high performance work systems', 'high-commitment HRM', 'high-involvement HRM', 'best practice or high-commitment HRM' are terms used by different authors to describe the same thing- a strategy of increasing productivity through people.

Marchington and Wilkinson (2002: 202) conclude that 'practices' are ill-defined, while Guest et al 2000a found no consistency in 'bundles' of HRM practices in the Workplace Employee Relations Survey and resorted to counting the number of 'practices' individually to 'find' this 'high commitment HRM'. Additionally, most results are from self-reports and cross-sectional studies which must, as Guest admits, be taken with caution (Guest et al 2000b:7-80).

Secondly, Legge (1995) like the many papers she lists, conflates different definitions of HR and, confuses the generic the HR *function*, which belongs to all managers, especially those in the line, with the HR *department* and its various roles. Thus she erroneously concludes that 'HR' has no influence on strategy.

Thus what is required is a mid-range theory, applied to a single industry or sector, which has a clear variable which can be subject to measurement. Atkinson's suggests that the key criterion on deciding on which tasks to outsource depends on the extent of 'firm-specific skills' could be measured by transaction cost economics, and where the function of maintenance could be used as a measure of one aspect of HRM, that of Human Resource Planning.

Storey (1992) developed a model to examine the differences between the old form of Personnel and Industrial Relations and the new bundling of practices under the title of "HRM".

Dimension	Personnel and IR	HRM
1. Beliefs and assumptions		
Contract	Carefully written contracts	Aim to go 'beyond contract'
Rules	Clear rules/mutuality	'Can do'; marginalises 'rule'
Guide to management action	Procedures/consistency control	'Business need' /flexibility/ commitment
Behaviour referent	Norms/custom and practice	Values/mission
Managerial task v labour	Monitoring	Nurturing
Nature of relations	Pluralist	Unitarist
Conflict	Institutionalised	De-emphasise
Standardisation	High (e.g. 'parity' an issue)	Low (e.g. 'parity' not relevant)
2. Strategic aspects		
Key relations	Labour-management	Business-customer
Initiatives	Piecemeal	Integrated
Corporate plan	Marginal	Central to
Speed of decision	Slow	Fast
3. Line management		
Management role	Transactional	Transformational leadership
Key managers	Personnel/IR specialists	Line managers
Prized management skills	Negotiation	Facilitation
4. Key levers		
Foci of attention for interventions	Personnel procedures	Wide cultural structural and personnel strategies/models
Selection	Separate, marginal task	Integrated, key task
Pay	Job evaluation; multiple fixed grades	Performance-related; few if any grades
Conditions	Separately negotiated	Harmonisation

Dimension	Personnel and IR	HRM
Labour-management	Collective bargaining contracts	Towards individual contracts
Thrust of relations with stewards	Regularised through facilities and training	Marginalised (with exception of some bargaining for change
Communication	Restricted flow/indirect	Increased flow/direct
Job design	Division of labour	Teamwork
Conflict handling	Reach temporary truces	Manage climate and culture
Training and development	Controlled access to courses	Learning companies

Fig 12.1 The Storey model of HRM – Personnel and IR and HRM: the differences

===

HRM Strategy

There is a problem of measurement. We need to know where we start from. The points below are essentially *quantitative* and give little or no direct indication of the way in which HR can be effective –such as in employee/industrial relations. Here the benchmarking of processes in a detailed *qualitative* survey can help.

Typical benchmarks are:-

- Number of employees
- Employee costs
- Level of skills and capabilities
- Staff training and development
- Employee motivation and morale
- Industrial action – strikes etc
- Organisational structure
- Recruitment and selection processes
- How the effectiveness of HR policies and procedure is monitored.

From here we can work on a functional strategy at first and then relate it to the Business and Corporate levels.

13 CULTURE

Definition

> *'that set of beliefs, customs, practices, and ways of thinking that they come to share with each other through being and working together.'*
>
> – Stacey, 1996

There are two types: *organisational* and *corporate*. The former is a deep-seated unconscious patterning; the latter often seen as four types of power and control operated through the organisational structure So the first is hard to change the second easier.

Explanation: The importance of culture

- Employee motivation
- Recruitment

- Employee morale
- Productivity and efficiency
- Quality of product/service
- Industrial relations
- Innovation and creativity.

Artefacts and evidence for *organisational* culture

The measures of culture can be seen typically in

- philosophy/ideas of the entrepreneur
- activities of the organisation
- competitive nature of the industry
- management style
- national/regional beliefs and attitudes
- dependency of the organisation on technology
- status and location of offices and other buildings
- style/cost of buildings and furnishings.

How these come about: The Cultural web

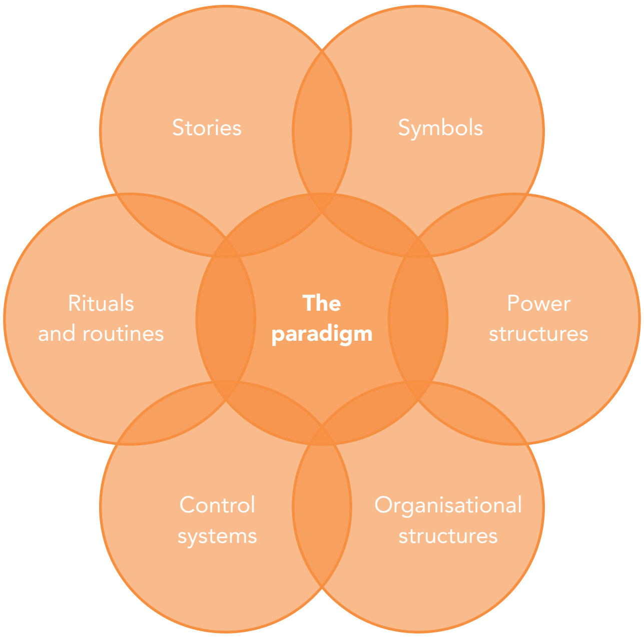


Fig 13.1 The Cultural web

- Stories: Events and people from the past and present
- Rituals and routines: Procedures for doing things within the organisation
- Control systems: The level of control by which activities are controlled
- Organisational structures: Formal and informal power relationships
- Power structures: Groups/functions/departments of the organisation that are associated with the core assumptions of the organisation
- Symbols: Logos, office layouts, titles, etc. that reflect hierarchy or difference
- *Paradigm*: Encapsulates and reinforces the behaviours observed in the other elements of the web.

An organisation's culture will influence its strategy, its ways of doing business and the way it responds to change. A key factor in determining how effective the organisation is will be the appropriateness of its culture for its stakeholders, and particularly its customers. A strong culture will be beneficial if it focuses on these elements and highlights the need to change proactively. On the other hand, a strong culture that does not have these attributes is likely to be a major barrier to effectiveness.

The main effects and characteristics of a strong culture will be as follows:

- It will strengthen behavioural regularities and norms among members of the organisation
- It will minimise some of the perceptual differences among people within the organisation
- It will reflect the philosophy and values of the organisation's founder or dominant group
- The particular culture will have a significant effect on the organisation's strategy and ability to respond to change.

Some aspects of an organisation's culture will be visible and obvious, while many others will be both less tangible and more significant (Figure 1.9).

Determinants of culture

McKinsey, a large US management consultancy, produced 7-S framework for understanding organizations. The 7-S name is clearly intended to stick in the memory rather than arising strictly from the data. The seven factors referred to are:

- systems
- structure
- style
- strategy
- staff
- skills
- shared values.

This of course is the 'soft' side of enterprise and includes an early reference to the idea of shared values which we now call 'culture'.

Organisational culture can be described as what the organisation 'is', a ground-up set of factors which employees can readily identify. Writers often distinguish this from 'corporate culture', which is the management's view of what is needed to perform well in present competitive markets and something that an organisation 'has'.

This concept of culture is one that has been borrowed from the discipline of anthropology, where it has long been used to describe the way of life of a particular group of people. Other uses of the word involved 'high-culture' or 'the arts' and the first use of it to organisations was reportedly by American Marxists who reflected that the interests of the ruling elites were transferred downwards in society. The interweaving of laws, customs, press stories and published books reinforced the national culture.

Writers on culture

Edgar Schein (1985), in his analysis of different levels of organisational culture, described the more obvious symbols of an organisation's culture (its 'artefacts and creations'). These are things such as factory and/or office equipment, head office buildings, the way in which employees dress and the provision of information for customers. However, a real understanding of culture requires a deeper probing to reveal what the 'values' and 'basic assumptions' of organisational members are, which Schein explains as follows:

> *'In stating that basic assumptions are unconscious, I am not arguing that this is a result of repression. On the contrary, I am arguing that as certain motivational and cognitive processes are repeated and continue to work, they become unconscious. They can be brought back to awareness only through a kind of focused inquiry, similar to that used by anthropologists. What is needed are the efforts of both an insider who makes the unconscious assumptions and an outsider who helps to uncover the assumptions by asking the right kinds of questions.'*

Gareth Morgan (1986, 1997) stresses the point that although managers can influence the evolution of culture they cannot control it. He also argues that our understanding of organisational culture is quite superficial, and there is a danger that some managers will see culture as a simple manipulative device for achieving more control over employees.

More recently, Geert Hofstede studied the answers to survey questions by over 10,000 IBM employees in different countries, showing consistent international differences in how they view the world. These international cultures emerge above IBM's own regional culture (its corporate and organisational cultures) as a consistent set of different ways in which managers acted.

William Ouchi in 1981 popularised the idea of culture in his book *Theory Z: How American Business can meet the Japanese Challenge.* He suggested that there are a number of characteristics that differentiate the typical American firm (Theory A) from the typical Japanese one (Theory J). Of course, Ouchi is generalising when he speaks of the typical American or Japanese organisation. Looked at more closely, organisations in any one country will have important differences and unique features: these differences represent the culture of the particular organisation. He went on to suggest that it was possible for American firms to modify their culture (Theory Z) to help them compete more effectively with the Japanese.

Models for categorising culture

Corporate culture: culture-as-a-variable

The task for owners and managers is to achieve the right blend of cultures for the organisation's task and environment. However, managing culture is not a short-term or straightforward task, since it goes beyond slogans and new mission statements: real change requires modifications to values, basic assumptions and behaviour that are not easy to achieve, but which may be increasingly important for many organisations. Handy expanded this as:

'deep-set beliefs about the way work should be organised, the way authority should be exercised, people rewarded, people controlled – these are all aspects of the culture of an organisation.'

The term 'culture' can thus be applied to the study of organisations in several different ways, but interest in organisational culture can probably be traced back to Roger Harrison's questionnaire for charting of four types of culture in 1972 in which he determined 'corporate culture' as 'organisational ideologies'.

This approach uses culture as something that the organisation 'has' as opposed to what it 'is'. Corporate culture can be changed, arguably, whereas organisational culture cannot; it only emerges by dint of the shared experience of employees. People can usually articulate the organisation's key values, and sometimes these are formally set out.

For example, Hewlett Packard makes use of statements called the 'HP Way' to clarify corporate values to all employees, and in the area of 'belief in our people' the following appear:

- Confidence in, and respect for, our people as opposed to depending on extensive rules, procedures, etc.
- Depend on people to do their job right (individual freedom) without constant directives.
- Opportunity for meaningful participation (job dignity).

So explicit an approach to the use of culture is still the exception rather than the rule, but organisations promote and act on values whether or not they are formally documented. Underpinning any set of values will be basic assumptions about things such as the relationship between the organisation and its environment, appropriate human relationships (e.g. individualistic and competitive or collective groups) and what motivates people. These will be very important, but largely unconscious.

While culturally each organisation is unique, it is useful for purposes of analysis to attempt to identify the main types of organisation culture.

