CPA

Certified Public Accountant Examination

Stage: Advanced Level 1 A1.1

Subject Title: Strategy and Leadership

Study Manual

INSIDE COVER- BLANK

INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF
RWANDA

Advanced Level 1

A1.1 STRATEGY & LEADERSHIP

First Edition 2012

This study manual has been fully revised and updated
in accordance with the current syllabus.
It has been developed in consultation with experienced lecturers.

© CPA Ireland

All rights reserved.
The text of this publication, or any part thereof, may not be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, storage in an information retrieval system, or otherwise, without prior permission of the publisher.

Whilst every effort has been made to ensure that the contents of this book are accurate, no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the publisher or authors. In addition to this, the authors and publishers accept no legal responsibility or liability for any errors or omissions in relation to the contents of this book.

BLANK

CONTENTS

Study Unit	Title	Page
	Introduction to the Course	**5**
1	**The Strategy Process**	**9**
	The Concept of Strategy	10
	Strategic Management and Operational Management	27
	Perspectives on Strategy	30
	The Marketing Dimension	31
2	**The Strategic Position**	**73**
	Environmental Analysis	74
	Assessing Strategic Capability	82
	Measuring Stakeholder Expectations	90
3	**Strategic Choice**	**103**
	Corporate Level	104
	Business Level	111
	Strategy Development	121
4	**Strategy Implementation**	**129**
	Structure and Processes	130
	Managing Key Enablers	143
	Managing the Change Process	184
	Understanding Groups and Teamwork	194
	Organisational Communications	210
	Project Management	219
	Glossary	**231**

BLANK

INTRODUCTION TO THE COURSE

Stage: Advanced Level 1
Subject Title: A1.1 Strategy & Leadership

Aim

The aim of this subject is to provide students with the ability to contribute effectively to the strategic management of enterprises through the objective analysis of business situations, the critical evaluation of strategic options and the implementation of change programmes.

Strategy & Leadership as an Integral Part of the Syllabus

Strategy & Leadership integrates and expands the knowledge acquired in many of the subjects at the earlier examination stages. This subject provides a framework for future leaders to analyse, develop and implement strategies for entrepreneurial activities in both growing and established entities.

Learning Outcomes

On successful completion of this subject students should be able to:

- Display a detailed understanding of strategic development, marketing and market place strategy.
- Integrate and apply theories and concepts from strategic management and related disciplines effectively to solve business problems in complex and diverse situations.
- Identify, develop and lead appropriate business strategies, in support of entrepreneurial activities and existing organisations (this will include the public sector).
- Evaluate the importance of knowledge management in strategy implementation, and advise on the implementation of appropriate systems, processes and solutions.
- Develop and promote a business case.
- Initiate and lead complex projects successfully.
- Communicate effectively to a variety of audiences.

Syllabus:

1. The Strategy Process

- The Concept of Strategy:
  - Levels of strategy and planning.
  - Setting mission, aims, goals & objectives.
  - Matching strategy and structure.
  - The competitive environment.
  - Ethical, political & social considerations.
- Strategic Management and Operational Management.
- Perspectives on Strategy:
  - Deliberate and emergent strategy.
- The Marketing Dimension:
  - Marketing management concepts.
  - Analysing marketing opportunities.
  - Market segmentation.
  - The marketing mix.
  - Strategic planning and marketing management.
  - Market place models.

2. The Strategic Position

- Environmental Analysis:
  - The macro environment.
  - Industry/Sector analysis.
  - Market analysis.
  - Opportunities & threats.
- Assessing Strategic Capability:
  - Critical success factors.
  - Assessing resources.
- Measuring Stakeholder Expectations:
  - Corporate governance.
  - Stakeholder analysis.
  - Identifying stakeholder expectations.
  - Business ethics.
  - Cultural considerations.

3. Strategic Choices

- Corporate Level:
  - The role of the corporate centre:
  - Portfolio manager.
  - Corporate core competencies.
  - Manager.
  - Restructurer.
  - Synergy manager.
  - Parental developer.
  - The Corporate Portfolio.
  - The Growth/Share Matrix.
  - The Directional Policy Matrix.
  - The Relatedness Matrix.
  - Corporate Diversification.
- Business Level:
  - Bases of competitive advantage (Price, differentiation, etc.).
  - Sustaining competitive advantage.
  - Game theory.
  - Competition and collaboration.
  - Value Innovation.
  - Business ecosystems.
  - Business case development.
  - Supporting the entrepreneur & New Venture Creation.
- Strategy Development:
  - Directions.
  - Methods.
  - Success criteria.

4. Strategy Implementation

- Structure and Processes:
  - Organisation structure.
  - Planning & control systems (incl. ERP, Balanced Scorecard).
  - Market mechanisms.
  - Social/cultural process.
- Managing Key Enablers:
  - People:
  - H.R. Management.
  - Organisational Behaviour.
  - Leadership:
  - Culture change.
  - Knowledge creation.
  - Information & Technology:
  - Knowledge management.
- Managing the Change Process.
  - Change management:
  - Analysing the change situation.
  - The nature of change.
  - Changing organisational culture.
  - Organisational communications.
  - Project management.
  - Project objective and scope.
  - Project teams, sponsors and responsibilities.
  - Project timeline and milestones.
  - Allocation of resources.
  - Critical path analysis.
  - Project reporting procedures.
  - Project evaluation.

5. Post strategy evaluation

Study Unit 1

The Strategy Process

Contents

A.	**The Concept of Strategy**
B.	**Strategic Management and Operational Management**
C.	**Perspectives on Strategy**
D.	**The Marketing Dimension**

THE STRATEGY PROCESS

A. THE CONCEPT OF STRATEGY

Strategic management can be traced back to earliest civilisation where people began to organise themselves socially, politically and commercially.

The term strategy is derived from the Greek *'stratos – army ; agein – to lead'* where it was used to describe the preparation and conduct of military campaigns.

There are numerous examples of great strategic leaders throughout history who won military campaigns based upon good strategic decisions. An army's strategies are patterns of actions in which it engages. This also applies to business organisations.

Until the advent of WW11 commerce was intrinsically linked to military/state power. Following WW11 many of the strategic thinking employed in the battlefield was used independently in the business environment to maintain or overcome competition.

There is currently much debate among academics as to the relevance of planning in strategic management however it should be noted that strategic management is not a science but an art. There is rarely one right way, strategic management is about selecting the optimal solution for a particular situation.

Strategy: A Definition

Strategy: 1. a plan designed to achieve a particular long-term aim, 2. the skill of planning the movements of armies in a battle or war, Oxford Dictionary (2010).

Strategy is the direction and scope of an organisation over the long term: which achieves advantage for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholders' expectations, Johnson & Scholes (2005).

In other words, strategy is about:

- Where is the business trying to get to in the long-term (**direction)**
- Which markets should a business compete in and what kind of activities are involved in such markets? (**markets**; **scope**)

- How can the business perform better than the competition in those markets? (**advantage**)?
- What resources (skills, assets, finance, relationships, technical competence, facilities) are required in order to be able to compete? (**resources**)?
- What external, environmental factors affect the businesses' ability to compete? (**environment**)?
- What are the values and expectations of those who have power in and around the business? (**stakeholders)**

What is Strategic Management?

"A unique value activity that is not easily copied" Michael E Porter, Harvard Business review (1996).

"Strategic Management is the set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the organisation and its environment so as to achieve organisational goals, " Richard L Daft, The New Era of Management (2006).

Progressive organisations will wish to pursue a strategy that will give the organisation a competitive advantage. A competitive advantage is the search for a favourable competitive position in an industry, the fundamental arena in which competition occurs. M Porter, (1985).

The Need for Strategy

Objectives and policies are formalised within the framework of a corporate strategy.
Without a statement of strategy it becomes more difficult for expanding organisations to reconcile co-ordinated action with entrepreneurial effort.

A strategy for the business is necessary for the following reasons:

1. There is a need for people to co-operate together in order to achieve business benefits.
2. There are the effects of changing environmental conditions.

The absence of an explicit concept of strategy may result in the members working at cross purposes.

Organisation Strategy
"Outlines the organisations goals and the means for obtaining these goals" (Robbins 1998).
For example it may direct the company towards any of the following,

- Reducing costs,
- Improving customer care,
- Expanding market share,
- Improving quality, etc.

Top executives use strategic management to define the overall direction for the organisation which is the firm's grand strategy.

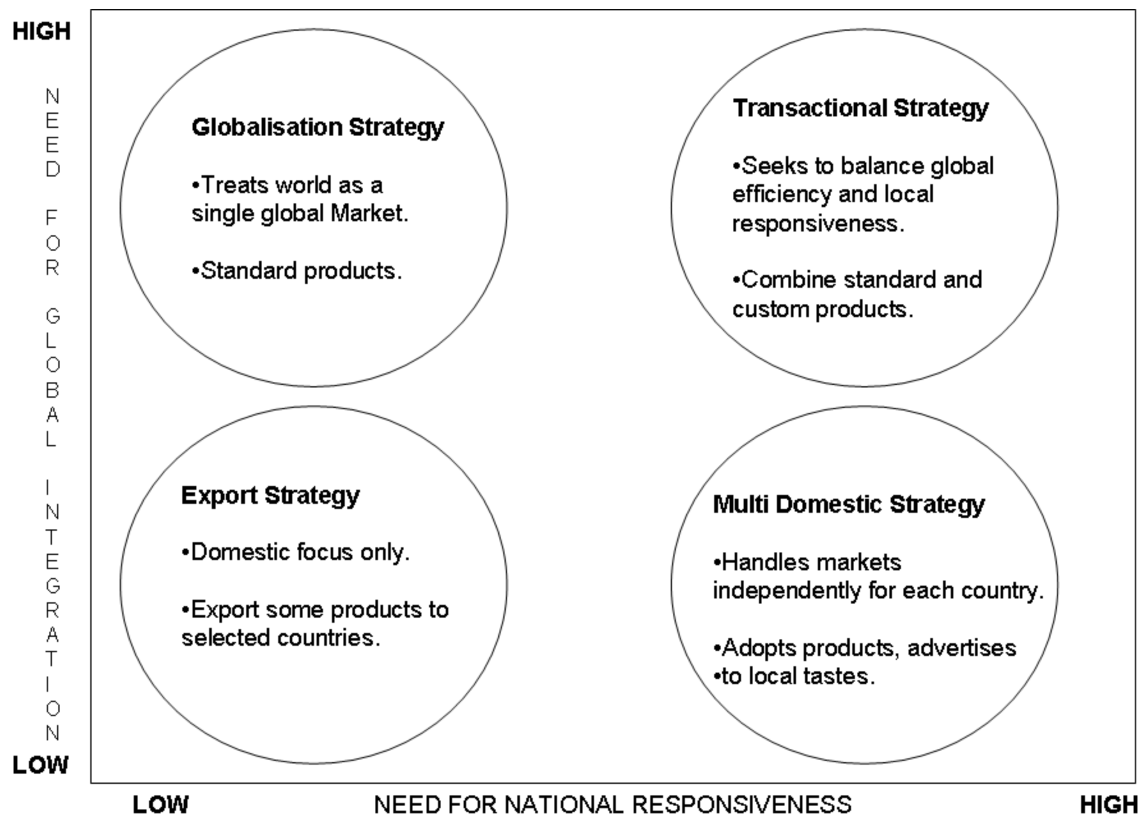
Grand Strategy
Grand strategies fall into 3 general categories: Growth, Stability and Retrenchment.

Growth
Growth can be promoted internally by investing in expansion or externally by acquiring additional business divisions. Internal (organic) growth can occur through new product development or enhancements to existing products.

Stability
Stability sometimes referred to as pause strategy is where the organisation remains the same size or grows slowly in a controlled way.

Retrenchment
Retrenchment is where the company goes through a period of forced decline by downsizing business units or liquidating entire businesses. This approach is normally taken following a drop in demand for business.

Global Strategy
In addition to the above 3 categories companies may pursue a separate grand strategy as the focus of a global business. In today's global organisations managers attempt to develop coherent strategies to provide synergy among worldwide operations for the purpose of achieving goals.
When a company chooses a strategy of globalisation it means that its product design and advertising strategies are standardised throughout the world.



The globalisation theory is that people want to buy the same products and services and this benefits the organisation in greater efficiencies e.g. Ford uses single suppliers in its global operation.

An organisation that chooses a Multi-domestic Strategy will create products that suit the home market, this may require minor modification to products or services. Whilst with a Transactional Strategy the organisation seeks to achieve global integration in its product ingredients or components, it will also attempt to achieve national competitiveness by tailoring its activities to local tastes.

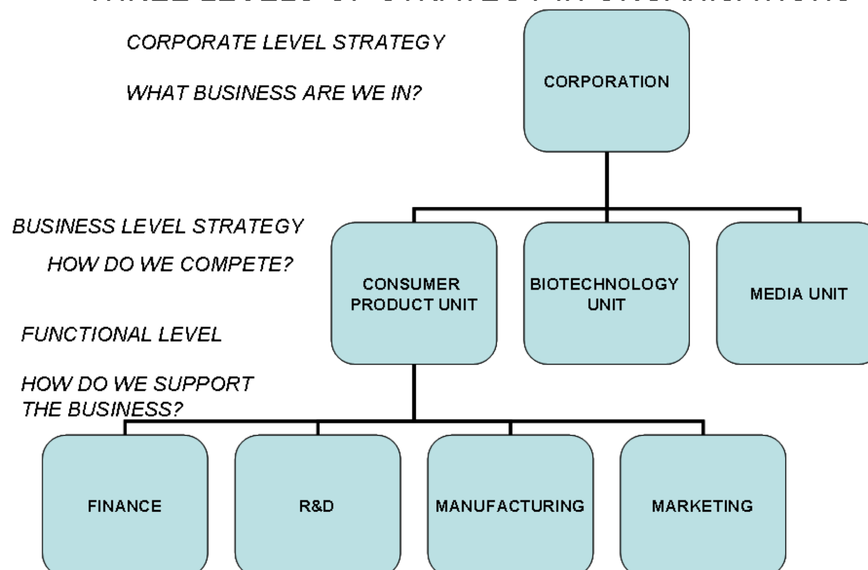
Level of Strategic Planning

According to Charles Hofer and Dan Schendel in their book Strategy Formulation, strategy exists at three levels in an organisation,

1. Corporate strategy - This first level is concerned with the overall scope of the organisation. This can include issues of geographic coverage, product or service diversity and resource utilisation. Strategy at Corporate level is about what business should we be in?

2. Business/Competitive strategy - Where corporate level strategy involves decisions about an organisation as a whole, Business level strategy is about which products or services should be produced for which markets. Many organisations separate their commercial efforts into SBU's (Strategic Business Units) this concentrates effort and the optimum resources on specific markets. Ultimately Business strategy is "how to establish competitive advantage" and how do we compete.

3. Functional/Operational Strategy - At functional level the concern is how the component parts of the organisation effectively deliver the corporate and business strategies of the organisation. Operational level strategies are important in terms of how to deploy



resources processes, systems and people.

Setting Mission, Aims, Goals and Objectives

Mission, Goals and Objectives are often confused and, although many academics and practitioners discount their importance, there is a need for organisations to consider the overall drive behind their strategic thinking.

Organisation Mission Statement:

This is an organisation's most generalised statement of purpose and can be thought of as an expression of its raison d'etre (Johnson & Scholes).

Mission describes the organisation's basic function in society in terms of products and services for its clients or customers. (Henry Mintzberg). Missions describe the organisation's values, aspirations…(Richard Daft).

Mission Statements therefore provide an organisation with,

- a sense of direction
- reason for existence
- aspiration and motivation
- formalisation of culture
- communication with stakeholders
- a framework for objectives

Google Mission Statement:
"To organise the world's information and make it universally accessible and useful."

Kerry Group Mission Statement:
Kerry Group will be:

- a major international specialist food ingredients corporation
- a leading international flavour technology company
- a leading supplier of added value brands and customer branded foods to the Irish and UK markets

Other mission statements might include:

We will be leaders in our selected markets – excelling in product quality, technical and marketing creativity and service to our customers – through the skills and wholehearted commitment of our employees.

We are committed to the highest standards of business and ethical behaviour, to fulfilling our responsibilities to the communities which we serve, and to the creation of long-term value for all stakeholders on a socially and environmentally sustainable basis.

The mission of an organisation provides the context in which intended strategies are formulated.

Johnson and Scholes believe the mission statement should address:-

- The vision of the organisation over the long range.
- The bases of detailed objectives.
- The main purpose of the organisation.
- The main activities of the organisation.
- The key organisation values.

Mission statements provide the cultural glue that enables an organisation to function as a collective unit with a set of values rather than commercial goals.

Goals:

Goals/Aims are the more finely focused statements of intent directed at those aspects of the organisation's operations which are critical to success – often described as 'core business'.
Such statements usually encompass market intentions, resourcing (people, plant, materials, funding), the use of technology, quality standards and financial parameters. Such statements usually have a life of between 3-5 years

An Example of a statement of goals is *British Airways*

- To be a safe and secure airline
- To deliver a strong and consistent financial performance
- Secure a leading share of the air travel business world-wide with a significant presence in all geographical markets.
- To provide overall superior service and good value for money in every market segment.
- To sustain a working environment that attracts, retains and develops committed employees who share in the success of the company.
- To be a good neighbour, concerned for the community and the environment.

Objectives:

Objectives may be categorised as objectives stating the organisation's purpose and those that state its strategic aims.
Strategic objectives are more meaningful and outline specific details of what is to be achieved.

Strategic objectives may focus on the fundamental purpose of particular parts of the organisation, e.g. Marketing, Operations, IT.

British Airways' goals could be:

- To achieve within the next financial year a return on capital of 25%
- Gain a market share of 5% on transatlantic routes.
- Reduce overhead costs by 3.5% annually over the next 3 years.
- Achieve 95% customer satisfaction rating.

Characteristics of Objectives:

- Hierarchical – Top Down
- Consistent - Objectives set are internally consistent
- Realistic – Essential to motivate
- Quantitative – Basis for performance measurement
- Time frame – Targets to be achieved within a given time

S pecific
M easureable
A ttainable
R ealistic – result oriented
T ime bound

There are two basic types of objectives

1. Financial: Outcomes that improve the firm's financial performance, e.g. Revenue growth, Higher returns on investment, Higher dividends, Stable earnings during recession.

2. Strategic: Outcomes that strengthen a firm's competitiveness and long term market position, e.g. A greater market share, higher product quality, superior customer service, wider geographical coverage.

Clearly communicated objectives provide benefits in,

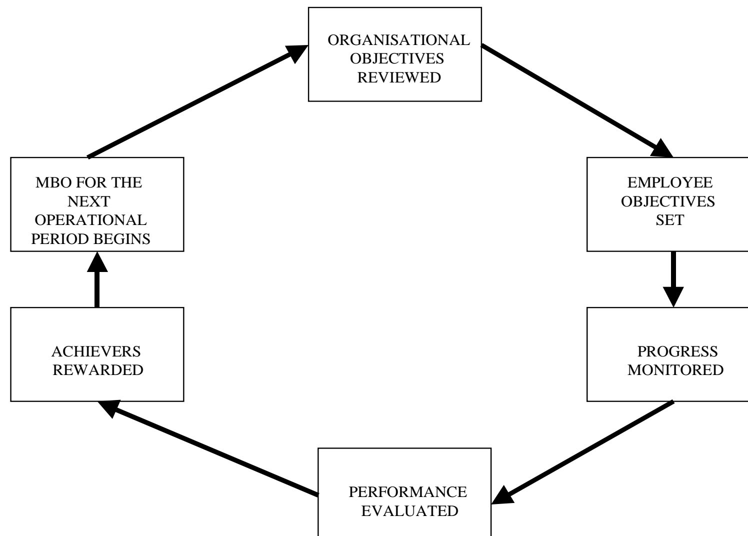
- Outlining peoples' role in the organisation
- Consistency in decision making
- Stimulating and motivating staff
- Improving effectiveness and efficiency
- Providing a basis for measurement/control
- Creating an environment for management by objectives (MBO)
- Facilitating performance appraisal

Management by Objectives

The phrase Management By Objectives was coined by Peter Drucker, (The Practice of Management), he viewed the principle of management as harmonising the management goals with those of the organisation.

The MBO system of management should flow logically from the organisation's strategic plan.

THE FIVE- STEP MBO PROCESS
Concept by Peter Drucker



One of the most attractive aspects of MBO for top management is the emphasis on setting standards and specifying results to be achieved. In the past only those managers in areas such as operations and sales were subject to meaningful measurement, now it is possible to quantify/qualify the activities of specialised managers.

MBO Principles

- Cascading of organisational goals and objectives.
- Specific objectives for each member.
- Participative decision making.
- Explicit time period.
- Performance evaluation and feedback.

Two distinct advantages emerge for managers employing MBO:

1. An ability to analyse a manager's performance (Performance Review) within their current job and agree objectives with their superiors.
2. A potential review based on a manager's ability to succeed in their next job.

Matching Strategy and Structure

Structure is a pattern of relationships among positions in the organisation and among members of the organisation. It denotes reporting lines, communications and knowledge exchange.

The objectives of structure may be summarised as to provide for

- The economic and efficient performance of the organisation and the level of resource utilisation.
- Monitoring the activities of the organisation.
- Accountability for areas of work undertaken by groups and individual members.
- Co-ordination of different parts/areas of the organisation
- Flexibility in order to respond to future demands.

Drucker PF, (1968), suggests that the organisation structure should satisfy three Requirements:

1. It must be organised for business performance. The more direct and simple it is the more efficient it is.
2. The structure should contain the least possible number of management levels, additional levels makes for difficulties in direction and mutual understanding.
3. Organisation structure must make possible the training and testing of future top management.

The Importance of Good Structure

The structure of an organisation not only affects productivity and economic efficiency but also the morale and job satisfaction of the workforce.

"Good organisation structure does not by itself produce good performance, but a poor organisational structure makes a good performance impossible".

The organisation is a social system and people who work in it will establish their own norms of behaviour and social groupings irrespective of those defined in the formal

organisation.

Managers need to consider how structural design and methods of work organisation influence the behaviour and performance of members of the organisation.

Organisation Design

Structure provides the framework for the activities of the organisation and must harmonise with its goals and objectives.

The nature of the organisation and its strategy will indicate the most appropriate organisational levels for different functions and activities, and the formal relationships between them.

Organisation structure and design will be covered in more detail in section 4.

Ethical Political and Social Considerations

The 21st century perspective of business is demonstrated by some of the following attitudes,

- its policy of openness,
- worth is as important as wealth,
- win-win solutions are better in the long run,
- giving can be a sign of strength,
- business with a shared purpose.

Social Responsibility

In the process of Business decision making it is no longer sufficient to stay within the boundaries of the law, organisations must consider the responsibilities involved in decision making and how decisions will be viewed by audiences outside the boundaries of the organisation.

According to Drucker (1989) social responsibility is the remit of the individual manager; it assumes that they are responsible for the public good and that they subordinate their actions to an ethical standard…and restrain self-interest and authority wherever their exercise would infringe on the common good.

Social Responsibility - The stakeholder view

Owners and Managers: Business owners and boards of management make decisions that will impinge on other stakeholders involved with the organisation. Management cannot afford to adopt a purely internal perspective when decision making.

The Employees: Most people spend a significant part of their lives in the workplace. Employees' expectations of work are changing in particular areas such as quality of work-life, equity in treatment, and work-life balance.

Suppliers: The cut and thrust of modern business practices has implications for the supply sector business.
For instance, an EU regulation regarding the enforcement of free and fair competition rules led to the passing of the Competition Act 1991. This Act covers mergers, sale of business agreements between suppliers and resellers, refusal to supply and cartels. The Act provides guidance on how not to act and also give protection against the behaviour of large business.

Consumers: When purchasing goods and services consumers have intrinsic rights, these include the right to buy goods which are fairly priced, safe, perform to a reasonable standard and sufficient information provided for the consumer to make an informed choice...

Government: Almost all decisions made at government level have ethical dimensions e.g. social welfare, trade wages, taxation etc.

Non Governmental Organisations (NGO's): NGO's are organisations that represent or campaign on behalf of a broad range of issues and agendas. The current challenge for managers is to determine if the NGO is an adversary or a business partner, as many NGOs are powerful with strong mandates they can influence business decisions. Therefore early engagement on the part of the business can offset any future difficulties and influence the overall process.

Communities: The term community has come to represent a grouping of interests between individuals, residents, companies or social groups. Some companies pride themselves on the high level of involvement with the local community and consider this approach an important input to the business strategy.

The following are levels of involvement by business in the community,

- Charitable causes: donations, sponsorship
- Social investment: grants, in-house training.
- Commercial initiatives: sponsorship, cash or in-kind contributions.

Business Ethics

What are Ethics?

Ethics have been defined as the discipline dealing with what is good or bad, and with moral duty and obligation. An Ethic is a set of moral principles (O U dictionary)

What are Business Ethics?

"Business ethics involve corporate recognition of - and compliance with - a paradigm that provides common recognition of and the need to practice proper behaviour." Many other definitions exist e.g. “conforming to professional standards of conduct."

Business ethics are even more complex, because the consequences of unethical behaviour are sometimes very costly to a business organisation and its human resources.

Companies which hire staff and managers to perform organisational tasks are responsible to ensure that a company is ethical, that it practices a certain level of ethical behaviour, that it maintains certain ethical standards and that it provides for contingencies when those ethical standards are not practised.

Such contingencies could involve embezzlement at line or executive level, discrimination on the basis of sex and/or age, corporate lack of diligence, and so on.

Davis (1997) presents five different ethical perspectives of a modern day organisation:

1. The western Christians theological perspective: The Christian view will influence the operations of the business, the principles of justice, respect and reconciliation will influence business decisions.

2. The industrial democracy perspective: The separation of ownership and liability under company law has meant that shareholders have no formal responsibility for employees or the community. However the philosophy of corporate governance suggests that business should operate within the framework of democracy.

3. The ecosystem perspective: Advances in business through the use of technology have impacted both positively and negatively on our personal and physical environment. Some organisations take a short-term view of the physical environment whereas the physical environment and ecosystem demands a long-term global perspective.

4. The Friedman perspective: The economist Milton Friedman published an article "The social responsibility of business is to increase its profit". In it he compared the responsibility of business with governments, charities and trade associations. The wrong doings of business need to be reviewed by third parties but business is operating correctly if it is making profit. Friedman philosophy suggests that an organisation too focused on ethics will lose sight of its core objectives.

5. The virtues perspective: The concept is to focus on the virtues of the individual working in the organisation. Business ethics should focus on character development and how the organisation we are involved in will make us better people over the duration of our working lives.

Business ethics are now a management discipline

Business ethics have come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s. In that decade, social awareness movements raised expectations of businesses to use their massive financial and social influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education. An increasing number of people asserted that, because businesses were making a profit from using the nation's resources, these businesses owed it to the country to work to improve society. Many researchers, business schools and managers have recognised this broader constituency, and in their planning and operations

have replaced the word "shareholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

The emergence of business ethics is similar to other management disciplines. For example, organisations realised that they needed to manage a more positive image to the public and so the recent discipline of public relations was born. Organisations realised they needed to manage better their human resources and so the recent discipline of human resources was born. As commerce became more complicated and dynamic, organisations realised they needed more guidance to ensure their dealings supported the common good and did not harm others -- and so business ethics was born.
Proactive organisations are actively drafting policies in relation to business ethics and social responsibilities and engaging stakeholders in the delivery of such policies.

Every business decision taken by individuals or groups has an ethical dimension. There is a distinction between personal values and a code of business behaviour as practiced in the work place.

Johnson and Scholes cite four possible ethical stances:

1. Organisations take the view that the only responsibility of the business is in the short-term interests of the shareholders; i.e. the organisation will meet the rules laid down by the government and no further.

2. Organisations which recognise that a well-managed stakeholder relationship can be of long term benefit to the shareholder. Ethical issues are managed with a long-term perspective.

3. Organisations take a view that the interests of multiple stakeholders should be explicitly incorporated in the organisation's purpose and strategy. These organisations offer measures of performance that are wider than the bottom line.

4. Finally, organisations that are at the ideological end of the spectrum, are concerned with shaping society and are not overly concerned with the financial consequences of their decisions. This approach is more widely practised in the public sector or in private family owned businesses that are not accountable to external shareholders.

Research by Alderson and Kakabadse (1994) compared ethical attitudes of managers in Ireland, UK and USA. They found that Irish managers placed more emphasis on the influence that increasing public concern about ethical standards has on business behaviour. This may be the result of increasing media attention of the subject over recent years in Ireland.

"W.K. Kellogg believed in doing things the right way and built this company on integrity." In business for 100 years, Kellogg's has taken pride in its ethics and compliance programme known as "K Values." According to Gary H Pilnick, Kellogg's General Counsel and VP, "It starts with the values, which guide behaviour and ethical choices."

Founder W.K. Kellogg wanted to do good things for people, starting with nutrition and the environment, and began promoting environmentally-friendly processes by producing the first boxes of cereal in recycled packaging in 1906. Today, Kellogg's uses 100% recycled packaging. In addition, Kellogg's created a Social Responsibility Committee in 1979 that now deals with environmental concerns, health & safety, addiction and abuse, and other issues that impact employees and communities.

Corporate Governance

According to Monks and Minnow (1991)
Corporations determine far more than any other institutions: the air we breathe, the quality of the water we drink even where we live; yet they are not accountable to anyone.

What is corporate governance? It is the system by which businesses are run. This includes the directors' duty to ensure that the business is properly and honestly managed.

Two significant reports have influenced corporate governance in many countries: the Cadbury report and the Greenbury Report,

The Cadbury Report (Sir Adrian Cadbury) was commissioned by the UK professional accounting bodies and the London stock exchange and was published in 1992.
The main recommendations were:,

- The board of directors must meet regularly, retain full control over the company and monitor executive management.
- There should be a clearly accepted division of responsibilities at the head of the company to ensure a balance of power and authority.
- Non-executive directors should be of a high calibre and respected in the field. They should bring independence and judgement in strategy, performance, executive pay, resources and standards of conduct.
- The majority of non-executive directors should be free of business connections with the company. Terms of contract should be specific and not more than three years. Reappointment by shareholder approval only.
- Only non-executive directors should decide executive director's pay..

The Greenbury report (Sir Richard Greenbury) was published in the UK in 1995 following widespread criticism of the remuneration of the boards of newly established utilities. Greenbury prepared a code of practice that recommended more transparent disclosure of directors' salaries, benefits in kind, share options and bonuses. It confirmed that remuneration committees should comprise non-executive directors only.

Whistleblowing
Whistleblowing occurs where an employee informs the public of inappropriate activities going on in the organisation. The whistle blower may be motivated by a feeling of inequity in treatment or the behaviour of the organisation may play on their conscience. The consequences of whistleblowing are often extreme: loss of job, ostracism by peers and the effects of stress.

B. Strategic Management and Operational Management

Strategic management is the art and science of formulating, implementing and evaluating decisions that will enable an organisation to achieve its objectives' Operations Management concerns the transformation of inputs both tangible and intangible by some conversion process into outputs, thereby achieving the objectives formulated in the strategic management process.

The Role of Operations Managers

Operations managers make decisions regarding the Design, Planning, and Control of the production system or production line.

Design: Design decisions relate to issues of product, production capacity, the location of operations and production layout.

Planning: Planning decisions relate to the rate of production, materials to use, supplier selection and inventory levels.

Control Decisions: These are short term in nature and relate to quality management and the sequencing of work to ensure the greatest level of efficiency.

The Key Elements of Operations Management

Design

Large organisations will have their own research, development and design departments. For smaller organisations design can be contracted out or state agencies may supply design services.

Design Stages

Design proposals, Develop Models, Finished drawings/specifications, Supervision of production start-up.

The R&D/Design department must also work within cost constraints, designers will be guided by the following 3 factors.

1. Standardisation – Attempting to standardise components so that they fit a variety of designs. This facilitates stock control, bulk purchasing and supplier selection.
2. Simplification – This involves reducing the number of steps in a process. This benefits management, administration costs and stock control.
3. Specialisation - This improves efficiencies which give returns in better customer service, economies of scale, and set-up times.

Forecasting Demand

The ability to forecast demand will benefit the organisation by allowing it to plan aspects of the business such as production runs, inventory and resourcing. Forecasting is usually dependent upon good feedback from customers and market analysis.

Work Design

The design of work should consider the layout of the manufacturing plant/factory.

Factory Design:

The following factors should be considered when designing a factory, the current and future expansion size of the factory, single or multi story, access and light and finally local authority planning considerations.

Factory Layout:

The division of labour to support production and departmental configuration.

Job Design:

Commonly known as work study, it supports aspects of the business such as waste elimination, increased production and cost savings. Method study involves work measurement and developing the best methods of performing tasks.

Location

Factory or facility location is a significant factor as it may affect the operational costs.
Costs may vary depending on the following factors:

1. Proximity to raw materials
2. Proximity to markets
3. Government incentives
4. Cost of land
5. Availability of labour
6. Availability of power
7. Transport, Security
8. Waste disposal etc.

Purchasing

Purchasing represents a substantial effort on the part of the organisation to ensure adequate stock levels of materials for the production process.

Organisations therefore need to consider the purchasing mix - Quantity, Quality, Price, Delivery.

Inventory Management – Just In Time
3 differing types of inventory**:** Raw materials, Work in Progress, Finished Goods. Just In Time is a modern method of maintaining minimum stock levels. This is achieved by detailing the production run/schedule very carefully and ensuring that stock levels meet production demand and little more.

Maintenance
Maintenance is a function to ensure optimum availability of plant and machinery for the production of goods.
Types of Maintenance include preventive maintenance, corrective maintenance, breakdown maintenance and running maintenance.

Quality
The activity of ensuring the product is "fit for purpose". This may include: *Quality Control* - this is checking the product before delivery, *Quality Circles* are teams organised around quality initiatives and *World Class Manufacturing*, where quality is everyone's responsibility.

C. PERSPECTIVES ON STRATEGY

How is Strategy Formulated?

Strategy formulisation is the analysis of both the internal strengths and weaknesses of an organisation and the external opportunities and threats as well as identifying the strategic options that can be taken by the organisation. Strategic formulisation may occur in a variety of ways.

Planned: Based upon the 'classical' management school of logical decision making, it is the analysis and evaluation of strategic alternatives, sometimes referred to as the rational model. It is rare that a planned strategy is realised due to the dynamics of the business environment.

Emergent: Henry Minzberg suggests that good ideas never come from the boardroom, that in fact the excellent companies allow strategy to emerge from its employees. A suggestion box is an example of this at a basic level. The problem with this strategy is how to manage the process so the good ideas emerge.

Opportunistic: Some organisations in a time of boom believe that the environment is changing so fast that there is little point in having a planned strategy. They feel they may have to forgo opportunities if they have a planned strategy. It is clear however that some companies retain a level of flexibility in their planning to allow incremental changes to be made.

Imposed strategy: Some organisations, notably those in the public sector, have such strong external stakeholders that they have limited control over their strategic direction,

D. THE MARKETING DIMENSION

Marketing Definition(s):

Marketing is the management process responsible for identifying, anticipating and satisfying consumers' requirements profitably.

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals.

Historical Impact:

19th century industrial revolution focuses on production/sales rather than marketing.

Post industrial revolution changes,

- Expansion of manufacturing attracted entrepreneurs
- Competition moved from consumers to manufacturers
- Supply of raw materials and power for the production of goods started reaching levels of scarcity, which increased their value and made profit margins tighter.
- Technology improved the means of communication, transport and production enabling manufacturers to sell goods over greater geographical distances.
- Manufacturers began to look at their products in terms of customer needs, i.e. style, value, quality.

The Marketing Function:

The structure of the marketing department and the responsibilities of the marketing director or manager will differ from company to company. Department's size, organisation influence, and geographical location will depend on the product or service being marketed.

Functions within the Marketing Department:

Market research: Conducts research on behalf of the company in order to improve its prospects of selling its product or service.

Sales: Concerned with personal selling staffed with a sales force.

Promotions: Responsible for advertising and public relations, e.g. trade fairs exhibitions, sponsorship, press conferences, and merchandising.

Distribution: Identifying and selecting the appropriate channels in which to distribute products or services.

An Integrated Marketing Approach

An integrated marketing approach suggests that all personnel and departments are concerned with the identification and satisfaction of customer needs, however this is not always the case individuals within the organisation may be more concerned with whom they know rather than what they know about a particular product or service.
Below are some examples of how the marketing department may have opposing operating desires.

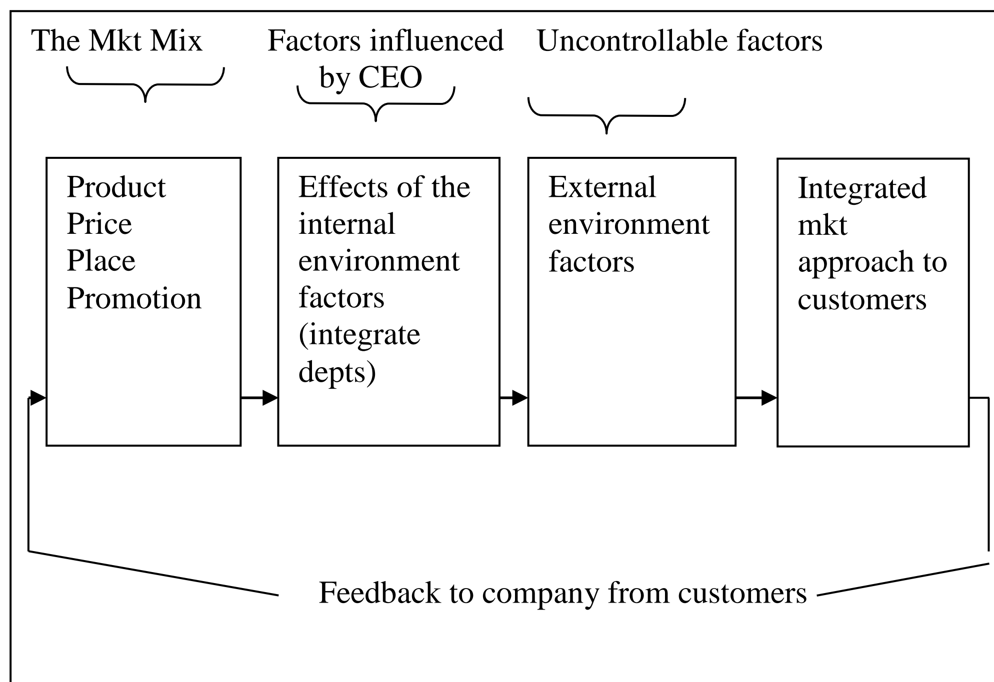
1. The R&D department will like to have more time to develop new products; the marketing department will need new products as quickly as possible.

2. The Procurement department likes to purchase standard parts at fixed intervals; the marketing department prefers non-standard parts to give the product uniqueness.

3. The production department likes long production runs with lead times, ease of assembly etc., the marketing department like short production runs with more complex assembly to improve aesthetics.

4. Finance will want strict control on spending, marketing want flexible budgets to cover variable costs.

What must be achieved is a balance between opposing views with the idea of working together to please current and potential customers. If the various departments and company personnel co-operate in satisfying customer needs then the company is said to have an integrated marketing approach.



Positive Marketing

For a company to remain competitive it must pursue a positive and progressive marketing approach.

A Company may do one of the following:

1. Remain passive and inflexible, which will ultimately result in extinction.
2. Change in keeping with changes by competitors or purchasing tastes of customers.
3. Initiate change and turn change in the environment to its advantage.

Marketing and Society ***(some considerations)***

- Marketing manipulates and exploits people.
- The marketing function is an added cost to the product.
- Marketing encourages the production of products that people don't need.
- Marketing is only interested in short term gain.

- Marketing causes inflation and unemployment.

Market Segmentation and Target Markets

It is almost impossible to develop a product or service that is equally appealing to all consumers in the market. This is because consumers purchase products or services according to their sex, age group, income, occupation, or even geographical location.
The concept of developing products and services for different groupings is called market segmentation.

Market segmentation is defined as '*The process of dividing a market into the homogenous segments that collectively constitute the market that is being segmented.'*

A specific but large enough group of people showing similar characteristics and expectations may therefore be selected as a target market.

A series of criteria enables a marketing manager to divide the market in to segments; the method contains four main parts,

1. Demographic
2. Geographic
3. Buyer behaviour
4. Psychographic

Demographic: This method uses a person's characteristics such as sex, age, income, social class, religion, occupation etc.
A common demographic approach by marketers is to link occupation to income to determine how people may/will behave. This grouping is classed as socio-economic.

Geographic Segmentation: This method uses countries, regions/districts, cities and rural areas etc. Drinking eating and leisure time activities may be affected by geographic location.

Buyer behaviour: This is important in understanding how people behave after purchasing goods.
A number of people from different classes may drive the same make of car and wear the same type of clothes therefore class is becoming less important. In response to this some companies are aiming their promotions across the total market.

Psychographic or personality segmentation: A growing awareness of the need for more explanatory criteria has led to greater use of psychological variables, (personality traits, compulsiveness, ambition, conservation).

This form of segmentation arose as a result of discovering that buyers' needs may differentiate along lifestyles or personality lines e.g. Provenance in food production, green awareness, or natural resource sustainability.

The reasons the above methods are used are because they can measured and understood.

Segmentation methods are rarely applied in isolation and are combined to overcome the problems of surveying small groups.

The advantages of segmentation are:

1. Improved profits through increased sales and avoidance of unprofitable markets.
2. Specific customer needs are more easily identified therefore facilitate a more accurate budget for marketing.
3. To give the company stronger control of the market and protect itself from competition.
4. Identifying new product opportunities.

The requirements for accurate segmentation are:

1. Measurability - clearly measured.
2. Accessibility - access the company's resources, production marketing etc.
3. Sustainability - segmented markets must be large enough in terms of value as well as volume.

Segmentation strategies:

Segmentation represents a commitment to a particular market and involves a selection of the following options.

1. **Differentiated market**: A company may voluntarily or be forced to operate across all segments, they may do this by packaging the products to suit different segments e.g. Coca Cola

2. **Concentrated market:** A company may decide to concentrate its resources and activities in a specific market segment. This suits small companies specialising in specific areas however this strategy carries risk e.g. Cartier for watches or medical; device manufacturers.

3. **Undifferentiated Market**: This involves the introduction of products or services to reach a large number of consumers in most segments. It can be costly as the operation will be geared towards total market coverage e.g. Kelloggs Corn Flakes.

Selecting a marketing strategy:

The type of marketing strategy selected by a business will depend on the following factors,

1. Company resources.
2. Product homogeneity. Goods that are either physically identical or at least viewed as identical by buyers. Consumers of white sugar or salt are less likely to choose between products as they consider there is little or no difference between producer's products.
3. Stage in the product life style e.g. a new product versus a mature product.
4. Market homogeneity. The less obvious the differences within a market the less likely differentiation is to work in manner similar to product homogeneity.
5. Competitive marketing strategies; e.g. segmentation by competitors may demand a segmentation policy by the company.

Marketing strategy is dealt with in more detail later in this section.

Market Research

Running a business without adequate marketing information reduces business decisions to guesswork.

Market research may be defined as: The planned and systematic gathering and collation of data and the analysis of information relating to all aspects of marketing and the final consumption of good or services.

It is common to separate research into two general areas: market research and other market research. In this instance market research is confined to current and potential customers who constitute a market. Other market research may be undertaken by companies to improve marketing decision making.

Marketing research may be further divided into user and consumer markets, where users are considered to use the good or service in the manufacture or provision of a product and consumers are regarded as the final consumer of the good or service.

Marketing Research Information

Facts gathered about a group of people that are under study may simply be referred to as data; it is not until the data is collated into an understandable format such as a graph that it becomes information.

Data collected directly from people through research question or observation is referred to as primary (first hand) data.

When we use data already collected by others for their own purposes we refer to it as secondary (second hand) data.
Both of these sources are important to marketers but obviously a marketer has more confidence in the results of information he/she has collected.

Field and Desk Research

The collection of primary (raw) data involves field research, which is directly undertaken by the organisation or an agency.
The collection of secondary data or information involves desk (secondary) research which is obtaining data or information that is already in existence.

Sources of secondary data or information:

To be cost effective the experienced marketer will start any research by checking what information is available from internal sources.

Conducting Market Research Surveys

When research is undertaken to extract qualitative or quantitative information, regarding a representative sample of people we refer to the study as a survey.

Data obtained through market research may be:
Quantitative – *the number of cars passing through a petrol station per week.*
Qualitative – *This is subjective data, such as an attempt to assess people's attitude or motivations.*

There are four main methods to obtain data from respondents to questions that form part of market research surveys:

1. Postal Questionnaires
2. Telephone Interviews
3. Personal Interviews
4. Observation

The Marketing Mix

All of the above activities may be effectively related to four main areas of marketing responsibility, referred to as the 4 P's, **Product, Price, Place, and Promotion.**

1. Product includes research and development, package, labelling, and branding
2. Price covers pricing, discounts and credit.
3. Place would include all distribution activities.
4. Promotion includes personal selling, advertising, PR, etc.

It is the role of the marketing director or marketing managers to mix (co-ordinate and control) these activities in such a way to obtain maximum profitability. This is not the same as obtaining maximum sales. High sales revenue at high cost may not mean maximum profits. Therefore the marketing function must attempt to identify, isolate, and service profitable sales and reduce the risk of losses.

The 4P's fundamentally determine the way potential customers will view the company, its services or products.
The usefulness of the product, how well it has been promoted and the price of the product will influence a customer.

1. Product Policy

The best promotions in the world cannot sustain a poorly conceived product or service.

At some stage in our lives we have all purchased a product we felt we could improve either in its usefulness or aesthetics. Improvements in product usefulness or aesthetics are what **product policy** is about.

A company's product policy will be determined by:

1. What a company should produce.
2. When new or altered products should be launched.
3. In what quantities they should be produced and supplied.

Without a continuing product policy a company will not be sure that it is meeting the needs of new or changing markets. If the company ceases to supply products that are profitable then the company starts to decline; therefore the long medium and short-term growth of a company is affected by the continuing product policy decisions.

Why make changes to existing products?

There are four main reasons why companies modify existing products, introduce new products or withdraw existing ones.

1. Due to changes caused by the market, e.g. people tastes change, Coca-Cola is much sweeter today than it was when first produced.
2. Changes caused through competitors improving their products in relation to the needs of the market.
3. Changes due to cost e.g. the need to change from metal to plastic as steel increases in price.
4. Changes to current or new products because a company believes it will increase sales and profits.

