UNIVERSITÉ DE NEUCHÂTEL

FACULTÉ DES SCIENCES ÉCONOMIQUES

The Mapping of an Agile Strategy in a New Business World
From atoms and recipes to bytes and mental agility

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by

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Summary:

In a hostile post-industrial business environment characterised by globalisation and the immaterial age, we first establish an **Initial Strategy Map** which is based on the state of knowledge and focuses on the agility requirement. After this, based on the data collection of the empirical research, we adopt, synthesise and specify this initial framework as the **Proposed Dynamic Strategy Map**. Finally, as a result of an in-depth analysis of six business cases, the Proposed Dynamic Strategy Map is validated and clarified at the end of the thesis.

Such a framework offers a strategic approach for small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand. Due to their simple structure and manageable sites and scopes, our decision to analyse SMEs as units of observation can methodologically be justified and adds value to the understanding of their characteristics.

Keywords:

Strategy map, integrated management system, balanced scorecard, behavioural economics, traditional recipes, complexity, competitive advantage, x-factor, agility, flexibility, rapidity, knowledge, strategic fit, intangible skills, wetware, networks, outsourcing, alliances, virtuality, meta-value chain, modern company.

Mots clés:

Carte stratégique, système intégré de gestion, tableau de bord prospectif, économie comportementale, recettes traditionnelles, complexité, avantage compétitif, x-facteur, agilité, flexibilité, rapidité, savoir, adéquation stratégique, compétences intangibles, wetware, réseaux, externalisation, alliances, virtualité, filière, entreprise moderne.

PREFACE

During my business administration studies at the University of Berne, my prime interest was strategy. However, before delving into this fascinating topic, I first intended to better comprehend in detail other, interrelated, aspects of the fairly complex functioning of most companies, i.e. their processes, systems and organisation. In this context, Mintzberg, Lampel, Quinn and Ghosal quote that *"...one cannot decide reliably what should be done in a system as complicated as a contemporary organization without a genuine understanding of how that organization really works."*[1] An effective corporate strategy leading to a corporate advantage that creates value is a consistent set of the following elements: vision, goals and objectives, resources, businesses and organisation.[2] My extensive experience in a managerial consulting, auditing and project-leader (including mergers and acquisitions) position, with direct reporting lines to either executive management or the board of directors, has enabled me to gain significant practical insights into all of these elements. Being in charge of a start-up production plant in South-East Asia and a director in the project team for the business development of a car manufacturer in South-East Europe were also very important professional and personal experiences in this regard.

However, after a number of years of intensive international business experience, I felt that my theoretical background was no longer up-to-date. This is why the MBA degree at the University of Geneva considerably helped to refresh my knowledge about strategy and provided new perspectives on the latest business and academic developments.

This was the basis upon which my supervisor Professor Sam Blili, director of the Enterprise Institute of the University of Neuchâtel, considerably reignited my enthusiasm and curiosity towards strategy, which had never really faded. His enormous academic and practical excellence, as well as his worldwide network and innovative, i.e. out-of-the box, approaches to international strategy were always an inexhaustible source for exciting discussions and triggered my further enthusiasm for the topic.

This is the context from which my research emerged and which will help to clarify what strategy is all about and what the ongoing and future challenges for Western SMEs will look like. I am convinced that the conclusions of this research will provide transparent insights and useful practical advice in order to successfully cope with ongoing challenges which will definitely have to be faced sooner rather than later.

Therefore, I must once again acknowledge Professor Sam Blili, from whom I have greatly benefited during the completion of this thesis. He has patiently dedicated a lot of his time to me, shared his boundless experience, knowledge and expertise, and strongly encouraged, inspired, assisted and guided my work through sometimes troubled waters. Sharing his ideas on many other topics, as well as his impressive mirroring technique during discussions, helped me to significantly challenge and shift a number of personal views and biases which I had held for a long time. In short, working under Professor Sam Blili's supervision and guidance has been a great privilege. I am also very much indebted to him for his support and trust, but also the freedom he gave me when lecturing in 2010/2011 (a bachelor's course) and 2013/2014 (a master's course) at his institute. I am also much obliged to my "International Strategy" master's course class for their valuable contributions, availability and patience.

1 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. x
2 Collis and Montgomery (2005), pp. 10-11

In addition, the discussions and input of other professors, assistants, researchers and students of the institute also inspired me on the journey of this research.

I would also like to thank my wife and children, who for long periods had to patiently tolerate the absence of their husband and father while he was working on this research. I really appreciate your understanding!

Moreover, I am glad that my sister often asked me about what I was actually doing and learning in my studies. This was an additional motivation to write about my interests.

Finally, extraordinary gratitude goes to my parents, who enabled me to pursue a door-opening education, who were always there for me, and to whom I owe so much.

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LIST OF ACRONYMS

ABB	Asea Brown Bovery Ltd.
ABC	Activity-based costing
ASEAN	Association of South-East Asian Nations
ATM	Automatic Teller Machines
BCG	Boston Consulting Group
BPR	Business Process Reengineering
BRIC	Brazil, Russia, India and China
BSC	Balanced Score Card
BP	British Petroleum p.l.c.
BTO	Built-to-order
B2B	Business-to-Business
B2C	Business-to-Consumer
CAD	Computer-Aided Design
CAGE	Cultural, Administrative and Political, Geographical, and Economic
CAM	Computer-Aided Manufacturing
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CKO	Chief Knowledge Officer
CLV	Customer Lifetime Value
CPM	Corporate Performance Management
CRM	Customer Relationship Management
CSF	Critical Success Factor
CSR	Corporate Social Responsibility
DNA	Deoxyribonucleic Acid
ECIIA	European Confederation of Institutes of Internal Auditing
EDI	Electronic Data Interchange
e.g.	exempli gratia (Latin) - for example
EU	European Union
EVA	Economic Value Added
FDI	Foreign Direct Investment
FSRCs	Firm-specific Resources and Capabilities
FT	Financial Times
FX	Foreign Exchange
GE	General Electric
GM	General Motors
GPS	Global Positioning System
HP	Hewlett-Packard
HR	Human Resources

HRM	Human Resources Management
IBM	International Business Machines
ICT	Information and Communications Technologies
i.e.	id est (Latin) – that is
IIA	Institute of Internal Auditors
IBP	Iowa Beef Processors
IS	Information System
ISO	International Standards Organization
IT	Information Technology
KMS	Knowledge Management System
KPI	Key Performance Indicator
KPMG	Klynveld Peat Marwick Goerdeler
LCD	Liquid Crystal Display
LGC	Luxfer Gas Cylinders
MES	Minimum Efficient Scale
NAFTA	North American Free Trade Agreement
NIH	Not-Invented-Here
OECD	Organisation for Economic Cooperation & Development
OECE	Organisation Européenne de Coopération Économique
OSM	Office of Strategy Management
PESTEL	Political, Economic, Social, Technological, Environmental and Legal
P&G	Procter & Gamble
PR	Public Relations
ROI	Return on Investment
RSS	Really Simple Syndication
R&D	Research & Development
SBU	Strategic Business Unit
SME	Small and Medium Enterprise
STRATEX	Budget for Strategic Expenditures
SWOT	Strengths, Weaknesses, Opportunities and Threats
TOWS	Threats, Opportunities, Weaknesses, Strengths
TQM	Total Quality Management
UK	United Kingdom
USA	United States of America
VoIP	Voice over Internet Protocol
VRIO	Valuable, Rare, in-Imitable and Exploited by the Organisation
WOM	Word-of-Mouth

LIST OF BUSINESS CASES

Accenture: Accenture plc

Adidas: Adidas AG

Amazon: Amazon.com, Inc.

Apple: Apple Inc.

ABB: Asea Brown Bovery Ltd.

BASF: BASF SE

Benetton: Benetton Group S.p.A.

Black & Decker: Black & Decker Corporation

BMS: Bristol-Myers Squibb

Boston Consulting Group: The Boston Consulting Group

BP: British Petroleum p.l.c.

Burger King: Burger King

Calvin Klein: Calvin Klein Inc.

Canon: Canon Inc.

Casio: Casio Computer Co., Ltd.

CDNow: CDNOW.com

Cisco: Cisco Systems, Inc.

Citicorp: City Bank of New York

Coca-Cola: The Coca-Cola Company

Columbia Pictures: Columbia Pictures Industries, Inc.

Costco: Costco Wholesale Corporation

Daimler: Daimler-Benz AG

Dell: Dell Inc.

DuPont: E. I. du Pont de Nemours and Company

EasyJet: EasyJet Airline Company Limited

eBay: eBay Inc.

Encyclopaedia Britannica: Encyclopaedia Britannica Inc.

Enron: Enron Corporation

Exxon: Exxon Mobil Corporation

Facebook: Facebook, Inc.

Federal Express: FedEx Corporation

Feintool: Feintool AG

Ford: Ford Motor Company

Gartner Group: Gartner, Inc.

General Electric: General Electric Company

General Mills: General Mills, Inc.

General Motors: General Motors Company

Goldman Sachs: The Goldman Sachs Group, Inc.

Google: Google Inc.

Hanover: The Hanover Insurance Group, Inc.

Hertz: The Hertz Corporation

Hewlett-Packard: Hewlett-Packard Company

Hilti: Hilti AG

Honda: Honda Motor Company, Ltd.

Huawei: Huawei Technologies Co. Ltd.

IBM: International Business Machines Corporation

Intel: Intel Corporation

Iowa Beef Processors: IBP, Inc.

IWC: International Watch Co.

Jaguar Land Rover: Jaguar Land Rover Ltd.

Jura: Jura Elektroapparate AG

JVC: Victor Company of Japan, Ltd.

Kia: Kia Motors

KPMG: Klynveld Peat Marwick Goerdeler

Komatsu: Komatsu Limited

Land O'Lakes: Land O'Lakes, Inc.

Levi Strauss: Levi Strauss & Co.

Lidl: Lidl Stiftung & Co. KG

Louis Vuitton: Louis Vuitton Malletier

Luxfer Gas Cylinders: Luxfer Gas Cylinders, Inc.

Maytag: Maytag Corporation

McDonald's: McDonald's Corporation

McKinsey: McKinsey & Company, Inc.

Mellon Bank: Mellon Financial Corporation

Mercedes: Mercedes-Benz

Mercury: Mercury

Merrill Lynch: Merrill Lynch Wealth Management

Microsoft: Microsoft Corporation

Mitsui: Mitsui Group

Monsanto: Monsanto Company

Motorola: Motorola, Inc.

Naturhouse: Naturhouse Nutritionist

NEC: NEC Corporation

Nestlé: Nestlé S.A.

Newell: Newell Rubbermaid

Nike: Nike, Inc.

Nissan: Nissan Motor Company Ltd.

Nivea: Nivea Company

Novartis: Novartis International AG

Patek Philippe: Patek Philippe & Co.

PayPal: PayPal Inc.

Pepsi: PepsiCo Inc.

Philips: Koninklijke Philips Electronics N.V.

Phillips Petroleum: Phillips Petroleum Co.

Procter & Gamble: The Procter & Gamble Company

Ryanair: Ryanair Ltd.

Samsung: Samsung Group

Saxo Bank: Saxo Bank A/S

Sainsbury's: Sainsbury's Supermarkets Ltd.

Sears: Sears, Roebuck & Company

Shell: Shell Oil Company

Siemens: Siemens AG

Skype: Skype Technologies

Sony: Sony Corporation

Southwest Airlines: Southwest Airlines Co.

Starbucks: Starbucks Corporation

Sulzer: Sulzer Ltd.

Swatch: Swatch Group

Toyota: Toyota Motor Corporation

Twitter: Twitter Inc.

Unilever: Unilever

Volkswagen: Volkswagen Group

Walt Disney: The Walt Disney Company

Wal-Mart: Wal-Mart Stores, Inc.

Wahaha: Hangzhou Wahaha Group Co., Ltd.

Western Union: The Western Union Company

Wikipedia: Wikipedia

Yahoo: Yahoo! Inc.

Yamaha: Yamaha Corporation

3M: 3M Company

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CHAPTER I INTRODUCTION

1.1 CHALLENGE

The structure of the knowledge environment in which companies have to operate today is far more complex than a couple of decades ago. The following closely interrelated trends account for this: explosive propagation, extensive fragmentation, the globalisation of knowledge. From a purely quantitative point of view, the development of knowledge is without doubt exponential. The consequence of such an increase is growing specialisation in scientific disciplines.[3]

Malik suggests that today almost everything has reached such a high degree of abstraction that the present-day human being cannot perceive the modern organisation anymore. It cannot be smelled, heard or felt. In fact, the modern organisation can only be reconstructed mentally. However, this is something unusual and only a few have ever learnt to do it. Therefore, he thinks that most people withdraw to specialist fields which they know and understand.[4]

At the same time, when going through the literature on strategy, one is sometimes left with the impression that it is like reading a book on philosophy which has neither a clear structure nor a central argument. Hence, in our opinion, many publications on strategy are not very useful when it comes to the link between knowledge and concrete benefit.[5] Yet, strategy as such has always been an applied discipline.[6]

Admittedly, all of this does not facilitate an overview and clear understanding of companies and especially strategy. It even almost becomes impossible to easily grasp and apply the concept.

Therefore, we argue that it is time to create some order and to put some structure into strategy. At the end of the day, it is about nothing other than the competitiveness of companies. However, since the field of strategy itself is not organised and one really does not always understand how certain concepts build upon previous ones, our overriding goal is to make it a more comprehensive and accessible issue. In order to do so, we revisit the strategy literature from a point of view which is useful and pragmatic to companies, and work on fundamentals rather than tactics. We therefore first provide a strategy knowledge set. We hope that this will help managers, executives, professionals and students to gain a better summarising overview of the topic of strategy and make it much more conceivable.

However, we also believe that the actual intention of learning is not only knowledge but first and foremost action. Therefore, in a second step, we offer a framework which is based on the **Strategy Map**, a concept introduced by Kaplan and Norton[7]. Hence, we will first establish an **Initial Strategy Map** which is based on the state of knowledge and focuses on the agility requirement. After this, based on the data collection of the empirical research, we will adopt, synthesise and specify this initial framework as the **Proposed Dynamic Strategy Map**. Finally, as a result of an in-dept analysis of six business cases, the Proposed Dynamic Strategy Map will be validated and clarified at the end of the thesis.

Such a framework will offer a strategic approach for small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation

3 Probst, Raub and Romhardt (1999), p. 23
4 Malik (2001), p. 99
5 See also Stöger (2010), p. x
6 Stöger (2010), p. x
7 E.g. Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 51, 67, 137, 204, 226, 327, 337, 353

and (the potential for) a global brand. Due to their simple structure and manageable sites and scopes, our decision to analyse SMEs as units of observation can methodologically be justified and adds value to the understanding of their characteristics.

In our approach, we will follow behavioural economics and finance. This theory was officially recognised with the award of the Nobel Prize in Economics to Daniel Kahneman and Vernon Smith in 2002. It does not emphasise efficient and rational markets but the psychological dimension of investors' decisions ("cognitive bias").[8] Thus, similar to behavioural finance, and given the renewed context of business strategy, our focus is on cognitive and behavioural aspects.

Finally, we invite the reader to reflect on our thesis. After all, to acquire knowledge without reflecting on it is meaningless. Then again, only reflecting without learning leads to dangerous considerations.[9]

1.2 PURPOSE

The first purpose of this thesis is to explain the two main interrelated characteristics of twenty-first century business, i.e. globalisation and the immaterial age. Yet, in such a complex[10] environment and the geopolitical axis shifting towards emerging markets[11] and new prospects[12], Europe and the Western world in general are experiencing a certain fatigue. They are entrenched in the old way of conducting business.[13] However, they are beginning to realise that something needs to change.[14]

That is why our second purpose is to accelerate this awakening. With this in mind, we want to act as a catalyst and last wake-up call for small and medium companies from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand. After all, the SME sector is increasingly recognised as the prime vehicle for economic development in developed as well as developing nations.[15] From the OECD, we learn that more than 95% of the world's business structure is formed by SMEs.[16] They are a major source of employment, revenue generation, innovation and technological advancement.[17] Yet, many companies are disappearing without even realising that they would have been candidates for the radical brush-up presented in this research. Only by following our disruptive "big-bang" approach, will these Western SMEs be able to regain competitiveness. In order to do so, they must *first* fully acknowledge the paradigm change of the switch **"from atoms to bytes"**.

It is obvious that such a change in awareness needs to find its way into a company's execution process. According to Bossidy and Charan, execution is a systematic way of exposing reality and acting on it. However, since most companies do not face reality very well, they cannot execute.[18] Execution is about rigorously discussing hows and

8 See http://www.abcbourse.com/apprendre/19 finance comportementale.html, accessed on 28 November 2014
9 Schwarz (2000) on Kung Fu-Dse, around 551-479 BC, p. 9
10 Opinion, Blili (2010). Interestingly, the new advertising slogan of KPMG, a worldwide audit and consultancy company, is: "Cutting through complexity".
11 Cambié and Ooi (2009), p. 79
12 Cambié and Ooi (2009), p. 79
13 Cambié and Ooi (2009), p. 77
14 Cambié and Ooi (2009), p. 77
15 Zacharakis, Neck, Hygrave and Cox (2002), in: Pushpakumari (2009), p. 97
16 OECD (2007), in: Saeedi (2014), p. 1
17 Kotey and Meredith (1997), pp. 37-61, in: Pushpakumari (2009), p. 97
18 Bossidy and Charan (2002), p. 22

whats, questioning, tenaciously following through, and ensuring accountability. This systematic process also includes making assumptions about the business environment, assessing the organisation's capabilities, linking strategy to operations and the people who are going to implement the strategy, synchronising those people and their various disciplines, and linking rewards to outcomes. Furthermore, as the environment changes, it includes mechanisms for changing assumptions and upgrading the company's capabilities to meet the challenges of an ambitious strategy.[19]

To provide solutions to how to position themselves for the decades ahead, we will, *secondly*, have to reactivate these companies' focus on strategy and the accompanying vision. Strategy has more important consequences than most other managerial decisions.[20] Yet, the consequences of poor strategy only appear at a later stage when companies are often badly off course.[21] In today's globalised and immaterial age with its fast-moving, uncertain, ambiguous and complex environment, strategy becomes an even more important issue.

At the same time, it is worrying and somehow confusing to learn that a significant number of companies do not have formal systems to help them execute their strategies. Furthermore, only a few employees understand their company's strategy, and most executive teams spend little time discussing it.[22]

Therefore, our third purpose is to explain the major reasons for these outcomes. One cause is the fact that strategy is an unorganised field. Another major reason is the failure of traditional strategic concepts[23] and management literature[24]. Both offer recipes and mechanistic approaches, but have not been successful. This is demonstrated by a list of companies that were supposed to constitute proof of the validity of these recipes but which in the meantime have disappeared from the front pages or have simply gone bankrupt. Yet, if an organisation does not constantly change, it is exposed to competitors continually converging to similar products, services, and processes.[25] Therefore, our journey will also show what we know about strategy and what we know less about it. It will take us from old best practices and benchmarks to "next practices" and therefore explain the required switch **"from recipes to mental agility"**.

As a consequence, our fourth and pivotal purpose is to replace recipes and conventional thinking. In fact, traditional concepts and "bricks and mortar" companies took a back seat long ago. Such companies were especially successful in an economy based on tangible assets such as inventory, land, factories, and equipment, whereas today the environment is primarily characterised by information, knowledge and innovation[26]. In our new, dynamic and unstable environment, the recipes of these "brick and mortar" companies are still used by many business actors. This is because they do not take into account that although those resources which are based on the idea of ownership, i.e. material resources, are reputed to add value in a stable environment, in a dynamic and unstable environment, intangible resources based on the idea of knowledge add more value.[27]

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19 Bossidy and Charan (2002), p. 22
20 Collis and Montgomery (2005), p. 3
21 Collis and Montgomery (2005), p. 3
22 Kaplan and Norton (2008), pp. 3-5
23 See a summary of traditional concepts in Collis and Montgomery (2005), pp. 18-25
24 See also Andersen, Froholdt and Poulfelt (2010), pp. 21-32
25 Cokins (2009), p. 108
26 See e.g. Trott (2005), *"Innovation involves the conversion of new knowledge into a new product, process or service and the putting of this new product, process or service into actual use."*, in: Johnson, Whittington and Scholes (2011), p. 296
27 Miller and Shamsie (1996), pp. 519-543

In order to respond to the required agility and unconventional thinking, our research will merge the following four sources of competitive advantage introduced by Blili[28] and generally acknowledged in the literature, as well as the X-factor universe introduced by Andersen, Froholdt and Poulfelt in 2010:

- **The four sources of competitive advantage:** Blili has generally based his strategic scanning along the broad lines proposed by Raymond,[29] Jacob and Ouellet[30]. Their approach is grounded in the four important sources of competitive advantage generally acknowledged in the literature, namely:

    1. International marketing as well as global branding.
    2. The value chain as well as the integrated management of the logistics chain.
    3. The development of human capital through the management of innovation and knowledge.
    4. The virtualisation of enterprises through the use of information systems.[31]

    Competitive advantage can be gained through using one or a combination of the strategies that are going to be presented.[32]

- **The X-factor:** Andersen, Froholdt and Poulfelt advocate that the positioning school[33] and the resource-based view[34] are the main pillars of today's strategy thinking[35]. In addition, they argue that the perspective of a non-competitive strategy, such as the Blue Ocean Strategy[36] (and similarly Monopoly Rules[37]), as well as the hypercompetitive and disruptive strategy presented in Discount Business Strategy,[38] have impacted on the way successful companies think about and act on strategy in practice[39]. These authors hold that the positioning and resource-based views represent conventional strategic thinking, whereas the Blue Ocean and Discount Business Strategy represent a more unconventional approach to strategic thinking.[40] When viewed in isolation, these four perspectives also all provide a recipe to follow. However, when the four perspectives are combined, they provide a competitive map to dynamically develop a strategy over time.[41] We agree with their conviction that success in the corporate world of today cannot be achieved by following a generic recipe for success[42] and that therefore, when crafting and executing a strategy, it may prove disastrous to ignore the X-factor.[43] Thus, the X-factor

28 Opinion, Blili (2010)
29 Raymond (2003)
30 Jacob and Ouellet (2001)
31 Opinion, Blili (2010)
32 Opinion, Blili (2010)
33 *"The positioning school, championed by Porter, is perhaps the best known strategic view over time. By developing a toolbox consisting of Porter's Five Forces, the Three Generic Strategies and the value chain, Porter has cemented his place as one of the most read strategists since the 1980s."*, in: Andersen, Froholdt and Poulfelt (2010), pp. 44-45
34 E.g. Prahalad and Hamel (1990), pp. 79-91
35 Andersen, Froholdt and Poulfelt (2010), p. 44
36 Kim and Mauborgne (2005)
37 Lele (2005)
38 Andersen and Poulfelt (2006)
39 Andersen, Froholdt and Poulfelt (2010), p. 44
40 Andersen, Froholdt and Poulfelt (2010), p. 54
41 Andersen, Froholdt and Poulfelt (2010), p. 56
42 Andersen, Froholdt and Poulfelt (2010), p. 31
43 Andersen, Froholdt and Poulfelt (2010), p. 32

> universe cannot be explained by business book strategies or recipes but rather deploys unconventional thinking and deliberately works in contrast to these.[44]

Eventually, it is only by doing those things that others do not that a company will remain or become competitive again. If large enterprises like Apple, Google, Nike, Saxo Bank, Easy Jet and Ryanair had made up their strategy out of known "dusty" concepts, they would not have become what they are today. These winning cases demonstrate that new methodologies work. That is the reason why we will systematically challenge traditional models and continuously dust them off. If companies only use prescriptions from books, they will have significant problems in surviving.

This, however, also implies that an economic downturn must not solely be viewed as a threat but also as an opportunity which will make companies act more offensively.[45]

With this unconventional approach and necessary mental agility, we will put some order into strategy and therefore help to better grasp it and demonstrate how to apply it. This is the fifth purpose of this thesis.

The concepts of strategy are much less technical than those of marketing. However, this is not to say that strategy must be abstract. Instead, we want to make it much more comprehensive and accessible. After all, one commonly known description says that strategy is simply knowing who you are, what your company intends to do and how this can be achieved.

In order to reflect this in a pragmatic manner, we will depict a conceptional and integrated management system introduced by Kaplan and Norton that links strategy formulation and planning with operational execution. It is a closed-loop process[46] with six major stages,[47] each part of the system influencing every other part[48]. Its core and summarising tool, the strategy map, is part of the second step. It provides the visual framework for integrating the organisation's objectives.[49]

By conducting this management system and combining the four sources of competitive advantage[50] (an approach mentioned by Blili and generally acknowledged in the literature) with the X-factor universe (introduced by Andersen, Froholdt and Poulfelt), companies have to become mentally agile and concentrate on a few important aspects. We will visualise and map these aspects on the Proposed Dynamic Strategy Map.

Thereby, since many companies have widely similar core products or services,[51] the intangible assets in the learning and growth perspective (human, information and organisation capital) are certainly becoming a significant differentiating factor. In fact, especially in scope economies, their role has received considerable attention[52].

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44 Andersen, Froholdt and Poulfelt (2010), p. 64
45 Andersen, Froholdt and Poulfelt (2010), p. x
46 See Kaplan and Norton (2008), p. 35
47 See Kaplan and Norton (2008), pp. 7-8
48 See Kaplan and Norton (2008), p. 35
49 Kaplan and Norton (2004b), pp. 55, 11
50 *"..competitive advantage is about how an SBU creates value for its users both greater than the costs of supplying them and superior to that of rival SBUs."*, in Johnson, Whittington and Scholes (2011), p. 199. Thus, *"A strategic business unit (SBU) supplies goods or services for a distinct domain of activity."*, in: Johnson, Whittington and Scholes (2011), p. 198
51 Andersen, Froholdt and Poulfelt (2010), p. 125
52 Collis and Montgomery (2005), p. 73; See also Montgomery and Wernerfelt (1992), pp. 31-50, in: Collis and Montgomery (2005), p. 73

Thus, it is our sixth purpose to stress the importance of intangible assets[53] as defined by Kaplan and Norton. The lesson that we draw from our analysis is that human capital as well myths are the most important intangible assets.

In order to better grasp the two other most relevant intangible assets, brand and reputation, we will first re-focus on the customer value proposition and ask ourselves what real values are and how a company can respond to them. The answer to this question is that a company will have to respond not only to the material needs of end users but also their values and emotions, their stakeholders and, generally, to civil society as such. At the same time, it will have to adapt to its environment, which is characterised by an ever-faster turning world. In short, this leads towards the increased importance of culture and awareness, which includes the following aspects:

- History/mythology.
- Corporate social responsibility.
- Corporate governance.
- Environmental respect.

Even though they are paid a lot of lip service, we can deduce that together these four aspects may substantially help to positively shape a company's brand and reputation and represent its responsiveness towards a changing world. At the same time, we believe that they will almost certainly be used by mature economies as non-tariff barriers against companies from developing countries.

Hence, our analysis will lead to the conclusion that the time when products were a variable dependent on technical advance alone is long gone. Instead, what will be decisive for future success are agile, unconventional and out-of-the-box approaches which focus on attitudes towards networks, information and communication technology as well as intangible assets. As already mentioned, of these intangible assets we particularly emphasise reputation and branding. A brand, for example, and the emotional and immaterial values that are associated with it, will be decisive. This positioning is relevant and must be the marketing goal of most companies.[54] After all, *"It is all about building corporate reputations to support strong brands."*[55] In this regard, the Nike brand serves as a good example.[56]

Organisational learning is another crucial issue. Because it not only creates but also fuels change,[57] it is our seventh purpose to stress the importance of organisational learning, change management as well as "wetware". However, companies are social systems and therefore have enormous inherent inertia and resistance. Yet, time is an important issue and, thus, a successful company has to focus on execution and organise accordingly.[58] Its executives use innovative approaches, superior leadership, memorable and actionable phrases,[59] storytelling, and influence the culture as fast as possible. They maintain a sense of urgency and keep aligned to execute.[60] Agility becomes an ability to

53 We conclude that the use of the notion intangible "skills" instead of intangible "assets" is much more appropriate to reality. By using this notion, we want to explicitly renounce its "asset" character, i.e. something a company "owns".
54 Kunde (2000), p. 2
55 Cambié and Ooi (2009), p. 28
56 Cambié and Ooi (2009), p. 29
57 Ferrand and Paquet (1994), pp. 1-16
58 Andersen, Froholdt and Poulfelt (2010), p. 253
59 Gadiesh and Gilbert (2001), p. 155
60 Andersen, Froholdt and Poulfelt (2010), p. 253

change tactics or direction quickly.[61] That is why change management becomes daily management.

In addition, when it comes to the implementation of strategy, speed should not be interpreted as a pushy top-down approach. Instead, in today's environment, strategy development and change should be carried out incrementally. In this context, change management is essential for a company's survival. As a result, since organisational learning not only creates but also fuels change,[62] organisational learning becomes the most important capability of the future. Moreover, it is part of so-called "wetware", i.e. something magic and charming. "Wetware" can hardly be explained and can therefore not be conclusively determined. Other elements of "wetware" include:

- History,
- Culture,
- Services,
- Branding,
- Reputation,
- Strategic management of human resources, and
- Organisational learning and change management.

This list discloses that many intangible assets are also elements of "wetware". Together, "wetware", "software" and "hardware" make up the entirety of every company.

Hence, towards the end of this thesis, we will provide a summarised discussion. This will also include a description of the modern company using a metaphor which encompasses the major aspects that we debate throughout this work.

Finally, in a piece of empirical research, our eighth purpose is to validate that the Proposed Dynamic Strategy Map framework could be applied to understanding the strategic patterns adopted by SMEs and to improving the conceptualisation of the strategy map modules and constructs.

To sum up, in developing our holistic view of companies, we will offer thought-provoking ideas, look at certain taboos and question a couple of existing aspects of the status quo which are no longer up-to-date. After all, only by thinking out of the box and by adapting to the ever changing environment will successful companies be able to tackle ongoing challenges. This may appear paradoxical but it is what we are confronted with and what many companies will have to cope with in order to survive. Therefore, this research will stress the need for a radical change, the use of maximal agility and unconventional thinking in order to face globalisation, the immaterial age, increased speed, uncertainty, ambiguity and complexity.

1.3 STRUCTURE

The thesis is structured as follows:

- **Chapter 1** provides an introduction to the subject and identifies the initial challenge of the thesis. In addition, it articulates the resultant research purpose and includes the meta-analysis approach.

61 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
62 Ferrand and Paquet (1994), pp. 1-16

- **Chapter 2** documents globalisation and the immaterial age, and specifies the newly formed paradigms that emerge from this ever-changing and competitive world.
- **Chapter 3** focuses on SMEs' wrong attitudes, the necessity of change and the challenge they have to face, i.e. switching from recipes to mental agility.
- **Chapter 4** stresses the importance of execution and emergent strategies. It also introduces the actors of strategy formulation and implementation as well as formal strategy execution systems.
- **Chapter 5** begins with the first step, i.e. Develop the Strategy, of Kaplan and Norton's closed-loop management system. In this stage, companies have to address the following three strategy development processes: Mission, values and vision statement; Strategic analysis; Strategy formulation. The subsequent steps of the mentioned management system will be covered in the following chapters:
    - **Chapter 6**: Plan the Strategy (which includes the Proposed Dynamic Strategy Map);
    - **Chapter 7**: Align the Organisation;
    - **Chapter 8**: Plan Operations;
    - **Chapter 9**: Monitor, Learn, Test and Adapt.
- **Chapter 10** includes a Summarising Discussion of the thesis.
- **Chapter 11** explains the Research Methodology and justifies the selection of case studies as the major research approach for the empirical validation of our theoretical framework.
- **Chapter 12** validates and clarifies our Proposed Dynamic Strategy Map with empirical research that includes an in-depth analysis of six Swiss SMEs in the manufacturing industry.
- **Chapter 13** contains a summary, conclusions and limitations as well as prospects for future research.
- **Chapter 14** lists all references.
- **Chapter 15 (annex)**, finally, includes the questionnaire which was used during the fieldwork for the empirical research.

1.4 META-ANALYSIS APPROACH

"The only theory of ultimate interest about the Tarot is that it is an admirable, symbolic picture of the Universe."[63]

This research is influenced by personal professional experience and discussions within the business and academic environment as well as personal judgment. For the most part, it is based on desktop research, i.e. a strategy literature review. We have conducted a nomological analysis of the literature. Nomological validity is a form of construct validity and is the degree to which a construct behaves as it should within a system of related constructs called a nomological net.[64]

63 Crowley (1944), p. 4, in: Solomon and Solomon (2004), p. 6
64 Available at: http://en.wikipedia.org/wiki/Nomological_validity, accessed on 30 September 2011

Despite certain reservations, a thesis achieves its aims by using a robust qualitative methodology guided by the underpinning philosophy of the conceptual framework and developed in conjunction with it. The conceptual framework helps to organise thinking and to successfully complete an investigation.[65] It may be described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation.[66] If such a conceptual framework is clearly articulated, it has the potential to assist the researcher in extracting meaning from subsequent findings. It should also be intended as a starting point for reflection about the research and its context. At the same time, the framework itself forms part of the agenda for negotiation, to be scrutinised, tested, reviewed, and amended as a result of investigation.[67]

The scientific approaches of our thesis are drawn from the following five orientations:

- **Functional Paradigm:** Burrell and Morgan argue that the key assumptions which characterise different approaches to social theory can be analysed in terms of two key dimensions of analysis, each of which subsumes a series of related themes. They suggest that assumptions about the nature of science can be thought of in terms of what they call the subjective-objective dimension, and assumptions about the nature of society in terms of a regulation-radical change dimension.[68] Taken together, these two independent dimensions define four distinct sociological paradigms which can be utilised for the analysis of a wide range of social theories:[69] The Functionalist, Interpretive, Radical Humanist and Radical Structuralist Paradigms.[70] This thesis is particularly influenced by the Functionalist Paradigm which represents a perspective that is firmly rooted in the sociology of regulation and approaches its subject matter from an objectivist point of view.[71] It approaches general sociological concerns (the status quo, social order, consensus, social integration, solidarity, needs satisfaction and actuality) from a standpoint which tends to be realist, positivist, determinist and nomothetic. In its overall approach, the Functionalist Paradigm seeks to provide essentially rational explanations of social affairs. With its highly pragmatic orientation, it is concerned with understanding society in a way which generates knowledge that can be put to use. Thus, it is concerned with providing practical solutions to practical problems,[72] which represents one of the main objectives of our thesis. With its roots in the tradition of sociological positivism, the Functionalist Paradigm reflects an attempt, par excellence, to apply the models and methods of the natural sciences to the study of human affairs.[73] Sociological positivism is backed by a positivist epistemology,[74] which we particularly want to emphasise. Burrell and Morgan use positivist here for epistemologies which seek to explain and predict what happens in the social world by searching for

65 Smyth (2004), p. 174
66 Reichel and Ramey (1987), in: Smyth (2004), p. 171
67 Guba and Lincoln (1989), in Smyth (2004), p. 171
68 Burrell and Morgan (1979), p. 21; in the meantime, Deetz has suggested new dimensions of contrast, in Deetz (1996), pp. 191-207. He argues that the grid by Burrell and Morgan has been used to reify research approaches. What is even more important to him is that its dimensions of contrast obscure important differences in current research orientations and lead to poorly formed conflicts and discussions, in: Deetz (1996), p. 191; See also Rao and Pasmore (1989) for other differentiations, in: Deetz (1996), p. 193
69 Burrell and Morgan (1979), p. 23
70 Burrell and Morgan (1979), pp. 22-37
71 Burrell and Morgan (1979), p. 25
72 Burrell and Morgan (1979), p. 26
73 Burrell and Morgan (1979), p. 26
74 Burrell and Morgan (1979), p. 7

regularities and causal relationships between its constituent elements.[75] The Functionalist Paradigm with its positivist epistemology is represented by the core concept of our thesis: the strategy map of Kaplan and Norton.

- **Interpretative Paradigm:** The Functional Paradigm originated in France in the early decades of the nineteenth century. Since the early decades of the twentieth century, it has been increasingly influenced by elements from the German idealist tradition of social thought, which stand in opposition to sociological positivism.[76] Elements of this idealist approach have been utilised within the context of social theories in order to attempt to bridge the gulf between the two traditions. Such forged theoretical perspectives, characteristic of the least objectivist region of the paradigm, at its junction with the interpretive paradigm, have rejected the use of mechanical and biological analogies for studying the social world. Instead, ideas have been introduced which place an emphasis upon the importance of understanding society from the point of view of the actors who are actually engaged in the performance of social activities.[77] This paradigm is strongly reflected in our thesis by the major importance we place on the human element of strategy.
- **Essential Modelling:** Another scientific approach draws on essential modelling (also called abstract or business modelling). This term was coined by software modelling specialists. In their book Essential Systems Analysis,[78] McMenamin and Palmer were among the first to explain it[79]. They point out the importance of the identification of the true requirements for a system,[80] i.e. a feature that the system must have no matter what technology is used to implement it[81]. Thus, Essential Systems Analysis helps discover and define essential requirements.[82] The concept of essence is then employed to arrive at a simplified view of the system development process, one that concentrates on the essential activities that must be carried out in projects of all sizes and durations.[83] Essential Systems Analysis is about how to determine the essence of a complicated phenomenon, which is probably the most important and most difficult thing for analysts.[84] The primary topic of the book is modelling the essence of a system.[85] The question here becomes not *how* things are done (the current system), or how they might be done (a proposed system), but instead one models *what* is done, or what might be done. The reasoning behind essential modelling is especially helpful when it comes to the improvement or re-design of a system. It can be used in order to understand the purpose of a current system and describe what is needed.[86] Essential Systems Analysis is once again most reflected by the strategy map, which defines both the *what* and the *how* and at the same time allows the system to be looked at conceptually.

75 Burrell and Morgan (1979), p. 5
76 Burrell and Morgan (1979), pp. 26-27
77 Burrell and Morgan (1979), p. 27
78 McMenamin and Palmer (1984), in: Brown (2008), p. 1
79 Brown (2008), p. 1
80 McMenamin and Palmer (1984), p. 1
81 McMenamin and Palmer (1984), p. 9
82 McMenamin and Palmer (1984), p. 9
83 McMenamin and Palmer (1984), p. 1
84 DeMarco (1984), p. vii
85 McMenamin and Palmer (1984), p. 1; McMenamin and Palmer (1984), pp. 39ff
86 Brown (2008), p. 1

- **Applied Social Science:** The principle of management science as an applied social science was coined by Ulrich.[87] He asserts[88] that the applied scientist strives for practically useful knowledge and addresses the problems of practitioners for which there is a lack of satisfactory knowledge. This is in opposition to the pure, traditional scientist, whose problems originate in theory and whose goal is the realisation of knowledge bridging or eliminating discrepancies in existing theories. At the centre of applied management science, there is the development of models that are capable of shaping or forming reality in a way that is useful for the practitioner.[89] Following this understanding, the research at hand culminates, once again, in the strategy map, i.e. a model which is capable of shaping or forming reality.