Deal and Kennedy 1982 strong culture theory

In their book 'Corporate Cultures', Deal and Kennedy state:

> *'Companies with very strong cultures – the companies that intrigue us most of all – fit [into cultural types] hardly at all. These companies have cultures that artfully blend elements of all four types and blend them in ways that allow these companies to perform well when the environment around them changes as it inevitably does.'*

Strong refers to the degree to which members subscribe to the norms and values, in effect a kind of psychological 'cloning'. These norms and values are importantly defined as those espoused by management, and the idea is to use this commitment in the absence of bureaucratic methods, to provide performance enhancement via improved self-motivation. In this way strong cultures link to work on job satisfaction and may overcome job-design failure associated with the types of technology identified by Joan Woodward.

Organisations with strong cultures are supposed to perform better than those with weak ones but the link has not been proven: successful companies obtain the right blend of appropriate cultures, which has a good deal of support from the relevant research literature. The assertion, however, that companies with strong cultures are more interesting, and by implication more successful, is much more debatable.

Cabals are especially strong cliques of self-supporting individuals who may de-rail the process by charisma or Machiavellian methods, such as the Dutch Admiral Paradigm where two recruits mutually praised each other in meetings and eventually became the two youngest Admirals in the Dutch Navy.

In this way a strong culture might begin to reflect the members' values rather than the organisation's. Additionally of course it may produce strong resistance to change, later being a victim of 'groupthink'. Finally a strong 'masculine' culture may not travel well, especially to areas of the world characterised by Hofstede's 'feminine' dimension.

The authors also suggested a typology which was not based on any scientific methodology though the types were categorised to an extent by two variables – risk-taking and feedback of results – and has passed almost unnoticed into the dustbin of history, not being referred to by any of the major texts on organisational behaviour. The four types were:

- tough-guy macho – high risk, quick feedback
- work-hard-play-hard – few risks taken
- bet-your-company – high risk but slow feedback
- process – no feedback, bureaucratic.

Corporate culture

Definition: Roger Harrison called corporate cultures 'organisational ideologies' or 'the way we do things round here'.

Explanation

Culture however is represented by the shared values that hold together the other organisational systems; thus Harrison provided a definition as 'organisational ideologies'.

Harrison used a questionnaire method to produce four distinct types:

- *Power cultures*, based on one or a few powerful central individuals who motivate by a combination of patronage and fear, and make little use of written rules (this is likely to be the dominant type of culture in small, family-managed businesses)
- *Role cultures*, which are impersonal and rely on formalised rules and procedures to guide decision-making in a standardised, bureaucratic way (e.g. civil service and traditional, mechanistic mass-production organisations)
- *Task or achievement cultures*, which are typified by teamwork, flexibility and commitment to achieving objectives, rather than emphasis on a formal

hierarchy of authority (perhaps typical of some advertising agencies and software development organisations, and the desired culture in large organisations seeking total quality management)

- *People or support cultures*, of two types. The first type is a constellation of stars, based on technical expertise of individual employees – architects' and solicitors' practices, IT and management consultants. The organisation is what these few people possess as skills. Other types of organisation exist for the benefit of the members rather than external stakeholders, and are based on friendship, belonging and consensus (e.g. some social clubs, informal aspects of many organisations).

Clearly these need to match the external environment if at all possible.

Peters and Waterman (1982) The cultural excellence school

These former McKinsey consultants suggest that culture, as a form of control, is critical for corporate success. Their research into high-performing American corporations revealed that corporations with a clearly articulated tight culture were able to develop simple, decentralised, flexible and innovative forms of organisation based on trust and participation. These simplified forms of organisation reduced the number of managerial levels and central staff through the avoidance of bureaucracy and, by avoiding complicated matrix structures, lived in line with man's limitations.

The eight key characteristics of excellent organisations are as follows:

1. *Bias for action*
   To facilitate decision-making and problem-solving they avoid self-perpetuating bureaucratic committees. Instead they promote a 'ready-fire-aim' ethos through temporary ad hoc mechanisms.

2. *Close to the customer*
   They listen and learn from customers so that they are market driven. Quality, reliability and service are valued as long-term growth is sought through customer loyalty.

3. *Autonomy and entrepreneurship*
   They regularly reorganise to produce small basic units, like product divisions.

4. *Productivity through people*
   They believe people respond to trust, that those at the frontier know best, and that innovation comes from 'where the action is'.

5. *Hands on value driven*
   They take 'value-shaping' seriously and inspire employees by 'Management by walking about' (MBWA) – regular visits to the workplace.

6. *Stick to the knitting*
   They avoid diversification and concentrate on the things they do well.

7. *Simple form, lean staff*
   Simple self-contained but competing structures, like product divisions, have few central 'staffers' and intermediate levels of management. Simple structures make reorganisation easier.

8. *Simultaneous loose-tight properties*
   Since autonomy has been 'pushed down the line', while the corporate level retains control over a few core values, these organisations are both centralised and decentralised.

Two main points can be made about the cultural excellence school.

- It reveals the limitations of the traditional 'rationalist' approach which only regards measurable and visible aspects of organisations worthy of consideration, the consequence of which has been a restrictive emphasis on rigorous organisational design, financial planning and analysis and information technologies, etc. Hence insufficient attention has been given to the less quantifiable ingredients of organisational life. Culture has either been neglected or relegated to the 'art of management'
- The emphasis on simple forms of organisation using simultaneous loose-tight controls refocuses the traditional debate about whether or not organisations should operate tight centralised controls or looser decentralised ones which encourage self-regulation.

Whatever the merits of this approach, we need to recognise that it constitutes a resurgence of universalism and is therefore somewhat at odds with contingency theory. Several factors suggest, however, that it is unlikely to replace contingency theory because:

- the sample of organisations studied (all high performers) and the character of their employees (self-motivated and highly trained) is not representative
- it is quite likely that organisations facing complex environments and undertaking changing tasks will benefit more from such forms than those operating in stable environments
- other research, while tending to confirm the relationship between performance and some of the key characteristics, has nevertheless found variations in the degree of centralisation of organisations according to the market operated within.

Peters and Waterman made an important contribution to the understanding of how large, successful organisations are managed, unfortunately, some of the organisations defined as excellent have subsequently experienced severe operating difficulties. Thus, for example, only two years after publication of the book, the magazine Business Week re-examined the companies against the original criteria used by Peters and Waterman and found that fourteen of the forty-three no longer matched up to the yardstick of 'excellence'. This merely illustrates the temporary nature of organisational success.

Peters (1987) Thriving on chaos

Subtitled "A Handbook For A Managerial Revolution", Peters produced an amazing 45 prescriptions (his term) under five headings for 'managing change innovation and survival'.

Most of these contain a lot of common sense and are self-evident and revisit previous attempts to define 'best practice' or 'excellence':

- Creating total customer responsiveness
- Using fast-paced innovation
- Achieving flexibility by empowering people
- Learning to love change.

Building systems for a world turned upside down.

Of particular interest is the final set of prescriptions with the unusual heading 'building systems for a world turned upside down'.

This involves control systems, and the need to measure what is most important strategically. Too often management accounting systems are set up to link into financial reporting requirements, a theme pursued by Eli Goldratt in "The Goal" which he subtitled "A Management Accounting Textbook". Peters wants measures of product quality and customer satisfaction and wants these simple. Control should be bottom-up with 'conservative' (i.e. achievable) goals. Trust and integrity come high on this list as without control, trust is a de facto requirement without which systems cannot work.

Culture and control

How significant is culture for control? Academics and managers have recently suggested that culture is significant because:

- it may be appropriate for organisations which have to contend with turbulent environments while employing staff who have a high regard for self-regulation
- strong corporate cultures which are closely linked to corporate strategy may be critical for success.

Culture comprises values, which stress what is important for the corporation, and beliefs about how things should work. It is expressed through symbols, rituals, myths, stories and behaviour. It consists of taken-for-granted assumptions and norms about how people should behave, usually on the basis of learning from what has been successful in the past. It is this latter feature which makes corporate culture a double-edged 'weapon', because it is difficult to change. Yet many organisations are facing turbulent environments (technological developments, heightened international competition, unpredictable markets, recession, deregulation, etc.) and are attempting to change corporate strategy by, for example, moving into unfamiliar markets. This often proves difficult because the existing culture, which may have been a tower of strength in the past, is not suited to the new strategy. Hence some corporations have developed an interest in cultural change, though experience suggests it is a difficult and lengthy process which should be undertaken as a last resort.

These aspects of organisational culture are 'taken for granted' by long-established members of the organisation as representing the normal ways of doing things and behaving. However, new members of the organisation have to learn these norms and be socialised to accept them. Life is generally much more straightforward and easier once the basic ground rules are known; while some of these may be set out in formal documentation, most organisations have important cultural values that are not spelled out in this way. If an organisation has few shared values, and wide differences in ways of thinking and behaving in different departments, it has a 'weak' culture. Some organisations, however, have very 'strong' cultures, which are an important and systematic influence on employees.

14 SWOT ANALYSIS

Introduction

A popular tool but one which tends to produce 'felt' assertions rather than exact measures: a strength can soon become a weakness as the environment changes as it is inflexible due to resources being accumulated round it.

Definition

SWOT means the formal analysis of the internal Strengths and Weaknesses and external Opportunities and Threats of an organisation.

Explanation

The central purpose of the SWOT analysis is to identify strategies that align, fit or match an organisation's resources and capabilities to the demands of the environment in which the organisation competes.

To put it another way, the purpose of the strategic alternatives generated by a SWOT analysis should be to build on organisation strengths in order to exploit opportunities and counter threats and to correct organisational weaknesses.

Strategic choice is the process of choosing among the alternatives generated by a SWOT analysis. The organisation has to evaluate various alternatives against each other with respect to their ability to achieve major goals. The process of strategic choice requires the organisation to identify the set of business-level, functional-level and corporate-level, strategies that would best enable it to survive and prosper in the fast-changing environment that is a feature of modern business.

Strengths.

- Core competencies in key areas
- Adequate financial resources
- Well-thought-of by buyers

- An acknowledged market leader
- Well-conceived functional area strategies
- Access to economies of scale
- Insulated (at least somewhat) from strong competitive pressures
- Proprietary technology
- Cost advantages
- Better advertising campaigns
- Product innovation skills
- Proven management
- Ahead on experience curve
- Better manufacturing capability
- Superior technological skills.

Weaknesses

- No clear strategic direction
- Obsolete facilities
- Profitability issues because…
- Lack of management depth and talent
- Missing some key skills or competencies
- Poor track record in implementing problems
- Falling behind in R&D
- Too narrow product line
- Weak market image
- Weak distribution network
- Below-average marketing skills
- Unable to finance needed changes in strategy
- Higher overall unit costs relative to key competitors.

Opportunities

- Ability to serve additional customer groups or expand into new markets or segments
- Ways to expand product line to meet broader range of customer needs
- Ability to transfer skills or technological know-how to new products or businesses
- Integrating forward or backward
- Falling trade barriers in attractive foreign markets
- Complacency among rival firms
- Ability to grow rapidly because of strong increases in market demand
- Emerging new technologies.

Threats

- Entry of lower-cost foreign competitors
- Rising sales of substitute products
- Slower market growth
- Adverse shifts in foreign exchange rates and trade policies of foreign governments
- Costly regulatory requirements
- Vulnerability to recession and business cycle
- Growing bargaining power of customers or suppliers
- Changing buyer needs and tastes
- Adverse demographic changes.

Some key points on SWOT

- Too much detail should be avoided. Keep each variable short
- Many variables may be relative rather than absolute and therefore will require some judgement
- Do not ignore 'soft' facts (e.g. organizational culture, leadership skills, etc.)
- Prioritise and combine variables
- Be realistic in its assessment.

SWOT is not strategy. It **only** provides a platform for planning for the future.