Changes a company may make to the product mix

Most changes to the product mix made by a company will fall in to the following categories,

1. Addition of new products/services unrelated to the existing ones.
2. Extension of related products, e.g. manufacturers introducing new styles etc.
3. Differentiation of current product, e.g. additions to an existing product that might appeal to customers in another segment.
4. A modification to a current product usually to reduce costs or improve the style or quality.
5. Planned or perceived changes possible because of the attitudes of most of us when we consider a purchase, e.g. a manufacturer may produce paint with a strong brand name and also produce paint for a D.I.Y (Do IT Yourself) store.

New Product Development

There are four major processes to consider when developing and launching a new product or making a modification to an existing one.

1. The new product development process.
2. The adoption process.
3. The product life cycle (PLC).
4. Pack, Packaging, Branding

New development process: This defines a series of activities that should be undertaken in the development of a new product to the point where it becomes commercially viable, i.e. launched onto the market.

The product development process takes the following stages:

Ideas generation: this is the beginning of the process where the company collects information and ideas in the hope that one of the ideas will become a new product or a modification to an existing one.

Screening: Ideas generated are evaluated with regard to their marketability, the company's future objectives and resources.

Business analysis: At this stage more detailed and specific consideration is given to costs, potential future sales and profitability.

Product development: Products or services that appear marketable propositions become the responsibility of the research and development department.

Testing in the market

At this stage the chosen product is tested in the market to determine its acceptability by the market before the final launch, ideally a mini launch is a more acceptable way of testing the market.

Commercialisation stage

At this stage it is necessary to consider all aspects of the introduction of the product to the intended market. The marketing mix must be considered in light of the following:

- What form will the final promotion take?
- What is the role of the sales personnel?
- What is the price of the product?
- What means of distribution will the company use?

The Adoption stage

Before a company actually launches a product it must consider the product life cycle (PLC) and the mental stages purchasers go through before they purchase a new product.
These mental stages are known as the adoption stages.

Awareness – Before a product is adopted consumers need to be aware of its existence.
Interest - The product must be of interest to the individual customer if it is to gain a foothold in the market.
Evaluation – Once the potential customer has obtained information they can compare this to their needs.
Trial – In the case of inexpensive products, sales promotion methods may be used in order to induce trial, e.g. personal selling, in store tasting, small bars of soap etc.
Adoption of the purchase – This relates to the actual purchase and re-purchase of the product.
The majority of manufacturers will wish to establish a long-term relationship with the customer.
Special offers, reminder adverts and product improvements are used to revive interest and achieve loyalty.

Adopter categories: *(Everett Rogers 1995 The innovation adoption curve)*
Some people readily accept change; others are more slow to respond. According to Rogers these characteristics and readiness to adopt may be categorised into the following five groups:

1. **Innovators** - Representing a small percentage they may treat a new product as a status symbol, respond to new technologies quickly, have personal needs to satisfy, or regard themselves as leaders.
2. **Early adopters** - They normally represent the actual leaders or trend setters, and indicate whether a product will be successful or not.

3. **Early majority** - Early to accept innovations, products are purchased for their usefulness and are long-term repeat purchasers.
4. **Late majority** - Reacting to change slowly, they wait for the product to prove itself and /or prices to come down, they do not follow recommendations by leaders.
5. **Laggards** - Last to respond to new products, they value tradition and dislike change to something well established.

The Product Life Cycle: Products are like people they are born (introduced) grow, mature, and decline and eventually die. The PLC identifies the stage that a product may go through from the moment it is launched.

Introduction: The product is launched, competition tends to be limited or non existent. Growth is usually rapid and profits are non existent.

Growth: Mass market acceptance will take place through early adopters, profits should emerge and initial costs covered.

Maturity: Representing the most competitive stage in the life cycle, early and late majority begin to adopt and competitors introduce counter measures, advertising and promotion campaigns concentrate on reminding consumers and rewarding loyalty for use of products.

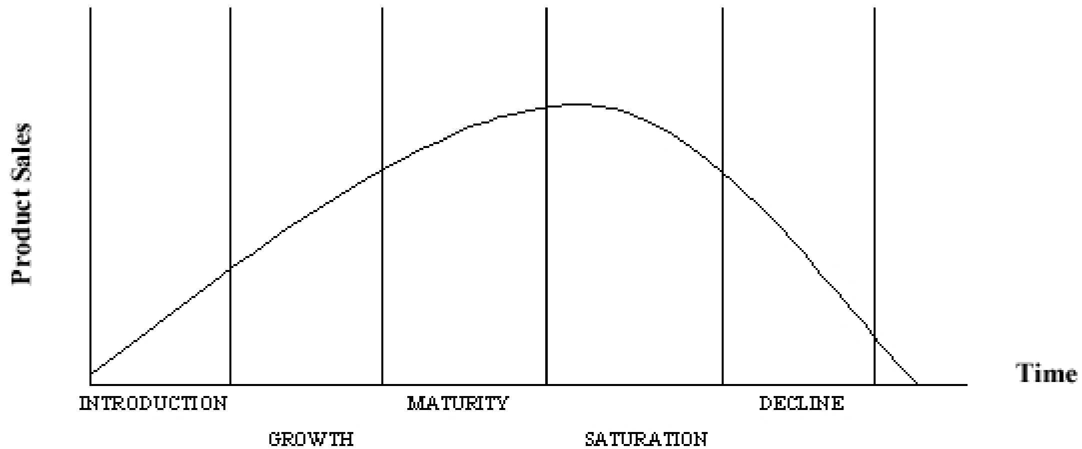
Saturation: Many competitors in the market place, profits per unit are in decline and there is no growth in sales.

Decline, slow but accelerated decline in sales and profits, the product may be withdrawn from the market.

Evaluation of the Product Life Cycle:

- Knowledge of the PLC can help us appreciate that,
- Products do not last forever and marketing managers should never assume they will.
- Products need to be supported by other elements and by the marketing mix.
- Products need to respond to changes in the market place.
- Continuous assessment of internal and external factors helps lead to an effective marketing plan.
- Marketing functions may have to be adjusted during the PLC, i.e. advertising etc.

THE PRODUCT LIFE CYCLE



Package, Outer Packaging and Branding

The package, in which the product is contained, often becomes synonymous with the consumer.
The main purpose of the packaging is to protect the product, reduce costs through weight and shape, promote the product and be eye-catching and distinguish the product from others e.g. a box of breakfast cereal.

The outer packaging contains the pack and provides the means by which products are transported, safely and economically. This could be a pallet, container, wrapping etc.

Branding A brand is a name, symbol or sign that is given to products in order to help them establish their own identity, facilitate recognition by consumers and communicate what the product can deliver.

Companies employ one of the following branding polices.

Company brand name, The product is given the company or corporate name e.g., SONY, Hoover, Samsung.

Family brand name, Companies can offer a variety of product line names that are aimed at different target markets often using a naming policy e.g. Indian Auto Manufacturer, Tata Motors, use the Land Rover Range to do this as do BMW with the Mini.

Individual brand name, This policy is used by companies introducing unrelated products to markets by companies that do not have a strong company image. Established companies like Proctor and Gamble may not risk the company's reputation by putting their name up front and will only strongly relate brand names to the company following full acceptance by the market e.g. Gillette is produced by Proctor and Gamble.

2. Pricing Policy

Pricing is a critical aspect of marketing because the price set for a product involves and affects every aspect of the organisation.
What is Pricing? …the process of determining the price that an organisation can ask from purchasers for the product or service it supplies consistent with contribution towards costs

The **price** is the monetary value attached to the product or service at a particular point in time.

A Company may be able to make a reasonable profit by asking RWF1,000 for its product but if the market is willing to pay more, the company will, in most cases, ask for more.
Identifying how much the market is willing to pay is fundamental to any pricing process and in particular a start up business.

Pricing may be used by a purchaser to indicate a product or services quality, (Just think about those imitation watches for sale in a Kigali market for RWF 100,000).
You may or may not purchase the watch but the fact is that in the minds of most purchasers the price asked would create doubt, worry, dilemma or even suspicion.

Pricing should take into account people's perception of value and the price asked must closely reflect the perceptions of good value for money held by the target market.
Pricing Objectives

Prices may be changed several times by an organisation over time across a whole range of products.
The prime objectives of pricing by commercial organisations will be:

- To maximise profits in the short, medium, and long term.
- To minimise risk of undue losses.
- To enter and control a segment of the market or total market.
- To act as a counter strategy against the pricing or promotional actions of competitors.
- To assist in the product becoming leading brand.

Other objectives can include, reputation building, selling off excess stock, moving the products through the distribution channels or facilitating the sale of other products.

Major Influences on Pricing

As pricing is so vital to the success or failure of the sale of products and services every effort needs to be made to identify and evaluate the major internal and external influences which may affect a product's current price or the price for a new product.

Internal Factors:

Marketing objectives
The right price combined with the right mix of the 4P's may allow a company to pursue its marketing objectives, marketing objectives can only be reached if the price is right, so the setting of objectives must take into consideration the price that may be asked and the total profit that would result from the various prices.

Costs: It is pointless to set a price for a product without allowing for the direct and indirect costs attributed to the products production and marketing. Profit maximisation in the short term could be classed as a priority but it is sometimes impossible to achieve, some companies will launch a product at an introductory price that will only cover cost until full consumer acceptance has been reached. All companies have to cover total cost, i.e. fixed (rent, rates, fans) and variable costs, (raw materials, labour plus extra electricity, additional labour). Always allow for wastage when calculating cost of production.

Attitude of senior management: The attitude of senior management may be at odds with the marketing manager. The company may be more concerned with the intrinsic value of the product rather than the price the market is willing to pay for the product.

Resources: The price a company can ask for a product is not solely based on the product itself. The price may be determined by after sales service, guarantees, or the speed at which

the product can be delivered. The company needs to be able to have the human, physical, and financial resources to support this.

External Factors:

Consumer perceptions and expectations: The product price is a major communicator with the marketing mix. Price will not act by itself. It will need to be supported by other factors, e.g. product usefulness, reputation of the company etc. Advertising campaigns will often be used to justify prices and help communicate value for money etc.

Demand: If demand grows sufficiently the company may experience economies of scale, (as sales grow fixed costs are absorbed by the additional products sold). This can allow the company greater profit margins or sell the product at a lower price. Derived demand may result from the activities of competitors e.g. high car sales means parts producers experience higher demand for their products.

Company reputation: The product may be sold on the strength of a company's reputation. The price may not reflect the true quality however the extra price may be asked because of the elitist image of the company, e.g. BMW, Rolex.

Seasonal factors, Demand for certain products may be seasonal. During periods of high demand or low supply a higher price may be asked for the product.

Competitor activities: Companies often use the price of their products to gain advantage over their competitors; this may result in a cut in price for the products (price war).
Legal constraints: Government legislation may adversely affect pricing - consider cigarettes, and alcohol. Products which are affected by taxation are said to be in an inelastic demand situation i.e. a small change in demand will result from a significant change in price.

The economy: The state of the economy will affect the amount of money consumers will spend on goods and services.

Incomes: The current and projected incomes will affect the size of the market for products and the amount purchasers can spend.

Pricing Policies

Having analysed the factors that influence pricing the marketing manager must propose a pricing policy.

Pricing policies adopted by company fall into three categories,

1. Market oriented policies based on market conditions.
2. Cost oriented policies, related to the cost of the product.
3. Competitor based policies relate to competition among buyers, sellers or both.

1. Market oriented policies

Market penetration/saturation pricing: In this situation the objective is to saturate the market with sales of the product as quickly as possible in order to gain a major foothold in the market or gain brand leadership thus making it difficult for competitors to enter the market.
Once market dominance has been achieved prices may be allowed to creep up.
This policy consumes a large amount of the company's resources, so it is only used by large organisations.

Short-term profit maximisation pricing: Market skimming pricing, This requires setting the price high in order to maximise profits for reinvestment in the product development or gain sufficient profit before competitors enter the market with a similar version at a lower cost.

Hit and run pricing: Here the policy is to obtain satisfactory profit while there is limited demand for the product. The price will depend on what the supplier believes can be asked. This is not the same as market skimming where the future is not certain and the supplier is aiming at the top end of the market first.

Product line pricing, Popular in the retail trade it involves determining what profit is required from a range of goods and using a lower price for some of the goods to entice customers to purchase other higher-priced goods in the range.

Prestige pricing used by suppliers like Gucci and Cartier. These companies ask high prices for their products to keep the names prestigious.

Discriminatory/differentiated pricing: The next three policies discriminate prices on the basis of time, product place/market.

Variable pricing occurs where the supplier will wish to even out demand for products that are over stretched at particular times, e.g. peak time travelling on trains.

Product differentiated pricing, Here prices are differentiated based upon slight changes to the product e.g. manufacturers making slight embellishes to car can charge a higher price.

Market differentiated pricing - sometimes companies use different prices in different markets because of the level of demand in different markets vary or the level of disposable income.

2. Cost oriented pricing

Mark up or Cost plus pricing: The cost of each product is determined and a percentage for profit is added. This method of pricing can prove problematic if different retailers expect and apply different mark-ups. Customers may decide to shop at other outlets as a result.

Satisfactory rate of return pricing: Often referred to as target pricing the supplier determines a rate of return on the capital invested over a period of time. The advantage is the company has a target to ensure satisfactory profits.

The popularity of these cost oriented pricing methods exist mainly because,

- They offer simplicity.
- Some jobs are non-routine.
- They guarantee a profit assuming that the price set is competitive.

3. Competitor Based approaches

The price a company can ask for a product may be strongly affected by the activities of competitors.

Going rate pricing: Where there are a number of competitors in the market and the market is price sensitive a company's price may have to be set around the going rate. To avoid this as much as possible the company will attempt to amplify the advantages and differences of its products.

Close bid pricing: This is normally found where a company tenders for work in confidence. The price submitted will need to be competitive however sometimes the company may

submit a high bid where the company does not want the work, but does not wish to be forgotten when future bids are required.

Open bidding: This kind of bidding is associated with auctioneer acting as agent for the seller. Potential purchasers openly bid against each other.

Negotiated prices: Sometimes a pricing policy cannot be predetermined and so a price has to be negotiated with customers or the price is reached through a form of bargaining. The buyer will want the lowest price in keeping with quality and delivery times; the suppler will want the maximum price but also has to set a competitive price in order to win the business.

3. Distribution/Place

Physical distribution is about getting the right product to the right place in the right quantities at the right time.

Defining Distribution:

'All the activities necessary for ensuring the transfer of products and services from the supplier to the place of the purchaser's choice or to a place where potential purchasers may readily purchase them'.

The letter P for place refers to the market place and therefore indicates that distribution is about delivering products and services to the place where the market exists.

Distribution Channels: a route to a particular destination.

The channels of distribution may be defined as:
'The network of distributive organisations through which goods or services are transferred from the supplier to a place nominated by the purchaser or a place where they may be readily purchased'

A number of different terms is used to describe individuals or organisations that purchase goods for resale; the most common ones being the middlemen or intermediaries. Generally speaking there are three major types of distributors extensively used in the marketing and distribution of finished products for the consumer markets,

- Agents and brokers
- Retailers
- Wholesalers

Agents and Brokers: These businesses specialise in and concentrate on negotiating purchases or sales on behalf of a principal. The principal is usually an individual or organisation selling something, but it can be the case that the agent is acting on behalf of the purchaser as in advertising agencies who buy advertising space for their clients. An estate agent may act for the client selling the property and attempt to find a purchaser for the property.
The role of the broker is not as well known as the agent. A Broker acts between a buyer and a seller. We come across them in insurance for example.

Retailers: These are resellers dealing directly with the final consumer. They have established distribution outlets e.g. shops; they can help a manufacturer reach a large number of purchasers who are widely dispersed yet concentrated in areas such as towns and cities.

Wholesalers: Sometimes referred as jobbers are business units which buy resell and deliver to other intermediaries such as small wholesalers or independent dealers but in the main their business is with retailers. They purchase from manufacturers in large quantities and break the quantities down into quantities suitable for retailers. Their activities can reduce the cost of distribution to the consumers. Retailers can approach one wholesaler for several products made by different manufactures and purchase smaller quantities than the manufacturer is willing to package and sell.

Key Ingredients of Distribution

Four ingredients are present for the transfer of goods from the manufacturer's premises to the consumer.

1. The provision of information to the final purchaser.
2. The physical delivery of the product to a member of the channel of distribution.
3. The payment for the goods.
4. The transfer of title.

1. Information:

The provision of information will involve those elements of the promotion mix designed to build awareness of the product. Potential intermediaries, consumers will have to be offered

relevant information, which will encourage them to consider the purchase of the product in order to satisfy specific needs. Information will be provided regarding benefits or attributes of the product.
Manufacturers adopt two strategies with their promotional efforts, Sell-in (PUSH), designed to push sales of the good to the final purchaser, and sell-out (PULL) to encourage consumers to ask retailers to supply the product.

2. Physical Distribution:

This relates to the actual movement of the goods through the distribution channel.
By reducing the intermediaries significant cost can be saved thus reducing the price to the final purchaser.
Reducing the cost while keeping the price the same allows greater profit to be earned.
Attention to the mode of transport can reduce the costs associated with distribution – road, rail or air
Manufacturers attempt to produce only quantities they can sell quickly therefore stock levels can be kept to a minimum.

3. Payment:

When goods have been physically distributed to the final purchaser then payment must take place. Payment may be immediate, e.g. customers paying cash or credit card.or delayed e.g. on credit. Payment and terms are important to the profitability of the company.

4. Title of Goods:

This refers to the transfer of ownership, which results from ordering, receiving, accepting and paying for goods.

4. The Promotion Mix

Advertising is the means used by marketers when you can't go to see somebody.

The provision of information through promotional methods assumes great importance in the work of the marketing manager. Promotions attempt to persuade people to respond in a manner desirable to the company therefore a wide variety of communications methods is used.
It is the study of the methods of promotion that are available to the marketing manager and the way they are mixed that provides us with the term the promotion mix.

Promotion may be defined as: *promotions that encompass all the tools in the marketing mix whose major role is persuasive communications.*

Developing products or services that satisfy customer needs and wants is of prime importance but does not automatically lead to sales. The target market has to be informed, encouraged, and motivated to purchase the product through interesting and financially attractive presentations of the product's benefits and attributes.
To do this we need to decide what the message is and what means we will use to communicate the message.

The following methods of promotion make up the promotion mix,

1. Advertising.
2. Sales promotions and merchandising.
3. Public relations.
4. Personal (direct) selling.

Other factors that impact on the promotion mix are,

1. Determining advertising budgets,
2. Advertising and society,
3. The promotion mix and plan

Advertising

Advertising can be defined as, *a form of non-personal presentation of ideas, goods or services by a clearly identified promoter.*

Advertising will lack the persuasive power of personal selling and is concerned in the main with communicating a one way message to potential customers.

It has however some advantages

- The same promotion message can be communicated to a wide audience.
- Images, drama and atmosphere are useful in promoting the product that may not be possible with other promotion methods.
- Consumers may be persuaded without pressure.

In the case of marketing to consumers advertising is used whereas in marketing to user markets, personal selling is used.

Advertising may be divided into two distinct areas:

1. Above the line media/advertising refers to advertising carried out through the use of conventional media. e.g. commercial television, radio, posters, cinema, and the press.
The word above has come to indicate that it is an open form of advertising to mass audiences. Companies that use the services of advertising agencies are generally paid commission by the Media Company unless the amount placed is very low. This kind of advertising to a mass market is sometimes referred to as blanket advertising.

2, Below the line advertising, is a catch all phrase used in advertising to refer to advertising that is not carried out through the use of commercial media but instead through methods by which the company has considerable control; i.e. trade fairs, exhibitions, direct mail, merchandising etc. The word "**below**" indicates that there is **not** an independently owned mass media organisation directly involved and not everyone will have the opportunity to see or read the promoter's message.
Promotional methods in this area are very valuable because the target that needs to be reached is known, e.g. visitors to a motor show. Unlike **above the line** advertising, if the services of an agency are required they are paid for by the company promoting the product or service.

Objectives of advertising
Many advertising campaigns involve above and below the line advertising, whichever is chosen each will fulfill several or all of the following objectives,

- Reach the target market/audience.
- Develop awareness of the product, service or organisation.
- Increase understanding of the product, service, or organisation.
- Act as a reminder of the product, service or organisation.
- Draw the market to sales places e.g. shop.
- Push the product through the channels of distribution.
- Afford sales people time to contact potential customers.
- Offer reassurance as to the product's quality, performance, after sales service etc.

Public Relations PR

PR is the deliberate planned and sustained effort to establish and maintain good understanding between an organisation and its public.

Within this definition as applied to a commercial organisation, however is the aim to
Enhance the image of the company and its products or services in the eyes of potential customers in order to improve sales.

The company's public may include government, shareholders, councils, customers etc.

Not all but most PR activities are concerned with favourable presentations of a company's products and services.

PR activities may include,

- Press releases articles on the organisation or its products.
- Seminars, meetings, visits, such as escorted tours of the company, meetings with company executives, journalists.
- Press conferences, announcing newsworthy events, such as new product launches.
- Local community relations events.
- Donations to charitable causes.
- Testimonials from personalities, for branding purposes or corporate image.
- In house journals, to promote a team spirit and an integrated workforce.
- Sponsorship e.g. of sports occasions.

Publicity may be defined as:
"Any non personal stimulation of demand for a product, service or business by offering commercially significant news about them to the media".

Much of the work of PR is concerned with publicity and it is publicity that is mainly associated with promotions.
Publicity departments of companies will attempt to ensure that the publicity is favourable by conducting efforts or by employing the services of a PR company.

Publicity efforts will concentrate on,

- Improved company image.
- Improved product line / branding.
- Announcing new product lines.
- Encouraging the purchase of products.

- Adding credibility to a company's communication.
- Overcoming resistance by a section of the community.
- Develop other aspects of the company such as shareholder interest.

Establishing the size of the advertising budget.

There is no guaranteed system for setting the advertising budget which will be cost effective. The following methods are common in deciding budget allocation,

- Percentage of the previous year's sales,
- Percentage of future sales,
- Affordable method,
- Competitor parity method,
- Objective and task method. Select the objectives first and then decide the tactics to be employed.

Role of advertising in society

Disadvantages: additional cost to marketing for which the consumer has to pay. Advertising is wasteful as people hear and see the advert but will not make a purchase It stimulates false demand and can create oligopolies or monopolies because large companies have more spending power. Advertising can make the environment ugly and it borders on propaganda.

Advantages: Makes consumers aware of the choices available, allows producers to inform purchasers of their products, subtle differences can be explained, revenue generator for the media, advertising industry employs a large amount of people and advertising can make the environment more colourful.

Promotion Mix and Plan:
Mix: Why, What, Whom, How, When, Where,
Plan: The Plan document clearly outlines the decisions reached on promotions to be used for the achievement of specific objectives.

Service Marketing

Definition:
A service is an intangible product involving a deed, performance, or an effort that cannot be physically possessed.

When we speak of services marketing the dominant component is intangible.
It includes rental of goods, alteration and repair of goods owned by customers, and personal services.

Major differences between goods and services are:

1. Intangibility
2. Inseparability of production and consumption
3. Perishability / Inventory
4. Heterogeneity

1. **Intangibility** – services are performances; they cannot be seen, touched, tasted, smelt or possessed. They are often difficult for consumers to assess, either before, during or even after purchase.

How to promote and market intangible services

- develop tangible representation of the service, i.e. a credit card serves as the physical product with its own image and benefits.
- develop a brand image. Why do customers seek out DHL as opposed to another courier service?
- cite 3rd party endorsements...you need endorsements from those that have experienced the service and valued it.
- word of mouth - very important. A physical description of a service is almost impossible..
- offer discounts and free samples/service to customers who encourage friends to use the service.
- offer tangible benefits in sales promotions which are consistent with customers' needs/wants and establish a clear product position, i.e. the place a product offering occupies in a consumer's mind, the attributes of the service relative to competing offerings.

Intangibility also presents pricing problems. How should a car mechanic charge for his/her services.

Visibility of the service may be a problem. Need to explain the time needed for repair, and functions that were performed if you want the repair to be more tangible. Psychological role of price is magnified since customers must rely on price as the sole indicator of service quality when other quality indicators are absent.

2. **Inseparability of production and consumption** means that services are normally produced at the time they are consumed and this usually involves the presence of the consumer e.g. a doctor doing a medical examination on a patient. In some instances the service is intrinsically linked to an employee.

3. **Perishability:** high perishability means that unused items or capacity in one time period cannot be stockpiled for future time periods. This presents a major problem especially where there are high capital costs involved. Airlines, for instance, need to be operating at near full capacity to be profitable. There is a need to avoid excess unsatisfied demand and excess capacity which leads to unproductive use of resources. , e.g. over/under booking restaurant capacity

4. **Heterogeneity**. Services are labour intensive; people typically perform services and are not always consistent in their performance. This means variation in the quality of service from one employee to another and also from one time to another.

Services are a very diverse group of products, and an organisation may provide more than one kind. They can be classified into five different categories:

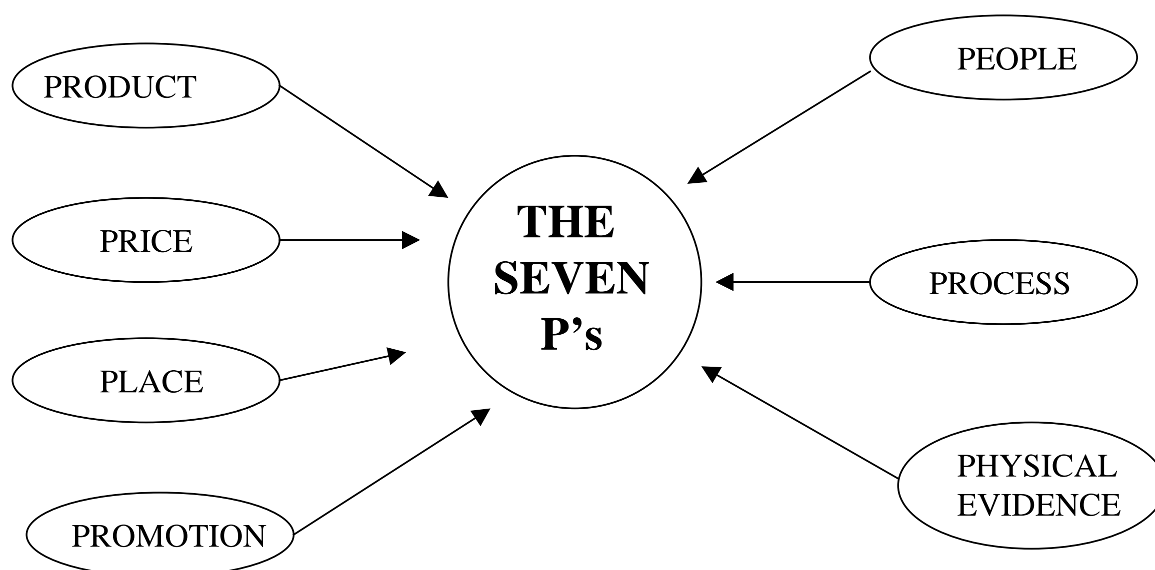
1. Type of market – consumer (e.g. child care) or industrial (e.g. consulting).
2. Degree of labour intensiveness – whether it is labour based (e.g. education) or equipment based (e.g. telecommunications).
3. Degree of customer contact – high (e.g. health care), or low (e.g. repairs).
4. Skill of service provider – professional (e.g. legal advice) or non-professional (e.g. dry-cleaning).
5. Goal of the service provider – Profit (e.g. financial services), or non-profit (e.g. government).

Marketing by service providers

The use of marketing by service providers has been limited:

- Many service firms stress technical expertise, therefore have lagged in their use of marketing.
- Many service firms are small, marketing expertise cannot be hired.
- Strict licensing/legal restrictions limit competition and increase the need for marketing.
- Service associations have prohibited marketing; for instance, solicitors in Ireland were not permitted to advertise until recently.
- High esteem of professionals do not need marketing. A number of professionals have a dislike for marketing and lack understanding.
- Use of marketing is likely to increase rapidly in the near future due to competition etc.

Marketing of Services The 7 P's - People, Processes, Physical Evidence, Price, Product,Place and Promotion



People:

This refers to the people involved in the provision of the service. People are critical as the quality of service depends on the capability, commitment and motivation of those who provide it.

Staff must therefore have adequate training and knowledge to provide the service to the standard required. The customer contact is an essential in the provisioning of services and unlike workers in manufacturing, dress code, appearance, attitude and time keeping are just some of the factors that will influence the customers perception of the service.

Process:
Process management involves the procedures, task, schedules, mechanisms, activities and routines by which a product or service is delivered to the customer.

Physical Evidence:
Physical evidence relates to the tangible evidence that the organisation is market oriented, e.g. the display of a retail outlet or the livery (paint work) of delivery vehicles.

Service Marketing and Technology

Technology is impacting on all dimensions of service and service delivery. Customers are now interacting more through technology and receive services in a variety of ways e.g. E Business or M Commerce. Increased customer satisfaction and competitive advantage are just two of the main benefits of technology through increased added value services e.g. order taking, package tracking, information storage, billing systems etc.
Through the use of technology customers get a quality service, perhaps any time 24/7, and can customise the service on their own. Limitless possibilities exist in some industries for adding value, both by improving existing service and providing new services to customers. Some other examples of technologies include relationship marketing software, lifetime value of customers (enabling financial accountability for relationship management), data mining and information technologies. These enable companies to get closer to their customers on a one-to-one basis, become more knowledgeable about their attitudes and behaviour, and provide customised solutions.

Market Positioning - Strategy and Statement

A product's position is the way the product is defined by consumers on important attributes. i.e. the place the product occupies in consumer's minds relative to competing products.
Because consumers cannot re-evaluate products every time they make a buying decision, they "position" products, services, and companies in their minds.
The objective is to create and obtain a distinctive place in a market for a company and/or its products.

Marketers must therefore:

- Plan positions to give their products the greatest advantage in selected target markets.

- Design marketing mixes to create those planned positions.

Positioning Strategy Definition:
"*How you differentiate your product or service from that of your competitors and then determine which market niche to fill*".

Positioning Strategy

STEP 1: Identify possible competitive advantages.

- Key to winning and keeping customers is to understand their needs and buying processes better than competitors do and deliver more value.
- Being more competitive is an advantage gained by offering consumers greater value, either through lower prices or by providing more benefits that justify a competitive advantage. Some examples are:

  - Product differentiation e.g. features, performance, style and design, or attributes.
  - Image differentiation i.e. symbols, atmospheres, events.
  - Services differentiation: delivery, installation, repair service, customer training services.
  - Personnel differentiation: Hiring, training better people than competitors do.

STEP 2: Select the right competitive advantage i.e. the criteria for determining which differences to promote.

Find USP (unique selling proposition)

- Important, distinctive, superior, communicable, pre-emptive, affordable, profitable.

STEP 3: Communicate and deliver the chosen position

- Take strong steps to deliver and communicate the desired position to target consumers.
- The marketing mix must support the positioning strategy
- The positioning strategy must be monitored and adapted over time to match changes in consumer needs and competitors strategies.
- The following positioning map is an example of the differing positioning of five different grocery retailers based on price and quality.

A Positioning Statement

Definition

A position statement is a written description of the objectives of a positioning strategy.

It states

1. how the firm defines its business or how a brand distinguishes itself,
2. how the customers will benefit from its features
3. how these benefits or aspects will be communicated to the intended audience.

Marketing Strategy - Approaches

Before formulating a marketing strategy, strategist needs to pay explicit attention to a number of factors including the organisation's objectives and resources, managerial attitudes to risk, the structure of the market, competitors' strategies and, very importantly, the organistion's position within the market. The significance of market position and its influence upon the business strategy has led many writers to suggest classifying competitive position along a spectrum from market leader to market nicher's as outlined below.

1. Market Leader
2. Market Challengers
3. Market Follower
4. Market Nicher

Market Leader

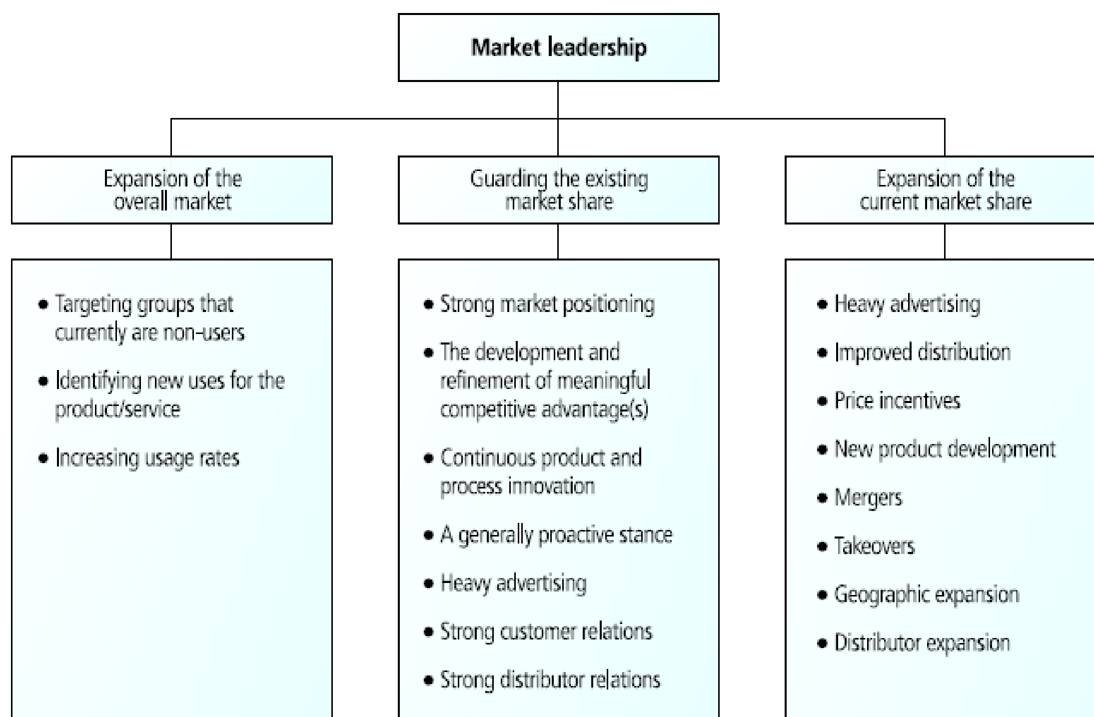
- In many industries, one company or organisation is recognised as being ahead of the rest in terms of market share. Its share might only be 20-25 per cent, but that could still give it a dominant position. The market leader tends to determine the pace and ways of competing in the market. It sets the price standard, the promotional intensity, the rate of product change and the quality and quantity of the distribution effort.

- Effectively the market leader provides a benchmark for others to follow or emulate. Sometimes a market leader can have a number of rivals, so the power associated with being a leader may not necessarily be great, especially if markets are defined from, say an East African context rather than a Rwandan domestic perspective.

Market Leader

- Market leadership lends itself to a number of strategic alternatives, none of which is mutually exclusive,
- Expand the total market by creating new uses, new users or more intense use.
- Expand market share via the marketing mix. This assumes share and profit are related.
- Defend position against challengers, through continuous innovation or through for example expanding the range to get more shelf space. This strategy has been seen in many high profile marketing battles between leaders and challengers.
- Seek stability of customer base.
- Seek stability and retention of customer base.

On the next page is a summary of how market leaders protect their market.



Market Challengers

- Market challengers are organisations with a smaller market share who are close enough to pose a serious threat to the leader. However, an aggressive strategy can be costly - what is the certainty of winning.

- Before making a concentrated effort to gain market share, the challenger needs to ask whether market share really matters so much, or whether there would be greater benefit from working on getting a good Return On Investment from the existing share.

- Dolan (1981) found that rivalry is greater where there is stagnant demand (i.e. growth can only come from taking share from competitors) or where fixed costs or investment in inventory is high (economies in scale can bring benefits but you need to have a higher market share to achieve them).

Market Challengers

There are two questions that need answering if a decision is made to attack:

1. where to attack
2. what the reaction is likely to be.

There are several options:

1. Attack the market leader.
2. Attack weaker firms of a similar size.
3. Attack firms who are strong but who are very local.

It is never easy to attack leaders. They tend to retaliate through cutting prices or by investing in heavy promotion.

It is therefore a high risk but potentially high return route. The challenger needs a clear competitive advantage to exploit to be able to neutralise the leader. The advice is never enter a fight unless you are really convinced that you can win and are prepared to invest in the battle.

Market Follower

Many organisations favour a less aggressive stance given the resources needed, the threat of retaliation and the uncertainty of winning. There are two types of followers.

Those who lack the resources to mount a serious attack and prefer to remain innovative and forward thinking, without disturbing the overall competitive structure in the market by encouraging open warfare. Often any lead from the market leader is willingly followed. This might mean adopting a me too strategy, thus avoiding direct confrontation and competition.

A me too type of follower is simply not capable of challenging and is content just to survive, offering little competitive advantage.
Hammermerch et al. (1978) and Saunders (1987) found that some market followers seek deliberately to build and maintain that position through a range of strategies, which include careful and narrow segmentation, highly selective R&D and a focus on quality, differentiation and profitability rather than on cost and share gains.

Market Nicher

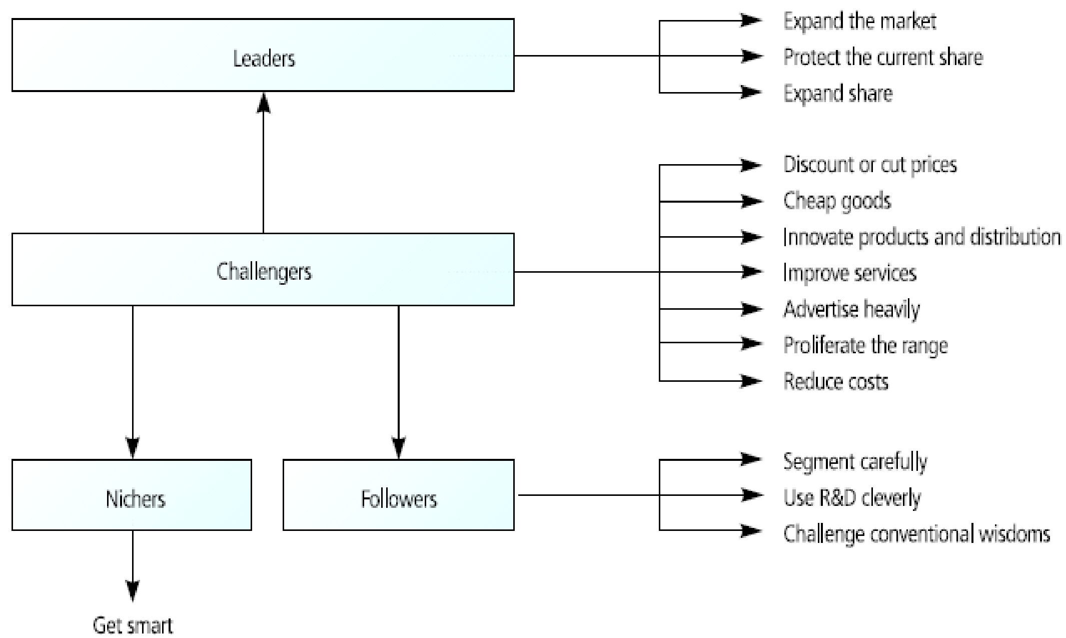
1. Some companies, often small, specialise in markets that are too small, too costly or too vulnerable for the larger organisation to contemplate.

2. Niching is not necessarily a small organisation strategy, as some larger firms may have divisions that specialise.

3. The key to niching is the close matching between the needs of the market and the capabilities and strengths of the company.

4. The specialisation offered can relate to product type, customer group, geographic area or any aspect of product/ service differentiation.

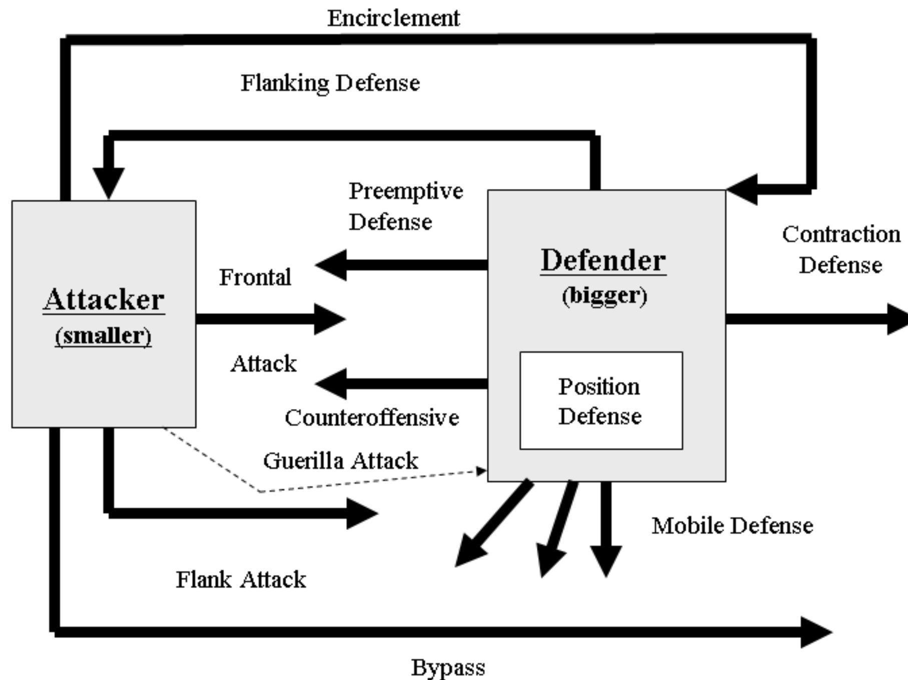
5. The main difficulty for market nichers is the challenge created if the niche starts to disappear due to innovation and change.



The Major Market-challenger Attack Strategies for the achievement of competitive advantage

It is possible to distinguish among five broad attack strategies:

1. Frontal
2. Flank
3. Encirclement
4. Bypass
5. Guerrilla attack



Pure Frontal Attack:
A challenger contemplating a head-on attack in marketing terms needs to be very well resourced relative to the market leader. A full-scale attack means matching and winning on all the competitive variables such as price, distribution, product features and the rest. A more limited frontal attack may pick off some customer groups who could be more vulnerable to a new offering, for example those who are more service conscious e.g. MTM customer service Versus TIGO customer service. You attack your opponents strengths rather than picking off their weakness.

Flank Attack:
Many successful attacks occur because the enemy has been outflanked and its strategy has been disrupted. By attacking particular segments, such as product weakness or areas of poor distribution facilities, progress can be made despite the overall strength of the competition. Flank attacks can lead to encirclement if the poorly defended segment is used by the challenger to build an image and reputation in the market in preparation for a further attack in an area of direct concern for the leader.

Encirclement Attack:
Encirclement means launching an attack on many fronts with rapidity and force so as to spread panic and overwhelm the opposition.
It is difficult to defend a position with enough concentrated force and effect when faced with an all out attack on all sides. Although the challenger may experience short-term losses, the outcome might be significant advances in market share.

Bypass attack

This is where there is no effort made to engage the enemy in direct conflict, but the tactic is to move on and perhaps surround and slowly reduce the power base of the leader.

This strategy offers three lines of approach; diversifying into unrelated products, diversifying into new geographic markets, and leapfrogging into new technologies to supplant existing products.

Guerrilla Attack:

Guerrilla action is a well-known strategy for a small group operating against a much more powerful force that it dare not meet head-on. In business, the purpose of such a strategy is to make short-term marginal gains that can still be important to the smaller organisation, but the cost to the larger operator is not very significant.

It could mean bursts of activity, perhaps in price promotions, dealer loaders or geographically concentrated campaigns, or even recruiting some of the market leader’s key staff. It is about hitting poorly defended targets hard, and then quickly retreating.

The Marketing Plan

A plan defines where we wish to be at some time in the future and how to get there!

Understanding each of the 4 Ps of the marketing mix and marketing research is essential, but so too is knowing how to blend them together to meet future marketing challenges.

Planning involves analysis of the past and present marketing position and setting measurable and attainable marketing objectives for the future.

Plans may be long term (over five years), medium term (one to five years), and short term (up to one year). Usually marketing plans reflect other plans in the company particularly the company’s strategic plan.

The Contents of a Plan

The plan is a written document containing:

1. A statement of the marketing objectives for the forthcoming period, for current as well as new products the company may introduce and for new as well as current markets.

2. Details of strategies and tactics to be used to achieve the objectives.
3. An operating plan for the period defining the role of each department and major section and activities to be undertaken.
4. Details of resources, staff equipment, finances etc.
5. A financial budget detailing the monthly cost of achieving each aspect of the plan as well as the normal running costs.

Of course companies are not forced to plan, they may wait for events to unfold in the market place and respond accordingly. This is a reactive approach. However, most companies are proactive in their approach to marketing.

The advantages to planning

Drafting a plan is not simply compiling ideas. A plan calls for logical thinking and evaluation of what can happen and possibly will happen.

The activity of planning:

1. Provokes managers to analyse what might happen and what should happen.
2. Encourage better management, i.e. setting targets, co-ordinating, controlling etc.
3. Cause the company to re-evaluate its policies.
4. Help staff to prepare for unexpected change.
5. Communicate to staff that the efforts of the company are integrated.
6. Enables banks, investors, and shareholders feel confident about the company.
7. Allows management to assess if the company will achieve returns on investments.
8. Provide senior management with a controlling mechanism.
9. Help keep monthly expenditure under control.

The Approach

As already mentioned planning requires analysis of what occurred internally in the company and externally in the market place.
A Company will conduct an audit of the Micro- (internal environment), Meso- (industry), and Macro- (external environment).
When examining these components of the environment we should concentrate on the internal **S**trengths and **W**eaknesses of the company in relation to the market (external) and **O**pportunities and **T**hreats.

These four components are referred to as SWOT analysis and should relate to each product and market.
Other tools employed to analyse the market are PEST analysis and the BCG matrix *(see Glossary).*

Assumptions in relation to the future

Having conducted an audit or audits of the market the marketing manager/dept. will have some idea of what is achievable in the future given the strengths and weaknesses.
We can estimate from this information what would happen if changes were made to the current strategies.