- **Social Constructionism:** Finally, this study is also penetrated by social constructionism,[90] which emphasises that what we know of reality is constructed through discursive interactions of meaning making[91].

  In contrast to the positivists, the social constructionist school of thought believes that there is not one objective reality but various realities that are socially constructed by human beings.[92] Knowledge can be measured according to the degree to which it helps to understand the world(s) "out there",[93] or simply to the extent it allows effective action[94]. The constructionist's success can be seen in an ability to highlight taken-for-granted assumptions,[95] and to offer distinct insights and tools that could explain and give meaning to phenomena formerly treated as "black boxes"[96]. This school of thought is reflected in several instances in the research. By fostering incrementalism, it accepts that what we know of reality is constructed through discursive interactions of meaning making. In addition, it highlights taken-for-granted assumptions and also introduces the notion of "wetware", a concept which is hard to explain and can therefore not be conclusively determined.

87 Ulrich (1981), in: Geist and Köhler (1981), pp. 1-26; Ulrich (1984), in: Dyllick and Probst (1984), pp. 19-62, in: Maier (2002), p. 11
88 Ulrich (1984), in: Dyllick and Probst (1984), pp. 19-62, in: Maier (2002), p. 11
89 Ulrich (1984), p. 174, in: Dyllick and Probst (1984), pp. 19-62, in: Maier (2002), p. 11
90 Referring to Smircich and Stubbart (1985); Weick (1979); Weick (1987); Weick (1995); Berger and Luckman (1966); Gergen (1994); Gergen (1999); von Glasersfeld (1995); Gioia (2003), pp. 285-292; Giddens (1984); Nonaka and Takeuchi (1995); Crossan, Lane and White (1999); Whittington (2001); Piaget (1971), in: Bürgi, Jacobs and Roos (2005), p. 82
91 Bürgi, Jacobs and Roos (2005), p. 82
92 Berger and Luckman (1966); Burr (1995); Calas and Smircich (1992), in: Reed and Hughes (1992), pp. 227-253; Dachler (1992), in: von Cranach, Doise and Mugny (1992), pp. 169-178; Gergen (1985), pp. 266-275; Gergen (1992), in: Reed and Hughes (1992), pp. 207-226, in: Maier (2002), p. 11
93 Gergen (1985), pp. 266-275, in: Maier (2002), p. 11
94 Von Krogh (1998), pp. 133-153, in: Maier (2002), p. 11
95 Dachler (1992), in: von Cranach, Doise and Mugny (1992), pp. 169-178, in: Maier (2002), pp. 11-12
96 Maier (2002), p. 12

CHAPTER Ⅱ　TWENTY-FIRST CENTURY BUSINESS

2.1 SUMMARY

The two main interrelated characteristics of twenty-first century business, globalisation and the immaterial age, have strongly impacted on and accelerated ongoing changes and challenges which reflect previously unknown phenomena. Today, business has shifted from "atoms to bytes", and in order to survive, companies have to act better and faster in an environment which can be described as dynamic, uncertain, ambiguous and complex. However, there are also big entrepreneurial opportunities. To take advantage of these, risk management, creativity but also a multicultural workforce can help to take the right and innovative decisions.

2.2 DESCRIPTION

2.2.1 AN EVER-CHANGING AND COMPETITIVE WORLD

"In short, there is no authentic singularity, much less is it sustainable."[97]

Most industries[98] are so dynamic that the value of resources depreciates quickly[99]. This phenomenon was first recognised by Schumpeter in the 1930s. His description of major companies and whole industries blown away in a gale of *"creative destruction*" captures today's pressures.[100] Schumpeter also warned that it was rare for markets to experience a long-term equilibrium with few disturbances.[101] After all, no one can predict how long an advantage will last.[102] This is why *"the only constant is change".*[103] For Schumpeter, firms were basically the vessels used by entrepreneurs (key innovative actors), and other decision makers were forced to adapt to the changes wrought by entrepreneurial innovators or go under.[104] Some of the major reasons for this are that strategies and resources are successfully copied by competitors, and innovation changes customer options, etc.[105] Imitators spring up as soon as somebody has a good idea and launches products that sell well.[106]

These ongoing changes and challenges, however, have been significantly accelerated by the two main characteristics of twenty-first century business: globalisation and the impact of technology, particularly information and communication technology,[107] i.e. the immaterial age.

Since SMEs must first be capable of understanding today's trends in order to master and manage them,[108] we will describe these two phenomena in more detail.

97 Jarillo (2003), p. 42
98 According to Porter (1980), p.5, an industry is a group of companies that essentially produces the same products and services, in: Johnson, Whittington and Scholes (2011), p. 54
99 Collis and Montgomery (1995), p. 43
100 Collis and Montgomery (1995), p. 43
101 Collis and Montgomery (2005), p. 65
102 Eisenhardt and Sull (2001), p. 115
103 A sentence by Dell's Michael Dell, in Eisenhardt and Sull (2001), p. 115
104 Schumpeter (1934), in: Nelson (1991), p. 66
105 Tallman (2009), p. 10
106 Jarillo (2003), p. 14
107 Tallman (2009), p. 3
108 Opinion, Blili (2010)

2.2.1.1 Globalisation

Globalisation describes the trends in the world economy that are pulling previously distinct national economies closer together[109] and appear to be squeezing the world into one large interconnected economic system[110]. It is a catalyst for radical economic, political and social change.[111]

In very concentrated form, the following reflect the main elements of globalisation.

- For example, some sources which provide rather early summaries of explanations of globalisation identify the following major features:
    - The development of global finance and financial markets.
    - The spread of knowledge facilitated by improved communication.
    - The widespread availability and use of technology.
    - The active expansion of multinational firms.
    - The decoupling and decentralisation of economic activities within and between firms.
    - The blurring of the nationality of multinationals.
    - The development of global oligopolies, and reductions in barriers to trade and investment.
    - The increased importance and power of supranational organisations.
    - The emergence of regions and regional identities that transcend borders.[112]

  What may be specified in this list is the rise of electronic communities over the internet and the fact that nations, including China, India, South Africa, the former Eastern bloc, and the formerly import substitution driven economies of Latin America (which together represent nearly one half of the world's population) have either entered the world economy or dramatically changed their relationship to it in the last two decades.[113]

- Some years later, McDonald and Burton,[114] with reference to Giddens[115] and Ohmae,[116] listed the following eight developments that are frequently cited as leading to the emergence of a global economic system that is unprecedented in world history:
    - A very large increase in trade and capital flows, generating a process that enables quick and powerful transmission of technological and economic developments across the world.
    - The collapse of communism seems to have brought about the ever-expanding operations of market-based international activities.

109 McDonald and Burton (2002), p. 10
110 McDonald and Burton (2002), p. 1
111 McDonald and Burton (2002), p. 10
112 Amin (1994), in: Amin and Thrift (1994); Dicken (1992); Dicken (1994), pp. 101-28; Dunning (1998); Hagström (1990), pp. 3-12; Reich (1991), in: Enright and Sun Hung (1998), p. 3
113 Enright (1997), in: Enright and Sun Hung (1998), p. 3
114 McDonald and Burton (2002), pp. 1-2
115 1999, in: McDonald and Burton (2002), pp. 1-2
116 1990/1995, in: McDonald and Burton (2002), pp. 1-2

- Pressures to embrace market-based reforms, which have encouraged the integration of developing countries' economies into the world market.
- The emergence of new major trading nations in China, South-East Asia and Latin America, leading to a new term: emergent economies.[117]
- Considerable progress by regional integration blocs remove the barriers to trade between their members and create a single economic space.
- Technological developments such as the IT revolution have led to large multinational companies that dominate world markets in crucial products.
- Internet start-ups dramatically enhance the potential for international business transactions by providing a low-cost means of searching for and buying products across national frontiers.
- The denationalisation of state-owned industries and the encouragement of market provision of many goods and services that used to be supplied by government agencies has further encouraged the growth of market-based activities, and many of these are linked to international business activities.[118]

Aggregate statistics confirm that the sales and operations of companies have become increasingly global.[119] The economy has focused its attention on this process because of the growth of international trade in goods and services, the large increase in capital flows, and the dominance of much of world economic activity by very large multinational companies.[120] Indeed, the largest 500 multinational enterprises account for over 90% of the world's stock of foreign direct investment and conduct about half the world's trade.[121] By fostering increased economic interdependence among national markets, multinational enterprises are considered to be the key drivers of globalisation. Yet, for 320 of the 380 firms for which geographical sales are available, data reveal that very few are successful globally, since an average of 80.3%[122] of total sales are in their home region of the broad triad markets of NAFTA, the European Union and Asia. This means that they are not global but, in terms of breadth and depth of market coverage, regionally based.[123]

Another important point is that behind the economic processes of globalisation there are human beings with different cultures, individual interests and competencies. To collaborate, they have to agree across borders.[124]

117 I.e. *"countries that are thought to be developing into full blown advanced industrial economies and that are already major players in many international markets."*, in: McDonald and Burton (2002), pp. 1-2
118 McDonald and Burton (2002), pp. 1-2
119 Porter (2008a), p. 341
120 McDonald and Burton (2002), p. 1
121 Rugman (2000), in: Rugman and Verbeke (2004), p. 3
122 Data are for 2001, Braintrust Research Group (2001), in: Rugman and Verbeke (2004), p. 3
123 Rugman and Verbeke (2004), p. 3
124 Hecht-El Minshawi (2007), p. 13

2.2.1.2 The Immaterial Age

The other characteristic aspect of twenty-first century business, one which is essential to modern globalisation (and which in part has already been described above), is the impact of technology, especially information and communication technology (ICT).[125] The use of the internet for business purposes (e-business or e-commerce) and the application of information and communication technologies (ICT) to the production and distribution of goods and services on a global scale[126] are particularly relevant to the research at hand.

Such an electronic marketplace also provides a platform to assemble and process information, thereby enhancing the ability of firms to pursue their objectives more effectively. This includes the management of supply chains, the assessment of new market opportunities, as well as adjustment to regulatory and technical changes. Internet-based systems can also be used to improve internal management systems. They allow organisations to monitor, assess and communicate at low cost. This leads to a virtual management system where information can be easily kept up to date and be gathered, processed and disseminated at low cost.[127]

The technical possibilities available today also derive from complementary technological advances, such as scanning, object-oriented programming, relational databases, and wireless communications.[128]

2.2.2 NEW PARADIGMS

2.2.2.1 Previously Unknown Phenomena

"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."[129]

As a consequence of globalisation and the immaterial age, the new paradigms discussed below have emerged.

2.2.2.2 From Atoms to Bytes

"Natural resources and company facilities are no longer the engine of the economy; this role has been taken over by information, knowledge, and innovation. As a result, the organizational framework must be capable of constantly adapting in order for national economies to remain successful."[130]

A major change in paradigms "from atoms to bytes", and therefore an increased importance of information, knowledge and innovation (which are all closely related to each other) has become obvious.

125 Tallman (2009), p. 3
126 OECE (1997), p. 20, in: McDonald and Burton (2002), p. 342
127 McDonald and Burton (2002), p. 341
128 Porter (2001), p. 46
129 Winston Churchill, in Mintzberg (1973a), p. 165
130 Ferrand and Paquet (1994)

Instead of being confined to certain geographical areas, knowledge is now far easier to access and universally available due to dramatic advances in the transmission of information.[131] In addition, the explosion of information and communication technology means that 24/7 strategic management is rapidly becoming the norm and the minimum for competitive parity in worldwide business.[132]

For Drucker, information is now transnational and has no *"fatherland".*[133] Since it knows no national boundaries, it will form new transnational communities of people who are in communion because they are in communication.[134]

Such developments are in sharp contrast with the industrial age when companies created value by transforming raw materials into finished goods. Therefore, in the past the economy was primarily based on tangible assets such as inventory, land, factories, and equipment.[135] The economic context of the 1990s, however, has been disrupted. The role of natural resources and company facilities, which used to be the engine of the economy, has been taken over by information, knowledge, and innovation.[136]

2.2.2.3 Better, Faster and more Dynamic

"SMEs are under enoumous pressure to do more – faster, better, and in a group – with fewer resources and competencies."[137]

"Everything gets smaller and faster and reaches more people and places among the globe."[138]

In a McKinsey analysis, nine out of ten top executives say that speed, a measure of how rapidly organisations execute an operational or strategic objective, has become an increasingly urgent issue for them.[139]

Today, the pace of technological change is staggering and there has never before been so much uncertainty in business combined with so great an emphasis on speed.[140]

The new logistical chains with their transformation of relationships represent a major challenge not only for large firms but also for SMEs. Furthermore, new demands are appearing which are related to quality, costs, flexibility and, in particular, the expected complementarities within the network. Additional pressure on SMEs is imposed by the expected adaption to management practices imposed on them and to which they seek to respond without recourse to additional resources. In short: SMEs have to do more – faster, better, and in a group – with fewer resources and competencies.[141]

Consequently, there is evidence that time has somehow been reduced and periods of profitability and commercialisation have become shorter. In addition, a fast and anonymous financial community has emerged which is moving financial capital

131 McDonald and Burton (2002), p. 14
132 Tallman (2009), p. 16
133 Drucker (1988a), in: Drucker (2008), p. 339
134 Drucker (1988a), in: Drucker (2008), pp. 339-340
135 Kaplan and Norton (2000), p. 74
136 Ferrand and Paquet (1994)
137 Opinion, Blili (2010)
138 Hollensen (2011), p. 90
139 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
140 Gadiesh and Gilbert (2001), p. 162
141 Opinion, Blili (2010)

quickly around the world to even more profitable projects. This puts more pressure on companies and top management to become profitable in the short term. Hence, with today's rapid changes, managers (especially general managers) are faced with multiple additional requirements and increased pressure to realise profits quickly. This, on the other hand, leads to increased short-term thinking.

Moreover, in fast-paced settings like the microcomputer industry, for example, the rapid pace of technical change places a premium on rapid decision-making.[142] This seems to affect firm performance in such environments[143] and is a key characteristic differentiating strategic decisions[144].

To summarise, a lot is possible, and everything is becoming faster and more digital. However, there are also industries with a slower pace, which leads us to the term industry clockspeed, coined by Charles Fine.[145] It shows that different industries and their accompanying segments have their own pace of change in the life cycles of their products, production processes, structural makeup and CEO tenure.[146] These clockspeeds are essentially driven by technological change and competition. Companies sometimes lose their positions of competitive advantage because they do not or cannot adapt to change. Today, competitive advantage is not so long-lasting. Instead, there is a world of rapid change, and managers have to find new ways of keeping up with faster industry clockspeed.[147]

2.2.2.4 Uncertainty and Ambiguity

"Uncertainty is inherent in strategy, because nobody can be sure about the future."[148]

"Uncertainty is a part of decision-making and, as such, an intrinsic part of being a manager."[149]

We are confronted with one of the largest transformation processes ever.[150] Such processes are always accompanied by a high level of uncertainty and ambiguity. With regard to the future, the only thing which is clear is that there is going to be a future.[151] In such a dynamic environment, the boundaries between cause and effect are being blurred and ambiguity increases.

For Barton, Shenkir and Walker, the following aspects represent a few of the forces that are creating uncertainty in the New Economy[152] and collectively stimulating considerable change and creating an increasingly risky and turbulent business environment:

- *"Technology and the Internet.*
- *Increased worldwide competition.*

142 Eisenhardt (1989a), p. 543
143 Bourgeois and Eisenhardt (1988), pp. 816-835, in: Eisenhardt (1989a), p. 543
144 Hickson, Butler, Cray, Mallory and Wilson (1986), in: Eisenhardt (1989a), p. 543
145 Fine (1998), in: Osterwalder (2004), p. 12
146 Osterwalder (2004), pp. 12-13
147 Osterwalder (2004), p. 13
148 Johnson, Scholes and Whittington (2008), p. 4
149 De Holan (2006), p. 140
150 Malik (2005), pp. 103ff, in: Stöger (2010), p. 5
151 Wiedemann and Probst (2011), p. 51
152 According to Barton, Shenkir and Walker (2002), p. 2, companies in the New Economy are leaders in innovation (internet, microprocessors, etc.), and include technology, information services, media, telecommunications, as well as life science companies.

- *Freer trade and investment worldwide.*
- *Complex financial instruments, notably derivatives.*
- *Deregulation of key industries.*
- *Changes in organizational structures resulting from downsizing, reengineering, and mergers.*
- *Higher customer expectations for products and services.*
- *More and larger mergers."*[153]

Andriani states that the increase in environmental risk and uncertainty that organisations have to face is one of the effects of the communication technology revolution coupled with the forces of globalisation and liberalisation.[154] In this context, Wytenburg asserts that *"the greater the degree of complexity in an environment, the more various, dynamic, and unpredictable are those situations."*[155]

Managers face the following four levels of uncertainty:

- *"**Level 1**: clear enough future. Single view of the future.*
- ***Level 2**: alternative futures. Limited set of possible future outcomes, one of which will occur.*
- ***Level 3**: range of futures. Range of possible future outcomes.*
- ***Level 4**: true ambiguity. Not even a range of possible future outcomes."*[156]

Thus, ambiguity is perceived as the highest level of uncertainty. The term ambiguity may also be described as *"an ongoing stream that supports several different interpretations at the same time"*[157] or *"a property possessed by any stimuli of having two or more meanings"*[158]. In organisational settings, it may often take the form of *"the multiplicity of meanings conveyed by information about organizational activities."*[159]

Organisational change is challenging and comes with unknowns and therefore ambiguities.[160] Uncertain situations are inherently ambiguous, since structures cannot initially be imposed and one does not know how to begin analysis.[161]

2.2.2.5 Complexity

Uncertainty and ambiguity in the new business environment form complexity,[162] which is another characteristic of today's business landscape,[163] and which has become a defining feature of strategy and strategic decisions[164]. Moreover, in complex situations, organisations also face dynamic conditions, and therefore a combination of complexity and uncertainty.[165]

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153 Barton, Shenkir and Walker (2002), pp. 2-3
154 Andriani (2001), in: Osterwalder (2004), p. 13
155 Wytenburg (2001), p. 118, in: Osterwalder (2004), p. 13
156 Courtney, Kirkland and Viguerie (1997), pp. 66-79, in: Osterwalder (2004), p. 13
157 Weick (1995), p. 91, in: Corley and Gioia (2004), p. 200
158 Levine (1985), p. 8, in: Corley and Gioia (2004), p. 200
159 Daft and Macintosh (1981), p. 211; See also March and Olsen (1976), pp. 54-68; Meyerson (1990), pp. 296-307, in: Corley and Gioia (2004), p. 200
160 Corley and Gioia (2004), p. 173
161 Clemons (2006), p. 23
162 Opinion, Blili (2010)
163 Osterwalder (2004), p. 13
164 Johnson, Scholes and Whittington (2008), p. 3
165 Johnson, Scholes and Whittington (2008), p. 423

Hodgson thinks that capitalism naturally leads to more complexity driven by powerful economic forces, i.e. a growing diversity of interactions between human beings and between people and their technology. He goes on to mention *"new and varied organizational forms devised to increase productivity and to manage an exponentially expanding number of products and processes"* as drivers of complexity.[166] We will see later that the decomposition of the integrated company and the formation of business networks has indeed contributed to complexity, because it is a mechanism that generates diversity.[167]

It is evident that globalisation offers multifaceted possibilities to companies. However, whilst enabling a company to extend its markets, the globalisation of the economy simultaneously renders the environment more complex.[168] In addition, the complexity of customer needs is the basis for the far-reaching changes SMEs evolve in.[169] Expanded product diversity, variation, and customisation all result in more complexity.[170] In short, complexity refers to the fact that the systems that have been built have more parts and do more things than ever before.[171]

Last but not least, companies are not only complex but also constantly in motion in order to respond to a moving business environment, i.e. moving structures, moving ideas, moving decisions, and moving people.[172]

2.2.2.6 Risk Management

"A simple view of risk is that more things can happen than will happen."[173]

"Balancing the possibility of upside opportunity with the potential to downsize threat lies at the heart of risk management. Organizations that successfully align their risk management processes with their business strategy operations improve the probability of achieving the right balance more often than not."[174]

In the military environment, it was recognised early on that campaigns and battles did not always follow the same pattern, but rather there was a lot of uncertainty. Therefore, commanders are supposed to get involved with risk issues before conflicts occur, and have to take measures to cover them. This is similar in business strategy, where a lot of attention has been paid to risk issues.[175]

Significant headway was made by Knight's treatise "Risk, Uncertainty, and Profit"[176] in which he made the distinction between *"risk as randomness with knowable probabilities"* and *"uncertainty as randomness where we cannot know the probabilities."*[177] In the last century, risk management stimulated the growth of functions and professions such as

166 Hodgson (2003), pp. 471-478, in: Osterwalder (2004), p. 13
167 Andriani (2001), in: Osterwalder (2004), p. 13
168 Mitroff (2001), p. 24
169 Opinion, Blili (2010)
170 Cokins (2009), p. 173
171 Mitroff (2001), p. 24
172 Bossidy and Charan (2002), p. 101
173 Cokins (2009), p. 32
174 Mouillon (2006), p. 3
175 Pümpin and Pedergnana (2008), p. 60
176 Knight (1921)
177 Sull (2006), p. 6

finance, accounting, auditing and controlling.[178] In fact, in today's economy uncertainty abounds and, thus, every company is to some extent in the business of risk management, no matter what its products or services.[179]

In the course of globalisation, the variety and complexity of company-wide risks have further increased.[180] In addition, the increasing demand on worldwide capital markets, rapid internationalisation,[181] and extensive globalisation and competition have brought together very different economic areas, and created opportunities but also risks. In particular, increasing complexity and diminishing response time often make profitability difficult.[182] In addition, a wave of new technologies, including cloud computing and mobile working, are eroding the boundaries that define the edges of modern companies. Thus, companies are forced to rethink which risks they can and should control.[183]

Moreover, Fragnière suggests that with the labour division and resulting functional silos in organisations, a *"No Man's Land of Unrecognized Risk"* has emerged and, thus, there is an increased need for risk management.[184]

These examples illustrate that risk management is a major essence of business activity.[185] This includes financial, operational and technological risks.[186] However, along with classic financial risks, operational, compliance and, in particular, strategic risks have come to the fore.[187]

2.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

2.3.1 AN EVER-CHANGING AND COMPETITIVE WORLD

As we have seen, globalisation and the immaterial age are closely related to each other. These two constants will penetrate most of the remaining chapters of this research.

These developments imply a compression of time and space as a result of rapid electronic exchanges of information and reduced travel times between locations.[188] In the descriptions above, it has become obvious that globalisation is affected by information and communication technology, and vice versa. After all, modern globalisation is dependent on constant and immediate communication around the globe.[189] Mobile phones increasingly bridge the digital landscape and enable people to be connected 24/7.[190] The same can be said for internet technologies.

In summarising, Blili mentions the following corollaries to globalisation:

- An increasing importance of the service sector in the richest economies, which redeploy their resources in the new intangible, knowledge-based economy.

178 Marchand (1999), in: Hollensen (2011), p. 37
179 Barton, Shenkir and Walker (2002), p. 2
180 Schweizer and Sidler (2012), p. 626, referring to Ernst & Young (2011)
181 Whereas globalisation reflects the trend of firms buying, developing, producing and selling products and services in most countries and regions of the world, internationalisation is about doing business in many countries of the world, but often limited to a certain region, in: Hollensen (2011), p. 6
182 Dörner, Horvath and Kagermann (2000), p. 7
183 Baker (2011), p. 30
184 Fragnière (2012), pp. 6-7
185 Dörner, Horvath and Kagermann (2000), p. 793
186 Kaplan and Norton (2004b), p. 67
187 Schweizer and Sidler (2012), p. 626, referring to Ernst & Young (2011)
188 McDonald and Burton (2002), p. 14
189 Tallman (2009), p. 3
190 Cambié and Ooi (2009), p. 208

- Specialisation within specific geographical areas and the international redistribution of value added, giving rise to issues concerning the competitive advantage, strengths and natural advantages of nations, regions and cities.
- Accelerated advances in information and communication technology (ICT) which are creating new tools to improve the management and co-ordination of activities as well as increasing the unprecedented transparency of transactions and international markets, and therefore encouraging truer price competition.
- A greater margin of manoeuvrability due to the liberalisation of trade and trade flows.[191]

The intensified combination of globalisation and the immaterial age will increasingly lead to previously unknown and not always positive phenomena. One such example at the beginning of the twenty-first century is the financial crisis that swept the world with a global recession not seen since the Great Depression.[192] Another example is the deeply rooted Euro currency crisis, which resulted from economic tensions and still has a worldwide impact, e.g. on banks, pension funds, tourism and exports. Such acceleration is also the result of intensified interaction between globalisation and the immaterial age. This becomes evident when considering, for example, automatic (or algorithmic) trading ("algotrading") on worldwide markets, i.e. trading based on mathematical algorithms and probability models but lacking in knowledge of the real economy. Such programs automatically trigger arbitrating transactions that involve huge amounts of money within nanoseconds, thereby increasing volatility on worldwide stock markets. Algorithms also play an important role in other fields, e.g. jet aviation, internet search machines, etc. There can be no doubt about acceleration taking place as a result of technology and the globalised market.[193]

However, in some measure there are also factors which relativise globalisation and which will also slow down the further development of information technology and communications:

- In recent years, the increased need of many states for money has led to increased protectionism and is therefore a major setback for the further increase of both the immaterial age and globalisation.
- The fact that the Triad of the USA, the EU and Japan, and countries strongly linked to these three, account for the vast bulk of international business activities, has led some to call into question the use of the term globalisation, because clearly the whole world and all sections of business activity are not woven together into one economic system.[194]
- Even though the progression of e-business systems for international business activities is strong, there are major obstacles that will delay the acquiring of the benefits of lower intermediation, search and transaction costs for international business activities. These obstacles are:
    - *"Underdeveloped institutional systems for global Internet-based transactions.*
    - *Access to physical assets necessary to operate e-business systems.*

191 Opinion, Blili (2010)
192 Andersen, Froholdt and Poulfelt (2010), p. 237
193 Cambié and Ooi (2009), p. 209
194 Rugman (2000), in: McDonald and Burton (2002), p. 4

- *Problems of converting information gathered from e-business systems into knowledge useful for expanding and developing internationalization strategies.*
- *Limitations to the value of network externalities."*[195]

- According to Rangan, economic liberalism is the most important driver of globalisation and the embrace of openness has trailed economic growth and global peace. If either of these two conditions is removed, liberalisation might become a potential casualty. He also holds that if (sooner or later) not everyone can be winners, the "winner takes all" economy will lead to shaky enterprise and a fragile society. This is why companies need to explore issues such as unemployment, employee retraining, and equality of opportunity, if not incomes. He is convinced that if business does not become more sensitive to this possibility, we may expect to see much more resistance to the structural adjustment that globalisation tends to bring, and also governments reasserting themselves.[196]
- Moreover, Madrick[197] and Friedman[198], for example, mention important downsides of globalisation, modern economic theory and global commerce. The former holds that mainstream economists have damaged America and the world, while the latter points out important tensions and backlashes that globalisation has produced.

We conclude that protectionism in particular, which we expect to rise due to the economic crisis and resulting need of governments for money, will result in further regionalisation. After all, governments can intervene directly or indirectly to protect a market[199] and more and more, governments are increasing subsidies and tariffs and setting up quotas or blocking imports[200].

Nevertheless, we believe that in the mid- and long-term, both phenomena will further develop and that a new acceleration of globalisation and the immaterial age is only a question of time. This is also backed by Yip's model,[201] which suggests that globalisation is advancing, though perhaps a bit more slowly at the moment. We also conclude that the impact of change in a fast and small world will continue to strongly impact on our planet. With globalisation gaining pace, the world is becoming more interconnected[202] and local business interactions can be affected by issues halfway round the world.

2.3.2 NEW PARADIGMS

2.3.2.1 Previously Unknown Phenomena

Cambié and Ooi are convinced that a combination of new phenomena is leading to the end of the era of complacency.[203] Indeed, the business landscape has certainly become more digital ("from atoms to bytes"), dynamic, uncertain, ambiguous and complex. Globalisation and the immaterial age have altered the world. There is an intense use of ICT, fierce global competition and rapid change that has resulted in increasing complexity,

195 McDonald and Burton (2002), pp. 354-360
196 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 292
197 Madrick (2014)
198 Friedman (1999)
199 Jarillo (2003), p. 20
200 Tallman (2009), p. 197
201 Yip (2003a), in: Tallman (2009), pp. 81-83
202 Cambié and Ooi (2009), p. XIII
203 Cambié and Ooi (2009), p. 4

high risk and greater uncertainty than ever before.[204] Hence, managing has become an increasingly hard task with the appearance of new technologies, globalisation and an abundant reservoir of choices to configure a business.[205]

Moreover, with the recent financial crisis, many micro- and macroeconomic theories as well as "homo economicus" must seriously be questioned. In dynamic social systems, many events are simply not predictable.[206]

Financial markets can only be integrated into economic models with great difficulty, as economics is a social science not an exact one like, for example, physics or chemistry. The same goes for strategy.

2.3.2.2 From Atoms to Bytes

"Brick and mortar" companies' competitiveness continues to be related to production and thus to the costs of labour.[207] Such organisations usually only have a low value added.

However, with the transition from an industrial economy to a knowledge-based one, performance can no longer simply be expressed in terms of the costs of labour and raw materials.[208] Thus, we conclude that the manufacturing dimension (according to Ansoff, Porter, etc.) has faded away. Nowadays, the name of the game is services, finance, and non-tangible products, i.e. high value added activities.

By becoming increasingly digital and anglicised,[209] ongoing developments have transformed the industrial economy into a knowledge-based[210] or knowledge-driven[211] one. In such an environment, the role of knowledge plays an even more central role in the process of innovation and economic growth.[212] Hence, in new organisations, information and knowledge are the most important resources.[213] Rather than only moving goods and services around more than ever, multinational strategy is about knowledge strategy, about acquiring, moving, combining and recombining, adapting, and applying key know-how in global markets.[214] Rather than managing goods, companies will have to focus on managing flows.[215]

In this context, Drucker mentions the significance of the newly emerging dominant group: the knowledge workers. He points out that the majority of knowledge workers are paid at least as well as blue-collar workers ever were, or better, and that new jobs offer much greater opportunities to the individual.[216] He also predicted that these new jobs in the knowledge society[217] will require, in the great majority of cases, a good deal of formal education and the ability to acquire and apply theoretical and analytical knowledge, thus requiring a habit of continual learning[218].

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204 Osterwalder (2004), p. 11
205 Zahra and O'Neill (1998), pp. 13-21, in: Osterwalder (2004), p. 11
206 Taleb (2007), in: Pümpin and Pedergnana (2008), p. 29
207 Opinion, Blili (2010)
208 Opinion, Blili (2010)
209 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 291
210 Opinion, Blili (2010)
211 Bürgi, Jacobs and Roos (2005), p. 79
212 OECD (1996), in: Levy (2011), p. 6
213 Malik (2001), p. 11
214 Tallman (2009), p. 196
215 Opinion, Blili (2010)
216 Drucker (1995), in: Drucker (2008), p. 304
217 Drucker (2008), Afterword in Spring 2001, p. 349
218 Drucker (1995), in: Drucker (2008), p. 305

2.3.2.3 Better, Faster and More Dynamic

Companies have to combine scale and flexibility to outperform the competition. This also includes speed, i.e. *"the ability to respond quickly to customer or market demands and to incorporate new ideas and technologies quickly into products."*[219] According to Bohn, in highly dynamic business environments the key tasks for the people in charge are innovating, improving, and dealing with the unexpected.[220]

There is no doubt that fast-moving environments also require speed in decision-making. The following four helpful guidelines have been suggested by Eisenhardt's research on strategic decision-making in fast-moving environments:

- *"Build multiple, simultaneous alternatives.*
- *Track real-time information.*
- *Seek the views of trusted advisors.*
- *Aim for consensus, but not at any cost."*[221]

In addition, D'Aveni[222] states that managers need to rethink their approach to business-level strategy, because it may no longer be possible to plan for sustainable positions of competitive advantage. Since it slows down response, planning for long-term sustainability may actually destroy competitive advantage. He provides the following guidelines for managers, who have to learn to be better at doing things faster than competitors:

- *"Cannibalise bases of success.*
- *Attacking competitors' weaknesses can be unwise as they learn about how their strengths and weaknesses are perceived and build their strategies accordingly.*
- *A series of smaller moves may be more effective than bigger ones because the longer-term direction is not as easily discernible by competitors. Moreover, smaller moves create more flexibility and give a series of temporary advantages.*
- *Disruption of the status quo is strategic behavior, not mischief.*
- *Be unpredictable.*
- *Mislead the competition."*[223]

2.3.2.4 Uncertainty and Ambiguity

Compared to risk, which is neither safe nor certain but where alternatives can be listed, probabilities assigned, and responses and hedging activities planned, uncertainty is nearly impossible to manage. There is not enough understanding of the structure of the situation that is faced to delimit the set of future possibilities or to assign odds to them and plan effectively.[224]

Even though there is a wish to reduce uncertainty, one will never master it and should not expect to do so.[225] When it comes to uncertainty, long-term prediction, let alone

219 Stalk, Evans, and Shulman (1992), pp. 186-187
220 Bohn (2000), p. 180
221 Eisenhardt (1990), pp. 39-54, in: Johnson, Scholes and Whittington (2008), p. 573
222 D'Aveni (1995b), in: Johnson, Scholes and Whittington (2008), p. 239
223 Johnson, Scholes and Whittington (2008), pp. 239-240
224 Clemons (2006), p. 31
225 Rosenzweig (2006), p. 174

control, is out of the question.[226] Therefore, a term like "mastering uncertainty" can lead managers to think that they can analyse their way through the fog or control the environment in which they operate. The right direction, instead, is to point efforts at the ability to respond.[227]

Moreover, uncertainty and ambiguity, with the interacting variables being latent, sometimes unknown, and always new,[228] make it almost impossible to exactly determine certain frontiers, e.g. what exactly is the market of Google? Sometimes, it is also very difficult to really identify your competitor or partner. In this context, Drucker's famous question *"What is our business?"*[229] becomes ubiquitous.

In addition, today's leaders have to deal on a daily basis with paradoxes and ambiguity. For example, working for a multinational from an emerging economy presents new situations never encountered before.[230]

2.3.2.5 Complexity

Globalisation, the knowledge-based economy, and the competitiveness of SMEs are, above all, grounded in the complexity (uncertainty and ambiguity) of the new business environment.[231]

Business decisions are complex and difficult, since there is a competitive, rapidly changing and increasingly uncertain economic environment. New information and communication technologies, shorter product life cycles[232], global markets and tougher competition form a hostile business environment in which companies are expected to manage multiple distribution channels, complicated supply chains, expensive IT implementations, strategic partnerships, and still stay flexible enough to react to market changes.[233] Moreover, in order to respond to customer demands, which may originate anywhere in the world, firms must be flexible enough to restructure.[234]

In order to deal with changing and complex situations, companies need a constant flow of ideas and creative solutions. Cambié and Ooi ask whether there is a better source of alternative ideas than a multicultural workforce. They go on to argue, however, that employees will only come forward and share their experience if they feel that their cultural background is respected. This is only the case if a genuine climate of openness is in place and if corporate leaders have a multicultural mindset.[235] Consequently, to nurture cross-cultural leadership, constant effort and genuine commitment is required.[236] In addition, the development of a company culture is needed which gives leaders the freedom to adjust global values to the mindset and circumstances of a particular country.[237] Therefore, future leaders will have to study local cultures and translate a particular value into their terms.[238]

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226 Sull (2006), p. 5
227 Barsoux and Bottger (2006), p. 38
228 Opinion, Blili (2010)
229 Drucker (1974a), in: Drucker (2008), p. 24
230 Cambié and Ooi (2009), p. 70
231 Opinion, Blili (2010)
232 *„Product life cycle concerns the life of a product in the market with respect to business/commercial costs and sales measures. Simply explained, it is a theory in which products or brands follow a sequence of stages including introduction, growth, maturity and sales decline."*, in: Hollensen (2011), p. 465
233 Osterwalder (2004), p. 11
234 Opinion, Blili (2010)
235 Cambié and Ooi (2009), pp. 82-83
236 Cambié and Ooi (2009), p. 83
237 Cambié and Ooi (2009), p. 66
238 Cambié and Ooi (2009), p. 66

Furthermore, Cambié and Ooi conclude that a new approach to corporate leadership is required, combining the typical attributes of Western management schemes with qualities appreciated in other parts of the world like Southern Europe, the Middle East and Asia.[239]

Malik also holds that the world is becoming more complex and that this has consequences. At the same time, he points out that this is taken by many as a rationale and justification in order to pursue strategies which are also complex.[240] Instead, many authors of military strategy highlight the principle of simplicity. Von Clausewitz, for example, considered that in war the ability to develop simple and creative plans was a key factor in success.[241] The reason for this is that complex strategies become obsolete all too soon, especially when unexpected events occur. Moreover, simple strategies can be much better communicated and put into action. There have been similar experiences in management too. In a Boston Consulting Group study, it was asserted that profitability decreases with increased complexity.[242]

We will see later that the so-called strategy map represents a simple visualisation of strategy, and how important this is for its implementation.

2.3.2.6 Risk Management

With globalisation, the diversity and complexity of company-wide risks has continued to increase. In addition to classical financial risks, operational, compliance and, in particular, strategic risks have increasingly come to the fore.[243] Thus, it is likely that the discipline of risk management has emerged as an answer to increasing uncertainty, ambiguity and complexity.