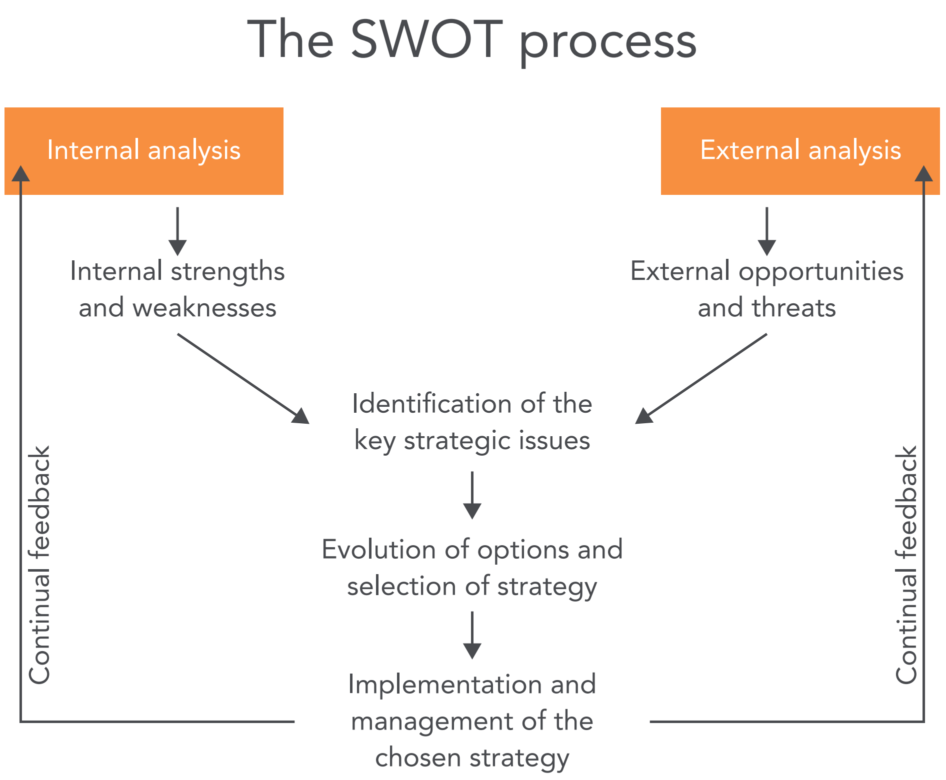


Fig 14.1 The SWOT Process

15 GENERIC STRATEGY

Introduction

The Generic strategy framework (Porter, 1980) comprises two alternatives each with two alternative scopes. Unfortunately Porter confuses this by asserting that Focus – i.e. Narrow Scope – is the THIRD generic strategy.

Clearly, however, as it depends on the former two major dimensions it cannot stand alone as a strategy itself. It is better to use the model as a four-cell framework:

Definition

There are in essence only two generic strategies, *Differentiation* and *Low-Cost Leadership* each with a dimension of *Focus* – broad or narrow.

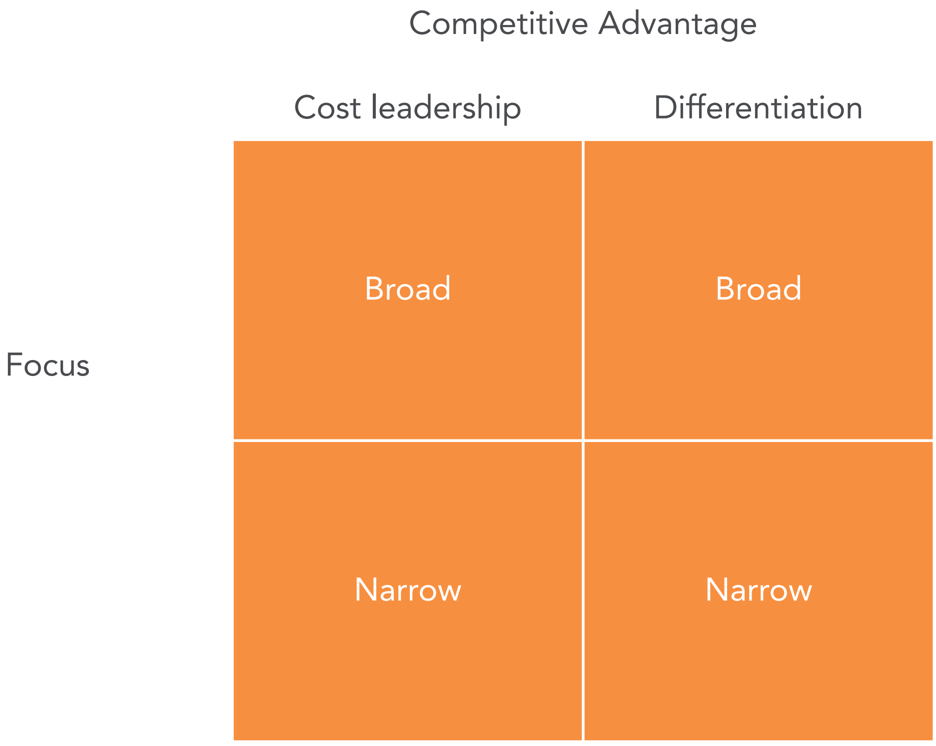


Figure 15.1 The generic business strategies

Explanation

A well-formulated competitive strategy, regardless of which type, is one that seeks to build a distinctive competence in some key activity and then uses it to create a competitive advantage over other firms.

This attempts to avoid the 'muddling through' and forces managers to make decisions – hard decisions. The calculation of volume × margin = profit is used to highlight either volume as a goal or margin. Best of both worlds is high margin and high volume but in really expensive products are seldom seen by buyers as worth the extra cost if they are commonplace. This interacts with supply and demand curves – as supply increases so costs and prices go down due to scale effects.

Two broad types of competitive strategies enable the firm to build competitive advantage at the business level: low-cost leadership and differentiation. The strategies are also known as generic strategies, since they are widely applicable to firms of all sizes and in all industries.

Low-Cost leadership strategy

This aims to achieve competitive advantage by way of providing a product or service at a cost that is less than that of rivals. Competitive advantage arises when the firm is able to earn higher profits than its rivals by charging a product at market prices. Economic factors that sustain a low-cost leadership strategy include high economies of scale, high experience curve benefits, and varying degrees of vertical integration.

Benefits:

- Low production cost = higher profit
- Allows the company to enter new markets
- Most successful in price-sensitive markets
- Creates barriers of entry to the industry.

How to achieve cost leadership:

- Reduce unit costs (e.g. generic designs)
- Use cheaper materials
- 'No frills' products
- Increase productivity
- Achieve economies of scale
- Achieve 'learning curves'.

Differentiation

Differentiation enables the firm to attempt efforts to distinguish its products from those of its rivals.

Differentiation strategies are based on

- providing products/services unique or different from those of competitors
- providing customers with products or services that are perceived (or actually) higher in value than those offered by rivals
- increasing the buyer's satisfaction
- increasing the buyer's perceived value.

Benefits:

- Product/service will command a higher price
- Demand for product/service will be less price elastic
- Above average profits can be earned
- Creates barriers to entry to new businesses wishing to enter the industry.

How to achieve differentiation:

- Create products/services superior to competitors (e.g. design, performance, reliability)
- Offer superior after-sales service
- Create superior supply chain
- Create a strong brand
- Offer superior product/service packaging.

Focus – Broad or Narrow?

Broad

- Benefits
- Allows spreading the risk across the different media to widen the market
- It makes barriers to entry to markets costly and complex.

How to achieve broad focus

- Identify a suitable distribution channels across markets such as internet, chain stores, mail order catalogues
- Identify the specific needs, requirements and expectations of those channels
- Establish the financial back-up is large enough to sustain the breadth
- Analyse competition of the market especially price/delivery
- Produce products/services that meet the basic, broad, generic customer requirements
- Decide whether to go for a differentiation of cost leadership within this market niche (segment).

Narrow

focus seeks to provide high perceived value justifying a substantial price premium in a market niche.

Benefits:

- Requires a lower investment in resources since it is aimed at a market niche
- Allows specialisation and greater knowledge of the niche market
- It makes entry to new markets less costly and simpler.

How to achieve narrow focus

- Identify a suitable market customer group and its niche market (segment).
- Identify the specific needs, requirements and expectations of that group.
- Establish that the specific market niche (segment) is large enough to sustain the business.
- Analyse competition of the niche market.
- Produce products/services that meet the specific customer requirements.
- Decide whether to go for a differentiation of cost leadership within this market niche (segment).

Key Points

- Cost leadership does not, in and of itself, sell products.
- Differentiation strategies can be used to increase sales volumes rather than to change a premium price.
- Price can sometimes be used to differentiate.
- A Generic strategy cannot give competitive advantage.

An organisation may use a **hybrid strategy**:

- Seeks simultaneously to achieve differentiation **and** a price lower than that of competitors
- Strategy can be based on a combination of differentiation, price and cost control.
- May be used as an entry strategy in a market of established competitors (loss leaders).

Example

IKEA the furniture company uses low cost approach to create prices combined with differentiation by way of its unique 'Swedishness' and style.

Other strategies

These may include

- Diversify – extending the operation into new and profitable markets.
- Go international – expand the operations into another country or countries.
- Grow by acquisition.
- Form a joint venture – to pool resources.
- Liquidate – by terminating an unprofitable product line or even dissolving the company.
- Retrench – by curtailing operations, spinning off profit centre and SBUs, permanently or temporarily.

16 MANAGING CHANGE

This is a huge topic but here are some of the main issues when moving the strategy to adapt to the environment.

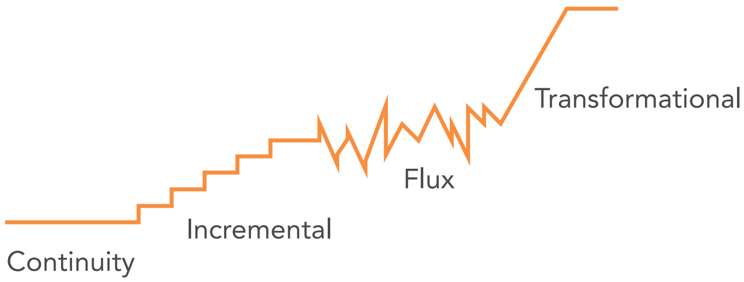


Fig 17.1 Change types

Continuity

Daft (1998) describes several features of this kind of gradual change over time:

- Continuous progression.
- Maintains equilibrium.
- Affects only one organisational part.
- Effected through the normal structure.
- New technology.
- Product improvement versus new product which create new markets.

Incremental or Step change

'Step change' describes a situation where the trend line for a particular factor stops becoming smooth and there is a significant and unexpected jump in direction upwards or downwards.

There have been significant step-changes such as political coups or elections, storms and environmental disasters which have changed the environment organisations must work in forever.

Because step change is impossible or at least difficult to spot in advance, strategic planning has moved from trend analysis towards scenario planning.