To have a starting point from which to make assumptions we need to predict what will happen to the efficiency of our operations which will involve sales forecasting.
There are a number of ways in which to achieve this,

Sales force estimations:
This is a forecast based on collated individual estimations of what each sales person hopes to sell.
A sales person will often consult with a customer to determine before submitting their figures.
The estimate put forward will also act as a target figure for the sales person to achieve.
The difficulty with this however is the sales person will underestimate the figure and in some instances will do so purposely. The sales person's lack of knowledge of the overall market is also a drawback to this method.

Checking buyers' estimates:
This method involves asking a representative sample of all buyers in the market their estimate for the forthcoming year. The advantages are that the company is not depending solely on the opinion of the sales force. The disadvantages are the collection of opinions has to be well in advance of any planning.
Recent changes cannot be accommodated and buyers will need to be interviewed to ensure claims are not falsified.

Time Series:
The use of time series rests on the relationship between sales and time and requires the application of statistical methods. If we plot sales on a graph for a year and connect up the plottings we made we can draw a straight line and extrapolate a year into the future.

Correlation:
This is another statistical method that determines the degree of relationship between two activities or events.
If there is a strong and useful relationship between a company's sales and some other activity or event we may be able to forecast future sales. (There is a strong correlation between tourism and cost of flying)

Model building:
Again this employs statistical methods but allows for the input of variables that are qualitative as well as quantitative. The object is to build a model based on the variables that affect sales such as price, seasonality, previous sales etc. that attempts to simulate the real situation. The advantages are that variables may be altered and what-if exercises carried out and can be instant where computerised.

Combinations of the above:
Each of the above methods has its limitations and so therefore two or more methods may be used.

Having completed a marketing audit, analysed and forecast what will happen if products, markets, and marketing effort does not change we may continue to make assumptions the WHAT IF aspect of planning, e.g. reducing prices of goods etc.

Objectives, Strategies and Tactics

Following assumptions on the market, objectives may be set and strategies for achieving the objectives must be selected.
The objectives will be in relation to the products and markets whereas the strategies will be in relation to the 4P's and their roles in the strategies.

They must take into account internal strengths and weaknesses and external opportunities and threats.

Whatever strategies are chosen they will have to be capable of being measured.

Tactics represent decisions on the elements of the marketing mix which can best serve the achievement of objectives and strategies selected e.g.,

Objectives – Increase sales by 15%

Strategy – Introduce the company into to two new overseas markets.

Tactics – Intensive advertising, market skimming, Trade promotions, Attractive packaging.

The Marketing Plan

Once the final decision has been made the plan will be written and will include the following,

1. A short analysis of the company's internal strengths and weaknesses in relation to opportunities and threats.
2. A preamble to the objectives justifying their selection and the strategies that will be used to achieve them.
3. An operations plan defining the role of the department and their activities in fulfilling the strategy.
4. Resources that will be needed.
5. A financial budget with details of expenditure.

The marketing plan will instigate the development of plans for other departments so that the efforts of the organisation are maximised.

BLANK

Study Unit 2

The Strategic Position

Contents

A.	**Environmental Analysis**
B.	**Assessing Strategic Capability**
C.	**Measuring Stakeholder Expectations**

THE STRATEGIC POSITION

A. ENVIRONMENTAL ANALYSIS

Strategic analysis is concerned with understanding the relationship between the different forces affecting the organisation and its choice of strategies.
The business environment will influence the form of strategy to be pursued. Strategic analysis involves examining the internal and external environment and the impact various activities have upon the success or failure of the organisation, the following tools may be used in analysing the environment before choosing a strategy,

Macro Environment External Analysis:

Understanding the environment in which your business operates is a critical component of business planning, strategy and sustainability. An external assessment explores factors that are beyond your control and that affect your business. The more relevant information you have concerning your business community the better able you will be to plan your business strategy and react to changing consumer demand.

National Competitive Advantage

According to Michael Porter, a nation attains a competitive advantage if its firms are competitive. Firms become competitive through innovation. Innovation can include technical improvements to the product or to the production process.

Porter suggests that there are four determinants of National Competitive Advantage, *as illustrated in Porters Diamond below.*

1. Factor conditions (i.e. the nation's position in factors of production, such as skilled labour, raw materials and infrastructure),
2. Demand conditions (i.e. sophisticated customers in home market).
3. Related and supporting industries.
4. Firm strategy, structure and rivalry (i.e. conditions for organisation of companies, and the nature of domestic rivalry).

1. Factor Conditions

Factor conditions refers to inputs used as factors of production - such as labour, land, natural resources, capital and infrastructure. This sounds similar to standard economic theory, but Porter argues that the "key" factors of production (or specialised factors) are *created*, not inherited.
Specialised factors of production are skilled labour, capital and infrastructure.
Porter argues that a lack of resources often actually helps countries to become competitive (call it selected factor disadvantage). Abundance generates waste and scarcity generates an innovative mind-set. Such countries are forced to innovate to overcome their problem of scarce resources. How true is this?

Switzerland was the first country to experience labour shortages. They abandoned labour-intensive watches and concentrated on innovative/high-end watches.
Japan has high priced land and so its factory space is at a premium. This lead to just-in-time inventory techniques (Japanese firms can’t have a lot of stock taking up space, so to cope with the potential of not have goods around when they need it, they innovated traditional inventory techniques).
Sweden has a short building season and high construction costs. These two things combined created a need for pre-fabricated houses.

2. Demand Conditions

Porter argues that a sophisticated domestic market is an important element to producing competitiveness. Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers. If the nation’s discriminating values spread to other countries, then the local firms will be competitive in the global market. One example is the French wine industry. The French are sophisticated wine consumers. These consumers force and help French wineries to produce high quality wines.

3. Related and Supporting Industries

Porter also argues that a set of strong related and supporting industries is important to the competitiveness of firms. This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level. Examples include Silicon Valley in the U.S., Detroit (for the auto industry) and Italy (leather-shoes-other leather goods industry).

The phenomenon of competitors (and upstream and/or downstream industries) locating in the same area is known as clustering or agglomeration.

Some advantages to locating close to your rivals may be potential technology knowledge spill-overs, an association of a region on the part of consumers with a product and high quality and therefore some market power, or an association of a region on the part of applicable labour force.
Some disadvantages to locating close to your rivals are potential poaching of your employees by rival companies and obvious increase in competition, possibly decreasing mark-ups.

4. Firm Strategy, Structure and Rivalry

Strategy

(a) Capital Markets

Domestic capital markets affect the strategy of firms. Some countries' capital markets have a long-run outlook, while others have a short-run outlook. Industries vary in how long the long-run is. Countries with a short-run outlook (like the U.S.) will tend to be more competitive in industries where investment is short-term (like the computer industry). Countries with a long run outlook (like Switzerland) will tend to be more competitive in industries where investment is long term (like the pharmaceutical industry).

(b) Individuals' Career Choices

Individuals base their career decisions on opportunities and prestige. A country will be competitive in an industry whose key personnel hold positions that are considered prestigious.

Structure

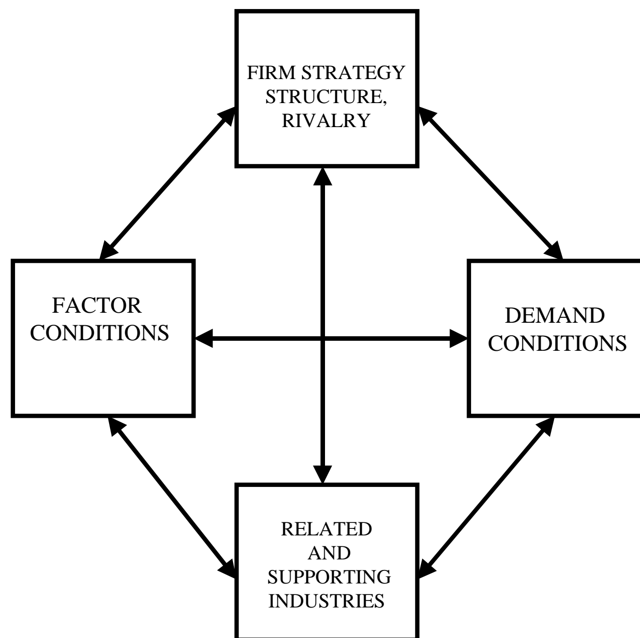
Porter argues that the best management styles vary among industries. Some countries may be oriented toward a particular style of management. Those countries will tend to be more competitive in industries for which that style of management is suited.
For example, Germany tends to have hierarchical management structures composed of managers with strong technical backgrounds and Italy has smaller, family-run firms.

Rivalry

Porter argues that intense competition spurs innovation. Competition is particularly fierce in Japan, where many companies compete vigorously in most industries.

International competition is not as intense and motivating. With international competition, there are enough differences between companies and their environments to provide handy excuses to managers who were outperformed by their competitors.

**PORTERS DIAMOND
OF
NATIONAL ADVANTAGE**



The more dynamic and complex the environment becomes the greater the uncertainty about the future market conditions.

We can therefore classify environmental conditions into three distinct areas,

- Simplistic - relatively straightforward to understand and not undergoing significant change.
- Dynamic - management need to consider the environment of the future and ignore the past.
- Complex - environmental change is occurring at a fast rate through technological or market forces; organisational flexibility and speed of response are critical in this type of environment.

By auditing the macro environment through analysis of the forces at work an organisation can best determine the effects on its current competitive position. These forces may be analysed using PEST analysis, political, economic, social and technical.

PEST (*PESTEL)* Analysis

Political/legal- Taxation, Foreign trade regulations, Gov't stability, Monopolies, Environment protection, Market De-regulation.

Economic- Business cycles, GNP trends, Interest rates, Inflation, Unemployment, Disposable income, energy availability/cost.

Socio-cultural- Population demographics, Income distribution, Social mobility, Attitudes to work and leisure, Levels of education, Levels of consumerism.

Technological- Gov't spending on research, Support for new discoveries, Patent rights. Investment in Colleges/Universities facilities. Transport/communication infrastructure.

Environmental- Green issues.

Legal- Legislative issues that may impact the business e.g. Government bills.

The Influence Impact Matrix

The Influence/Impact matrix is a useful tool to assist the strategic analyst prioritise the drivers identified in the PEST analysis and subsequent analysis. However, it is important to note that if the drivers are not clear or definite, then the process of prioritising the factors becomes much more difficult. The user must identify the key drivers that are affecting the industry. Assess the influence that these drivers will have on the industry, a high score should be applied where the influence is greatest. The impact of the driver on the business may be positive or negative, give the impact a weighting and multiply the influence by the impact. A positive scoring is an opportunity for the business where a negative scoring will force the business to take action to reduce or eliminate the threat.

DRIVER	Influence on Industry (0 to 10)	Impact on Business (-5 to +5)	Threat to Strong Opportunity (-50 to +50)	Notes
Economic Downturn	10	-5	-50	High Threat - Less money in the economy.
Consumers choosing low cost products.	6	4	24	Strength - Opportunity for business to increase market share
Government controls on industry.	8	-2	-16	Threat – The business may need to take action to comply with new controls.

Five Forces Analysis (Michael Porter) - Industry Analysis

Five forces analysis helps management to contrast the organisations with that of the competitive environment. It has similarities with other tools for environmental audit, such as PEST analysis, but tends to focus on the single, stand alone, businesses or SBU (Strategic Business Unit) rather than a single product or range of products.
For example, Dell Computers would analyse the market for Business Computers i.e. one of its SBUs.

Five forces looks at five key areas namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry.

The Threat of Entry

- Economies of scale, e.g. the benefits associated with bulk purchasing, reduces overall production costs which may act as a barrier to new entrants that are not bulk purchasing.
- The high cost of entry e.g. how much will it cost for the latest technology?
- Ease of access to distribution channels e.g. Do our competitors have the distribution channels sewn up and thereby prevent entry to the industry?
- Cost advantages not related to the size of the company e.g. personal contacts or knowledge that larger companies do not own or learning curve effects.
- Will competitors retaliate if you enter the market?

- Government action e.g. will new laws be introduced that will weaken our competitive position?
- How important is differentiation? e.g. The Champagne brand cannot be copied, this protects champagne producers from strong competition.

The Power of Buyers

Consider this in the context of the ratio of buyers to suppliers. The higher the ratio of suppliers to buyers the greater the power of the buyers.

If there are a large number of undifferentiated small suppliers e.g. small farming businesses such as coffee growers, supplying the fewer and larger exporters may not have the same influence as farming co-ops when negotiating with the large exporters for better prices.

The cost of switching between suppliers can be low e.g. the ability of a transport company to move from one fleet supplier of trucks to another with relative ease. Manufacturers of generic products are in a weaker position than manufacturers of differentiated products as buyers have greater choice in the purchases they make.

The Power of Suppliers

The power of suppliers tends to be a reversal of the power of buyers.

Where the switching costs are high e.g. switching from one software supplier to another can be costly in money and adapting to new software..

Power is high where the brand is powerful e.g. DHL or Microsoft, customers may have little option in choosing another supplier.

There is a possibility of the supplier integrating forward e.g. A coffee exporter buying up coffee farms.

Customers are fragmented (not in clusters) so that they have little bargaining power e.g. Petrol stations in remote parts of Rwanda will tend to charge higher prices than those in Kigali.

The Threat of Substitutes

Where there is product-for-product substitution e.g. email for fax or where there is substitution of need e.g. a clinically tested toothpaste reduces the need for frequent dentist visits.

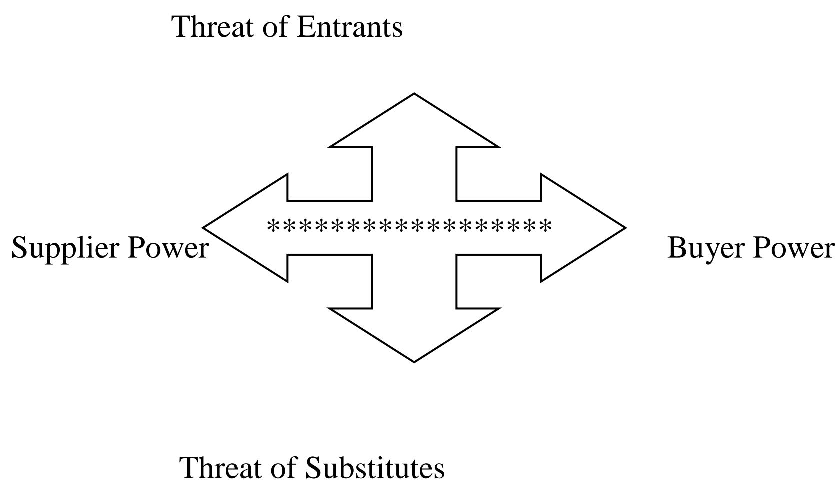
Where there is generic substitution (competing for the currency in your pocket) e.g. Bicycle shops compete with bus companies for disposable income.

Competitive Rivalry

This is most likely to be high where entry is likely; there is the threat of substitute products and suppliers and buyers in the market attempt to control. This is why it is always seen in the centre of the diagram.

When using this model consider the barriers that may exist which prevent a potential competitor entering the industry or the lack of barriers which could expose the business to aggressive tactics being employed by a competitor.

The Five Forces Model



Source: Michael E Porter

Comparative Analysis and Benchmarking

An organisation’s strategic capability is ultimately assessed in relative terms, i.e. we assess our organisation’s ability to compete through comparison with industry norms.

The analysis starts by assessing current measurements with that of previous years, usually financial ratios such as sales/capital or sales/employees. For an organisation's results to improve it therefore must have a process of continuous improvement.

Industry norms help to put the organisation’s resources and performance into perspective and the analysis needs to be undertaken in relation to the organisation’s separate activities and not just the overall product or market position.

The danger with this form of analysis is that if the industry as a whole is performing poorly the organisation may lose its competitive position to similar industries that can satisfy customer needs.

Bench marking should seek to assess the competences of the organisation against the best-in-class. This means the organisation must seek to implement industry best practices and benchmarks of performance.
Benchmarking is normally executed through assessing resources, the competences in separate activities and competences through managing linkages (overall performance), i.e. market share, profitability, productivity.

B. ASSESSING STRATEGIC CAPABILITY

Strategic Capability is the resources, skills and competencies that create a long-term competitive advantage for an organisation. The following tools aid in assessing the capability of an organisation to operate in the business environment.

Resource Audit

A resource audit is an attempt to assess the strength of the resources available to the organisation, e.g.

- **Physical resources**, machines equipment, facilities etc.,
- **Human resources**, skills base and adaptability to change,
- **Financial resources**, ability to obtain capital, debtor and creditor control, shareholders interest etc.
- **Intangibles**, goodwill, reputation, organisation culture, etc.

A resource audit will help to identify the strengths and weaknesses of the organisation.

Strengths Weakness Opportunities and Threats - SWOT Analysis

SWOT analysis is a systematic evaluation of an organisations strengths and weakness in relation to its environmental opportunities and threats.

SWOT brings together the results of all aspects of strategic analysis.

SWOT is not just an activity of listing bullet points but rather a meaningful identification of summarised facts that may lead to the formulation of a robust strategy, otherwise it can be misleading and dangerous.

Value Chain Analysis

Value chain analysis is used to describe the activities within and around the organisation and relating them to an assessment of the organisation's strengths. Value analysis was originally used as an accounting analysis to shed light on the value added by the separate steps in the manufacture process.

Michael Porter argues that the understanding of strategic capability must start with an identification of these activities. By identifying these separate activities and assessing the value added from each an overall analysis of a firm's competitive advantage is gleaned.

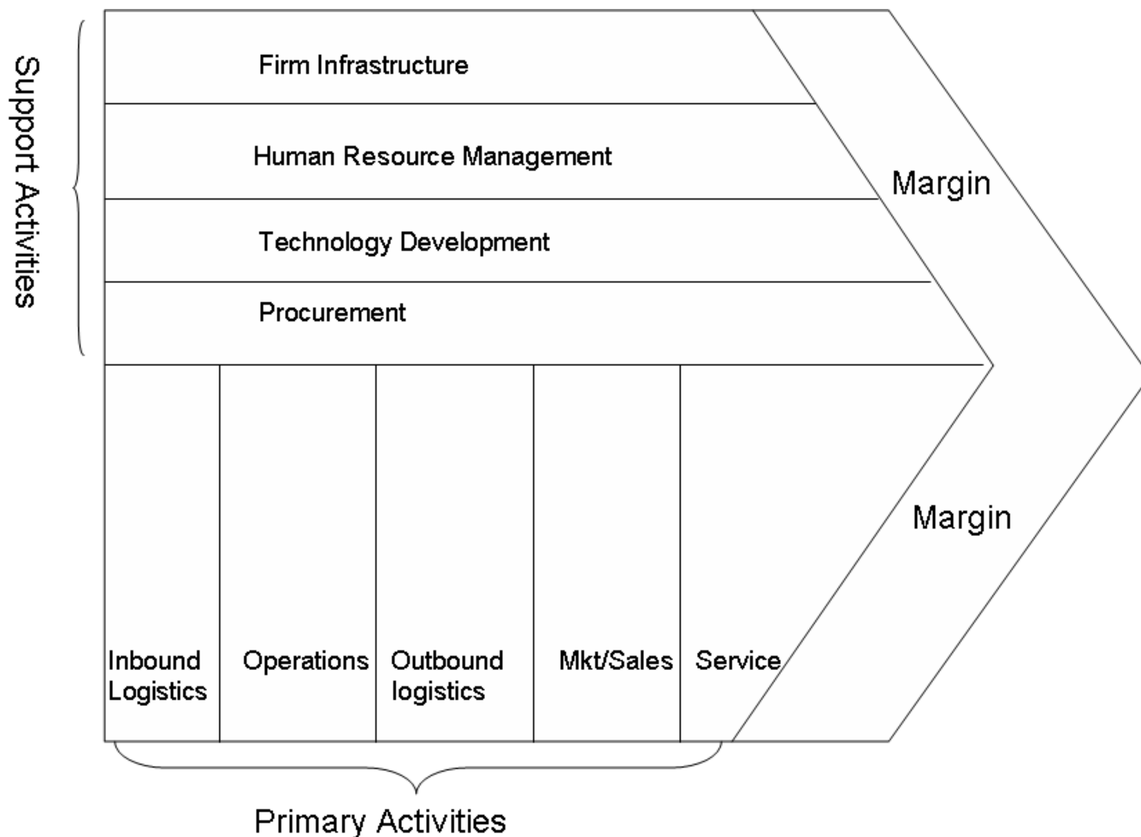
These activities are grouped under primary and secondary (support activities) activities.

Primary: Inbound logistics, Operations, Outbound logistics, Marketing and Sales.

Secondary: Procurement (The process of acquiring the resource inputs to primary activities), Technology development (Knowledge, R&D specialisation), Human resource management, Firm Infrastructure (planning, finance, quality control).

The value chain emphasises that an organisation is more than a random collection of machines, people and systems and, unless these activities are deployed into efficient routines and processes, they will not be valued by the customer/user.

A feature of many organisations is that as activities are outsourced therefore consideration should be given to those activities that are not apparent yet still are part of the value chain, e.g. in manufacturing the production of component parts is outsourced to those organisations that can leverage greater economies of scale.



Source: Johnson Scholes1997

How managers can use the value chain

The value chain can be used in many ways including the following.

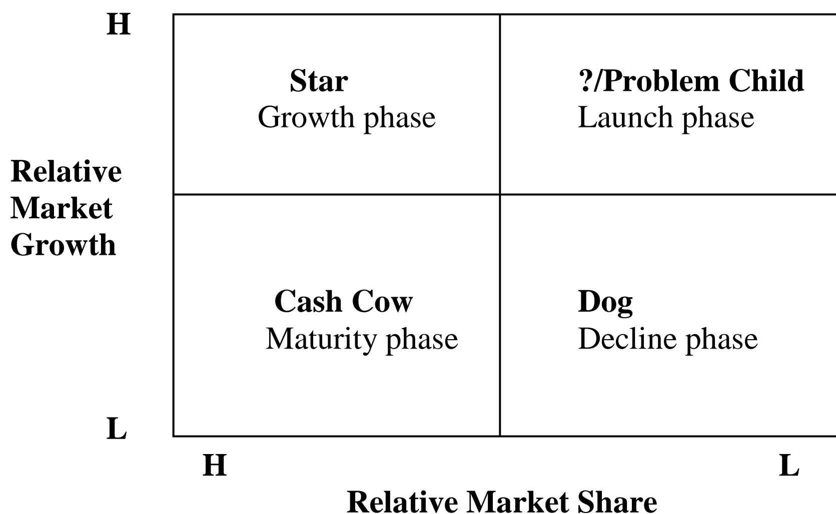
- Value drivers and cost drivers can be identified.
- Costs can be identified and located to particular processes
- Opportunities for improved quality, speed or delivery might be identified
- It might become clear that some elements in the chain are not significant in terms of improving quality or reducing costs
- Stages can be timed to isolate blockages or lags in the production system. The linkages and co-ordination between stages might be sources of delay and inefficiency
- Links with the value chains of suppliers and customers, who are components in the total value system, can be located and improved
- The analysis could show that diversification or alliances might be advantageous

The Boston Consulting Group's Product Portfolio Matrix

The Boston Matrix or Growth Share Matrix is a well-known analytical tool for organisations. It was developed by the large US consulting group and is an approach to product portfolio planning. It has two controlling aspect namely relative market share (meaning relative to your competition) and market growth.

You would look at each individual product in your range (or portfolio) and place it onto the matrix. You would do this for every product in the range. You can then plot the products of your rivals to give relative market share.

This is simplistic in many ways and the matrix has some understandable limitations that will be considered later. Each cell has its own name as follows.



Included in the above matrix are the stages of the product life cycle to demonstrate the linkage between market share, growth and product development.

Dogs

These are products with a low share of a low growth market. They do not generate cash for the company, they tend to absorb it. Get rid of these products.

Cash Cows

These are products with a high share of a slow growth market. Cash Cows generate more than is invested in them. So keep them in your portfolio of products for the time being.

Problem Children

These are products with a low share of a high growth market. They consume resources and generate little in return. They absorb most money as you attempt to increase market share.

Stars

These are products that are in high growth markets with a relatively high share of that market. Stars tend to generate high amounts of income. Keep and build your stars.

Look for some kind of balance within your portfolio. Try not to have any Dogs.

Cash Cows, Problem Children and Stars need to be kept in a kind of equilibrium. The funds generated by your Cash Cows can be used to turn problem children into Stars, which may eventually become Cash Cows. Some of the Problem Children will become Dogs and this means that you will need a larger contribution from the successful products to compensate for the failures.

Problems with the Boston Matrix

1. There is an assumption that higher rates of profit are directly related to high rates of market share. This may not always be the case. When Apple launches a new device, it may gain a high market share quickly but it still has to cover very high development costs.
2. It is normally applied to Strategic Business Units (SBUs). These are areas of the business rather than products. For example, Tata Group of India owns Land Rover and Jaguar as well as Tata Motors and steel plants. These are all SBUs not a single product.
3. There is another assumption that SBUs will co-operate. This is not always the case.
4. The main problem is that it can oversimplify a complex set of decisions. Be careful. Use the Matrix as a planning tool and don’t forget on your gut feeling.

Ansoff Matrix

This well known marketing tool was first published in the Harvard Business Review (1957) in an article called ‘Strategies for Diversification’. It is used by marketers who have objectives for growth.

Ansoff’s matrix offers strategic choices to achieve the objectives. There are four main categories for selection.

Ansoff's Product/Market Matrix

Product / Market	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Market Penetration

Here we market our existing products to our existing customers. This means increasing our revenue by, for example, promoting the product, repositioning the brand, and so on. However, the product is not altered and we do not seek any new customers.

Market Development

Here we market our existing product range in a new market. This means that the product remains the same, but it is marketed to a new audience. Exporting the product or marketing it in a new region are examples of market development.

Product Development

This is a new product to be marketed to our existing customers. Here we develop and innovate new product offerings to replace existing ones. Such products are then marketed to our existing customers. This often happens with the auto markets where existing models are updated or replaced and then marketed to existing customers.

Diversification

This is where we market completely new products to new customers. There are four types of diversification, namely related, unrelated, vertical and horizontal diversification. Related diversification means that we remain in a market or industry with which we are familiar. For example, a soup manufacturer diversifies into cake manufacture (i.e. within the food industry). Unrelated diversification is where we have no previous industry or market experience. For example a coffee grower invests in a motor-bike business. Vertical

integration may be forward (Coffee grower acquiring the exporting business) or backward integration (a tea exporter growing tea).

Ansoff's matrix is one of the most well know frameworks for deciding upon strategies for growth.

The Product Life Cycle (PLC)

The Product Life Cycle (PLC) is based upon the biological life cycle. For example, a seed is planted (introduction); it begins to sprout (growth); it shoots out leaves and puts down roots as it becomes an adult (maturity); after a long period as an adult the plant begins to shrink and die out (decline).

In theory it's the same for a product. After a period of development it is introduced or launched into the market; it gains more and more customers as it grows. Eventually the market stabilises and the product becomes mature; then after a period of time the product is overtaken by developments and the introduction of superior competitors, it goes into decline and is eventually withdrawn. However, some products fail in the introduction phase. Others have very cyclical maturity phases where declines see the product promoted to regain customers.

Strategies for the differing stages of the PLC

Introduction
The need for immediate profit is not a pressure. The product is promoted to create awareness. If the product has no or few competitors, a skimming price strategy is employed. Limited numbers of product are available in few channels of distribution.

Growth
Competitors are attracted into the market with very similar offerings. Products become more profitable and companies form alliances, joint ventures and take each other over. Advertising spend is high and focuses upon building brand. Market share tends to stabilise.

Maturity
Those products that survive the earlier stages tend to spend longest in this phase. Sales grow at a decreasing rate and then stabilise. Producers attempt to differentiate products and brands are key to this. Price wars and intense competition occur. At this point the market reaches

saturation. Producers begin to leave the market due to poor margins. Promotion becomes more widespread and uses a greater variety of media.

Decline
At this point there is a downturn in the market. For example more innovative products are introduced or consumer tastes have changed. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing spend and cost cutting.

Problems with PLC
In reality very few products follow such a prescriptive cycle. The length of each stage varies enormously. The decisions of marketers can change the stage, for example, from maturity to decline, by price-cutting. Not all products go through each stage. Some go from introduction to decline. It is not easy to tell which stage the product is in. Remember that PLC is like all other tools. Use it to inform your gut feeling.

C. MEASURING STAKEHOLDER EXPECTATIONS

Stakeholder Mapping

When analysing the organisation's competitive position and environment there is a temptation to look only at company resources or strategic capability and ignore the complex role which people play in the strategy formulation. Stakeholder mapping is about the political and cultural aspects of strategic formulation, the organisation's purpose and what are people's expectations of the organisation.

Level of Interest

Power	Low	High
Low	A Minimal Effort	B Keep Informed
High	C Keep Satisfied	D Key Players

Stakeholder Mapping: the power/interest matrix

Stakeholder mapping is about identifying individuals or groups that are affected by the activities directly or indirectly by the organisation and politically prioritising them. There is a common mistake when analysing organisations only to address those individuals in the formal structure of the organisation.

The power/interest matrix classifies stakeholders in relation to the power they hold and the extent to which the organisation's strategies impact upon them. It is therefore an analytical tool.
For example, the form of strategy would be of greater interest to stakeholders in segment D, whereas stakeholders in C segment will need close attention (institutional shareholders). B segment will need information as they may be allies to the implementation of the strategy.

Power is the mechanism by which expectations are able to influence strategies. This is evident in organisations where certain groups or departments can veto decisions.
There are four indicators of power

1. Status of individuals/groups, e.g. position within hierarchy or reputation.
2. The claim on resources - some departments may be allocated a larger budget and therefore have greater spending power.
3. Representation in powerful positions - Some functions such as operations may suffer due to a weakness on the part of senior management at board level.
4. Symbols of power - this is evident with some groups having larger offices in better locations, type of furniture, facilities or car parking spaces.

No single indicator is likely to uncover the structure of power, however by examining all four indicators it may be possible to identify the more powerful ones.
This matrix is also useful when analysing external stake and the power of stakeholders , e.g. supplier power etc.

Cultural Considerations

Culture is an important aspect to strategic management with a variety of influences affecting the efficiency and effectiveness of the organisation. Companies have come to accept that an organisation that has a strong culture tends to be successful.

A Strong Culture is said to exist where staff respond to stimuli because of their alignment to organisational values.

Conversely, a **Weak Culture** exists where there is little alignment with organisational values and control must be exercised through extensive procedures and bureaucracy.
Where culture is strong, people do things because they believe it is the right thing to do.

Definition:

Siehl C, Martin J, (1984, 227), …organisational culture can be thought of as the glue that holds the organisation together through a sharing of a pattern of meaning. The culture focuses on the values, beliefs and expectations that members come to share.

Schein E, (1985,169), suggests that organisational culture refers to a system of shared meaning held by the members that distinguishes the organisation from other organisations. This system of shared meaning essentially represents a critical set of characteristics that the organisation values.

Jaques E,(1952, 251), The culture of the factory is its customary and traditional way of thinking and doing of things , which is shared to a greater or lesser degree by all its members, and which new members must learn and at least practically accept in order to be accepted into the services of the firm.

It has been suggested that the culture of an organisation consists of four layers,

1. **Values** may be easy to identify in an organisation and are often written down as statements about the organisations, its mission, objectives or strategies; however they tend to be vague e.g. cherish the community etc.

2. **Beliefs** are more specific but again they are issues people in the organisation can talk about, e.g. the company should not trade with the government of a particular country.

3. **Behaviours** are the day to day way in which the organisation operates; this includes organisational structure and control mechanisms.

4. **Assumptions** which are taken for granted and are the core of the organisation. They are aspects of the organisation life which people find difficult to explain and are known as the paradigm.

Source: Adapted from Johnson & Scholes, Exploring Corporate Strategy 2005.

Trying to understand the culture of the organisation is important, but it is not straightforward. The strategy and values of the organisation may be written down but the underlying assumptions which make up the paradigm are usually evident only in the day-to-day conversation or discussion of people or maybe so taken for granted that they can be observed only in what people actually do.

The Cultural Web

Different aspects of organisation culture together with the paradigm comprise to make the cultural web.

The cultural web of an organisation consists of:

- Stories told by members of the organisation to outsiders, new recruits, about successes and disasters, heroes and villains.
- Symbols - offices, cars, and titles.
- Rituals and routines - organisation member's behaviour to each other and to outsiders. Rituals can include training programmes, conferences, assessment procedures.
- Power structures - how is the power distributed in the organisation.
- Control systems - measurement and reward systems, performance related pay, discipline and punishment.
- Organisation structure is likely to reflect power structures, relationships and an emphasis of what is important to the organisation.

The issue of defining organisational or corporate culture remains contentious. Hofstede suggests that culture is about the collective programming of the mind which distinguishes the member of one group of people from another.

Robbins,(1991), identifies ten characteristics that when mixed and matched tap the essence of an organisational culture,

1. Individual initiative - the degree of responsibility, freedom and independence an individual has.
2. Risk tolerance - the degree to which employees are encouraged to be aggressive innovative and risk seeking.
3. Direction - the degree to which the organisation creates clear objectives and performance expectations.

4. Integration - the degree to which units in the organisation is encouraged to operate in a co-ordinated manner.
5. Management support - the degree to which they provide communications, assistance and support to subordinates.
6. Control - the number of rules and regulations and the amount of direct supervision.
7. Identity - the degree to which members identify with the organisation as a whole rather than a particular work group.
8. Reward system - the degree to which the reward allocations are based on performance criteria in contrast to seniority or favouritism.
9. Conflict tolerance - the degree to which employees are encouraged to air conflicts and criticisms openly.
10. Communication patterns - the degree to which organisational communications are restricted to the formal hierarchy of authority.

Each of these characteristics is seen to exist in a continuum from low to high and by examining and appraising the organisation on these characteristics an overall composite picture of the organisation's culture can be gleaned.

Culture does not exist in a vacuum but is linked to a larger cultural process within the Organisation's environment.
Every organisation expresses aspects of the national regional, industrial, occupational and professional cultures.
The most immediate source of outside influence on the organisation culture is found within the organisation, its employees.
Before joining an organisation employees have already been influenced by family, community, nation, state, church, education, and other work organisations.

Charles Handy Four Common Cultural Types

Charles Handy, (1976), developed a four way typology of common cultural types,

His four cultural types are very easy for people to understand and groups readily identify with them. Handy also uses four Greek gods to illustrate his basic approaches and the organisational cultures that result.

1. **Power orientation** - (Zeus) In an organisation that demonstrates a power orientation, the organisation will attempt to dominate its environment and those who are powerful in the organisation strive to maintain power over subordinates.

Work is typically divided by function or product and the structure tends to be that of the traditional model.
While this type of organisation places a lot of faith in the individual the organisation operates with little regard for human values or welfare.

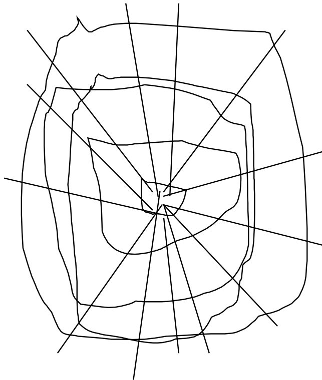
2. **Role oriented** - (Apollo) organisations aspire to be as rational as possible.
   Rules and procedures dominate creating many bureaucratic characteristics, communications go up and down the organisation but are less likely to go across.
   Decisions continue to be the preserve of those at the top which may mean that leader satisfaction is high while people lower down may feel frustrated with the organisation.

3. **Task oriented** - (Athena) management in this culture is concerned with successful problem solving and performance is judged by the success of task outcomes. The attainment of goals is the persuasive ideology, nothing is allowed to get in the way of task achievement. If individuals do not have the necessary skills they are retrained or replaced. Emphasis is placed on flexibility organised around project teams and collaboration between groups is common. Individuals retain a high degree of control over their work.

4. **People orientation** - (Dionysus) exists to serve the needs of its members. In place of formalised authority individuals are expected to influence each other through example. Consensus methods of decision making are preferred, examples of this kind of organisation are clubs, professional bodies or societies.

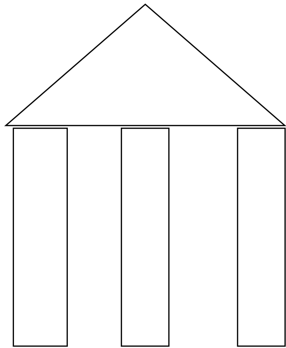
CULTURE	REPRESENTATION	STRUCTURE

POWER



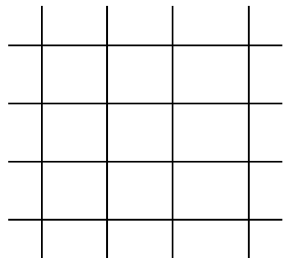
WEB
•Work divided by function
•Power concentrated in centre
•Problem of succession

ROLE



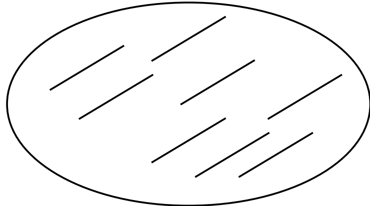
GREEK TEMPLE
•Procedures and not personalities
•Culture built around defined jobs
•Strength in pillar but power at the top
•Role of top management is co-ordination
• of activities

TASK



MESH
•Expertise is the source of power
•Problem solving culture.
•Ideal for consultancy or project management organisations.

PEOPLE



CLUSTER
•Organisation exists to help individual.
•Suitable for Clubs or Professions.

The Environment and Corporate Culture

A big influence on internal corporate culture is the external environment. As already stated, culture varies widely across organisations and organisations within the same industries display similar cultures because they operate in similar environments. The internal culture should embody what it takes to succeed in the environment. If the external environment requires good customer service then the culture should encourage good service.

According to Harvard research in 2007 US firms illustrated the relationship between corporate culture and the environment. It found that a strong corporate culture alone did not ensure business success unless the culture encouraged a healthy adaptation to the external environment.

In the framework below adaptive culture managers are concerned with customers, employees and processes that bring about change whereas with unadaptive culture managers are concerned about themselves and their values and discourage risk taking and change.

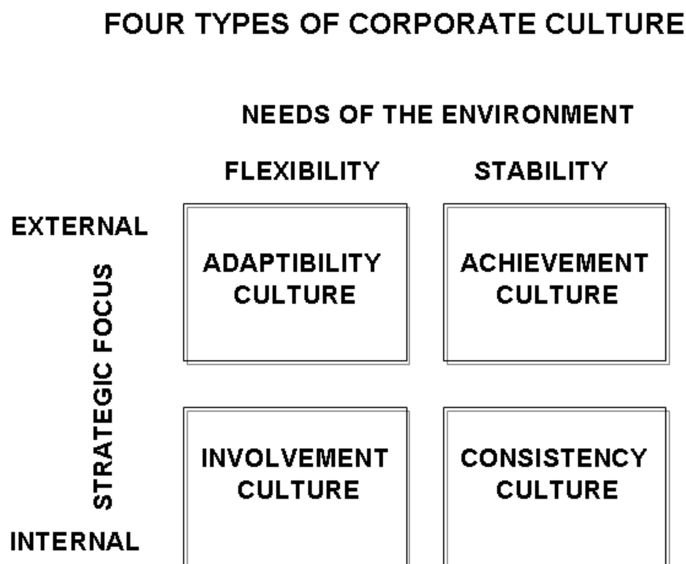
Healthy cultures help companies adapt to the environment.

	Adaptive Corporate Cultures	**Unadaptive Corporate Cultures**
Visible Behaviour	Managers pay close attention to all their constituencies especially customers and initiate change when needed to serve their legitimate interests, even if it entails taking some risks.	Managers tend to behave as if somewhat insular, politically and bureaucratically. As a result they do not change their strategies quickly to adjust to or take advantage of changes in their business environment.
Expressed Values	Managers care deeply about customers, stockbrokers and employees. They also strongly value people and processes that create useful change e.g. leadership initiatives up and down the management hierarchy.	Managers care mainly about themselves, their immediate work group or some product associated with that work group. They value the orderly and risk reducing management processes much more highly than leadership initiatives.

From Richard L Daft - The New Era of Management

Types of Culture - Richard L Daft

According to Daft in considering what cultural values are important for an organisation, managers must consider the external environment as well the company's strategy and goals. Studies suggest that the right fit between culture, strategy and the environment is associated with four categories of culture types. These are based on the extent to which the external environment requires stability or flexibility and the extent to which the company's strategic focus is internal or external.



The relationship of environment and strategy to corporate culture:

Adaptability Culture: Strategic focus on the external environment through flexibility and change to meet customer needs. The culture encourages entrepreneurial values, norms, and beliefs that support the capacity of the organisation to detect, interpret, and translate signals from the environment into new behaviour responses.

Achievement Culture: Serving specific customers in the external environment, but without the need for rapid change. Emphasis is on a clear vision of the organisation's purpose and on the achievement of goals. This culture reflects a high level of competitiveness and a profit-making orientation. A result oriented culture that values competitiveness and personal initiative.

Involvement Culture: Primary focus on the involvement and participation of the organisation's members and on rapidly changing expectations form the external environment.

This culture focuses on the needs of employees as the route to high performance. Involvement and participation create a sense of responsibility and ownership and, hence, greater commitment to the organisation.

Consistency Culture: Internal focus and a consistency orientation for a stable environment. This organisation has a culture that supports a methodical approach to doing business. Symbols, heroes, and ceremonies support cooperation, tradition, and following established policies and practices as ways to achieve goals.

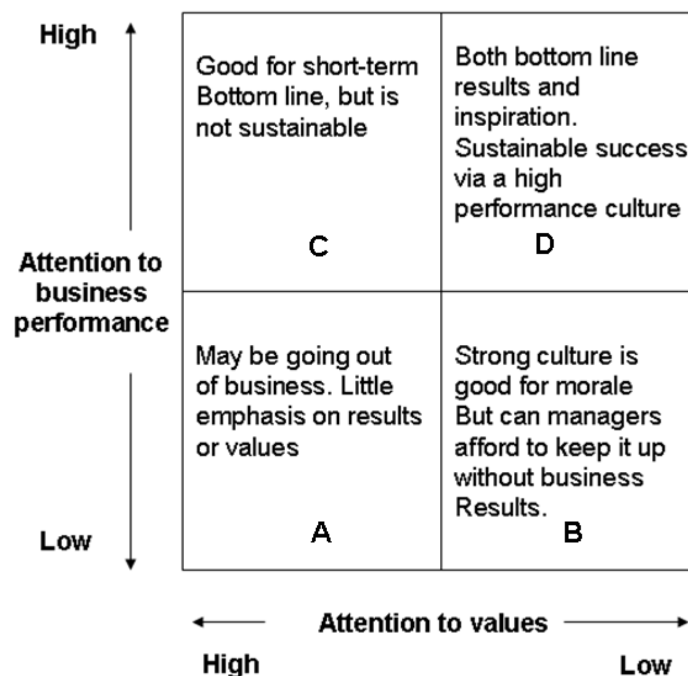
Shaping Corporate Culture for Innovative Response

Managing the High Performance Culture

Companies that succeed in turbulent environments are those that pay attention to culture values and to business performance. Culture values can energise and motivate employees by appealing to higher ideals and unifying people. In addition values boost performance by shaping and guiding employee behaviour so everyone is aligned to strategic priorities.

In the matrix below four organisational outcomes are displayed based upon the relative attention the managers pay to culture values and business performance.

Combining Culture and Performance



A company in Quadrant A pays little attention to either values or business results and is unlikely to survive in the long term.
Managers in Quadrant B organisations are highly focused on creating a strong culture but they don’t tie organisation values to goals and business results e.g. Levi Straus is highly focused on values and tie their managers’ pay to how well they are connected to the company values.
Quadrant C represents organisations that are focused on " bottom line results" and pay little attention to organisation values.
Finally Quadrant D put a high emphasis on both culture and solid business performance as drivers of organisation success.

One of the most important things managers do is to create and influence organisation culture to meet strategic goals, because culture has a significant impact on performance.

Cultural Leadership

A cultural leader defines and uses signals and symbols to influence corporate culture. Cultural leaders influence culture in two key ways,

1. The cultural leader articulates a vision for the organisational culture that employees can believe in. This means the leader defines and communicates central values that employees believe in and will rally around. Values are tied to a clear and compelling mission.

2. The cultural leader heads the day to day activities that reinforce the cultural vision. The leader makes sure that work procedures and reward systems match and reinforce the values i.e. they walk the talk.

Excellence in Organisational Behaviour

It has been suggested that strong culture can help an organisation successfully implement business strategy and help organisations achieve levels of excellence.
The success of Japanese organisations is partly due to strong culture and management methods. If within the organisation there is wide consensus about the importance of values then it is deemed that the culture is strong.

Peters and Waterman in their book *In search of excellence* argue that excellent organisations do not insist on sticking to rules but get on with the job.

Managers in these organisations are in touch with the workforce and the organisations stick to what each knows best.
Peters and Waterman studied more than 43 successful American companies. The companies specialised in a number of areas: consumer goods, high technology, and services. What they discovered was that regardless of how different each company was, they shared eight basic principles of management that anyone can use on their way to success.

These principles characterise the cultures of successful organisations.

1. A bias for action - these organisations do not stick to rules. They believe in Do it, try it, fix it.
2. Close to the customer - customers are provided with quality, service and reliability.
3. Autonomy and entrepreneurial, risk taking and innovation are encouraged.
4. Productivity through people - employees are a key resource, therefore emphasis is on good management /employee relations.
5. Hands - on value driven - these organisations feel that their philosophy and values are tied in to success.
6. Stick to the knitting - organisations should concentrate on the business they are good at.
7. Simple form, lean staff - Some organisations are so large and complex that to be successful the organisations activities are arranged around a matrix e.g. Unilever, Proctor and Gamble.
8. Simultaneous loose-tight properties - Rigidly controlled but at the same time allow autonomy.

These values found favour with many top managers who attempted to transform the culture of their organisations.
However history was to demonstrate that many of the excellent organisations written about in the book were less than excellent two years later.

Having found one way to excellence they must learn that sticking to the knitting will not, necessarily, stand them in good stead even in the medium term.

Managing organisation culture

The human resource management (HRM) function is the most powerful management function to influence the organisation culture. For example the HRM function will determine

organisational rituals, such as induction courses, training and appraisals as well as cultural symbols such as office allocation. If the culture emphasises the importance of team work and innovation as crucial for success, the management responsible will want to create one that rewards imaginative and inventive technical behaviour and co-operation and collaboration with others in the work place. This means that rewards, salaries, promotions and bonuses will have to reflect this focus.