When a company knows its risk levels, it can make better informed decisions that reduce its degree of revenue volatility.[244] Risk management is not only able to smooth earnings volatility but also increase profitability.[245] Mason and Mitroff hold that the choice of individual action is only part of the policymaker's need. Instead, what is more important is the need to achieve an insight into the nature of complexity and to formulate concepts and world views for coping with it.[246]

The ability to control risks requires a company to know the nature of its risk exposures. Thus, risk assessment is a fundamental component of internal controls.[247]

Yet, in a world characterised by volatility and uncertainty, the approach of traditional risk management tools which focus on what is normal and consider extreme events as ancillaries is misguided.[248] Measures of uncertainty using the bell curve simply disregard the possibility of sharp jumps or discontinuities.[249] Instead, the normal course of events should become an alternative methodology where large deviations dominate the analysis.[250]

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239 Cambié and Ooi (2009), p. 65
240 Malik (1999), p. 52
241 See von Clausewitz (1963), in: Pümpin and Pedergnana (2008), p. 64
242 Stalk and Hout (1990), in: Pümpin and Pedergnana (2008), p. 64
243 Schweizer and Sidler (2012), p. 626, referring to Ernst & Young (2011)
244 Barton, Shenkir and Walker (2002), p. 158
245 Barton, Shenkir and Walker (2002), p. 2
246 Mason and Mitroff (1981), p. 16, in: Senge (1990b), p. 11
247 Barton, Shenkir and Walker (2002), p. 183, referring to COSO (1992); See also Barton, Shenkir and Walker (2002), p. 6
248 Mandelbrot and Taleb (2006), p. 44
249 Mandelbrot and Taleb (2006), p. 45
250 Mandelbrot and Taleb (2006), p. 44

Cokin's theory is that once organisations become quite successful, they become averse to risk-taking. However, taking risks, albeit calculated ones, is essential for organisations to change and to be innovative.[251] After all, where the economy changes, markets change too. Old markets disappear and new ones emerge. Having said this, probably only rarely before have there been so many significant entrepreneurial opportunities as there are today.[252] Kelly, for example, states that new risks emerge from every innovative corporate endeavour and that great opportunity can be found in the most "risky" areas. Therefore, bringing together the skill and focus of disciplines such as risk management, business innovation and development into a new dialogue can help turn risk and uncertainty into a powerful source of advantage.[253]

Many companies would gain by viewing the economic downturn not only as a threat but also as an opportunity and, therefore, acting more offensively.[254] The same may be said for successful innovators. They are and have to be conservative, since they are not "risk-focused" but "opportunity-focused".[255] The price that must be paid for growth is economic uncertainty, and where the forces of uncertainty and growth are strongest, businesses must seek opportunities.[256] Therefore, risk management not only includes the potential benefits from risks taken but also the missed opportunities of risks not taken.[257] The challenge for any company is to identify those opportunities without underestimating the risks. Thus, a risk may exist when something is done but also when something is not done.[258] After all, we agree that *"The greatest risk in life is not taking any risks."*[259] To create a business that does not take risks is impossible. If one attempts to do so, one will not make money.[260] We will apply this philosophy to globalisation and the immaterial age.

At the same time, this does not mean that having no evidence at all and just acting on raw enthusiasm and moving forward on the basis of beliefs will lead to better decisions than having just a little bit of evidence and testing the ideas.[261] On the other hand, it is normally more reasonable to act at an early stage and only based on vague information than to wait for reliable information. Usually, the later a reaction takes place, the more constricted the manoeuvrability and capacity to act will be.[262]

251 Cokins (2009), p. 38
252 Wellershoff (2011), p. 7
253 Kelly (2006), p. 16
254 Andersen, Froholdt and Poulfelt (2010), p. X
255 Drucker (1985), in Drucker (2008), p. 279
256 Mandel (1996), p. 9, in: Barton, Shenkir and Walker (2002), p. 3
257 Cokins (2009), p. 34
258 Stöger (2010), p. 223
259 Maucher (2007), p. 22
260 Boulton, Libert and Samek (2000), p. 181, in: Barton, Shenkir and Walker (2002), p. 2
261 Sutton (2008), pp. 51-52
262 Lombriser and Abplanalp (1998), p. 118

CHAPTER Ⅲ　WAKE-UP CALL FOR THE WESTERN WORLD

3.1 SUMMARY

When faced with today's challenges, many Western companies do not focus on strategy. Instead, they react with fatigue, inflexibility and home-based norms for conducting business. In our opinion, one reason for this phenomenon is the lack of structure in the field of strategy. However, a much more important factor in this attitude is the failure of traditional recipes, i.e. analytical frameworks and techniques as well as management literature. Nevertheless, this does not mean that analytical frameworks and techniques as well as management literature have become totally obsolete. Yet, in the new business environment they are often not relevant anymore. Moreover, to some extent, and when viewed in isolation, the four strategic perspectives that are argued as constituting the strategic landscape and strategic thought of today (Positioning, the Resource-Based view, Blue Ocean Strategy and Discount Strategy) resemble recipes, too. In any case, SMEs have to adapt immediately, to be proactive and to realise that strategy really matters. Therefore, and in order to break the established rules and to act with the required mental agility, they must combine the four sources of competitive advantage with the X-factor universe.

3.2 WRONG ATTITUDES

3.2.1 SUMMARY

In a significantly changed environment, with the geopolitical axis shifting towards emerging countries, Western companies have to change too. Instead, they are experiencing a certain fatigue. Even though in such situations strategy has a more significant role to play than ever before, they accord it minimum importance. At the same time, to deal with strategic development strictly according to recipes is dangerous, since there are many flaws in the management literature. We consider analytical frameworks and techniques as recipes too. Instead of relying on such recipes and quick fixes, a strategy which is based on mental agility should direct a company's actions.

3.2.2 DESCRIPTION

3.2.2.1 Fatigue and Inflexibility

Intensified competition forces companies to compete in order to satisfy a more discriminating clientele, to optimise their foreign investments, to improve their image, to differentiate, reduce costs and improve quality, and to take advantage of advanced technologies wherever possible.[263] An organisation that does not constantly change is exposed to competitors constantly converging to similar products, services, and processes.[264]

Moreover, the ongoing change reduces the distances between different parts of the world. This trend leads to the beginning of a new era where it can no longer be expected that people in other cultures adapt to the way we think and communicate.[265] This implies that the more companies move away from similar cultural groups, the more difficult it is to use home-based norms for conducting business activities.[266]

At the same time, in response to market growth and global financial trends, it is likely the location of strategic decision-making will shift more towards the emerging

263 Opinion, Blili (2010)
264 Cokins (2009), p. 108
265 Cambié and Ooi (2009), p. 3
266 McDonald and Burton (2002), p. 158

world.[267] Today's changes require us to understand the dynamics of the BRIC countries and other economies and to work out how to tie our fortunes to their growth.[268]

Asia is becoming the new centre of gravity. Western companies are only slowly beginning to acknowledge this. In this multipolar world, the Western world's long lasting dominance is challenged and certainly not increasing.

In this environment and with the geopolitical axis shifting towards emerging markets with their new prospects,[269] the Western world is experiencing a certain fatigue[270]. It is still entrenched in the old ways of conducting business. Yet, it is beginning to realise that something needs to change profoundly.[271]

3.2.2.2 The Missing Focus on Strategy

"Strategy involves people, especially the managers who decide and implement strategy."[272]

We conclude that in an environment like the one described so far, strategy really matters. Therefore, it is worrying and somehow confusing, and even alarming, to see the following results:

- According to a study by Ernst & Young conducted in 2004, 66% of corporate strategy is never executed.[273] As pointed out by Kaplan and Norton, various surveys over the past two decades show that 60 to 80% of companies fail to implement and reach their strategy and strategic goals. They quote the CEO of BP who stated *"Our problem is not about the strategy itself, but about our execution of it."*[274] Froholdt and Poulfelt, by referring to these results, argue that this indicates that the majority of companies fail to achieve a significant return on their strategy.[275]
- Aside from the failure to implement strategies, another equally alarming fact[276] from a survey in 1996 (likewise conducted by Kaplan and Norton) was that 85% of executive teams spent less than one hour per month discussing strategy, with 50% reporting that they spent virtually no time on strategy discussions. Executives relied far more on local, tactical operating systems (such as budgets) for managing finances, management-by-objectives system (MBO) for motivating employees' performance, and decentralised IT, marketing, and sales plans.[277] With reference to this study, Andersen, Froholdt and Poulfelt assert that strategy, or at least how to make the remainder of the organisation embrace and commit to it, had been forgotten.[278]

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267 Tallman (2009), p. 202
268 Cambié and Ooi (2009), p. 79
269 Cambié and Ooi (2009), p. 79
270 Cambié and Ooi (2009), p. 77
271 Cambié and Ooi (2009), p. 77
272 Johnson, Scholes and Whittington (2008), p. 11
273 Andersen, Froholdt and Poulfelt (2010), p. 231
274 Kaplan and Norton (2008), p. 3; See also Andersen, Froholdt and Poulfelt (2010), p. 231 referring to Kaplan and Norton (2008)
275 Andersen, Froholdt and Poulfelt (2010), p. 231
276 Andersen, Froholdt and Poulfelt (2010), p. 231
277 Kaplan and Norton (2008), pp. 3-4; See also Andersen, Froholdt and Poulfelt (2010), p. 232 referring to Kaplan and Norton (2008)
278 Andersen, Froholdt and Poulfelt (2010), p. 232

- Furthermore, a McKinsey survey of top executives revealed that more than half of them were dissatisfied with their strategy efforts; 80% viewed their strategic approach as inefficient, and 44% said that their strategic plans did not track execution.[279] From this, Andersen, Froholdt and Poulfelt conclude that there seems to be a real need for revising and redirecting modes for how to work with strategy.[280]
- On other occasions, too, it has been stressed that strategy execution is considered to be one of the major failures of executive teams. Norton, for example, reported that as many as nine out of ten organisations failed to successfully implement their strategy and that the problem was not that organisations did not manage their strategy well but that they did not formally manage their strategy at all.[281] Poor strategy execution is confirmed by empirical evidence.[282]

In the literature, several arguments are put forward for the lack of focus on strategy:

- Bossidy and Charan argue that leaders do not make a realistic assessment of whether an organisation can execute a plan, and that this is one reason for the astonishing number of strategies that fail.[283]
- For Porter, the reason why so many companies fail to have a strategy, or companies and managers avoid or blur strategic choices, is that many managers are caught up in the race for operational effectiveness. They simply do not understand the need for having a strategy.[284] Lombriser and Abplanalp argue along similar lines and write that in practice strategic activities are often subordinated to urgent operational ones.[285] Yet, urgent operational activities which are unimportant for safeguarding the future displace strategically important but not urgent decisions.[286]
- Porter also states that conventional wisdom within an industry is often strong, homogenising competition.[287]
- Customer focus is also misunderstood by some managers who believe that they must serve all customer needs or respond to every request from distribution channels.[288]
- Further reasons listed by Porter are more related to organisational realities that work against strategy:
    - frightening trade-offs[289], and the lack of the capability to recognise trade-offs;
    - sometimes the preference to make no choice rather than risk blame for a bad choice;

279 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
280 Andersen, Froholdt and Poulfelt (2010), p. 73
281 Norton (2006), in: Cokins (2009), p. 145 and 191
282 Cokins (2009), p. 145
283 Bossidy and Charan (2002), p. 195
284 Porter (1996), p. 75
285 Lombriser and Abplanalp (1998), p. 18
286 Simon (1957), in: Lombriser and Abplanalp (1998), p. 18
287 Porter (1996), p. 75
288 Porter (1996), p. 75
289 *"Trade-offs occur when activities are incompatible. Simply put, a trade-off means that more of one thing necessitates less of another."*, in: Porter (1996), p. 68

  - imitation of each other in a type of herd behaviour; each assuming rivals know something they do not;
  - the search for possible improvements without an appropriate holistic vision;
  - sometimes the failure to choose due to a reluctance to disappoint valued managers or employees.[290]

- Porter also argues that the desire to grow has perhaps the most perverse effect on strategy, since trade-offs and limits appear to constrain growth. For instance, excluding some groups of customers places a real or imagined limit on revenue growth, and managers are constantly tempted to bypass those limits, thereby blurring a company's strategic position.[291]

What is often presented as strategy is nothing more than the budget for the next year or, if the emphasis is placed on the longer term, the budget for the next three years.[292] However, numbers that show unrealistic expectations are not a strategy; they are a wish. Instead, strategy is the plan that allows a company to increase sales (and, above all, margins) in the presence of competitors at least as aggressive as it is.[293] Still, companies of a certain complexity must make a budget and have clear and coherent plans for all their functions and activities. However, this is not sufficient, since budgeting must come after strategy-making. Often, the necessary profitability improvements introduced in budgets are based on the implementation of operational plans to lower costs or increase sales. These operational improvements, however, do not constitute a strategy and it is naïve to think that most competitors are not doing something similar. Nevertheless, many companies limit themselves to these plans, thinking that they now have a strategy.[294]

To summarise, companies often do not have a real strategy, since frequently they fall into one of two apparently contradictory traps:

- the strategy is either vague and empty ("fantasy visions"),
- or it is so concrete that it actually does not go beyond an operational plan.

Jarillo even concludes that some companies manage to do both things: visions that do not mean anything and budgets that are not based on anything.[295]

Hence, the practice of strategy, a critical task and responsibility of the CEO,[296] today leaves much to be desired.[297] Often, it is just the sum of the reactions across the organisation that ends up defining the company's strategic course, since managers, particularly in high-tech industries, must react immediately to sudden and unexpected developments.[298]

With companies that do not deal with strategy at all and companies that strategise at a symbolic or rhetorical level, Andersen, Froholdt and Poulfelt argue that for most

290 Porter (1996), p. 75
291 Porter (1996), p. 75
292 *"The five-year budgets disappeared with the first oil crisis in the 1970s."*, in: Jarillo (2003), p. 211
293 Jarillo (2003), p. 211
294 Jarillo (2003), p. 212
295 Jarillo (2003), p. 212
296 Collis and Montgomery (2005), p. 3
297 Collis and Montgomery (2005), p. 7
298 Gadiesh and Gilbert (2001), p. 162

a prerequisite for achieving a "return on strategy" is a return to strategy.[299] In their opinion: *"Far too many companies tend to put strategic development on autopilot, display a complacent attitude towards strategy or simply deal with strategy in only a symbolic or rhetorical fashion."*[300]

In any case, there is a growing need for a return to strategy. However, in a situation with external contingencies like increased globalisation, recessions, market failures, financial constraints, and the gradual change from a unilateral to a vulnerable multilateral power system, a considerable number of companies deal with strategic development strictly according to one of the many recipes available. The implications of this are serious.[301]

3.2.2.3 The Failure of Traditional Recipes

3.2.2.3.1 Analytical Frameworks and Techniques

"A good theory is one that holds together long enough to get you to a better theory."[302]

The following overview is a summary of useful tools and techniques that have had a lasting impact on management thinking.[303]

3.2.2.3.1.1 The Concept of Corporate Strategy

"Since then, there have been many advances and refinements in both the practice and theory of strategy."[304]

During the fifties, developed countries were characterised by a post-war economic boom. At that time, production, rationalisation and productivity were key strategic aspects. The reasons for this were a lack of resources and competent manpower.[305] Therefore, a strategy first of all had to resolve the problem of scarce resources.[306] When strategy was introduced into the business world in the middle of the twentieth century, it also coincided with the period of management professionalisation and the growth of large organisations such as General Electric, General Motors, Daimler, Siemens and Toyota.[307] In the 1960s and 1970s, the work of Andrews, Christensen, and their colleagues in Harvard Business School's business policy group[308] articulated the concept of strategy as a holistic way of thinking about a firm. This was done at a time when management thinking was oriented towards individual functions such as marketing, production and finance.[309]

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299 Andersen, Froholdt and Poulfelt (2010), p. 279
300 Andersen, Froholdt and Poulfelt (2010), p. 255
301 Andersen, Froholdt and Poulfelt (2010), p. 255
302 Opening quotation from Hebb (1969), in: Mintzberg (1973a), p. 54
303 Collis and Montgomery (2005), pp. 18-25; the early part of the appendix draws heavily on the Introduction (pp. xi-xii) of Montgomery and Porter (1991), in: Collis and Montgomery (2005), p. 18. The section was complemented with the work of other authors.
304 Collis and Montgomery (2005), p. 20
305 Stöger (2010), p. 5
306 Stöger (2010), p. 6
307 Stöger (2010), p. 5
308 This critical groundwork was laid in Learned, Christensen and Andrews (1965). See also, Andrews (1971), in: Collis and Montgomery (2005), p. 18
309 Collis and Montgomery (2005), pp. 18 and 20

3.2.2.3.1.2 Organisation, Structure and Diversification

"Modern research on corporate structures probably started with Chandler's Strategy and Structure."[310]

At the same time, Chandler introduced archetypes of diversification patterns and their linkage to particular organisational structures.[311] During the 1960s and 1970s, many corporations diversified widely and adopted a multidivisional structure by creating discrete strategic business units. The increasing scope[312] of many corporations and the emergence of conglomerates stimulated research on the performance implications of diversification which attempted to discover the optimal type and extent of diversification.[313]

3.2.2.3.1.3 Portfolio Planning

In the seventies, the Boston Consulting Group (BCG) introduced the so-called growth/share matrix, best known for its cow and dog metaphors.[314] The basic concept is to split financial resources in such a way between product-oriented business units that "cash cows" generate the money needed in order to make prospective "stars" out of "question marks". "Poor dogs" do not make any money and are therefore sold in favour of the "question marks" and "stars".[315] For a while, it became the primary tool for resource allocation in diversified companies.[316] Its prescriptions allowed corporate executives to regain control of the strategic planning and capital budgeting processes.[317]

3.2.2.3.1.4 Value-Based Strategy

In the 1980s, the vulnerability of many large diversified corporations was highlighted[318] and led to several sensational takeovers. This pressure resulted in an increased focus on stock-market valuation and the objective of maximising shareholder value. It was proposed that the free cash flow was the correct measure of shareholder value and had to be discounted at the business-specific weighted average cost of capital with the resulting calculation of the economic value added (EVA). Thus, strategy focused attention on the prudent management of a firm's capital.[319]

3.2.2.3.1.5 Generic Corporate Strategies

In the 1980s, many diversification strategies and large multi-business corporations were struggling to justify their existence.[320] Therefore, the notion *"sticking to the knitting"*[321]

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310 Galbraith (1983), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 226
311 Chandler (1962), in: Collis and Montgomery (2005), p. 20
312 *"Scope is concerned with how far an organization should be diversified in terms of products and markets."*, in: Johnson, Whittington and Scholes (2011), p. 231
313 Collis and Montgomery (2005), p. 20
314 Collis and Montgomery (2005), p. 20
315 Osterloh and Frost (2000), p. 178
316 Collis and Montgomery (2005), p. 20
317 Collis and Montgomery (2005), p. 22
318 For example, Exxon, which entered the office products market, or Coca-Cola, which acquired Columbia Pictures, in: Collis and Montgomery (2005), p. 24
319 Collis and Montgomery (2005), pp. 22-23
320 Collis and Montgomery (1995), p. 35
321 Peters and Waterman (1982), in: Collis and Montgomery (2005), p. 24 and Campbell, Goold, Alexander (1995), p. 208

was widely promulgated. This implied the focus on the core business, identifying where the profit was, and getting rid of everything else.[322]

Into this void came the development of generic strategies that classified corporate strategies according to the ways in which value was created. Michael Porter identified four types of corporate strategy that lay along a continuum of increasing corporate involvement in the operation of business units (portfolio management, restructuring, transferring skills and sharing activities).[323] He went on to develop a widely used approach to analysing industry profitability and competitive advantage,[324] i.e. a framework for industry analysis and a systematic methodology for examining the impact of industry structure on a firm's performance[325].

He also described a set of generic strategies a firm could use to overcome or exploit industry forces and achieve a competitive advantage vis-à-vis its rivals.[326] A company is presumed to possess a competitive advantage when it succeeds in obtaining a higher profit margin than its competitors in a target market. Using industry structure as a basis, Porter[327] identified the following two types of competitive advantage: a cost-based competitive advantage (the company is able to produce and offer the same product/service benefits as its competitors at a lower price), and a competitive advantage based on differentiation (the company offers higher quality products and services in comparison with those of its competitors). Depending on these two competitive advantages, a company's positioning is either considered to be based on cost leadership or differentiation.

Together with the third distinctive generic strategy, focus,[328] Porter's typology is considered a classic[329] and has become *"the dominant paradigm"* in business policy and strategy research[330].

Porter also introduced the concept of the value chain[331] and thus provided an extensive toolbox covering both internal and external analysis[332]. The value chain is an activity-based view of competitive advantage, where superior profitability can be traced to differences in activities that allow a company to lower costs, or in its ability to charge higher prices.[333]

It may be summarised that Porter's positioning school has perhaps over time become the best known strategic view. With the development of a toolbox consisting of the Five Forces, the Three Generic Strategies and the value chain, he has cemented his place as one of the most popular strategists since the 1980s.[334]

322 Stalk, Evans, and Shulman (1992), p. 192
323 Porter (1987), pp. 43-59, in Collis and Montgomery (2005), p. 24
324 Porter (1980), in: Collis and Montgomery (2005), p. 29
325 Collis and Montgomery (2005), p. 29
326 Collis and Montgomery (2005), p. 29
327 Porter (1980)
328 Johnson, Scholes and Whittington (2008), p. 224
329 Miller and Friesen (1986), pp. 37-55, in: Rubach and McGee (1998), p. 2
330 Hill (1988), p. 401, in: Rubach and McGee (1998), p. 2
331 Porter (1985a), in: Andersen, Froholdt and Poulfelt (2010), p. 38
332 Andersen, Froholdt and Poulfelt (2010), p. 38
333 Porter (2008a), p. xxvi
334 Andersen, Froholdt and Poulfelt (2010), pp. 44-45

3.2.2.3.1.6 Financial Economics

In the nineties, scholars, like Lang and Stultz[335] discovered a substantial (approximately 20%) diversification discount and argued that diversified firms destroyed shareholder value. Later research also found diversification discounts[336] and demonstrated that a focused corporate portfolio increased stock market value[337].

3.2.2.3.2 Roadmaps in Management Literature

"For an idea ever to be fashionable is ominous, since it must afterwards be always old-fashioned."[338]

In this section, we will focus on four books in management literature.

3.2.2.3.2.1 In Search of Excellence

"In Search of Excellence",[339] written by the two McKinsey consultants Peters and Waterman, belonged to the so-called first-generation recipes[340] and was the management book of the 1980s[341]. It concluded that adhering to eight variables had determined the success of the companies included in their sample.[342] In many ways, the early 1980s was the time when interest in corporate culture was triggered. This was because American business tried to explain the competitive advantage of the Japanese,[343] and corporate culture was believed to be the secret weapon responsible for their success. "Theory Z" and "The Art of Japanese Management" were popular and attest to this belief.[344] Peters and Waterman, however, insisted that you did not have to be Japanese to have excellence, and provided examples of strong corporate cultures in US companies, such as IBM and Disney. In this way, they reinforced the belief that a strong culture and widely shared and deeply held values and beliefs resulted in excellent performance.[345]

3.2.2.3.2.2 Built to Last

The management book of the 1990s was definitely "Built to Last",[346] written by Collins and Porras[347]. In all its simplicity, the concept may be explained as visionary companies being able to preserve the core ideology of the company whilst simultaneously stimulating and constantly driving progress. There were five categories of methods that distinguished the visionary companies from their comparisons.[348]

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335 Lang and Stulz (1994), pp. 1248-1280, in: Collis and Montgomery (2005), p. 24
336 Lins and Servaes (1999), pp. 2215-2239, in: Collis and Montgomery (2005), p. 24
337 Campa and Kedia (2002), pp. 1731-1762, in: Collis and Montgomery (2005), p. 24
338 Santayana (1913), in: Martin and Sunley (2003), p. 5
339 Peters and Waterman (1982), in: Andersen, Froholdt and Poulfelt (2010), p. 18
340 Andersen, Froholdt and Poulfelt (2010), p. 1
341 Andersen, Froholdt and Poulfelt (2010), p. 18
342 Andersen, Froholdt and Poulfelt (2010), p. 2
343 *"Right now, we're in the midst of another major war with Japan. This time it's not a shooting war, and I guess we should be thankful for that. The current conflict is a trade war. But because our government refuses to see this war for what it really is, we're well on the road to defeat. Make no mistake: our economic struggle with the Japanese is critical to our future. We're up against a formidable competitor, and all things being equal, we'd be lucky to stay even with them."*, in: Iacocca (1984), p. 331
344 Ouchi (1981); Pascale and Athos (1981), in: Schneider and Barsoux (2003), p. 68
345 Schneider and Barsoux (2003), p. 68
346 Collins and Porras (1994), in: Andersen, Froholdt and Poulfelt (2010), p. 18
347 Andersen, Froholdt and Poulfelt (2010), p. 18
348 Andersen, Froholdt and Poulfelt (2010), p. 19

3.2.2.3.2.3 Good to Great

"Good to Great"[349] by Collins is based on a study of companies that had been among the Fortune 500 companies during the period from 1965 to 1995, and examines what it takes for companies to make the leap from good to great[350]. The analysis identified six characteristics as those instrumental in elevating companies from good to great. In addition, the concept of the flywheel and the doom loop was introduced. This is an illustration of how companies made the leap from good to great.[351]

3.2.2.3.2.4 What Really Works

Finally, "What Really Works: The 4+2 Formula for Sustained Business Success" by Joyce and Nohria[352] was published in 2003. It identified a set of primary management practices that a company must excel at in order to ensure a high return for its shareholders, supplemented by a second set consisting of secondary management practices, at least two out of four of which the company must excel in. For sustained business success, this formula became a reality covering management practices.[353]

3.2.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

3.2.3.1 Fatigue and Inflexibility

Companies have to urgently realise the shifting of the geopolitical axis towards emerging countries. It is vital to fully accept these new paradigms and respond to them quickly. Consequently, companies have to withdraw from fatigue and inflexibility and focus on agility.

3.2.3.2 The Missing Focus on Strategy

Strategic management is a demanding activity and therefore it is not surprising that top management, especially in SMEs, often prefer to grasp at (overly) simple recipes.[354] However, it shows that in today's demanding environment the allocation of significant resources to the development and implementation of strategies is more important than ever.

Thus, Jarillo argues that strategic reflection is the opposite of the application of a cold and formalistic methodology, and that it does not make sense to limit strategic

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349 Collins (2001)

350 Andersen, Froholdt and Poulfelt (2010), p. 22

351 Andersen, Froholdt and Poulfelt (2010), p. 23. The flywheel stands for a constant movement which was initiated long before the breakthrough and greatness were achieved, i.e. a flywheel slowly beginning to spin and constantly gaining speed in order to eventually take off. The doom loop process is the contrast of multiple quick fixes designed to create a breakthrough that, however, never materialises and leads to doom, as the course is frequently changed, creating an atmosphere of uncertainty within the company, in: Andersen, Froholdt and Poulfelt (2010), pp. 23-25; *"They would push the flywheel in one direction, then stop, change course, and throw it into yet another direction. After years of lurching back and forth, the comparison companies failed to build sustained momentum and fell instead into what we came to call the doom loop."*, in: Collins (2001), p. 178; *"No matter how dramatic the end result, the good-to-great transformations never happened in one fell swoop. There was no single defining action, no grand program, no one killer innovation, no solitary lucky break, no miracle moment. Rather, the process resembled relentlessly pushing a giant heavy flywheel in one direction, turn upon turn, building momentum until a point of breakthrough, and beyond."*, in Collins (2001), p. 14

352 Joyce and Nohria (2003), in: Andersen, Froholdt and Poulfelt (2010), p. 25

353 Andersen, Froholdt and Poulfelt (2010), p. 26

354 Lombriser and Abplanalp (1998), p. 38

reflection to a certain time in the year. To a much greater extent, it involves learning, discovering, having the capacity to be surprised, and being creative. It furthermore requires a profound knowledge of the business but also the humility to know that one only understands a small part of it.[355]

3.2.3.3 The Failure of Traditional Recipes

First, for non-strategy scholars, it is not always clear how analytical frameworks and techniques are interrelated and build on each other. Second, in today's uncertain environment, many of these tools and techniques have taken a back seat. In any case, they are not generally applicable across industries. The same is true for management literature, which has failed in many instances.

Yet, even though some traditional strategy concepts, such as industry structure analysis, have partially been devalued by the rapidly shifting strategy environment, they have also provided the impetus for much new thinking.[356]

Even though Porter has introduced many important frameworks and techniques, and has therefore gained the status of an influential expert, he is also one of the most criticised ones. Having said this, it would probably be more correct to say that Porter's models are incomplete and need to be revised and improved instead of saying that they are completely wrong. It is therefore crucial for these models to be adapted to the altered environment. Consequently, the discussion of analytical frameworks and techniques in general, does not mean that these ideas are totally obsolete. In fact, in this research we will apply some of them later on. However, they have simply become tools among others and often cannot be applied in the current context. This is because globalisation and the immaterial age have fundamentally changed the environment. Dynamic and complex changes have occurred and transformed whole industries. For example, we will see later that it is not only competition at the centre of strategy, as co-operation has emerged as a much more important concept for the mutual benefit of business partners. These factors have had a strong influence on all industries. Hence, old frameworks and literature are often not relevant anymore in these new conditions.

3.2.3.3.1 Analytical Frameworks and Techniques

3.2.3.3.1.1 The Concept of Corporate Strategy

The above has made it clear that the rise of strategy goes back to a time when "bricks and mortar" firms dominated the market. This, however, has changed and the same is true for the concept of strategy.

Although enormously valuable, the treatment of Andrews and Christensen did not lay out an explicit methodology to demonstrate how distinctive competencies could be translated into competitive advantage. Nonetheless, their work, along with that of others such as Ansoff, and Drucker,[357] propelled the notion of strategy into the forefront of management practice[358].

355 Jarillo (2003), p. 221
356 Hamel (1998), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 472
357 For an extended history of strategic planning in general, see Mintzberg (1994a), in: Collis and Montgomery (2005), p. 20
358 Collis and Montgomery (2005), p. 18 and p. 20

3.2.3.3.1.2 Organisation, Structure and Diversification

Even though there used to be much hope that for any given strategy, the perfect organisation structure could be identified (*"Structure Follows Strategy"*),[359] more recently, it has been recognised that organisation structures are rarely optimal[360]. The challenge for managers is rather to identify the structure that best fits the current needs of their company.[361] Therefore, the guiding principle is that a firm's structure, systems, and processes should flow from its overall strategic vision and the key tasks that must be performed to fulfil that vision.[362] Hence, there is no single optimal set of structures, systems, and processes for all firms because every corporate strategy is different.[363] This also means that a firm's internal design should be customised to fit the resources and businesses of the particular firm, and flow from its strategy. If the design is inappropriate, it often causes the failure of otherwise well-constructed corporate strategies.[364]

Still, this "one best way" approach, meaning that there is a right and a wrong way to design an organisation, has dominated thinking about organisational structures. A variety of failures has made it clear, however, that, for example, long-range planning systems or organisational development programmes are good for some but not for others, since organisations differ. Therefore, the "one best way" approach has moved in recent management theory towards an "it all depends" approach, formally known as "contingency theory". Thus, structure should reflect, for example, an organisation's age, size, type or production system, and the extent to which its environment is complex and dynamic, i.e. the organisation's situation.[365] Therefore, contingency theory drops the sequential "structure follows strategy" approach of Chandler. The existing structure influences strategy, and both must be suited to contextual conditions in a complex, interconnected, adaptive system that can only be seen properly from an overall perspective. Beyond this position, all parts of the system in which companies operate are under constant pressure to change and adapt, as suggested by evolutionary models of the firm.[366]

Thus, some authors warn that structure's role is underestimated and that causality can go the other way.[367] This is because an organisation's existing structure very much determines the kind of strategic opportunities that its management will see and want to grasp.[368] In addition, it was found that moves towards decentralised structures were often followed by moves towards increasingly diversified strategies, hence structure was determining strategy.[369]

Naturhouse, Saxo Bank and P&G illustrate examples where structure can become a strategy in itself or serve as valuable input to a strategy. Here, structure becomes a part of the strategy and thus contrasts with convention.[370] It is therefore not surprising

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359 *"unless structure follows strategy, inefficiency results"*, in: Chandler (1962), p. 314, in: Johnson, Scholes and Whittington (2008), p. 466
360 Collis and Montgomery (2005), p. 155; See also Galbraith and Kazanjian (1986), p. 24, in: Lombriser and Abplanalp (1998), p. 304
361 Collis and Montgomery (2005), p. 155
362 Collis and Montgomery (2005), pp. 165-166
363 Collis and Montgomery (2005), p. 15
364 Collis and Montgomery (2005), p. 15
365 Mintzberg H. (2003), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 209
366 Tallman (2009), p. 145
367 Hall and Saias (1980), pp. 149-163, in: Johnson, Scholes and Whittington (2008), p. 466
368 Johnson, Scholes and Whittington (2008), p. 466; See also Prahalad and Bettis (1986), in: Osterloh and Frost (2000), p. 164
369 Amburgey and Dacin (1994), in: Johnson, Scholes and Whittington (2008), p. 466
370 Andersen, Froholdt and Poulfelt (2010), p. 175

that Mintzberg concludes that strategy and structure are interrelated and warns that a simple design approach to strategy and structure can be misleading.[371]

Views about designing organisations are changing.[372] Command-and-control structures, for example, made sense in the past when most companies aimed to enhance returns from investments in physical assets: property, plants and equipment. Senior managers' decisions about capital equipment, adherence to standardised practices, the breadth of the product line, and capacity utilisation, for instance, largely determined the productivity of a manufacturing facility.[373] Thus, traditionally formal structures were emphasised,[374] which suited a top-down, command-and-control view of strategy where managers at the top made the decisions and the rest of the organisation simply implemented them. However, relying on formal top-down structures may no longer be enough in a world where key knowledge is held by employees at all levels in the organisation, and where change is constant. Hence, in a fast-moving, knowledge intensive world:

- a static concept of formal structure is less and less appropriate and organisations are constantly having to reorganise themselves in response to changing conditions;
- harnessing the valuable knowledge that lies throughout an organisation requires informal relationships and processes in order to generate and share the in-depth knowledge that is now often fundamental to competitive advantage.[375] After all, it is the individual professionals that typically provide customised solutions to an endless stream of new problems.[376]

3.2.3.3.1.3 Portfolio Planning

In practice, when capital markets are efficient, there is no rationale for a policy which assumes that corporations need to be internally self-financing, as in the prescriptions of portfolio planning (i.e. the assumption is that capital cannot be raised in external markets.)[377] Moreover, this largely ignores the relatedness of businesses in the matrix, and the question of whether and how the corporation has added value to completely unrelated businesses is not addressed. Due to these limitations, it has gone out of fashion.[378]

In addition, disillusionment with diversification and the poor performance of companies using the portfolio management technique discouraged all but a handful of companies from using it years ago.[379]

To these limitations, the following catalogue of problems with the BCG-matrix may be added:

- There is a definitional vagueness (e.g. it is hard to decide what high and low growth or share mean in particular situations).[380]

371 Mintzberg (1990), pp. 171-195, in: Johnson, Scholes and Whittington (2008), p. 466
372 Johnson, Scholes and Whittington (2008), p. 434
373 Quinn, Anderson and Finkelstein (1996), p. 76
374 Some of these early writings are to be found in Pugh (1984), in: Johnson, Scholes and Whittington (2008), p. 434
375 Johnson, Scholes and Whittington (2008), p. 434
376 Quinn, Anderson and Finkelstein (1996), p. 76
377 Johnson, Scholes and Whittington (2008), pp. 279-280
378 Collis and Montgomery (2005), p. 22
379 Campbell, Goold, and Alexander (1995), p. 207
380 Johnson, Scholes and Whittington (2008), pp. 279-280

- It is unkind to "animals", and the ungenerous treatment of "cash cows" and "dogs" can lead to lower levels of motivation for managers in these units that see little point in working hard for the sake of other businesses.
- Moreover, there is the danger of a self-fulfilling prophecy[381] but also excessive simplification[382].
- And finally, the BCG-matrix is only relevant in industries where volume and the experience curve effect are important. It is therefore not relevant in industries which are based on differentiation strategies.[383]

3.2.3.3.1.4 Value-Based Strategy

Despite its advantages, value-based planning has significant disadvantages:

- Incorrect estimates of future returns easily invalidate the whole approach.
- An implicit assumption that all business units and investment proposals are self-contained.
- The impossibility of the strict financial measurement of many long-term investments, particularly intangible assets.[384]

3.2.3.3.1.5 Generic Corporate Strategies

Even though there is much debate as to exactly what Porter's categories mean (in particular, cost leadership is often confused with low price),[385] the classification into two basic sustainable strategies[386] has generally stood the test of time[387]. Subsequent work, though, has provided different subcategories of differentiation. The following three generic types of strategy were proposed by Treacy and Wiersema and adopted/illustrated by Kaplan and Norton:[388] operational excellence (their interpretation of Porter's "low cost" strategy), and two differentiated strategies: customer intimacy and product leadership. A fourth generic strategy, system lock-in, in which companies attract complementors (firms that deliver products and services that enhance the organisation's own product and service offerings) has been articulated by Hax and Wilde.[389]

"Market facing" generic strategies were employed by Johnson, Scholes and Whittington and are similar to those used by Bowman and D'Aveni.[390] Here, the basic principle is that competitive advantage is achieved by providing customers with what they want or need better or more effectively than competitors. The result of this proposition is the "strategy clock" with eight different strategy routes. It describes the following strategies: a strategy combining low price with low perceived product/service benefits and focus on a price sensitive-segment (route 1);[391] a low-price strategy, which seeks

381 Johnson, Scholes and Whittington (2008), pp. 279-280
382 Johnson, Scholes, Whittington and Fréry (2008), p. 340
383 Johnson, Scholes, Whittington and Fréry (2008), p. 340
384 Collis and Montgomery (2005), pp. 22-23
385 Johnson, Scholes and Whittington (2008), p. 224
386 Porter (1985a), in: Kaplan and Norton (2004b), p. 320
387 Kaplan and Norton (2004b), p. 320
388 Treacy and Wiersema (1995); Kaplan and Norton (2001), especially pp. 83-99, in: Kaplan and Norton (2004b), p. 320
389 Hax and Wilde (2001), in: Kaplan and Norton (2004b), p. 320
390 Johnson, Scholes and Whittington (2008), p. 224; See also See Faulkner and Bowman (1995). A similar framework is also used by D'Aveni (1995b), in: Johnson, Scholes and Whittington (2008), p. 224
391 Johnson, Scholes and Whittington (2008), p. 227

to achieve a lower price than competitors whilst maintaining similar perceived product or service benefits to those offered by competitors (route 2);[392] a hybrid strategy, which will be discussed below (route 3);[393] a broad differentiation strategy providing products or services that offer benefits different from those of competitors and that are widely valued by buyers (route 4);[394] and finally a focused differentiation strategy, which provides high perceived product/service benefits, typically justifying a substantial price premium, usually to a selected market segment or niche (route 5)[395]. In all these approaches, companies try to achieve and preserve competitive advantage, with the need for sustainability as a central expectation.[396]