Flux

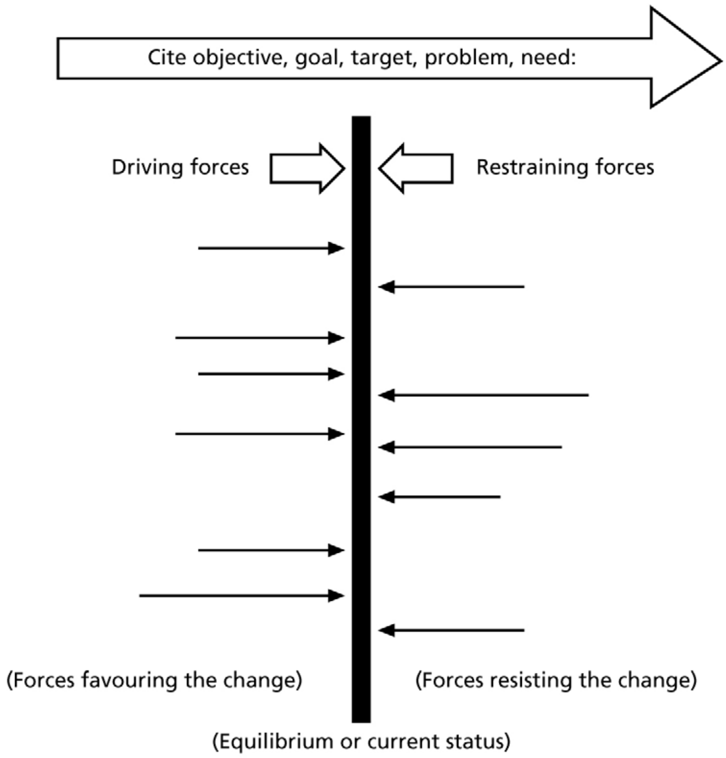
This represents turbulence in the environment where trends are destroyed and existing cyclical activity is interrupted in a random way, possibly by civil war and strife, which ebbs and flows as power changes hands.

Transformational change

This aims to 'unfreeze' the present, affect change and re-freeze' the future changes according to Lewin's model of force-field analysis.

It typically involves

- frame-breaking burst
- entire organisation
- creating a new structure
- breakthrough technology
- reaches new equilibrium.



17.2 Lewin's Force Field analysis

Methods of making change happen

Kotter and Schlesinger (1979) identify six main methods of dealing with resistance; these are:

- **Participation and Involvement** increases the probability that people will be committed to implementing the change and, if their views are taken into account, this may enhance the effectiveness of the change programme. This method is particularly appropriate when the individuals initiating the change do not have all the necessary information to design a change programme and when the people affected by the change have considerable power to resist it. However, as is the case with education and communication, this approach to dealing with resistance to change can be time consuming particularly if it results in the design of an inappropriate change programme.
- **Education and Communication** this is useful when the basic problem is a lack of information about the need for, or the nature of, the planned change. If people can be persuaded about the change they will be more likely to help with its implementation, but this approach can be very time consuming and will not work by itself if there are other reasons than misunderstanding for resisting the change.

- **Facilitation and Support** involves the use of techniques such as training, counselling and group discussions designed to reduce fear and anxiety. This is particularly appropriate where the principal reason for resistance is based on insecurity and adjustment problems. Some changes do of course really threaten employee aspirations and job security: in these cases facilitation and support may help but it will not address the fundamental cause of resistance.
- **Negotiation and Agreement** may be necessary where a group clearly stands to lose out in some way because of the change, particularly if this group has considerable power to resist the change. If applied effectively this method of dealing with resistance to change may help to avoid major problems, but the disadvantages are that it can be expensive and also alert other groups to negotiate for compliance with the change.
- **Manipulation and Co-optation** manipulation is an approach which relies on presenting partial or misleading information to the people resisting the change. Co-optation involves identifying key individuals resisting changes and buying them off by giving them positions of authority to help implement the changes. Although this may be a quick and relatively inexpensive approach it will probably result in future problems if the people involved realise they have been manipulated.
- **Explicit and Implicit Coercion** involves the use of force, or the threat of force, to enforce the implementation of change. This type of approach may be necessary if the parties involved are operating from fixed positions and there are fundamental disagreements over objectives and/or methods. It does, however, raise ethical and legal problems as well as involving considerable risk of making the situation worse.

These approaches are not mutually exclusive and managers may find it effective to use a combination of them. The most appropriate approach in each instance will depend on a variety of factors, including the goals of the change programme and the likely reactions of the people involved. One of the problems of choosing the right approach is that people will not always openly admit the real reasons why they oppose changes. In particular, those reasons relating to self-interest are likely to be disguised as technical objections, arguing that the proposed system will not work: attempts to deal with these technical objections will not get to the root cause of the resistance to change.

To assist organizations in managing change, a number of change management approaches have emerged in the last decade. Among these, the following three models have been commonly used to introduce change:

- Strategic Information Systems (SIS)
- Theory of Constraints (TOC)
- Organizational Development (OD).

These approaches are outlined below.

Strategic Information Systems

The innovative use of computer technology has enabled a wide range of firms in many different industries to create new products, provide support services and reduce costs, giving them a competitive advantage over other firms and service sectors. During the 1970s, a number of organizations began to use Information Systems and Information Technology (IS/IT) in ways that fundamentally challenged the way their business was conducted. By introducing the SIS model, several major organizations gained significant advantages over their competitors and had a major effect on the structured relationship and economics of their industries – such as American Airlines' SABRE system of booking.

Materials Resource Planning II can be seen as an operational strategy level use of SIS as it enables the right components to arrive Just-In-Time to the right operational stage in production. This eliminates wasteful stock-holdings and so releases cash.

SIS is used to support strategic decision-making or to support or shape organizations' competitive strategy, or it might be used as a combination of both.

The strategic potential of IS/IT is enormous because it can be instrumental in:

- Raising entry barriers
- Increasing the negotiating power with suppliers
- Creating new dependencies for customers
- Offering new products services or worthy alternatives and changing the ground for competition or the nature of the stakes.

The competitive advantage of SIS achievements also included innovation and further advantages by introducing a product or process change that results in a fundamental transformation in the way business is conducted in the industry.

The systematic approach is based on two main ingredients:

- a set of guidelines indicating how information technology can support the business, and
- a planning and implementation strategy

(Wiseman, 1988).

However, despite the importance of SIS, organizations have not always been able to ensure commensurate financial returns and information systems have been mainly used to automate existing processes rather than as an opportunity for business change.

The Theory of Constraints (TOC)

Although new technology may be necessary in order to make major improvement this technology is not sufficient to achieve results. Technology simply allows or creates opportunity for reality to change. For success the rules must also be changed (Goldratt, 2000).

TOC is based on the simple fact that multi-phase processes in whatever setting can only move at the pace of the slowest step. The way to speed up the process is to use a catalyst to work on the slowest step and make it work at capacity to speed up the whole process (Gibb, 2000). TOC emphasizes finding and supporting the main limiting factor(s) or constraints. Constraints can be an individual, a team, a piece of equipment or a local policy, or the absence of some tool or piece of equipment.

Goldratt (2003) suggests that five steps are needed to maximize the performance of a value chain:

1. Identify the system constraint
2. Decide how to exploit the constraint – throughput is governed by the speed of the constraint
3. Subordinate and synchronize everything else to the above decisions. Subordinate the constraint by finding different and better ways for the constraint to work and revoke tasks it does not need to do
4. Improve the performance of that same value chain within the system so that all parts of the system understand its importance and work to get the most out of it
5. If in any of the above steps the constraint has shifted, then go back to step 1.

The Goldratt Institute has worked with many organizations over the past 16 years and has found on many occasions that organizations are structured, measured and managed in parts rather than as a whole. This may well result in conflicts between people representing different part of the organizations (Goldratt Institute, 1996). The TOC approach to change advocates that if one of the barriers that blocks those parts from working together as an integrated system is removed, significant and sustainable improvement in each and every area results.

Building upon this the fundamental questions and strategies of TOC and using the five steps of focusing, participants identify the answers to the following three essential questions:

1. *What to change*
2. *What to change to*
3. *How to change.*

1. What to change: the thinking process
   In deciding what to change, TOC applies 'cause and effect' logic or 'thinking process' as used in the hard sciences. This is in order to understand how many of the issues are interlinked and so improve the overall system — identifying the core conflict causing the symptoms or 'undesirable effects' is essential, especially as the constraints may shift from one place to another (Goldratt Institute, 2001 a, b).

The core problem in an organization is inevitably an unresolved conflict that kept the organization trapped and/or distracted. This core conflict has devastating effects. It is common for organizations to create policies, measurements and behaviour in an attempt to treat those undesirable effects. Such subsystems, often referred to as 'band aid' fixes, must be removed, modified or replaced.

2. What to change to: the cloud process
   An organization needs to identify and break assumptions that allow the core conflict to persist and challenge them until a solution to the core conflict is identified. The cloud approach is a structured, systematic and dynamic thinking tool that enables people to analyse conflict (Goldratt Institute, 2001b).

3. How to change: the current and future reality trees
   To validate the identification of the core conflict, the next process is the development of a logical 'current reality tree' to identify the conspiring formal and informal policies, measurement and behaviour that support the existence of undesirable effects. From this a 'future reality tree' can be developed which maps the overall course for getting from current reality to a point where the solution/strategy is fully implemented (Goldratt and Cox, 1992; Newbold Adams, 1988).

   Taking into consideration the unique culture that exists in every organization, a plan is developed to transition an organization from where it is today to realizing the strategy. This should include what actions must be taken by whom and when, because resistance to change frequently blocks even the best laid strategies and plans as Ritson and Waterfield 2005. Found in their study Managing change: the Theory of Constraints in the mental health service.

Organizational Development

While it emphasizes goals, the particular feature of OD is the notion of process and of organizational learning (Argyris and Schon, 1996). OD is 'An effort planned organisation wide and managed from the top to increase organisation effectives and health through planned interventions in the organisation process using behavioural science knowledge' (Beckhard, 1969, p. 2), suggesting a long-range focus.

Change involves not just alteration to the formal aspects of the organization but also to informal human aspects. Brunsson and Olsen (1993) suggest that reforms are easier to initiate than to decide on and easier to decide on than to implement, but employees on the receiving end of the reforms do not support them because they recognize that they are based on faulty premises, are self-contradictory or destructive. Consequently, one underlying assumption is that people are most productive when they have a high-quality working life.

The OD approach believes that people at all levels must be individually and collectively supportive in the engineering of change. Its success is to engender a means of improving organizational capacity to change, to permanently improve an organization's problem-solving and renewal processes, and so it has special emphasis in work teams and intergroup culture. It involves the organization as a system as well as its parts. It is participative, drawing on the theory and practices of the behavioural sciences. It has top management support and involvement, and involves a facilitator who takes on the role of change agent.

It follows that if one wishes to create change there is no point in concentrating upon individuals in isolation as they will be experiencing group pressure to conform, therefore the focus should be on influencing and trying to change group norms, roles and values (Cummings and Huse, 1989).

Pettigrew (1985), Pettigrew and Whipp (1991) do not reject the participative approach of OD but rather they argue that it provides only a partial analysis of the circumstances and contexts of organizational change.

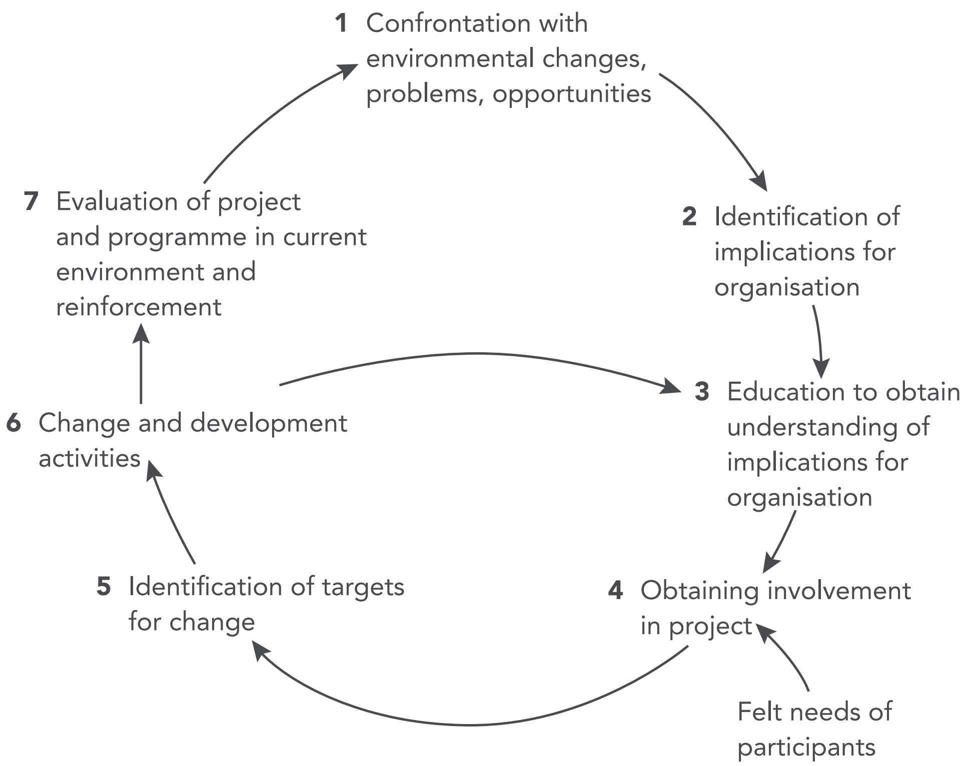


Fig 17.3 The OD Model

The principal question is:

which of the three methodologies would be most successful in achieving successful change?