Study Unit 3

Strategic Choice

Contents

A.	**Corporate Level**
B.	**Business Level**
C.	**Strategy Development**

STRATEGIC CHOICE

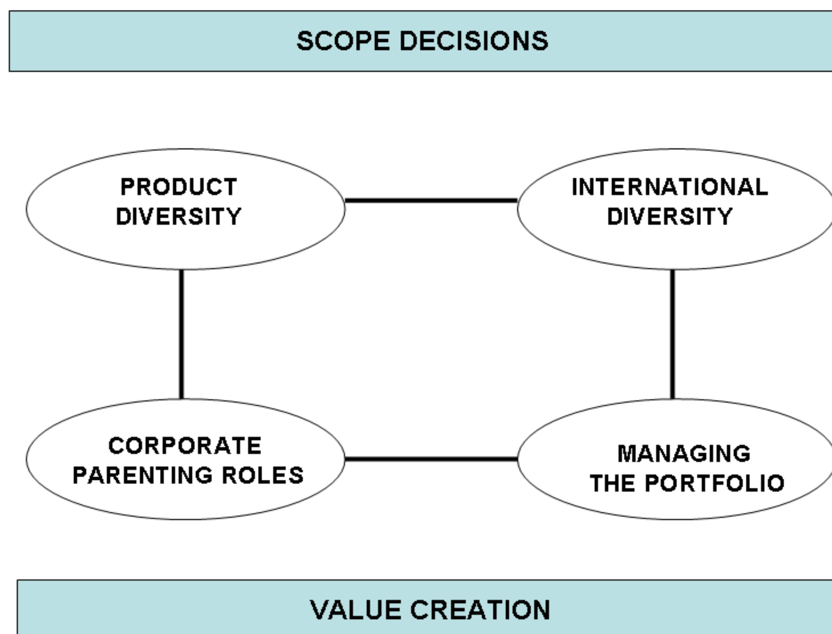
A. CORPORATE LEVEL

The Role of the Corporate Centre

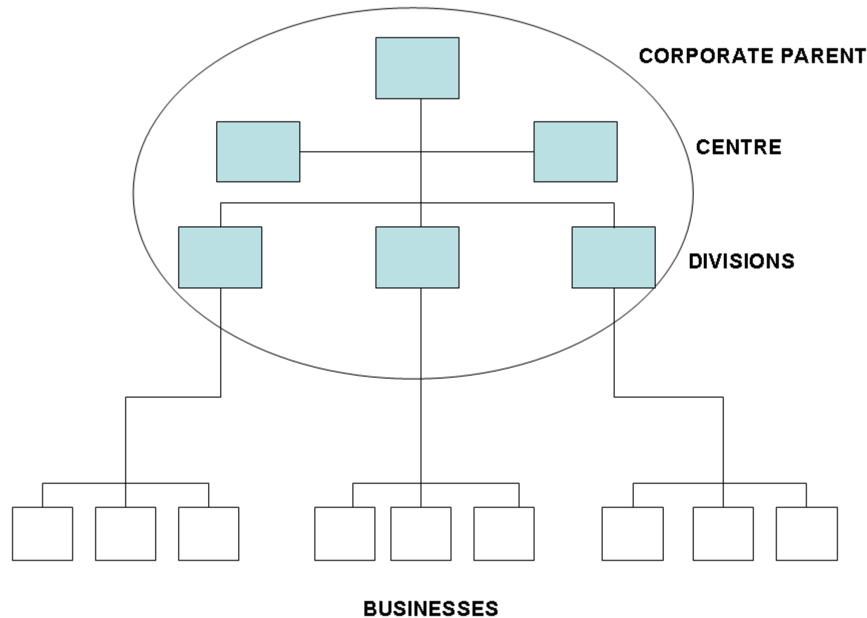
As we have seen from chapter 1 strategy occurs at different levels of the organisation. Therefore different strategic choices are made for the different levels albeit there will be congruence between the strategies chosen.

As many organisations contain business units, managing these units becomes a challenge at corporate level. To ensure value is created among these units, corporate level strategy has two main concerns: first the strategic decisions about the scope of an organisation i.e. the diversity of products and the geographical or international diversity of the business units and secondly how is value added or destroyed. This requires an understanding of the different parenting roles the corporate level might play and how it seeks to manage its portfolio of interests.

Corporate Level Issues



As illustrated in the multi business diagram below the business units are grouped into divisions and anything above the business unit level represents corporate level activity in the corporate centre. Managers above the business level are concerned issues of a strategic nature e.g. control, co-ordination, investment i.e. corporate parenting.



Product Diversity

Diversification is a strategy that takes the organisation into new markets, products or services. Three reasons for Diversification are:

1. Existing organisational resources and capabilities can be applied to new markets and products. Sometimes referred to as economies of scope, these resources are perhaps not being stretched or employed by other users, the organisation can therefore use them to diversify the business. E.g. in Europe many telecom operators are making more efficient use of the capacity of their telephone network by providing broadband and IP TV services. Sometimes these scope benefits are referred to as benefits of synergy.

   Synergy refers to the benefits that might be gained where activities or processes complement each other such that their combined effect is greater than the sum of the parts.

2. There may also be opportunities to apply corporate management capabilities to new markets products and services. Prahalad and Bettis describe these management capabilities as *"dominant management logic"* where the corporate managers add value by exploiting technologies, distribution or brands.
3. Having a diverse range of products or services can increase market power. Diverse products or services allow the organisation to cross subsidise one product from the

earnings of another. This type of activity can give an organisation a competitive advantage. See previous notes on Ansoff matrix for types of diversification.

International Diversity

There are many reason for an organisation to pursue a strategy of international diversification first there are the market based reasons.
Internationalisation of organisations is a cause and consequence of globalisation of markets. By expanding its market internationally a business can bypass its limitations in the home market. Ecobank is a good example. It started in West Africa and is now found throughout Africa. Another is Pricewaterhouse Coopers International Limited.
There may also be opportunities to exploit differences between countries and geographical regions. Administrative differences may also be exploited; consider the number of companies that are registered in one country for Tax revenue purposes, but have their head office in another and operate in a third.

Secondly there may be economic benefits in strategies of internationalisation.
International companies can exploit economies of scale by increasing the market size. This is most obvious where the products and consumer tastes are homogenous.
There is also the chance of stabilisation of earnings across markets e.g. Toyota operates in three major arenas - USA, Europe and Pacific Asia. If economic stagnation occurs in one arena it can balance its global sales in another arena with a more positive economic outlook.

Value Creation and the Corporate Parent

There are opposing views as to whether corporate parents add value to their business units.
From a value adding perspective corporate parents engage in value adding activities such as establishing a clear strategic intent.

1. Clarity to external stakeholders about what the corporation is about i.e. this leads to increasing investor confidence in the business.
2. Clarity to business units - this communicates to business unit managers that their unit is central to corporate aspirations, it also acts to motivate managers and it also gives direction to the business units around expectations and standards.

Secondly corporate parents add value by intervening with business units in managing performance, actively setting challenges for the units and encouraging collaboration and co-ordination among units.

Thirdly they may offer central services and resources to help business units invest in new ventures transfer management capabilities or provide expertise to business units.

Corporate parents may also engage in value destroying activities such as implementing systems and hierarchies that slow down decision making by giving the business unit a false sense of security such as a financial safety net should things go wrong. Three reasons are outlined below for managing a multi-business organisation.

The Portfolio Manager

A Portfolio Manager is a corporate parent acting as an agent on behalf of the financial markets and shareholders with a view to enhancing the value attained from the business *(Johnson Scholes and Whittington*). A key role of the portfolio manager is to identify under-performing businesses and encourage improved performance. In addition they may seek out restructuring opportunities or divert the activities of those businesses.

The Synergy Manager

Often seen as why the corporate parent exists - the synergy manager attempts to create and enhance value across units, this can be done in a number of ways:

- Sharing resources e.g. SBU's sharing a common distribution system.
- Sharing skills and competences, e.g. marketing or research expertise.

Attempting to achieve synergies is not without problems such as:

1. Costs - The value of synergy needed to outweigh the cost of undertaking such integration,
2. Self interest by managers - co-operation and collaboration between managers of units must be set aside and a move away from " what's in it for me" .
3. In addition the illusion of synergy may cause problems as managers attempt to justify benefits on synergies that do not exist.
4. Incompatibility between business units and/or culture, variation in local conditions and finally
5. commitment on the part of the parent to see the synergy through.

The Corporate Rationale as exhibited below.

	Portfolio Manager	Synergy Manager	Parental Developer
Logic	Agent for financial markets. Value creation at SBU level is limited	The achievement of synergy benefits	Central competencies can be used to create value in SBUs
Strategic requirements	Identifying and acquiring undervalued assets. Divest low performing SBUs. Low level strategic role at SBU	Share activities and resources to improve competitive advantage. Identification of benefits that outweigh costs	SBUs not fulfilling their potential. Parent has resources to enhance SBU. The portfolio is suited to parent's expertise
Organisational requirements	Autonomous SBUs. Low cost corporate staff. Incentives based on SBU results	Collaborative SBUs. Corporate staff as integrators. Overcoming SBU resistance to sharing	Corporate managers understand SBUs. Effective structural and control linkages. SBUs may be autonomous unless collaboration is required. Incentives based on SBU performance

The Parental Developer

The parental developer seeks to employ its own competencies as a parent to add value to its own businesses. Unlike synergy the parental developer must know its own capabilities and resources in order to enhance the business units. These resources, financial, branding, management etc., can be used in under-performing businesses that do not possess these skills. As with the synergy approach it is not without its problems.

Identifying the capabilities of the parent can be a challenge and if incorrectly applied can have disastrous consequences for the business.

Focus - the parent must only provide services in those areas that add values. Encroaching on areas that will deliver minimal cost savings may be a mistake e.g. outsourcing for one organisation may deliver great savings but to a public sector organisation it may be important to hold on to services as they retain control over how those services are utilised for the public benefit.

The crown jewel problem - Some businesses create value whilst others may not. The role of the parent is to maintain the successful business while divesting from those poor performing ones and using the resources to develop other business that have potential.

Mixed parenting - this is an approach of either engaging with or disengaging from some business units or a mix of synergy manager and parental developer.

The logic is that the executives of the business must know where and how to achieve value. Portfolio logic is dealt with in the next section.

Managing the Corporate Portfolio

Managing the corporate portfolio is concerned with the models managers might use to analyse the business units within the portfolio. The models are considered in the context of the rationale as discussed above.
The following tools have been developed by managers to determine which business units to have in their portfolio. The focus of each tool is on one or more of the following criteria:

1. The balance of the portfolio, in relation to its markets and the needs of the corporation.
2. The attractiveness of the business units in the portfolio with regard to profitability and growth potential,
3. The degree of fit, that the business units have with each other i.e. synergy, and if the corporate parent is good at looking after them.

One of the most common models for evaluating a corporate portfolio is the BCG or Growth Share Matrix as discussed in chapter 2. The model is often used to analyse products but can equally be applied to business units as in some instances they are products in their own right.

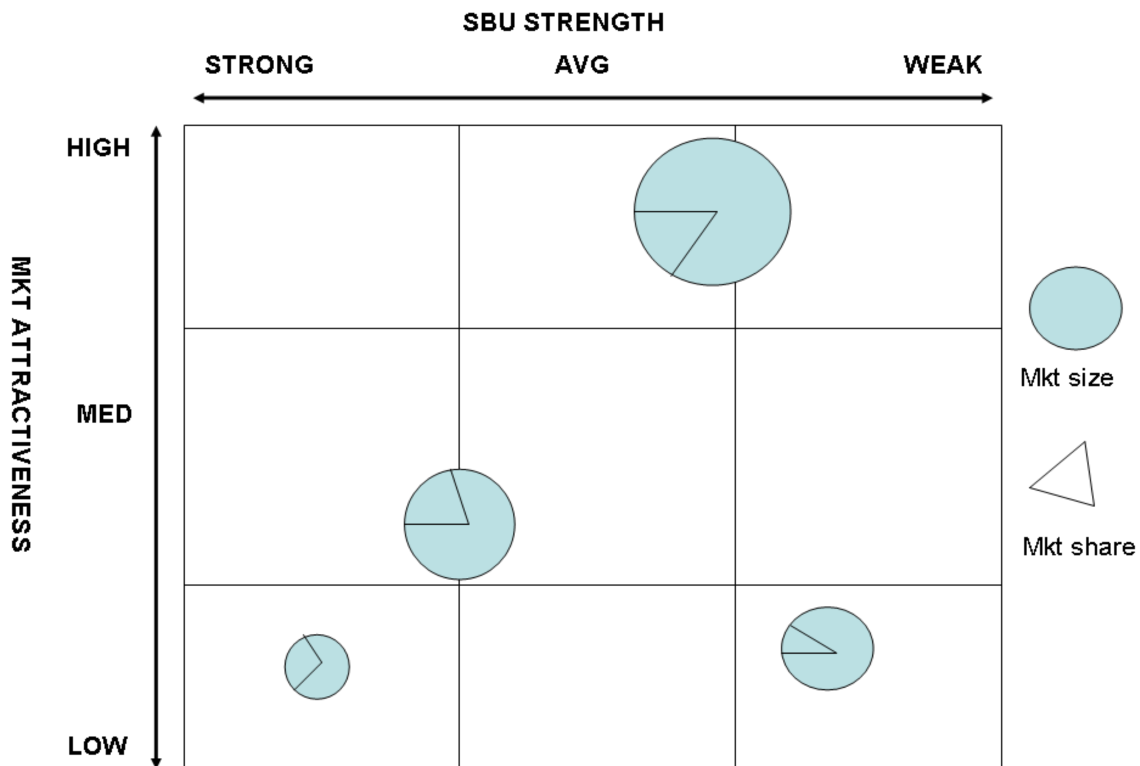
The Directional Policy Matrix
This is another way of analysing the portfolio of the business. The matrix identifies those business units with good and bad prospects, sometimes known as the attractiveness matrix.
The policy matrix positions business units according to how attractive the relevant market is in which they are operating and the competitive strength of the SBU in that market. Each business unit is positioned within the matrix according to a series of indicators of attractiveness and strength.

Matrix indicators:

- SBU Strengths compared to the competition -
- Market share, sales force, R&D, distribution, management skills, marketing.
- Market attractiveness - market size, market growth, barriers to entry, technology, inflation, supply of labour, environment and economic issues.

Each segment in the market will indicate how large the market is and potential share of the market. The matrix also assists in the level of corporate strategic support in terms of investment or divestment. It may also be used to assess international opportunities particularly the competitive position in the same product market across different national markets.

While the Directional Policy Matrix overcomes some limitations of the BCG e.g. international portfolio planning, it does not account for resource linkages between products.



The Ashridge Portfolio Display - ***Parenting Matrix***

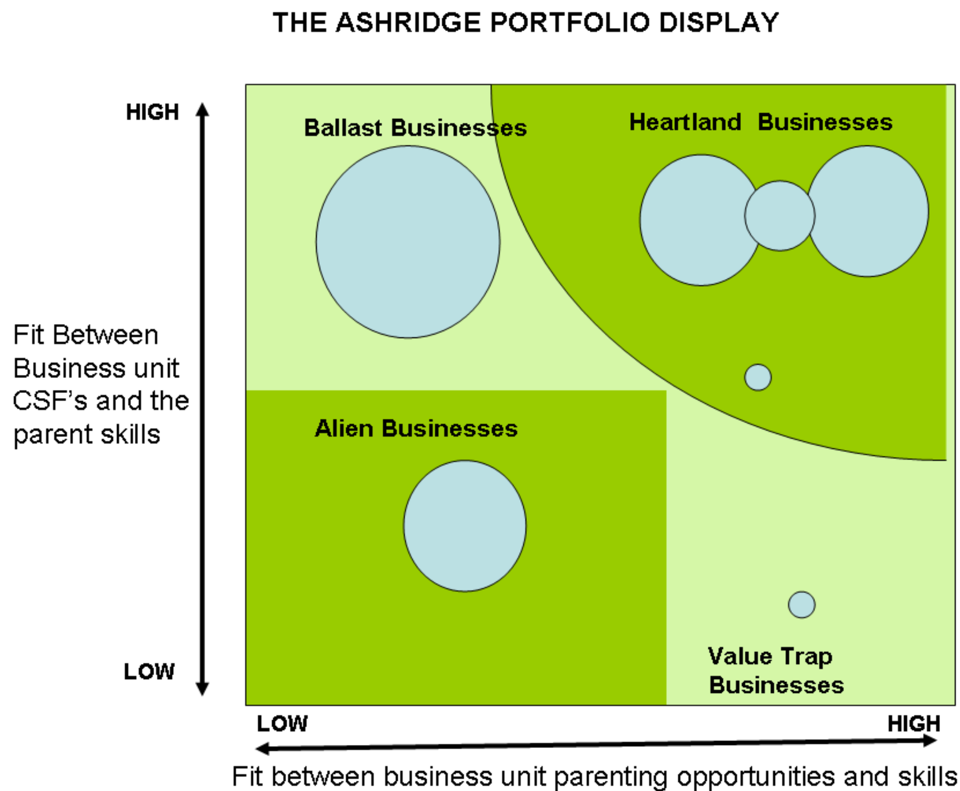
This is useful when deciding the role of the parent and the mix of business units best suited to the parent. It builds on the ideas of the parental developer.
It suggests that the corporation should seek to build portfolios that fit with the corporate parent skills and the corporate parent should build skills that are appropriate for the portfolio.

Heartland business units - are ones that the corporate can add value without danger or harm. They should be at the core of future strategy.

Ballast business units – the parent understands the business units but contributes little as they could easily survive as stand alone.

Value trap business units – these are dangerous, they appear attractive due to the potential opportunities. Consider them for a future strategy.

Alien business units – these are misfits, they offer little opportunity to add value. Exit or withdraw from them.



B. BUSINESS LEVEL

Competitive Advantage

Strategic choice "is concerned with decisions about an organisation's future and the way in which it needs to respond to the many pressures and influences identified in the strategic analysis" *Johnson & Scholes 1993,* It is the process whereby strategic options are evaluated and the most suitable strategy or set of strategies (short, medium, long term) are chosen.

Therefore once an organisation has undertaken a strategic analysis it is better positioned to identify what options are available to it for evaluating strategies.

The bases of strategic choice for organisations can usually be considered in the context of an overall generic competitive strategy which an organisation might pursue.
A firm's position within an industry will determine whether it earns average profitability or above industry average earnings.

Michael Porter's Generic Strategies

According to Michael Porter there are 3 generic strategies a firm may pursue,

Cost leadership, where a firm sets out to become the low cost producer. If it can achieve and sustain its cost leadership then it will be an above average performer in its industry.

Differentiation, the firm seeks to be unique in its industry and be widely valued by its customers. It is rewarded with a premium price which exceeds the extra cost incurred in being unique.

Focus, **Cost focus -** a firm seeks advantage in a target segment.
Differentiation focus - exploits the special needs of buyers in certain segments.

Porter describes a firm that does not make a clear choice of these strategies as being "stuck in the middle" (SITM) which he argues is the worst position to be in. This argument has created debate about strategic direction as some organisations in Europe and in Japan have pursued SITM strategies with success.

It is also argued that cost is an internal measure and gives no competitive advantage. Competitive advantage can only be achieved through the product or service, which can be seen by the buyer.

COMPETITIVE ADVANTAGE

COMPETITIVE SCOPE	LOW COST	DIFFERENTATION
BROAD	COST LEADERSHIP **TOYOTA**	DIFFERENTATION **MERCEDES**
NARROW	COST FOCUS **HYUNDAI**	FOCUS DIFFERENTATION **BMW**

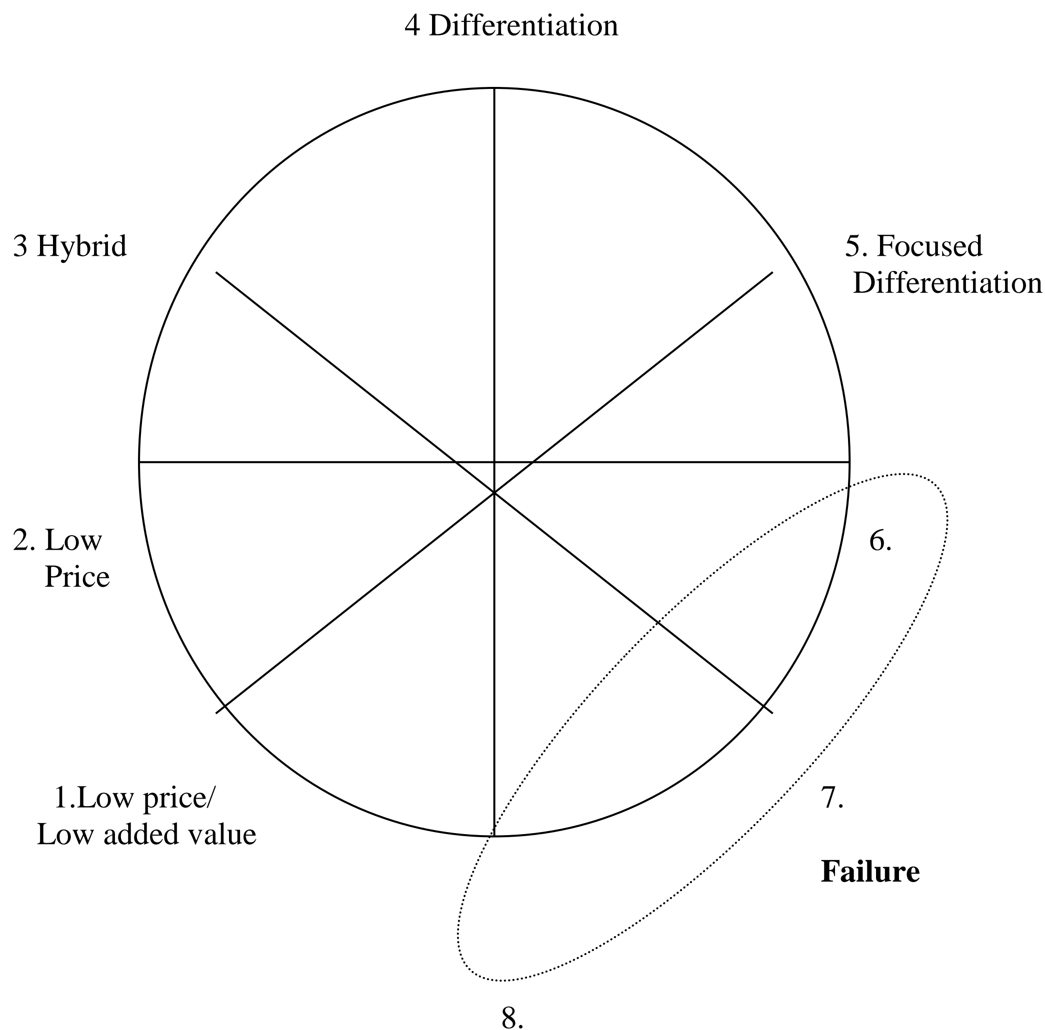
There are risks associated with generic strategies for example with cost leadership competitors can imitate you or your competitive advantage may erode due to technological advances. A differentiation strategy may fail due to buyers being less attracted to the product or service, and finally in a focus strategy the segment becomes less attractive due to market changes or less demand.

Taking Porter's theory into account a market oriented set of strategies has been developed that is known as the strategy clock *(Cliff Bowman 1996*).

Strategy Clock

The strategy clock shows eight generic strategies available to organisations which can be shown under five broad headings:

1. No frills - Price based strategies, reduced price and perceived added value aimed at price sensitive segments. If you are in a segment that has a low cost advantage, a low price is important. These are generally associated with price wars.
2. Low Price - risk of price war and low margins; need to be cost leader.
3. Hybrid strategy - Provide added value and keep costs down, normally used to gain foothold in the market or when a chink in the competitors' armour is achieved.
4. Differentiation - this is a broad based strategy aimed at offering perceived added value at a premium price to gain a market share. This is achieved through uniqueness in the market place.
5. Focus differentiation - added value and a high price focused at a particular segment, e.g. BMW, Lexus cars.
6. Failure strategy *(6,7,8 on diagram)*, result from increased price but no added value, reduced value but maintain high price.



The Strategy Clock: Bowman`s competitive strategy options

Source: Johnson & Scholes

Sustaining Competitive Advantage

It is possible to achieve competitive advantage in such a way that it can be preserved over a period of time. The following are options which are open to organisations,

Price based advantages:

1. Accept reduced margins because it can sell high volumes or cross subsidise a business unit elsewhere.
2. An organisation may be able to sustain and win a price war because it has a lower cost structure or a better bank balance.
3. It may gain advantage through organisationally specific capabilities which may be achieved by driving down costs throughout the value chain.
4. Focusing the organisation's efforts on those markets where customers value low cost.

Differentiation based advantages:
Sustainable advantage through differentiation may be any of the following,

1. Create difficulties if limitation; e.g. supply chain capabilities.
2. Imperfect mobility of resources or capabilities e.g. how easily can the resources of the organisation be traded within or outside the industrial sector.
3. Protection of the company brand, image or reputation.
4. Switching costs – what are the actual or perceived costs for a buyer when changing the source of supply of a product or service.
5. Co-specialisation may help achieve imperfect mobility e.g. if the selling organisation's resources or capabilities are intimately linked with the buyer's organisation.

Game Theory

Game theory evolved from war and based upon the interrelationship between the competitive moves of a set of competitors. The central idea is that the strategist has to anticipate the reactions of the competitors.

There are three assumptions around this,

1. That the competitor will behave rationally and always try to win to their own benefit.
2. That the competitor is in an independent relationship with other competitors, thereby all competitors are affected by what competitors do.
3. To a greater or lesser extent competitors are aware of the interdependencies that exist and of the potential moves competitors could make.

There are two key principles that guide strategic development from the above assumptions.
Strategists as game theorists need to put themselves in a position of competitors. They can then take an informed decision of what the competition may do. This allows the strategist to take the best course of action.
It is also important for the strategist to identify any potential strategy that the competitor could follow which may result in the organisation being dominated in the market.

There are three types of Games:

1. Simultaneous Games - All competitors in the market are faced with making the same decision at the same time. The options for the players are to agree an equal share of the market or attempt to outmanoeuvre the competition with the potential to lose market share.

2. Sequential Games - Strategic decisions are often sequential where the organisation's actions are pursued by the actions of a competitor. The task for the strategist is to think forward and then to reason backwards .i.e. think through the attitude of the competitor before taking action.
3. Repeated Games - In repeated games competitors interact repeatedly; however the favourable outcome here is for both parties to co-operate and this approach is the outcome of experience in the market place. It will also be influenced by such factors as the number of competitors, differences between organisations or the breakdown of the market i.e. small or large organisation.

Business EcoSystems

The concept of a Business Ecosystem was originated by James F Moore and is a strategic planning approach adopted by technology companies in the 90's. The basic definition comes from Moore's book, *The Death of Competition: Leadership and Strategy in the Age of Business Ecosystems* (Harper Business, 1996).

Moore considered businesses to be part of an economic community supported by a foundation of interacting organisations and individuals, the organisms of the business world. This economic community produces goods and services of value to customers, who are themselves members of the ecosystem.

The member organisations also include suppliers, producers, competitors, and other stakeholders. Over time, they co-evolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments and to find mutually supportive roles.

The ecosystem concept was widely used by Cisco Systems Inc. throughout the world. The company leveraged partners for all business functions except for developing their core patented products and business strategy. Partners were used for sales, marketing, manufacturing, technical support and new installations. Cisco lived up to the motto 'do what you do best and leave the rest for others to do'.

Supporting the Entrepreneur and New Venture Creation

Feasibility Study and Guidelines - Business Case Development

A feasibility study is an examination of all the relevant factors prior to the establishment of a business or new product idea.

The purpose of the feasibility study is to gather and itemise the requirements for say the establishment of a manufacturing plan or service operation. This will include identifying the financial details, operational and capital, key assumptions and timetable of events.

Feasibility studies require in-depth research and may involve the services of business consultants or support agencies.

A Feasibility Study should include details under the following headings,

1. Profile of the project/venture promoters.
2. Description of the business proposal.
3. Details of the product or service.
4. The market and customer base.
5. Capital required.
6. Manpower planning/employment details.
7. Critical issues for the project e.g. market research or product trials.
8. Key assumptions and schedule of events.

One of the advantages of the feasibility study is that it forces the entrepreneur into examining the crucial aspects of the business proposal. It also answers questions that will be posed by potential lenders and investors.

If the results of the feasibility study are positive, i.e. indications are that the business will be successful, then the details from the study will be used in the preparation of the business plan.

Modes of Entry to Business

There are a number of ways in which the entrepreneur may enter business. The choice of entry will depend upon the factors such as the expected level of control of the business, the life expectancy of the business, the size of the business and capital required to establish the business.

Sole Trader

A sole trader (or sole proprietorship) is a business organisation with only one owner. For tax purposes he or she would be classed self-employed. It is the most common form of business organisation.

The typical sole trader is a shopkeeper who owns his/her own shop. Family may be employed to help run the shop. Sole traders are also common in agriculture and manual trades. Sole traders are in control of their own destiny. They enjoy great freedom of action and great privacy in the running of the commercial concern.

Sole Traders have unlimited liability. This means that no distinction is made between the assets of the business and the private assets of the owner. If the business goes bankrupt and the assets of the business do not cover the debts, then the owner will be forced to sell his or her own private assets as well.

Sole trader businesses are common because they are very easy to establish or wind down. There are no particular legal formalities to setting up the business apart from those which would apply to any business in the particular industry chosen. Income tax and employment taxes have to be paid on the profits of the business but the total tax liability may be far less than if the owner established a limited company. The owner is also likely to be in full control of the company. Sole trader businesses may employ workers, but it would be quite exceptional for a sole trader to employ a manager to be in charge of a considerable number of personnel.

The great disadvantage of sole trading businesses is their inability to attract finance. It is often very difficult for small businesses to raise finance in order to expand.

Registered Company

A registered company is a legal person independent of its members i.e. a separate entity. The law recognises *physical or natural* persons and *moral or artificial* persons. A registered company is a moral person possessing its own legal personality. The registered company is capable of holding property, of entering into contractual relations and of suing and being sued. Its great advantage over the physical person is its potentially perpetual existence. Another advantage is that it can attract money for investment in the form of new shares. Shareholders know that if the firm goes bankrupt the most they stand to lose is the value of their shareholding.

There are four types of company.

1. a company limited by its shares
2. a company limited by guarantee
3. a company limited by both shares and guarantee
4. an unlimited company

Franchising

Franchising is something of a halfway house, lying somewhere between entrepreneurship and employment. It holds the attractions of running a business while at the same time eliminating some of the risks. Borrowed from the French term `franchise` originally meant being free from slavery. The local operator (the franchisee) pays the parent organisation (the franchisor) an initial fee and usually continuing royalties for the privilege.

The franchisor lays down the blue print of how the business should be operated, the content and nature of the goods and services being offered and even the location. The franchisor also provides marketing for the brand and may offer preferential loans to help start and invest in the franchisee's business.

Forms of franchising:

There are various types of relationships between licensee and licensor, which are described under the heading franchises.

A distribution: Is an arrangement where two parties are legally independent as vendor (licensor) and purchaser (licensee).

The purchaser will have exclusive territorial rights and is backed by the vendor's advertising, promotion and possibly staff training, e.g. car dealership.

A licence to manufacture: This applies to certain products within a certain territory and over a period of time. The licensee may have access to any secret process this involves and use of the product's brand name in exchange for royalty on sales. For example the Rank organisation is licensed to produce the photocopying devices pioneered by the Xerox Corporation.

Manufacturing / Distribution Licensing:

This form of business which is similar to franchising allows a firm to distribute or manufacture a product under strict licence, the licensee usually pays a fixed fee plus royalties to the licensor for access to the rights.

Stages in the Enterprise Process

Just as there is a product lifecycle there is also business lifecycle with different stages of development.

Stage1	Stage2	Stage3	Stage4	
A New Business Commences	The Business Survives	The Business Expands	Some Business Decline Others Grow	

The Phases/Stages of business development are as follows,

Stage 1 Commencement: Developing the business idea and monitoring the finance risk reduction.

Stage 2 Survival: Management thoughts are on profit and investment in the business.

Stage 3 Expansion: The business comes of age and matures. The value of the business is high because of policies implemented at stage two. Profit margins are at their highest.

Stage 4 Diversification, Growth, Decline: If management becomes complacent about the market and management consideration the business will decline and die.

The Emergence and Influence of e-Commerce

In Europe and the USA, the emergence of e-commerce and the use of the internet for business purposes over the past decade has been the most significant transformation in the way business can be conducted.

While there is no internationally agreed definition essentially electronic commerce is a transaction involving goods, information and services in which the parties to the transaction do not meet but interact electronically.

The introduction of e-commerce has also had a profound influence on the operations, relationships and structures of modern organisations. Organisations can conduct business electronically with customers and suppliers, connecting manufacturers and inventory, aiding efficient time and volume reordering.

Organisations that fail to develop an e-presence in the market may find their market share eroded over time as other competing businesses develop online facilities.

The outcome of all technological developments is that the modern organisation is in a constant state of transformation. Whilst the introduction of information and communication can lead to cost savings and efficiencies as more organisations adopt the technology, competitors are compelled to do the same in order to remain competitive.

C. STRATEGY DEVELOPMENT

Directions of Strategy Development

Strategy selection is the decision process whereby a specific strategy is selected. The results of strategy evaluation provide essential input to the decision process. There is a number of ways in which strategies are selected.

1. Selection against objectives, i.e. the strategy is selected on its merit by its ability to meet the corporate objectives.
2. Referral to a higher authority, this is used where the participants of the strategy evaluation do not have the necessary power to decide which strategy to pursue.
3. Partial implementation: used where the final decision on strategy cannot be made without prior knowledge or experience of what the outcome will be.
4. Outside agencies: where a decision on which strategy cannot be agreed by the appropriate authority an outside agency may be appointed to resolve the differences.

It is possible an organisation may select more than one development strategy for different time periods or SBU’s.

This section uses an adaptation of Ansoff’s Matrix to offer potential strategic directions.

STRATEGY DEVELOPMENT DIRECTIONS

		Products: existing	Products: new
Markets	existing	**A PROTECT/BUILD** •Consolidation •Market penetration	**B PROD DEVELOPMENT** •Existing capabilities •New capabilities •Beyond current expectations
	new	**C MARKET DEVELOPMENT** •New segments •New territories •New uses •New capabilities	**D DIVERSIFICATION** •With existing capabilities •With new capabilities •Beyond current expectations

Adapted from Ansoff Matrix

In the diagram above a combination of developmental directions is usually pursued if organisations are to develop successfully in the future e.g. development into new markets may also require some product changes too.

Strategic Options available to the Organisation

Up to now we have been concerned with analysis and the choices available to the strategist. The next step is to identify the alternative directions the organisation may take, for example if an organisation has a broad strategy of being the cheapest provider of a product, then it must focus its resources on establishing a competitive position by gaining market share through continued cost reduction which it can pass onto the customer.

The other directions a firm may pursue are as follows:

Protect/Build on Current Position: is a broad category which has a number of specific options which an organisation can consider.

Withdrawal: Some organisations lack the resources or competence to compete in certain markets and withdrawal from some activities may free up the necessary resources to improve the chances of succeeding in another strategy.

Consolidation: Here the organisation is concerned with protecting and strengthening the organisation's position in its current market. However consolidation does not mean remaining static rather it is a method of deploying the organisation's resources so it fits the intended market. Consolidation may require reshaping the organisation to suit the market conditions.

Market penetration: Situations may occur where there are opportunities to gain market share; e.g. in some situations existing suppliers cannot match market demand or are unwilling to meet the demand. However market penetration may be affected by factors such as market growth rate, resource constraints or ignoring smaller market share competitors and their potential to grow.

Product development: There are many reasons why organisations pursue product development initiatives e.g., changing needs of customers in products and services. In this case a core competence of successful analysis of the market and customer needs is required, some organisations have the R&D infrastructure and capabilities to support this. Product development is important in industries that have a short product life cycle. Product development does not come without risk - many new products never reach the market place.

Market development: Where the organisation's aspirations have outstripped the opportunities in the existing market it is natural to explore the opportunities in new markets.

There are three ways of doing this,

1. Extension into new markets through product modification.
2. Development of new uses for existing products.
3. Geographic spread by establishing overseas markets or growth strategies.

Diversification

Diversification is the term used to identify different directions of development that take the organisation away from its present market position.

Diversification normally involves extending existing products or services whilst at the same time remaining within the industry. This is achieved through three broad methods of diversification:

Backward integration - this is concerned with the development with the inputs into the organisation's product or service, e.g. raw materials , machinery and labour are important in this regard, therefore by acquiring some of these inputs we may be able to enhance the value chain.

Forward integration - this is concerned with the development of the outputs of the organisation such as transport, distribution, repairs or servicing. This is reflected in the forward aspects of the value chain.

Both backward and forward integration are sometimes referred to as vertical integration.
Horizontal integration refers to the development into activities which are competitive with or complementary to a firm's activities, e.g. a builder may offer maintenance services.

Where there is the potential, organisations will diversify into other activities or divest from those activities that are loss making.

Method of Strategy Development

1. Internal Development

Internal development is where strategies are developed by building on and developing organisational capabilities. This form of development is often referred to as organic growth.
Some reasons for this approach are as follows,

1. By developing highly technical products, capabilities are developed in-house which can be further used in the development of new products and markets.
2. Internal development may be more costly but returns on investment may be greater over the long term.
3. The organisation may have no choice but to develop internally as those capabilities needed cannot be acquired from outside.

2. Methods of Strategic Development External to the Organisation

An organisation that has limited resources and that wishes, or has no choice but, to grow the business may have to look outside the organisation to develop the business.

The options available to the organisation fall into two broad categories:

1. Mergers and Acquisitions

Developments by mergers or acquisitions have been of critical importance to some industries by allowing organisations to exploit competencies in production and distribution of goods and services.
A compelling reason to merge with or acquire another firm is the speed at which it allows the firms to enter new markets. Technology and markets are changing so rapidly that it becomes the only way to grow the business, e.g. a company may be acquired for its R&D expertise or its knowledge of a particular production system or process. It should be pointed out that acquisitions are generally the result of poor performance where the acquiring company will purchase to gain market share or access to specific activities of the company. An extreme example of acquisition is acquiring a company for short term gain by selling the asset off piecemeal or asset stripping.
The difficulty with acquisitions is the integration of the two companies and generally centres around cultural fit.
The reasons for mergers are similar to those of acquisitions however in this instance the merger is the result of a voluntary agreement between the firms where both participants wish to gain synergies/benefits from the exercise.

2. Joint Ventures and Strategic Alliances

Joint ventures and strategic alliances have become increasingly popular since the 1980’s. This is because organisations cannot cope with the dynamics and complexities of the environment (such as globalisation) from internal competencies and resources alone.
They may seek to achieve skills, knowledge, finance, block competition, share assets, link value chains or access to markets through co-operation with another organisation.
Joint ventures are typically thought of as arrangements where organisations remain independent but set up a subsidiary organisation owned by the parents.
The opportunity of entering a joint venture or strategic alliance allows firms to spread the risk associated with large projects, exchange technology and faster entry and pay back on new ventures.
These strategic options are not without their problems and may run into trouble when it comes to cultural fit, internal political decisions or strategic direction.

Implementing Strategy

Organisations implementing strategy need to take into account issues that will influence the success of the strategy not least the relationships of people within the organisation.

The key point for the strategist is to ensure that the strategy drives the structure, not the other way round.

Success Criteria

The Criteria for Evaluating Strategies are as follows:

Strategic options should be evaluated according to their suitability, acceptability and feasibility.

1. Suitability is the criterion used for screening strategic options and how it fits into the situations identified in the strategic analysis and how it would sustain or improve competitive advantage.

The suitability can be assessed from the following angles.

- **I.** Strategic logic - does the strategic capability match the market environment by pursuing a specific strategic option, BCG matrix, life cycle analysis, value chain analysis assist in this instance.
- **II.** Cultural fit - review options within the cultural and political realities, cultural web analysis.
- **III.** Research evidence: attempts to determine the suitability of strategic options through the experience of other organisations.

Using the above analysis, options are selected by weighting, ranking, or devising scenarios.

2. Acceptability: examines whether a specific strategy is acceptable to the stakeholders of the organisation. The methods and techniques that can be used are as follows:
   - **I.** Analysing financial return -, this may include profitability analysis techniques such as return on investment (ROI,) payback periods, cost benefit analysis and shareholder analysis.
   - **II.** Analysing risk: this may involve the use of techniques such as financial ratio projections, sensitivity analysis, decision matrices, simulation modelling.
   - **III.** Analysing stakeholder reactions, this may be done by stakeholder mapping

3. Feasibility is concerned as to whether a specific strategy can be implemented successfully. The feasibility of a strategy can be assessed using the following methods and techniques,

I. Funds flow analysis _ Identify the funds necessary for the strategy and the likely sources of these funds.

II. Breakeven analysis

III. Resource development analysis

BLANK

Study Unit 4

Assurance and the Audit Function

Contents

A.	**Structure and Processes**
B.	**Managing Key Enablers**
C.	**Managing the Change Process**
D.	**Understanding Groups and Teamwork**
E.	**Organisational Communications**
F.	**Project Management**

STRATEGY IMPLEMENTATION

A. STRUCTURE AND PROCESSES

Organisation Structure

Structure provides the framework for the activities of the organisation and must harmonise with its goals and objectives.

The nature of the organisation and its strategy will indicate the most appropriate organisational levels for different functions and activities and the formal relationships between them.

Structural Dimensions
There are six structural dimensions as defined by Pugh (1968).

1. **Specialisation** - concerned with the division of labour and allocation of tasks.
2. **Standardisation** - standardisation of procedures.
3. **Formalisation** - denotes the extent to which rules, procedures, and instructions are documented.
4. **Centralisation** - concerns the locus of authority to make decisions affecting the organisation.
5. **Configuration** - is the shape of the structure, e.g. long or short chain of command.
6. **Traditionalism** - the extent to which an organisation is standardised by customs or rules.

An additional structural dimension not mentioned above but of equal importance is information technology.
Computer based information and decision support systems affect other choices in design such as strategic decisions on markets, customers and products, or tasks and individuals.
Managers therefore must develop an appreciation for the interface between computing and the organisation.

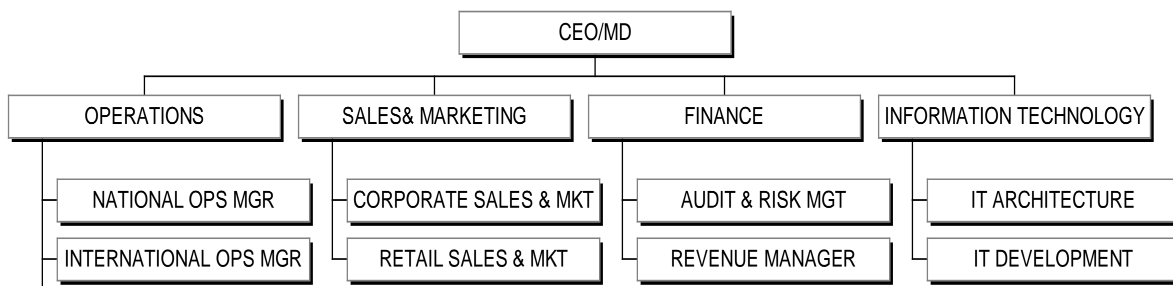
The Division of Work

Within the formal structure of the organisation work has to be divided among its members and different jobs related to each other.

The division of work should therefore be organised by reference to some common characteristics which form a logical link between the activities involved.

Work can be divided and activities linked in a variety of different ways, e.g. function, product, location, department, or a combination of these elements.

Organisation by Function



Functional organisations are regarded as having the traditional organisational structure where each unit is tasked with the management and maintenance of specific activities. Each department handles aspects of all or most products

The advantages to this type of structure are as follows:

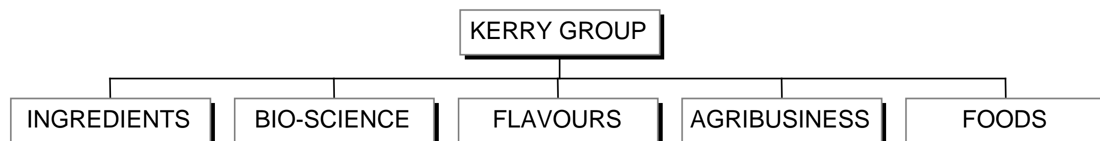
- Each individual's efforts are focused.
- Resources are used efficiently by grouping the various functions and thereby exploiting economies of scale.
- Communications and decisions are easier to transmit.
- The measurement and output of each function can be easier to facilitate.
- Status is given to each function.
- Control is made easier to facilitate.

The disadvantages to this type of structure are:

1. Functional department can become too large and are more difficult to manage.
2. Employees may focus on department goals rather than organisational goals.
3. The larger the function the more costly it becomes.
4. Management development becomes more difficult as there may be a lack of cross-functional experience.
5. Competition between functions can develop.

Organisation by Product Division/SBU

Ingredients: A global provider of customised food ingredients for the food processing industry.



Bio-science: Provide Bio-ingredients and Pharma-ingredients for the beverage and food industries.

Flavours: This division focuses on global markets creating sweet, savoury, and dairy flavours.

Agribusiness: This division ensures the efficient production of quality milk in line with Dairy Hygiene Regulations.