The remaining "market facing" generic strategies (routes 6, 7, and 8) represent failure strategies. These do not provide perceived value for money in terms of product features or price.[397]

The hybrid strategy (route 3) seeks to simultaneously achieve differentiation and a low price relative to competitors. Its success depends on the ability to deliver enhanced benefits to customers together with low prices whilst achieving sufficient margins for reinvestment to maintain and develop bases of differentiation.[398] Nevertheless, there is a good deal of debate whether this strategy can be a successful competitive strategy rather than a suboptimal compromise between low price and differentiation.[399] It could be advantageous when, compared to competitors:

- Much greater volumes can be achieved so that margins may still be better because of a low-cost base.
- Outside of its differentiated activities, there are available cost reductions.
- If it is used as an entry strategy in a market with established competitors.[400]

Hybrid strategies have many advantages and the danger of finding oneself *"stuck in the middle"*, as Porter has warned, seems to be very limited. Kim and Mauborgne,[401] but also Andersen and Poulfelt,[402] challenge this notion, and point out that a number of companies, such as Southwest Airlines, Ryanair and Lidl, successfully execute the dual pursuit of both differentiation and cost leadership.[403] Others, too, have criticised the idea of "being stuck in the middle", i.e. that generic strategies are mutually exclusive,[404] and that according to studies, mixed or hybrid strategies may be profitable[405]. Other authors argue that mixed or hybrid strategies have distinct advantages and that it may be dangerous and lead to lower performance if just a single generic strategy is pursued.[406] Johnson, Scholes, Whittington and Fréry state that due to increased

392 Johnson, Scholes and Whittington (2008), p. 227
393 Johnson, Scholes and Whittington (2008), p. 230
394 Sharp and Dawes (2001), pp. 739-759, review the relationship between differentiation and profitability, in: Johnson, Scholes and Whittington (2008), p. 229
395 Johnson, Scholes and Whittington (2008), p. 230
396 Johnson, Scholes and Whittington (2008), p. 231
397 Johnson, Scholes and Whittington (2008), p. 231
398 Johnson, Scholes and Whittington (2008), p. 230
399 See, for example Miller (1992), pp. 37-42; Hill (1988), pp. 401-412; and Thornhill and White (2007), pp. 553-561, in: Johnson, Scholes and Whittington (2008), p. 230
400 Johnson, Scholes and Whittington (2008), p. 230
401 2005
402 2006
403 Andersen, Froholdt and Poulfelt (2010), p. 46
404 Hill (1988); Murray (1988), pp. 390-400, in: Rubach and McGee (1998), p. 2
405 Miller and Dess (1993), pp. 553-585, in: Rubach and McGee (1998), p. 2
406 Murray (1988), pp. 390-400; Wright (1987), pp. 93-101; and Miller (1992), pp. 37-41, in: Rubach and McGee (1998), p. 5

competitive pressure and technological progress, every strategy tends to develop as a hybrid strategy, i.e. the increase of value for a price reduction. This tendency can easily be observed by comparing a car or a transatlantic flight with today's equivalent, with developments in IT being even more impressive.[407]

Porter's work has also attracted criticism that points towards certain other deficiencies and limitations:

- He has first been criticised for prioritising established big business over fragmented and niche business, which suggests that the framework cannot be applied to more dynamic and evolving industries.[408]
- Second, the generic approach invariably leads to companies copying each other and therefore to average performance.[409]
- Another criticism concerns the implicit assumptions about the identical nature of companies' resources and strategies, or a narrow focus on external factors.[410] Little attention was paid to managers because they were presumed to be fully capable of figuring out all the economic considerations and arriving at the "right" strategic solution.[411] Hambrick says that he and his strategy friends *"used to joke that you could always tell if a case had been written by Michael Porter: It didn't have any people in it."*[412]
- Furthermore, Porter has been criticised for a lack of regulation authorities, which is mainly due to his ideologically liberal vision of the economy. Yet, the latter, be they local or supranational, doubtlessly have the power to deeply modify a company's capacity to generate profit and to intervene in competition.[413]

3.2.3.3.1.6 Financial Economics

Even though the diversification discount is now considered an act of faith in the finance field, it is vigorously disputed by many strategy scholars. Montgomery and Collis think that the jury is still out on the normative implications of this research, even if there appears to be agreement on the descriptive facts. They, furthermore, point out that even the original research by Lang and Stultz recognised that 40% of diversified firms actually traded at a premium to the stand-alone value of their businesses.[414]

3.2.3.3.2 Roadmaps in Management Literature

3.2.3.3.2.1 In Search of Excellence

Unfortunately, several of the companies cited as being excellent had fallen from grace within a few years.[415] Cokins wonders whether, after all, it was not so intriguing that almost half of the roughly 25 companies listed in the once-famous book "In Search

407 Johnson, Scholes, Whittington and Fréry (2008), p. 279
408 Mintzberg, Ahlstrand and Lampel (1998), pp. 118-120, in: Andersen, Froholdt and Poulfelt (2010), p. 45
409 Andersen, Froholdt and Poulfelt (2010), p. 45
410 Andersen, Froholdt and Poulfelt (2010), p. 46
411 Hambrick (2001), in: Andersen, Froholdt and Poulfelt (2010), p. 46
412 Hambrick (2001), in: Andersen, Froholdt and Poulfelt (2010), p. 46
413 Johnson, Scholes, Whittington and Fréry (2008), p. 77
414 Collis and Montgomery (2005), p. 25
415 Schneider and Barsoux (2003), p. 68

of Excellence" today no longer exist, are in bankruptcy, or have performed poorly.[416] What is even worse is that corporate culture is often considered the culprit and cited as the reason for failed strategic change efforts, failed strategic alliances, and for failed attempts to internationalise.[417]

3.2.3.3.2.2 Built to Last

The fact that many of the same companies have been used as role model companies in both "In Search of Excellence" and "Built to Last" supports the argument that the generic recipe for success resting on a defined number of variables is as achievable as the alchemist's transmutation of common metals into gold.[418]

3.2.3.3.2.3 Good to Great

Few can argue with the identified six characteristics, which are highly generic in nature and allow for endless interpretation. These characteristics may be regarded as common sense or at least the fundament for sound business decision-making. As such, they may also apply to companies that never make the leap from good to great or even companies performing below average. Actually, only Philip Morris can be found in the lists of both the visionary companies presented in "Built to Last" and the great companies identified in "Good to Great". This suggests that the recipe for success changes and is dependent on the situation a given company finds itself in.[419]

3.2.3.3.2.4 What Really Works

Unfortunately, the 160 companies that were selected for this book are not revealed, which makes it impossible to determine whether the formula did indeed work for them. The more than 200 management practices that went into the analysis are not communicated either. Therefore, it cannot be determined whether those chosen represented in fact the basis for success or if there were others among the 200 that could have been argued to present a better case for success. This, as well as the highly generic nature of the identified practices, makes it almost impossible to disagree with the findings of this book. The missing data are also a cause for concern. Nevertheless, this formula, or rather recipe, is presented as a generic roadmap for all companies that wish to achieve sustained success. Again, the book presents a perfect correlation between the recipe and the success.[420]

3.2.3.3.2.5 Major Flaws in the Recipe Universe

Most commonly in the recipe universe, there are recipes that list five to eight variables and recommendations that should be followed in order to quickly achieve success. However, finding the right recipe for the "quick fix" in the most successful books on strategy is a telling, albeit sad, story.[421] Andersen, Froholdt and Poulfelt identify the following eight major flaws in the quest for finding the right strategy in the recipe universe:

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416 Cokins (2009), p. 38
417 Schneider and Barsoux (2003), p. 68
418 Andersen, Froholdt and Poulfelt (2010), p. 21
419 Andersen, Froholdt and Poulfelt (2010), pp. 23-25
420 Andersen, Froholdt and Poulfelt (2010), pp. 26-27
421 Andersen, Froholdt and Poulfelt (2010), p. 256

- Eventually, the number of companies that are listed in recipe management books and fail is unacceptably high.
- For the justification of widely different recipes, some of the same companies are used as models.
- There is no room for residual factors or something unexplained.
- There is a perfect correlation shown between the recipes and success.
- There is no proof to justify the assumed cause-effect relation between the recipes and success.
- In many of the successful companies, hidden and even apparent problems are not addressed.
- The illusion of the so-called halo effect takes over.
- It is difficult, and from time to time even impossible, to transpose best practices from one company to another.[422]

Moreover, propositions about success factors in American large-scale enterprises probably cannot be transferred easily to European SMEs. The economic, cultural and social environments are simply too different.[423] In addition, not all research papers on success factors were carried out with due scientific care. Peters and Waterman, for example, have been accused of not having applied serious research methods when they approached their topic.[424]

In addition, many of the success factors discussed in surveys and studies have been presented as being independent of each other, whereas there are certainly some dependencies and reciprocal effects. Therefore, in order to make reasonable statements, complex models are required to take account of this.[425]

Finally, some scholars argue that for several reasons it is not possible at all to find general success factors which are stable across industries and enterprise size.[426] This is because of methodological problems. If, for example, only successful companies are analysed, the results can easily be erroneously interpreted.[427]

At the same time, all this does not mean that the literature presented does not provide useful insights and good pointers on how to develop a business and potentially achieve success.[428] With the discussion of four different recipes for success in the management literature over the past three decades, however, it is argued that no such thing as a one-and-only best recipe for successful strategic stewardship of a company exists.[429] The ideas (whether these be known as attributes, methods, characteristics or practices) presented in each recipe do not represent recipes for success but rather an "à la carte menu" from which business leaders can be inspired to mix and match in order to progress.[430] Hence, the conclusion that companies run a considerable risk if they just

422 Andersen, Froholdt and Poulfelt (2010), p. 256
423 Bailom, Matzler and Tschemernjak (2006), p. 15 referring to the books "In Search of Excellence"; "Built to Last" and "What Really Works", as well as Buzzel and Gale (1987) and Simon (1996b)
424 Kirby (2005), pp. 92-103, in: Bailom, Matzler and Tschemernjak (2006), p. 15
425 Bailom, Matzler and Tschemernjak (2006), p. 15 referring to the books "In Search of Excellence"; "Built to Last" and "What Really Works", as well as Buzzel and Gale (1987) and Simon (1996b)
426 Nicolai and Kieser (2002), pp. 579-596, in: Bailom, Matzler and Tschemernjak (2006), p. 15
427 Bailom, Matzler and Tschemernjak (2006), p. 15
428 Andersen, Froholdt and Poulfelt (2010), p. 28
429 Andersen, Froholdt and Poulfelt (2010), p. 27
430 Andersen, Froholdt and Poulfelt (2010), pp. 28-29

follow the business book recipes is almost inevitable. There is definitely a probability that adopting and executing one of the recipe strategies will end up as a failure.[431] Thus, it does not seem to be advisable to follow the recipes in literature, as far too many companies eventually either fail or are left with an unsatisfactorily low return on strategy. For a high return on strategy, it is better to stay out of the recipe universe or at least be cautious and reject the idea of quick fixes.[432]

In summary, the failed concepts and management literature recipes must lead practitioners to increased scepticism about new-fangled rules. Furthermore, a company's decisions must be based on mental agility and an intensified focus on strategy.

3.3 CHALLENGES TO BE FACED BY SMEs

3.3.1 SUMMARY

For immediate successful adaptation and in order to remain proactive, strategy really matters. At the same time, there are many different definitions of strategy. The main pillars of today's conventional strategic thinking are represented by the positioning and resource-based view, whereas Blue Ocean and Discount Strategy represent a more unconventional approach. Nevertheless, to some extent, and when viewed in isolation, these four pillars resemble recipes too, leaving little room for exceptions and unexplained phenomena. Only when the four perspectives are combined do they provide a competitive map to dynamically develop a strategy over time. At the same time, these strategic perspectives still fail to explain the success of those companies that purposefully attempt to break the established rules and operate within the X-factor universe, a universe it may be disastrous to ignore.

3.3.2 DESCRIPTION

As already mentioned, we are primarily focusing on SMEs. For them, it will be of vital importance to immediately detach themselves from recipes and to face the following challenges.

3.3.2.1 Immediate Adaption and Proactivity

"Business, to paraphrase the Danish philosopher Soren Kierkegaard, can only be understood backward, but it must be managed forward."[433]

To obtain or maintain a leadership position in an environment of globalisation, international competition, and the proliferation of innovations (products, manufacturing processes and management practices) requires firms to adapt to perpetual change.[434] However, to us it seems that not all Western SMEs realise that such an adaptation is needed immediately.

431 Andersen, Froholdt and Poulfelt (2010), pp. 256-257
432 Andersen, Froholdt and Poulfelt (2010), p. 257
433 Sull (2006), p. 8
434 Opinion, Blili (2010)

3.3.2.2 Strategy Really Matters

We have already pointed out the missing focus of companies regarding strategy. However, internally, companies must provide proof of strategic courage as well as innovative ability, and externally they must demonstrate strength, otherwise there is a danger that international companies will collapse while management is busy with new products, market shares and turnover.[435] Thus, it is important to ask why a company exists and where it is heading to in the future. These are the issues strategic plans should concentrate on. However, anybody who has tried this in international corporations knows how low top management's personal commitment to strategy development is.[436]

3.3.2.2.1 Definitions and Descriptions

"Even Michael Porter's approach, based on positioning for competitive advantage, does not provide a general representation of strategy."[437]

Originally, the notion of strategy emerged from a military concept.[438] Interest in strategy, often discussed in the context of war and the military, dates far back in history.[439] Strategies have been devised to achieve national or personal gain (from the Greeks, to the military manoeuvres described by Sun Tzu[440] and the personal manoeuvres of Machiavelli's Prince),[441] and organisations also consider it to be the means of achieving corporate objectives[442].

Military-diplomatic strategies may be regarded as the classical approach to strategy, because they have existed since prehistoric times. Essential strategic concepts were studied, codified and tested until a coherent body of principles seemed to emerge. Ultimately, these were distilled into the maxims of Sun Tzu,[443] Machiavelli,[444] Napoleon,[445] von Clausewitz,[446] Foch,[447] Lenin,[448] Hart,[449] Montgomery[450] or Mao Tse-tung[451]. With a few exceptions (largely introduced by modern technology), the most basic principles

435 Kunde (2000), p. 37
436 Kunde (2000), p. 37
437 Kaplan and Norton (2004b), p. 5, referring to Porter (1980, 1985 and 1996)
438 Johnson, Scholes, Whittington and Fréry (2008), p. 17 and Stöger (2010), p. 5; Lombriser and Abplanalp (1998), on p. 19 point out that the word "strategy" has its roots in the Greek words "stratos" (army) and "agein" (to conduct); concerning the Greek origins, See also Mintzberg (1989), p. 27; Pümpin and Pedergnana (2008) p. 35 point out that military strategy has a very old tradition; according to Evered, in Greek, "strategos" is the art of the army general, in: Evered (1983), pp. 57-72. *"Evered discusses the Greek origins of the word and traces its entry into contemporary Western vocabulary through the military."*, in: Mintzberg (1987a), p. 12; according to Schneider and Barsoux (2003), p. 118 "strategos" means commander of the army.
439 Schneider and Barsoux (2003), p. 118
440 Sun Tzu (1988), in: Schneider and Barsoux (2003), p. 119
441 Machiavelli (1958), in: Schneider and Barsoux (2003), p. 119
442 Schneider and Barsoux (2003), pp. 118-119
443 Sun Tzu (1963), in: Quinn (1980b), p. 155
444 Machiavelli (1950), in: Quinn (1980b), p. 155
445 Napoleon (1940), in: Quinn (1980b), p. 155
446 von Clausewitz (1976), in: Quinn (1980b), p. 155
447 Foch (1970), in: Quinn (1980b), p. 155
448 Lenin (1927), in: Quinn (1980b), p. 155
449 Hart (1954), in: Quinn (1980b), p. 155
450 Montgomery (1958), in: Quinn (1980b), p. 155
451 Mao Tse-tung (1967), in: Quinn (1980b), p. 155

were in place long before the Christian era. These were then adapted and modified by more modern institutions to their own special environments.[452]

For Maucher, strategy or strategic measures are developed to win a war, not just a battle, and he is convinced that military strategists can teach quite a bit, albeit not everything. For him, strategy expresses above all what the company wants and where it is headed in terms of new products, segments and markets, and how it plans to increase its market share. It is also about the balance between long-term and short-term measures, which he thinks is one of the toughest and most important decisions.[453] In this context, Chandler had already noted quite some time ago that *"Strategy is defined as the determination of the basic long-term goals and objectives of an enterprise."*[454]

Below are some other, in our opinion, very valuable definitions of strategy, listed according to their year of publication:

- *"Basically, a strategy is a set of decision-making rules for guidance of organizational behavior."*[455]
- *"Strategy is creating fit among a company's activities."*[456]
- *"To use a simple yet powerful definition from "The Economist", strategy answers two basic questions: "Where do you want to go?" and "How do you want to get there?""*[457]
- *"Strategy implies the movement of an organization from its present position to a desirable but uncertain future position."*[458]
- *"In essence, strategy is about finding ways to make something better and/or cheaper than competitors, in a sustainable way. Everything a manager can do, from hiring people to firing them, internationalizing operations or merging them with another company's, is only useful in as much as it lets the company raise its prices (do something better) or lower its costs."*[459]
- *"Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations."*[460]
- *"Strategy is about market positioning, responding to the competition, the environment, and the customer. It is about being good at what we do, being efficient, being unique and innovative, about having better products and processes and more effective managers, about creating detailed plans and responding quickly to changing times."*[461]
- And finally: *"The general purpose of business strategies is to acquire, exploit, and defend unique resources and capabilities for the firm in order to create and sustain competitive advantage in the marketplace – find what you are uniquely good at and pursue it."*[462]

452 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 11
453 Maucher (2007), p. 26
454 Chandler (1962), p. 5, in: Lombriser and Abplanalp (1998), p. 19
455 Ansoff and McDonnell (1990), p. 43
456 Porter (1996), p. 75
457 Eisenhardt (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 149
458 Kaplan and Norton (2000a), p. 93
459 Jarillo (2003), p. 39
460 Johnson, Scholes and Whittington (2008), p. 3
461 Tallman (2009), p. 6
462 Tallman (2009), p. 21

A more extensive description is provided by Collis and Montgomery, who point out that most markets are not perfectly competitive, since they have a number of imperfections or asymmetries (the number of sellers or buyers is limited, products are heterogeneous, information flows are flawed, or a firm is advantaged by possessing an input that is non-reproducible or in limited supply). To exploit market inefficiencies that exist in these imperfectly competitive settings, a carefully crafted strategy can help and, therefore, plays an essential role in maximising a firm's profits. In such situations, strategy fulfils the following two vital purposes:[463]

- First, the external positioning of a firm relative to its competitors in a given industry. Here, competitive advantage and superior profits require an effective strategy which adroitly matches a firm's strengths and weaknesses to market threats and opportunities. Therefore, the understanding of the environment in which the firm competes is an essential part of the formulation of any strategy.[464]
- Second, the internal alignment of all a firm's activities (once the product market position has been identified,[465] all the firm's activities[466] can be aligned with that position and made consistent with each other), as well as all its investments (i.e. investments that reinforce one another and cumulate over time in the creation of new and better competitive advantages)[467].

Basically, the term strategy (but also objectives, goals policy, and programmes) have different meanings to individual readers or various organisational cultures.[468] It has also long been used implicitly in different ways[469] and there are a variety of definitions of what strategy is.

However, and in order to summarise, as a simple rule, an effective strategy is about being different.[470] It is the process of identifying, implementing, monitoring and controlling the means to satisfy the goals of the firm.[471] This includes strategic decisions on what products or services should be supplied, what the firm should produce itself and what it should buy, where it should produce, how it should produce, where it should sell, how it should sell and how it should manage its operations.[472]

For Malik,[473] strategy should examine the following basic questions:

1. *"What does the market need, or: What does the customer need?*
2. *What makes us superior, or: What do we do better than anyone else?*
3. *Where does our power come from, or: What do we believe in?"*[474]

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463 This critical groundwork was laid by Learned, Christensen and Andrews (1965), in: Collis and Montgomery (2005), p. 28

464 Collis and Montgomery (2005), p. 28

465 *"Strategy implies choice of product market position, not the efficiency with which that choice is implemented"*, in: Porter (1996), pp. 61-78, in: Collis and Montgomery (2005), p. 28

466 Maucher, too, argues that all segments within a company (from research and innovation policies, location and organisation structures, management development approaches, to HR policies) require strategic considerations, in: Maucher (2007), p. 27

467 Collis and Montgomery (2005), p. 28

468 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 10

469 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 3

470 Eisenhardt and Sull (2001), p. 115

471 McDonald and Burton (2002), p. 240

472 McDonald and Burton (2002), pp. 240-241

473 Malik (2005), p. 168, in: Maucher (2007), p. 26

474 Maucher (2007), p. 27

In addition, Mintzberg offers the following five definitions: strategy as plan, ploy, pattern, position, and perspective:[475]

- Strategies as a **plan** (some sort of consciously intended course of action, a guideline to deal with a situation) have the characteristics that they are made in advance and developed consciously and purposefully. A host of definitions in a variety of fields, like the military (strategy is concerned with *"draft[ing] the plan of war... shap[ing] the individual campaigns and within these, decid[ing] on the individual engagements"*[476]), game theory (strategy is *"a complete plan: a plan which specifies what choices [the player] will make in every possible situation"*[477]) and management (*"Strategy is a unified, comprehensive, and integrated plan ... designed to ensure that the basic objectives of the enterprise are achieved"*[478]) reinforce this view.
- As a plan, strategy can also be a **ploy**, i.e. just a specific "manoeuvre" intended to outwit an opponent or competitor. This definition focuses attention on its most dynamic and competitive aspects.[479]
- It is not sufficient to define strategy as a plan. Instead, a definition is needed that also encompasses the resulting behaviour. Thus, the definition of strategy as a **pattern** in a stream of action[480] is proposed, where strategy is consistency in behaviour, whether or not intended (it was a strategy when Picasso painted blue for a time, just as it was the behaviour when the Ford Motor Company offered its Model T only in black).[481] Quinn also mentions the aspect of pattern or plan. He argues that major goals, policies and action sequences are integrated into a cohesive whole in a strategy as a pattern or plan. If a strategy is well formulated, it helps to marshal and allocate an organisation's resources into a unique and viable posture. This is based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.[482]
- The fourth definition, strategy as **position**, is a means of locating an organisation in an environment. In this way, strategy becomes a *"match"*[483] between an organisation and environment, i.e. between the internal and external context. Strategy, in ecological terms, becomes a "niche", in economic terms, *"a place that generates rents"*[484] (or *"returns to [being] in a unique place"*[485]) and in management terms, a product market *"domain"*[486]. Thus, one can move from the definition *"Strategy [is] the deployment of one's resources in a manner which is most likely to defeat the enemy"*[487] to *"Strategy is creating situations for economic rents and finding ways to sustain them"*[488], i.e. any visible position whether directly competitive or not.[489] The next logical step is the introduction of the

475 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 3-8
476 von Clausewitz (1976), p. 177, in: Mintzberg (1987a), p. 11
477 von Neumann and Morgenstern (1944), p. 79, in Mintzberg (1987a) p. 12
478 Glueck (1980), p. 9, in Mintzberg (1987a) p. 12
479 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 4
480 Mintzberg and Waters (1985), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 4
481 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 4
482 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 10
483 Hofer and Schendel (1978), p. 4, in: Mintzberg (1987a), p. 15
484 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 6-7
485 Bowman (1974), p. 47, in: Mintzberg (1987a), p. 15
486 Thompson (1967), in: Mintzberg (1987a), p. 15
487 General Grant U. in the 1860s, in: Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 7
488 Rumelt (1982), in: Mintzberg (1987a), p. 15
489 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 7

notion of *"collective strategy"*,[490] a strategy pursued to promote co-operation, even with would-be competitors. These can range *"from informal arrangements and discussions to formal devices such as interlocking directorates, joint ventures, and mergers"*. Seen from another angle, these can also be described as political strategies to subvert the legitimate forces of competition.[491]

- The fifth definition of strategy proposed by Mintzberg is not seeking to locate the organisation in the external environment, like the previous one. Instead, it looks inside the organisation. Its content consists of an ingrained way of perceiving the world. Strategy is a **perspective** and is to the organisation what personality is to the individual (marketing and the whole ideology around IBM; the "HP way", with its HP engineering culture; McDonalds' famous emphasis on quality, service and cleanliness). Selznick[492] wrote about the "character" of an organisation. Concepts from other fields also capture this notion, for example "the grand strategies" of armies (military strategists), the "culture" of a society (anthropologists), "ideology" (sociologists), the "theory of the business"[493] and its "driving force"[494] (management theorists). Mintzberg asserts that perhaps the Germans with their word "Weltanschauung", literally "world view", meaning a collective intuition about how the world works, capture it best. In the fifth definition, strategy is a concept which has the important implication that all strategies are abstractions which exist only in the minds of interested parties (no one has ever seen a strategy or touched one; every strategy is an invention, a figment of someone's imagination).[495] What is of key importance in this last definition is that we are entering the realm of the collective mind: individuals united by common thinking and/or behaviour.[496]

There exist various relationships among the different definitions but no single relationship or definition takes precedence over the others. On the one hand, these definitions compete in that they can substitute each other, but more importantly, on the other hand, they are complementary. Each definition adds to our understanding of strategy and encourages us to address fundamental questions about organisations in general.[497]

Other authors point out that however it is conceived and presented, a strategy will always be a theory that is socially constructed: *"the objectives and practices of strategy depend on the particular social system in which strategy-making takes place."*[498]

Given the complexity that has to be faced, it seems insufficient to perceive strategy mainly from an economic perspective. In order to be able to cope with the broad spectrum of strategic issues, it is no wonder that the strategy field has had to include other disciplines, too.[499]

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490 Astley and Fombrun (1983), pp. 576-587, in: Mintzberg (1987a), p. 15
491 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 7
492 Selznick P. (1957), p. 47, in: Mintzberg (1987a), p. 16
493 Drucker (1974b), p. 104, in: Mintzberg (1987a), p. 16
494 Tregoe and Zimmermann (1980), in: Mintzberg (1987a), p. 16
495 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 7-8
496 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 8
497 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 9
498 Whittington (2001), p. 4, in: Bürgi, Jacobs and Roos (2005), p. 82, referring to "social constructionism": Smircich and Stubbart (1985); Weick (1979); Weick (1987); Weick (1995); Berger and Luckman (1966); Gergen (1994); Gergen (1999); von Glasersfeld (1995); Gioia (2003), pp. 285-292; Giddens (1984); Nonaka and Takeuchi (1995); Crossan, Lane and White (1999); Whittington (2001); Piaget (1971), in: Bürgi, Jacobs and Roos (2005), pp. 81-82
499 Andersen, Froholdt and Poulfelt (2010), p. 46

3.3.2.2.2 Strategy Approaches

Mintzberg and Lampel[500] describe business strategy as an elephant of which we can only grab hold of some part or another. This is a nice metaphor for the fact that business strategy is an enormous domain in which little consensus exists and a variety of schools reign.[501] Strategy is, in fact, a vast domain[502] and, at the same time, is constantly changing[503]. In the literature, there are many approaches and schools of thought on strategy formulation and development, which can be overwhelming.[504] Beyond this, there is a range of operational improvement philosophies such as Total Quality Management, Six Sigma, ISO, etc. Supplementing strategic as well as operational approaches, there are methodologies designed to minimise risk, like enterprise risk management, internal controls, and COSO[505].[506]

However, Andersen, Froholdt and Poulfelt argue that the following four strategic perspectives constitute the strategy landscape and strategic thought of today.[507]

3.3.2.2.2.1 Positioning

Organisations need an appropriate strategic fit and appropriate positioning in the environment.[508] The positioning school championed by Porter lists the following six fundamental principles that a company needs to establish to maintain a distinctive strategic position:

- Start with the right goal, i.e. a superior long-term return on investment. Real economic value will only be generated by grounding strategy in sustained profitability.[509]
- The strategy must enable a company to deliver a value proposition, or set of benefits, different from those that competitors offer.[510]
- To establish a sustainable competitive advantage, the strategy needs to be reflected in a distinctive value chain that can be compared to rivals. Different activities must be performed or similar activities must be performed in different ways and tailored to a unique value proposition.[511]
- A company must make trade-offs and thus abandon or forgo certain product features, services, or activities in order to be unique at others. Trying to be all things to all customers almost guarantees that a company will lack any advantage.[512]
- All a company's activities must be mutually reinforcing, and all elements of what a company does must fit together. Such a fit not only increases

500 Mintzberg and Lampel (1999), pp. 21-30, in: Osterwalder (2004), p. 16
501 Osterwalder (2004), p. 16
502 Johnson, Scholes and Whittington (2008), p. xiv
503 Johnson, Scholes and Whittington (2008), p. xiii
504 Kaplan and Norton (2008), p. 54
505 COSO is a voluntary organisation from the private sector that sets standards for business ethics, internal controls, and corporate governance, in: Kaplan and Norton (2008), p. 54
506 Kaplan and Norton (2008), p. 54
507 Andersen, Froholdt and Poulfelt (2010), p. 54
508 Johnson, Scholes and Whittington (2008), p. 3
509 Porter (2001), p. 38
510 Porter (2001), pp. 38-39
511 Porter (2001), p. 39
512 Porter (2001), p. 39

competitive advantage but also makes a strategy harder to imitate, since it is more difficult to duplicate a whole competitive system.[513]

- Finally, even if it means forgoing certain opportunities, a company must define a distinctive value proposition that it will stand for. Thus, strategy involves continuity of direction. Without this, it is difficult for companies to develop unique skills and assets or build strong reputations with customers.[514]

3.3.2.2.2.2 Resource-Based View and Core Competencies

Strategies based on positioning are clearly outward facing. During the '90s, a new inward-facing paradigm emerged which was particularly based on resources and competencies. In contrast to the positioning school, this resource-based view is not only focused on resources but on how these can be developed to form a competitive advantage.[515] The development of organisational resources and capabilities is a field of growing interest,[516] and the resource-based view has gained much prominence in the field of strategic management[517]. The enormously influential notion of "core competence"[518] was introduced in 1990 by Prahalad and Hamel.[519] They described it as a capability or skill that provided the thread running through a firm's businesses, weaving them together into a coherent whole.[520] This resource-based and core competencies approach suggests that building "corporate" character (or developing resource bases) provides the capability and flexibility to respond to events in the environment. It thus reflects different underlying assumptions by placing the emphasis on what the company "is" versus what the company "does" ("being" versus "doing" at the corporate level).[521]

The resource-based view is about exploiting the strategic capability[522] of an organisation in terms of its resources and competencies to provide competitive advantage and/or yield new opportunities.[523] It stipulates that a firm must rely on its resources in order to develop a position of leadership[524] and that competitive advantage is based on the accumulation of rare resources and competencies which are both difficult to imitate and

513 Porter (2001), pp. 39-40
514 For a fuller description, see Porter (1996), in: Porter (2001), p. 40
515 Andersen, Froholdt and Poulfelt (2010), p. 46
516 Prahalad and Hamel (1990); Wernerfeld (1984); Bower (1970), in: Schneider and Barsoux (2003), p. 121
517 Collis and Montgomery (2005), p. vi
518 It was reminiscent of the original work by Andrews on distinctive competence, in: Collis and Montgomery (2005), p. 24
519 Prahalad and Hamel (1990), pp. 79-91
520 Collis and Montgomery (2005), p. 24
521 Schneider and Barsoux (2003), pp. 121-122
522 Johnson, Whittington and Scholes point out that strategic capability has two components: resources and competencies. *"Resources are the assets that organisations have or can call upon (e.g. from partners or suppliers); competencies are the ways those assets are used or deployed effectively. … Other terms are common. For example, Gary Hamel and C.K. Prahalad refer to core competences and many writers use the term intangible assets as an umbrella term to include intangible resources such as brands and business systems as well as competitors."*, in: Johnson, Whittington and Scholes (2011), p. 84
523 Johnson, Scholes and Whittington (2008), p. 3; according to Andersen, Froholdt and Poulfelt, the views of the resource-based approach were championed by Wernerfelt, Penrose and Barney, in: Andersen, Froholdt and Poulfelt (2010), p. 38. Dhanaraj and Beamish write that early work by Penrose defined a firm as *"a collection of physical and human resources"* and that Penrose pointed to the heterogeneity of these resources, Penrose (1959) p. 9, in: Dhanaraj and Beamish (2003), p. 244. Moreover, they point out that Wernerfeld suggested that *"resources and products are two sides of the same coin"*, Wernerfeld (1984), p. 171, in: Dhanaraj and Beamish (2003), p. 244. Finally, by referring to Conner and Prahalad, as well as to Barney, they mention that the resource-based view focuses on how the unique bundle of resources at the core of the firm generates sustained competitive advantage, Conner and Prahalad (1996) as well as Barney (1991), in: Dhanaraj and Beamish (2003), p. 244
524 Prahalad and Hamel (1990)

cannot be substituted[525]. Barney identified the following four features of tangible and intangible resources to generate sustained competitive advantage. They have to be:

- valuable,
- rare,
- imperfectly imitable,
- and without strategically equivalent substitutes.[526]

After all, if a firm does its "knitting" with very general resources in pedestrian industries, high profits are unlikely to follow.[527]

Core competencies are predicated to produce the innovation and uniqueness that result in a competitive advantage,[528] and a wide range of resources can allow an enterprise to hold a competitive advantage, including: patents,[529] a brand name, access to unique know-how, brand equity, company reputation, etc. Thus, a competitive advantage can be obtained by converting resources into core competencies.[530] Hence, there is also a requirement for consistency between the businesses and a company's resources, which should create a competitive advantage in the businesses in which a firm competes.[531]

Prahalad and Hamel describe the diversified corporation as a large tree, with the trunk and major limbs being core products and the smaller branches being business units. The end products are the leaves, flowers, and fruit. The core competence is the root system that provides nourishment, sustenance, and stability.[532] Core competencies are the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies,[533] but they are also communication, involvement, and a deep commitment to working across organisational boundaries.[534]

According to Gratton, most strategies require an ability to pull a range of resources and competencies together, both inside the organisation and in the wider value network.[535] After all, the appropriate strategy is a function of its own resources and opportunities.[536] At the same time, one has to keep in mind that ultimately, internal sources for the failure of a strategy may be attributed to a failure either in the vision and logic of the strategy itself or in its implementation.[537] With respect to external factors, strategy development should primarily be about seeking attractive opportunities in the marketplace. The viewpoint which emphasises internal factors argues that an organisation's specific strategic capacities, resources or cultures should drive strategy. In this latter view, distinctive strategies and superior performance can be built from these internal characteristics, and organisations should focus on those environmental opportunities in which they start with a distinct advantage in terms of internal characteristics. However, it is important not to take too static or unified a view either of the environment or the

525 Dyer and Singh (1998), pp. 660-679
526 Barney (1991), pp. 99-120, in: Bailom, Matzler and Tschemernjak (2006), p. 127
527 Collis and Montgomery (2005), p. 104
528 Prahalad and Hamel (1990)
529 A patent system makes it illegal for any other firm to produce, in: Jarillo (2003), p. 14
530 Prahalad and Hamel (1990)
531 Collis and Montgomery (2005), p. 195
532 Prahalad and Hamel (1990), p. 83
533 Prahalad and Hamel (1990), p. 83
534 Prahalad and Hamel (1990), p. 84
535 Gratton (2005), pp. 151-158, in: Johnson, Scholes and Whittington (2008), pp. 505-506
536 Collis and Montgomery (2005), p. 103
537 Collis and Montgomery (2005), p. 240

inherited internal position. After all, internal capacities and resources need to develop, or *"stretch"*,[538] in order to match changes in the environment[539]. Thus, *"Leaders of the best organizations tend to be demanding, visionary, and intolerant of halfhearted efforts. They often set almost impossible "stretch goals" – as did Hewlett-Packard's William R. Hewlett (improve performance by 50%), Intel's Gordon Moore (double the number of components per chip each year), and Motorola's Robert W. Galvin (achieve six sigma quality)."*[540]

In contrast to the resource-based strategy, the basic idea of the market-based strategy is that the structural conditions of the market or the industry account for the success of a company. Therefore, strategic decisions are essentially about the choice of attractive markets by means of an analysis of opportunities and threats.[541] According to this view,[542] markets with a low intensity of competition are attractive. This intensity is evaluated with Porter's[543] model of the five forces[544]. The five forces are the idea that industry structure defines the playing field on which competition unfolds.[545] The following five forces of the industry structure, which vary from one industry to another, make up the five forces of the industry structure: the power of buyers and suppliers, new entrants, substitute products, and the rivalry among current competitors.

The opportunities and threats of markets are contrasted with the strengths and weaknesses of a company with a view to realising a "fit" between the company and its relevant environment.[546]

The strengths and weaknesses of a company are analysed with the help of the value chain.[547] With regard to one's own resources, the value chain helps to take decisions about which generic strategies to choose (cost, product differentiation, niches, diversification).[548] The concept of the "fit" was embodied in the 7-S-model by McKinsey,[549] which asks for a mutual as well as an environmental matching of the following elements: strategy, structure, systems, skills, staff, style, superordinate goals.[550] The idea of this model is that the strengths and weaknesses of a company have to be adapted to the opportunities and threats of the environment. However, adaption to something is only possible when this something is really known. The often used advice of "customer orientation" can by no means be followed that easily, because customers mostly do not know what their needs will look like in the future. The consequences for the company are that their orientation cannot be just the result of a mere selection of environmental information or an adaptation to clearly formulated customer needs. Rather, the company has to shape tomorrow's products and markets itself. Thus, thinking in terms of a "fit" blocks their capabilities, since the company is referring to its current resources.