17 GROWTH AND DECLINE

Models of organisational growth: evolution and revolution

Economists as well as managers are interested in organisational growth, and some economists have put forward what is known as the 'S-curve hypothesis': this suggests that firms will typically have short formative periods, followed by periods of rapid growth, before these tail off into greater stability. The logic behind this approach is that when an owner first sets up a business there will be an initial period when the firm has to establish itself in the market place. It may then be able to demonstrate some competitive market advantage, which permits the owner to plough back substantial profits to exploit the opportunity. The injection of capital from these profits provides a platform for rapid growth, which will eventually tail off because of loss of competitive advantage and/or profit-taking by the owner.

The S-curve hypothesis is interesting to organisation theorists because it suggests that there are a number of different stages of growth, raising different managerial problems. Therefore, a number of writers studying problems of organisation and management have put forward stage models of growth to explain the internal process and problems of growth.

The simplest models of organisational growth take the concept of a 'product or organisational life cycle' from marketing and apply it to stages of an organisation's development. Thus there is likely to be an initial stage of establishing the organisation, followed by growth, stability, and eventually decline. This is illustrated in Figure 18.1.

The organisational life cycle

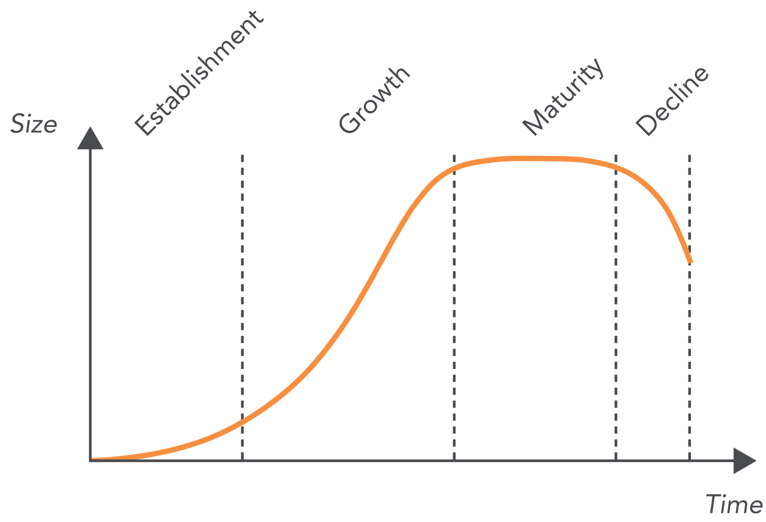


Figure 18.1

Initially, a venturer or entrepreneur acts as a catalyst and product champion during the birth and early youth stages of organisational development. As the organisation progresses to early maturity, the entrepreneur will be supplemented or replaced by professional managers. These people are good at running an established business and achieving further growth using their expertise in strategy, organisation and finance.

However, the danger is that the successful organisation becomes unwieldy or complacent in the maturity stage (see comments in Chapter 1 about the decline of 'excellent' firms in the section evaluating the goal model of effectiveness) and the managers become overly bureaucratic. In other words, the departments and divisions within the firm become major barriers to effective communication and problem solving, and the use of fixed rules results in risk aversion and lack of innovation. Stagnation leads to decline, and reversing this decline will require a Heraclean effort from managers with very special qualities. Cowen (1984) suggests these Heraclean managers (the term derives from the Greek hero Heracles, better known as Hercules) fall into two types:

a. skilled seasoned veterans, who see a challenge and know exactly what they are doing (Lee Iacocca's work in turning around Chrysler in the USA is given as an example);
b. those who do not know enough about the business to believe 'it can't work here' and turn it around by ignoring the normal rules (the turnaround of United Airlines by Ed Carlson is quoted to exemplify this).

The organisational life-cycle approach is useful but largely descriptive. In order to analyse why these things happen, some explanation is required of the dynamics within the organisation. One way of understanding these is provided by Greiner (1972), who has also put forward a stage model of growth. He argues that the underlying dynamic in each stage is evolutionary growth which eventually creates a situation of revolutionary crisis, when the organisation's existing ways of doing things are no longer efficient and effective. If managers can establish ways of overcoming each crisis there will be a platform for further growth. Failure to deal with a particular crisis will result in decline or demise. Greiner's stages of growth and the crises involved are illustrated in Figure 5.5. A rapidly growing organisation will have a steep line of growth and relatively short periods between crises. Slow growth will produce a flatter line, and consequently longer periods between crises.

As an organisation passes through the various stages of birth, growth, maturity and decline, the leadership/management style may need to change. One of the ways of explaining this process is to use Greiner's Life Cycle model.

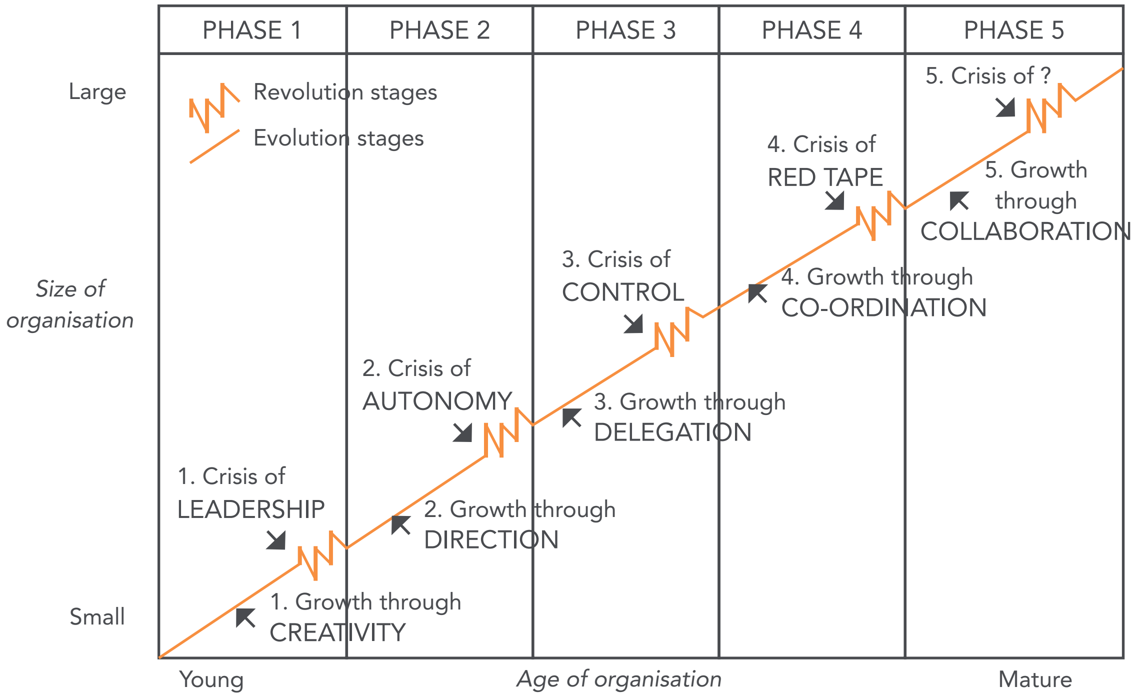


Fig 18.2 Greiner's Theory of Growth

Greiner identifies five phases of growth. Each evolutionary period is characterised by the dominant management/leadership style used to achieve growth, while each revolutionary period is characterised by the problems that must be solved before growth can continue.

When the organisation is small, the leadership is personal and informal. The founders of the young business are generally actively involved at this stage. With their energetic and opportunistic leadership style, the creative potential can be channelled into growth. As the organisation grows, production becomes more efficient and there comes a need for skills relating less to products and marketing issues and more to the co-ordination of the organisation's activities. This is a crisis of leadership.

As the business expands, the organisation becomes 'structural' with a hierarchy of positions and jobs moving to greater specialism. This phase of growth exposes weakness in delegation. Management finds it more difficult to keep detailed control as there are too many activities and it is easy to lose a sense of the wider picture.

> The response to the business problems of phase two is delegation. This has the advantage of decentralising decision-making. The person at the top of the management tree gets further away from the bottom and relies more and more on systems and bureaucracy. The managers needs to delegate, requiring less of a hands on approach and more of a people person and manipulator style of leadership.

During the fourth phase, the addition of internal systems and procedures helps to co-ordinate the activities and use the resources optimally. Management reward emphasises profit share and stock options that focus on both short and long term growth. However, the increased complexity can lead to a crisis of red tape as the procedures inhibit useful action.

The crisis of red tape is resolved by increased informal collaboration. Control is cultural rather than formal. Growth is encouraged through participation and mutual goal setting. Managers focus on problem-solving activities, which ensure the organisation's survival but also emphasises innovation for continued growth. The leadership style should encourage collaboration and co-operation, whilst managers focus on long-term high-level strategic development matters.

The first phase of growth is achieved by some creative idea, product or service which enables the organisation to become established in the market place. This is essentially the first part of the S-curve hypothesis and the first stage of the organisational life cycle. Eventually, however, a crisis occurs when the entrepreneur's informal and personal approach to managing the business simply cannot cope with its increased size: this is the crisis of leadership.

If the organisation and the entrepreneur can adopt more formal systems of management, there will be a basis for further growth through direction. This period of growth will last for a considerable period if the organisation is growing slowly, but will be short-lived for the rapidly growing organisation. In both cases a crisis situation will eventually arise, because the organisation has reached a size where the slowness and costs of making decisions in a centralised way through the formal hierarchy are proving to be major stumbling blocks: there is a crisis of autonomy.

Only if ways are found of operating in a more decentralised way will the crisis of autonomy be overcome. Decentralisation will involve the owner and senior managers delegating powers of decision-making to members of the organisation closer to the customers or production processes than they are. There will almost certainly be reluctance to do this, because of the perceived risks involved, but it is essential, if the crisis is to be solved, to permit growth through delegation.

Delegation should permit quicker and more effective decision-making. In this way further growth can be achieved, and the organisation is very likely to achieve some of this by diversifying into new areas of business. The next crisis will be when senior managers start to fear that they are losing contro l over the highly decentralised and diversified organisation. They have to find a solution that does not involve reverting to their earlier directive methods.

The solution to the crisis of control usually involves the implementation of more sophisticated management accounting information systems to permit effective monitoring of decisions without the need to intervene in actually making them all. Other actions may be to introduce product groups and formal planning procedures to improve co-ordination. These actions will facilitate growth through co-ordination in phase 4.

The final crisis identified by Greiner is one of red tape. This occurs when the procedures and systems introduced in earlier phases of growth start to become obstacles to its continuation. By this time the organisation will be very large, and is likely to be operating on a divisional basis, with some important functions and activities provided by a central headquarters. The tension between divisions and headquarters may eventually result in a mutual lack of trust and harmful political internal conflicts. Ways have to be found to encourage collaboration and trust to overcome this crisis if the organisation is to proceed to phase 5, the final one in the model: in reality there may be other phases after this but they will only be relevant to the very largest organisations operating on a global scale.