Foods: This division has eight business units under which the company's food products and services are marketed:

- Kerry Foods Ireland
- GB Brands
- Direct to Store (UK)
- Ready Meals & Convenience Products
- Cooked Meats & Speciality Poultry
- Frozen Meals & Snacks
- Foodservice
- Liqueurs

Source: Kerrygroup.com

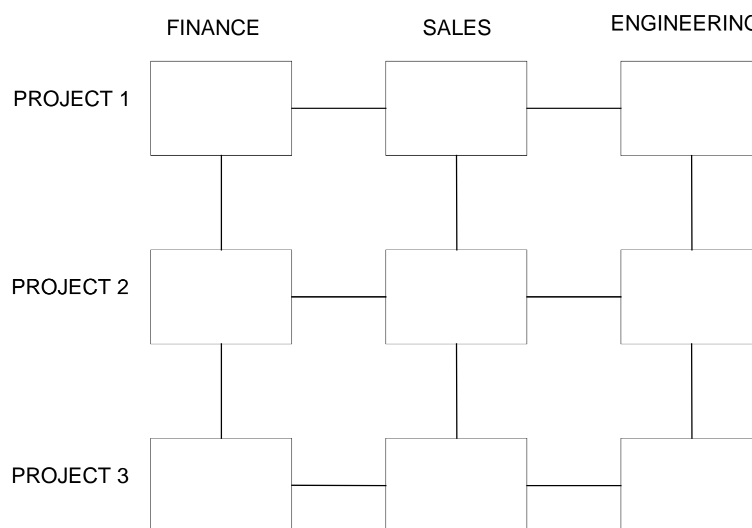
The advantages to this type of structure are as follows:

- Product departments can be evaluated as profit centres.
- As the business grows or declines additional profit centres can be added or consolidated.
- The co-ordination of activities between functions can occur more quickly.
- Each product department can focus on the needs of customers.
- Management development within a SBU or profit centre occurs across a variety of activities.
- Staff are focused on the product objectives and not distracted by wider organisational goals.

Some Disadvantages are:

- Co-ordination among specialised product areas can be problematic.
- Duplication of functional services.
- Less Communication and interaction among functional specialists.
- There is an emphasis on the product rather than the organisational goals and objectives.

Matrix Organisation Structure



The matrix structure is appropriate where an organisation engages in distinct and significantly large projects that are unique, for example construction companies may have a number of unique projects running simultaneously, E.g. bridge building, tunnel building and commercial development. Staff will belong to a functional group but will also be members of a project team.

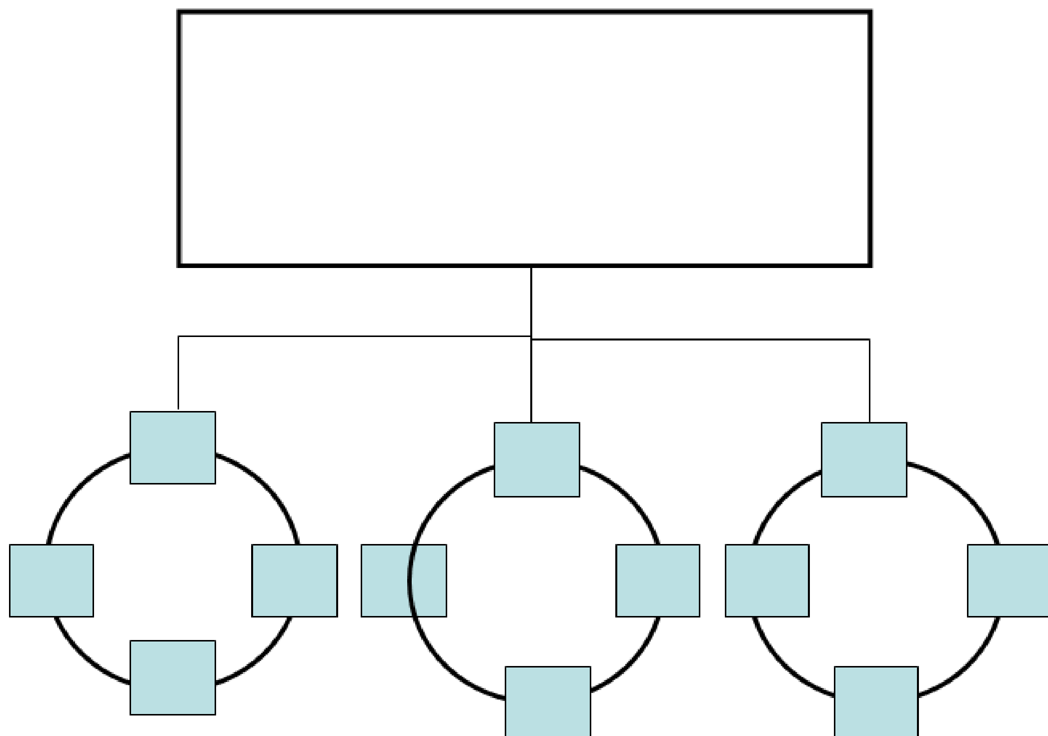
The Matrix structures have the following advantages,

- Human Resource knowledge and experience is maximised.
- Specialists are available to work across a number of projects.
- It provides an opportunity to train and develop management skills.
- The Project manager is central to the delivery of the project.

The disadvantages to the Matrix structure is as follows,

- Power struggles can occur between project managers and functional managers.
- Interpersonal and command conflict may exist where dual reporting is required.
- Project teams can promote narrow viewpoints that are in conflict with organisational goals and objectives.
- Speed of decision making can be slower than with other forms of structures.

Team Based Organisation Structure



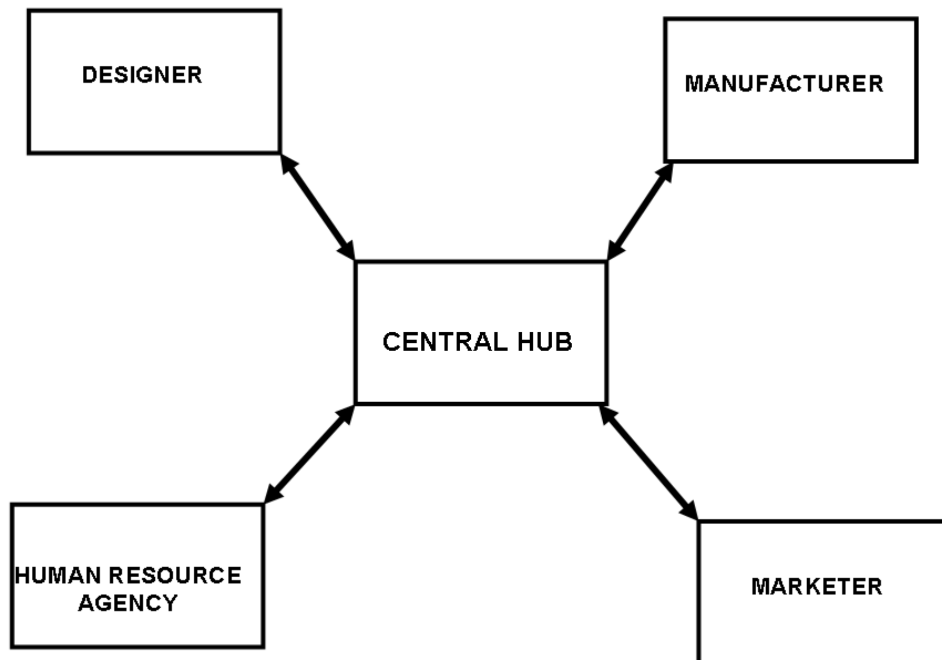
This is becoming a common approach to implementing a team concept in organisations. There are two types:

The cross-functional team which consists of employees from different departments who are responsible to meet as a team and resolve mutual problems. These teams may also be used to manage change in the organisation or new product development.

The Virtual Team – see below

The Virtual Network Organisation Structure

Organisations are now challenging the conventional approach to organisation by developing loosely interconnected groups beyond the boundaries of the organisation. These teams collaborate together in the delivery of strategic goals. Organisational virtual teams located in international locations are designing and producing products e.g. Air bus, where for one product an aeroplane, the constituents parts are made by different companies in different countries. Whilst many other organisations are collaborating with other organisations to enhance their product offering in the pursuit of increased market share, e.g. Google and You Tube. However many organisations take the virtual approach of simply outsourcing non-core activities.



Centralisation V Decentralisation

A particular problem which arises from the division of work and activities is the extent of centralisation or decentralisation.

A decentralised organisation is one which the authority to commitment, money and materials is widely diffused throughout every level of the organisation.

A centralised organisation is one where little authority is exercised outside the key group of senior managers.

The advantages of decentralised are as follows:

- Top management are free to concentrate on their strategic responsibilities.
- It speeds up operational decisions.
- It allows local management to be flexible.
- It can contribute to staff motivation.

The main disadvantages of decentralisation are,

- It requires good control and communication systems.
- It requires greater co-ordination by management.
- It can encourage parochial attitudes.
- It requires a supply of well-motivated managers.

On balance the advantages of decentralisation outweigh the disadvantages because of the pressure on modern organisations to be flexible and respond quickly to the business environment.

Henry Mintzberg Classification of Organisation Forms

According to Henry Mintzberg, an organisation's structure is largely determined by the variety one finds in its environment. For Mintzberg, environmental variety is determined by both environmental complexity and the pace of change. He identifies four types of organisational form, which are associated with four combinations of complexity and change.

	Simple	Complex
Stable	**Machine Bureaucracy** Standard work process and outputs	**Professional Organisation** Standard skills and norms
Dynamic	**Entrepreneurial Start-up** Direct supervision	**Adhocracy** Mutual trust

To help explain each of the four organisational forms, Mintzberg defines five basic organisational subunits.

Subunit **Example positions from a manufacturing firm.**

1. **Strategic Apex:** - Board of Directors, Chief Executive Officer
2. **Technostructure**: - Strategic Planning, Personnel Training, Operations Research, Systems Analysis and Design
3. **Support Staff**: - Legal Counsel, Public Relations, Finance/Payroll, Mailroom Clerks, Cafeteria Workers
4. **Middle Line:** - Operations Manager, Marketing Manager, Plant Managers, Sales Managers
5. **Operating Core**: - Purchasing Officer, Machine Operators, Assemblers, Sales Persons, Dispatchers.

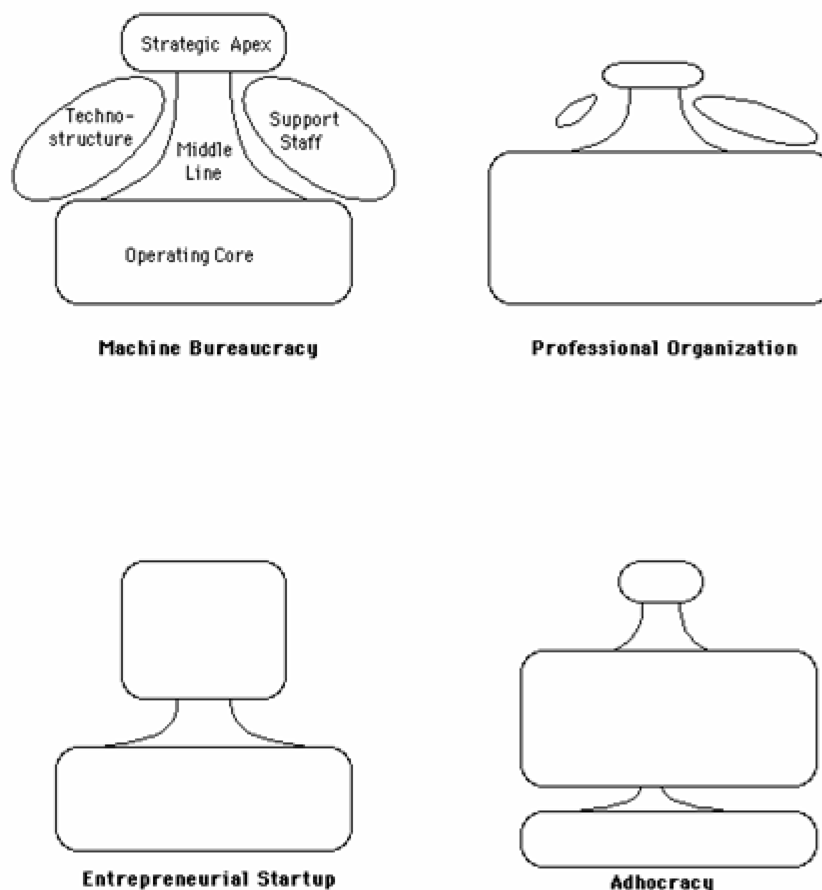
In each particular form, different subunits tend to have greater influence.

Machine Bureaucracy: Technocrats, standardised procedures and output dominate.
Machine Bureaucracy is highly specialised, routine operating tasks with very formalised procedures in the operating core. A proliferation of rules, regulations, and formalised communication throughout the organisation; large-sized units at the operating level; reliance on the functional basis for grouping tasks; relatively centralised power for decision making; and an elaborate administrative structure with sharp distinctions between line and staff.
Because the machine bureaucracy depends primarily on the standardisation of its operating work processes for co-ordination, the technostructure - which houses the analysts who do the standardising - emerges as the key part of the structure.
Machine bureaucratic work is found, above all, in environments that are simple and stable.

Professional Organisation: Professionals in the operating core (e.g. doctors, accountants, professors) rely on roles and skills learned from years of schooling and indoctrination to co-ordinate their work. The professional relies for co-ordination on the standardisation of skills and its associated design parameter, training and indoctrination. It hires duly trained and indoctrinated specialists -professionals- for the operating core, and then gives them considerable control over their work. Control over his/her own work means that the professional works relatively independently of their colleagues, but closely with the clients they serve. Most necessary co-ordination between the operating professionals is handled by the standardisation of skills and knowledge - in effect, by what they have learned to expect from their colleagues.

Entrepreneurial Start-up: Managers in the strategic apex directly supervise the work of subordinates. This structure is characterised, above all, by what is not elaborated. Typically, it has little or no technostructure, few support staffers, a loose division of labour, minimal differentiation among its units, and a small managerial hierarchy. Little of its behaviour is formalised, and it makes minimal use of planning, training, and liaison devices. Co-ordination in the simple structure is effected largely by direct supervision. Specifically, power over all-important decisions tends to be centralised in the hands of the chief executive officer. Thus, the strategic apex emerges as the key part of the structure; indeed, the structure often consists of little more than a one-person strategic apex and an organic operating core.
Most organisations pass through the simple structure in their formative years. The environment of the simple structure tends to be at one and the same time simple and dynamic

Adhocracy: Teams of professionals form the operating core, while support staff and technostructure rely on informal "mutual adjustment" to co-ordinate their efforts. In adhocracy, we have highly organic structure with little formalisation of behaviour. Job specialisation based on formal training; a tendency to group the specialists in functional units for housekeeping purposes and to deploy them in small, market-based project teams to do their work; a reliance on liaison devices to encourage mutual adjustment, the key co-ordinating mechanism, within and between these teams.



Planning and Control Systems

Structure may be important in the co-ordination of organisational resources but what makes organisations work are the processes. These processes can also be considered as controls which may aid or hinder putting the strategy into action.

Types of control processes:

TYPES OF CONTROL PROCESSES

	INPUT	OUTPUT
DIRECT	•Direct supervision •Planning processes	•Performance targeting
INDIRECT	•Cultural processes •Self control	•Internal markets

Control processes can be subdivided in two ways:
Input controls: the emphasis is on how resources are consumed in the strategy i.e. financial, human etc.
Output controls are focused on targets and performance measurement.
The second subdivision is between direct control and indirect control. Indirect is more hands off by management while direct control involves close supervision of staff.

The six approaches to control processes are as follows:

1. Direct supervision: the direct control of strategic decisions by one or few individuals. It is a dominant process in small organisations.
2. Planning process: regarded as administrative control it is the allocation of resources and monitoring their utilisation, methods such as standardisation of work practices and (ERP) enterprise resource planning system aid this form of control.
3. Self-control and personal motivation: this is achieved by integration of knowledge and co-ordination of activities by the direct interaction of individuals without supervision.

4. Cultural processes: here we are concerned with organisational culture and norms of behaviour.
5. Performance targeting processes: this relates to the outputs of an organisation such as product quality, pricing, or profit. Balance score cards have been used to widen the scope of performance targeting.
6. Market processes: this involves some formalised system of contracting for resources or inputs from other parts of the organisation. Internal markets normally require the establishment of inter service level agreement in the delivery of services. Internal markets may also mean business units competing for business amongst themselves for survival.

Enterprise Resource Planning

Enterprise resource planning (ERP) is a method of planning and integrating business resources (materials, employees, customers etc.) through the application of information technology.

An ERP system is a business support system that maintains in a single database the data needed for a variety of business functions such as Manufacturing, Supply Chain Management, Financials, Projects, Human Resources and Customer Relationship Management.

An ERP system is based on a common database and a modular software design. The common database can allow every department of a business to store and retrieve information in real-time. The information should be reliable, accessible, and easily shared. The modular software design should mean a business can select the modules they need, mix and match modules from different vendors, and add new modules of their own to improve business performance.

Ideally, the data for the various business functions are integrated. In practice the ERP system may comprise a set of discrete applications, each maintaining a discrete data store within one physical system.

The Balanced Score Card

The balanced scorecard is a management concept which helps managers at all levels monitor results in their key areas. An article by Robert Kaplan and David Norton entitled "The Balanced Scorecard - Measures that Drive Performance" in the Harvard Business Review in 1992 sparked interest in the method, and led to their business best-seller, "The Balanced Scorecard: Translating Strategy into Action", published in 1996. The balanced scorecard forces managers to look at the business from four important perspectives. It links performance measures by requiring firms to address four basic areas.

There's nothing new about using key measurements to take the pulse of an organisation. What's new is that Kaplan and Norton have recommended broadening the scope of the measures to include four areas:

1. **The Financial Perspective:** The delivery of financial expectations, consistently. Types of measures used are: ROCE, cash flow, profitability, reliability of performance and shareholder value.

2. **The Customer Perspective:** This relates to the extent of customer satisfaction, of their needs of the business and the market segments in which they, the businesses, compete e.g. satisfaction based on value, reliability, price or quality.

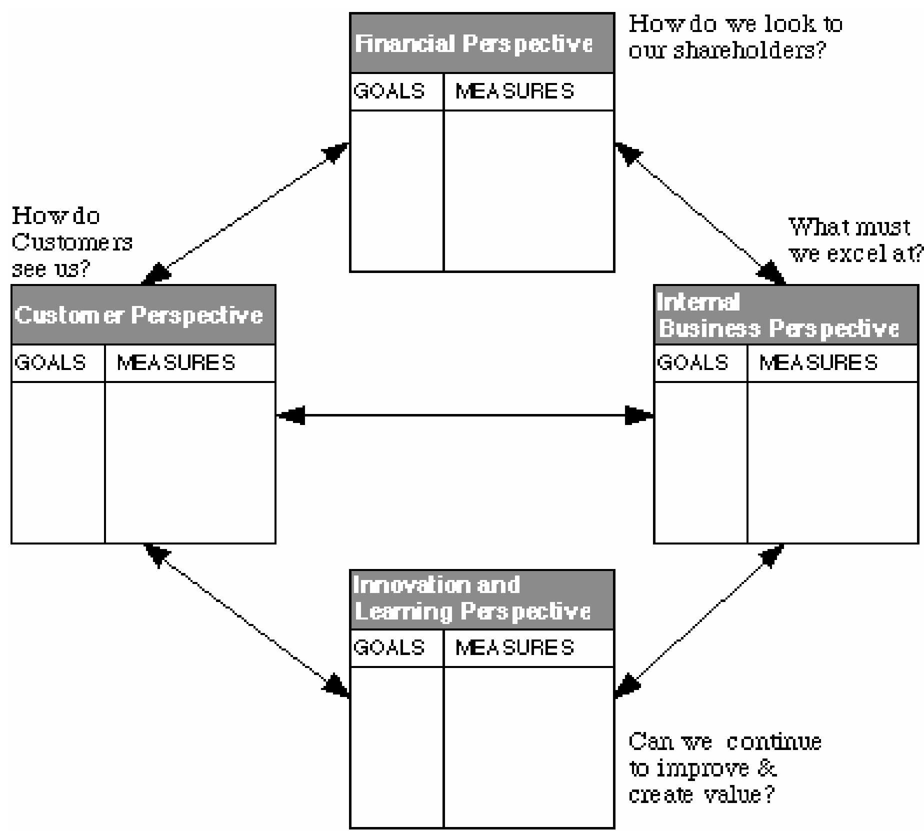
3. **The Internal Perspective:** focuses on what an organisation must excel at to meet the customer needs defined in the Customer Perspective e.g. faster delivery of service or more reliable products achieved by better production processes or improved quality of materials.

4. **The Growth/Innovation Perspective:** The focus here is on how a business is improving its ability to innovate, improve, and learn so as to enable success with the critical operations and processes defined in the Internal Process Perspective.

This allows the monitoring of present performance, but also tries to capture information about how well the organisation is positioned to perform well in the future.
Kaplan and Norton cite the following benefits of using the balanced scorecard:

- It focuses the whole organisation on the few key things needed to create breakthrough performance.
- Helps to integrate various corporate programmes, such as quality, re-engineering, and customer service initiatives.
- Breaks down strategic measures to local levels so that unit managers, operators, and employees can see what's required at their level to roll into excellent performance overall.

Using on-going performance measures, an organisation can determine what activities to focus on to improve its competitive position.



B. MANAGING KEY ENABLERS

People

Managing key enablers is concerned with the two way relationship between overall business strategy and strategies in the separate resource areas such as finance, technology and people.

The knowledge and experience of people can be key factors enabling the success of the strategies. However they can also hinder the successful adoption of new strategies, therefore people related issues are a central concern and responsibility to most managers. Most organisations will attempt to ensure that Human Resource policies are designed to complement any intending strategy.

People as a Resource

Strategic capabilities are central to the successful implementation of strategy and how resources are deployed, managed and controlled and in the case of people motivated to create core competencies.

The activities of the HR function can enable successful strategy in the following ways:

- Audits: to assess HR requirements that aids the development of core competencies.

- Goal setting performance assessment: empowering management to evaluate the performance of subordinates in a 360 degree appraisal thereby linking performance to strategy.
- Many organisations utilise reward mechanisms as an incentive to individuals and teams in the execution and delivery of strategies. The challenge is to ensure the incentives do not hamper the delivery of the strategy.
- Recruitment: Recruitment is important in the delivery of strategy as the organisation may need to source new skills, redeploy existing staff or put in place succession planning for the future.
- The replacement of training and development in favour of coaching and mentoring to support self-development. This is important where organisational change in on going.

ENABLING STRATEGIC SUCCESS

People and Behaviour

People are not like other resources, they can influence strategy both through their competence and behaviour. As the McKinsey model demonstrates: the "soft " side of management and how it is concerned with behaviour and is sometimes neglected in favour of harder issues.

Therefore managers and their actions may influence behaviour which in turn may determine the success of the strategy.

Managers must be clear about their actions and their impact on organisational strategy e.g.

- Managers must be people oriented and understand the softer aspects of management that can help deliver a strategy.
- Understand the relationship between behaviours and strategic logic. This is important to focus on the correct form of behaviour.
- Be realistic about the difficulty and timescales in achieving behavioural changes.
- Vary the style of management under different circumstances.

The Human Resource Function

A company's workforce represents the most valuable resource the organisation possesses.
It is essential therefore that the workforce be managed in such a way that their efforts are continually contributing towards improving and sustaining organisation performance.

The origins of modern day personnel management lie in the dramatic changes brought about by the industrial revolution in the UK and Europe, indeed a central component to the evolution of personnel management was the factory system where large numbers of workers were employed to produce products for mass markets.

The emergence of the scientific school of management (Taylorism) with its standardisation of work systems and methods focused the personnel function, on the careful selection and training of employees along with other functions such as job design, work conditions and remuneration.

Over the years the role of personnel management has developed to the extent that it has become a distinct function within the organisation; issues that have affected this include growth in industrialisation, direct foreign investment, government intervention and the development of the industrial relation machinery. Also people are seen as a resource of production.

In recent times increased competition has forced many companies to seek ways of achieving competitive advantage and this has led to organisations investigating different approaches to workforce management. The most widely debated development has been the emergence of Human Resource Management (HRM). HRM has its roots in the USA and was developed as a method of integrating workforce management with strategic corporate objectives.

There are four broad roles the HR function fulfils in modern organisations,

1. As a service provider e.g. recruiting or arranging training.

2. As a regulator setting the rules within which the line managers operate.
3. As an advisor on issues of HR strategy to line managers to ensure policies and practices are aligned to strategy.
4. As a change agent moving the organisation forward.

The role of the HR function will be shaped by the structural context and the type of strategy to be delivered; to this extent the line managers' responsibilities may differ by varying degrees.

Middle (line) Managers

Line managers are expected to take a central role in managing the human resources and while this gives advantages due to ownership of objectives it sometimes leads to concerns relating to people management and the risk to strategic success. Some concerns are listed below:

1. The risk of expecting managers to be competent HR professionals
2. The short term pressures to meet targets may detract from being people oriented
3. Trade unions have resisted the dispersion of HR functions rather than engaging with a central contact
4. Managers may lack the incentive to take on HR activities
5. There has been the criticism that managers are acting as gatekeepers and block strategic change whereas their involvement is crucial to delivering strategy.

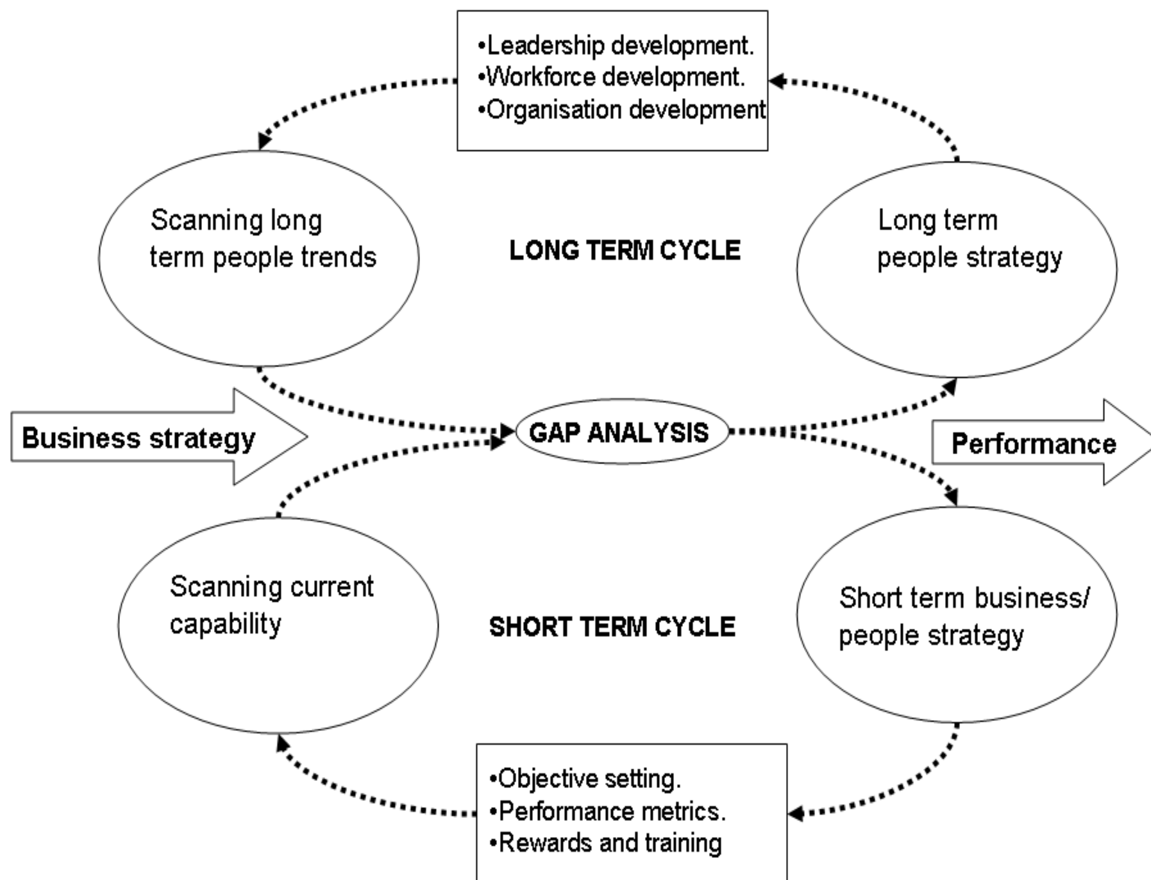
Structure and Processes

As covered widely in earlier sections people may not be engaged in the strategy because the traditional role and structures do not match the future strategy.
Also as strategies require change in behaviour it may be necessary to encourage interrelationships between department, cross functional teams or external third parties.

Management may also consider the involvement of an outside HR specialist or agency to advise on matters around recruitment and selection.

Implications for Managers

The relationship between business strategy and people cannot be under estimated and this is best illustrated in the model below where an organisation focusing on matching management skills and HR strategies in the pursuit of competitive advantage from people.



There must be activities to support the strategy e.g. performance rewards, objective setting, and training.

There must also be a platform upon which the strategy can be built in the long term e.g. leadership, culture and competencies.

The cycles of leadership and performance management must be linked. Short term goals must not be at the expense of long term capability e.g. the individual bonus schemes may prohibit the creation of new roles and relationships to develop a more innovative organisation. Therefore it is important to connect activities to the strategy.

The organisations that can optimise peoples' competencies, behaviour and processes in the pursuit of strategy may be best positioned to gain competitive advantage.

Human Resource Planning Recruitment and Selection

Human Resource Planning

Human resource planning is the basis of effective personnel management since it involves forecasting human resource needs for the organisation and planning the steps necessary to achieve them.

As organisations are continually working in ever changing environments, their survival is becoming more dependent on the quality of staff employed and thereafter their utilisation. It is with this in mind that the function of human resource planning is concerned with the recruitment of employees with the right qualifications, knowledge, necessary skills for effective functioning and who will "fit in".

The following benefits may accrue from human resource planning,

1. The reduction of personnel costs through the anticipation of shortages or surpluses of human resources which can be corrected before they become unmanageable.
2. Employee development to make optimum use of workers' aptitudes.
3. The overall improvement of the business planning process.
4. The provision of equal opportunities for all categories of employees.
5. The greater awareness of the importance of sound personnel management at all levels of the organisation.
6. The provision of a tool for evaluating the effects of alternative personnel policies.

Source: Walker J, 1988

There is an explicit link between human resource planning and other organisational functions such as strategic planning, economic and market forecasting and investment planning. Human resource planning is therefore a corporate level activity and relies on the accuracy of firm future plans and direction - the most important aspect of plans being the resource utilisation at operations level.

The Stages in Human Resource Planning

Stocktaking

Stocktaking is about identifying those variables that influence organisational operations.

External environment – labour market, Government policies, education/training, technology.
Internal environment - Corporate objectives, sales targets, profits, product or service, HR systems, work practices, employee development, workforce profile.

Forecasting
The forecasting stage involves forecasting both the supply and demand for labour. This is a difficult task as it involves predicting how many employees will be needed into the future (based on past trends and likely future business functioning) and determining where future employee are likely to be obtained (supply analysis). Planning therefore is a speculative exercise relying heavily on past experience and the development of hypotheses concerning the future.

Besides the external influences which determine the supply of labour to the organisation there are factors internal to the organisation which affect the supply of labour e.g. natural wastage, absenteeism and age profile of the workforce; these factors can be analysed using quantitative methods,

To calculate natural wastage or labour turnover:

$$\frac{\text{Number of employees who leave in one year}}{\text{Average number employed in that year}} \times 100 = \%$$

To calculate absenteeism:

$$\frac{\text{Total absence (days/hours) in a particular period}}{\text{Total possible work-time (days/hours)}} \times 100 = \%$$

To calculate the age profile:

Plot the age levels of employees on a graph against roles and responsibilities. This will highlight bottlenecks in issues such as the promotional system or retirement effects on the organisation.

Externally the organisation will examine unemployment trends, levels of vocational training, and the appropriateness of college courses. Other influences could be government legislation, the local skills base.

Planning

Once the supply and demand analysis has been completed the organisation can determine where the imbalances occur if any and the range of options available to it. If a recruitment drive is necessary then the costs and benefits associated with this will be examined before a strategy is drawn up.

Implementation

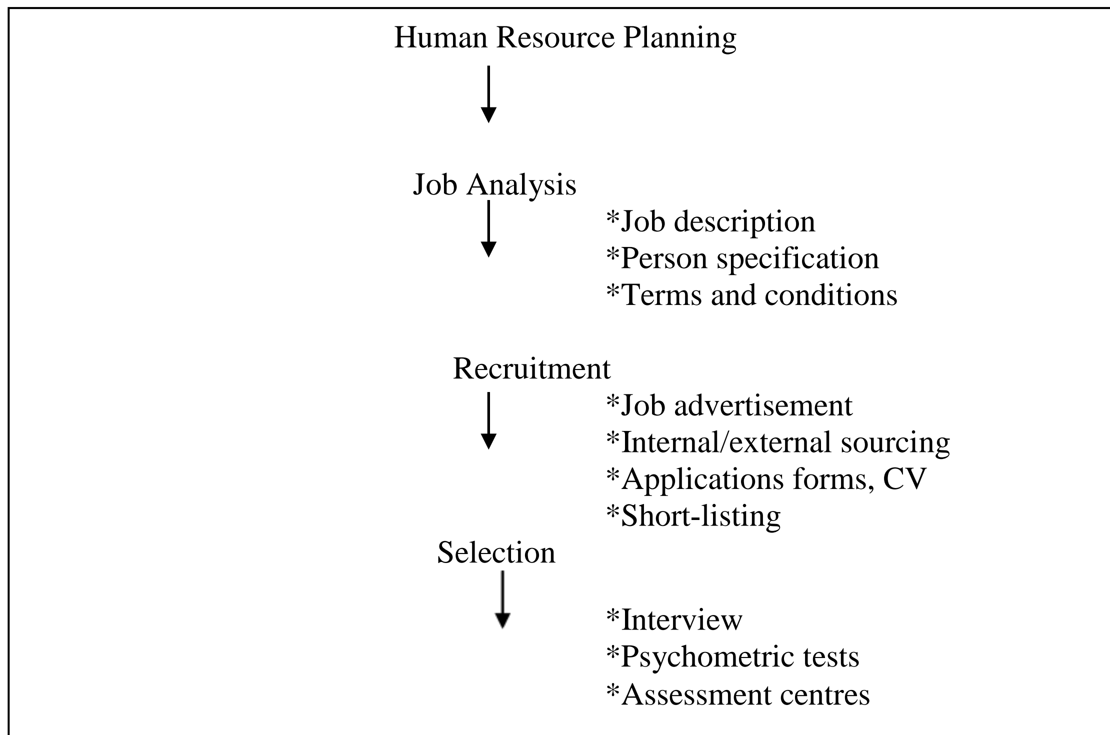
Once the human resource plan is drafted the company implements its decisions and the cycle of analysing the organisations human resource demands begins again.

Recruitment and Selection/Process

The process of recruitment and selection is concerned with job analysis, sourcing the candidates, assessing the possible candidate's suitability, and executing an induction programme.

Conducted properly the recruitment and selection process should match peoples' capabilities and career expectations with the demands and rewards offered by the organisation.
It is appropriate therefore to distinguish between the two phases of recruitment (attracting candidates to the vacancy) and selection (choosing the right candidate).

The Recruitment and Selection Process (Source: Personnel & Human Resource Management 1997)



Job Analysis

When an organisation makes the decision to fill a vacancy through recruitment the first stage in the process is conducting a comprehensive job analysis. The job analysis may have already been determined at the human resource planning stage. The job analysis forms the bases for developing three critical recruitment and selection tools.

Job description

The job description outlines to the potential employee the details of terms and conditions of employment.

The elements of a job description are,

- Job title
- Department
- Reports to
- Main tasks
- Staff responsibilities
- Rewards and conditions

Job descriptions are broad statements of purpose, scope and duties and are critically important when attracting potential employees by means of vacancy advertisements.

Person specification

The person specification is a description of the ideal person to fill the job and includes details of qualifications, knowledge, specific skills, and aptitudes, experience and personal attributes that are required to do the job.

A person specification is important for a number of reasons, firstly it describes the kind of person needed to fill the vacancy, secondly it determines where advertising should be focused (local paper or college graduates), thirdly it facilitates short-listing of candidates.

It is essential therefore that the person specification matches the job description.

Sample Person Specification:

	Essential Requirements	**Desirable Requirements**
Education	Degree/Diploma	Role specialisation
Experience	Job related experience	Number of years of experience
Motivation	Ambitious to succeed etc.	Ability to motivate others
Disposition	Outgoing/ Team player	Flexibility in work, able to change to another role easily.

Terms and conditions of employment

Terms and conditions are often included in the job description. They specify the effort reward relationship and include hours to be worked, methods of payment, job entitlements (holidays, bonuses) and other benefits. The terms and conditions are important in attracting potential candidates and should conform to current employment legislation.

Recruitment

The recruitment process is important for three reasons:

1. To attract a pool of suitable applicants for the vacancy,
2. To deter unsuitable candidates from applying,
3. To create an important image of the company

Recruitment normally involves placing an advertisement. However there are alternative methods available to a company, below are some examples.

- Internal recruitment,
- Supervisor/Manager recommendations,
- Search consultants,
- Unsolicited enquiries,
- Government training schemes,
- Professional referrals,

Screening and Short-listing

Once applications have been received companies must devise ways of analysing their suitability for short listing. At this stage the person specification becomes a vital tool for identifying suitable and unsuitable applicants.

The following matrix can facilitate in making an informed decision regarding an applicant's suitability.

Criteria	**Candidate No 1**	**Candidate No 2**	**Candidate No 3**
Education/Training			
Attained further education	Yes	Yes	No
Job related management training	No	Yes	No
Abilities/Skills			
Communication skills	Yes	No	No
Leadership skills	Yes	Yes	Yes
Planning and Organisation	No	No	Yes
Interests			
Involved with people	Yes	Solitary activities	No evidence

Source: Selected from Dale (1995)

The matrix is used to eliminate those applicants who fail to achieve minimum criteria and so a short list is compiled.

The Selection Interview

Although every effort is made to match the person specification to the job description it is important to note that the process of interviewing is not without bias or error on the part of the interviewer.

From research conducted by Anderson and Shakleton (1993) a number of the more common errors and biases have been classified.

- **The expectancy effect:** Interviewers can form a positive or negative impression of candidates based on biographical information presented in an applicant's CV (see Glossary) and this can affect subsequent decisions.
- **The information seeking bias:** Interviewers seek information from the interviewee that confirms their initial expectations.
- **The primacy effect:** Interviewers may form impressions about a candidate's personality within the first few minutes based upon the comments of the interviewee.
- **Stereotyping:** Forming opinions on an interviewee based on nationality, sex, religion.
- **Horn/halo effect:** Based upon information, the interviewer may look favourably or unfavourably on a candidate.
- **Contrast and quota effects**: Interviewers may be influenced by the decisions made on earlier candidates and by pre-set quotas.

It is important therefore to have a balanced interview panel with the experience and knowledge to put the appropriate choice of questions to the interviewee.

Types of interview questions

- **Direct or closed**: these yield short answers such as 'yes' or 'no', important for getting facts.
- **Leading:** These lead the interviewee to give the answer the interviewer wants.
- **Probing and developing**: pursue a line of questioning by building on a question already asked.
- **Open-ended**: These encourage full answers and allow the interviewee to develop the response.
- **Reflecting back:** Relating to an earlier question the interviewee can restate the response.

A very important element of the interview process is to find out personal qualities to ensure the candidate can fit in with the culture of the organisation. A "fish out of water" may simply flounder and be costly both to the firm as well as to the candidate/employee.

Induction

When the selection decision is made the unsuccessful candidates are notified by mail and thanked for the interest in the vacancy. When the successful candidate accepts the offer it is customary to have a period of induction, probation and training in order to allow the new recruit become familiar with the workings, policies and procedures of the organisation.

Grievance procedures

If the immediate supervisor cannot resolve a conflict, the employee may resolve the problem by going through a grievance procedure. Some organisations have standard procedures which are communicated to the employee during the induction programme or on company bulletin boards.

Sample Grievance Procedure

Issue	**Management**	**Employee/Trade union**
Issue involving local rules	Immediate Supervisor	Employee Concerned
Unresolved issues	Dept. Manager & Supervisor	Employee & Collective or Trade Union Rep.
Unresolved Issue	Personnel Mgr &Line Mgr	Employee & Collective or Trade Union Rep.
Unresolved Issue	Third party investigation,	
Issue remains unresolved	Labour Court	

Disciplinary Action and Termination of contract of employment

When work performance or behaviour is unacceptable it is the supervisor's responsibility to address the problem and to advise on appropriate performance. If the employee does not correct the problem, they face disciplinary action. The employee should clearly understand the disciplinary process. Such procedures usually apply only to employees past their probation period. Those still on probation may be dismissed without warning.

Disciplinary procedures, like grievance procedures, vary from one employer to another and where there are more than ten employees will be found in the internal regulations (Article 138-139 of the law no 13/2009 published of 27 May 2009

The following steps are recommended:

Oral warning. The supervisor warns the employee that his/her performance is not acceptable. This applies only to less serious problems. Serious problems such as drinking or

drug use probably will result in immediate suspension or dismissal. The oral warning goes into the employee's personnel record but is removed later if no further problems arise.
Written warning. Repeated performance problems result in a written warning. This step takes place after an oral warning is issued. A written warning may become a permanent part of the personnel record.

Suspension. Suspension means the employee is not allowed to work for a short period of time, sometimes three to five days. This is unpaid time. The disciplinary action becomes a permanent part of the personnel record.

Dismissal. The final step of any disciplinary process is dismissal. This means the organisation won't tolerate poor job performance any longer. Dismissal becomes a permanent part of the personnel record. It also means that any future employer who contacts the former employer may be told that the employee was dismissed from their job.

Performance Appraisal
The management of performance is a key variable in the effectiveness and growth of an organisation.
In the existing competitiveness of the business environment it is necessary to carefully monitor performance if organisations are to realise improvements in productivity and growth.

As organisations undergo continuing change through de-layering, increasing spans of control, devolution of accountability and responsibility and expectations of employees there is an increasing importance on the abilities of companies to manage the performance of their staff.

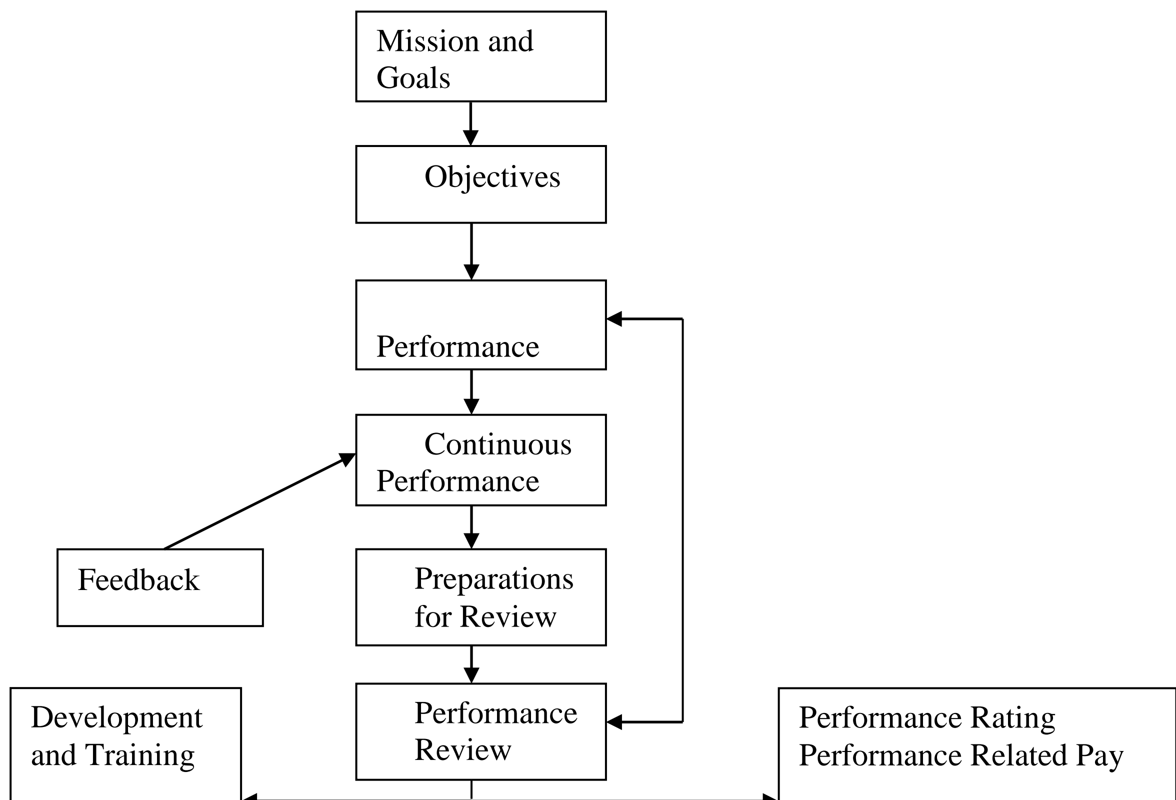
Performance management is essentially a strategic management technique that links the business objectives and strategies to individual goals, actions, performance appraisal and rewards through a clearly defined process.

It has always been the function of management to monitor the resources of the company towards the success of the organisation. In the past this was generally informal and ad hoc. Now there is an increasing use of a formal process of a continuous and integrated approach of appraising rewards and performance. Terms such as performance evaluation, job appraisal, performance assessment or review are used and interchanged when determining an individual's performance against organisational objectives.

When defining performance appraisal it is essentially a companywide activity that is concerned with the continuous assessment and review of performance against predetermined strategic objectives.

Performance management is very similar to Management by Objectives MbO since both systems set objectives however MbO was chiefly concerned with the performance of managers whereas performance appraisal applies to all staff.

According to Armstrong (1995) Performance management can be regarded as a flexible process and offers a conceptual framework of the performance management cycle.



Source: Armstrong (1995)

The Benefits of Performance Appraisal

Benefits to managers

- Opportunity to learn about employees' hopes, fears, job and future,
- Chance to reinforce goals and priorities,

- Mechanism for measuring changes in employee work performance,
- Opportunity to motivate staff,
- Clarification of overlap in roles and responsibilities,

Benefits to employees

- Opportunity to receive feedback on performance,
- Opportunity to communicate views,
- Opportunity to discuss career,
- Recognition of tasks carried out well and objectives achieved,
- Basis for identifying training needs,

Benefits to the company,

- Assistance with succession planning and identification of future potential,
- Facilitation of human resource planning,
- Method of harmonising business objectives and employee performance,
- Method of communicating with employees,
- Opportunity to improve performance,

Source: Evenden and Anderson (1992)

In spite of the benefits of performance appraisal it is essential that management take cognisance of organisational policies, systems and design for PA to be successful.