If, instead, the company regards the development of new company specific capabilities as one of its major tasks, the "fit" is replaced by "stretch and leverage" as an essential

538 With reference to Hamel and Prahalad (1994), and Teece, Pisano and Shuen (1997), pp. 509-534, in: Johnson, Scholes and Whittington (2008), p. 51
539 Johnson, Scholes and Whittington (2008), p. 51
540 Quinn, Anderson and Finkelstein (1996), p. 74
541 Osterloh and Frost (2000), pp. 168-169
542 Osterloh and Frost (2000), pp. 168-169
543 Porter (1980), in: Osterloh and Frost (2000), p. 169
544 Porter (1980), in: Osterloh and Frost (2000), p. 169
545 Porter (2008a), p. xxvi
546 Porter (1980), in: Osterloh and Frost (2000), p. 169
547 Osterloh and Frost (2000), p. 169
548 Osterloh and Frost (2000), p. 170
549 Peters and Waterman (1982), in: Osterloh and Frost (2000), p. 165
550 Osterloh and Frost (2000), p. 165

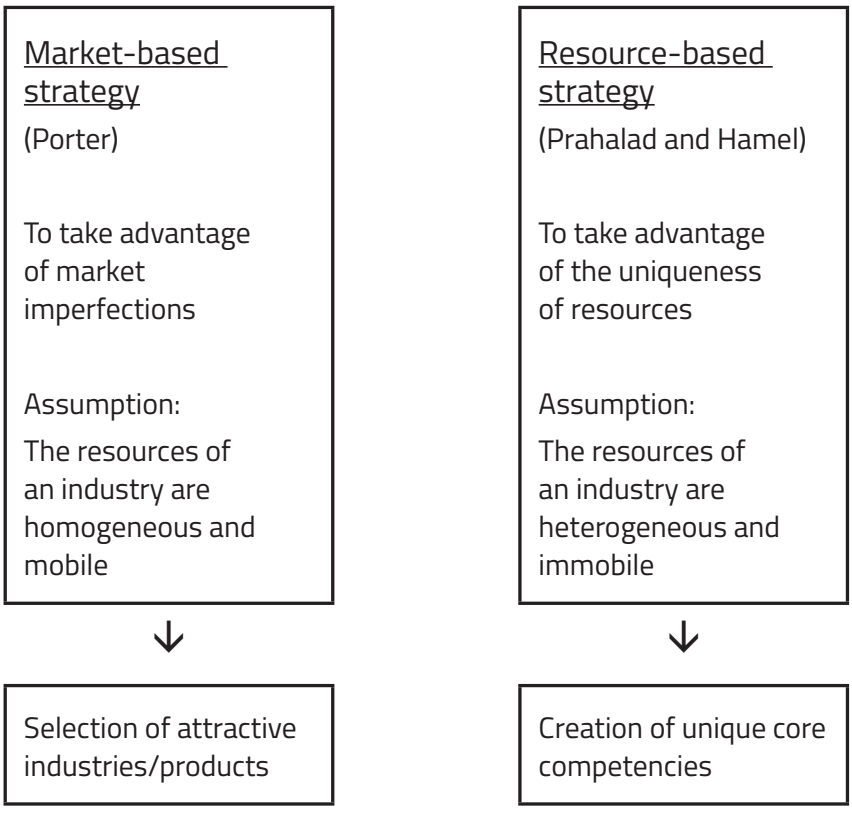
premise of competitiveness.[551] In this case, the leveraging of current resources becomes the prime strategic goal. Thus, the stretch between the available constellation of resources and the aimed company goals becomes the most important challenge of top management. Hamel and Prahalad[552] argue that a continuous willingness to learn and innovate evolves, in which the development of specific competencies and capabilities is fostered.[553]

As we have already seen, the stretch idea has been refined to become the resource-based strategy.[554] Apart from the 7-S-model, the older "fit" idea is first and foremost linked to the name of Porter.[555]

Within both approaches, the basic question of strategy remains the same: How is it possible to achieve sustainable, superior success despite competition and the fact that competitors are not asleep? Yet, the answers turn out to be very dissimilar, as the following figure shows:[556]

Figure 1: The Basic Questions of Strategy[557]

How is it possible to realise sustainable, superior success despite competition?



According to the market-based approach, the company obtains a monopoly revenue, whereas according to the resource-based approach every monopoly position is

551 Hamel and Prahalad (1993) and (1994), in: Osterloh and Frost (2000), p. 166
552 Hamel and Prahalad (1993), in: Osterloh and Frost (2000), p. 166
553 Osterloh and Frost (2000), p. 166
554 Osterloh and Frost (2000), p. 166
555 See, e.g. Rühli (1994) and (1995), in: Osterloh and Frost (2000), p. 166
556 Osterloh and Frost (2000), p. 166
557 According to Osterloh and Frost (2000), p. 167

attackable, and sustainable protection from the competition can only be achieved when unique resources are used. In this case, the goal of strategy is to develop unique resources into core competencies. Hence, the competitive advantage is not based on a monopoly position anymore, but on the efficient exploitation of resource advantages.[558]

As shown in the above figure, resources also play a role in the market-based strategy. However, they basically represent given and known alternatives from which the management has to make a choice. Differences in the performance of companies are primarily explained by the initial conditions.[559] The origin and durability of resources are not examined. The same goes for innovations, which are treated as a rational choice between given alternatives. However, this approach ignores the significant differences in opinion about the rational choice, i.e. that:

- The possible alternatives are not known a priori.
- The perception of possibilities is influenced by the organisation of a company.
- Innovations cannot simply be imitated but imply trial-and-error processes. The more basic knowledge is available, the more easily an innovation can be adopted. However, the development of ample basic knowledge does not happen overnight.[560]

Nevertheless, these three issues concern questions of organisational learning and are decisive for the competitiveness of a company in dynamic and turbulent environments. Thus, they constitute the pivotal question of strategy.[561]

The reorientation towards a resource-based approach to strategy has its roots in a number of empirical observations:

- The adoption of Japanese management methods by companies in geographical areas where European and American culture predominates has by no means turned out to be unproblematic.[562]
- The differences in profitability among companies within the same industry were larger than those among different industries. This means that not only the selection of appropriate industries but also firm-specific factors represent the decisive issue.[563]
- Continuous R&D expenditures lead to better results when they are made over a longer period of time instead of investing large sums within the shortest possible timeframe in an attempt to catch up.[564]

All three observations indicate that human performance in organisations varies according to the cultural environment, firm-specific particularities or continuous learning aptitude, and that these aspects cannot be acquired in the market. Nevertheless, they determine the strategic route of a company.[565]

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558 Osterloh and Frost (2000), pp. 166-167
559 Porter (1991), in: Osterloh and Frost (2000), p. 170
560 Nelson (1991), in: Osterloh and Frost (2000), p. 170
561 Osterloh and Frost (2000), p. 171
562 E.g. Berggren (1992), in: Osterloh and Frost (2000), p. 171
563 Rumelt (1991), in: Osterloh and Frost (2000), p. 171
564 Dierickx and Cool (1989), in: Osterloh and Frost (2000), p. 171
565 In research on innovation, this is visually reflected by "trajectories"; see Dosi (1982). They offer explanations about "Why do firms differ and how does it matter?" See Nelson (1991). However, "trajectories" can also lead successful firms to decline; see Miller (1990). In this case, they act as a straitjacket, in: Osterloh and Frost (2000), p. 171

The differences between the market and resource-based strategies are also discussed by Bailom, Matzler and Tschemernjak. These authors highlight far-reaching consequences for the strategy development process. They initiate this discussion with the five forces concept, which is, as we have already seen, an important reason why the "fit" idea is first and foremost linked to the name of Porter. It leads to a strategy which examines the environment, and based on this determines the industries in which above-average profits may be expected due to the industry's structure. For these sectors, strategies have to be developed that match the industry's structures and rules. Then, these strategies are implemented by acquisition or development of the respective resources, capabilities, technologies, etc.[566] This market-based approach was built on the "Structure-Conduct-Performance-Paradigm",[567] which assumes that the success of a company is dependent on a couple of industry characteristics which determine its approach. Even though it looks obvious at first, there are certain implicit assumptions which cannot be maintained: over-average performance is dependent on how well the company manages to adapt to industry structures as well as changed general conditions. Furthermore, as we already know, the "Structure-Conduct-Performance-Paradigm" assumes that companies hardly differ with regard to resources and capabilities. It implies that all capabilities, technologies, know-how, etc. are mobile and each company can appropriate or acquire them.[568]

Although in practice this is the exception rather than the rule, the perception, which was established during the 1960s, was valid for a long time. It was only in 1984 that Wernerfelt initiated a paradigm shift with his article "A resource-based view of the firm".[569] He claimed that it was not the market or the industry but rather the strategic resources of a company that were the source of above-average rates of return. This triggered a fierce academic discussion which lasted for about a decade, and at the end of which his view prevailed in practice.[570]

With this, the resource-based view became understandable. Moreover, with the article of Prahalad and Hamel,[571] the notion of core competence was coined[572] and the resource-based view experienced a breakthrough. In a cross-industry study, even Porter, one of the most important exponents of the market-based view, found that less than 20% of success could be explained by industry specific characteristics but more than 30% by company specific characteristics.[573] Other studies found even larger differences in favour of the resource-based view.[574] To put it another way: the sails set the direction. The study of Bailom, Matzler and Tschemernjak also confirms that core competencies are decisive in two different ways for a company's success: first, they contribute to effectiveness and efficiency, since competence-based management implies focusing on those things that a company is best at. This also implies efficient resource management. Second and indirectly,[575] core competencies also enhance a company's success if innovations are consequently built on its unique competencies.

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566 Hitt, Ireland and Hoskisson (2005), in: Bailom, Matzler and Tschemernjak (2006), pp. 125-126

567 Bain (1956), in: Bailom, Matzler and Tschemernjak (2006), p. 126

568 Hitt, Ireland and Hoskisson (2005); Hunt and Morgan (1995), pp. 1-15, in: Bailom, Matzler and Tschemernjak (2006), p. 126

569 Wernerfelt (1984), pp. 171-180, in: Bailom, Matzler and Tschemernjak (2006), p. 126

570 Bailom, Matzler and Tschemernjak (2006), p. 127

571 Prahalad and Hamel (1990), pp. 79-91, in: Bailom, Matzler and Tschemernjak (2006), p. 127

572 Pümpin and Pedergnana (2008), p. 56, argue that the concept of competencies had already been developed in Pümpin (1982) - revised edition: Pümpin and Amann (2005). They hold that only later was this concept taken as a basis and published in Hamel's and Prahalad's "Core Competences"

573 McGahan and Porter (1997), pp. 15-30, in: Bailom, Matzler and Tschemernjak (2006), p. 127

574 4% versus 44% in Rumelt (1991), pp. 167-185; 8% versus 36% in Hawawini, Subramanian and Verdin (2003), pp. 1-16, in: Bailom, Matzler and Tschemernjak (2006), p. 127

575 Bailom, Matzler and Tschemernjak (2006), p. 127

These findings have far-reaching consequences for the strategy development process: It is not the environment and industry that are the starting point, but one's own competencies:

- As a first step it is necessary to find out what the particular strengths of a company are.
- Then, one must evaluate whether these strengths are unique, i.e. whether they are core competencies that can be the basis for competitive advantage.
- In the next step, attractive industries and markets in which core competencies show their full potential have to be identified.
- Finally, for these industries and markets, strategies which are based on core competencies have to be developed and implemented.

In this context, success becomes less a question of adaptation, but instead a question of shaping.[576] After all, both entrepreneurs and sportsmen know that at the end of the day it is the belief in one's own capabilities which is decisive over and over again.[577]

According to Bailom, Matzler and Tschemernjak, top companies have unique resources and capabilities. They never settle for what they have achieved so far and are permanently looking to take advantage of new opportunities and potential. They are very well aware of their core competencies but at the same time they also know where their limitations are and which competencies need to be built up for the future. Thus, they are permanently looking to answer the following questions:[578]

Figure 2: Management of Core Competencies[579]

Product/Market			
	new	In which new products or markets can we take advantage of our competencies?	Which new competencies need to be built up in new markets?
	existing	How can we enhance our existing competencies?	Which new competencies need to be built up in existing markets?
		existing	**new**
		Core competence	

For building new competencies, top performers are constantly concerned with the question of where tomorrow's markets are heading to. Therefore, and as we have already seen, they do not simply identify and satisfy the existing needs of customers but instead try to create new customer expectations and markets. However, the

576 Bailom, Matzler and Tschemernjak (2006), p. 128
577 Chapuis and Mei-Pochtler (1996), p. 210
578 Bailom, Matzler and Tschemernjak (2006), p. 145
579 According to Bailom, Matzler and Tschemernjak (2006), p. 146

anticipation of tomorrow's customer needs requires continuous sourcing of market expertise (customers, competitors, markets, technologies).[580]

Compared to this attitude, less successful companies are much more concerned with competitor analysis and benchmarking.[581] With continuous worldwide changes, companies need to constantly maintain pressure at the frontiers and build for the next round of competition. This makes it critical to continue to invest in and upgrade resources and leverage them to create effective strategies for attractive industries in which they have an appropriate competitive advantage. With the depreciation of all resources, an effective strategy requires continual investment in order to maintain and build valuable ones.[582] Strategic positions quickly erode, especially in high-velocity environments, and thus more than any particular strategic position, the strategic processes by which managers reconfigure resources to build new strategic positions are pivotal and need to be focused on.[583]

A strategy must stand up to competitive challenges and be robust enough to predict changes in the environment, because companies act against specific competitors in specific markets and not in isolation. At the business-unit level, it is therefore particularly useful to analyse a company's resource base and relative competitive position. To face challenges, it is also important to consider whether an industry's key success factors are changing and whether the strategy is repositioning the business or investing in resources that will be critical in the future. With these steps, the strategy is anticipating the changes. Yet, at the same time, a company should never forget to assess the underlying attractiveness of the industries in which it competes.[584]

Finally, creativity and intuition, but also discipline and rigour, are hallmarks of great corporate strategies.[585] However, Collis and Montgomery suggest that even a brilliant strategy will not necessarily work well for all companies, since they all start at a different point, operate in a different context, and have fundamentally different kinds of resources. Instead, what prevails in their view is the logic of internally consistent corporate strategies tailored to a firm's resources and opportunities. When adhering to this logic, it can create a meaningful corporate advantage.[586] What this suggests, in principle, is that there are limitless varieties of successful corporate strategies and that every corporate strategy will have its own unique system. There are, however, patterns among successful strategies, since those built around similar types of resources will tend to do things in similar ways.[587] Hence, this requires the understanding of resources and capabilities that are capable of generating superior performance over time and the sustained competitive advantage which is essential for strategy.[588]

3.3.2.2.2.3 Red and Blue Ocean Strategy

"Blue oceans are strategic gaps in the market, opportunities that are not being fully exploited by competitors.... In terms of Porter's five forces, strategic gaps are where rivalry is low."[589]

580 Bailom, Matzler and Tschemernjak (2006), p. 70
581 Bailom, Matzler and Tschemernjak (2006), p. 72
582 Collis and Montgomery (1995), p. 48
583 Eisenhardt and Galunic (2000), p. 136
584 Collis and Montgomery (2005), p. 202
585 Collis and Montgomery (1998), p. 26
586 Collis and Montgomery (1998), pp. 21-22
587 Collis and Montgomery (2005), p. 197
588 Tallman (2009), p. 14
589 Johnson, Scholes and Whittington (2008), p. 81

The field of strategic management had grown in complexity, but by the end of the millennium, the majority of contributions were still adamant that a particular approach was the only or best one.[590]

Yet, in this millennium, new concepts with increasingly unconventional thinking started to gain ground and the concept of no competition was introduced by Kim and Mauborgne in their notion of Blue Ocean Strategy.[591] Its basic view on strategy was equivalent to the basics of monopolies, i.e. to create uncontested market space and make competition irrelevant.[592]

Thus, value innovation is the cornerstone of a Blue Ocean Strategy and is achieved when a company creates value for both the buyer and the company by simultaneously pursuing a strategy of differentiation and low cost. As we already know, such a strategy was labelled "stuck in the middle" and thus rendered doomed to failure by Porter.[593]

In his popular book "Competitive Strategy",[594] he warned against getting "stuck in the middle" between a strategy of "cost leadership" and one of "differentiation".[595] However, Mintzberg asked long ago why then did Toyota not get stuck in the middle by producing such high-quality automobiles at such reasonable costs.[596] This traditional view, which argues that a strategy of being "stuck in the middle" leads to mediocre performance was also clearly contradicted by the ability of Asian cost innovators, such as Huawei and Samsung, to innovate the production process with the aim of offering high quality at low prices.[597] Moreover, Dell proved with their business model of selling directly that the pursuit of dual advantage is not a characteristic that can be applied to Asian companies alone.[598]

As we have seen, Porter assumes that the structural conditions of an industry are given. A Blue Ocean Strategy, on the other hand, assumes that market boundaries and industry structure can be reconstructed, offering the opportunity to create new market spaces.[599] One of the main arguments in the blue ocean perspective is that competition can be bypassed completely by creating new markets.[600] Kim and Mauborgne in their book "Blue Ocean Strategy" emphasise that in global and intensive competition with saturated markets, strategies which are based on head-to-head confrontation are doomed to failure. Thus, new market space needs to be created.[601]

Yet, one limitation of blue ocean strategies is that it is a concept which does not provide tools for facing competition. Competition, in turn, is one of Porter's main concerns, which can easily be demonstrated by the following quote: *"In essence, the job of the strategist is to understand and cope with competition."*[602]

The opposite of a blue ocean is a red ocean. It is red because of the bloodiness of the competition and the red ink caused by financial losses.[603] Porter's models, though, are focused on these red oceans, and his five forces model does not really take into account

590 Andersen, Froholdt and Poulfelt (2010), p. 41
591 Kim and Mauborgne (2005), p. 18, in: Andersen, Froholdt and Poulfelt (2010), p. 49
592 Andersen, Froholdt and Poulfelt (2010), p. 41
593 Andersen, Froholdt and Poulfelt (2010), pp. 41-42
594 Porter (1980)
595 Mintzberg (1989), p. 273
596 Mintzberg (1989), p. 273
597 Andersen, Froholdt and Poulfelt (2010), p. 161
598 Andersen, Froholdt and Poulfelt (2010), p. 162
599 Andersen, Froholdt and Poulfelt (2010), pp. 41-42
600 Andersen, Froholdt and Poulfelt (2010), p. 49
601 Pümpin and Pedergnana (2008), p. 41
602 Porter (2008a), p. 3
603 Johnson, Scholes and Whittington (2008), p. 81

the idea of blue oceans, i.e. the possibility of creating new markets. It is much more based on the idea of confrontation.

The table below lists the main differences between a Red Ocean Strategy, or conventional strategy thinking, and a Blue Ocean one:[604]

Figure 3: Blue Ocean versus Red Ocean Strategies[605]

*"**Red ocean strategy***	***Blue ocean strategy***
Compete in existing markets	*Create uncontested market space*
Beat the competition	*Make the competition irrelevant*
Exploit existing demand	*Create and capture new demand*
Make the value-cost trade-off	*Break the value-cost trade-off*
Pursue low cost OR differentiation	*Pursue low cost AND differentiation."*

The ideas presented in the publication "Monopoly Rules",[606] which also has the idea of no competition as a central theme, are very similar in nature to the ones in "Blue Ocean Strategy"[607]. They concentrate on the message that companies could achieve a favourable strategic position by adopting the much disliked monopoly rules in order to win or rather extinguish the competition game. As the foremost case of a company that has adopted this type of strategy, Starbucks is put forward. At the centre of both books lies the notion of a non-competitive market position which can either be obtained through a situational monopoly or by unlocking uncontested market space.[608]

3.3.2.2.2.4 Discount or Disruptive Business Strategy

Andersen and Poulfelt challenge the distinction between Red and Blue Ocean Strategy and in particular the pursuit of low cost and/or differentiation. They argue that the very combination of these two issues can lead to disruptive and highly successful strategies in hypercompetitive markets:[609] *"In the case of such disruptive strategies the competition is not rendered irrelevant, nor is a blue ocean discovered, but instead the red oceans become even redder through value destruction."*[610]

The Disruptive Business Strategy[611] focuses solely on companies in hypercompetitive markets, as described by D'Aveni[612]. Whereas the creation of value in an uncontested

604 Andersen, Froholdt and Poulfelt (2010), p. 49
605 Andersen, Froholdt and Poulfelt (2010), p. 49
606 Lele (2005)
607 Andersen, Froholdt and Poulfelt (2010), p. 42
608 Andersen, Froholdt and Poulfelt (2010), pp. 42-43
609 Andersen, Froholdt and Poulfelt (2010), pp. 49-50
610 Andersen, Froholdt and Poulfelt (2010), p. 50
611 Andersen and Poulfelt (2006)
612 D'Aveni (1994); See also D'Aveni (1995a), pp. 45-57, in: Bailom, Matzler and Tschemernjak (2006), p. 16; according to D'Aveni, in hypercompetition, competitive advantages are caught up with by competitors with increasing speed. Therefore, a price-quality competition evolves in which companies permanently have to innovate and improve quality. At the same time, the pressure to lower prices frequently remains in place, in: Bailom, Matzler and Tschemernjak (2006), p. 16

market space is closely tied to the Blue Ocean Strategy, Andersen and Poulfelt deal with the possibility of value destruction in hypercompetitive contingencies.[613] The Discount or Disruptive Business Strategy challenges the idea of mixed strategies, considering "stuck in the middle" as a certain way to inferior performance. However, while competing in the existing red oceans by destroying value for the industry as a whole but creating value for the company executing the Discount Strategy, it is (in contrast to the Blue Ocean Strategy) disruptive in its nature. The discount product, which is lean, unbundled, demand-driven and very price aggressive, lies at the centre of the Discount Strategy. This leaves room for transparency and provides a contrast to the increasing number of peripheral services attached to conventional products.[614]

In addition to these product characteristics, the Discount Strategy includes the following aspects:

- It contains a good brand (pairing low cost with high perceived quality is communicated through tactics defined by their conflicting nature. Often, a good discount image is built by challenging the establishment head on).
- The deployed technology is matched to the range of performance that customers can utilise (it rests on using proven technology and is scalable as well as suited for simplicity).
- Customers are seen as co-producers of the service in question and at a mainly transaction-based level (no loyalty programmes and costs of relationship marketing are completely eliminated, as every customer receives equal treatment. Customers are also seen as viral ambassadors).[615]

However, such a strategy also has its limitations, as it is mainly targeted towards specific markets in which former monopolies and incumbents have lost their agility and flexibility and therefore are ripe for attacking. Companies in high-end markets would be ill-advised to follow this strategy in its entirety.[616]

3.3.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

3.3.3.1 Immediate Adaptation and Proactivity

We have seen that firms have to adapt to perpetual change. Successful companies are not only adaptable, innovative and proactive, but also very good at running efficient operations, rolling out new products on a global basis and exploiting their existing assets. They are, thus, ambidextrous or in other words they are able to be adaptive to new opportunities while at the same time having alignment around their existing activities.[617]

3.3.3.2 Strategy Really Matters

Strategy really matters, since it has more important consequences than most other managerial decisions. What may be confusing or lead to an understatement of strategy,

613 Andersen, Froholdt and Poulfelt (2010), p. 43
614 Andersen, Froholdt and Poulfelt (2010), pp. 52-53
615 Andersen, Froholdt and Poulfelt (2010), p. 53
616 Andersen, Froholdt and Poulfelt (2010), p. 54
617 Birkinshaw (2006), p. 131

however, is the time dimension: the consequences of poor strategy only appear at a later stage when companies are often very far off course[618].

The significance of strategy can also be justified by the aspects that have already been mentioned and which characterise today's business environment:

- **Changes within businesses:** The attractiveness and growth rate of industries alter over time.[619] During every transition to a new age, fundamental processes of change take place. Innovation and technical developments result in considerable competition shifts which force companies to adapt to the new reality. In such periods, strategic management gains in importance.[620] After all, a carefully crafted strategy can play an essential role in maximising the profits of a company.[621]
- **Accelerating dynamism:** In today's more dynamic business environment, strategy also has to become more dynamic. Success depends on the anticipation of market trends and quick response to changing customer needs. Successful competitors move quickly. The essence of strategy is not the structure of a company's products and markets but the dynamics of its behaviour. It has to identify and develop the hard-to-imitate organisational capabilities that distinguish a company from its competitors.[622]
- **Uncertain future:** Today, uncertainty makes adaptability a strategic imperative for most companies.[623] A good strategy has never been as important as it is today, especially because so many things may not be foreseen and because we are confronted with so many risks.[624] However, strategy is not about predicting the future. Instead, it is about identifying the challenges and rules of markets from today's perspective.[625] For a good strategy, questions are more important than answers. Good questions lead to surprises, and this is exactly what strategy intends.[626]
- **Complexity:** Stöger argues that every strategy contributes to the steering of a complex system, e.g. a company or organisation. Thus, a strategy process is less oriented towards classical business administration concepts but much more towards systemic approaches and cybernetics.[627] It is, therefore, a catalyser for dealing with complexity.[628]
- **Shareholder pressure:** And finally, with the emphasis on shareholder value, investors and boards have begun showing more concern for corporate strategy.[629]

Consequently, and contrary to what one might think, in a world where only few things, if anything at all, can be predicted, strategy definitely matters. This brings us to Hinterhuber, who argues that the attractiveness as well as profitability and growth

618 Collis and Montgomery (2005), p. 3
619 Collis and Montgomery (2005), p. 236
620 Lombriser and Abplanalp (1998), p. 5
621 Collis and Montgomery (2005), p. 28
622 Stalk, Evans, and Shulman (1992), pp. 182-183
623 Birkinshaw (2006), p. 131
624 Stöger (2010), p. v, by referring to Malik
625 Stöger (2010), p. 20
626 von Oetinger (2000b), p. 75
627 Stöger (2010), p. 30
628 See, e.g., Beer (1985), p. ix, in: Stöger (2010), p. 30
629 Collis and Montgomery (2005), p. 7

prospects of a market are important but that they only partly explain the success of a company. The attractiveness of the market can be compared to the wind that blows into the sails. With favourable conditions, everybody can sail. However, with bad conditions, experienced captains, i.e. leadership and strategy, are decisive in order to reach the target. Leadership implies finding out which way the wind blows, taking into account calms, and becoming even stronger due to a proactive attitude during a depression. Hence, not the wind but the sails determine the course. For Hinterhuber, the sails are leadership and strategy.[630]

3.3.3.2.1 Definition and Descriptions

With the spectrum of possible definitions of strategy being so broad, we will list below the most important dimensions which typically encompass and describe strategy and strategic decisions or which are strongly associated with it:

- **Long-term direction:**[631] An important aspect about strategies is to avoid the temptation to change them too frequently.[632] A strategy is oriented towards the long-term viability of organisations and not the short-term maximising of money.[633] Typically, strategies have an effective life of five years or less,[634] which also means that the operating environment should best be considered in a two- to five-year time span when thinking about future possibilities[635]. On the other hand, it is wrong to believe that the purpose of strategic objectives is to keep an organisation bound to a single, unbroken path, since strategy is dynamic, not static.[636] An organisation's strategy is about constant change and if it does not continually do so, it is exposed to competitors constantly converging to similar products, services, and processes.[637] No strategy or strategic principle is eternal.[638] Yet, the very essence of it is likely to remain the same, even if the elements of a company's strategy change. With strategic half-lives shortening, strategy should be reviewed every quarter and updated every year. While with every re-examination it is worth revisiting strategic principles, changes are only likely when there is a significant shift in the basic economics and opportunities of the market (e.g. legislation or completely new technology or business models). Even then, a company's strategic principle may need only refining or expanding.[639]

- **Business strategy and strategic management:** For Tallman, *"business strategy is what businesses do and strategic management is about the planning and execution of activities by which "it" is done."*[640] The latter term underlines the importance of the human element with regard to strategy, since this does not happen just by itself but involves managers who decide and implement strategy.[641] Strategic management involves a greater scope for managers

630 Hinterhuber (2003a), pp. 255-276; Hinterhuber (2003b), in: Bailom, Matzler and Tschemernjak (2006), pp. 32-33
631 See, for example, Johnson, Scholes and Whittington (2008), p. 2
632 Eisenhardt and Sull (2001), pp. 113-114
633 Malik, in: Stöger (2010), p. V
634 Kaplan and Norton (2008), p. 66
635 Opinion, Blili (2011)
636 Cokins (2009), p. 107
637 Cokins (2009), p. 108
638 Gadiesh and Gilbert (2001), p. 169
639 Gadiesh and Gilbert (2001), p. 169
640 Tallman (2009), p. 6
641 Johnson, Scholes and Whittington (2008), p. 11

than any single area of operational management.[642] The aspiration to manage or influence strategy requires from a manager a capacity to take an overview, and to conceive the whole rather than just the parts of the situation facing an organisation ("the helicopter view"). With the characteristic complexity of strategic management, it is also necessary to make decisions and judgements based on the conceptualisation of difficult issues.[643] It includes understanding the strategic position of an organisation, making strategic choices for the future and managing strategy in action.[644] In this context, Lombriser and Abplanalp define strategic management as the process with which a company adapts itself to the external environment.[645] The executives in charge must anticipate, assess and take into account these developments in their decision-making process.[646]

- **Business-level and corporate-level:** Collis and Montgomery[647] point out that over time a distinction came to be made between business-level strategy, i.e. the issue of how to build a sustainable competitive advantage in a discrete and identifiable market, and corporate-level strategy, *"the overall plan for a diversified company"*[648]. They argue that the insight which turns these elements into an integrated whole is the essence of corporate advantage, i.e. the way a company creates value through the configuration and co-ordination of its multi-business activities.[649] Thus, corporate strategy also defines the walls of a company: the businesses it wants to be in and the general arena of play.[650] Corporate-level strategy covers issues at the highest level which are concerned with the scope or breadth of an organisation.[651] Scope questions about an organisation's activities, for example, are whether the organisation should concentrate on one area of activity or whether it should have many.[652] Moreover, for a corporation to create value, to justify its existence as a multi-business entity, it must be able, in some way, to contribute to the competitive advantage of its businesses.[653] Any corporate strategy's acid test is its ability to yield a corporate advantage.[654] Three tests can be applied to each business. These establish the hurdle that corporate advantage must overcome:
    - *"Does ownership of the business create benefits somewhere in the corporation?*
    - *Are these benefits greater than the costs of corporate overhead?*
    - *Does it create more value than any other possible corporate parent or alternative governance structure?"*[655]

  If corporate-level strategy is simply the sum of the business units, these parts could do just as well standing on their own (or better, since they would not

642 Johnson, Scholes and Whittington (2008), p. 11
643 Johnson, Scholes and Whittington (2008), p. 11
644 Johnson, Scholes and Whittington (2008), p. 12
645 Lombriser and Abplanalp (1998), p. 15
646 Lombriser and Abplanalp (1998), p. 15
647 Collis and Montgomery (2005), pp. 8-10
648 Porter (1987), pp. 43-59, in: Collis and Montgomery (2005), p. 8
649 Collis and Montgomery (1998), p. 3
650 Bossidy and Charan (2002), p. 183
651 Johnson, Scholes and Whittington (2008), p. 14
652 Johnson, Scholes and Whittington (2008), p. 3
653 Collis and Montgomery (2005), p. 9
654 Collis and Montgomery (2005), p. 204
655 Goold, Campbell and Alexander (1995), in: Collis and Montgomery (2005), p. 204

bear the burden of corporate overhead).[656] Corporate strategy, therefore, is focused on the relationship between the whole and the parts of the firm, in particular on whether individual business units are made better or worse by their presence in the corporation.[657]

The bifurcation between business and corporate level, however, has impeded their integration. This is why Collis and Montgomery introduced a more inclusive definition of corporate strategy: *"Corporate strategy is the way a company creates value through the configuration and coordination of its multimarket activities."*[658] This definition emphasises value creation as the ultimate purpose of corporate strategy ("value creation"), focuses on the multimarket scope of the corporation ("configuration"), including its product, geographic, and vertical boundaries, and, finally, considers how the firm manages the activities and businesses that lie within the corporate hierarchy (co-ordination).[659] This definition does not restrict the relevance of corporate strategy solely to large diversified firms. After all, choices about the range of markets in which they will compete and how they will manage activities are made by organisations of every size, be it implicitly or explicitly.[660] Furthermore, corporate-level strategy as a vehicle allocates resources among all of the business units.[661] An outstanding corporate strategy also actively directs decisions about the resources the corporation will develop, the businesses the corporation will compete in, and the organisation that will make it all come to life.[662] These elements are aligned with one another, and this is driven by the nature of the firm's resources, i.e. its special assets, skills, and capabilities.[663] Only with alignment will the system as a whole create value and not be pulled apart by internal dissonance.[664]

- **Strategy and operations:** Kaplan and Norton point out that managing strategy differs from managing operations, thus referring to Porter.[665] For the latter, the difference between strategic positioning and operational effectiveness has become the essential distinction in understanding the nature of strategy and how it is different from other managerial agendas.[666] For superior performance, which, after all, is the primary goal of any enterprise, both operational effectiveness and strategy are essential, though they work in very different ways.[667] The former means performing similar activities better than rivals perform them and includes, but is not limited to, efficiency.[668] To achieve superior profitability, it is necessary to constantly improve operational effectiveness, but it is not usually sufficient.[669] On one side, the quest for productivity, quality and speed has led to management tools and techniques, such as Total Quality Management, benchmarking, time-based competition,

656 Bossidy and Charan (2002), p. 183
657 Collis and Montgomery (2005), pp. 9-10
658 Collis and Montgomery (2005), p. 8
659 Collis and Montgomery (2005), pp. 8-9
660 Collis and Montgomery (2005), p. 9
661 Bossidy and Charan (2002), p. 183
662 Collis and Montgomery (1998), p. 3
663 Collis and Montgomery (1998), pp. 3-4
664 Collis and Montgomery (2005), p. 193
665 Porter (1996), in: Kaplan and Norton (2008), p. 1
666 Porter (2008), p. xxvi
667 Porter (1996), p. 61
668 Porter (1996), p. 62
669 Porter (1996), p. 63

outsourcing, partnering, reengineering, and change management.[670] The resulting operational improvements have often been dramatic, but on the other hand many companies have been frustrated by their inability to translate these gains into sustainable profitability. Almost imperceptibly, but bit by bit, management tools have taken the place of strategy. However, in contrast to operational effectiveness, strategic positioning means performing different activities from rivals or performing similar activities in different ways.[671] Thus, according to Porter, strategy is about the choice of product market position and not the efficiency with which that choice is implemented.[672]

In addition, no strategic decisions may be taken on the basis of operational data like cash flow or EBIT. It is wrong to think that if a company has an excellent rate of return, the strategy must be right.[673] To define success by only financial ratios appears to be deficient, since such ratios are retrospective and capture the changes inside and outside the company too late.[674] Moreover, the best innovators and strategists have looked at customers and markets and not share prices or the reports of analysts.[675]

Ansoff, too, clearly distinguishes strategic activities ("to do the right things") from operational activities ("to do things right").[676] Yet, the *"Don't bore me with the operating details; I'm here to tackle the really big issues"* syndrome has not been very useful to many strategy courses (not to mention managerial practices!)[677] At the end of the day, effective strategy processes always come down to specifics.[678] Thus, one has to accept that, *"Operational decisions are linked to strategy."*[679] At the end of the day, *"A visionary strategy that is not linked to excellent operational and governance processes cannot be implemented. Conversely, operational excellence may lower costs, improve quality, and reduce process and lead times; but without a strategy's vision and guidance, a company is not likely to enjoy sustainable success from its operational improvements alone."*[680] Hence, *"High performance operating processes are necessary but not sufficient for enterprise success."*[681] This is one of the reasons why strategy is not supposed to be an issue for top management alone. Indeed, middle and lower-level managers can increasingly play a part in shaping strategy involvement in "strategy away days" and various strategy consultation procedures which are a common experience for middle managers in many organisations now.[682] Such occasions are part of the incremental approach which will be dealt with in detail later.

- **Strategy and tactics:** Strategy is often confused with tactics, which were explained by von Clausewitz as defence, whereas he identified strategy as offense,[683] while von Oetinger argues that tactics may be deduced from

670 Poter (1996), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 17
671 Poter (1996), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 17
672 Porter (1996), pp. 61-78, in: Collis and Montgomery (2005), p. 28)
673 Stöger (2010), p. 9
674 Bailom, Matzler and Tschemernjak (2006), p. 43
675 Stöger (2010), p. 9
676 According to Ansoff (1991), in: Lombriser and Abplanalp (1998), p. 28
677 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. xi
678 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. xi
679 Johnson, Scholes and Whittington (2008), p. 5
680 Kaplan and Norton (2008), p. 1
681 Hammer (2006), in: Kaplan and Norton (2008), p. 1
682 Johnson, Scholes and Whittington (2008), p. 18
683 Maucher (2007), p. 26

experience but strategy may not[684]. From the military, the idea is derived that strategy refers to the important things and tactics to the details.[685] Even though nails in shoes or colours of cars are certainly details, in retrospect they can sometimes prove strategic, even in the military.[686] Indeed, Henry Ford's refusal to paint his cars anything but black was one of the reasons he lost his war with General Motors.[687] Furthermore, Rumelt notes that *"one person's strategies are another's tactics – that what is strategic depends on where you sit."*[688] In addition, the time dimension plays a role: things that seem tactical today may prove to be strategic later. Labels should not imply that some issues are inevitably more important than others.[689] At many different levels, from corporate to department levels within divisions, there are numerous strategies.[690] Thus, often the primary difference between strategies and tactics lies in the scale of action or the perspective of the leader. What the CEO or general may consider tactics will appear to the marketing head or lieutenant to be a strategy if it determines the ultimate success and viability of his or her organisation. In a more precise sense, tactics, i.e. the short-duration, adaptive, action-interaction realignment that opposing forces use to accomplish limited goals after their initial contact, can occur at either level. For these adaptations, strategy defines a continuing basis for their ordering towards more broadly conceived purposes.[691] Finally, what speeds up decision-making is the integration among strategic decisions and between decisions and tactical plans. To decision makers, such integration helps to cope with the anxiety of high-stakes decision-making.[692]

- **How to achieve the desired outcomes:** The way in which strategy is put into action and how desired outcomes are achieved remains paramount. For Kaplan and Norton, it is also fundamental that a strategy describes "how" a company will achieve its desired outcome of satisfying employees, customers, and shareholders. This must include the customer perspective, internal process perspective, and learning and growth perspective.[693] These three perspectives will be discussed throughout this thesis and eventually summarised in the so-called strategy map.