Evaluation of growth models

Knowledge of the processes outlined above should help managers to anticipate problems they are likely to encounter as organisations grow, and to be aware of key variables at each stage of growth. However, managers must also be aware of the limitations of the models.

The organisational life-cycle approach does not explain the underlying process of growth, and is not particularly helpful in providing insights into the points at which transitions from one stage to the next take place. Greiner's model is more precise in these respects, but still has limitations, such as:

- it implies consistent, linear growth when in practice varying growth rates are likely at each stage
- it is vague about how exactly to measure size, and this means it is difficult to predict when crises are likely to happen in particular instances
- it does not explicitly deal with organisational decline
- it might give the impression that growth is the normal state of affairs for all organisations, when it clearly is not.

Despite these limitations, models of growth, such as the one put forward by Greiner, do provide managers with some useful general insights into this complex process.

Decline

Throughout the early 1990s, because of the depressed state of their national economies, many managers in Europe and the USA have been more concerned with the problems of managing decline rather than growth. The problems of managing decline pose particular problems and also place in sharp perspective the ethical dilemmas involved in many aspects of management.

Slatter (1984) has suggested the following eleven factors which individually, or in various combinations, contribute to organisational decline:

1. poor management, typified by factors such as an overly autocratic chief executive, neglect of the organisation's core business and a weak board of directors
2. inadequate financial control, particularly when the management accounting
3. systems are poorly designed, management accounting information is not used by senior managers, and methods of overhead allocation distort costs

4. competitive weaknesses due to products in decline and heavy emphasis on price competition
5. high cost structures, which may be the result of many factors, such as inability to take advantage of economies of scale or operating inefficiencies
6. changes in market demand that the organisation has not anticipated and cannot respond to
7. adverse movements in commodity prices can be significant in certain industries
8. lack of marketing effort can cause decline; when it is a major contributory factor it is usually related to weaknesses in the senior marketing staff, and associated with other fundamental problems such as price and product competition
9. too many big projects involving major capital expenditure
10. unwise acquisitions, such as buying organisations which themselves have a weak competitive position, or paying too much for them. However, the most common problem is poor management of the organisation once it has been acquired
11. poor financial policies, particularly overtrading and/or inappropriate financial sources
12. overtrading, so that sales grow at a faster rate than the organisation is able to finance from its cash flow and borrowings.

When attempting to manage a situation in which the organisation needs to recover from a depressed situation, the strategic priorities will revolve around:

- reducing costs to improve efficiency; and
- improving competitiveness in order to increase revenue.

Initially, when an organisation encounters problems, and starts to decline in terms of revenue and/or profits, the typical management reaction is to assume the situation is a temporary one requiring nothing more fundamental than some cost cutting. Costs can be reduced anywhere in the supply chain, but the most obvious and usual starting point is to reduce labour costs. At first, this may simply involve altering working patterns to eliminate overtime or, as is increasingly the case, to replace full-time with part-time jobs.

If this does not produce sufficient savings the next step is likely to be voluntary or compulsory redundancies. The danger is that if the cuts are too severe there will be reductions in the quality of the product and services to customers; the impact on employee morale will also make it difficult to achieve the workforce commitment discussed in the previous chapter. Problems of employee morale will be particularly severe if there is a series of cost reduction exercises over a prolonged period; these will result in a loss of trust in management, an escalation in personal conflicts and increasing levels of political activity.

Other cost-saving measures might include improving purchasing policies and procedures, redesigning the product or service to reduce production costs, contracting out services that are not considered essential to the core business, organisational changes to reduce duplication, improving financial control systems, and so on. The difficulty is that certain types of cost-saving measures, such as improving factory layout, might require some initial expenditure, which is not possible if the organisation is already experiencing declining revenues. This exemplifies the problems caused by reactive management.

In some situations, this type of retrenchment, i.e. doing the same as before and cutting some costs, may not be adequate to ensure survival. Managers may then have to consider more fundamental strategic alternatives such as:

- turnaround, whereby the organisation will attempt to reposition itself for competitive advantage. Most commentators believe that replacement of the existing top management team is a precondition for the successful implementation of such a turnaround strategy. Slatter has analysed the principal generic strategies for corporate turnaround and recovery and related them to the initial causes of decline.

Causes of decline and generic strategies

- divestment involving the external sale of part of the organisation or the internal closure of units, as part of a rationalisation programme
- liquidation of the business by selling it to one or more buyers; this entails an admission of failure by the senior managers, and the fear of loss of face may mean this alternative is not considered seriously until there are no others available.

All four strategies (retrenchment, turnaround, divestment and liquidation) associated with decline require managers to make difficult decisions, which may have adverse effects on all of the organisation's stakeholders Ð particularly on its employees. These issues will be considered later in the context of 'business ethics and social responsibility'.

Large-scale redundancy programmes do not assist this process, but managers sometimes have to balance the negative effects on staff against economic realities. This requires them to take into account the relative importance of factors such as effectiveness, effort, loyalty, experience and efficiency.

18 GLOBALIZATION AND INTERNATIONAL STRATEGY

Definitions:

International business: Profit-related activities conducted across national boundaries.

International management: Process of planning, leading, organising and controlling in organisations engaged in international business.

Explanation

Organisations develop from Domestic markets towards International markets at different rates and some industries are more prone to this process (e.g. the oil industry) than others (eg constructions, transport, and services like insurance).

Internationalisation brings risks – currency fluctuations, political changes, etc. so organisations may be slow to develop s fully global presence.

Methods of international development

In the first instance organisations might create an Export Department or website
Next, they might open a marketing office in the host country
Then they might invest in production facilities –much more risky.

Other avenues include:

- Licensing of products or production techniques
- Strategic alliances with partners from the host country
- Wholly- or partly-owned subsidiaries – may include both marketing and production, and may issue shares locally.

	I Domestic	II International or Transnational	III Multinational	IV Global
Strategic Orientation	Domestically orientated against home competitors	Export-orientated, multi-domestic	Multi-national	Global
Stage of Development	Initial foreign investment	competitive positioning internationally	Explosion	Global
Structure	Domestic – i.e. functional plus import/ purchasing dept	Functional or Divisional home structure by product or region plus Divisionalised international structure by geographical region	Worldwide geographic by product	Matrix, transnational
Market	Moderate, domestic	Large, multi-domestic	Very large, multi-national	Whole world

Fig 19.1 Internationalisation

Source Adler N. pp. 7–8; in Daft R "Organisational Theory and Design" 6th Edition p. 259.

Domestic means the home market, though there may be some exports often these are through agents and the firms does not se itself as anything except a local provider for local tastes.

Multi-domestic means that the firm has different competitive and product design issue sin each of its theatres of operation, sometimes warehouses and offices will be established abroad.

Multination means marketing and production facilities in many other countries and has more than one third of its sales outside the home area. Explosion happens if these take off due to their potential for growth.

Global organisations are interlinked competitively across the world and not just on a domestic-domestic basis. they transcend a single country of origin. Structure is extremely complex and often evolves into an international matrix of geographical scope versus product ranges.

Global firms like Procter and Gamble, Unilever and Matsushita operate in 40–75 countries. The structural problems of holding these together and getting synergistic responses from each are colossal.

Three types of host country

- *Developed countries*
  High level of economic and industrial development

- *Less developed countries (LDCs)*
  Low economic or industrial development

- *Newly industrialised countries*
  Emerging LDCs – major exporters of manufactured goods.

Each has its own set of factors which might encourage or discourage investment.

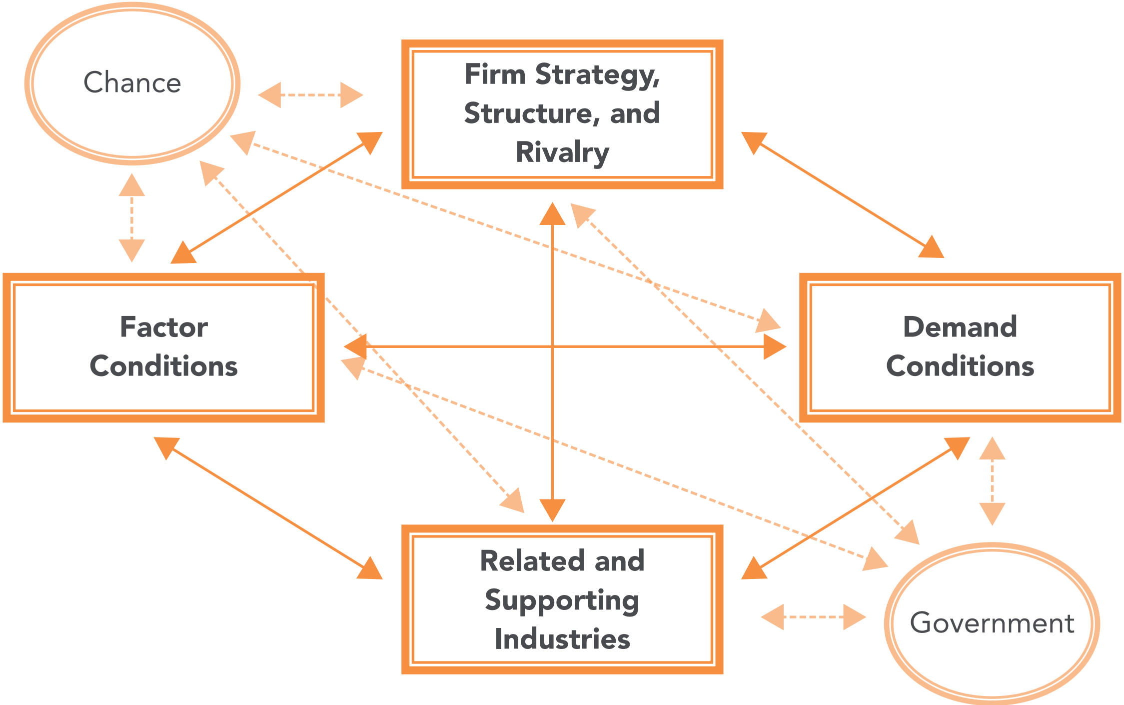


Fig 19.2 Diamond of national advantage: (Porter, 1990)

Factor conditions

Factors can be categorized into two forms:

- "Home-Grown" resources /Highly specialized resources
- "Natural" endowments.

In "Home-Grown" resources, Porter pointed out the local concentration of skilled labour, including the different schools of film, in analyzing Hollywood's dominance in movies.

"Natural" endowments include such as oil reserves (the basis of the US oil industry's hegemony) and resource constraints – Japan's relative lack of space has spurred JIT.

Related and Supporting Industries

For many firms, the presence of related and supporting industries is of critical importance to the growth of that particular industry. A critical concept here is that national competitive strengths tend to be associated with "clusters" of industries. Japanese auto plants in the UK surround themselves with key suppliers to create clusters.

Demand Conditions

A strong domestic market stimulates the firm and provides cash flow in its own currency to aid expansion overseas. Again, the Japanese car and electronics industries are examples of high demand domestically and the leading firms are able to pre-test products on aspiring and critical demand segments.

Strategy, Structure and Rivalry

National performance in particular sectors is inevitably related to the strategies and the structure of the firms in that sector. Competition plays a big role in driving innovation and domestic competition is direct and impacts strongly.

The role of government

The role of government acts as a catalyst and challenger; it is to encourage – or even push – companies to raise their aspirations and move to higher levels of competitive performance. It must encourage competition and create the conditions for efficiency such as in labour market reforms, quality initiatives, and protection from foreign competitoin.