Methods of Performance Appraisal

The following are methods of appraising staff,

1. **Ranking**: Appraiser rates the employee's performance and behaviour against predetermined scale.

2. **Ranking**: Appraiser ranks workers from best to worst based on specific characteristics or overall performance,

3. **Paired comparison**: Two workers compared at a time and a decision made on which is superior, resulting in a final ranking for the entire group,

4. **Critical incident**: Appraiser observes incidences of good and bad performance. These are used as a way of judging performance.

5. **Freeform**: general free written appraisal by appraiser,
6. **Performance or objective oriented systems**: Appraiser determines if job targets have been met,
7. **Assessment centre**: Appraisees undergo a series of tests or interviews by trained assessors,
8. **Self assessment:** Appraisees assess themselves using a predetermined set format or structure,

Styles of Appraisal Interview

There are three interviewing styles associated with appraisal interviews,

1. Tell and sell: direct and authoritative in nature this involves the manager telling the appraisee how they have evaluated their performance and the fairness of the assessment. This one directional approach allows little feedback from the employee.

2. Tell and listen: similar to above but some attempt is made to actively get the employee to respond to the assessment.

3. Problem solving: Here the manager asks the employee to discuss performance against agreed targets and to express any problems that might be affecting work behaviour.

When conducting the interview always remember to:

Begin the interview with a clear statement of purpose thereby reducing ambiguity.

1. Attempt to establish a rapport with the employee.

2. Discuss the main tasks and responsibilities undertaken by the employee and invite comments, focus on the objectives of their job. Ensure a balanced discussion takes place.

3. Encourage the employee to talk frankly about difficulties they are having with their job.

4. Encourage the employee to develop self-analysis and self-discovery.

5. Bring the interview to a close by summarising what was discussed and what is agreed for the future appraisal period.

Leadership

What is Leadership?

1. *"The ability to influence a group toward the achievement of goals"*. (Robbins:1998).
2. Leadership involves an 'influence' process - whether that is coercive or non-coercive.
3. "a relationship through which one person influences the behaviour of other people" Mullins (1985)

Why is leadership important to organisations?

- A good leader is essential for effective business and organisational performance.
- The ability to provide effective leadership is one of the most important skills a manager can possess.
- Leadership is a widely studied management subject yet there remain many unanswered questions about the leadership phenomenon.

Leadership Functions

Krech et al (1962) identified fourteen leadership functions which demonstrate the complexity of leadership.

1. Executive,
2. Planner,
3. Policy maker,
4. Scapegoat,
5. Expert,
6. Ideologist,
7. Symbol of the group,
8. External group representative,
9. Substitute for individual responsibility,
10. Father figure,
11. Arbitrator and mediator,
12. Exemplar,
13. Purveyor of rewards and punishment,
14. Controller of internal relations.

Leadership Theories

Trait (or Qualities) Theories - Great Man Approach

Trait theories argue that leadership is innate. Leaders are born not made; they attempt to identify a unique set of characteristics that make all leaders great. The theory is simple - find out what makes leaders great and select future leaders who exhibit the same traits. Early research only found a minimal relationship between personal traits and leader success.

Behavioural Theories of Leadership, *(Style) What leaders do*

The difference between Trait Theories and Behavioural Theories lies in the underlying assumption that if Trait Theories were valid then leadership is basically inborn. On the other hand if there were specific behaviours that identified leaders, then we could teach leadership.

Ohio State University (Stogdill and Coons 1957)

One of the earliest studies into leadership behaviour began in the 1940's to classify definitions of leadership. In surveying leaders, they identified two categories - Initiating Structure Style and Considerate Style.

- Initiating structure: (Task oriented) leader defines own role and that of followers, establishes formal lines of communication and determines how tasks are to be performed.

- Considerate style: (Socio-emotional) leader focuses on trust/rapport with followers and attempts to establish a warm, friendly, and supportive climate. Considerate style managers provide open communications, develop teamwork and are concerned for their subordinates' welfare.

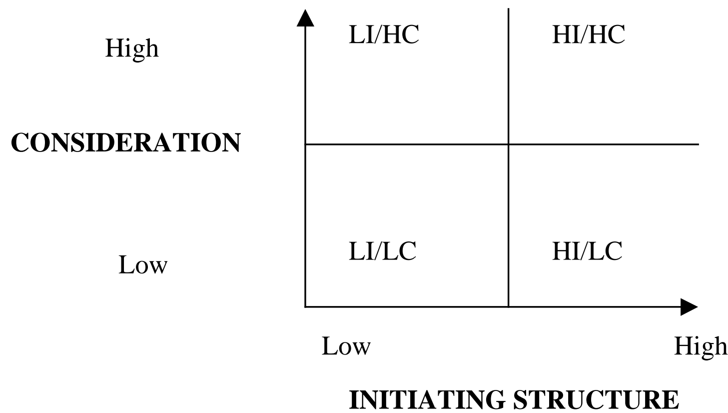
The researchers presented the two dimensions in a matrix as follows,

Leaders in HI/HC *(see table below)* tended to achieve subordinate performance and satisfaction. However this assessment of the theory is now disputed.

The aim was to discover what leaders did in particular situations that encouraged others to follow them.

- They discovered that leadership is multidimensional behaviour
- Effective leaders exhibit different behaviours in different situations

Research has demonstrated that both of these behaviours are necessary at different times for leader effectiveness (surrogate leader)



•Initiating structure, (Task) leader defines own role and that of followers.

•Consideration style, (Socio-emotional) leader focuses on trust/rapport with followers.

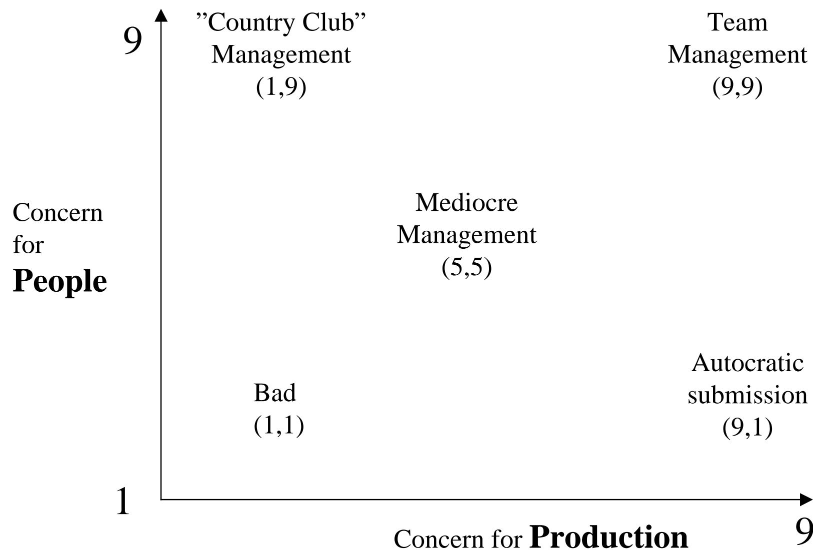
University of Michigan Studies (Rensis Likert 1960)

These studies occurred about the same time as the Ohio Studies. The objective of the research was to locate behavioural characteristics of leaders that appeared to be related to measures of performance effectiveness. The most effective leaders were those who focused on the human needs in order to build effective teams and thereby improved performance.

The Michigan Studies identified two classifications of leaders - Employee oriented (interpersonal) and Production oriented (technical).

Employee oriented leaders established high performance goals and displayed supportive behaviour towards subordinates. The less effective job or production oriented leaders tended to be less concerned with goal achievement and human needs in favour of meeting schedules, keeping costs low and achieving productivity.

Blake & Mouton's "Managerial Grid"



The Blake and Mouton Managerial/Leadership Grid

The Blake and Mouton Managerial/Leadership grid provides a framework for understanding and applying effective leadership. The grid is a two-dimensional leadership theory that measures a leader's concern for people and production. Each axis on the grid is a 9-point scale, with 1 meaning low concern and 9 high. Concern for production pertains to getting results and achieving objectives with little regard for the people involved.
Concern for people emphasises healthy interpersonal relationships in the work group.

Team management (9.9) is often considered the most effective style and is recommended for managers because organisation members work together to accomplish tasks. The leader leads by positive example and works to foster a team environment in which all team members can reach their highest potential both as team members and as people. The leader encourages the team to reach team goals as effectively as possible and works to strengthening the bonds among the members.
Blake and Mouton argue that team management is always the best style to adopt since it builds on long-term development and trust. In order to be truly effective, this style of leadership requires an appropriate cultural fit; i.e. the value set of the organisation must seek to support this style of leadership.

Country club management (1.9) occurs when primary emphasis is given to people rather than work outputs - low task, high relationship: This leader uses predominantly reward power to maintain discipline and to encourage the team to accomplish its goals. Conversely, he/she is almost incapable of using the more punitive coercive and legitimate powers. This inability results from the leader's fear that using such powers could jeopardise his/her relationships with the team members.

Task management (9.1) occurs when efficiency in operations is the dominant orientation. It is usually associated with an authoritarian Leader - high task, low relationship. People who get this rating are very much task oriented and are hard on their workers (autocratic). There is little or no allowance for co-operation or collaboration. Heavily task oriented people display these characteristics: they are very strong on schedules; they expect people to do what they are told without question or debate; when something goes wrong they tend to focus on who is to blame rather than concentrate on exactly what went wrong and how to prevent it;
they are intolerant of what they see as dissent (it may just be someone's creativity) so it is difficult for their subordinates to contribute or develop.

Impoverished management (1.1) means the absence of a management philosophy; managers exert little effort towards interpersonal relationships or work accomplishment.
This style of leader refers to a low task, low relationship. This person might use a "delegate and disappear" management style. Since he/she is not committed to either task accomplishment or maintenance; he essentially allows the team to do whatever it wishes and prefers to be detached from the team process by allowing the team to suffer from a series of power struggles.

Middle-of-the-road management (5.5) reflects a moderate amount of concern for both people and production.

Clearly the top right hand box is where organisations should be in terms of team leadership.

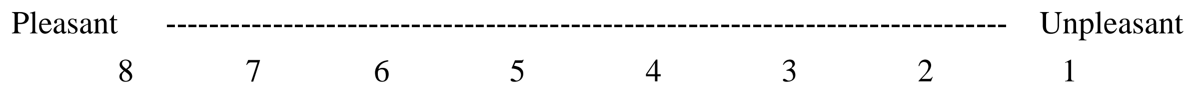
Modern Leadership Theories - Contingency/ Situational Approaches

The contingency theory of leadership states that the leader, to be effective, must adjust his or her style in a manner consistent with critical aspects of the organisational context, such as the nature of the task, and attributes or skills of employees carrying out the work".

One of the first leader-situation models was developed by F E Fiedler (1967). His contingency model was based on studies of a wide range of group situations and concentrated

on the relationships between leadership and organisational performance. The basic premise is to match the leader's style with the situation most favourable to achieving success.

Fiedler developed a least preferred co-worker (LPC) scale which measures the ratings leaders gave to the person whom they could work with least well.



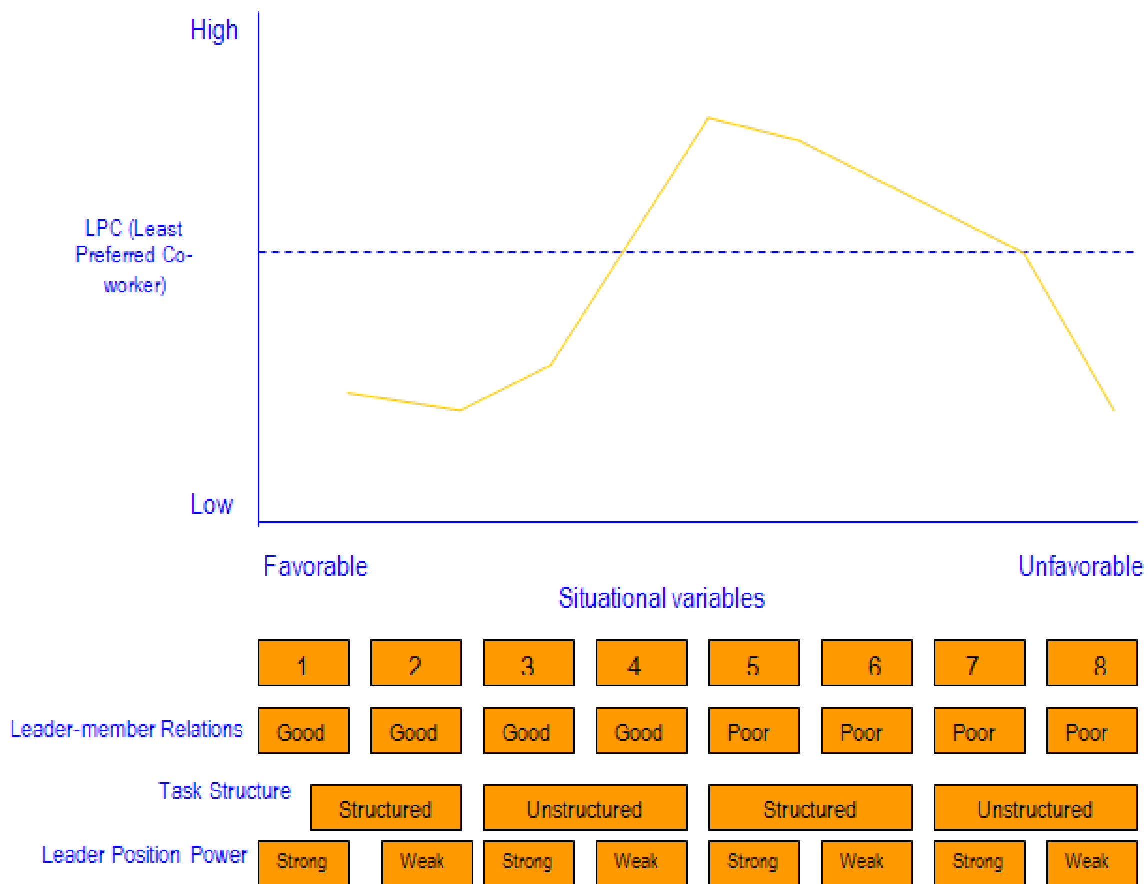
Fiedler suggests that leadership behaviour is dependent upon the favourability of the leadership situation.
There are three main variables which determine the favourability of the situation and which affect the leader's role and influence

1. **Leader-member relations**: the degree to which the leader is trusted and liked and the willingness to follow the leader.

2. **The task structure**: the degree to which the task is clearly defined for the group and the extent to which it can be carried out.

3. **Position power:** the power of the leader by virtue of his/her position in the organisation. Does the leader have the power to plan and direct the work of subordinates.

From these three variables Fiedler constructed eight combinations of group-task situations, from where the situation is favourable (good leader member relations) to very unfavourable (poor leader member relations), etc.



The leader's effectiveness is determined by the interaction of the leader's style of behaviour and the favourableness of the situational characteristics. The most favourable situation is when leader-member relations are good, the task is highly structured, and the leader has a strong position power.

Research on the contingency model has shown that task-oriented leaders are more effective in highly favourable (1, 2, 3) and highly unfavourable situation (7, 8), whereas relationship-oriented leaders are more effective in situations of intermediate favourableness (4, 5, 6).

Fiedler is suggesting therefore that leadership style will vary as the favourability of the leadership situation changes.

Situational Theory - Hersey and Blanchard

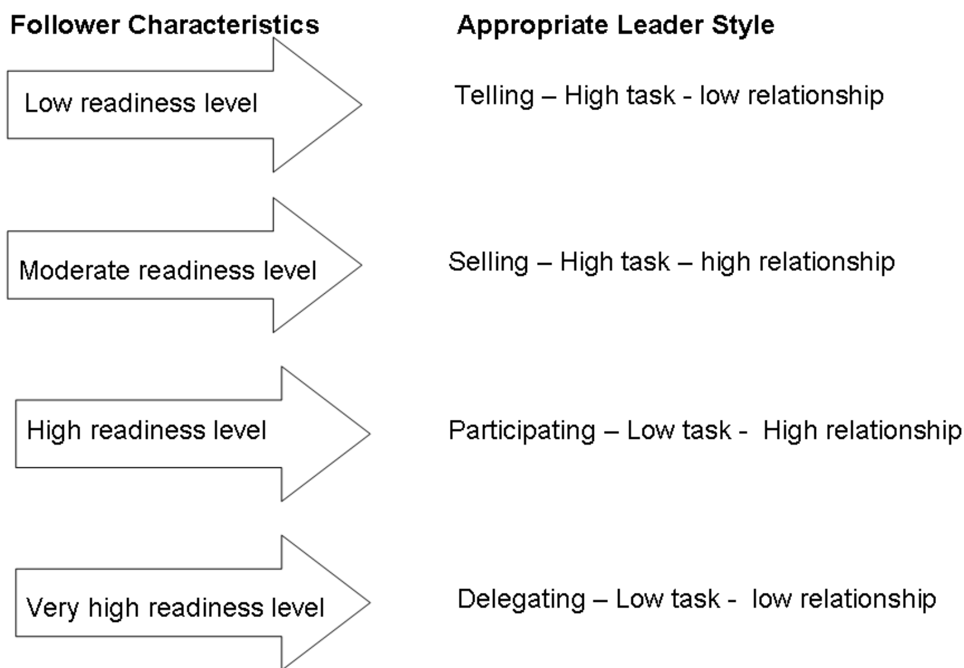
The situational theory is an extension of the behavioural theory. This theory concentrates on the importance of the situation in the study of leadership.

According to situation theory a leader can adopt one of four leader styles:

1. The **telling style** reflects a high concern for tasks and low concern for people. This is a very directive style of leadership.
2. The **selling style** is based upon a high concern for both people and tasks. With this approach the leader explains decisions to followers.
3. The **participating style** shows a high concern for people and relationships and a low concern for production tasks. The leader shares ideas with subordinates and encourages participation.
4. The **delegating style** reflects a low concern for relationships and tasks. The leader provides little direction and no subordinate support.

The essence of the Hersey and Blanchard theory is to select a leader style that is appropriate for the readiness level of the subordinate - their education, skill level, attitude and self-confidence.

The Readiness (R) level of the subordinates is outlined below
R1 - low follower readiness - refers to low ability and low willingness of followers i.e. those who are unable and insecure. Low skill or poorly educated workers require close supervision.
R2 - low to moderate follower readiness - refers to low ability and high willingness of followers i.e. those who are unable but confident
R3 - moderate to high follower readiness - refers to high ability and low willingness of followers i.e. those who are able but insecure. The worker may lack confidence.
R4 - high follower readiness - refers to high ability and high willingness of followers i.e. those who are both able and confident. Professional and highly skilled workers require minimal direction.



Path-Goal Contingency Theory (House and Dessler, 1971)

The Path-Goal theory of leadership suggests that the performance of the subordinates is affected by the extent to which the manager satisfies their expectations. Path-Goal theory holds that subordinates see leadership behaviour as a motivating influence.

House identified four main types of leadership behaviour,

1. Directive leadership: is letting subordinates know what is expected of them and giving them specific instructions.
2. Supportive leadership: involves a friendly and approachable manner and displaying concern for their needs, treats everyone as equals.
3. Participative leadership: involves consulting with subordinates and then evaluating opinions.
4. Achievement oriented leadership: involves setting challenging goals for subordinates. Leader has high standards of excellence and seeks continuous improvement.

Situational Contingencies:

Two important situational contingencies in the Path Goal theory are,

1. The personal characteristics of group members such as skills, needs and motivations. This can be modified through training or coaching.
2. The work environment which includes the task structure, the nature of the formal authority and the work group itself. The amount of power exercised by managers and the extent to which rules constrain employees' behaviour.

Path-goal theory suggests that different types of behaviour can be practised by the same person at different times and in varying situations.

Substitute for Leadership

The final contingency theory contends that situation variables can be so powerful that they substitute or neutralise the need for leadership. This approach is most common in highly professional subordinates who know how to do their tasks and do not need a leader to initiate structure for them and tells them what to do. A substitute for leadership makes the leadership style unnecessary or redundant. The neutraliser counteracts the leadership and prevents the leader from displaying certain behaviours. E.g. where the leader's situation or power is removed from the worker, the leader's ability to give direction is greatly reduced.

In the table below the situation variables are the group, task and the organisation itself, e.g. where subordinates are highly professional, both leadership styles are less important. In the context of task characteristics, highly structured tasks substitute for task oriented leadership and satisfy task substitutes for people oriented style.
The main value of the table below is that it avoids leadership overkill. Leaders should adopt a style that suits the organisation situation.

Substitutes and Neutralisers for Leadership

VARIABLE		**Task oriented leadership**	**People oriented leadership**
Organisational variable	Group cohesiveness	Substitute for	Substitute for
	Formalisation	Substitute for	No effect on
	Inflexibility	Neutralises	No effect on
	Low position power	Neutralises	Neutralises
	Physical separation	Neutralises	Neutralises
Task characteristics	Highly structured task	Substitute for	No effect on
	Automatic feedback	Substitute for	No effect on
	Intrinsic satisfaction	No effect on	Substitute for
Group characteristics	Professional	Substitute for	Substitute for
	Training, experience	Substitute for	No effect on

Differentiating Managers from Leaders

The McKinsey 7S framework helps us to distinguish between the aspects of managing an organisation that relate to managers and those that relate to leaders. Managers assume the ’hard’ aspects and leaders assume the ‘soft’ In reality the ideal manager will be able to combine both ‘hard’ and ‘soft’ aspects.

Managerial Aspects (3) **Leadership Aspects (4)**

Systems , Structure, Strategy = ‘Hard’ Style, Staff, Skills, Shared Goals. = ’Soft’

The 3Ss below are described as 'Hard Ss':

- **Strategy:** The direction and scope of the company over the long term.
- **Structure:** The basic organisation of the company, its departments, reporting lines, areas of expertise and responsibility (and how they inter-relate).
- **Systems:** Formal and informal procedures that govern everyday activity; covering everything from management information systems through to the systems at the point of contact with the customer (retail systems, call centre systems, online systems, etc).

The 4Ss below are less tangible, more cultural in nature and were termed 'Soft Ss' by McKinsey:

- **Skills:** The capabilities and competencies that exist within the company. What it does best.
- **Shared values:** The values and beliefs of the company. Ultimately they guide employees towards 'valued' behaviour.
- **Staff:** The company's people resources and how they are developed, trained, and motivated.
- **Style:** The leadership approach of top management and the company's overall operating approach.

In combination they provide another effective framework for analysing the organisation and its activities. In a marketing-led company they can be used to explore the extent to which the company is working coherently towards a distinctive and motivating place in the mind of consumer.

Kotter (1990) Distinction Between Leaders and Managers

	Leaders	**Managers**
Create Agendas	Establish direction, Develop vision/change strategies	Planning /Budgeting
Building Networks	Alignment of people, Urge vision in teams/individuals	Organising /staffing Delegation, monitoring policies
Execution	Inspiring, Energising others to overcome barriers.	Controlling/ problem solving
Outcomes	Potentially revolutionary, Innovation. Order out of chaos	Order and predictability, Key results expected by others.

Differentiating Management from leadership,
WG Bennis and B Nanus (1985), "Managers do things right' Leaders do the right things'**?**
Management is getting things done through people to achieve stated organisational goals.

Styles of Leadership

The Authoritarian Leadership Style

The focus of power is with the manager, and the democratic style is where the focus is more with the group. There are of course many dimensions with in these broad headings with each having their advantages and disadvantages.

Leading Change

Charismatic and visionary Leadership

Followers make attributions of heroic or extraordinary leadership abilities when they observe certain behaviours.
Studies have focused on those behaviours of charismatic leaders from those of non-charismatic leaders.

Warren Bennis identified four competencies displayed by charismatic leaders:

1. compelling vision of purpose,
2. the ability to communicate the vision to others,
3. demonstrated consistency and
4. focus in pursuit of vision,

This type of leader knows their own strengths and has capitalised on them.
Other competencies include shaping the corporate value system for which everyone stands and also trusting subordinates and earning their trust in return.
Charismatic leaders tend to be less predictable than transactional leaders. They create the atmosphere of change and may be obsessed with visionary ideas.

Transactional /Transformational Leadership

Transactional leaders motivate their followers in the direction of established goals by clarifying role and task requirements. They provide appropriate rewards and try to meet the social needs of subordinates. Transactional leaders excel at management functions.

Transformational are similar to charismatic leaders. However they pay attention to the concerns and developmental needs of followers; they change followers' awareness of issues by helping them to look at old problems in new ways.

Using Power and Influence

Power is the potential ability to influence others. Influence is the effect a person's actions have on the attitudes, values, beliefs or behaviours of others. Within an organisation there are typically five sources of power; the first 3 are position power, the second two are personal power.

1. Legitimate power - comes from the formal management position.
2. Reward power - comes from the authority to bestow rewards on other people.
3. Coercive power - is the authority to punish or recommend punishment.
4. Expert power - resulting from the leader's special knowledge or skill regarding the tasks performed by the followers.
5. Referent power - comes from the leader's personal characteristics that command followers, identification, respect and admiration.

Post Heroic Leadership for Turbulent Times

As the concept of leadership continues to grow and change due to the turbulent times we live in, the focus for leadership is changing to a form known as the "post heroic leadership" which goes un-noticed and often un-rewarded.
The post heroic leader is mostly associated with humility rather than the brash forms of leadership. These are leaders who display characteristics of being unpretentious and modest.

There are five approaches to this form of leadership,

1. Servant leadership: this is a leader who works to fulfil the subordinate needs and goals as well as achieving the organisational mission.
2. Level 5 leadership: is the concept of transforming companies from merely good to great organisations. A key characteristic of a Level 5 leader is the lack of ego and the giving of credit to others for successes.
3. Interactive leadership: is a leadership style characterised by values such as inclusion, collaboration, relationship building, and caring.

4. E-Leadership: is a form of leadership where the subordinate works remotely. Effective e-leaders are set clear goals and timelines and are very explicit about how people will communicate and how they are co-ordinated.
5. Moral leadership: here the leader is tasked with distinguishing right from wrong and choosing to do right in the practice of leadership.

Information and Technology

Managing Information

Information systems and the information technology (IT) that supports systems are now a fundamental force shaping and reshaping the business world - perhaps the single most important force for driving change in the late 20th and early 21st century.
Indeed information management and knowledge creation are issues at the front of managers' minds as a source of improved competitiveness.

Very significant sums of money are being spent on IT and businesses are rightly becoming concerned about getting 'value for money' from their investment. As the IT environment becomes more complex, costs and benefits are harder to define and measure. 'Technology developments and advanced application systems put pressure on the methods which enterprises use to make decisions about the allocation of resources to IT.'

The increased complications of defining costs and benefits and at the same time the increased sense of urgency attaching to decision-making about IT due to its competitive implications pose hard management questions:
'Are we spending enough or too much on IT?'

Information and Product/ Service Features

The enhanced capabilities of IT are enabling organisations to provide product and service features that are valued by customers through,

- Lower prices - such as financial services.
- Improved pre-purchase information.
- Easier and faster purchasing processes.
- Shorter development times for new features.
- Product or service reliability and diagnostics.
- Personalised products or services.
- Improved after sales services.

Information and Competitive Performance

For many organisations information processing and market knowledge are of paramount importance. The concept of Data Mining is the process of sorting through large amounts of data and picking out relevant information that will give the business the capability to achieve a competitive advantage. Data mining is used to find trends, patterns and connections in raw data to inform and improve an organisation's performance e.g. many service industry organisations analyse their customer behaviour in terms of spend and frequency of purchases in the development of products.

Information and Robustness

Information processing can influence the robustness of an organisation's capabilities e.g. increased performance adding value to activities or a competency that competitors find difficult to imitate.

The strategic role of information will need to be different depending on the way the organisation positions its products or services in the market. This is particularly true where organisations have a collection of business units pursuing different strategies. There must be the information capability to support all SBU's but in different ways,

- **Routinisation (creating a routine)** is a method of moving customers to self-service thereby lowering costs e.g. checking in your own baggage at the airport.
- **Mass Customisation** - "producing goods and services to meet individual customer's needs with near mass production efficiency". (Tseng & Jiao - 2001). In other wordsproducts are produced with "optional" added features at lower cost. This is most commonly used with electronic goods and cars.
- **Customisation** - potential customer can access information on products prior to purchase and choose the one he/she considers best. This benefits both the customer and the organisation.
- **The IT Laggards** - those individuals that do not value IT based systems will be more comfortable with traditional information methods e.g. face to face interaction.

Managing Technology

Managing technology is concerned with the relationship between technology and strategic success. Technological development can take several forms each of which may give an organisation an advantage in a different way:

Mechanism	Strategic Advantage	Example
Novelty in product or service	Offer something no one else does	First Walkman, iPod etc.
Novelty in process	Offer in ways others cannot match - lower cost, delivery	On line book sales,
Complexity/Technology	Offering something others find difficult to master.	Rolls Royce and aircraft engines.
Legal protection of intellectual property	Offering something others cannot do without your permission.	Patents, copy right.
Robust design	Offer something which provides a platform for the development of other products.	Boeing 737 over 30 years.
Rewriting the rules	Offer something which represents a completely new product or service	Revolution in how airline flights are booked; The use of containers for long-distance transportation

Some of the factors that shape an organisation's technological use are size, country, industry or products. These different technological developments may have different implications for strategy,

- Supplier dominated developments - how technology has transferred the agri-business by using advances in pesticides, harvesting machinery and gene-modification.
- Scale intensive developments - Such as complex manufacturing systems in automobile and other sectors where advantage is gained through economies of scale.
- Information intensive developments - such as financial services, e-tailing (e.g. Amazon).
- Science based developments - the organisation monitors academic research in the pursuit of acquiring innovative strategic mechanisms.

Technology and Strategic Capability

Core Competencies

Core competencies are unique to organisations and are not easily copied; but technology by itself can be easily imitated. There are exceptions to this especially where technology has been patented but technology also has the potential to reduce core competencies and the organisation should be aware of some of the following issues associated with technology,

- Companies that tie future development to a single technology may run the risk of that technology becoming obsolete e.g. encyclopaedia publishers selling their product only in book form.
- Core competencies may be found in processes or linking technologies rather than in the technology itself.
- Dynamic capabilities, whilst technological, may give advantage but this may be short lived if it is not underpinned with adequate processes. Organisations must be careful how they develop technology if it is not to be copied by competitors.

An important classification tool for organisations is the McFarlan and McKenney IT Grid (1983). It is not the only available classification approach, but it is a straightforward and effective one. Using the Grid system, propositions can be identified according to certain basic characteristics.

The grid has four quadrants built around two management questions (see below).

How important does management feel the current IT systems are to the business?
How important does management think future developments in IT will be for the business; e.g. the impact IT will have on how it operates?

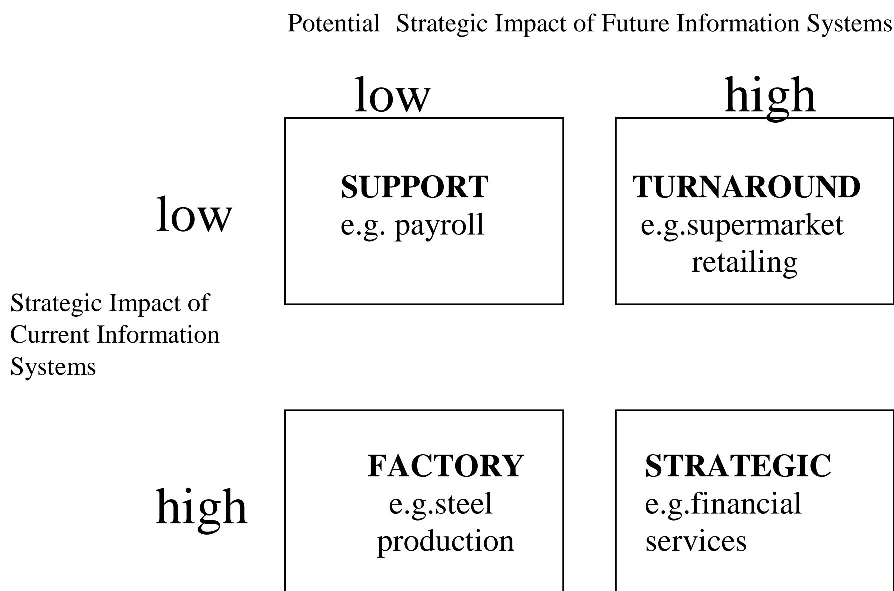
Depending upon the response to these questions the business can be placed in the four quadrants as follows,

Low Current: Low Future Impact. IT has little relevance and simply supports existing business.

Low Current: High Future Impact. It will feature more on the business agenda in the future. Management believes IT will have a major impact on the business in the future and is in turnaround e.g. where supermarkets are developing "e-tailing" and e-commerce is reshaping how customers and suppliers are conducting business.

High Current: Low Future Impact. Here IT plays a factory role and is important in its day to day operations. The maintenance of current systems is important for business continuity.

High Current: High Future Impact. Here IT plays a crucial role from a current and future perspective. IT has a strategic significance as it may sustain or improve competitive advantage.



The McFarlan & McKenney Strategic Grid

Whilst the grid is not perfect, it can create a valuable insight into the nature of system requirement for a business.

Professor Earl's nine reasons for an IT Strategy

Professor Earl of the London School of Economics (LSE) provides a useful list of nine reasons as to why a company should have an IT strategy. Briefly, they are as follows:

1. IT involves high costs.
2. IT is critical to the success of many organisations.
3. IT is now used as part of the commercial strategy in the battle for competitive advantage.
4. IT is required by the economic context (from a macro-economic point of view).
5. IT affects all levels of management.
6. IT has meant a revolution in the way information is created and presented to management.
7. IT involves many stakeholders, not just management, and not just within the organisation.
8. The detailed technical issues in IT are important.

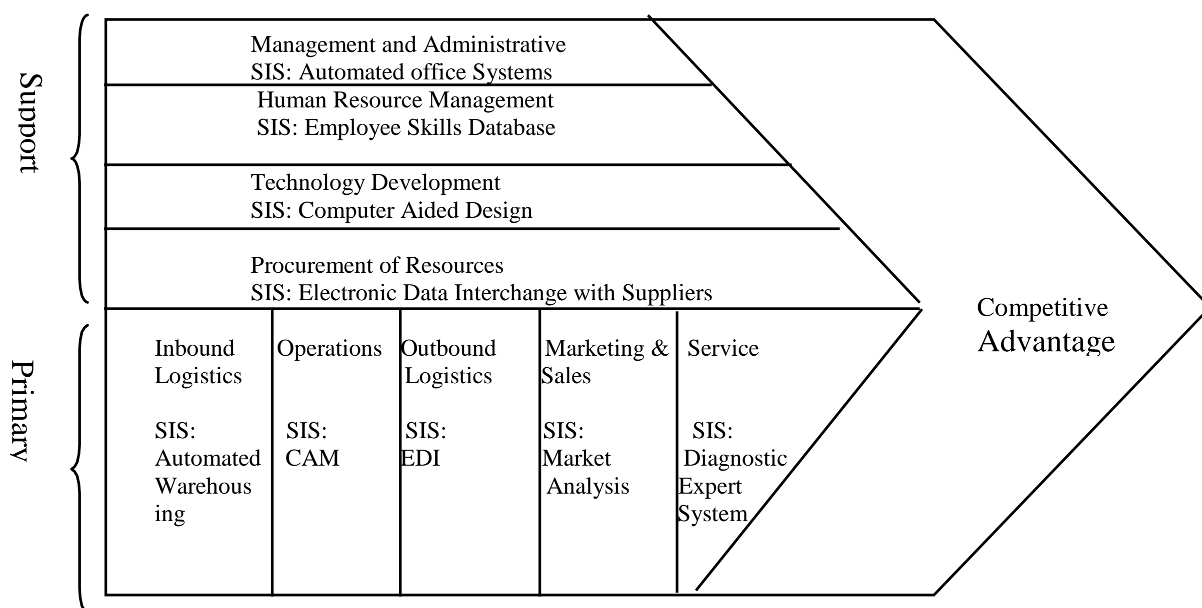
9. IT requires effective management, as this can make a real difference to successful IT use.

Technology in the Value Chain

A frame work that can help identify strategic information systems is the **Value Chain.**
It views the firm as a chain of basic activities, each of which can add value to its products and services and thus add a margin of value or competitive advantage.

The value chain concept can help managers decide where and how to improve the strategic capabilities of information systems technology. Information systems that can improve operational efficiency, promote innovation, and build strategic information resources.

Examples of strategic information systems (SIS) are automated warehousing (inbound logistics), online ordering systems (EDI) (electronic data interchange outbound logistics), CAD (computer aided design) and CAM (computer aided manufacturing).



The Value Chain: How strategic information systems can be applied to a firm

Developing or Acquiring Technology

There are three basic approaches to technological development in an organisation,

In-house developments - may be favoured if the technology is key to competitive advantage or the organisation is in pursuit of first mover advantage.
Alliances - may be appropriate for threshold technologies rather than competitive advantage e.g. an organisation may want to collaborate with a supplier or distributor to add value to their supply chain.

Acquisition of current players or rights - this gives an organisation faster access to the technology and also reduces the learning time. It can also be useful if the knowledge or technology is complex.

However an organisation must have a good understanding of its needs and the capabilities of the technology.
The choice between in-house, acquisition or alliance will depend upon the technology life cycle of the business. The more mature and larger the business the more likely it is to develop in-house.

Information Technology & Knowledge Management

Data versus Information

Data – Raw un-summarised and unanalysed facts and figures.

Information – Data that have been converted into a meaningful and useful context for the receiver.

The job of transferring data into useful information has resulted in the creation of the role of the CIO - Chief Information Officer.

The CIO combines knowledge of technology with the ability to help managers identify their information needs and how the organisation can use its information technology capabilities.

Types of Information Systems

Two Broad Categories of Information Systems

1. **Operations Information Systems** - These support the information processes related to the business day to day operations e.g. transaction action process systems (Customer sales). They help generate reports, customer statements and pay slips.

2. **Management information Systems** - These are systems that provide information and support for effective management information decisions, normally in the form of reports.

Types of MIS:

- **DSS** - Decision Support Systems
- **EIS** - Executive Information Systems

DSS – interactive computer based information systems that use decision models and data bases to assist decision making. Pose what if type questions and test alternative scenarios.

EIS – information systems that facilitate strategic decision making and facilitate the querying of complex systems and data in a timely manner.

Executives can now use information systems that allow them to view a "Dashboard" of key performance indicators (KPI) at their desk top.

Organisations use Groupware *(software)* to connect people or management teams across organisations or even the globe. Groupware facilitates the sharing of information, documents and communications.

Positive Implications of Information Systems

Improved Employee Effectiveness - provides employees with information on customers, markets and competitors.

Increased Efficiency – Speeds up work processes, cutting costs and increasing efficiency.

Empowering Employees – IT allows information to be disseminated to employees at lower levels in the organisation that was not possible before.

Enhanced Collaboration – IT enhances collaboration within organisations and with customers, suppliers and partners.

Information Overload – This occurs where organisations collect and disseminate large volumes of information and employees may struggle to make sense of it all.

The role of the CIO is to ensure the workers get the right information when needed.

Knowledge Management and its Importance to Strategy

We define knowledge as a combination of information and processes whereby the processes relate to an array of information so as to promote rational behaviour and achieve desired goals.

Knowledge management is defined in terms of three components: Information, People and IT

Two Different Perspectives on Knowledge Management

1. The technology-centred perspective; The main promoters are the business process re-engineers and the e-specialists who believe that knowledge equals objects that can be encoded, stored, transmitted and processed by IT systems

2. The people-centred perspective is that of the organisational theorists with backgrounds in psychology, human development, cognition, organisational behaviour, group dynamics and sociology.

Knowledge is the process of systematically gathering knowledge, making it widely available throughout the organisation and fostering a culture of learning.

Two technologies facilitate Knowledge Management

1. Business intelligence software.
2. Corporate Intranets or networks.

Business intelligence software combines related pieces of information to create knowledge. However much of organisational knowledge resides in peoples' heads.

Business Intelligence (BI): Organisations store vast amounts of Data (Data Warehousing). The activity of analysing this data is data mining.

BI refers to the analysis of business data to identify patterns and relationships that might be significant e.g. profitable product lines or market segments.

Intranets are dedicated networks for the sharing and storing of information within an organisation. Intranets contain knowledge management portals which are a single point of access for employees to access multiple sources of information.

Many organisations' departments share information using a document sharing management system such as Sharepoint.

Knowledge Management - A Firm's Intellectual Asset (from Dess, Lumkin & Eisner, Strategic Management)

Today more than 50% of the gross domestic product (GDP) in many developed economies can be knowledge based i.e. it is based on intellectual assets and intangible people skills.
In the knowledge economy wealth is increasingly created through the effective management of knowledge workers instead of efficient control of physical and financial assets. The growing importance of knowledge coupled with the move by labour markets to reward knowledge work tells us that someone who invests in a company is in essence buying a set of talents, capabilities, skills and ideas - intellectual capital not physical or financial resources.

Knowledge Management - Developing a Learning Organisation (from Dess, Lumkin & Eisner, Strategic Management)

Successful learning organisations create a proactive approach to the unknown; they actively solicit the involvement of employees at all levels and enable all employees to use their intelligence and apply their imagination. A learning organisation environment involves organisational commitment to change, an action orientation and applicable tools and methods.

A strategy for empowering people encompasses the following,

- Start at the top,
- Clarify the organisation's mission, vision and values,
- Specify the tasks, roles, and rewards for employees,
- Delegate authority,
- Hold people accountable for results.

Effective organisation must also redistribute information, knowledge and rewards e.g. empowering workers to act as customer advocates in the pursuit of customer satisfaction.

To be this effective staff will need to be trained and this will include communicating business and financial information.

Knowledge Management Definitions

Human Capital – Individual knowledge, capabilities, skills and experience of a company's employees and managers.

Social Capital –The network of relationships that individuals have both inside and outside the organisation.

Explicit knowledge – Knowledge that is codified, documented, easily produced and widely distributed.

Tacit knowledge – Knowledge that is in the minds of the employees based on their experience and background.

Knowledge Asset - It is some combination of context sensing, personal memory and cognitive processes.

Intellectual Capital Management - Intellectual capital includes assets such as brands, customer relationships, patents, trademarks and, of course, knowledge.

Knowledge Economy - An economy where wealth is created through the effective management of knowledge workers instead of by efficient control of physical and financial assets.

C. MANAGING THE CHANGE PROCESS

The management of change has become a top priority for all managers irrespective of the organisation.
Change is occurring at a far greater pace than ever before.

Hussey (1995), argues that change is one of the most critical aspects of effective management and that the turbulent business environment in which most organisations operate means that not only is change becoming more frequent, but that the nature of change is becoming more complex and the impact of change is often more extensive.

Change Management

Factors Forcing Change

Globalisation: Domestic markets open to foreign competitors/investors which provide more intense competition; such as coffee plantations owned by overseas investors and international mobile 'phone operators (e.g. MTN).

Technology Developments: The most dramatic changes have occurred in the area of Information Technology. Consider Teleworking, MIS, FIS, CAD, CAM. These have made the control of complex operations much easier.

The changing nature of the labour force

The world labour force is changing significantly both in terms of composition and values and expectation.
Organisations in the developed world have an ageing work force which is more costly than those workers in the developing countries with a young work force.
Unless these costs are met with higher productivity developed countries will become less competitive.
There has also been an increase of women in the work force, women are remaining in the workforce after they get married or returning to the workforce when their children have reached school going age .

A move towards knowledge-based industries and organisations will mean that different people and indeed different forms of organisation will be required.

Culture/People Changes

Changes in structure, technologies and products do not happen on their own and any changes in these areas require changes in people also. Employees may have to adopt new collaborative ways of thinking and acting while managers have to be willing to give up control and empower teams to make decisions and take action. Groups of sole traders such as craft-ware makers coming together to form a co-operative will individually have to change as well as adopt new technologies to communicate and inform themselves as well as their markets/customers whether at home or abroad.

Culture/people change refers to a change in values, norms, attitude, beliefs and behaviour. Two common tools for changing people are culture and organisational development (OD).

Training is the most frequently used approach to changing a person's mind-set whilst OD is a planned systematic process of change that uses behavioural science, knowledge and techniques to improve an organisation's effectiveness and adapt to environmental challenges. OD is particularly useful in situations such as mergers, conflict management and organisational turnaround such as within a company or perhaps by a government trying to make an industry more competitive in export markets.

The Process of Change – Organisation Change Models

Kurt Lewin Force Field Analysis

Kurt Lewin suggests that change is the outcome of the impact of driving forces on restraining forces, more commonly known as force field analysis.

What is Force Field Analysis?

Force Field Analysis is a technique based on the premise that change is a result of a struggle between forces of resistance (forces that impede change) and driving forces (forces that favour change). By using Force Field Analysis, you can learn which course of action will be the best one to implement because it has the most driving forces and the least resistant forces.

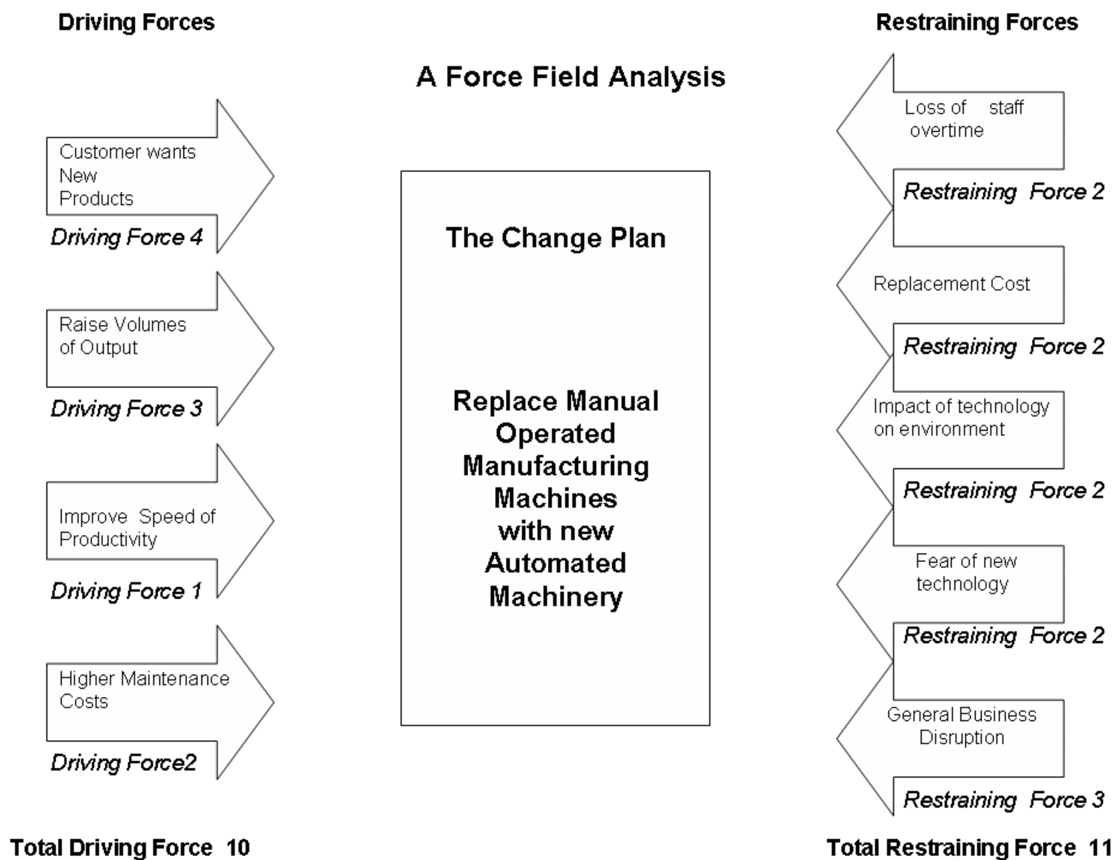
Force Field analysis is a tool mainly for managers implementing change but can also be used by team members and other users affected by change. Change requires strong leadership on the part of the managers. It is used to determine the best course of action to take.