3.3.3.2.2 Strategy Approaches

Andersen, Froholdt and Poulfelt argue that the positioning school[694] and the resource-based view[695] are the main pillars of today's strategy thinking. In addition, the perspective of a non-competitive strategy, as argued for in Blue Ocean Strategy[696] (and the similar in nature Monopoly Rules),[697] as well as the hypercompetitive and disruptive strategy

684 von Oetinger (2000a), p. 15, referring to Henderson B.D.
685 More formally: *"tactics teaches the use of armed forces in the engagement, strategy the use of engagements for the object of the war"*, in: von Clausewitz (1976), p. 128, in: Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 5
686 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 5
687 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 6
688 Rumelt (1979), pp. 196-212, in: Mintzberg (1987a), p. 14
689 Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 6
690 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 11
691 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 11
692 Eisenhardt (1989a), p. 544
693 Kaplan and Norton (2000a), p. 90
694 The positioning school is championed by Porter, in: Andersen, Froholdt and Poulfelt (2010), p. 44
695 E.g. Prahalad and Hamel (1990), pp. 79-91
696 Kim and Mauborgne (2005)
697 Lele (2005)

presented in Discount Business Strategy,[698] have impacted on the way successful companies think about and act on strategy in practice[699]. These four perspectives that have been discussed above are argued to constitute the strategy landscape and strategic thought of today.[700]

At the same time, the authors assert that the positioning and resource-based views represent conventional strategic thinking, whereas Blue Ocean and Discount Strategy represent a more unconventional approach to strategic thinking.[701]

These strategic perspectives may be summarised as follows:

Figure 4: The Four Strategic Perspectives and Their Characteristics[702]

*"**The positioning perspective***	***The resource-based perspective***	***Blue ocean strategy perspective***	***Discount strategy perspective***
Compete in existing market space	*Compete by developing strong resources*	*Create uncontested market space*	*Compete in hypercompetitive market space*
Beat the competitors through a strong position	*Resources should be Valuable, Rare, non-Imitable and exploited by the Organization (VRIO)*	*Make the competition irrelevant*	*Own value creation while destroying value for others*
Exploit existing demand	*Utilize strengths in resource profile*	*Create and capture new demand*	*Both supply push and demand pull*
Low cost OR differentiation	*Leverage resources*	*Create uncontested value*	*Craft the strategy with disruptive effect"*

However, to some extent, and when viewed in isolation, these four perspectives resemble recipes too, leaving little room for residuals or the unexplained, and assume a perfect correlation between success, which is mainly defined as maximising shareholder value, and the given perspective.[703] Yet, when the four perspectives are combined they provide a competitive map to dynamically develop a strategy over time.[704]

In addition, they fail to acknowledge that best practice is difficult (sometimes even impossible) to translate from one company to another, and offer little proof of the assumed cause-and-effect relationship between the perspectives and such success. Finally, these strategic perspectives fail to explain the success of those companies that

698 Andersen and Poulfelt (2006)
699 Andersen, Froholdt and Poulfelt (2010), p. 44
700 Andersen, Froholdt and Poulfelt (2010), p. 54
701 Andersen, Froholdt and Poulfelt (2010), p. 54
702 Based on Andersen, Froholdt and Poulfelt (2010), p. 55
703 Andersen, Froholdt and Poulfelt (2010), p. 54 and p. 56
704 Andersen, Froholdt and Poulfelt (2010), p. 56

purposefully attempt to break the established rules, i.e. those companies that operate within the X-factor universe.[705] Therefore, Andersen, Froholdt and Poulfelt are convinced that success in the corporate world of today cannot be achieved by following a generic recipe for success[706] and that therefore, when crafting and executing a strategy, it may prove disastrous to ignore the X-factor[707].

3.4 FROM RECIPES TO MENTAL AGILITY

3.4.1 SUMMARY

critical success factors of the past are not sufficient anymore. Instead, we conclude that companies have to assume the switch from "recipes to mental agility", and therefore combine the X-factor universe introduced by Andersen, Froholdt and Poulfelt as well as the four sources of competitive advantage introduced by Blili. By doing so, SMEs have a realistic chance to survive in today's rough environment.

3.4.2 DESCRIPTION

3.4.2.1 Mental Agility

In the past, experience was sufficient to resolve the problems of the future, i.e. it was possible to extrapolate events from the past into the future. Nowadays, however, most companies are in a situation which is characterised by discontinuity, complexity and dynamic external effects. In addition, developments are discontinuous and for this reason, to a large extent, unpredictable. The consequence is that the importance of experience has declined. Instead, surprising developments call for new approaches.[708] Hence, traditional views of strategy are no longer the answer to all questions.

In addition, the critical success factors of the past decades (e.g. activity based costing, Six Sigma, etc.) are known by management and have simply become given practices. We conclude that they are necessary but not sufficient conditions for success in the future.

In 1990, Kotter, for example, pointed out that major changes were necessary to survive and compete effectively in this new environment, and that this always demanded more leadership.[709] Thus, the demand for new approaches is not only characteristic of the beginning of this century. However, at the beginning of the 21st century, they have become an even more important condition for companies in order to survive. Therefore, in our opinion, agility is one of the most important elements of the required new approach.

Agility refers to an organisation's flexibility in undertaking new activities or absorbing old ones in the light of changed circumstances. For consistent success with unexpected contingencies, organisational agility is needed to act quickly and effectively against novel priorities, rather than doing the same thing over and over again.[710] New small or large global firms are constantly preoccupied with how to maintain and improve their

705 Andersen, Froholdt and Poulfelt (2010), pp. 54-55
706 Andersen, Froholdt and Poulfelt (2010), p. 31
707 Andersen, Froholdt and Poulfelt (2010), p. 32
708 Lombriser and Abplanalp (1998), p. 16
709 Kotter (1990), p. 13
710 Sull (2006), p. 11

agility in order to adapt better to market requirements.[711] Agility in this context has to be regarded as *"the ability to adapt simultaneously to many different business environments."*[712] It is also *"the ability to change tactics or direction quickly."*[713] This is in line with the following COSO definition of agility: *"Adapt to increased complexity and pace of change."*[714]

Consequently, the goal of competitive organisations is to develop agility, which rests on:

- Giving value to customers.
- Being ready for change (whatever and from wherever).
- Promoting the knowledge and skills of people at work.
- And finally, the development of virtual partnerships through alliances or tacit mergers of the value chain with suppliers.[715]

Agility will be addressed throughout this research. In order to take into account the required premise of agility, we will now, as announced, combine:

- the X-factor universe, introduced by Andersen, Froholdt and Poulfelt in 2010,
- and the four sources of competitive advantage, introduced by Blili.

3.4.2.1.1 The X-Factor Universe

"Dynamism is increasingly interesting"[716]

Research confirms that, among other factors, one of the most critical attributes of leaders in organisations that continue to thrive when compared with their peers in failing organisations is the degree of open-mindedness towards new ideas, criticism and different perspectives.[717] After all, managers work best if they are open to different perspectives and enlarge their set of possible solutions.[718]

The X-factor universe is defined by companies that cannot be explained by business book strategies or literature recipes but rather deploy unconventional thinking and deliberately work outside their scope.[719] Today's success cannot be achieved by following a generic recipe, since far too much of the literature on strategy and management has failed in its attempt to engineer a generic recipe for success.[720]

To keep agile and remain within the X-factor universe, companies need to respond dynamically to changing contingencies and also have to foster internal dynamics. Companies in the X-factor universe are constantly in the mode of change, which becomes the engine of development.[721] The X-factor may be defined as *"A critical but indefinable element. Also a noteworthy special talent or quality".*[722] Since every business case and the strategic stewardship of any company contain something indefinable, it is intellectually impossible to set up an equation or a recipe which includes a definition

711 Opinion, Blili (2010)
712 Stalk, Evans, and Shulman (1992), pp. 186-187
713 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
714 COSO (2011)
715 Whitney et al. (1995)
716 Andersen, Froholdt and Poulfelt (2010), p. 278
717 Finkelstein (2006), pp. 115-116
718 Johnson, Scholes and Whittington (2008), p. 18
719 Andersen, Froholdt and Poulfelt (2010), p. 64
720 Andersen, Froholdt and Poulfelt (2010), p. 31
721 Andersen, Froholdt and Poulfelt (2010), p. 196
722 According to the Shorter Oxford English Dictionary, in: Andersen, Froholdt and Poulfelt (2010), p. 9

of the indefinable. This is precisely one of the reasons why the existing recipes fail.[723]

Yet, according to Andersen, Froholdt and Poulfelt, companies apply out-of-the-box thinking, among others, within the following key success drivers:

- **Customer attitudes and the attitudes of customers:** X-factor companies typically display a high degree of customer involvement, i.e. the concept of the "pro-sumer", an amalgamation of producer and consumer. Moreover, with customer-centric marketing, customers are regarded as viral ambassadors. In addition, traditional channel conflicts are not seen as a problem.
- **The product portfolio:** The likelihood of entering into the X-factor universe increases if the core product contains stickiness, the company's supply side constitutes a new ecosystem, products are viewed in the context of a coherent business model, a demand pull is created and if life-cycle considerations are taken into the equation.
- **The financial circuit:** X-factor companies have price killer aspect attributes, and cost innovation plays a major role for them. Furthermore, some of them reverse revenue streams, i.e. gain revenues from other sources than the customers.
- **Organisational design issues:** Companies attracted by the X-factor universe deal with structure, values, people and culture to create a higher Return on Strategy.
- **The technology chain:** Finding the right mix of proven technology, ground-breaking technology, scalable technology and simple technology, and avoiding technological exuberance is what characterises companies in the X-factor universe striving for a high return on strategy.
- **Leadership genes:** The top management of a lot of companies that are in the X-factor universe possess entrepreneurial skills. A high return on strategy is achieved with the help of a leadership which is balanced, authentic, aligned for execution, passionate and focused on training staff. It appears that these aspects work across the other five key success drivers that are listed above.[724]

Such out-of-the-box thinking, as well as the utilisation of unconventional measures, has allowed companies to break into the X-factor universe and remain within it.[725] We will later go into more detail regarding the above-listed success drivers.

3.4.2.1.2 Four Sources of Competitive Advantage

The real objective of strategy is to generate sustained competitive advantage.[726] It is a major concept and one of the greatest contributors to clearer thinking about business-level strategy.[727] Most corporate advantages are realised at this level, although some value may be created at the corporate level itself, e.g. through a lower cost of capital. Thus, individual businesses use the benefits of corporate affiliation to outperform their rivals in a particular industry.[728]

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723 Andersen, Froholdt and Poulfelt (2010), p. 261
724 Andersen, Froholdt and Poulfelt (2010), pp. 66-68
725 Andersen, Froholdt and Poulfelt (2010), p. 66
726 Tallman (2009), p. 10
727 Campbell, Goold, and Alexander (1995), p. 235
728 Collis and Montgomery (2005), p. 15

As we have seen, a company is presumed to possess a competitive advantage when it succeeds in obtaining a higher profit margin than its competitors in a target market.[729] Competitive advantage, from a strategic perspective, occurs by providing increased value to customers, whether through low prices or improved products. Thus, a company can attain or surpass its competition and its own goals, whether by generating greater than normal profits or by taking customers away from competitors.[730]

In addition, it may be argued that the sources of advantage are not only scale and scope economies but also network externalities,[731] which increase demand for the product or service of a large player and/or early mover[732].

As we have already seen, for some authors, today's explanations of competitive advantage are strongly influenced by the resource-based view. Collis and Montgomery suggest that whatever the source of competitive advantage is, it can ultimately be attributed to the ownership of a valuable resource that enables the company to perform activities better or more cheaply than its competitors.[733] The development of a competitively distinct set of resources and their deployment in a well-conceived strategy is the basis for superior performance.[734]

Internal resources are the key to sustained competitive advantage, and most firms have certain unique, firm-specific assets and capabilities that are not exactly the same as those of other firms. If these can be applied to offer unique value (lower prices, better quality, higher performance, or some other preferred characteristic to customers), economic rents and competitive advantage can be generated. In addition, if in a changing world, the resources can be renewed and replaced, this becomes a sustained competitive advantage.[735]

Moreover, the modern focus of comparative advantage has shifted from natural, or at least externally established, endowments of factors of production to country characteristics associated with knowledge and innovation, i.e. characteristics largely created by human activity.[736]

Finally, Raymond,[737] as well as Jacob and Ouellet,[738] highlight the following emerging global trends which are potential strategic bases for the development of competitive advantage:

- The transformation of the value chain as well as new organizational forms.
- Information systems as well as information technology as a source of added value.
- The opportunity to develop new markets as part of the process that leads to internationalisation.
- The development of human and intellectual capital as well as the diffusion of innovation and organisational learning.

729 Opinion, Blili (2010)
730 Tallman (2009), p. 10
731 *"Network externalities exist when a consumer's valuation of a product increases as more consumers buy or use the good or service"*, in: Collis and Montgomery (2005), p. 72
732 See, for example, Shapiro and Varian (1999), in: Collis and Montgomery (2005), p. 74
733 Collis and Montgomery (1995), p. 37
734 Collis and Montgomery (1995), p. 37
735 Tallman (2009), p. 11
736 Tallman (2009), p. 51
737 Raymond (2003)
738 Jacob and Ouellet (2001)

Related to these four areas and by means of the strategic scanning of trends, the same authors argue that companies will be able to reinforce their competitive advantage based on one of the following five generic strategies:

- development of new markets,
- reduction of costs,
- differentiation based on quality,
- development of new products, and
- strategic partnering.

Blili, in order to cull those elements from the literature most likely to deepen his knowledge of the managerial aspects that might support the competitive advantages of SMEs with global brands, has generally based his strategic scanning on the broad lines proposed by Raymond[739] and Jacob and Ouellet[740]. His approach is grounded in the following four important sources of competitive advantage generally acknowledged in literature, namely:

1. International marketing as well as global branding;
2. The value chain as well as the integrated management of the logistics chain;
3. The development of human capital through the management of innovation and knowledge;
4. The virtualisation of enterprises through the use of information systems.[741]

3.4.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

3.4.3.1 Mental Agility

We conclude that approaches which might have worked in the past will no longer suffice. It becomes obvious that a strategy that is able to respond to increased complexity and volatility needs to encompass agility in its positioning and activities. Thus, this new premise, as well as pro-activity, has become key.

SMEs are per se associated with flexibility, market proximity, speed of reaction and reorientation, i.e. agility.[742] Smaller companies are also more responsive when attacked and implement their competitive reactions faster.[743] Thus, SMEs have a chance to survive in this rough environment, but with new approaches. Our journey will therefore take us from old best practices and benchmarking to "next practices", and therefore explain the required switch from **"recipes to mental agility"**. Mental agility plays a key role in many aspects. If a company does not want to be sidelined by the competition, it must put even more effort into the development of its key competencies, as well as improve its agility, flexibility, and rapidity.[744]

739 Raymond (2003)
740 Jacob and Ouellet (2001)
741 Opinion, Blili (2010)
742 Blili and Raymond (1993), pp. 439-448
743 Chen and Hambrick (1995), pp. 453-482, in: Verreynne (2004), p. 3
744 Jacob and Ouellet (2001)

Moreover, with the development away from hierarchical management to a value-based leadership, and the shift from large tangible products to intangibles, as well as to the invisible and conceptual, there has been a need for increased agility and flexibility in organisational leadership structure and thinking.[745]

Only by increasing their flexibility, which requires the capacity to destroy obsolete knowledge that serves as an anchor to the past, will managers improve their chances of success.[746] With this, it becomes evident why organisational learning and change management is so relevant.

The opportunities that big emerging markets represent also demand a new way of thinking.[747] According to a McKinsey study, nine out of every ten top executives say that agility has become an increasingly urgent issue for them. [748]

3.4.3.1.1 The X-Factor Universe

We conclude that in order to fight the abovementioned fatigue and inflexibility, mental and strategic agility, i.e. unconventional thinking, and therefore "the X-factor universe", will be required. It also means that managers will have to break out of their analytic, "just the facts" mode of thinking and engage in creative thinking.[749] Profitability will never come from the adoption of easy-to-copy best practices. Instead, it comes from original and difficult-to-imitate approaches.[750] The evidence suggests that fast decision makers develop more, not fewer, alternatives.[751]

It may prove disastrous to ignore the X-factor. Instead of following just one generic strategy, it is fully recognised that companies may diligently craft a strategy puzzle based on a mix of jigsaw pieces. From company to company, between contingencies and across time, geographies and managerial cultures, the strategy puzzle will often differ widely, even though a number of jigsaw pieces may be the same.[752]

Consequently, success should not be viewed as the result of cook books and "one fits all" recipes but in the context of the X-factor universe.[753] Hard work combined with diligent and often unconventional thinking will lead to the development of a successful strategy.[754] The idea is not to put success down to sheer luck but to be open to a variety of inputs and events which can shape the strategy of a given company rather than only to put faith in analysis and detailed planning.[755] For example, when looking at the strategy of Facebook, PayPal, Hotmail or Skype, it may seem difficult to identify which of the four strategic perspectives (positioning, resource-based, blue ocean or discount) they have based their strategy on. One explanation is that it is a mix of these in order to capitalise on the various characteristics and strengths that these strategies possess. Given this, the notion of "stuck in the middle" can definitely no longer be applied generically as a certain path to mediocre performance, although some companies find themselves in trouble when attempting to execute such a strategy.[756]

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745 Henderson, Thompson and Henderson (2006), p. 43, in: Andersen, Froholdt and Poulfelt (2010), p. 177
746 De Holan (2006), p. 140
747 Prahalad and Lieberthal (1998), p. 97
748 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
749 Tallman (2009), p. 119
750 Jarillo (2003), p. 202
751 Eisenhardt (1989a), p. 544
752 Andersen, Froholdt and Poulfelt (2010), p. 32
753 Andersen, Froholdt and Poulfelt (2010), p. 4
754 Andersen, Froholdt and Poulfelt (2010), p. IX
755 Andersen, Froholdt and Poulfelt (2010), pp. 81-82
756 Andersen, Froholdt and Poulfelt (2010), p. 85

Instead, in order to unlock the potential of unconventional and out-of-the-box thinking, strategy should be viewed in a more dynamic context.[757] Flexible systems with many options are better able to cope with change.[758] After all, a flexible approach improves a company's capacity for anticipating environmental changes. In a strong storm, a straw is usually more resistant than a massive oak. Thus, with the X-factor it will be perfectly possible to flexibly respond to the requirements that emerge from a faster and more dynamic environment.

Finally, in order to cope with complexity, as well as highly linked and dynamic situations, new competencies, such as considering different alternatives, multidisciplinarity, taking up different positions, speed and agility, collaboration and dealing with diversity, are required.[759]

3.4.3.1.2 Four Sources of Competitive Advantage

In combination with the X-factor universe, the four sources of competitive advantage will be discussed throughout this thesis. Competitive advantage can be gained through using one or a combination of these strategies.[760] This is similar to the approach which argues that if the four strategic perspectives (from positioning to Discount or Disruptive Business Strategy) are combined, they provide a competitive map to dynamically develop a strategy over time.[761]

757 Andersen, Froholdt and Poulfelt (2010), p. 90
758 Maznevski and Jonsen (2006), p. 79, referring to Ashby's Law of Requisite Variety
759 Wiedemann and Probst (2011), p. 51
760 Opinion, Blili (2010)
761 See Andersen, Froholdt and Poulfelt (2010), p. 56

CHAPTER Ⅳ INTEGRATING PLANNING AND EXECUTION

4.1 SUMMARY

Execution is important for strategy-focused organisations, and leaders must be deeply engaged in it. Yet, strategy, strategy formulation and implementation can be seen from two alternative perspectives, i.e. as intended or emerging strategies. Even though both represent quite different approaches, they are not mutually exclusive. However, we conclude that emerging strategies are much more appropriate in today's environment. This includes the increased involvement of middle management in strategy-making. Moreover, the people that are involved should vary according to the nature of the issue and may, therefore, also include strategy consultants. We also introduce the integrated management system proposed by Kaplan and Norton. This closed-loop system links strategy formulation and planning with operational execution, and can help companies to overcome the difficulties and frustration that most of them experience when attempting to implement their strategies.

4.2 DESCRIPTION

4.2.1 EXECUTION

"However, execution carries over into operations – more strategies fail because they are poorly pursued than because they are badly conceived."[762]

"In the Strategy-Focused Organization, we noted a study of failed strategies, which concluded, "in the majority of cases – we estimate 70 percent – the real problem isn't (bad strategy)... it's bad execution""[763]

Bossidy and Charan argue that it is wrong to regard execution as work on detail that is beneath the dignity of a business leader. Instead, it is a leader's most important job.[764] Nevertheless, lots of business leaders like to think that they are exempt from the details of actually running things, and so managers do the grunt work.[765] They place too much emphasis on intellectualising and philosophising, i.e. what some call high-level strategy, and not enough on implementation. Moreover, it is wrong to think of execution as the tactical, delegated side of business. On the contrary, it is a discipline that should be built into a company's strategy, its goals and culture, and leaders must be deeply engaged in it.[766]

4.2.2 INTENDED AND EMERGENT STRATEGIES

On one hand, for content researchers,[767] the typical question is what sort of strategy performs best under what conditions. This research is mainly inspired by economics, with Porter's work on industry structure[768] in the 1980s and the resource-based theories[769]

762 Tallman (2009), p. 12
763 Charan and Colvin (1999), pp. 69-78, in: Kaplan and Norton (2004b), p. 6
764 Bossidy and Charan (2002), p. 1
765 Bossidy and Charan (2002), p. 24
766 Bossidy and Charan (2002), p. 6
767 I.e. researchers that are focused on the content (or nature) of different strategic options, such as innovation, diversification or internationalisation, in: Johnson, Scholes and Whittington (2008), p. 16
768 Porter (1980), in: Johnson, Scholes and Whittington (2008), p. 17
769 The classic statement of the resource-based view is Barney (1991), pp. 91-120, in: Johnson, Scholes and Whittington (2008), p. 17

of the 1990s being particularly exemplary in this respect.[770] On the other hand, figures such as Mintzberg[771] or Pettigrew,[772] with a very different stream of research, drew on sociology and psychology to argue that people were too imperfect and the world too complex for heavy reliance on analysis and planning, however rigorous the economic research. From the 1970s, they and their followers developed a process *approach* to strategy, studying the realities of strategic decision-making and strategic change processes. Repeatedly, these process-focused researchers have shown the real-world messiness of strategy formulation and implementation. It is better to work with, rather than against, this messiness, since the implication is that it is impossible to analyse everything up front and predict the future, and that the search for economically optimal decisions is futile. This means accepting that decisions by managers are as much to do with an organisation's politics, history and culture as they are to do with the economics of strategy, and that strategies will often get derailed in implementation. To recognise imperfections and complexities, in this view, is actually more effective than ignoring them, as in some purely economic approaches.[773]

The question remains as to what extent strategy can be seen as pre-planned intent and to do with strategy implementation, i.e. with "making strategy happen". A strategy which is more emergent, for example on the basis of people's experience or as a result of responses to competitive action, is an alternative view. Here, it is more about "strategy happening", and thus there is less of a separation of intent and action. However, elements of both explanations are, in fact, likely to be evident in organisations.[774] The two broad explanations of strategy development, intended strategy and emergent strategy, are, as we will see later, not mutually exclusive.[775]

4.2.2.1 Intended Strategy

Strategies that come about as a result of careful deliberation, typically associated with top management decisions, are tied to the idea of intended strategy and known as the rational/analytic view of strategy development or a design view of strategy development.[776] They are also linked to strategy development using the types of concepts and tools discussed so far.

Strategy development is often equated with formalised strategic planning systems.[777] Porter[778] launched strategic planning as an essential company function.[779] However, von Clausewitz had already noted that *"strategic plans are valid until the first encounter with the enemy"*, and since nothing happens as expected (especially because the enemy makes sure this is the case), they fall to pieces at that moment. In fact, Jarillo argues that traditional strategic planning is not very well adapted to the real world. With the inability to confront real management problems, it has been losing its reputation and has often been reduced to a simple annual budgetary exercise. The company states its intention to sell more at lower costs, but without a profound strategic analysis of how this is going to happen.[780]

770 Johnson, Scholes and Whittington (2008), pp. 16-17
771 For example: Mintzberg (1989), in: Johnson, Scholes and Whittington (2008), p. 17
772 For example: Pettigrew and Whipp (1991), in: Johnson, Scholes and Whittington (2008), p. 17
773 Johnson, Scholes and Whittington (2008), p. 17
774 Johnson, Scholes and Whittington (2008), p. 397
775 Johnson, Scholes and Whittington (2008), p. 400
776 Johnson, Scholes and Whittington (2008), p. 400
777 Johnson, Scholes and Whittington (2008), p. 402
778 Porter (1985)
779 Cokins (2009), p. 172
780 Jarillo (2003), p. 210

Nevertheless, for useful planning exercise results, it is not enough to identify a product/service with a future. It also needs to be analysed why that business will be profitable, i.e. what entry barriers will protect it, and what the company will do to place itself on the right side of the barriers and be in a position that competitors cannot imitate.[781]

Mintzberg, too, challenged the benefits of planning.[782] He argues that there are four main dangers in the way in which formal systems of strategic planning have been employed:

- *"Confusing strategy with the plan.*
- *Detachment from reality.*
- *Lack of ownership.*
- *Dampening of innovation."*[783]

Hence, strategic planning is no longer exclusively based on analytically well-founded and therefore allegedly precise forecasts about the future but rather on the ability to equip companies with variety and flexibility.[784] A good and robust strategic planning strategy is not a compilation of numbers or a forecast where companies extrapolate existing trends into the future. Instead, the hows as well as the substance and detail, must come from the minds of the people who are closest to the action and who understand their markets, their resources, and their strengths and weaknesses.[785]

However, not least because it is difficult to isolate formal planning as the dominant or determining effect on performance, the evidence of the extent to which it results in organisations performing better than others is weak.[786] McDonald and Burton argue that success clearly does not necessarily depend on the type of detailed strategic planning which may be more relevant for maintaining competitive advantages that have emerged from historical accidents, entrepreneurial behaviour,[787] mergers and acquisitions or the successful development of advantages arising from government policies.[788] It may, however, be especially beneficial in dynamic environments, where decentralised authority for strategic decisions is required, but where there is a need for co-ordination of strategies arising from such decentralisation.[789] Formal corporate planning departments have certainly been less used,[790] and there has been a shift to line managers taking responsibility for strategy development and planning, although planning is becoming more project-based and flexible[791]. Therefore, it ceases to be a vehicle for the top-down development of intended strategy and more of a vehicle for the co-ordination of strategy emerging from below.[792]

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781 Jarillo (2003), p. 211
782 See, for example, Mintzberg (1994c), in: Johnson, Scholes and Whittington (2008), p. 405
783 Johnson, Scholes and Whittington (2008), pp. 405-406
784 Wiedemann and Probst (2011), p. 51
785 Bossidy and Charan (2002), p. 178
786 See, for example, McKiernan and Morris (1994), pp. S31-S42. In some studies, it has been shown that there are benefits in particular contexts, for example, to entrepreneurs setting up new ventures; see Delmar and Shane (2003), pp. 1165-1185, in: Johnson, Scholes and Whittington (2008), p. 406
787 Hollensen associates entrepreneurial orientation with opportunity seeking, risk-taking, and decision action catalysed by a strong leader or a company possessed of a particular value system. Such companies engage in product market innovations, undertake relatively risky ventures and initiate proactive innovations., in: Hollensen (2011), p. 86
788 McDonald and Burton (2002), pp. 251-252
789 Andersen (2004), pp. 1271-1299, in: Johnson, Scholes and Whittington (2008), p. 406
790 Grant (2003), pp. 491-512, in: Johnson, Scholes and Whittington (2008), p. 406
791 Mankins (2006), pp. 77-84, in: Johnson, Scholes and Whittington (2008), p. 407
792 Johnson, Scholes and Whittington (2008), pp. 406-407

4.2.2.2 Emergent Strategy

"Sometimes strategies must be left as broad visions, not precisely articulated, to adapt to a changing environment."[793]

"The potter sits before a lump of clay on the wheel… She has an intimate knowledge of her work, her capabilities, and her markets. As a craftsman, she senses rather than analyses… all these things are working in her mind as her hands are working the clay… Managers are craftsmen and strategy is their clay."[794]

"Mintzberg (1973) and Quinn (1978) suggest that strategy-making may also be made in a less rational, step-by-step approach. Mintzberg (1973) terms this mode of strategy-making adaptive, Quinn (1978) logical incrementalism, and Mintzberg and Waters (1985) emergent strategy."[795]

The above metaphor of the potter working the clay was employed by Mintzberg to illustrate the task and process of strategy-making as hands-on craftsmanship. By describing the actions of a potter working and discovering new possibilities through the tactile manipulation of the clay, and constantly integrating the work of the hands with the work of the mind, he argued for fusing formulation and the implementation of strategy. The metaphor of the strategist as a hands-on craftsman points to the intrinsically enactive nature of strategy-making at both the social and psychological level, but also bears the seed of an important unexploited human factor in organisations, namely the connection between hand and mind in the construction of strategy.[796] In contrast to the traditional perception of the process of planning, here the process of developing strategy is characterised as one of craft.[797]

The emergent strategy view is that strategies do not develop on the basis of some grand plan but tend to emerge in organisations over time.[798] Strategy-making is not seen as a distinct and separate activity, but rather develops out of more day-to-day and routine aspects of companies.[799]

Mintzberg was persuasive on the need to see that *"the crafting image better captures the process by which effective strategies come to be."*[800] Ever since, the idea of a crafted strategy has remained a provocative metaphor for ways of collapsing the artificial distinction between knowledge and action in the strategy development process.[801] By making the case for the need to craft strategy, he frequently returns to the immediacy of the image of the potter, undergoing iterative and recursive learning and knowledge-building processes via the tactile immediacy of manipulating the clay, i.e. a feedback relationship between thought and action (recursive enactment).[802]

793 Mintzberg (1994), in: Andersen, Froholdt and Poulfelt (2010), p. 40
794 Mintzberg (1987c), p. 66, in: Bürgi, Jacobs and Roos (2005), p. 78
795 Verreynne (2004), p. 3
796 Bürgi, Jacobs and Roos (2005), pp. 78-79
797 Mintzberg (1989), p. 6
798 Johnson, Scholes and Whittington (2008), p. 400
799 Johnson, Scholes and Whittington (2008), p. 401
800 Mintzberg (1987c), p. 66, in: Bürgi, Jacobs and Roos (2005), p. 92
801 Bürgi, Jacobs and Roos (2005), p. 92
802 Bürgi, Jacobs and Roos (2005), p. 82

With the three areas of theory related to the strategy-as-crafting metaphor, the physiological,[803] psychological[804] and social constructionism[805] (all of them linked thematically and substantively by the ideas of recursivity and enactment), Bürgi, Jacobs and Roos extend Mintzberg's metaphor and bridge the individual and the social. Their schema suggests that a vital dimension of knowledge becomes available through the mind-body link, making it available at the individual level and accessible as social meaning in processes of organisational learning.[806]

Together with other strategy scholars, like Hamel, Mintzberg emphasises emerging strategies and therefore the limitations of top-down strategic direction.[807] Arguing that some of the best ideas for new strategies come from employees within the organisation, he believes the role of senior management is to be ever alert to innovative ideas that employees who are close to technologies, processes and customers suggest, even when these suggestions originate from outside the official strategy planning and review process.[808]

Mintzberg argues that strategy is an *"emergent phenomenon"* and less a rational plan arrived at in the abstract and implemented throughout the organisation.[809] Successful organisations *"craft strategy"*[810] as they continually learn about shifting business conditions and balance what is desired and what is possible. Thus, it is not the right strategy that is key but fostering strategic thinking.[811] As Mintzberg asserts: *"Strategic planning isn't strategic thinking. One is analysis, and the other is synthesis."* [812] Similarly, Mason and Mitroff hold that the choice of individual action is only part of the policymaker's need, but that achieving insight into the nature of any complexity and formulating concepts and world views for coping with it are more important.[813]

Mintzberg goes on to argue that strategy-making is about the positioning of an organisation in market niches, and deciding what products will be produced and for whom. In a broader sense, though, it refers to how the collective system called an organisation establishes and, when necessary, changes its basic orientation. Strategy-making also takes up the complex issue of collective intention.[814] With someone crafting strategy, an entirely different image most likely results, as different from planning as craft is from mechanisation, and which evokes traditional skill, dedication, and perfection through the mastery of detail. Both formulation and implementation merge into a fluid process of learning and creative strategies. Mintzberg's argument is that this image better captures the process by which effective strategies come to be, and that the planning image (long

803 Referring to Penfield and Rasmussen (1957); Gibson and Rasmussen (1993); Tattersall (1998); Wilson (1998); Hadar, Wenkert-Olenik, Krauss and Soroker (1998); Krauss (1998); Krauss, Chen and Gottesman (2000); McGinnis (2002), in: Bürgi, Jacobs and Roos (2005), p. 82

804 Referring to Piaget (1971); Furth (1981); Harel and Papert (1991); Piaget, Inhelder and Sinclair (1968), in: Bürgi, Jacobs and Roos (2005), p. 82

805 Referring to Smircich and Stubbart (1985); Weick (1979); Weick (1987); Weick (1995); Berger and Luckman (1966); Gergen 1994); Gergen (1999); von Glasersfeld (1995); Gioia (2003), pp. 285-292; Giddens (1984); Nonaka and Takeuchi (1995); Crossan, Lane and White (1999); Whittington (2001); Piaget (1971), in: Bürgi, Jacobs and Roos (2005), p. 82

806 Bürgi, Jacobs and Roos (2005), p. 82

807 Mintzberg (1987c), pp. 66-75; Mintzberg and Waters (1985), pp. 257-272; Hamel (1996), pp. 69-82, in: Kaplan and Norton (2008), p. 275

808 Kaplan and Norton (2008), p. 275

809 Senge P.M. (1990b), p. 11

810 See, for example, Mintzberg (1987c), pp. 66-75, in: Senge (1990b), p. 11

811 Mintzberg, in: Senge P.M. (1990b), p. 11

812 Mintzberg (1994a), p. 325, in: Lombriser and Abplanalp (1998), p. 56

813 Mason and Mitroff (1981), p. 16, in: Senge (1990b), p. 11

814 Mintzberg (1989), p. 25

popular in literature) distorts these processes and thereby misguides organisations that embrace it unreservedly.[815] In this metaphor, managers are craftsmen and sit between a past of corporate capabilities and a future of market opportunities.[816]

With strategy-making being a learning process, there is no single best way to create strategy and no single best form of organisation. Hence, in a particular context quite different forms work well.[817] A person who can live with contradictions, learns to appreciate their causes and effects, and reconciles them sufficiently for effective action, is an effective strategist.[818]

However, it should be noted that McDonald and Burton argue that since implementing strategies leads to outcomes (some expected and others unexpected), strategic planning also involves learning.[819] Yet, Mintzberg[820] states that the strategic planning which has a central place in traditional views of strategy is mainly concerned with strategies that already exist, thus leaving little room for strategic manoeuvrings or flexibility. In his view, a more informal approach to strategy should be advocated, with planning being concerned with the process around strategy-making as opposed to being central to it.[821] As we have seen, he is a rather outspoken opponent of the strategic planning approach, and sees strategy formulation as a process of learning that is only partly under the control of conscious thought.[822] Instead, *"Strategies emerge informally, sometimes gradually, sometimes spontaneously, usually in a collective process".*[823] Strategy is considered to be emergent or evolutionary rather than planned.[824] With this view, it is assumed that managers have less control over their environments, which are difficult to know, and taking action does not necessarily make things happen. Instead, strategy unfolds in response to current events within a historical and organisational context. Thus, intended (designed at the top) and emergent strategies (emerging through more autonomous activities further down the organisation) may not necessarily coincide but be more loosely connected. As such, strategies emerge and evolve over time as *"a pattern in a stream of decisions".*[825]

This is in line with Eisenhardt and Sull, who hold that simple rules more often grow out of experience, especially mistakes, than from clever thinking.[826] To some extent, it also goes along with Osterloh and Frost, who recommend that reengineering projects be conducted according to the following method: *"Top down for targets – bottom up for how to do it"*. In particular, middle management should, contrary to the advice of Hammer and Champy,[827] be heavily involved in such projects. Their expertise and detailed knowledge are necessary in order to deal with the complexity of the processes. Moreover, with this approach, those individuals who are most affected by the planned changes are involved.[828]

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815 Mintzberg (1989), p. 26
816 Mintzberg (1989), p. 27
817 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. ix
818 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. ix
819 McDonald and Burton (2002), p. 252
820 Mintzberg (1994b), pp. 107-114, in: Andersen, Froholdt and Poulfelt (2010), p. 40
821 Andersen, Froholdt and Poulfelt (2010), p. 40
822 Mintzberg (1995), in: Schneider and Barsoux (2003), p. 121
823 Mintzberg (1995), in: Schneider and Barsoux (2003), p. 121
824 Mintzberg (1978), pp. 934-948; Mintzberg and Waters (1985), pp. 257-272; Burgelman (1983a), pp. 223-244; Nelson and Winter (1982), in: Schneider and Barsoux (2003), p. 121
825 Schneider and Barsoux (2003), p. 121
826 Eisenhardt and Sull (2001), p. 109
827 Hammer and Champy (1993), p. 207 ff., in: Osterloh and Frost (2000), p. 258
828 See, e.g., the statement of Lippuner H., in: Frost, Treichler and Schmid (1995), p. 5, in: Osterloh and Frost (2000), p. 258

Quinn,[829] too, concluded that the strategy development processes he observed could best be described as logical incrementalism,[830] which is the development of strategy by experimentation and *"learning from partial commitments rather than through global formulations of total strategies"*[831]. For the following reasons, this is likely to be so:[832]

- **Environmental uncertainty:** managers cannot rely on analyses of historical data or predicting how the environment will change. Instead, they try to be sensitive to environmental signals by encouraging constant environmental scanning.
- **Generalised views of strategy:** managers do not have a specific but rather a generalised view of where they want the organisation to be in the future, and try to move towards this position incrementally and with objectives that may be fairly general in nature.
- **Experimentation:** managers will build on the experience gained in a strong, secure, but flexible core business to inform both its development and experimentation with side bet ventures. Therefore, in the early stages of strategy development, commitment to strategic options may be tentative. Such experiments are not the sole responsibility of top management but emerge from groups of people involved in, for example, product development, product positioning, diversification, external relations, and so on. Quinn describes them as subsystems.
- **Co-ordinating emergent strategies:** in order to draw together an emerging pattern of strategies from these subsystems, top managers may then utilise a mix of formal and informal social and political processes which may be formed into coherent statements of strategy for stakeholders that need to understand the organisation's strategy.[833]