We can use the PEST factors to analyse the bases of international strategy, but the N or Natural element from the SPENT acronym is also very useful if used to understand locational factors, such as terrain, extreme weather, isolation etc.

Political

- Political risk
- Expropriation
- Indigenisation laws
- Tariffs
- Import quotas
- Administrative protections

Economic

- Balance of trade
- Exchange rate
- Inflation rate
- Wage level

Sociocultural

- Attitudes, values, norms, beliefs
- Behaviours
- Demographic trends
- Culture
- Education system

Technology

- Communication technology – broadband, phone, mail etc.
- Infrastructure – cities, ports, industrial districts, fuel supplies, and maintenance technologies
- Transportation – roads, rail, airports, navigable rivers
- Existing factories, equipment, skill levels.

Organising international business

The structure of international organisations varies with the internal culture and the type of product/s which are to be marketed. These also vary with the stage of development of the organisation in terms of the extent of its internationalisation.

They include:

- World-wide functional divisions
- World-wide product divisions
- International divisions

- Geographic regions
- Global matrix
- Networked structure
- Adapting to cultural differences – see below

MULTINATIONAL CORPORATIONS (MNCs)

Definition

Organisations engaging in international management vary in size and the extent that their business activities across national boundaries.

Alternative orgnaisational structures:

- World-wide integration from the home country base
- National responsiveness to the host country
- Regional responsiveness to a wider market
- Multifocal emphasis – globalisation.

These alternatives produce different orientations towards international management (after Perlmutter)

- Ethnocentric – based on home country norms and staffing
- Polycentric – based on host country norms and staffing
- Regiocentric based on the wider, regional area
- Geocentric – not based on any particular area.

International Human Resource Management (IHRM)

This is a complex area which we can relate to the earlier CIPD segmentation of HRM, and so includes

- Recruitment and Selection
- Reward – pay levels and salary progression
- Relations – trade union recognition
- Training and Development/promotion.

But significantly for Intern internationalised organisations, special attention is paid to

- Reward – to take account of local taxes, welfare, housing costs etc.
- Assignment policies – see below.
- Repatriation of failed executives.
- Adjustment of leadership styles to fit local norms and culture.

There are three bases for Assignment policies under IHRM according to Dowling, Schuler, and Welch 1994
Expatriates or Parent Country Nationals (PCNs)
Host Country Nationals (HCNs)
Third Country Nationals (TCNs)
Each international setting will have its own balance of these categories, often influenced by local government polices such as quotas for local nationals, or provision of skill-enhancement procedures and structures.

Social responsibility and ethical issues

- International social responsibility
  Benefit versus harm of MNC's in LDC's

- Ethical issue of 'questionable payments'
  Business payments raising significant ethical questions of right or wrong either in the host country or in other nations

19 THE BASIS OF STRATEGY: STRUCTURE

Alfred Chandler Jr. (1962) suggests that the best strategies need structural alterations, such as the Divisional form for innovation and differentiation, or the functional form for cost-leadership. Before organisations can consider the best structure, however, they need to firstly determining the structural alternatives. This section outlines the basic structural forms.

The Structure of Industries

Here we consider three types of classification:

1. Stage of development
2. Technology
3. Product

Stage of development

Economists define industry types by three or four stages of development:

- Primary: extraction of natural raw materials includes oil drilling, farming, mining, quarrying, forestry, and fishing. Low returns, producing commodities undifferentiated from each other.
- Secondary: manufacturing, transforming primary materials – heavy industries e.g. steel making, medium industries for example cars – light industries e.g. electronics. Lighter ones are easier to locate and re-locate. Heavy ones tend to be near sources of raw inputs.
- Tertiary: services – insurance, banking, hotels, possibly restaurants (but note they do manufacture food)
- Quaternary? Tourism? Not really an industry but a collection of activities.

Technology

Joan Woodward's (1965) survey of UK firms revealed ten types, and three major groupings:

Unit/Small batch

Mass Production

Automated Process

These are detailed below.

She conducted an extensive, comparative empirical study which measured a firm's comparative performance relative to its industry peers and compared this indicator to its structural dimensions such as span of control, number of management levels, management style, etc.

The research team was amazed when the 100 surveys from manufacturing organisations indicated no direct statistically significant relationship between the type of structure and the level of performance. A relationship between structure and performance surfaced only by introducing an extra variable: the type of **technology**: the way of organising production.

Woodward's study showed there was no 'one best way' of organising. Her data showed that the successful firms were the ones where there was congruence between the type of technology they were using and their organisational structures and processes. This can be considered as 'contingency theory' or 'appropriateness' – linked to the environment.

Different technologies generated different requirements and the successful firms recognised this.

Joan Woodward described the technical complexity of a manufacturing process as the degree of its mechanisation – unit technology as the least complex and the continuous process production as the most.

Unit and continuous process technologies required non-routine behaviour while mass production was better served by mechanical structures characterised by routines and procedures. Managers of commercially successful companies were the most aware of their firms' technological characteristics. So, certain activities naturally "go with" certain structures. Woodward found that by knowing an organization's primary system of production, you could predict their structure:

According to Buchanan and Huczynski (1997 p. 420) technology was defined within **three** main types:

- Group 1 Unit/Small batch Production
- Group 2 Large Batch and Mass Production
- Group 3 Process Production

  Under these were sub-categories:

Group 1 Unit/Small batch Production:

- Production of units to customer requirements
- Production of prototypes
- Fabrication of large equipment in stages
- Production of small batches to customers' orders.

All these technologies that produce one or several products simultaneously. Companies make one-of-a-kind custom products, or small quantities of products. Examples: constructing houses, shipbuilding, aircraft manufacture, surgical teams, craftwork – furniture maker, tailors, printers of engraved wedding invitations.

- In these companies, typically, people's skills and knowledge is more important than the machines used
- Relatively expensive to operate: work process is unpredictable, hard to pre-program or automate
- Flat organization (few levels of hierarchy)
- CEO/MD has low span of control (few direct reports)
- Relatively low percentage of managers
- Organic, flexible structure.

Group 2 Large Batch and Mass Production

- Production of large batches
- Production of large batches on assembly lines
- Mass production.

Companies that sell huge volumes of identical products make heavy use of automation and assembly lines.

- Bigger than small batch
- Taller hierarchies
- Bottom level is huge (supervisor span of control is 48)
- Relatively greater number of managers (because hierarchy is so tall)
- Mechanistic, bureaucratic structure
- Relatively cheap to operate.

Examples: cars, razor blades, aluminium cans, toasters, electronics, cosmetics.

Technologies in assembly line operations plants produce standardized, identical products based on routines and standard procedures.

Group 3 Process Production

- Process Production combined with a product for sale by large batch or mass production methods
- Process Production of chemicals in small batches
- Continuous flow of liquids gases and solid shapes.

Technologies at ongoing, non-discreet, capital intensive production processes that require minimal manual involvement. Primarily companies that refine liquids and powders Machines do everything; humans just monitor the machines and plan changes.

- These organizations are tall and thin or even inverted pyramid: almost nobody at the bottom
- At the very top there is an organic structure
- Lower levels more mechanistic, but because machines do everything, there is not much paper work, low level supervision, etc.

Examples: chemical companies, oil refineries, bakeries, dairies, distilleries/breweries, electric power plants, sugar refining, cement, margarine, dairy.

The type of industry defines the need for capital investment and so the returns on investment vary:

High-volume business are low margin and usually primary. One change in the supply chain makes a big, instant, impact on profits.

- Low-volume businesses rely on innovation and are subject to competition e.g. demise of Nokia.

Be aware of where your organisation and industry lies!

Joan Woodward was one of the most influential contributors to Contingency School which is based on the premises that there is no single best way to manage because every situation and every manager is different.

Product Classification

Standard Industrial Classifications – SICs – exist in most countries and divide industries by products.

The oil industry for example is split into different sectors such as oil exploration and production, shipping and transportation, refining, is different from:

UK Standard Industrial Classification of Economic Activities definition "Manufacture of refined petroleum products" (SIC 2007:19.2) and the US code 324110 Petroleum Refining (US SIC 2009).

Farming of dairy cows is primary different from milk production.

Ownership

- public sector
- private sector
- The private versus public ownership
- Privately-owned
  many Virgin companies are not publically quoted on stock exchanges so Branson keep the details to himself as to whether they are making money
- Publically quoted

- share ownership distribution – private versus institutional shareholders – types of share – debentures, voting shares ordinary shares. Complex. Facebook founder has 25% of shares but 57% of voting shares.

Other types include Cooperatives and Trusts.

Internal Structure

Definition: 'Structure' is the allocation and control of work tasks.

This implies power relationships based on the acceptance of managerial power by subordinates and society – this use of power is termed the 'legitimacy' of management – which Max Weber called its 'authority'.

All organisations have some form of structure, based on 'the established pattern of relationships among the individuals, groups and departments within it'.

There are two structures – a vertical structure of authority and responsibility where clear limits of financial authority exist, and a horizontal structure of groupings of activities designed to use the resources towards goal-attainment.

The horizontal structure can be changed from time to time, to suit the environment (see later sections on the internal and external environments).

The basic vertical structure of an organisation is a relatively static framework within which processes such as communication, leadership and decision-making take place.

In most organizations, structure will be illustrated in the form of a chart.

Functional Structure

This is the most common form of structure. This divides the organisation up into its main activities or functions (production, sales, accounting and so on) in which all similar specialist activities are grouped together into interdependent departments.

A manager is placed in charge of each function under the overall control of the owner or a senior manager.

Advantages of a functional structure:

- Specialised resources are used efficiently
- Quality is enhanced by other specialists from the same functional area
- Opportunities exist for extensive division of labour
- A career structure enables people to advance within their functional specialism
- It is easier to manage specialists if they are grouped together, especially when the manager has the same experience
- It fosters communication between specialists and enhances the development of skill and knowledge
- It does not duplicate specialist resources throughout the organisation and promotes economies of scale
- It is suited to conditions which stress functional specialism, where the environment is stable, and when the technology is routine, requiring little interdependence between departments.

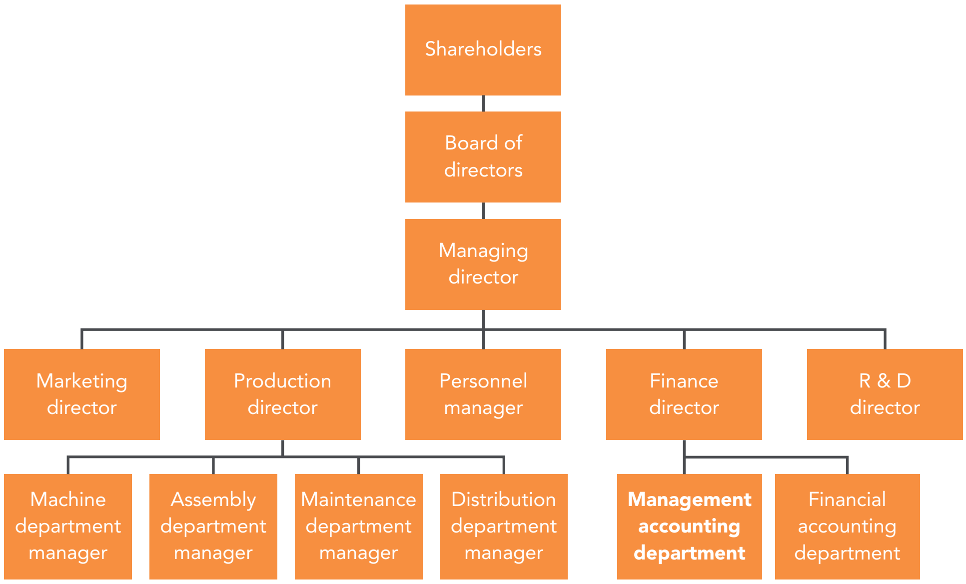


Figure 2.3.1? Functional structure

Disadvantages of a functional structure

Increased need for interdepartmental co-ordination and scheduling.