Carrying Out a Force Field Analysis

To carry out a force field analysis, follow these steps:

1. **List all forces** for change in one column and all forces against change in another column.
2. **Assign a score** to each force from 1 (weak) to 5 (strong) and d*raw a diagram* showing the forces for and against, and the size of the forces.

Example Force Field Analysis



Once you have carried out an analysis, you can decide on the viability of the project.
Where you have decided to carry out a project, it can help you to analyse how you can push through a project that may be in difficulty. Here you have two choices:

- To reduce the strength of the forces opposing a project
- To increase the forces pushing a project

Often the most elegant solution is the first: just trying to force change through may cause its own problems e.g. staff can be annoyed into active opposition to a plan instead of merely not welcoming it.
If you were faced with the task of pushing through the project in the example above, the analysis might suggest a number of points:

- By training staff (increase cost by 1) fear of technology could be eliminated (reduce fear by 2)
- It would be useful to show staff that change is necessary for business survival (new force in favour +2)

- Staff could be shown that the new machines will introduce variety and interest to their jobs (new force +1)
- Wages could be raised to reflect new productivity (cost +1, loss of overtime -2)
- Slightly different machines with filters to eliminate pollution could be installed (environmental impact -1)

These changes swing the balance from 11:10 (against the plan), to 8:13 (in favour of the plan)

In force field analysis change, is characterised as a state of imbalance between driving forces (e.g. a new management, changing markets, new technology) and restraining forces (e.g. individuals' fear of failure, organisational inertia).

Lewin Kurt (1958), proposed that in order to ensure that the desired change becomes a permanent feature of organisational life and that new behaviour is successfully adopted the old behaviour has to be discarded. There are three stages to this of change process,

Old Situation

Stage 1 Unfreezing: the organisation must reduce those forces that are maintaining the organisation's behaviour at its current level. A strategy of education/communication and information by management can overcome this behaviour. Communicating the business reasons for the change will help employees understand why the change is necessary.

Stage 2 Change: at this stage the organisation is active in developing new behaviours, values and attitudes that are consistent with its desired behaviour outcomes. This is usually achieved through structural and process changes. Employee acceptance and support for the change is critical if the change initiative is to be successful.

New Situation

Stage 3 Refreezing: Once the change has occurred the organisation is concerned to ensure it remains in its new state of equilibrium and that it does not regress. It therefore focuses on developing systems, values, norms and culture that facilitate and reinforce the changed behaviour.

Some factors to consider at stage two,

- Initial problem identification
- Obtaining Data
- Problem diagnosis
- Action planning
- Implementation
- Follow-up and stabilisation
- Assessment of consequences
- Learning from the process

Initiating Change - From Richard L Daft: The New Era of Management

After perceiving the need for change, the next part of the change process is initiating change. This is where the ideas that solve perceived needs are developed. The responses an organisation can make are to search for or create a change to adopt.

Richard L Daft identified the following techniques a manager can use to facilitate change

Search: This is the process of learning about current developments inside or outside the organisation that can be used to meet a perceived need for change.
Many needs however, cannot be resolved through existing knowledge but require that the organisation develops a new response.
Initiating a new response means that managers must design the organisation so as to facilitate creativity of both individuals and departments, encourage innovative people to initiate new ideas, or create new venture departments.

Creativity: The development of novel ideas or solutions that might meet perceived needs or offer opportunities for the organisation to follow. e.g. Vacuum packaging to aid the preservation of ground coffee.

The 4 Roles in Organisation Change according to Richard Daft

Richard Daft suggests that to champion an idea requires roles in the organisation. Sometimes a single person will play more than one role in championing an idea. However, successful innovation requires the interplay of several people in the organisation.

Four Roles in Organisational Change

Inventor	Champion	Sponsor	Critic
Develops and understands technical aspects of idea. Does not know how to win support for idea or make a business of it.	Believes in idea. Visualises benefits. Confronts realities of costs, benefits. Obtains finance and political Support. Overcomes issues	High – level Manager who removes organisational barriers. Approves and protects idea within Organisation.	Provides reality test. Looks for short comings. Defines hard-nosed criteria that idea must pass.

1. **Inventor or Idea Champion**: A person who sees the need for and champion's productive change. The notion here is that change does not happen by itself; personal energy and effort is required to successfully promote an idea. Often a new idea is rejected by management.

2. **Champion**: Champions are passionately committed to a new product or idea despite rejection by others. Managers can directly influence whether champions will flourish. The evidence is that projects for new products or services fare much better when there is someone championing them.

3. **Sponsor**: A high level manager who approves, protects and removes organisational barriers to acceptance of the new idea.

4. **Critic**: The critic prevents people in other roles in the organisation from adopting a bad idea. The critic is often seen as a barrier, but where criticism is constructive, it can help with the evaluation and often the promotion of a project.

Another way of initiating change is through New Venture Teams.

New Venture Teams: A unit separate from the mainstream of the organisation that is responsible for developing and initiating innovation.

A variation of New Venture Teams is Skunkworks. *(The "Skunk Works" was the Lockheed R&D workshops in California)*

Skunkworks: A small informal and sometimes unauthorised groups that creates innovations. It is a group of people who, in order to achieve unusual results, works on a project in a way that is outside the usual rules. A skunkworks is often a small team that assumes or is given responsibility for developing something in a short time with minimal management constraints. Typically, it has a small number of members in order to reduce communications overhead. It is sometimes used to spearhead a product design that thereafter will be developed according to the usual process. A skunkworks project may be secret; viz Lockheed R&D work.

New-venture fund: A fund providing resources from which individuals and groups draw on to develop new ideas, products or businesses.

Idea incubator: This is an in-house programme that provides a safe harbour for developing ideas that will not suffer from the interference from company bureaucracy.

Open Innovation: Some organisations innovate by extending the search for new ideas outside their organisation. Here organisations acquire another business or purchase the idea from another company. E.g. A technological breakthrough may be purchased by a business that will enable it to add new functionality to its products.

Resistance to change

Organisations facing change will inevitably encounter a degree of resistance even with sufficient planning; however some resistance to change is natural. Resistance to change can take the form of strikes, reductions in productivity or even sabotage. More covert examples of resistance to change include increased absenteeism, loss of employee motivation and a high rate of accidents and errors.

There are two sources of resistance to change, (1) individual and (2) organisational.

Organisational Resistance

- Organisational structure: Hierarchical structures with narrowly defined jobs give stability to organisations; because these structures are rigid they do not facilitate change easily.
- Narrow Focus of Change: Frequently change programmes are introduced piecemeal and the important interdependencies such as people, systems and structure are ignored.

- Group Inertia: occurs where established group norms, either formal or informal, act as a barrier to change.
- Threatened Expertise: If the specialised expertise of an individual or group is threatened the natural reaction is resistance to change.
- Threatened Power and Influence: Change programmes frequently involve redistribution of power and influence.
- Once a position of power has been established individuals or groups are reluctant to surrender it, e.g. decentralisation.
- Resources: Change programmes that attempt to alter the allocation of resources will meet with resistance

Individual Sources of Resistance,

- Habit: As individuals become more familiar with the tasks assigned to them, they are able to cope with the work environment which in turn provides a degree of comfort. Changing this habit may result in resistance to change
- Selective Perception: Individuals only listen to things they agree with and deliberately ignore or forget other points.
- Individuals requested to make changes may not select those changes they are at odds with.
- Economic Factors: While individuals are not solely motivated by money, economic factors will remain important, particularly where the change affects income.
- Security: Insecurity arises not only from change itself but from prospective outcome of such changes, e.g. fear of the unknown.
- Social Factors: Individuals may resist change due to social factors and the fear of what others might think. The work group may exert peer pressure on the individual to resist change.
- Lack of Understanding: Individuals who do not understand the rationale for change will resist it. It is up to the organisation to make sure that individuals fully understand the change programme.

Reducing Resistance to Change

There are at least three generic strategies for overcoming resistance to change.

1. Participation and involvement - members are given ownership of the change process.

2. Communication - Effective communications and information sharing will reduce resistance to change.

3. Training and education - where jobs and processes are restructured this initiative can help to maintain productivity levels and lessen the uncertainty of change.

Kotter and Schlesinger set out the following six (6) change approaches to deal with this resistance to change:

1. **Education and Communication** - Where there is a lack of information or inaccurate information and analysis. One of the best ways to overcome resistance to change is to educate people about the change effort beforehand. Up-front communication and education helps employees see the logic in the change effort. This reduces unfounded and incorrect rumours concerning the effects of change in the organisation.

2. **Participation and Involvement** - When employees are involved in the change effort they are more likely to buy into change rather than resist it. This approach is likely to lower resistance to change. Where the initiators do not have all the information they need to design the change and where others have considerable power to resist, participation and involvement can help significantly.

3. **Facilitation and Support** - Where people are resisting change due to adjustment problems, managers can head-off potential resistance by being supportive of employees during difficult times. Managerial support helps employees deal with fear and anxiety during a transition period. The basis of resistance to change is likely to be the perception that there is some form of detrimental effect occasioned by the change in the organisation. This approach is concerned with provision of special training, counselling, time off work.

4. **Negotiation and Agreement** - Where someone or some group may perceive losing out in a change and where that individual or group has considerable power to resist, managers can combat resistance by offering incentives to employees not to resist change. This can be done by allowing change resistors to veto elements of change that are threatening or change resistors can be offered incentives to leave the company through early buyouts or retirements in order to avoid having to experience the change. This approach will be appropriate where those resisting change are in a position of power.

5. **Manipulation and Co-option** - Where other tactics will not work or are too expensive. Kotter and Schlesinger suggest that an effective manipulation technique is to co-opt resisters. Co-option involves the patronizing gesture in bringing a person into a change management planning group for the sake of appearances rather than their substantive contribution. This often involves selecting leaders of the resisters to participate in the change effort. These leaders can be given a symbolic role in decision making without threatening the change effort. On the other hand, if these leaders feel they are being tricked they are likely to push resistance even further than if they were never included in the change effort leadership.

6. **Explicit and Implicit Coercion** - Where speed is essential and to be used only as a last resort. Managers can explicitly or implicitly force employees into accepting change by making clear that resisting change can lead to losing jobs , transferring or not promoting employees.

The Six (6) Change Approaches of Kotter and Schlesinger is a model to prevent, decrease or minimise resistance to change in organisations

According to Kotter and Schlesinger (1979), there are four reasons that certain people are resistant to change:

1. **Parochial self-interest** - some people are concerned with the implication of the change for themselves and how it may affect their own interests, rather than considering the effects for the success of the business
2. **Misunderstanding** - communication problems; inadequate information
3. **Low tolerance to change** -certain people are very keen on security and stability in their work
4. **Different assessments of the situation** - some employees may disagree on the reasons for the change and on the advantages and disadvantages of the change process

D. UNDERSTANDING GROUPS AND TEAMWORK

Team work and Group Dynamics

Formal and Informal Organisations

The Nature of Organisations

Organisations enable objectives to be achieved that could not be achieved by the efforts of individuals on their own.

Organisations come in all forms; , e.g. schools, banks, government departments, farms, hospitals or grocery stores.

The structure, management and function of these organisations will all vary because of differences in the nature and type of the organisation, the work they do, their respective goals and objectives, and the behaviour of the people who work in them.

Common Factors in Organisations

Despite organisations carrying out different functions, there are at least three common factors in any organisation.

1. People
2. Objectives
3. Structure

1. The interaction of people in order to achieve objectives forms the basis of the organisation.
   A form of structure is needed by which peoples' interactions and efforts are co-ordinated.
2. The process of management is required to co-ordinate the activities of people in achieving organisational objectives.
3. The effectiveness of the organisation will be dependent upon the quality of its people, objectives and structure and the resources available to it.

There are two broad categories of resources:
1. Non-human - physical assets, materials, facilities etc.
2. Human – people and their management.

The interrelationship of the above variables will determine its effectiveness and the failure or success of the organisation.

Differentiating the Formal and Informal Organisations

The Formal Organisation can be defined as: The planned co-ordination of the activities of a number of people for the achievement of some common, explicit purpose or goal, through the division of labour and function and through a hierarchy of responsibility, (Schien 1980).

The Formal Organisation can exist independently of the membership of particular individuals.
The difference between the Formal and the Informal organisation is the degree to which they are structured.
The Formal organisation is deliberately planned and concerned with the co-ordination of activities.
It is hierarchically structured with stated objectives, specification of tasks and defined relationships and authority.
Other examples of the Formal Organisation are rules, regulations and job descriptions.
Within the Formal Organisation there exists the **Informal Organisation.**

The Informal Organisation arises from the interaction of people working in an organisation.
This informality is due to the psychological and social needs, group development, relationships and behavioural norms, and is present irrespective of the defined formal structure.
Membership is spontaneous with varying degrees of involvement.
Because these relationships are outside the formal structure they may be in conflict with the Formal Organisation.

Comparison of Formal and Informal Organisation

Characteristics	Formal Organisation	Informal Organisation
1.Structure	Planned	Spontaneous
2.Position Terminology	Job	Role
3.Goals	Profitability	Member satisfaction
4.Control Mechanism	Threat of firing	Social norms
5.Communication	Formal channels	Grape vine

Adapted from JL Gray and FA Starke, Org Behaviour, Concepts and Application, 4th Ed, Charles E Merrill (1988)

The Informal Organisation can serve a number of important functions.

1. It can provide satisfaction of members social needs, personal identity and belonging.
2. It provides for additional channels of communication, e.g., the grapevine.
3. It can provide a means of motivation, e.g., status, social interaction, or informal work methods.

4. It provides a feeling of stability and security; informal norms of behaviour can exercise a form of control over members.
5. It provides a means of identifying deficiencies in the formal organisation, e.g., where duties or roles are not covered in the job description.
6. The Informal Organisation may also be used when formal methods are deemed too slow or cumbersome.
7. The Informal Organisation has an important influence on the morale, job satisfaction, and performance of staff.
8. It can provide members with a greater opportunity to use their initiative and creativity in both personal and organisational development.

Based upon the above analysis the informal organisation therefore can be viewed as a coalition of individuals and depending upon the organisation can include managers, union officials, workers, staff representatives, customers and shareholders etc.

Team Work - Group Dynamics

Team - a definition:
A small group of people with complementary skills who work together to achieve a common purpose for which they hold themselves collectively accountable (*Schermerhorn et al. 1996).*

According to Daft (2006) a team is a unit of two or more people who interact and co-ordinate their work to accomplish a specific goal.

A team is a group of individuals working together to complete a specific task successfully within a timeframe.

Teams are generally made up of people with complementary skills.

Why study teams/groups?

- Organisational work is usually performed in Groups or Teams.
- Importance of `Team Player` in selection.
- Large organisations can be viewed as a collection of small groups. Groups represent mini-societies in which the interaction takes place and in which the behaviour of individuals can be studied.
- Groups play an important role
- Understanding Teamwork involves understanding group dynamics.

- People behave differently in groups
- Group membership affects self image and social identity
- An organisational leader needs to understand group behaviour, working with rather than against the group.

The language of Teams is used regularly in the organisational setting, and many strategists and HR specialists believe in and champion the benefits of team based activity.
Organisations that have successfully implemented team initiatives often report higher levels of productivity and effectiveness.

THE DIFFERENCE BETWEEN GROUPS AND TEAMS	
GROUP	**TEAM**
•Has a designated strong leader. •Holds individuals accountable. •Sets identical purpose for group and organisation. •Runs efficient meetings. •Measures effectiveness indirectly by influence on business e.g. financial performance. •Discuss, decides, delegates work to individuals.	•Shares or rotates leadership roles. •Holds team accountable to each other. •Sets a specific team vision or purpose. •Runs meetings that encourage open ended discussion and problem solving. •Measures effectiveness directly by assessing collective work. •Discusses, decides, shares work.

Some Examples of Teams within Organisations

Top Management Team: The group that operates at the strategic apex of the organisation (Mintzberg 1988). However a top management team can only be considered to be a team if it fulfils the above broad definition.

Project Teams: created to investigate or address certain issues or problems for which a solution is sought.
Project teams can be multi-disciplinary and multi-status, the sometimes cross functional nature of these teams can yield benefits to the organisation as a whole.

Functional Teams: groups of people who carry out various tasks within the organisation. Organisations that refer to their sales team, marketing team or R&D team are referring to functional teams that may have developed team like characteristics.

A group of people and a team of people have the same potential for performance.
Organisations devote enormous effort to try to build groups of people into teams in an attempt to realise this potential.

When is Teamwork Appropriate?
When a task requires teamwork, it usually means that the following factors exist.

1. Working together will produce better results than working apart.
2. The task requires a mixture of different talents and skills.
3. The job needs constant adjustment in what people do and in how work is co-ordinated.
4. Where competition between individuals might be damaging.
5. The pressure of the job creates more stress than one person can handle.

An organisation that has a structured and well developed team philosophy can derive substantial benefits however the following problems can occur with developing team roles

1. Inadequate Attention to Team Characteristics
It is easy to pay lip service to team development by simply using the term `TEAM` when referring to groups of people that are loosely connected within a structure.
Various team characteristics can have a strong impact on the performance of the team.

2. Autonomy versus Accountability
As more and more organisations use the methodologies of self-managed teams (autonomous work groups) the problem of accountability becomes an issue.
Individual accountability is easier to establish than team accountability, especially where task outcomes are more ambiguous.
Evidence demonstrates the benefits of teams, however the potential of team working can be lost if accountability is not taken into consideration.

3. Teamwork - Too Much or Too Little Conflict
Effective teams are made up of individuals who occupy a variety of complementary roles.

Because teams demand a variety of skills there may be clashes when priorities are being established.
However teams should be characterised by healthy levels of conflict,
You need to surround yourself with able people to argue back. Confrontation of divergent views is an important principle of effective teams, (Thomas 1976) and unless conflict can be expressed, important and creative ideas may be lost, (Harison 1972).

4. Too Much or Too Little Control

Because teams exist within the structure of the organisation, teams are subject to a certain level of control and co-ordination.
Without a certain level of control, activities become disjointed and confused.
Someone perhaps a team leader needs to be given a certain amount of controlling power to ensure that the team gets its job done, particularly where there are pressing deadlines.
Too much control smothers a lot of potential creativity, whereas too little results in time wasting and confusion.

5. Teamwork - Not Enough Training

If people are not trained for team work and for the specific tasks they are required to complete they will not be able to operate successfully in a team situation.
Training is particularly important during the time the organisation is undergoing change.
The organisation must be prepared to invest in training in order to gain the benefits of teamwork

6. Unsuitable or Defensive Management Philosophy

If top management do not agree with the idea of teamwork it is unlikely that the reality of teamwork will get off the ground.
Teams need the support of top management through empowerment.
Empowering people removes the power from where it traditionally lies, as a result some managers may work against the principle of teamwork rather than for it.

7. Unfair Rewards

Effective teams can yield positive results for the organisation.
Teams can be very aware of their successes and failures and unless the organisation is prepared to reward them for their efforts, dissatisfaction is likely and as a result motivation and morale may be lost

Team Roles (Meredith Belbin)

A team role refers to the part someone plays in the team. Dr R. Meredith Belbin suggests that effective teams need to have a number of participants who play very different roles within the team structure.
Effective teams have members who recognise the roles they play best and who attempt to enhance the strengths of that role.
Belbin (1981,1993) research indicated that it was possible to identify and distinguish nine distinct management styles labelled `team roles.

Belbin's Nine Team Roles

1. CHAIRPERSON/Co-ordinator

- Clarifying the goals and objectives of the group.
- Selecting the problems on which decisions have to be made and establishing their priorities.
- Helping establish roles, responsibilities and work boundaries within the group.
- Summing up the feelings and achievements of the group and articulating group verdicts.

2. SHAPER

- Shaping roles, boundaries, responsibilities, tasks and objectives.
- Finding or seeking to find pattern by group discussion.
- Pushing the group towards agreement on policy and action and towards making decisions.

3. PLANT

- Advancing proposals.
- Making criticisms that lead up to counter-suggestions.
- Offering new insights on lines of action already agreed.

4. MONITOR/ EVALUATOR

- Analysing problems and situations.
- Interpreting complex written material and clarifying obscurities.
- Assessing the judgements and contributions of others.

5. COMPANY WORKER/IMPLEMENTER

- Transforming talk and ideas into practical steps.
- Considering what is feasible.
- Trimming suggestions to make them fit into agreed plans and established systems.

6. TEAM WORKER

- Giving personal support and help to others.
- Building on to or seconding a member's ideas and suggestions.
- Drawing the reluctant team members into discussion.
- Taking steps to avert or overcome disruption of the team

7. RESOURCE INVESTIGATOR

- Introducing ideas and developments of external origin.
- Contacting other individuals or groups of own volition.
- Engaging in negotiation-type activities.

8. COMPLETER

- Emphasising the need for task completion, meeting schedules and generally promoting a sense of urgency.
- Looking for and spotting errors, omissions and oversights.
- Galvanising others into activity.

9. SPECIALIST

- Brings a specialist knowledge or expertise that other team members do not possess.

Since each role contributes to team success, a successfully balanced team will contain all roles. A single member can play several roles and thus reduce the overall team size.

Managers tend to adopt one or two of these team roles fairly constantly.
These roles can be predicted using psychometric tests.
When team roles are combined in a certain way they tend to produce more effective teams.

Guiding Principles of Teamwork

A good way of getting individuals to commit to team work is to develop a set of rules for everyone to focus on, e.g.,

1. Treat each other with respect and trust.
2. Keep their promises to each other.
3. Demand honesty from each other.
4. Quickly resolve any issues that interfere with a good team spirit.

Characteristics of Effective Teams

An effective team should have some or all of the following characteristics (Woodcock 1979).

- Clear objectives which have been agreed.
- A relaxed and informal atmosphere where people are allowed to express themselves.
- Support and trust.
- Criticism is honest and constructive.
- Activities are distributed evenly.
- An accurate awareness of performance.
- An ability to deal with disagreements.
- Appropriate leadership.

Characteristics of Effective Teams

Size – The ideal team size is 7 although 5 -12 is common.
These teams are large enough to take advantage of diverse skills, enable members to express good and bad feelings and aggressively solve problems.

Diversity – Since teams require a variety of skills, knowledge and Experience, heterogeneous teams are more efficient than homogeneous teams.

Team Member Roles - Two types:

For teams to be successful over the long run they must be structured to maintain their members' social well-being and accomplish tasks.

1. Task Specialist Role
2. Socio-emotional Role

Task Specialist Role – Help the team to reach its goals.

Some behaviours of the task specialist are,

- Initiate ideas,
- Give opinions,
- Seek information,
- Summarise ideas,
- Energise by stimulating ideas.

Socio-emotional Role – Support teams members' emotional needs.

Some behaviours of the socio-emotional role are:
- Encourage others and their ideas,
- Harmonise the team by resolving conflict,
- Reduce tension e.g. tell jokes,
- Follow, by going along with the team,
- Compromise by shifting their opinions to maintain harmony.

Group Dynamics - What are Group Dynamics?

It is the study of the interaction and behaviour of individuals as members of a group and of the behaviour of groups generally.

Benefits of Groups to individuals:
- Groups provide people with friendship and social support.
- Groups help people to be aware of their own identity i.e. who they are in relation to others.
- Groups can help in sharing workloads of performing difficult tasks.
- Groups help individuals in self-development, i.e. up-skilling, or confidence.

Benefits of Groups to Organisations
- When people come together in groups, the pooling of skills can assist greatly in the completion of difficult tasks.
- When people come together in groups it may sometimes be easier to solve problems or make informed decisions.
- When people come together in a group it is more likely to have higher levels of commitment and participation.
- When people come together in groups they can resolve conflicts that may otherwise be difficult to resolve where people are apart.

The Stages of Group Development Tuckman (1965)

Bruce W Tuckman is a respected educational psychologist who first described the (then) four stages of group development in 1965. Looking at the behaviour of small groups in a variety of environments, he recognised the distinct phases they go through, and suggested they need to experience all four stages before they achieve maximum effectiveness. He refined and developed the model in 1977 (in conjunction with Mary Ann Jensen) with the addition of a fifth stage.

1. **Forming:** The initial entry of the group members.

2. **Storming:** Intragroup conflict, high emotion and tension. Hostility and in-fighting may occur at this stage. Members' expectations are clarified, team roles assigned and members accept the existence of the group.

3. **Norming:** The goal is agreed. Close relationships develop and the group demonstrates cohesiveness.
   A strong sense of group identity and camaraderie exists. People feel empowered. The norming stage is complete when group structure solidifies.

4. **Performing:** The group at this point is fully functional and accepted. Group has moved from a getting to know to understanding and performing. The group is able to deal with complex tasks and handle conflict. Group structure is stable.

5. **Adjourning:** An important stage for temporary groups that are increasingly common in the work place.
   A well integrated group is able to disband if required.

Group Norms

- Norms are often referred to as standards of behaviour.
- Group norms help to clarify membership expectations in a group.
- Group norms can help members to structure their own behaviour and to predict what others will do. Members can gain a common sense of direction and reinforce the desired organisational culture.

Types of group norms:
Groups operate with many types of group norms. Norms can have both positive and negative implications for an organisation and its managers.

Positive Norms: "*It's a tradition to stand up for our company"*
Negative Norm: *" In our company they are always trying to take advantage of us"*
Norms are influenced by organisational factors such as policies, management style, rules and procedures.

Developing Cohesive Groups

Cohesiveness has been described as the 'binding together of group members and maintaining their relationships with one another' (Schacter1951).

Common determinants of group cohesiveness are,

- High levels of communication.
- Group size can impact greatly on the effectiveness of the group; a figure above twelve is not recommended.
- Co-operation and competition: studies have shown that where groups co-operate behaviour is more likely to lead to group cohesiveness whereas competition within groups have an adverse effect.
- A feeling of acceptance: If group members feel accepted by the group there is a higher tendency for the group to stick together.
- Outside threat: If the group experiences a threat from out-side or conflict arises with another group, members will unite and in return the group becomes more cohesive.
- Success and Performance: The more successful a group feels, and the more it achieves rewards for what it does, the more likely members will enjoy being part of the group.
- Group cohesiveness can be greatly strengthened by successful achievement of goals. However where there is too much group cohesiveness, a group can lose sight of the aims or objectives of the group.

'Groupthink' Irving Janis, (1972)

The idea of Groupthink occurred to Irving Janis while reading Arthur .M Schlesinger's A Thousand Days, particularly the sections on the Bay of Pigs, as a result of this he began questioning group decision making processes. He suggested JFK's advisors were more concerned with approval of colleagues than achieving the objectives.
Arthur .M Schlesinger was special assistant to President J F Kennedy. The Bay of Pigs Invasion was an unsuccessful attempt by United States-backed Cuban exiles to overthrow the government of the Cuban dictator Fidel Castro in 1961.

Groupthink is what happens when people in a group become so close (or cohesive) that any disagreement between people becomes less and less likely to occur.

As a result, the group develops a way of thinking which prevents it from being realistic or critical about what it is doing or the ways in which it is doing it.
The people in the group are then less likely to question the reasons for their actions.

According to Janis several factors give rise to the groupthink phenomenon.

1. **A feeling of invulnerability**: particularly where groups have a high success rate.
2. **False logic**: groups will try to rationalise their logic even though there is evidence to suggest that their logic is wrong.
3. **Shared stereo types**: Groups that experience groupthink can stereo type anyone who criticises them.
4. **Pressure**: individuals within the group who express doubts about decisions of the group may be asked to resign or withdraw from the group.
5. **Self censorship**: Members of cohesive groups may be reluctant to communicate anything negative about the group which can result in the group not exploring or analysing what the group is doing.
6. **An illusion of agreement or unanimity**: often groups become convinced that everyone agrees with the decision of the group and therefore there is no need to explore a particular course of action.

How To Deal With Groupthink

1. Ask each member to be critical and evaluate all ideas and suggestions generated by the group.
2. Encourage people to voice and explore their doubts.
3. Create subgroups with different leaders to work on the same problem.

4. Invite outside experts to observe and react to group discussions.
5. Have a different member act as 'devil's advocate' at each group meeting.
6. Hold 'second chance' meetings once an initial decision is made.

Adapted from, Janis 1982

Team Conflict (Kenneth Thomas and Ralph Kilmann)

In the 1970s Kenneth Thomas and Ralph Kilmann identified five main styles of dealing with conflict that vary in their degrees of cooperativeness and assertiveness. They argued that people typically have a preferred conflict resolution style. However they also noted that different styles were more useful in different situations. The Thomas-Kilmann Conflict Mode Instrument (TKI) helps you to identify which style you tend towards when conflict arises.
Thomas and Kilmann's styles are:

Competitive: People who tend towards a competitive style take a firm stand and know what they want. They usually operate from a position of power, drawn from things like position, rank, expertise, or persuasive ability. This style can be useful when there is an emergency and a decision needs to be made fast; when the decision is unpopular; or when defending against someone who is trying to exploit the situation selfishly. However it can leave people feeling bruised, unsatisfied and resentful when used in less urgent situations.

Collaborative: People tending towards a collaborative style try to meet the needs of all people involved. These people can be highly assertive but unlike the competitor, they cooperate effectively and acknowledge that everyone is important. This style is useful when you need to bring together a variety of viewpoints to get the best solution; when there have been previous conflicts in the group; or when the situation is too important for a simple trade-off.

Compromising: People, who prefer a compromising style, try to find a solution that will at least partially satisfy everyone. Everyone is expected to give up something, and the compromiser him- or herself also expects to relinquish something. Compromise is useful when the cost of conflict is higher than the cost of losing ground, when equal strength opponents are at a standstill and when there is a deadline looming.

Accommodating: This style indicates a willingness to meet the needs of others at the expense of the person's own needs. The accommodator often knows when to give in to others and can be persuaded to surrender a position even when it is not warranted. This person is not assertive but is highly cooperative. Accommodation is appropriate when the issues matter

more to the other party, when peace is more valuable than winning or when you want to be in a position to collect on this “favour” you gave. However, people may not return favours and overall this approach is unlikely to give the best outcomes.

Avoiding: People tending towards this style seek to evade the conflict entirely. This style is typified by delegating controversial decisions, accepting default decisions and not wanting to hurt anyone’s feelings. It can be appropriate when victory is impossible, when the controversy is trivial or when someone else is in a better position to solve the problem. However in many situations this is a weak and ineffective approach to take.

Once you understand the different styles, you can use them to think about the most appropriate approach (or mixture of approaches) for the situation you're in. You can also think about your own instinctive approach and learn how you need to change this if necessary.
Ideally you can adopt an approach that meets the situation, resolves the problem, respects people's legitimate interests and mends damaged working relationships.

Benefits and Cost of Teams

Potential Benefits of Teams,

- **Level of effort** – unleash enormous energy and are essential to the learning organisation.
- **Satisfaction of members** – working in teams gives a greater sense of belonging to members.
- **Expanding Knowledge and skills** – they empower employees to bring greater knowledge to the task.
- **Organisational responsiveness** – teams enhance flexibility as members can be reorganised more easily.

Potential Cost of Teams

Power realignment – As an organisation reorganises to team structures, middle and front line managers lose out on status.

Free riding – This refers to members who contribute little to the team but benefit greatly.

Co-ordination costs – time and energy is consumed co-ordinating team activities and therefore productive time is lost.

Revising systems – implementing teams requires changes to the organisation in terms of rewards and appraisal.

E. ORGANISATIONAL COMMUNICATIONS

Communications Definition

Communications can be defined as the process by which, ideas, information, opinions, attitudes, etc. are conveyed from one person to another.

Axley (1996) defines communications as the process of sending and receiving messages with attached meanings and with the ultimate meaning in any communication being created by the receiver or perceiver of the message.

Price (1997) conceives of organisational communication simply as the degree to which information is transmitted among members of the organisation.

Within the organisation communications can occur in a formal or informal way, i.e. official or unofficial.

Formal

- Used in a Professional Business Setting
- Non-use of slang words
- Pronounce words correctly

Informal

- Usually used with friends and family
- Contains shortened version of words
- Contains slang words

Another communication distinction identified is horizontal and vertical. Horizontal refers to the transmission of information among peers whilst vertical communication is the transmission of information between super-ordinate and sub-ordinate.

Communication can also be personal, e.g., telephone conversations, or impersonal - transmitted to the mass media.

The final distinction in communications is between instrumental and expressive. If the transmission is instrumental it is necessary to do the job, if it is expressive it is of a non job nature.

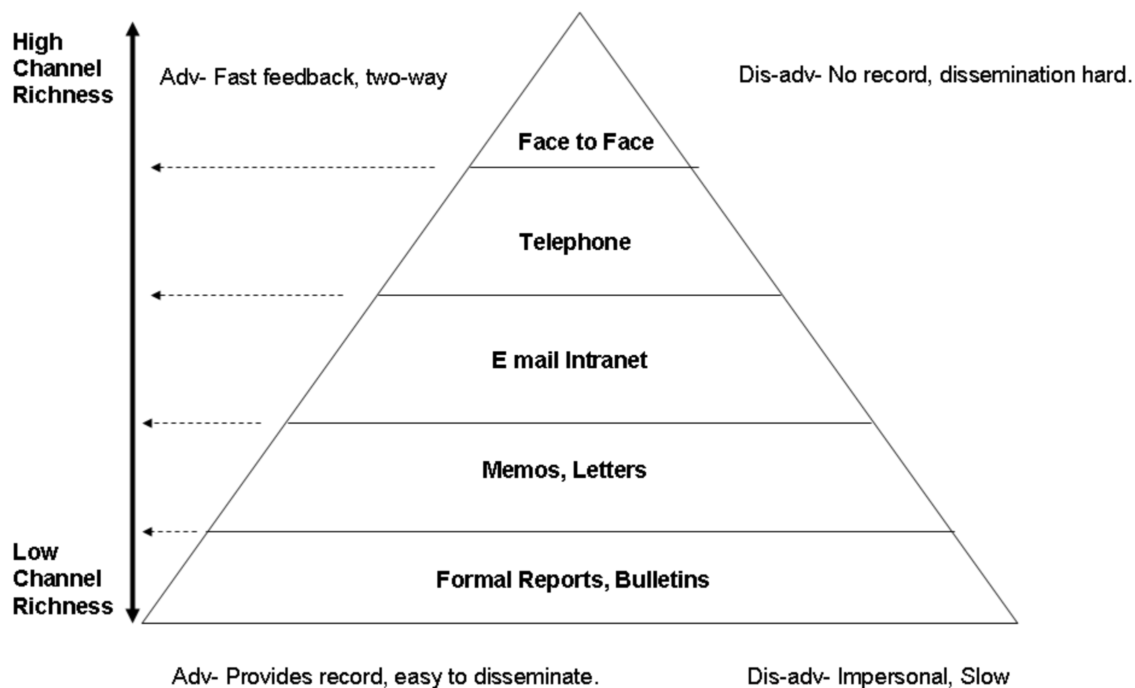
Just as the human nervous system responds to stimuli and co-ordinates responses by sending messages to various parts of the body, communication co-ordinates the various parts of the organisation.

The key elements of the communication process include a source who encodes the message and receiver who decodes the message. The receiver may or may not give feedback. Noise is the term to describe any barrier or disturbance within the communication process.

The most common methods used by organisations to communicate with employees are Email, Team briefings, Videos, Direct written, Direct oral, Meetings, Representative staff bodies.

Communicating Among People

Managers have a choice of many channels of communication. Research has attempted to explain how managers select communications channels to enhance communication effectiveness.
The research found that channels vary in their capacity to convey information.



The channels available to managers are illustrated above.

Communications Process

The communication process is made up of a number of elements or stages through which every form of communication must pass. .

1. Sender: the entire process starts when the sender decides that he or she wants to send a message to another person. For example you want to inform your manager about a quality control problem.

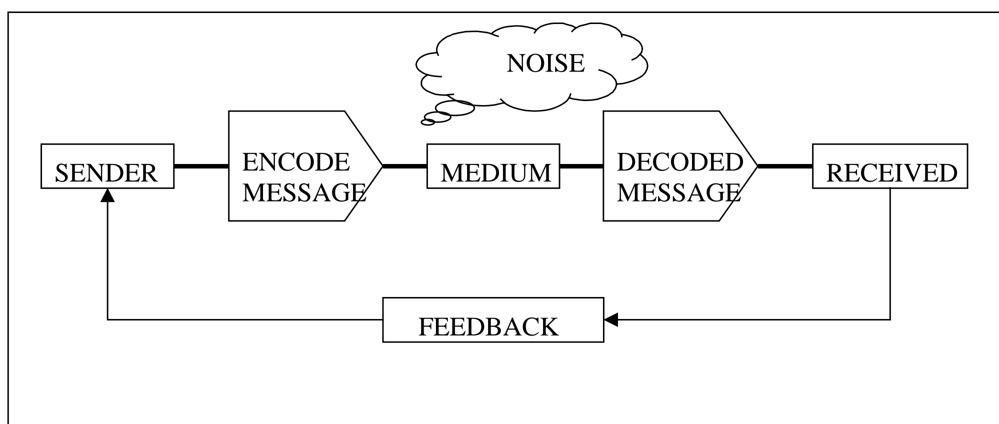
2. Encoding the message: before a message can be sent, it must be encoded in a suitable language. This language or sign could be any of the following - a gesture or non-verbal communication, written word, spoken word, picture or illustration.

3. Medium: Once the sender has encoded the message the next choice is to decide which medium to use to transmit the message. The choice of medium, e.g. email, memo, briefing, meeting, video conference, telephone, will depend on a number of factors. Factors influencing the choice of medium will be: is it bad news?, speed of message or is it a report.

4. Decoding process: the receiver must decode the message and understand it before acting on the message; the use of unfamiliar language will impact on the understanding of the message.

5. Receiver: finally when the receiver has decoded and understood the message, the receiver then becomes the sender in the process, the receiver then sends feedback to the original sender to indicate that the message has been received and understood.

Diagram of Process of Communications



Noise: is used to denote anything that inhibits the success of the communication process. Noise can refer to actual noise in the room or the reader's state of mind

Communicating Effectively

Planning the right channel to convey the message is the most important factor in communications.

Choosing channels (The three main forms)

Writing is best when there is a need for,

- no immediate feedback
- an accurate legal record
- complex information and detail.

Telephone is best when there is a need for,

- some immediate response

- quick one off issues
- simple facts

Meeting is best when there is a need for,

- immediate verbal and non-verbal feedback
- demonstration and observation of facts and feelings
- sensitive and confidential information.

Communications Planning the 5 W's

Who: is it for? Keep the receiver in mind
Why: do you wish to communicate?
What: will you say? Keep it short and simple (KISS)
Where: are the main points?
When: do they need it by?
How: do you convey the message.

Non Verbal Communications

Nonverbal communication (NVC) is usually understood as the process of communication through sending and receiving wordless messages. Such messages can be communicated through gesture; body language or posture; facial expression and eye contact; objects such as clothing, hairstyles or even architecture.

Listening

One of the most important activities for a manager is listening both to employees and customers.

Often the most important information in the organisation comes from the bottom up rather than the top down. Listening is a skill that must be learned as approximately 75% of communication is listening. Most people spend about 30-40% of their time listening which can lead to communication errors.

There are ten keys to effective listening according to Daft RL.

1. Listen actively,
2. Find areas of interest,
3. Resist distractions,
4. Capitalise on the fact that thought is faster,
5. Be responsive,
6. Judge content not delivery,
7. Be patient
8. Listen for ideas,

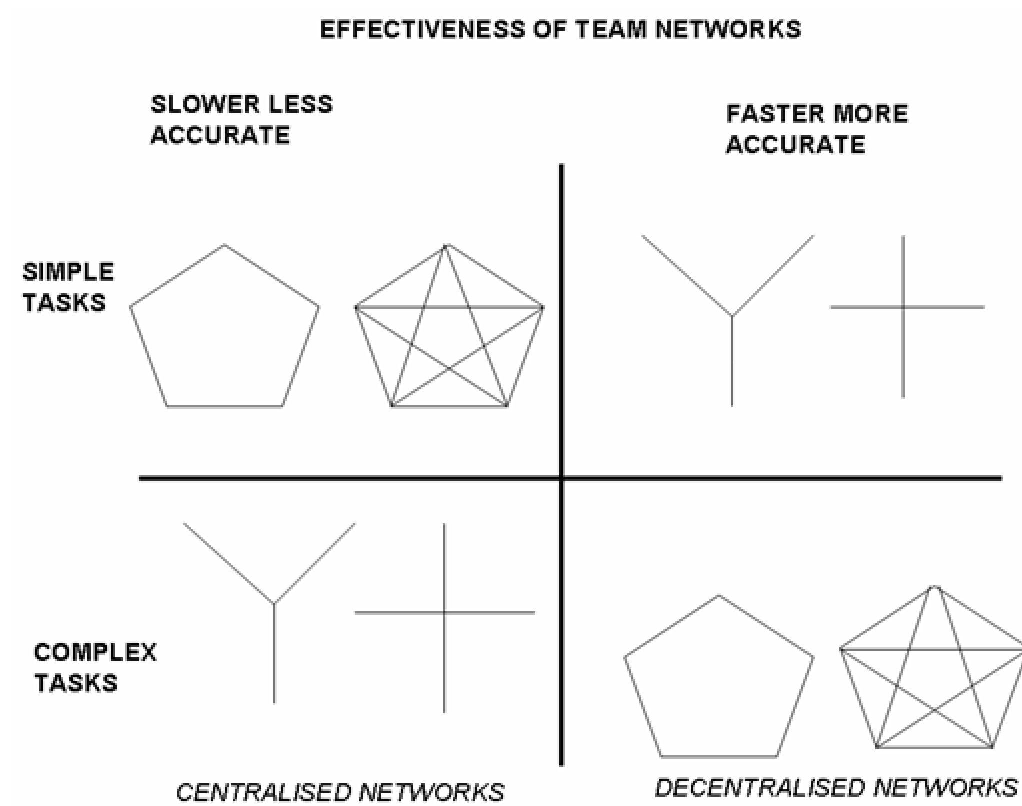
9. Work at listening,
10. Exercise one's mind.

Team Communication Channels

Teams communicate horizontally i.e. across as opposed to upwards or downwards (vertically).

Research into team communications has focused on two team characteristics - the level of centralisation of communications and the nature of the team tasks. In a centralised team all communication passes through one individual to solve problems or make decisions. In a decentralised network individuals can communicate freely. In laboratory experiments centralised communication networks achieved solutions faster for simple problems, whereas decentralised communications were slower for simple problems. However for more complex problems the decentralised network was faster. *See "Effectiveness of Team Communication Networks" diagram below.*

In a highly competitive global environment organisations use teams to deal with complex problems. Teams will share information, knowledge, experiences and rationalise the solution.



Personal Communications Channels

Personal communications channels exist outside the formal communication channels. This form of communication co-exists with the formal methods of communications and in some instances can skip hierarchical levels to form a wide network.

There are three types of personal communications.

1. **Personal Networks:** Here the approach is to cultivate personal relationships across the entire organisation. Managers who adopt this form of communication are developing networks and are in a greater position to influence others. Relationship building is at the core of management.

2. **Management by wandering around**: Managers who engage with employees gain an insight into the workings of the organisation. By developing relationships with employees, managers at all levels learn from workers in departments and divisions e.g. Steve Ballmer of Microsoft regularly briefs staff directly on business strategy.

3. **The grapevine:** This is a method of communication that is not officially sanctioned by the business. The grapevine links employees in all directions from CEO down to operations staff. This form of communication exists in every form of organisation and is more pronounced where formal channels of communication are absent or closed off to lower level staff. The grapevine is more common during periods of change or uncertainty and can sometimes help staff to clarify management decisions. Smart managers recognise the importance of the grapevine but also ensure that it is not the only form of communication in the organisation.

Communication during Turbulent Times

During turbulent times communication becomes even more important. In order to build trust, promote learning and problem solving, managers promote open communications, dialogue and feedback and learning

- **Open communication**: Open communication means managers share all types of information throughout the company and across functional and hierarchical levels. Open communication often runs counter to management thinking and selective communication. However it provides benefits through generating trust and commitment and helps ideas to be evaluated among a greater audience.

- **Dialogue:** This is another method of fostering trust and collaboration in organisations. Dialogue is a group communication process where people create a stream of shared meaning that enables them to understand each other and the world around them. The role of dialogue is for group members to suspend their personal views in favour of the group. Dialogue is different from discussion where discussion tends to lead to a single outcome dialogue leads to a change of mind set.

- **Feedback and Learning**: Feedback occurs when managers use evaluation and communication to help individuals and the organisation learns and improves. It also determines if the communication message is successful. Successful managers focus their feedback to help develop the capacities of subordinates and teach the organisation how to achieve its goals.

Crisis Communication

In recent years many organisations have faced crisis situations from day to day operational challenges.

Managers can develop four primary skills for communicating in a crisis,

1. **Maintain your focus**: Good communicators do not allow themselves to be overwhelmed by the situation.