According to Quinn, logical incrementalism can be an executive practice to improve the information available for decisions and build up people's psychological identification with the development of strategy. It encapsulates processes that bridge intention and emergence, since they are deliberate and intended but rely on social processes to sense the environment, and experiments in subsystems to try out ideas. The improved quality of information for decision-making and therefore the better sequencing of theelements of major decisions is provided by continual testing and gradual strategy implementation. In addition, due to the gradual change, the possibility of creating and developing a commitment to change throughout the organisation is increased. With the different subsystems being in a continual state of interplay, managers can learn from each other about the feasibility of a course of action, which also takes account of the political nature of organisational life, since smaller changes, compared to major changes, are less likely to face the same degree of resistance. At the same time, this means that the implications of the strategy are continually being tested out. If the environment is considered as a constantly changing influence, such a continual readjustment makes sense.[834]

Like logical incrementalism, the resource allocation process explanation of strategy development, i.e. that realised strategies emerge as a result of the way resources are

829 Quinn (1980b); See also Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), in: Johnson, Scholes and Whittington (2008), p. 408
830 See also Johnson, Scholes and Whittington (2008), p. 401
831 Quinn (1980b), p. 58, in: Johnson, Scholes and Whittington (2008), p. 408
832 Johnson, Scholes and Whittington (2008), p. 408
833 Johnson, Scholes and Whittington (2008), p. 409
834 Johnson, Scholes and Whittington (2008), pp. 409-411

allocated in organisations,[835] acknowledges that it is unrealistic to determine strategy in a top-down, prescriptive, detailed manner, especially across a large, complex organisation. With a changing and uncertain environment, as well as the cognitive limits of managers to cope with this, strategy is better explained as the outcome of issues being addressed as they arise.[836]

Finally, we would like to point out that there are different explanations of emergent strategy.[837] In terms of a continuum, according to how deliberately managed the processes are, logical incrementalism is the most deliberate, followed by political processes, prior decisions, and finally the product of organisational systems, which is the least deliberate explanation of how strategies may emerge.[838]

4.2.2.3 Patterns

Different explanations of strategy development are not independent or mutually exclusive. They may, indeed, all be seen to different degrees or at different times and contexts within organisations. There are, however, certain patterns of strategy development.[839]

Organisations do not all face similar environments, and differ in their form and complexity. Therefore, in different circumstances, different ways of thinking about strategy development and different processes for managing strategy may make sense:[840]

- If environmental change occurs in **simple/static conditions**, it could make sense to analyse the environment extensively on a historical basis as a means of trying to forecast likely future conditions. Thus, seeing strategy development in formal planning terms may make sense. It might also be tempting to rely on past experience and prior decisions, since little changes.[841]
- In **dynamic conditions**, the degree of uncertainty increases and managers need to consider the environment of the future, not just the past. They may employ scenario planning, a structured way of making sense of the future, or rely more on encouraging and creating the organisational conditions necessary to encourage individuals and groups to be forward thinking, intuitive and prepared to challenge possible futures in an approximation of organisational learning.[842]
- Managers in **complex situations** face an environment that is difficult to comprehend. It may be caused by either the knowledge complexity of an industry or organisational complexity. In such situations, organisations also face dynamic conditions, and therefore a combination of complexity and uncertainty. The possibility of planning detailed strategies from the top is limited in such circumstances. It is arguably dangerous, since it is not top management but specialists lower down in the organisation who know more about the environment in which the organisation operates. The role of

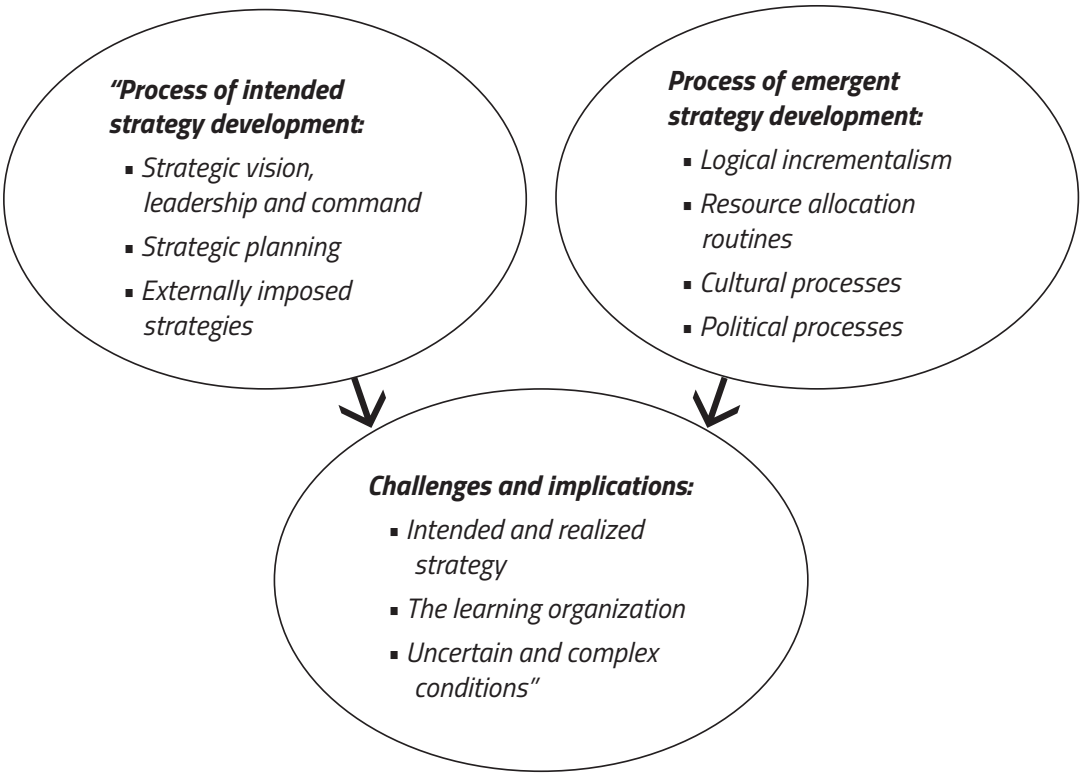
835 Definition based on Bower and Gilbert (2005a), p. 349, in: Bower and Gilbert (2005b), pp. 439-455, in: Johnson, Scholes and Whittington (2008), p. 411
836 Johnson, Scholes and Whittington (2008), p. 411
837 See Johnson, Whittington and Scholes (2011), p. 404, referring to Elbanna (2006), pp. 1-20 for useful explanations of deliberate and intended strategy development, as well as explanations of emergent and incremental strategy development.
838 Johnson, Whittington and Scholes (2011), pp. 404-405
839 Johnson, Scholes and Whittington (2008), p. 401
840 Based on Duncan (1972), pp. 313-327, in: Johnson, Scholes and Whittington (2008), pp. 422-423
841 Johnson, Scholes and Whittington (2008), p. 422
842 Johnson, Scholes and Whittington (2008), p. 423

top management, instead, may be more to do with setting overall strategic direction, and co-ordinating and shaping emerging strategy from below.[843]

Incremental strategy development processes leading to the emergence of strategy is the natural outcome of the influence of organisational culture[844], individual and collective experience, political processes[845] and prior decisions. What this highlights is that strategy development processes need to encourage people in organisations to have the capacity and willingness to challenge and change their core assumptions and ways of doing things, which leads to the idea of the learning organisation. This, however, does not occur easily and emphasises the delicate balance an organisation has to achieve in developing its strategy. For example, within its culture it may have behaviours and routines that can potentially provide the capabilities for competitive advantage, but also internal cultural forces of inertia that tend to constrain strategy development.[846]

Johnson, Scholes and Whittington summarise the strategy development process as follows.[847]

Figure 5: The Strategy Development Process[848]



843 Johnson, Scholes and Whittington (2008), p. 423

844 *"Organisational culture is to do with the taken for granted in an organisation. That includes the basic assumptions and beliefs that are shared by members of an organisation … and the taken-for-granted ways of doing things and structures … So a cultural explanation of strategy development is that it occurs as the outcome of the taken-for-granted assumptions and behaviours in organisations. The important thing to stress here is that this taken-for-grantedness works to define, or at least guide, how the people in an organization view that organisation and its environment. It also tends to constrain what is seen as appropriate behavior and activity."*, in: Johnson, Scholes and Whittington (2008), p. 416

845 *"The political view of strategy development is, then, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders)."*, in: Johnson, Scholes and Whittington (2008), p. 414. See DeLuca (1999); and Miller (2006), in: Johnson, Scholes and Whittington (2008), p. 414

846 Johnson, Scholes and Whittington (2008), p. 421

847 Johnson, Scholes and Whittington (2008), p. 400

848 Johnson, Scholes and Whittington (2008), p. 400

4.2.3 ACTORS OF STRATEGY FORMULATION AND IMPLEMENTATION

The establishment or maintenance of purpose, which is codified and implemented through the vehicle of strategy, is a CEO's primary task.[849] It is a critical task and it is the responsibility of him or her to set strategy[850] and constantly adjust it as the environment changes[851]. In addition, the successful execution of strategy requires strong leadership at the top.[852]

In the conventional view, it is absolutely vital that top management are clearly separated from operational responsibilities so that they can focus on overall strategy.[853] The CEO is often seen as being ultimately responsible for all strategic decisions and thus the chief strategist.[854] However, top management capacity in making strategy should not simply be assumed, as their experience does not necessarily prepare them for the analytical and managerial tasks involved in making strategy. After all, their promotion to strategic roles is often due to their success in dealing with operations or their professional skill in a particular functional specialism.[855] If they want to contribute effectively to high-level strategy making, senior managers at least need important qualities such as:

- the mastery of analytical concepts and techniques,
- social and influencing skills,
- and also group acceptance as a player in strategic decisions.[856]

Strategy planners (also known as corporate development managers or similar) have responsibility for contributing to the strategy process. It is very rare that small companies have full-time strategic planners. Thus, strategic thinking, analytical skills, and the ability to communicate clearly to various audiences, but also to work well with teams, are clearly very important.[857]

4.2.4 FORMAL STRATEGY EXECUTION SYSTEM

There is no specific recipe that can be offered on how the execution of a company's strategy and the achievement of the goals set forth can be supported. The thing that can be determined, however, is that successful companies focus on execution and organise accordingly.[858]

Even though they differ, both managing strategy and operations are vital and need to be integrated.[859] Yet, Kaplan and Norton are convinced that because companies lack an overarching management system, they generally fail to integrate and align the two vital processes of strategy implementation and the management of operations.[860] They are convinced that strategy development and the links between strategy and operations remain ad hoc, varied, and fragmented, but that companies can benefit from taking a systems approach to link strategy with operations. A comprehensive and integrated

849 Collis and Montgomery (2005), p. 231
850 Collis and Montgomery (2005), p. 3
851 Cokins (2009), p. 14
852 Kaplan and Norton (2008), pp. 77 and 80
853 The classic statement comes from Chandler (1962), in: Johnson, Scholes and Whittington (2008), p. 559
854 See, e.g., O'Shannassy (2003), pp. 53-67, in: Johnson, Scholes and Whittington (2008), p. 559
855 Johnson, Scholes and Whittington (2008), pp. 560-561
856 *"For an analysis of senior management teams as "communities of practice" in which practitioners have to win legitimacy for full participation"*, see Whittington (2002), in: Johnson, Scholes and Whittington (2008), p. 561
857 Johnson, Scholes and Whittington (2008), p. 561
858 Andersen, Froholdt and Poulfelt (2010), p. 253
859 Kaplan and Norton (2008), p. 1
860 Kaplan and Norton (2008), p. 1

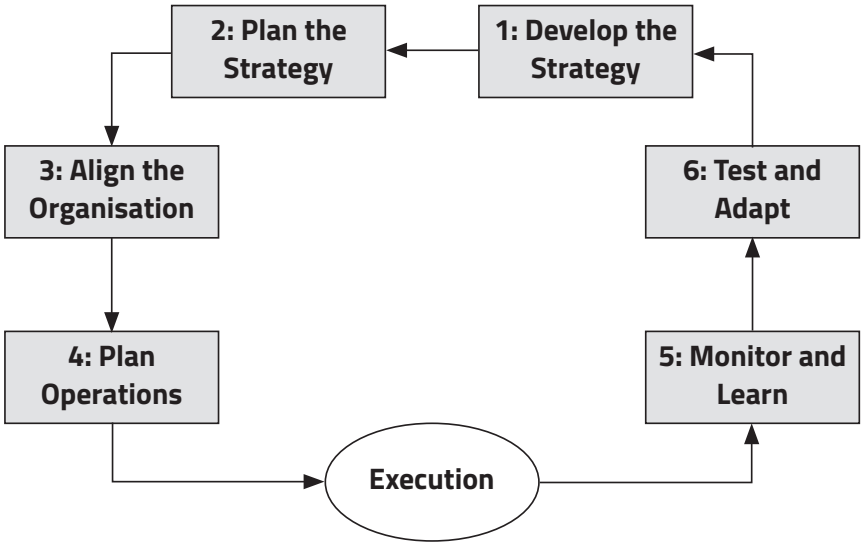
management system can help them overcome the difficulties and frustration that most companies experience when attempting to implement their strategies.[861] Thus, Kaplan and Norton point out that success is two to three times more likely when a strategy execution system is in place,[862] while Cokins asserts that such organisations dramatically outperform organisations without formal processes[863]. Still, it remains difficult to link strategy to action.[864]

A survey in 1996 revealed that most organisations did not have formal systems to help them execute their strategies. In addition, only 40% of organisations linked their budgets and only 30% their incentive compensation to strategy. Furthermore, fewer than 10% of employees in the great majority of surveyed companies reported that they understood their company's strategy. It is clear that if an employee does not understand the strategy, (s)he cannot link his/her daily activities to its successful execution.[865]

A follow-up survey in 2006 showed certain similarities but also some significant differences. Echoing the results of the earlier survey, 46% of respondents reported that they still did not have a formal strategy execution system; out of these, 73% reported average to below-average performance of their strategies. However, 54% now reported that they had a formal process to manage strategy execution and of these, 70% reported that they were outperforming their peer group, a reversal of the success rate. In other words, a formal strategy execution system made success two to three times more likely than not having such a system.[866]

The aim of every conceptualisation and model is to represent reality in a structured, simplified and understandable way.[867] Therefore, Kaplan and Norton have formulated the architecture illustrated below for a comprehensive and integrated management system that links strategy formulation and planning with operational execution. Their closed-loop system has six major stages:[868]

Figure 6: The Management System: Linking Strategy to Operations[869]



861 Kaplan and Norton (2008), p. 7
862 Kaplan and Norton (2008), p. 5
863 Cokins (2009), p. 151
864 Kaplan and Norton (2008), p. 114
865 Kaplan and Norton (2008), pp. 3-4
866 Kaplan and Norton (2008), pp. 4-5
867 Osterwalder (2004), p. 13
868 See Kaplan and Norton (2008), p. 8
869 Based on Kaplan and Norton (2008), p. 8

Strategic planning processes have often been seen as linear and were typically divided into several phases.[870] By way of example, the classic schema of Cohen and Cyert can be mentioned. Similar to Kaplan and Norton, they break down the process of strategic planning as follows:

- Formulation of goals.
- Analysis of the environment.
- Assignment of quantitative values to goals.
- Formulation of strategy.
- Gap analysis.
- Strategic search.
- Selection from the portfolio of strategic alternatives.
- Implementation of strategic programmes.
- Measurement.
- Feedback and control.[871]

Lombriser and Abplanalp, for example, present an iterative model of strategic management, including eight steps that form the three phases of information analysis, strategy development and strategy implementation.[872]

Thus, to summarise, a strategic plan, which should set a strategy team's working agenda, typically has the following elements:

- The point of the whole strategy and critical starting point, i.e. the mission, goals and objective statement.
- An environmental and organisational analysis (strengths and weaknesses, the company's products relative to its competitors', as well as a clear statement of its competitive advantage).
- The proposed strategy, which is clearly related to the above and offers a clear and realistic timetable for implementation.
- Finally, financial (income statements, cash flows and balance sheets over the period of the plan) and human (particularly managers or people with particular skills) resources.[873]

Thus, Kaplan and Norton's architecture is similar to others.

4.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

870 See, for example, King and Cleland (1978), p. 76; Higgins (1980), p. 15; Dunst (1979), p. 152, in: Trux, Müller-Stewens, Kirsch and Reichert (1988), p. 294
871 Cohen and Cyert (1973), p. 349, in: Trux, Müller-Stewens, Kirsch and Reichert (1988), p. 295
872 Lombriser and Abplanalp (1998), p. 43 ff.
873 E.g. Tiffany and Peterson (2004); Walcoff (1999), in: Johnson, Scholes and Whittington (2008), p. 583

4.3.1 EXECUTION

To conceptualise a strategy can be analytically demanding. Yet, putting the mechanisms in place to bring a strategy to fruition and operating the company on a day-to-day basis can be even more daunting.[874]

Strategies by themselves are often not the cause of the failure to deliver their promises. However, they most often fail because they are not executed well.[875] At the same time, leading execution is not micromanaging, being hands-on, or disempowering people. Instead, it is about active involvement, making sure that people understand priorities based on the leader's comprehensive understanding of the business, and asking incisive questions.[876] Everyone else should understand and carry out the execution, which also has to be embedded in the reward systems and norms of behaviour that are practised.[877]

4.3.2 INTENDED AND EMERGENT STRATEGIES

In our view, a correction or adjustment of strategic planning (intended strategy) is always dependent on emergent strategies or incrementalism, whereas strategic planning actually never serves emergent strategies or incrementalism.

As a bottom line, we conclude that in today's environment, initiating strategy development is incremental in nature.[878] In small firms, in particular, strategy-making is mainly emergent, adaptive and reliant on personal relationships.[879] Furthermore, whether the discovery of a successful strategy of a company is down to a crisis situation, failure of previous strategies, sheer luck or more to planned efforts, the approach that it follows in developing and altering its strategy over time is closely tied to the X-factor, and as such its ability to approach the X-factor universe.[880] Such an approach, however, is much more guaranteed by emergent strategies than by intended ones. At the same time, for the development and implementation of a strategy, industry experience, knowledge about one's own company and, from time to time, the ability to keep a certain distance from daily business, is required.[881]

4.3.3 ACTORS OF STRATEGY FORMULATION AND IMPLEMENTATION

By being too involved in operations, middle managers are seen as lacking an appropriately objective and long-term perspective.[882] In this view, they just implement. However, involving middle managers in the strategy formulation itself can, in the first place, lead to better strategic decisions. This is because they, unlike many top managers, have direct, up-to-date experience of the organisation's realities and its market. Secondly, it can improve implementation, because if they have been involved in the original strategy formulation process, they will be better at putting the strategic intentions into action, have stronger personal commitment to the strategic goals, and communicate the strategy more effectively to their teams.[883] The following three trends are leading to increasing middle management involvement in strategy-making nowadays:[884]

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874 Collis and Montgomery (2005), p. 149
875 Bossidy and Charan (2002), p. 15
876 Bossidy and Charan (2002), p. 28
877 Bossidy and Charan (2002), p. 30
878 See also Johnson, Scholes and Whittington (2008), p. 519
879 Harris, Forbes and Fletcher (2000), pp. 125-144, in: Verreynne (2004), p. 3
880 Andersen, Froholdt and Poulfelt (2010), p. 84
881 Stöger (2010), p. VI, referring to Malik
882 Chandler (1962), in: Johnson, Scholes and Whittington (2008), p. 563
883 Floyd and Wooldridge (2000), in: Johnson, Scholes and Whittington (2008), p. 563
884 Johnson, Melin and Whittington (2003), pp. 147-161, in: Johnson, Scholes and Whittington (2008), p. 563

- In order to increase accountability and responsiveness in fast-moving and competitive environments, many organisations are decentralising their organisational structures, and as a result strategic responsibilities are being thrust down the organisational hierarchy.
- With the rise of business education, middle managers are now better trained and more confident in the strategy domain, and more able and eager to participate in strategy.
- With the shift from a traditional manufacturing economy to one based more on professional services (such as design, consulting or finance), the key sources of competitive advantage are often no longer resources such as capital, which can be provided by headquarters, but the knowledge of people actually involved in the operations of the business. At the operational level, middle managers can (more effectively than remote top managers) understand and influence these knowledge-based sources of competitive advantage.[885]

Even though the real value of strategy consultants is controversial, they are often blamed for failures when in fact it is the client's poor management of the consulting process that is ultimately at fault.[886] In addition, there is often a potentially wide range of people that are involved in any strategic issue which, therefore, raises practical dilemmas about who should be included in a particular issue. However, the paradox of strategy inclusion is that strategic planners and strategy consultants are those with the most access to the CEO on strategy but little responsibility for strategy implementation and little knowledge of the business on the ground. On the other hand, middle managers have least access to the CEO in strategy discussions, either because they are too busy with operational realities or because they are seen as biased. Yet, a McKinsey and Co[887] study indicates that the people involved should vary according to the nature of the issue[888].

4.3.4 FORMAL STRATEGY EXECUTION SYSTEM

The integrated management system of Kaplan and Norton provides a comprehensive closed-loop system that links strategic planning with operational planning, execution, feedback, and learning. It requires simultaneous co-ordination among all staff, and has many moving parts and interrelationships.[889]

Kaplan and Norton focus on the design of a management system for aligning business unit strategy with operations. However, since most organisations consist of multiple business and support units, the management system must also address how strategy is integrated across these diverse organisational units. Moreover, the system must align employees with the strategy. If employees do not understand the strategy and are not motivated to achieve it, a successful execution of strategy will be highly unlikely.[890]

The following chapters will be structured according to the six steps of the discussed integrated management system of Kaplan and Norton.[891]

885 Johnson, Scholes and Whittington (2008), pp. 563-564
886 Johnson, Scholes and Whittington (2008), p. 565
887 Beinhocker and Kaplan (2002), pp. 49-57: figure 2, p. 56, in: Johnson, Scholes and Whittington (2008), p. 566
888 Johnson, Scholes and Whittington (2008), pp. 566-569
889 Kaplan and Norton (2008), p. 18
890 Kaplan and Norton (2008), p. 125
891 Kaplan and Norton (2008), p. 8

CHAPTER Ⅵ DEVELOP THE STRATEGY

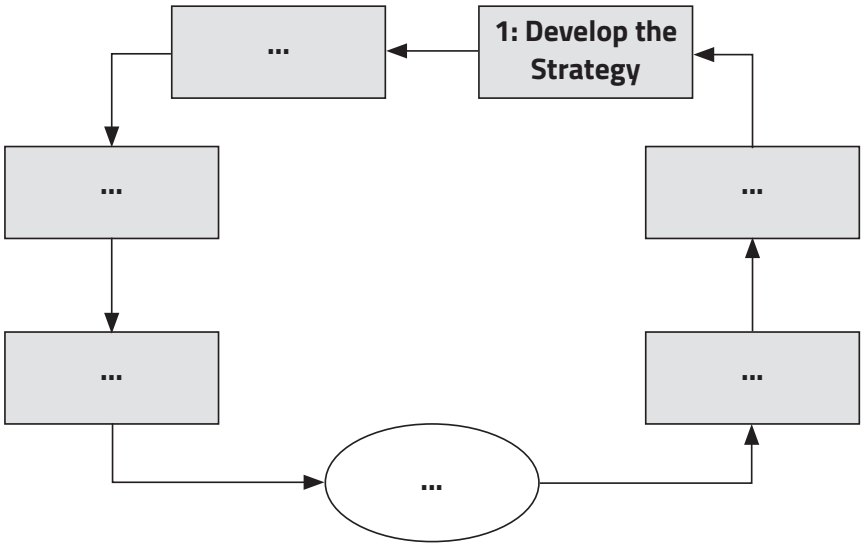
5.1 SUMMARY

To "Develop the Strategy" is the first stage of Kaplan and Norton's closed-loop management system. Every company first has to have a clear picture of its mission, values and vision statement. In a second step, the strategic analysis is conducted. This part is complemented by two additional aspects. First, there is the manager's constant review of the company's actions and the situation it finds itself in. Secondly, there is the strategic change agenda, which defines the journey from where a company is, to what it could become. Finally, the strategy is formulated. It has to be based on agility, i.e. the combination of the four sources of competitive advantage introduced by Blili, and the X-factor universe introduced by Anderson, Froholdt and Poulfelt in 2010.

5.2 DESCRIPTION

In this first stage, according to Kaplan and Norton's closed-loop integrated management system, companies have to develop the strategy.

Figure 7: Develop the Strategy: First Stage of the Management System[892]



In particular, companies in this stage have to address the following three strategy development processes.

1. Clarify your mission, values, and vision: What business is the company in, and why?
2. Conduct a strategic analysis: In this analysis, the company reviews the situation in its competitive and operating environments. Three sources provide input into this update: the internal environment; the external environment; and the progress of the existing strategy. This assessment is summarised in a SWOT table (strengths, weaknesses, opportunities and threats). Finally, a strategic change agenda, which is developed and communicated, explains the need for changes in strategy.
3. Formulate the strategy: In this step, the following questions are addressed:
    - In what niches/spaces should we compete?

892 Based on Kaplan and Norton (2008), p. 8

- What is the customer value proposition for differentiation in the niches/spaces?
- What are the key processes that create the differentiation in the strategy?
- What human capital capabilities are required by the strategy?
- What technology enablers are required by the strategy?[893]

5.3 MISSION, VALUES AND VISION STATEMENT

5.3.1 SUMMARY

Clearly defined missions, values and vision statements, as well as objectives/goals are fundamental for every company. Thus, the customer has to be at the forefront, and it is crucial to ask the following questions: who and where are the customers? Moreover, if organisations are defined as collective action in the pursuit of a common mission, we learn that some of strategy's most fundamental issues concern organisations as instruments for collective perception and action.

5.3.2 DESCRIPTION

5.3.2.1 Decide and Clarify

Managers have to decide how the company should express its strategic purpose through mission, value and vision statements.[894]

Thus, they need to agree on the company's purpose (mission), the internal compass that will guide its actions (values), and its aspirations for future results (vision).[895] Typically, a company's mission and values remain stable over time. The vision is usually not as stable as the mission and values but is often constant over a period of three to five years[896] :

- **Mission/purpose:** The mission or purpose is certainly paramount. Blili states that as a first step in internal analysis (which will be part of the next chapter), it is essential for a company to be clear about its business purpose. It will therefore particularly have to answer the following two questions:
  - Why is the business in existence,
  - and what do the owners expect to gain from owning the business?[897]

  Many successful companies have mission statements that are pithier, more emotionally appealing, more motivating or that offer broader perspectives on the role of the firm in society.[898] Later, we will see the potential for competitive advantage that such an approach encompasses.

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893 Kaplan and Norton (2008), pp. 9-10
894 Johnson, Scholes and Whittington (2008), p. 167
895 The shared service centre of the Hertz rental car company in Dublin, for example, has the following statements and values: *"Mission Statement: To provide a service that exceeds our customers' expectations; Values: Our core values are based on customers, employees, continuous improvement, integrity, profitability; Vision Statement: We will be models of service excellence within the Hertz corporation, amongst our global competitors, and the Irish business community"*, observed during a visit on 21-22 November 2012
896 Kaplan and Norton (2008), p. 37
897 Opinion, Blili (2011)
898 Tallman (2009), p. 7

For Drucker it is difficult, painful, and risky to define the mission and purpose of the business, but it enables a business to set objectives, to develop strategies, to concentrate its resources, to go to work, and be managed for performance.[899]

- **Values:** The second issue in this chapter, i.e. values, may be viewed as core motivations, or as cognitive transformations of basic psychological needs.[900] Other definitions explain values as a broad tendency to prefer certain states of affairs to others[901] or an enduring belief that a specific mode of conduct or end state of existence is preferable to the alternatives[902]. Values are a standard that guide and determine actions, attitudes toward objects and situations, ideology, presentations of self to others, evaluations, judgments, justifications, comparisons of self with others, and attempts to influence others.[903] Another explanation characterises them as concepts or beliefs that pertain to desirable end states or behaviours. They transcend specific situations in guiding the selection or evaluation of behaviours and events, and are ordered in terms of relative importance.[904] Values have to build the fundament of every vision.[905]
- **Vision statement:** Comprehensibility is the pre-condition for the implementation of a vision statement[906] which constitutes a framework in which strategy is elaborated.[907]

  A reasonable vision has to embody long-term aspirations and manifest the inspiration which moves a company forward through ongoing change. It also needs to direct employees on a daily basis to move a step closer to the ambitious goals of the company.[908] However, as with the notion of mission and values, there are also different (in part contradictory) definitions of vision.[909] Lombriser and Abplanalp hold that vision supports the company in the following ways. It:

  - awakens hope and mobilises employees,
  - creates energy in companies,
  - gives meaning to work and the feeling of being part of a prime company,
  - cares for long-term orientation and produces certainty and stability,
  - facilitates consensus in difficult questions during periods of change,
  - allows continuous success and helps to impede short-term opportunism.[910]

899 Drucker (1974a), in: Drucker (2008), p. 28
900 Rokeach (1973), in: Batra, Homer and Kahle (2001), p. 115
901 Hofstede (2001), in: Pushpakumari (2009), p. 98
902 Rokeach (1972), in: Pushpakumari (2009), pp. 98-99
903 Rokeach (1973), in: Pushpakumari (2009), p. 99
904 Schwartz (1992), pp. 1-62, in: Pushpakumari (2009), p. 99
905 Scott-Morgan and Maira (1997), pp. 40-41
906 Stöger (2010), p. 43
907 Stöger (2010), p. 41
908 Scott-Morgan and Maira (1997), pp. 40-41
909 See also Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 10
910 Lombriser and Abplanalp (1998), p. 215, referring to zur Bonsen (1994), Hinterhuber (1989) and Nanus (1994)

These authors also point out that pictures facilitate communication, and that a vision may be visualised by pictures, symbols and graphic presentations.[911] Finally, the literature predicts that shared vision also becomes the driving force for change, since it is during the vision-building process that stakeholders can form beliefs, attitudes, and goals developing the commitment to support change.[912]

- **Objectives/Goals:** If the basic definitions of the business, its purpose and mission are not translated into objectives, they remain insights, good intentions, and brilliant epigrams that never become achievement.[913] Objectives or goals in general state what has to be achieved and when results are to be accomplished, but not how the results are to be achieved.[914] The goals stated by a company are critical for its long-term success. If it locks into a vision prematurely, its opportunities can artificially be narrowed and ongoing learning prevented. On the other hand, if it fails to solidify a vision, as time goes on, the result can be an unwillingness to make substantial commitments or a string of actions that are inconsistent with each other.[915] For a manager, understanding of the environment and dialogue with his or her chief executive results in clear goals.[916]

5.3.2.2 From Mission to Strategic Outcomes

"Actually, What is our business? is almost always a difficult question and the right answer is usually anything but obvious.... The answer to the question, What is our business? is the first responsibility of top management.... That business purpose and business mission are so rarely given adequate thought is perhaps the single most important cause of business frustration and business failure."[917]

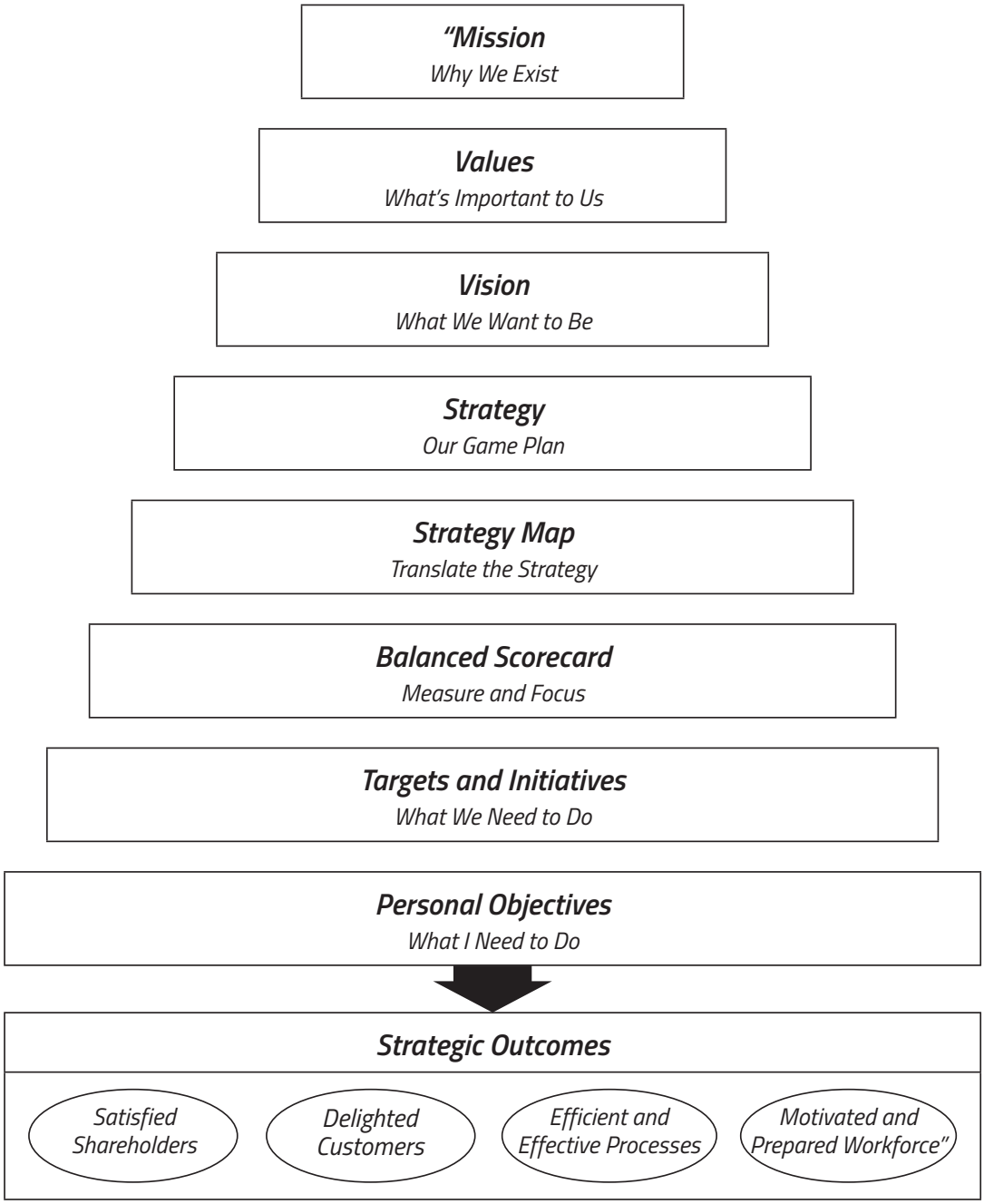
From Drucker, we learn that, as far as the definition of business purpose and business mission are concerned, only the customer provides such a focus and starting point. The business is defined by the want that the customer satisfies when he or she buys a product or service, and the mission and purpose of every business is to satisfy the customer. Therefore, the answer to what one's business is can only be answered by looking at the business from the outside, from the point of view of the customer and the market. Thus, the first and most crucial question to be asked in defining the business purpose and mission is "Who is the customer?"[918] Yet, the question "Where is the customer?" is also important[919] and will later lead us to questions concerning internationalisation.

To put things in perspective, strategy, according to Kaplan and Norton, is not a stand-alone management process, but one step in a logical continuum that moves an organisation from a high-level mission statement to the work performed by frontline

911 Lombriser and Abplanalp (1998), p. 228
912 Smyth (2002), in Smyth (2004), p. 175
913 Drucker (1974a), in: Drucker (2008), p. 28
914 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 10
915 Collis and Montgomery (2005), p. 91
916 Parry (2008), p. 15
917 Drucker (1974a), in: Drucker (2008), p. 24
918 Drucker (1974a), in: Drucker (2008), p. 24
919 Drucker (1974a), in: Drucker (2008), p. 25

and back-office employees. With reference to the balanced scorecard, which they argue is a step in a continuum that describes what value is and how it is created, they have found that the figure below represents an effective framework in practice.[920]

Figure 8: The Creation of Value[921]



5.3.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

If organisations are defined as collective action in the pursuit of a common mission, then strategy as a perspective raises the issue of how intentions diffuse through a group of people to become shared as norms and values, and how patterns of behaviour become

920 Kaplan and Norton (2004b), p. 33
921 Based on Kaplan and Norton (2004b), p. 33

deeply ingrained in the group. Thus, strategy is not just, as it is treated in so much of the literature and in popular usage, a notion of how to deal with enemies, competitors or a market. It also raises some of the most fundamental issues about organisations as instruments for collective perception and action.[922]

5.4 CONDUCT STRATEGIC ANALYSIS

"Strategy issues are complex, yet the manager has limited time to analyze them."[923]

5.4.1 SUMMARY

The analysis of the internal and external environment is especially challenging in the international dimension. It has to be systematically carried out according to a clearly defined method. Therefore, one of the biggest challenges is to effectively transform data and information into knowledge, which also has to do with organisational learning. This input, together with information on the progress of the existing strategy, a SWOT analysis, and a strategic change agenda, is the basis for managers that constantly have to review their situation.

5.4.2 DESCRIPTION

5.4.2.1 Internal Environment

During the internal analysis, an organisation's own performance and capabilities are examined.[924] One useful tool for doing this is performance management, which can be seen as an umbrella concept that integrates operational and financial information into a single decision-support and planning framework.[925] In some sense, it is the equivalent of a nervous system that shows what is ongoing in a company and can avert problems in the future.[926]

Value creation and competitive advantage are core issues when attempting to understand why over time certain companies consistently perform better than others. In order to understand these two issues, firm analysis is fundamental.[927] At the same time, there is a relationship between these two issues, since it is important to understand how value is created in order to understand competitive advantage. This needs to be analysed within a company and within current and future competitors.[928]

From a resource-based view, the assessment of the *internal environment* is about evaluating the resources (physical, knowledge and relationship assets) that are either

922 Mintzberg H. (1987a), p. 21
923 Mintzberg (1973a), p. 186
924 Kaplan and Norton (2008), p. 49
925 Cokins (2009), p. 10; For Cokins, performance management is all about synchronising improvement at an enterprise-wide level in order to create value for and from customers, with the result of economic value creation for stockholders and owners. According to a simple definition, it is the translation of plans into results, i.e. execution. As such, it is the process of managing an organisation's strategy, in: Cokins, p. 9; Cokins also holds that today performance management is widely accepted as enterprise-wide performance management of an organisation as a whole. Clearly, an important element in improving an organisation's performance is the performance of employees, yet human capital management is just one component in the broad framework of performance management, in: Cokins, p. 7.
926 Woods (2008), in: Cokins (2009), p. xxiv
927 Opinion, Blili (2011)
928 Opinion, Blili (2011)

available or can be acquired by firms.[929] In this respect, intangible assets are increasingly important, as we have already seen.