- Communication, co-ordination overload the vertical hierarchy
- Inefficient co-ordination of functional departments
- Responsibility for overall outcomes is unclear
- Interdepartmental conflicts
- Little creativity and innovation
- Difficulties in identifying profitable and unprofitable products.

These problems are likely to occur with professionalism and a role culture where job demarcations are felt to be important. When the organisation reaches a certain size, they are likely to be exacerbated especially if it has developed a wide range of products or services. Burns and Stalker (1961) devised the term 'mechanistic' for firms where the interconnections are strong as they are unsuited to changeable environments and non-routine technologies.

A more flexible and responsive form is needed than the rigidly functional by adopting a holding company or a divisional structure in which profit centres based on particular products or geographical areas are created.

Divisional structure

A divisional structure (see Figure 2.2) can help to overcome the limitations of the holding company and/or a functional structure, as it contains within it functional specialists but groups its activities around products or geographical regions. These two ways of grouping activities are supposed to ensure a closeness to the customer which is not really possible in a functional structure.

Advantages of divisionalisation

- It provides excellent co-ordination across functional departments.
- Since departmental units are often small, as well as self-contained, employees identify with the product or project rather than their own function.
- Since each division can, for example, react to customer requirements, it is well suited to changeable environments.

It is particularly useful for large organisations. Cellular manufacturing can even be considered a kind of internal divisionalisation with an emphasis on internal customers, just-in-time links between different 'products' and the dynamism created through teamwork.

The emphasis on profit centres, should promote clear accountability, longer planning horizons, and the development of future senior executives with general management experience as divisional leaders.

Example: Sloan (1985) developed a true divisional structure for the disparate firms owned by General Motors Corporation in the 1930s, bringing together a central function to garner expertise from the different firms such as Pontiac, Cadillac and Chevrolet.
GM 'leap-frogged' over Ford, who had a functional structure, and has kept its lead ever since

Disadvantages of divisionalisation

- There may be a costly duplication of resources across departments.
- Specialists may become isolated and fail to further their specialist skills.
- Competing demands on people may create stress.
- Co-ordination across divisions is difficult.

Tension between the centre and divisions is a crucial problem of control. Too much control stifles innovation.

Divisional CEOs gain too much power and can introduce wild excesses of spending on favoured 'pet' projects.

Example: in Rolls Royce the RB211 engine project overruns nearly bankrupted the company.

Product Divisions

People and resources are grouped according to an organisation's products. General Motors has specific products – Chevrolet, Cadillac, Pontiac.

This enables technical excellence and concentration on fewer product lines, and a liaison with a smaller set of customers, realising more creativity in marketing and sales through focus, teamwork and goal consensus. This format is used most successfully where there is a variety of products, each addressing different markets.

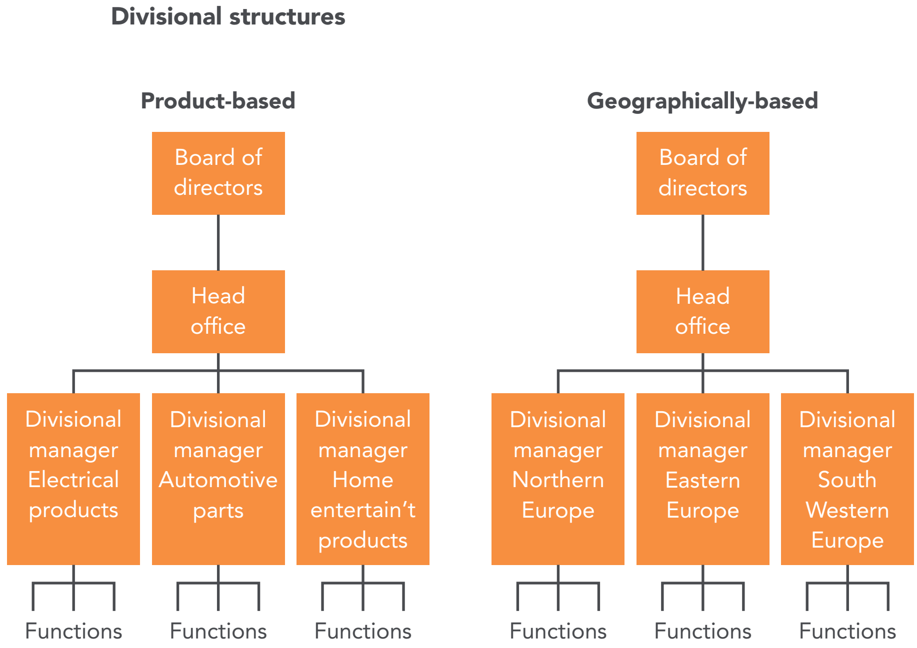


Figure 20.2 Divisional structures

Geographical Divisions

Where organisations have few products, such as IBM, they may group activities according to sales area and be literally closer to the customer.

This enables regional differences to appear in marketing research. In this way IBM gets to know the details of the businesses in an area and its sales team focus on local contacts e.g. meeting senior people from potential clients informally at the golf club or racetrack.

Matrix structure

Divisionalisation may eventually have to be adapted to include formal mechanisms to promote closer inter-divisional collaboration: the result will be a matrix structure in which vertical and horizontal formal relationships are recognised.

A matrix structure seeks to add flexibility and lateral co-ordination to the traditional vertical hierarchy.

One way of doing this is to create project teams made up of members drawn from a variety of different functions or divisions: each individual then has a dual role, as he or she maintains functional/divisional responsibilities as well as membership of the project team.

Example: US President John F Kennedy demanded 'a man on the moon within ten years'. The achievement of this goal was apparently due to the new structure NASA adopted to link the functional specialists in the background departments intimately with the problem-solvers on the construction and research and development team for the Apollo mission. This mixture became known as a 'matrix'.

Matrix structure

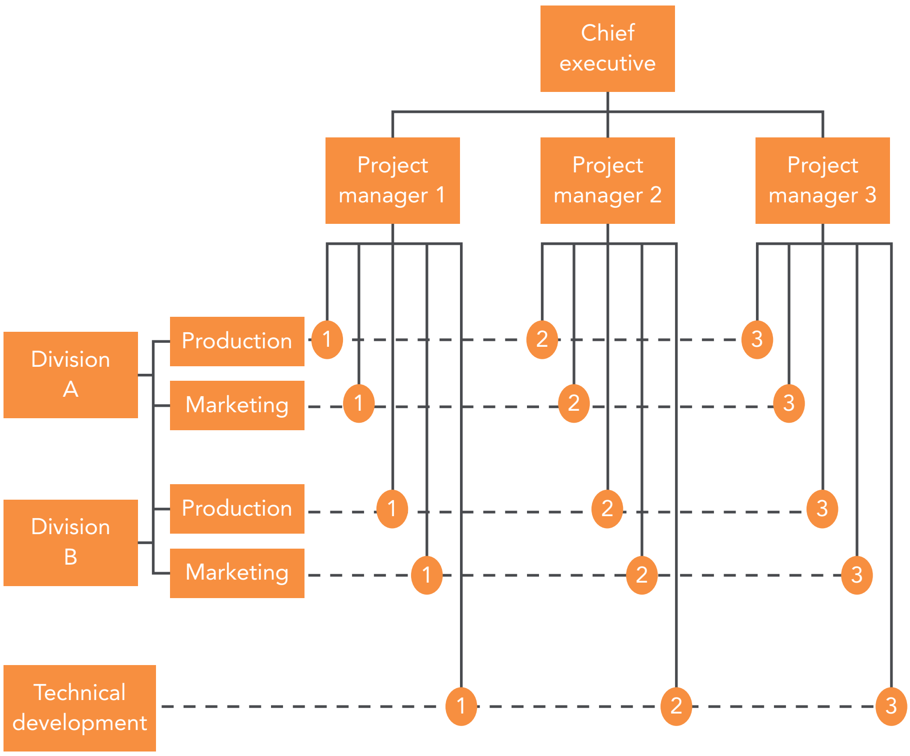


Figure 2.3

Advantages of a Matrix:

- improves decision-making by bringing a wide range of expertise to problems that cut across departmental or divisional boundaries
- replaces formal control by direct contact
- assists in the development of managers by exposing them to company-wide problems and decisions
- improves lateral communication and co-operation between specialists

- suits rapidly changing environments because the equal balance of power between functional and product management aids communication and co-ordination
- facilitates adaptation to unfamiliar and unexpected problems. People can be flexibly relocated across products or projects, aiding the speedy implementation of new ones. Employees have the opportunity to develop either functional or general management skills
- it is useful for medium-sized organisations with a medium number of products or for task-centred organisations.

Disadvantages of a Matrix:

- A lack of clear responsibility
- Clashes of priority between product and function
- Functions lose control of the psychological contract
- Career development can often be stymied
- Difficult for one specialist to appraise performance of another discipline in multi-skilled teams
- Project managers are reluctant to impose authority as they may be subordinates in a later project

- Employees may be confused by reporting to two bosses
- Managers will need to be able to resolve interpersonal frictions and may need training in human relations skills
- Managers spend a great deal of time in meetings to prioritise tasks
- The complexity of the matrix structure makes it difficult to implement successfully.

Indeed some commentators are very critical of this form of organisation, and question whether it should be adopted at all.

Complex forms of organisation

Definition:

The complex forms attempt to overcome the inadequacies of other structures through collaboration between existing organisations.

Explanation

Why? These pressures are essentially economic and in response to Japanese and Pacific Rim, Chinese and Indian penetration of Western markets. At the same time globalisation means that scale economies are necessary to maintain price differentials and so mergers of parts of businesses where there is strategic fit is becoming commonplace.

How? Increasingly organisations are forming complicated vertical and horizontal relationships through demergers, downsizing, delayering and margin retreat from product scope and geographical spread.

What? Such organisations would range from co-operatives between organisations and their suppliers, to all forms of partnerships and alliances in which co-ordination of resources was based on co-operation between the parties concerned.

Mergers are a form of complex organization often defensive in nature. Mergers are increasingly common – such as the recent spate of financial institutions' mergers following the credit crunch of 2007/8.

Joint ventures should mean that each sponsoring organisation has a degree of equity participation, while *partnerships* may not, and may or may not share assets.

Consortia are short-term legal entities with sunk costs from each of the partners and which terminate at the end of the project.

Alliance is a term used for a weaker non-legal-entity kind of operation where firms simply contract to work together on a gain-share/pain-share basis. Termination clauses would vary with the nature of the co-operation, as would sharing of facilities and the purchase of equipment.

Example: Various partnerships exist in the automotive industry – Renault engines in Volvo cars.

Networks have been described as a link between supplier and purchaser in the supply chain but a more accurate and useful division is between different suppliers, imitating the co-ordination methods employed within the firms.

Example: In Italy experiments have been made to introduce networks in technologically similar industries in areas called 'business districts' in the textile industry, contractors are based in the same region, work for several different firms, sometimes in alliances or partnerships with other contracts, sometimes as sole contract-holder. Technology transfer opportunities arise for the major textile firms as contractors learn the businesses of other firms.

The Flexible firm model

Atkinson's (1984) Flexible Firm Model was entitled 'Manpower strategies for flexible organisations' and specified three types of flexibility and a diagram illustrating the most important two types – functional and numerical.

Functional flexibility – was flexibility over tasks – staff capable of doing different things – core employees were well-trained and valuable.

Numerical flexibility – comprised employees in a First Peripheral Group – internal workers who are expected to be flexible by adding to the numbers already there; Second Peripheral Group – became more important – it involved part-time, temporary, jobshare, government schemes – external additions; subcontractors, agency temps; self-employment.

Financial Flexibility – performance related pay, bonuses (lump sums) commission (rate or %).

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