2. **Be visible**: Many managers underestimate how important it is to be visible during a crisis. A manager's job is to reassure employees and to respond to customers' concerns.

3. **Get the awful truth out**: Good managers gather all the information and determine the facts and then tell the truth to employees and the public.

4. **Communicate a vision for the future**: People need to feel that they have something to work to. Moments of crisis give managers opportunities to communicate a vision of the future and unite people in common goals.

Barriers to effective Communications

Managers need to be aware of and devise ways of overcoming barriers to communication.

1. Information overload - with today's technology people can be bombarded with information.

2. Information can be either too detailed or too generalised.

3. The purpose of the message or action required may be unclear to the receiver.

4. Because messages are generally one way we rely upon the receiver's interpretation, which may not be what the writer meant.

5. The words we use may not have the same meaning to everyone.

6. The style of communication may be too officious or too informal depending on the audience.

7. The sender makes assumptions about what the receiver already knows; likewise the receiver makes the same assumption.

INDIVIDUAL BARRIERS	**HOW TO OVERCOME THEM**
Interpersonal dynamics	Active listening
Channels and media	Selection of appropriate channels
Semantics	Knowledge of others' perspectives
Inconsistent cues	MBWA
ORGANISATIONAL BARRIERS	**HOW TO OVERCOME THEM**
Status and power differences	Climate of trust, Dialogue
Departmental needs and goals	Development of use of formal channels
Lack of formal channels	Encourage multiple channels, formal and informal.
Communication network unsuited to tasks	Reorganise to fit communication needs
Poor co-ordination	Feedback and learning.

The Principles of Effective Communications

1. Think carefully about your objective before communicating. Do you want to inform, persuade, advise, consult or entertain?

2. Choose the correct medium, or combination of media - speech, visual etc.

3. Organise your ideas and express them carefully.

4. Time the message to best advantage.
5. Check for feedback.
6. As the receiver, give messages your full attention and respond in an appropriate way.

F. PROJECT MANAGEMENT

What is a Project?

- A project is used for carrying out an assignment which is of a non-recurring nature.
- A project is defined by expected results, completion date, quality and cost.
- Projects are characterised by the use of a defined model for control and follow up.

A project can be defined as: *a temporary endeavour undertaken to create a unique product or service.*
Temporary means that every project has a definite beginning and definite end. Unique means that the product or service is different in some distinguishing way from all similar products and services.
Thus using this definition any of the following could be a project,

- develop a new product or service
- construct a building or facility
- develop a new operations process
- set up a new business division
- develop a new computer system
- put a man on the moon
- be the first person from ICPAR to the top of Mount Everest

What is Project Management?

Project management is the application of knowledge, skills, tools and techniques to project activities in order to meet or exceed stakeholder needs and expectations from a project. Meeting or exceeding stakeholder expectations involves balancing competing demands among:

- Project scope ,time ,cost and quality
- Stakeholders with different needs and expectations

The term project management is sometimes used to describe an organisational approach to the management of on-going operations. This approach, more properly called management by projects, treats many operational activities *(tasks)* as projects in order to apply project management to them.

Project Management Component Processes

The process of managing projects requires application of nine management processes (PMBOK) where each contributes to the overall success of the project. These are:

1. Project integration management is the process to ensure that the various elements of the project are co-ordinated.
2. Project scope management includes all the work and only the work required to complete the project successfully.
3. Project time management ensures the timely completion of the project using tools such as activity duration estimation, schedule planning.
4. Project cost management ensures the project is completed within the budget. It consists of resource planning, cost estimation, cost budgeting and cost control.
5. Project quality management ensures that the project satisfies for which it is undertaken and consists of quality planning, assurance and control.
6. Project HR management consists of organisational planning, staff acquisition and team development.
7. Project risk management describes the process of risk identification, quantification, risk response and risk control.
8. Project communications management ensures the timely and appropriate generation, collection, dissemination and storage of information.
9. Project procurement management describes the process of acquiring goods and services from outside the performing organisation.

The Business Review (Identifying the need for a project)
A business review is normally undertaken where a business need or case has been recognised or to identify any deficiencies in the operations of a business.
Before deciding if a project should be undertaken a business review is executed.

Setting up a project presupposes that a manager in the organisation has decided to carry out a specified and clearly defined task to meet a business need. The decision-maker has deemed the task is best carried out in the form of a project

The Main Phases of a Project

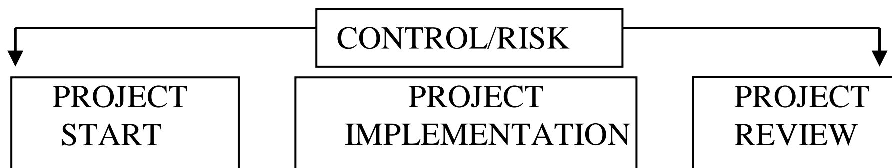
Because projects are unique undertakings they involve a degree of uncertainty. Therefore projects are usually divided into several phases (stages) to provide better management control and appropriate links to on-going operations.

Each phase is marked by completion of one or more deliverables. *A deliverable is a tangible, verifiable outcome, result, or item that must be produced to complete a project or part of a project.*

A project consists of three phases:

1. The project start (Initiating)
2. Implementation of the project (Planning, Executing and Closing process)
3. The project review (lessons learned)

A GENERIC PROJECT FRAMEWORK/MODEL



Project Start

The project start consists of two elements; the project sponsor hands over the produced project specification that has been developed during the business review to the project manager and then the project manager creates a project plan based upon the project specification.

The following activities are pursued until a clear project specification emerges.

- A project statement is written which may refer to the business agreement, contract or customers request.
- The final deliverable (goal), i.e. what the project will and will not address.
- An investment appraisal assisted by a financial controller.
- The appropriate project organisation which includes the project sponsor and board.
- The business level risks and issues.
- A project estimate and budget.
- Deliverables.

In the project start phase the project is established and mobilised. This phase aims to create and guarantee sufficient requirements for effective implementation. Only after this phase is completed can the project carryout the main task effectively.
The project start is mainly about creating an agreement between the project sponsor and manager.

Defining the project plan involves the following elements

- Clarifying the task by identifying possible unclear or incomplete points in the project.
- Choosing and adapting a working model.
- Work Breakdown Structure
- Critical Path Analysis diagram to determine the critical task to be executed.
- A project schedule documented on a Gantt chart.
- Milestone schedules.
- Risks and issues are identified and qualified.
- Configuration Management (Change Control).
- Plan level estimates and budgets are prepared and timing of expenditures.
- The competencies and skills required by the project members.
- The project organisation which includes the project sponsor and manager.

➢ A milestone is the end of a stage that marks the completion of a work package or phase typically marked by a high level event such as completion, endorsement or signing of a deliverable, document or a high level review meeting.
➢ A deliverable is a tangible or intangible object produced as a result of project execution. A deliverable can be created from multiple of smaller deliverables.

The Work Breakdown Structure

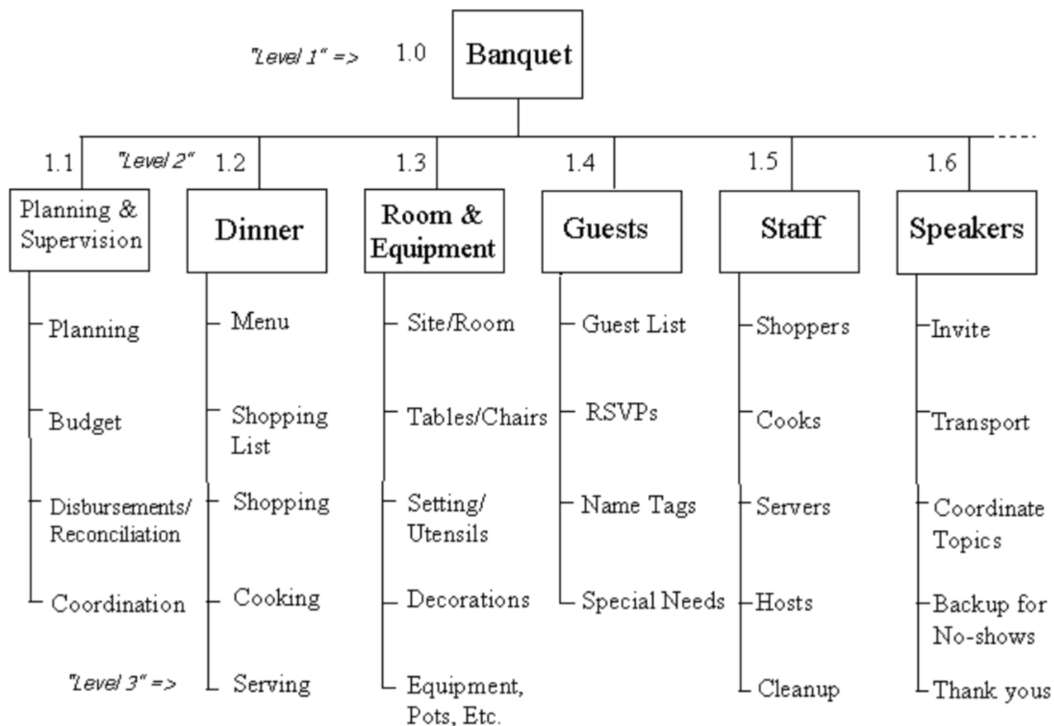
The creation of a WBS is the responsibility of the project manager.
The documentation has three elements:

1. **Work**: Defines each task from the PQP (Project Quality Plan).
2. **Breakdown:** Decomposes these tasks into a hierarchy.
3. **Structure**: Reflects the structure of the team through definition of individual work plans.

The interaction of different areas or stages within the project creates a complexity in plan definition: Tasks may be:

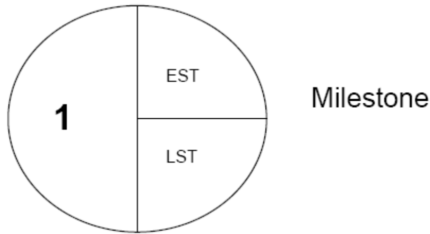
- **Dependent -**This relates to the need for sequencing and can be seen in the need for the design phase to follow systems analysis.
- **Parallel** - Some tasks such as interviewing users can occur simultaneously when the work structure is broken down.
- **Overlapping tasks** - Some tasks begin before the previous phase has finished.

In IT system development, testing may begin before programming is complete.
Some of this complexity is dealt with through the use of diagrammatic planning techniques such as network analysis.



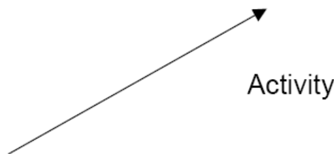
Network Analysis - Critical Path Analysis - Gantt Charts

NETWORK ANALYSIS NOTATION

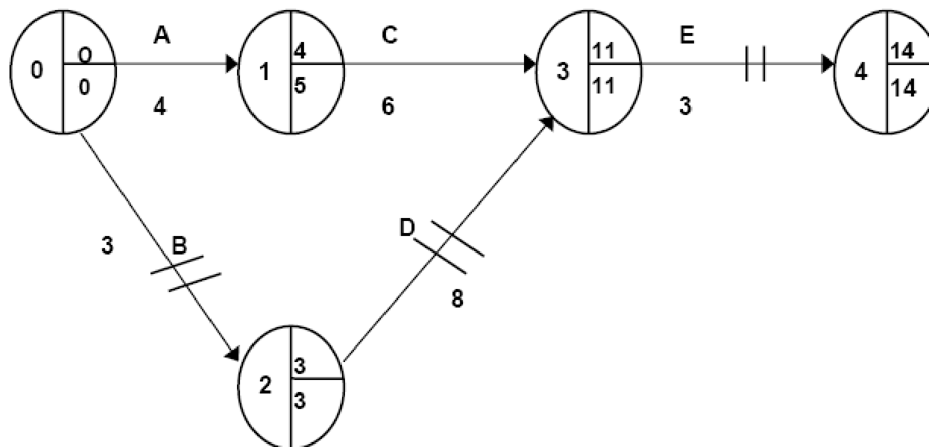


EST = Earliest Start Time for the next activity

LST = Latest Start Time for the next activity



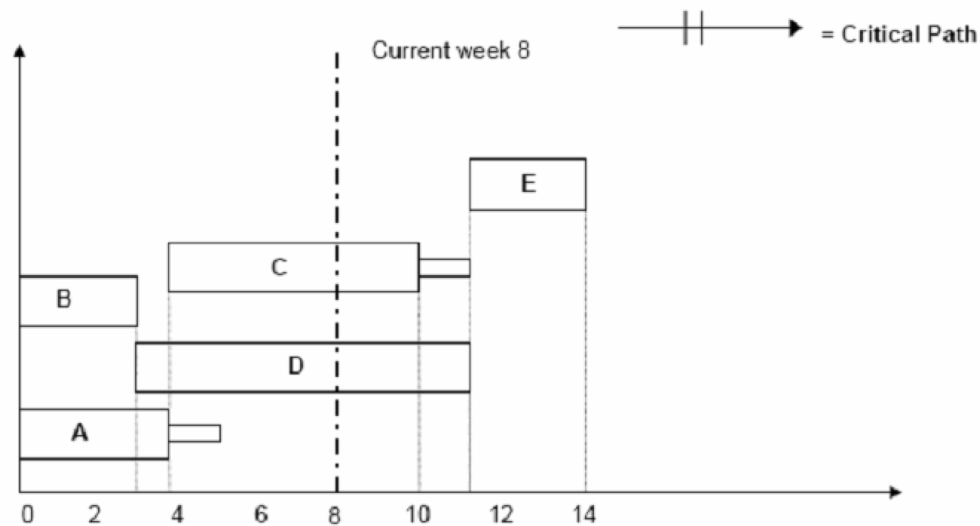
A critical path enables the manager to determine which activities are the most vital to time manage, there is no extra time on this route and all activities must be completed with the exact time constraints. The critical path can clearly be seen on the diagram below as B, D and E all EST and LST times are exactly the same, two lines drawn on the critical path highlight the line diagrammatically.



The Gantt Chart

This is an alternative or complementary approach to network analysis. It also provides a graphical representation of project activities and can be used both in project planning and control. A Gantt chart is a horizontal bar chart where the length of the bar represents the duration of the activity.

When a Gantt chart is used to help control a project it is usual to use two bars, one showing the planned duration and the second showing the actual duration. Alternatively a single bar can be used with shading representing the actual completion of work to date.
The following Gantt chart has been constructed from the network example above.



Project Implementation ***(Tracking and Control)***

During the project implementation the project task itself is carried out.
The scope and form of the main tasks vary greatly from project to project depending on the result to be achieved.
It is important from the project leadership and implementation point of view to continuously revisit the project specification to determine what has to be done.

The implementation phase of the project activities include the following,

- Project members report periodically to the project manager so that progress can be measured against the project plan.
- The project plan should be available for the periodic financial forecast to ensure up to date forecasting is provided to senior management for decision making.
- Identifying the project critical points, risk factors and weaknesses and taking suitable measures.
- Change requests to the project organisation are sent to the project sponsor for evaluation.
- Gradually improving working methods and routines.
- The project manager updates the relevant documents in the project plan as necessary.
- Team meetings are held and minuted, to review progress and identify issues.
- Regularly reporting results, suggestions for decisions and measures to the sponsor,

Progress Reports

- Scope of the report: what period does it cover etc.
- Achievements: what has been achieved during the period. Compare actual with milestones and deliverables.
- Deviations from plan deliverables and milestones.
- Actions: what activities have been carried out during the period, compare actual activities with planned activities.
- Problems/issues if any were encountered, describe them.
- If any new opportunities arose describe them.
- Provide an update on the risk analysis.
- Recommendations: suggestions for improvement or action to be taken.

The conclusion of the implementation phase is marked by a handover of the final result. Quality control and approval within the project will precede the handover. The project is then handed over to the sponsor for approval.

Project Review

While the project sponsor has made the final decision with the project manager that the project has ended, the project manager gives the signal to the members that no more tasks have to be done.

The project manager hands back all resources (human etc.) to the line organisation.

In the project review phase the project manager analyses the final deliverable, objectives, results schedule and costs. These results are compared with the original specification. Any discrepancies are commented on. A function of the project review is to supply feedback to the line organisation; so that, if appropriate, operational systems can be developed.

The results of the analysis together with experiences and suggestions for improvement are documented in the final report.

The final report must reflect everyone's experiences not just those of the project manager although the project manager is responsible for writing the report.

It is often said that more can be learned from project failure than project success. The lessons learned from project failure can include:

- When starting off in project management, plan to go all the way.

- Don’t skimp on project management qualifications.
- Does not spare time when laying out the project ground work and defining work.
- Ensure work packages in the project are of a proper size.
- Establish and use network planning techniques.
- Be prepared to re-plan jobs continually to accommodate frequent change.
- Whenever possible tie together responsibility, performance and rewards.
- Long before the project ends provide some means for accommodating the employees’ goals.

Lessons learned: “Lessons learned” is the documentation of success or failure of the project. Boeing maintains diaries of lessons learned on each aeroplane project. Lessons learned documents are drafted by the project manager and are used to for training programmes for future projects or by managers of similar projects.

Project Organisation

Projects as a method of work requires that a temporary organisation is formed to carry out a pre-determined task, according to a customer’s needs, expectations and requirements.
By organisation we mean how;

- We allocate tasks and responsibilities to the different roles in the project.
- The different roles work together and interact to carry out the various tasks.

In order to define a project’s organisation one needs to have an understanding of which tasks and responsibilities are to be allocated.
A general description of the responsibilities of the project sponsor, project manager and project members are given below.

Project Sponsor (Role normally held by a senior Manager/Director)

The project sponsor ensures the project has a purpose, is financed and the results will be utilised. The responsibilities consist of

- Ultimate authority and responsibility for the project.
- Producing a project specification.
- Starting and stopping the project.
- Making resources available.
- Designating the project manager.

- Overall control of the project.
- Approving any changes to the project.
- Appointing a project board.
- Taking delivery of and approving results.

The Project Manager

The project manager has the responsibility and authority to lead the project to its final deliverable (goal) within a given framework. The project manager's responsibilities are to ensure:

- Drawing up and continuously updating the plan.
- The day to day running of the plan.
- That the correct resources and workload requirements are scheduled.
- The activities are properly prioritised and that the critical tasks are defined.
- That there is a continuous review of the project and revision of the plan as required to meet the final deliverable (goal).
- That all project plans will define key milestones to ensure the project remains in control.
- That all project documentation is updated and maintained.
- That the chosen work model and methods are applied.
- That the project is tracked, controlled, and reported.
- That stakeholders, internally and externally, are kept informed.
- That the interim and final results are handed over.

Project Members

A project is made up of a number of project members each of whom will have different roles whose task and responsibilities are documented.

Generally speaking the responsibilities cover the following,

- Planning, carrying out and adapting the chosen processes.
- Using the available methods and working groups to ensure the quality of the interim results.
- Identifying the competencies needed to carry out the tasks.
- Where necessary clarifying demands and requirements which affect the allotted tasks.
- Identifying and reporting mistakes or deficiencies in the working methods.

Types of Project Organisation Structures

Functional organisation: is a hierarchy where each employee has one clear line of authority, staff are grouped by speciality, e.g. production, marketing, finance.

Projectile organisations: project team members are grouped under the project manager, in this type of organisation the project manager has a great deal of independence and authority.

Matrix organisations: is a blend of functional and projectile structures and may be classed as weak or strong matrix organisation.
Weak matrix maintains many of the characteristics of functional organisations and the project managers role is more of co-ordinator whereas a strong matrix reflects the projectile organisation where the balance of power shifts towards the project manager.

BLANK

GLOSSARY

A

Added value: The difference between the market value of the output and the cost of the inputs to the organisation.

Ansoff Matrix: A tool used by marketers who have objectives for growth. Ansoff's matrix offers strategic choices to achieve the objectives.

Architecture: The network of relationships and contracts both within and around the organisation.

APR: Annual Percentage Rate - The annual cost of a loan to a borrower. Like an interest rate, the APR is expressed as a percentage of the loan amount. Unlike an interest rate, however, it includes other charges or fees to reflect the total cost of the loan. Since all lenders must follow the same rules to ensure the accuracy of the APR, borrowers can use the APR as a good basis for comparing the cost of loans.

B

Backward integration: The process whereby an organisation acquires the activities of its inputs, e.g. manufacturer into raw material supplier.

BCG Growth-Share Matrix: A two-by-two matrix that attempts to rank companies or products based on growth rates versus relative market share. The initials BCG come from the Boston Consulting Group who developed the matrix

Barriers to Entry: Conditions that new entrants into a market must overcome, for example, cash, exclusive licences, brand-name recognition, and specialised expertise.

Benchmarking: The comparison of practice in other organisations in order to identify areas for improvement. Note that the comparison does not have to be with another organisation within the same industry, simply one whose practices are better at a particular aspect of the task or function.

Book Value: Total value of assets minus intangible items (e.g., patents and goodwill) and liabilities (debts). An accounting value that often does not necessarily reflect the market value of a company's assets.

Bounded rationality: The principle that managers reduce tasks, including implementation, to a series of small steps, even though this may grossly over-simplify the situation and may not be the optimal way to proceed.

Branding: The additional reassurance provided to the customer by the brand name and reputation beyond the intrinsic value of the assets purchased by the customer.

Break-even: The point at which the total costs of undertaking a new strategy are equal to the total revenue from the strategy. A measure, usually in terms of time or units sold, which

indicates the point at which fixed costs are recovered due to sale of goods. See Payback Period.

Bretton Woods Agreement: System of largely fixed currency exchange rates between the leading industrialised nations of the world. In operation from 1944 to 1973.

Business ethics: See Ethics.

Business process re-engineering: The replacement of people in administrative tasks by technology, often accompanied by delayering and other organisational change.

Business Case: A decision to pursue a particular investment opportunity, usually involving consideration and analysis of costs, returns, competition, risk, and other factors. Will often include computation or estimates of breakeven, NPV, IRR, pay back period and ROI.

C

Capability-based resources: Covers the resources across the entire value chain and goes beyond key resources and core competencies.

Cannibalisation: A term used to refer to the reduction in market share of an existing product due to the introduction of a new product which may or may not be intended to replace the existing one. The concept is particularly important with high-technology products, due to the constant push to update and replace existing products.

Capacity Utilisation: The percentage of current normal capacity that is being used. In the short-term this capacity is more or less fixed. Increases to production result in increases to capacity utilisation. Operating significantly above or below normal capacity utilisation often results in higher unit costs.

Cash Flow: The difference between cash received and cash given during an accounting period. Necessary for determining the long-term viability of a company.

Change options matrix. This links the areas of human resource activity with the three main areas of strategic change: work, cultural and political change.

Changeability of the environment: The degree to which the environment is likely to change.

Competitive advantage: The significant advantages that an organisation has over its competitors. Such advantages allow the organisation to add more value than its competitors in the same market.

Competitor profiling: Explores one or two leading competitors by analysing their resources, past performance, current products and strategies.

Complete competitive formula: The business formula that offers both value for money to customers and competitive advantage against competitors.

Complementors: The companies whose products add more value to the products of the base

organisation than they would derive from their own products by themselves - for example, Microsoft software adds significantly to the value of a Hewlett-Packard Personal Computer.

Concentration ratio: The degree to which value added or turnover is concentrated in the hands of a few firms in an industry. It measures the dominance of firms in an industry.

Contend: The constructive conflict that some strategists argue is needed by every organisation.

Content of corporate strategy: The main actions of the proposed strategy.

Context of corporate strategy. The environment within which the strategy operates and is developed.

Contingency theory of leadership: Argues that leaders should be promoted or recruited according to the needs of the organisation at a particular point in time. See also Style theory and Trait theory.

Controls: Employed to ensure that strategic objectives are achieved and financial, human resource and other guidelines are not breached during the implementation process or the on-going phase of strategic activity. The process of monitoring the proposed plans as they are implemented and adjusting for any variances where necessary.

Co-operation: The links that bring organisations together, thereby enhancing their ability to compete in the market place. See also Complementors.

Co-operative game: Has positive pay-off for all participants.

Core competencies: The distinctive group of skills and technologies that enable an organisation to provide particular benefits to customers and deliver competitive advantage. Together they form key resources of the organisation that assist it in being distinct from its competitors.

Core resources: The important strategic resources of the organisation usually summarised as architecture, reputation and innovation.

Corporate governance: The selection of the senior officers of the organisation and their conduct and relationships with owners, employees and other stakeholders.

Corporate strategy: The pattern of major objectives, purposes or goals and the essential policies or plans for achieving those goals. Note that this is not the only definition.

Cost/benefit analysis: Evaluates strategic projects especially in the public sector where an element of unquantified public service beyond commercial profit may be involved. It attempts to quantify the broader social benefits to be derived from particular strategic initiatives.

Cost of capital: The cost of the capital employed in an organisation, often measured by the

cost of investing outside in a risk free bond coupled with some element for the extra risks, if any, of investing in the organisation itself. The required rate of return asked for by capital markets when borrowing money for equivalent-risk projects. See also Weighted average cost of capital.

Compound Annual Growth Rate (CAGR): The year-over-year growth rate of a market or investment over some specified period of time. Computed by taking the nth root of the total percentage growth rate where n is the number of years in the period being considered.

Cost-plus pricing: Sets the price of goods and services primarily by totalling the costs and adding a profit margin. See also Target pricing.

Critical Success Factor (CSF): A business event, dependency or other factor that, if not attained, would seriously impair the likelihood of achieving a business objective. Minimum requirements a firm must meet in order to be competitive.

Cultural Web: The factors that can be used to characterise the culture of an organisation. Usually summarised as stories, symbols, power structures, organisational structure, control systems, routines and rituals.

Culture: See Organisational culture and International culture. It is important to distinguish between these two quite distinct areas of the subject.

Customer-competitor matrix: Links together the extent to which customers have common needs and competitors can gain competitive advantage through areas such as differentiation and economies of scale.

Customer-driven strategy. The strategy of an organisation where every function is directed towards customer satisfaction. It goes beyond those functions, such as sales and marketing, that have traditionally had direct contact with the customer.

Customer profiling: Describes the main characteristics of the customer and how customers make their purchase decisions.

CV. Curriculum Vitae. A summary in date order of an employee's education and employment history.

Cyclicality: The periodic rise and fall of a mature market.

D

Delayering: The removal of layers of management and administration in an organisation's structure.

Demerger: The split of an organisation into its constituent parts with some parts possibly being sold to outside investors.

Derived demand: Demand for goods and services that is derived from the economic performance of the customers. See also Primary demand.

Differentiation: The development of unique benefits or attributes in a product or service that positions it to appeal especially to a part (segment) of the total market.

Dirigiste policy: Describes the policies of a government relying on an approach of centrally directed government actions to manage the economy. See also Laissez-faire policy.

Discontinuity: Radical, sudden and largely unpredicted change in the environment.

Discounted cash flow (DCF). The sum of the projected cash flows from a future strategy, after revaluing each individual element of the cash flow in terms of its present worth.

Distribution Channels: Ways of delivering a product to market and ultimately to the consumer. For example, a product may be sold directly to a consumer or through certain middlemen (wholesaler, distributor, retailer, Internet etc.)

Diversification: Diversification is the term used to identify different directions of development that take the organisation away from its present market position.

Divest: To withdraw from or dispossess of interest in markets or companies.

Division. A separate part of a multi-product company with profit responsibility for its range of products. Each division usually has a complete range of the main functions such as finance, operations and marketing.

Double loop learning. The first loop of learning checks performance against expected norms and adjusts where necessary. The second, more fundamental loop re-appraises whether the expected norms were appropriate in the first place.

E

EBIT/EBITDA: Earnings Before Interest, Taxes/Depreciation and Amortisation

Economic rent. Any excess that a factor earns over the minimum amount needed to keep that factor in its present use.

Economies of scale. The extra cost savings that occur when higher volume production allows unit costs to be reduced.

Economies of scope. The extra cost savings that are available as a result of separate products sharing some facilities.

Emergent change. The whole process of developing a strategy whose outcome only emerges as the strategy proceeds. There is no defined list of implementation actions in advance of the strategy emerging. See also Prescriptive change.

Emergent corporate strategy. A strategy whose final objective is unclear and whose elements are developed during the course of its life, as the strategy proceeds. See also Prescriptive

corporate strategy.

Empowerment. The devolution of power and decision making responsibility to those lower in the organisation.

Environment. Everything and everyone outside the organisation: competitors, customers, government, etc. Note that 'green' environmental issues are only one part of the overall definition. See also Changeability of the environment and Predictability of the environment.

E-S-P Paradigm. This analyses the role of government in strategy development along three dimensions: Environment, System and Policies.

Ethics. The principles that encompass the standards and conduct that an organisation sets itself in its dealings within the organisation and with its external environment.

Expansion method matrix. Explores in a structured way the methods by which the market opportunities associated with strategy options might be achieved.

Experience curve. The relationship between the unit costs of a product and the total units ever produced of that product, plotted in graphical form. Note that the units are cumulative from the first day of production.

Externalities: Forces or factors that are typically beyond the control of a company or operating entity.

F

Fit. The consistencies, coherence and congruence within the organisation.

Five Forces Analysis: See Porter's Five Forces Theory

Floating and fixed exchange rates. Currency exchange rates, such as the rate of exchange between the US$ and the RWF are said to float when market forces determine the rate depending on market demand. They are fixed when national governments (or their associated national banks) fix the rates by international agreement and intervene in international markets to hold those rates.

Focus strategy. See Niche marketing.

Formal organisation structures. Those structures formally defined by the organisation in terms of reporting relationships, responsibilities and tasks. See also Informal organisation structures.

Forward integration. When an organisation acquires the activities of its outputs, e.g. manufacturer into distribution and transport.

Functional organisation structure. A structure in which the different functions of the organisation, such as finance and operations, report to the chief executive. Used in organisations with a limited product range.

G

Game-based theories of strategy. Focus on the decisions of the organisation and its competitors as strategy is developed - the game - and the interactions between the two as strategic decisions are taken.

Game theory. Structured methods of bargaining with and between customers, suppliers and others, both inside and outside the organisation.

GDP: Gross Domestic Product - All goods and services produced within the country including foreign owned companies.

Gearing ratio. The ratio of debt finance to the total shareholders' funds.

General Agreement on Tariffs and Trade (GATT). International agreement designed to encourage and support world trade.

Generic strategies. The three basic strategies of cost leadership, differentiation and focus (sometimes called niche) which are open to any business.

Global and national responsiveness matrix. This links together the extent of the need for global activity with the need for an organisation to be responsive to national and regional variations. These two areas are not mutually exclusive.

Global product company. This will often involve the global integration of manufacturing and one common global brand. There is only limited national variation. See also Transnational product company.

GNP: Gross National Product - All goods and services produced within the country excluding foreign owned companies.

Growth-share matrix. See Portfolio matrix, BCG.

H

Hierarchy of resources. The four levels of resource that are the full resources of the organisation. The distinguishing feature of the higher levels is an increased likelihood of sustainable competitive advantage.

Holding company organisation structure. Used for organisations with very diverse product ranges and share relationships. The headquarters acts only as a banker, with strategy largely decided by the individual companies. Sometimes shortened to H-Form structure.

Horizontal integration. When an organisation moves to acquire its competitors or make some other form of close association.

Human resource audit. An examination of the organisation's people and their skills, backgrounds and relationships with each other.

Human resource-based theories of strategy. Emphasise the importance of the people element

in strategy development. See also Emergent corporate strategy, Negotiation-based and Learning-based strategic routes forward.

I

Implementation. The process by which the organisation's chosen strategies are put into operation.

Informal organisation structures. Those structures, often unwritten, that have been developed by the history, culture and individuals in an organisation to facilitate the flow of information and allocate power within the structure. See also Formal organisation structures.

Innovation. The generation and exploitation of new ideas. The process moves products and services, human and capital resources, markets and production processes beyond their current boundaries and capabilities.

Intangible resources. The organisation's resources that have no physical presence but represent real benefit to the organisation, like reputation and technical knowledge. See also Tangible resources and Organisational capability.

Intellectual capital of an organisation. The future earnings capacity that derives from a deeper, broader and more human perspective than that described in the organisation's financial reports.

International culture. Collective programming of the mind that distinguishes one human group from another.

International Monetary Fund (IMF). International body designed to lend funds to countries in international difficulty and to promote trade stability through co-operation and discussion.

Internal Rate of Return (IRR): The discount rate for which the total present value of cash flow is equal to the initial investment(s). The value of the rate for which NPV is equal to zero.

J

Just-in-time. System that ensures that stock is delivered from suppliers only when it is required, with none being held in reserve.

K

Kaizen. The process of continuous improvement in production and every aspect of value added (Japanese).

Kanban. Control system on the factory floor to keep production moving (Japanese).

Key factors for success. Those resources, skills and attributes of the organisations in an industry that are essential to deliver success in the market place. Sometimes called critical success factors.

Knowledge. A fluid mix of framed experience, values, contextual information and expert insight. Note that knowledge is not 'data' or 'information'.

Knowledge management. The retention, exploitation and sharing of knowledge in an organisation that will deliver sustainable competitive advantage.

Key Performance Indicator (KPI). A measure used on its own, or in combination with other key performance indicators, to monitor how well a business is achieving its quantifiable objectives.

L

Laissez-faire policy. Describes the policies of a government relying on an approach of non-interference and free-market forces to manage the economy of a country.

Leadership. The art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of the group's mission.

Learning. The strategic process of developing strategy by crafting, experimentation and feedback. Note that learning in this context does not mean rote or memory learning.

Learning-based strategic route forward. Emphasises learning and crafting as aspects of the development of successful corporate strategy. See also Human resource-based theories of strategy.

Leveraging. The exploitation by an organisation of its existing resources to their fullest extent. *Note: Leverage/Leveraging can also refer to Gearing or Debt to Equity ratios.*

Life cycle. Plots the evolution of industry annual sales over time. Often divided into distinct phases - introduction, growth, maturity and decline - with specific strategies for each phase.

Logical incrementalism. The process of developing a strategy by small, incremental and logical steps. The term was first used by Professor J B Quinn.

Logistics. The science of stockholding, delivery and customer service.

Loose-tight principle. The concept of the need for tight central control by headquarters, while allowing individuals or operating subsidiaries loose autonomy and initiative within defined managerial limits.

M

Macroeconomic conditions. Economic activity at the general level of the national or international economy.

Marginal Cost: The additional cost of producing an additional (marginal) unit of product or service.

Market equilibrium. The state that allows competitors a viable and stable market share accompanied by adequate profits.

Market options matrix. Identifies the product and the market options available to the organisation, including the possibility of withdrawal and movement into unrelated markets.

Market positioning. The choice of differential advantage possessed by an organisation that allows it to compete and survive in a market place. Often associated with competition and survival in a segment of a market. See Market segmentation.

Market segmentation. The identification of specific groups (or segments) of customers who respond to competitive strategies differently from other groups. See also Market positioning.

Market Share: Often measured as a percentage and consisting of a firm's revenue for a particular product or service divided by the overall industry's revenue for that product or service. Companies that have large market shares can often reduce production costs faster than those with smaller market shares by moving more quickly down the production experience curve.

Mass marketing. One product is sold to all types of customer.

Matrix organisation structure. Instead of the product-based multi-divisional structure, some organisations have chosen to operate with two overlapping structures. One structure might typically be product-based, with another parallel structure being based on some other element such as geographic region. The two elements form a matrix of responsibilities. Strategy needs to be agreed by both parts of the matrix. See also Multi-divisional organisation structure.

McKinsey-General Electric Portfolio Analysis Matrix: Three-by-three matrix used to assess whether to sell, hold, or invest in a particular business. Compares business strength with industry attractiveness.

Milestones. Interim indicators of progress during the implementation phase of strategy.

Minimum intervention. The principle that managers implementing strategy should only make changes where they are absolutely necessary.

Mission statement. Defines the business that the organisation is in or should be in against the values and expectations of the stakeholders. General purpose of intent.

Multi-divisional organisation structure. As the product range of the organisation becomes larger and more diverse, similar parts of the product range are grouped together into divisions, each having its own functional management team. Each division has some degree of profit responsibility and reports to the headquarters, which usually retains a significant role in the development of business strategy. Sometimes this is shortened to M-Form structure. See also Matrix organisation structure.

Multinational enterprise (MNE). A global company that operates in many countries around the world, for example: Ford, Fairtrade Foundation or Unilever.

N

Negotiation-based strategic route forward. Has both human resource and game theory elements. Human resource aspects emphasise the importance of negotiating with colleagues in order to establish the optimal strategy. Game theory aspects explore the consequences of the balance of power in the negotiation situation.

Net cash flow: Approximately, the sum of pre-tax profits plus depreciation, less the capital to be invested in a strategy.

Net Present Value (NPV): An approach used in capital budgeting where the present value of cash inflows is subtracted by the present value of cash outflows. NPV is used to analyse the profitability of an investment or project.

Niche marketing: Concentration on a small market segment with the objective of achieving dominance of that segment.

O

OECD: Organisation for Economic Co-operation and Development

Oligopoly. A market dominated by a small number of firms.

Organisational capability. The skills, routines, management and leadership of its organisation. See also Tangible resources and Intangible resources.

Organisational culture. The style and learned ways that govern and shape the organisation's people relationships.

Opportunity Cost: The estimated value of the next best alternative not pursued in order to use limited resources on a selected project. E.g. if a city decides to build a hospital on vacant land that it owns, the opportunity cost is some other thing that might have been done with the land and construction funds instead.

Outsourcing. The decision by an organisation to buy in products or services from outside, rather than make them inside the organisation.

P

Paradigm. The recipe or model that links the elements of a theory together and shows, where possible, the nature of the relationships.

Parenting. The special relationships and strategies pursued at the headquarters of a diversified group of companies.

Payback Period: Time required for a project to recover its initial investment. This measure

should not be used as a sole determinant in making a decision since it does not take into consideration the time value of money.

Payoffs. The results of particular game-plays. See also Game theory and Co-operative game.

PESTEL analysis. Checklist of the political, economic, socio-cultural, technological, environment and legal aspects of the environment. Can also be presented as PEST - political, economic, social, technological.

PEST - political, economic, social, technological. See above

Plans or programmes. The specific actions that follow from the strategies. Often a step-by-step sequence and timetable.

Porter's Five Forces Theory: Description of the five forces that characterise competition within an industry according to Harvard professor Michael Porter. They are (1) Threat of Substitutes (2) Threat of Entry (3) Power of Suppliers (4) Power of Buyers (5) Competitor Rivalry

Portfolio matrix. Analyses the range of products possessed by an organisation (its portfolio) against two criteria: relative market share and market growth. It is sometimes called the growth-share matrix.

Prescriptive change. The implementation actions that result from the selected strategy option. A defined list of actions is identified once the strategy has been chosen. See also Emergent change.

Prescriptive corporate strategy. A strategy whose objective has been defined in advance and whose main elements have been developed before the strategy commences. See also Emergent corporate strategy, where such elements are crafted during the development of the strategy and not defined in advance.

Primary demand. Demand from customers for themselves or their families. See also Derived demand.

Process of corporate strategy. How the actions of corporate strategy are linked together or interact with each other as strategy unfolds.

Product Life Cycle: The various market stages that a product typically goes through. Consists of the Introduction (entry to market), Growth (increase in sales), Maturity (flattening of sales), and Decline phases.

Profit-maximising theories of strategy. Emphasise the importance of the market place and the generation of profit. See also Prescriptive corporate strategy.

Profitability. The ratio of profits from a strategy divided by the capital employed in that strategy. It is important to define clearly the elements in the equation, e.g. whether the profits

are calculated before or after tax and before or after interest payments. This is often called the Return on capital employed, shortened to ROCE.

Q

Quota. A maximum number placed by a nation state on the goods that can be imported into the country in any one period. The quota is defined for a particular product category.

R

Resource allocation: The process of allocating the resources of the organisation selectively between competing strategies according to their merit.

Resource-based view: Stresses the importance of resources in delivering the competitive advantage of the organisation. See also Prescriptive corporate strategy.

Retained profits: The profits that are retained in an organisation after dividends, if any, have been distributed to shareholders. These can be used to fund new strategies.

Return on Assets (ROA). A performance measure of a firm's ability to use assets to generate earnings, independent of how those assets were financed. This metric is useful for evaluating the management of operations.

Return on Capital Employed (ROCE). See Profitability.

Return on Equity (ROE). Usually, equity earnings as a proportion of the book value of equity.

Return on Investment (ROI). Income divided by the average cost of assets devoted to the project over a specific period of time. Usually expressed as a percentage.

S

Seven S Framework. The seven elements of super-ordinate goals: strategy, structure, systems, skills, style and staff. In some later versions, the first item was replaced by share values.

Share issues. New shares in an organisation can be issued to current or new shareholders to raise finance for new strategy initiatives.

Shareholder value added. The difference between the return on capital and the cost of capital multiplied by the investment made by the shareholders in the business.

Six Sigma. A rigorous and disciplined methodology that utilises data and statistical analysis to measure and improve a company s operational performance, practices and systems. Six Sigma identifies and prevents defects in manufacturing and service-related processes. In many organisations, it simply means a measure of quality that strives for near perfection.

Socio-cultural theories of strategy. Focus on the social and cultural dimensions of the organisation in developing corporate strategy. See also Prescriptive corporate strategy.

Stakeholders. The individuals and groups who have an interest in the organisation and, therefore, may wish to influence aspects of its mission, objectives and strategies.

Strategic business unit (SBU). The level of a multi-business unit at which the strategy needs to be developed. The unit has the responsibility for determining the strategy of that unit. Not necessarily the same as a division of the company: there may be more than one SBU within a division and SBUs may combine elements from more than one division.

Strategic change. The proactive management of change in organisations in order to achieve clearly defined strategic objectives. See also Prescriptive change and Emergent change.

Strategic fit. The matching process between strategy and organisational structure.

Strategic groups. Groups of firms within an industry that follow the same strategies or ones that have similar dimensions and which compete closely.

Strategic planning. A formal planning system for the development and implementation of the strategies related to the mission and objectives of the organisation. It is no substitute for strategic thinking.

Strategic space. The identification of gaps in an industry representing strategic marketing opportunities.

Strategies. The principles that show how an organisation's major objectives or goals are to be achieved over a defined time period. Usually confined only to the general logic for achieving the objectives.

Strategy as history. The view that strategy must, at least in part, be seen as a result of the organisation's present resources, its past history and its evolution over time.

Style theory of leadership. Suggests that individuals can be identified who possess a general style of leadership that is appropriate to the organisation. See also Contingency theory of leadership and Trait theory of leadership.

Sunk cost: Costs that have already been incurred and should not be used in making current or future business decisions.

Survival-based theories of strategy. Regard the survival of the fittest in the market place as being the prime determinant of corporate strategy. See also Emergent corporate strategy.

Sustainable competitive advantage. An advantage over competitors that cannot be easily imitated. Such advantages will generate more value than competitors have.

Switching Cost: Any impediment to a customer changing suppliers of goods or services, sometimes called Switching Barriers.

SWOT analysis: An analysis of the **S**trengths and **W**eaknesses present internally in the organisation, coupled with the **O**pportunities and **T**hreats that the organisation faces

externally.

Synergy: The combination of parts of a business such that the sum of the outputs is worth more than that of the individual parts - often remembered as ‘2_1_2_5_5’.

Systems Theory. Systems Theory sees our world in terms of 'systems', where each system is a 'whole' that is more than the sum of its parts, but also itself a 'part' of larger systems.

T

Tangible resources. The physical resources of the organisation such as plant and equipment. See also Intangible resources and Organisational capability.

Target pricing. Sets the price of goods and services primarily on the basis of the competitive position of the organisation, the profit margin required and, therefore, the target costs that need to be achieved. See also Cost-plus pricing.

Targeted marketing. See Market segmentation.

Tariffs. Taxes on imported goods imposed by a nation state. They do not stop imports into the country but make them more expensive.

Taylorism. Named after F W Taylor (1856-1915). The division of work into measurable parts, such that new standards of work performance could be defined, coupled with a willingness by management and workers to achieve these. It fell into disrepute when it was used to exploit workers in the early twentieth century. Taylor always denied that this had been his intention.

Tiger economies. Countries of South-East Asia exhibiting exceptionally strong economic growth over the last 20 years, including Singapore, Malaysia, Hong Kong, Thailand and Korea.

Trade barriers. The barriers set up by governments to protect industries in their own countries.

Trade block. Agreement between a group (or block) of countries designed to encourage trade between those countries and keep out other countries.

Trait theory of leadership. Argues that individuals with certain characteristics (traits) can be identified who will provide leadership in virtually any situation. See also Contingency theory of leadership and Style theory of leadership.

Transfer price. The price for which one part of an organisation will sell its goods to another part in a multi-divisional organisation.
Transnational product company. This usually involves some global integration of manufacturing coupled with significant national responsiveness to national or regional variations in customer demand. See also Global product company.

U

Uncertainty-based theories of strategy. Regard prediction of the environment as being of little value and therefore long term planning as having little value. See also Emergent corporate strategy.

United Nations Conference on Trade and Development (UNCTAD). A trade body set up to highlight the trading concerns of the developing nations of the world and promote their interests.

V

Value chain. Identifies where the value is added in an organisation and links the process with the main functional parts of the organisation. It is used for developing competitive advantage because such chains tend to be unique to an organisation.

Value system. The wider routes in an industry that add value to incoming supplies and outgoing distributors and customers. It links the industry value chain to that of other industries. It is used for developing competitive advantage.

Vertical integration. The backward acquisition of raw material suppliers and/or the forward purchase of distributors.

Vision. A challenging and imaginative picture of the future role and objectives of an organisation, significantly going beyond its current environment and competitive position. It is often associated with an outstanding leader of the organisation.

W

Weighted average cost of capital. The combination of the costs of debt and equity capital in proportion to the capital structure of the organisation. See also Cost of capital.

X

X Theory: Theory X managers on average believe staff really do not want to work. if they had a choice they would not want to commit themselves to work for the employer in the employer's time. They avoid it wherever possible. Basically employees are self-interested and prefer leisure rather than working for someone else. Douglas McGregor - Theory X and Y

Y

Y Theory: Theory Y manager tends to believe that given the right conditions for employees, their application of physical and mental effort in work is as natural as rest or play. Work offers satisfactions and meaning. Douglas McGregor - Theory X and Y

Z

Z Theory: Theory Z type organisation is a process which has the objective of developing the ability of the organisation to co-ordinate people, not technology to achieve productivity, W Ouchi (1981).