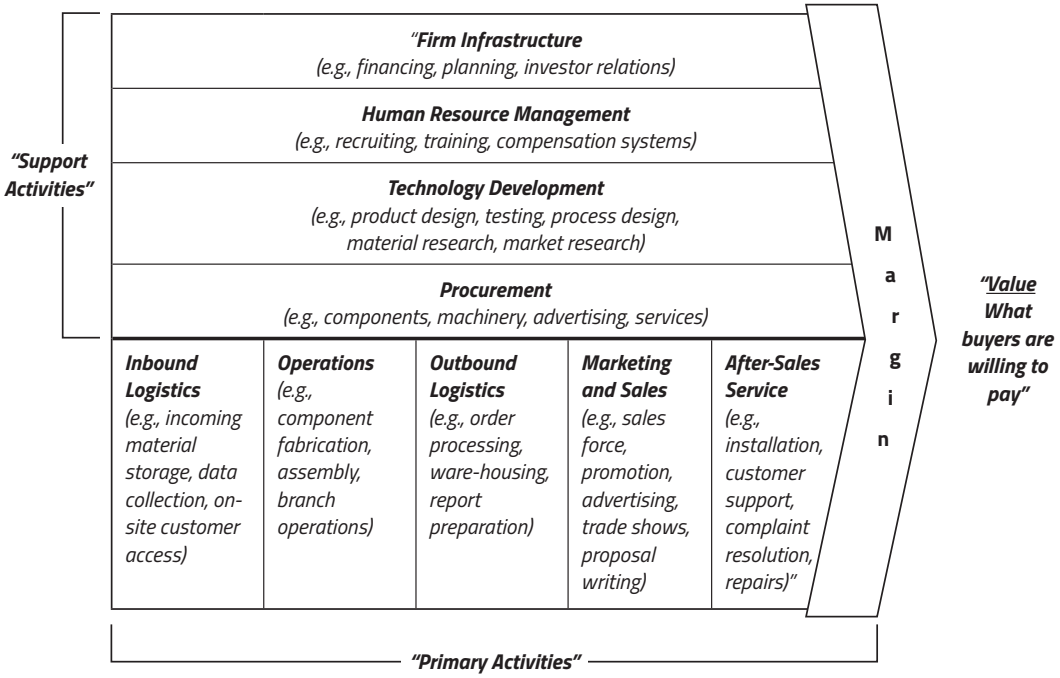
The following aspects should be analysed as part of the internal environment.

5.4.2.1.1 The Value Chain

The value chain, developed by Porter, and a model that has dominated business thinking since its introduction in 1985,[930] allows competitive advantages to be analysed.

When serving a local market in the industrial economy, a company enjoys relative autonomy. It therefore develops a competitive advantage by carefully selecting only those activities that add value to its product or service. It also has a relatively high level of control over its core activities (from procurement logistics to product development, distribution, marketing and after-sales service). These activities are supported by other ones (firm infrastructure, human resource management, technological development, supply of raw materials). Porter[931] calls all these interdependent activities, within which competitive advantage lies, the value chain.

Figure 9: The Value Chain[932]



This *"set of activities through which a product or service is created and delivered to customers"*[933] is an important model for strategy, since it *"goes far beyond the pursuit of best practices. It involves the configuration of a tailored value chain – the series of activities required to produce and deliver a product or service – that enables a company to offer unique value."*[934] The value chain framework identifies all these activities and analyses how they

929 McDonald and Burton (2002), p. 247
930 Hollensen (2011), p. 33
931 (1985)
932 Based on Porter (2008), p. 310
933 Porter (2001), p. 41, in: Kaplan and Norton (2008), p. 49
934 Porter (2001), p. 25

affect costs, as well as the value delivered to buyers.[935] When customers are willing to pay a price for a product or service that exceeds the cost of producing it, economic value is created.[936] The value chain concept developed by Porter[937] describes the categories of activity within and around an organisation which together create a product or service.[938]

To be defensible, it must be highly integrated, as when the activities of a company fit together as a self-reinforcing system, an imitator of the strategy cannot just copy one or two discrete product features or ways of performing particular activities but has to replicate the whole system.[939]

Value chain analyses also allow multinational companies to decide how best to make use of their resources. This means that if, for example, the lowest cost location for product assembly is Poland for distribution to Europe, and in Mexico to supply the Americas, the location of inbound logistics, operations and outbound logistics should follow from these resource considerations, thereby leading to a chain of activities that maximises value. Aspects of external environment assessment (for example, issues connected to location, such as supporting industries and government agencies) and also the internal resources of firms can be embraced by this approach.[940] Value chain analysis allows the incorporation of generic strategies so that the company can adapt to different competitive conditions.[941]

As far as disadvantages are concerned, it should be mentioned that the value chain model is not adapted to service industries. Therefore, in adapted models the function "production" has been replaced by the activity "servuction". With the servuction concept, companies increase the amount of services that are provided to clients.

In addition, it does not take into account aspects of corporate social responsibility (CSR). However, these were later integrated by Porter and Kramer.[942] Although the value chain is widely used, Lombriser and Abplanalp consider it to be one of the most challenging tools in strategic management.[943]

5.4.2.1.2 The State of Key Processes

"The art of strategy is to identify and excel at the critical few processes that are the most important to the customer value proposition."[944]

In the value chain, competitive advantage is developed by carefully selecting only those activities that add value to the product or service and where the company has a relatively high level of control over its core activities.[945]

Hence, there are a few critical internal processes that deliver the differentiating value proposition and that are most critical for enhancing productivity and maintaining

935 Porter (2001), p. 41
936 Porter (2001), p. 38
937 Porter (1985a), in: Johnson, Scholes and Whittington (2008), p. 110
938 Johnson, Scholes and Whittington (2008), p. 110
939 Porter (2001), p. 26
940 McDonald and Burton (2002), pp. 247-248
941 McDonald and Burton (2002), p. 248
942 Porter and Kramer (2006), pp. 76-92; See also Hoffmann and Saulquin (2009), pp. 37-55
943 Lombriser and Abplanalp (1998), p. 139
944 Kaplan and Norton (2004b), p. 47
945 Opinion, Blili (2010)

the organisation's franchise to operate. It is on these that companies must focus. A taxonomy that classifies internal processes into four clusters is presented below:[946]

- **Operations Management Processes** produce and deliver goods and services to customers. For all companies, managing operations remains a priority.[947] Without excellent operations, they will find it difficult to execute strategies.[948] Four important processes can be encompassed by operations management:
    - *"Develop and sustain supplier relationships.*
    - *Produce products and services.*
    - *Distribute and deliver products and services to customers.*
    - *Manage risk."*[949]
- **Customer Management Processes** have recently begun to be reflected in modern business strategy. In the product-driven industrial era, the underlying philosophy was that if something was built, customers would come. Instead, the new economy has heightened the importance of customer relationships, whereas companies in the industrial era succeeded through efficient operations and product innovation. Even though these latter two issues remain important for strategic success, the evolution of computer and communications technology has shifted the balance of power from producers to customers. Customers now launch transactions and lead rather than react to marketing or sales calls. Dell and Levi Strauss, for example, use their company websites to design their own product configurations.[950] With the following four sets of customer management processes, relationships with targeted customers are expanded and deepened:[951]
    - *"Select customers.*
    - *Acquire customers.*
    - *Retain customers.*
    - *Grow relationship with customers."*[952]
- **Innovation Processes** are required for organisations in order to create new products, services, and processes and to sustain competitive advantage. If they are successful, they drive customer acquisition and growth, margin enhancement, and customer loyalty. If there is no innovation, a company's value proposition can eventually be imitated and lead to competition solely on price for its now commoditised products and services. Instead, when companies have the capability to bring innovative products which are well-matched to targeted customers' needs and expectations to the market fast and efficiently, they create considerable competitive advantages. In some dynamic, technologically-based industries (for example, pharmaceuticals, semiconductors, and telecommunications),

946 Kaplan and Norton (2004b), p. 12
947 Porter (1996), pp. 61-64, in: Kaplan and Norton (2004b), p. 65
948 Kaplan and Norton (2004b), p. 65
949 Kaplan and Norton (2004b), pp. 65-68
950 Kaplan and Norton (2004b), p. 105
951 Kaplan and Norton (2004b), p. 45
952 Kaplan and Norton (2004b), p. 107

product innovation is the prerequisite for participation.[953] Moreover, industry leaders are determined by exceptional innovation capabilities.[954] The following four processes are included in managing innovation:

- *"Identify opportunities for new products.*
- *Manage the research and development portfolio.*
- *Design and develop the new products and services.*
- *Bring the new products and services to market."*[955]

- **Regulatory and Social Processes** make it possible for companies to continually earn the right to operate in the communities and countries in which they produce and sell. There are national and local regulations that impose standards on companies' operations, for example: the environment, employee health and safety, hiring and employment practices. Companies must, as a minimum, comply with all these regulations on business practices to avoid shut-downs or expensive litigation. Many companies, however, wish to go beyond compliance with the minimum standards and perform better than the regulatory constraints, so that they develop a reputation as an employer of choice in every community in which they operate.[956] To conclude, regulatory and social performance are managed and reported by companies along several dimensions:
  - *"Environment.*
  - *Safety and health.*
  - *Employment practices.*
  - *Community investment".*[957]

What needs to be noted, once again, is that there can be literally hundreds of subprocesses in each of these clusters that create value in some way. Thus, it is important for *"executives practicing the art of strategy"* to identify the critical few processes that are the most important for creating and delivering the differentiating customer value proposition. Kaplan and Norton refer to these critical few processes as strategic themes.[958]

The processes listed above are basic activities of most companies. By combining the four sources of competitive advantage with the X-factor universe, we will later identify more specific processes and visualise them in the strategy map.

5.4.2.1.3 Learning and Growth

The learning and growth perspective consists of so-called intangible assets. These have been described by Stewart as *"knowledge that exists in an organization to create differential advantage"*[959] or *"the capabilities of the company's employees to satisfy customer needs."*[960]

953 Kaplan and Norton (2004b), p. 135
954 Wheelwright and Clark (1992), p. 1, in: Kaplan and Norton (2004b), p. 135
955 Kaplan and Norton (2004b), p. 135
956 Kaplan and Norton (2004b), p. 163
957 Kaplan and Norton (2004b), pp. 167-168
958 Kaplan and Norton (2004b), p. 12
959 Stewart (1991), pp. 44-60, in: Kaplan and Norton (2004b), p. 202
960 Stewart (1998), p. 67, in: Kaplan and Norton (2004b), pp. 202-203

In developing the balanced scorecard, Kaplan and Norton identified, in its learning and growth perspective, three categories of intangible assets essential for implementing any strategy:[961]

- *"**Human Capital:** the skills, talent, and knowledge that a company's employees possess."*[962]
- *"**Information Capital:** the company's databases, information systems, networks, and technology infrastructure."*[963] This second category consists of the following two components: technology infrastructure and information capital applications.[964]
- *"**Organization Capital:** the company's culture, its leadership, how aligned its people are with its strategic goals, and employees' ability to share knowledge."*[965]

We will later discuss in more detail the important aspects of the learning and growth perspective.

5.4.2.1.4 Financial Analysis

Financial aspects form an integral part of any industry analysis and therefore of any business strategy process. The financial analysis should, for example, include a summary of the company's performance in multiple financial ratios compared to its competitors[966]. A part of the financial analysis may be covered by the diagnostic tools that are proposed below.

5.4.2.1.5 Diagnostic Tools

Drucker argues that since enterprises have to be managed as going concerns, i.e. for wealth creation,[967] their executives require information in order to make informed judgments. Thus, the following four sets of diagnostic tools are required:

- **Foundation information:** The oldest, most widely used set of diagnostic tools may be likened to the measurements a doctor takes at a routine check-up: weight, pulse, temperature, blood pressure, and urine analysis. These readings do not say much if they are normal, but if they are abnormal, they indicate a problem that needs to be identified and treated. Such management tools are cash flow, liquidity projections, the ratio between dealers' inventories and sales, the earnings coverage for the interest payments on a bond issue, and the ratios among receivables outstanding for more than six months, total receivables, and sales.[968]
- **Productivity information:** This set of tools for business diagnosis includes productivity measures of manual labour, economic value added (EVA, which in effect, measures the productivity of all factors of production), and benchmarking (comparing one's performance with the best performance in the industry or anywhere in business).[969]

961 Kaplan and Norton (2004a), p. 55
962 Kaplan and Norton (2004a), p. 55
963 Kaplan and Norton (2004a), p. 55
964 Kaplan and Norton (2004b), p. 251
965 Kaplan and Norton (2004a), p. 55
966 Kaplan and Norton (2008), p. 48
967 I.e. they are not run in order to be liquidated
968 Drucker (1995), in: Drucker (2008), p. 103
969 Drucker (1995), in: Drucker (2008), pp. 103-104

- **Competence information:** With the ground-breaking article "The Core Competence of the Corporation" by Prahalad and Hamel, it was seen that leadership rests on being able to do something others cannot do at all or find difficult to do even poorly. Core competencies are different for every organisation and are, so to speak, part of its personality. However, every organisation (not just businesses) needs one particular core competence: innovation. In addition, every organisation needs to record and appraise its innovative performance. Since a good deal of this is assessment rather than measurement, it raises questions rather than answers them. However, it raises the right ones.[970]
- **Information about the allocation of scarce resources**: Finally, to manage the current business for wealth creation, diagnostic information about the allocation of scarce resources, capital[971] and performing people is needed, since they determine whether the enterprise will do well or poorly[972]. To understand a proposed investment, a company needs to look at the following four yardsticks: return on investment, payback period, cash flow, and discounted present value.[973] In an effort to create wealth, the allocation of human resources has to be done as purposefully and thoughtfully as it is done with capital.[974]

The listed diagnostic tools constitute the executive's tool kit for managing the current business[975] by informing and directing tactics. Inside the organisation, there are only cost centres. However, for strategy, organised information about the environment (markets, customers and non-customers, technology in one's own industry and others', worldwide finance, and the changing world economy) is needed, for that is where the results are.[976]

5.4.2.2 External Environment

The impact of macro- and industry-level trends on the company's strategy and operations needs to be understood by the executive team. In the external analysis, the macroeconomic environment of economic growth, interest rates, currency movements, input factor prices, regulations, and general expectations of the corporation's role in society are assessed.[977]

Eventually, all organisations function within the value patterns of the cultural environment in which they are embedded, the political structure or pattern of legal norms and statutes that define their formal legitimacy and limit their activities, the economic environment of competitive markets and competitive sources of input (labour force and materials), the informational and technological environment, as well as the natural or physical environment of geography, natural resources, and climate.[978]

However, when it comes to factors that affect international business operations, McDonald and Burton are convinced that political, economic and social factors (other than cultural differences) often have little attention paid to them. Instead, the focus is on strategic and operational policies to create, maintain or develop competitiveness,

970 Drucker (1995), in: Drucker (2008), pp. 104-106
971 *"Capital, however, is only one key resource of the organization, and it is by no means the scarcest one. The scarcest resources in any organization are performing people.",* in: Drucker (1995), in: Drucker (2008), p. 108
972 Drucker (1995), in: Drucker (2008), p. 106
973 Drucker (1995), in: Drucker (2008), p. 107
974 Drucker (1995), in: Drucker (2008), p. 108
975 Drucker (1995), in: Drucker (2008), p. 103
976 Drucker (1995), in: Drucker (2008), p. 108
977 Kaplan and Norton (2008), pp. 47-48
978 Katz and Kahn (1978), p. 124

and also on the management of cross-cultural problems that are normally considered to be the major obstacles to international business. Therefore, they argue that differences in political, economic and social conditions in various parts of the world, and the multifaceted interaction between these factors, also need to be considered, and that this requires a good understanding of the complexity that arises in conducting international business activities.[979]

Thus, the external environment is often analysed from a macro- and a micro-perspective.[980] Micro- and macroeconomic conditions vary considerably from location to location and have profound effects on both market potential and upstream investment.[981]

5.4.2.2.1 Macro Factors

The scanning of macro factors is used to identify industries and markets that are expanding, contracting and in the early stages of development, as well as to assess the political risks associated with operations in different parts of the world.[982] Often, a PESTEL (political, economic, social, technological, environmental and legal components and factors) analysis is used to help structure the assessment process:[983]

- **Political:** A company already operating or thinking about investing in foreign markets is certainly interested in a timely, accurate and objective analysis of the political situation. This includes information about the political system, the personalities in the government and parliament, as well as those in major political parties, etc. Screening also requires examination of factors such as the level of trade barriers, taxation rates and restrictions on foreign ownership, including repatriation of profits and restrictions on capital movement.[984] In addition, a risk assessment of the changes that could harm the company must be carried out.[985] In developing nations, with virtually identical political and economic spheres, investment is impossible without political connections.[986] Eventually, given the need to amortise their investments over the longer term and to minimise their risks, multinational companies in particular look for stable and predictable environments. Due to their greater ability to adapt, SMEs are less affected by this factor.[987]
- **Economic:** Within the economic analysis, it is determined whether the macroeconomic conditions (e.g. inflation rates, balance of payments, exchange rate stability, government budgets and the record of growth) are conducive to stable economic conditions.[988] Demographic factors together with measures such as disposable income per head will be added to this. This analysis also includes microeconomic data (e.g. the size and development of particular markets, and price movements in these markets).[989] The economic climate and stage of the business cycle also have a significant impact on the behaviour of both consumers/business customers and suppliers.[990]

979 McDonald and Burton (2002), p. 2
980 McDonald and Burton (2002), p. 245
981 Tallman (2009), p. 178
982 McDonald and Burton (2002), p. 245
983 McDonald and Burton (2002), p. 245 and Kaplan and Norton (2008), pp. 47-48
984 McDonald and Burton (2002), p. 276
985 McDonald and Burton (2002), p. 276
986 Tallman (2009), p. 178
987 Opinion, Blili (2010)
988 McDonald and Burton (2002), pp. 276
989 McDonald and Burton (2002), pp. 276
990 Opinion, Blili (2011)

- **Social and cultural:** A company that intends to develop its presence in a given or focused geographic area has to understand how social and cultural expectations influence the needs of their customers, and be prepared to respond to these constantly changing needs.[991] In particular, the assessment of cultural conditions is perhaps the most difficult task of the market assessments that should be carried out. Inadequate screening can be an expensive way to find out about the cultural values of countries.[992] Even small differences can have important effects on the impact of product characteristics, worker sensibilities, and consumer responses.[993]
- **Technological:** The impact of technology has the potential to change the traditional boundaries of an industry.[994] It is therefore important to look beyond traditional boundaries when considering how to take advantage of new technologies. This requires the understanding of technological developments from a very wide perspective and the consideration of their implications on both supply and demand dynamics.[995] Awareness of technology is dependent on economic development. In many countries, there is no access to technologies that are common in the developed world.[996]
- **Environmental:** Especially in developed countries with their environmental pressures, many companies are subject to strict controls. Therefore, they review their production processes, and seek ways to reduce energy requirements and waste products.[997] At the same time, companies will increasingly sell solutions to the world's environmental problems.[998]
- **Legal:** Regulatory and legal systems vary considerably around the world. In many countries of the developing world, the rule of law is *much* less deterministic and predictable than in the West.[999] Yet, even in the developed world, systems vary and can come into conflict.[1000] The evaluation of legal aspects should include the protection of intellectual property, labour laws and other aspects of business law.[1001] In addition, the type of incentives available for direct foreign investments and the likelihood of being able to obtain exemptions from laws and policies that would hamper operations may be considered.[1002] Furthermore, patents, brands, and authors' copyrights are particularly important for companies that are considering licensing as an entry strategy.[1003] In the case of companies which adopt a strategy of "global branding", the importance of the issue increases tenfold. In this case, international agreements concerning registration and protection of brands and other rights and patents are crucial.[1004]

991 Opinion, Blili (2011)
992 McDonald and Burton (2002), p. 277
993 Tallman (2009), p. 181
994 Opinion, Blili (2011)
995 Opinion, Blili (2011)
996 Tallman (2009), pp. 180-181
997 Opinion, Blili (2011)
998 Hart (1997), p. 112
999 Tallman (2009), p. 179
1000 Tallman (2009), p. 181
1001 McDonald and Burton (2002), p. 276
1002 McDonald and Burton (2002), p. 276
1003 Opinion, Blili (2010)
1004 Opinion, Blili (2010)

5.4.2.2.2 Micro Factors

Micro analysis focuses on issues such as the nature of the competition and detailed locational issues such as costs and benefits of particular locations within a country or region. This includes gathering information on competitors, prices, sales, wage costs, taxes, and institutional and cultural data on operating in different locations.[1005] Here, we will take a closer look at industry, competitor and customer analysis.

- **Industry-level examination:** The most commonly applied framework in the field of industry-level examination is the five forces model developed by Porter:[1006] the bargaining power of buyers, the bargaining power of suppliers, the availability of substitutes, the threat of new entrants, and industry rivalry[1007]. These forces in combination determine how economic value is divided between companies in an industry, as well as customers, suppliers, distributors, substitutes, and potential new entrants.[1008] It is therefore a model that calibrates the attractiveness of an industry and aids in identifying specific forces that are shaping the industry, either favourably or unfavourably.[1009] The essential message is that if these five forces are high, industries are not attractive to compete in, since there will be too much competition and too much pressure to allow reasonable profits.[1010]

  To understand industry competition and profitability, the industry's underlying structure in terms of the five forces must be analysed.[1011] This is also essential for effective strategic positioning.[1012] Porter argues that for strategy it is crucial to defend against competitive forces and shape them in a company's favour.[1013] The understanding of the forces that shape industry competition is also a baseline for sizing up a company's strengths and weaknesses (a company's standing versus buyers, suppliers, entrants, rivals, and substitutes), and guiding managers toward fruitful possibilities for strategic action.[1014]

  However, competitive forces change over time and therefore industry structure analysis can easily become static (after all, structure implies stability).[1015] Thus, industry structures are likely to be altered by key drivers for change and scenario analyses can be used to understand possible impacts. There are three additional approaches that help to understand change in industry structure:[1016]

  - **The industry life-cycle concept:** In their development stage, industries start small, then grow rapidly and culminate in a period of "shake-out".[1017]

1005 McDonald and Burton (2002), p. 245
1006 Porter (1980), in: Tallman (2009), p. 72
1007 *"Recently, a sixth force, the role of complementors, has been added to the five forces framework."*, see Porter (2008b), pp. 86-87, in: Kaplan and Norton (2008), p. 48
1008 Porter (2001), p. 10
1009 Kaplan and Norton (2008), p. 48
1010 Johnson, Scholes and Whittington (2008), p. 60
1011 Porter (2008), p. 3
1012 Porter (2008), p. 4
1013 Porter (2008), p. 4
1014 Porter (2008), pp. 26-27
1015 With reference to Grundy (2006), pp. 213-229, in: Johnson, Scholes and Whittington (2008), p. 67
1016 Johnson, Scholes and Whittington (2008), p. 67
1017 Johnson, Scholes and Whittington (2008), p. 67

- **Hyper-competitive cycles of competition:** In some industries, cycles of competition, i.e. the move and counter-move of price cuts that are matched and innovations imitated, become so intense and fast that industry structures are constantly undermined.[1018]
- **Comparative five forces analyses:** They make industry structure analysis dynamic by comparing the five forces over time in a sample "radar plot".[1019]

Since rivalry in many industries has shifted from national to regional, and then to global arenas in a very few years, industry structure is a much more complicated issue internationally.[1020] The impact of outside forces from the political, cultural, and legal environments on competitive conditions is also much more noticeable than in domestic industries.[1021]

An industry, however, may be too high a level to provide for a detailed understanding of competition.[1022] Since competitors and markets are the most immediate layer surrounding organisations,[1023] we will address competitors and customers as well as the business relationship separately.

- **Competitor Assessments:** A Chinese proverb says that if one knows the enemy as well as oneself, even in a hundred battles, one will never run the risk of losing. Knowing the enemy but not oneself may result in either a win or a loss. However, knowing neither the enemy nor oneself will certainly lead to the loss of each battle.[1024] Thus, it is essential to understand and cope with competition.[1025] A company which wants to outperform the competition needs to be able to see the competitive environment clearly and to anticipate and respond to customers' evolving needs and wants.[1026] Competitor analysis enables a company to make certain predictions about the market responses of its competitors.[1027] Such an analysis should take into account competitive dimensions like product scope, technological capabilities, geographical reach, sales, assets, market share, and profitability.[1028] Evaluation in foreign markets requires detailed knowledge about which firms are already in the market and which are likely to enter.[1029] When assessing the prospects for the capture of a sufficient market share to make entry worthwhile, information on the types of products sold by competitors, and other information such as prices, quality of after-sales service, and the effectiveness of rivals' distribution systems will help.[1030] Entry into markets which are characterised by strong competition will require knowledge of the technology used by main competitors and the effectiveness of their promotion, distribution and logistical systems. In an environment with a low level of competition, it is useful to know if potential competitors are planning to enter the market and to have some indications

1018 Johnson, Scholes and Whittington (2008), p. 69
1019 Johnson, Scholes and Whittington (2008), p. 71
1020 Tallman (2009), p. 76
1021 Tallman (2009), p. 76
1022 Johnson, Scholes and Whittington (2008), p. 73
1023 Johnson, Scholes and Whittington (2008), p. 55
1024 Schwarz (2000) on Sun Tzu, around 500 BC, p. 19
1025 Porter (2008); p. 3; See also: Porter (1979), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 94
1026 Stalk, Evans, and Shulman (1992), pp. 186-187
1027 Opinion, Blili (2011)
1028 Kaplan and Norton (2008), pp. 49
1029 McDonald and Burton (2002), pp. 277-278
1030 McDonald and Burton (2002), pp. 277-278

of their likely competitive advantages.[1031] Finally, when applying industry and competitive analysis to international and global industries, two considerations must be taken into account:

- First, it is essential that the global scope of such industries be matched by global horizons in the analysis.
- Second, when entering new local markets, firms should conduct a local competitive analysis, but at the same time keep in mind that the local market may be influenced by competition in the international market,[1032] i.e. companies need to understand the global as well as the local aspects of their competition[1033]. Thus, companies have to bear in mind that Asia and other emerging regions are changing from a low-cost production area to the role of serious competitors.

- **Customer Analysis:** A company needs to understand its customer's needs and wants. Customers are looking for solutions to problems and value a given set of attributes in a particular way, which may or may not coincide with what a company believes it is selling.[1034] Customer expectations are not all the same but have a range of different requirements. The importance of this can be understood through the concepts of market segments and critical success factors.[1035] For the potential provider, it is valuable to understand which features are of particular importance (critical success factors) to a group of customers (market segments). It is in those product features that the organisation must excel to outperform competition.[1036] Hence, attractive customer segments are identified, the value appealing to these segments is crafted, and the brand image that attracts customers in these segments to the company's products and services is created.[1037] This understanding helps the company to fine-tune the business and enables it to maximise the likelihood of the business achieving high levels of customer satisfaction and therefore commercial success.[1038] A comprehensive assessment will also identify the most attractive market segments, gain insights into the main factors that influence customers' value perceptions, and map the relative importance of these value perception factors.[1039] In addition, customers can differ significantly and be captured by the distinction between strategic customers, ultimate customers and market segments.[1040] Customers are, of course, essential for the survival of every business, but one also needs to bear in mind that sometimes they have such bargaining power that their suppliers are hard pressed to make any profits at all.[1041]
- **Business Relationship:** The two forms "Business to Business" (B2B) and "Business to Customers" (B2C) show fundamental differences in their approach to operations and marketing. B2B is a form with a company on the supplier side

1031 McDonald and Burton (2002), pp. 277-278
1032 Tallman (2009), p. 71
1033 Tallman (2009), p. 77
1034 Opinion, Blili (2011)
1035 Johnson, Scholes and Whittington (2008), p. 55
1036 Johnson, Scholes and Whittington (2008), p. 79
1037 Kaplan and Norton (2004b), p. 100
1038 Opinion, Blili (2011)
1039 Opinion, Blili (2011)
1040 Johnson, Scholes and Whittington (2008), p. 73
1041 Johnson, Scholes and Whittington (2008), p. 62

and a sole trader, company or institution[1042] on the customer side,[1043] and there is an absence of intermediaries in between[1044]. During the last few decades, in this environment an overall trend towards closer relationships and a decreasing number of relationships has been observed.[1045] Companies are more unwilling to break relationships, because of the bonds between the buyer and seller and the high costs of changing supplier.[1046] From Davis, Golicic and Marquardt, we learn that the greater loyalty in B2B relationships may be explained by the need for greater reliability among trading partners.[1047] On the other hand, in B2C markets dissatisfied consumers always have the alternative of exiting from the supplier-consumer relationship, since the number of companies offering the same kind of products is usually high.[1048] Hence, customers are less loyal and more likely to switch.[1049] B2B markets also include a large number of transactions and are usually more complex.[1050] Compared to B2C markets, the transaction volume is much greater,[1051] and since there are fewer subjects, the value of each B2B transaction and purchase amount is much bigger.[1052] It is a characteristic of B2B markets that there are fewer and larger buyers, which are often geographically concentrated and have technological links with the supplier.[1053] Moreover, the marketing mix of B2C markets differs from B2B relationships, where personal selling is mainly emphasised. Other marketing communications, such as advertising and sales promotion, play a smaller role in B2B relationships.[1054] Hence, the marketing mix in B2B markets is also influenced by the interaction process itself between buyer and seller, so that the influence process is one of negotiation rather than the persuasion of the traditional marketing mix.[1055] Compared to a B2C relationship, after-sales contacts in the B2B environment are more frequent, since the number of clients tends to be fewer and thus they are more valuable.[1056] As a result, B2B companies usually have key account management,[1057] which is used by suppliers to target and serve important potential customers with complex needs by providing them with special treatment in the areas of marketing, administration and service[1058].

5.4.2.2.3 The International Dimension

Many companies do not conduct a detailed assessment of the institutional system in other countries. Yet, the failure to do so can lead to costly mistakes.[1059] This has been

1042 According to some sources, government institutions are also included in the B2B environment, in: Kotler and Armstrong (2009), in: Kolis and Jirinova (2013), p. 22
1043 Kumar and Reinartz (2012), p. 261, in: Kolis and Jirinova (2013), p. 22
1044 Hollensen (2011), p. 464
1045 Ulaga and Eggert (2006), pp. 311-327, in: Kolis and Jirinova (2013), p. 23
1046 Hollensen (2011), p. 464
1047 Davis, Golicic and Marquardt (2012), p. 200, in: Kolis and Jirinova (2013), p. 24
1048 Hollensen (2011), p. 464
1049 Saini, Grewal and Johnson, in: Kolis and Jirinova (2013), p. 24
1050 Saini, Grewal and Johnson (2010), pp. 365-383; Davis, Golicic and Marquardt (2012); Hutt and Speh (2012), p. 38, in: Kolis and Jirinova (2013), p. 22
1051 Kumar and Reinartz (2012), p. 261, in: Kolis and Jirinova (2013), p. 23
1052 Saini, Grewal and Johnson; Kumar and Reinartz (2012), in: Kolis and Jirinova (2013), p. 23
1053 Hollensen (2011), p. 464
1054 Fill (1999), p. 535, in: Tossavainen and Turta (2013), p. 20
1055 Hollensen (2011), p. 453
1056 Tossavainen and Turta (2013), p. 10
1057 Tossavainen and Turta (2013), p. 27
1058 Jobber and Lancaster (2000), p. 127, in Tossavainen and Turta (2013), p. 27
1059 McDonald and Burton (2002), p. 276

discovered by many companies who believed that the fall of communism and the introduction of markets had led to political and legal conditions that were similar to those in developed countries and so entered the Russian market.[1060]

Strategy analysis is especially important during the internationalisation process where the transfer from data to useful knowledge becomes a huge challenge:

- Companies that develop an international marketing strategy need certain abilities. These include the acquisition of knowledge about foreign markets and supply conditions to these markets, and also the rapid adjustment of their plans based on the acquired knowledge. This does not need to follow a linear path of development from exporting to more complex entry modes.[1061]
- For international business, the differences in economic, legal, political and cultural factors make transforming information into knowledge difficult. With the use of e-business systems, this is not necessarily reduced but may, instead, be increased because of information overload. Therefore, for effective e-business systems, fact-finding and familiarisation visits to countries that are being assessed for business opportunities, or the use of people who are familiar with these countries, may be just as important.[1062]
- By analysing information, companies can decipher trends and identify competitive or strategic data. With the development of information technology (IT), information systems (IS) and e-business, they now have additional means of structuring information coming from the environment in which they are evolving.[1063] Once again, transforming the enormous amounts of information provided by the internet into knowledge can be a daunting and difficult task. This is not the case for standardised and codified information, which can relatively easily be transformed into knowledge. However, it is more difficult for information that is acquired by experience and is tacit.[1064] Thus, an important element of the ability of firms to derive net benefits from global e-business systems will be to effectively transform information that has been gathered from them into knowledge.[1065]
- For an assessment of whether their firm-specific competencies make them potentially successful, exporters must acquire sufficient information about consumer tastes, competitors' strengths, gaps in the market, barriers to trade, and a host of other aspects. This, however, is a fundamental problem for unfamiliar and distant markets, either geographically or psychically.[1066]
- Firms screen the environment and then analyse the information that has been gathered and processed. To formalise political risk assessment procedures, a variety of models may be used.[1067] Scenario building assesses how different market entry and development policies might work out if political, economic, cultural and competitive conditions change. However, since these models require significant resources, smaller firms are often unable to utilise them and have to refer to some of the large consultancy firms who offer such

1060 Shama and Merrell (1997), in: McDonald and Burton (2002), p. 276
1061 McDonald and Burton (2002), p. 272
1062 McDonald and Burton (2002), p. 358
1063 Opinion, Blili (2010)
1064 McDonald and Burton (2002), p. 357
1065 McDonald and Burton (2002), p. 361
1066 McDonald and Burton (2002), p. 208
1067 Frank (1999), in: McDonald and Burton (2002), p. 278

services. In any case, the reliability of the result will depend on the quality of the information that is used in such techniques.[1068] In order to avoid the costly route of learning by making mistakes, the effective assessment of international market environments is important. Nevertheless, it is difficult and probably beyond the reach of most small firms to obtain and process good information on political, legal, economic, cultural and competitive factors.[1069] Smaller firms are less able to gather and assess economic assessment data, and are often dependent on official sources such as OECD publications and the commercial sections of their government's embassies. They also make use of networks of firms and agencies to help them with these types of assessment.[1070]

5.4.2.3 Review of Actions and Situation

With the input of the external and internal environment, and also the progress of existing strategy, managers are constantly reviewing their situation. In this way, they consider their competitive and operating environments and, in particular, major changes that have occurred since they last crafted their strategy.[1071]

5.4.2.4 SWOT Analysis

Following the establishment of goals and the completion of external and internal analysis, co-ordination of the various assessments is necessary in order to find the best options that have emerged from the gathering and processing of information. This can involve a SWOT (strengths, weakness, opportunities and threats) analysis[1072] that identifies the company's existing strengths and weaknesses, its emerging opportunities, as well as the worrisome threats facing the organisation[1073].

The goal is to have a fit between the company and its environment.[1074] The host of information generated in the external and internal analyses can be confusing when examined in totality. A SWOT table summarises these conditions and helps to understand the key issues that must be addressed when formulating strategy.[1075]

It summarises key issues from the environment as well as the strategic capabilities of a company that are most likely to impact on strategy development. In addition, a SWOT analysis can be useful as a basis for generating strategic options and assessing future courses of action.[1076] It identifies a set of strategic issues that must be addressed by the strategy[1077] and is based on the assumption that an effective strategy maximises its strengths and opportunities and minimises its weaknesses and threats[1078].

1068 McDonald and Burton (2002), p. 278
1069 McDonald and Burton (2002), p. 282
1070 McDonald and Burton (2002), pp. 276-277
1071 Kaplan and Norton (2008), p. 9
1072 McDonald and Burton (2002), p. 248
1073 Kaplan and Norton (2008), p. 49
1074 Osterloh and Frost (2000), p. 169
1075 Kaplan and Norton (2008), p. 50
1076 Johnson, Scholes and Whittington (2008), p. 119
1077 Kaplan and Norton (2008), pp. 9-10
1078 Lombriser and Abplanalp (1998), p. 186, referring to Ansoff and McDonnell (1990); David (1993), p. 217ff and Elbling and Kreuzer (1994), p. 194

5.4.2.4.1 Strength and Weaknesses

We are focusing on SMEs from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand.

According to Blili and Raymond, SMEs fundamentally distinguish themselves from large companies, and include the following special characteristics:

- Environmental uncertainty and vulnerability to partners.
- Simple organisational structures and "scarcity" of resources.
- Short-term horizons and a tendency to react based on physical flows rather than information flows when it comes to decision-making.
- On the psycho-sociological level, the owner-manager has a dominant role.
- Finally, as we have seen, SMEs are linked to flexibility, market proximity, speed of reaction and reorientation ("agility").[1079]

Blili argues that their flexibility and adaptive and creative capabilities allow SMEs to innovate and rapidly diversify their activities.[1080] This is an important advantage, since they are evolving in situations of far-reaching change based on globalisation, market internationalisation, deregulation, availability of information, the complexity of customer needs, and also competitiveness and innovation based on knowledge and intellectual capital.[1081]

5.4.2.4.2 Opportunities and Threats

As we have already seen, the strengths and weaknesses of a company are analysed with the help of the value chain.[1082] This input is important because strengths can be leveraged to pursue opportunities and to avoid threats, and executives can be alerted to internal weaknesses and external threats that need to be overcome by the strategy.[1083]

With the comprehension of the opportunities and threats that exist in a market, it becomes possible to identify the factors that need to be mastered in order to gain a competitive advantage. These so-called key success factors constitute the conclusion of every environmental analysis and are the factors that help to counteract the five forces of competition.[1084]

5.4.2.4.2.1 Opportunities

In our opinion, today's business landscape offers increased and interesting possibilities:

- **Compression of time and space:**
    - With the compression of time and space as a result of rapid electronic exchanges of information and reduced travel times, distance matters to a far lesser extent than hitherto.[1085] Associated with this, there are the effects of technological change that reduce temporal and psychic distance between markets.[1086]

1079 Blili and Raymond (1993), pp. 439-448
1080 Opinion, Blili (2010)
1081 Opinion, Blili (2010)
1082 Osterloh and Frost (2000), p. 169
1083 Kaplan and Norton (2008), p. 50; See also: Osterloh and Frost (2000), p. 169
1084 Johnson, Scholes, Whittington and Fréry (2008), p. 100
1085 McDonald and Burton (2002), p. 14
1086 McDonald and Burton (2002), p. 13

- Knowledge that was confined to certain geographical areas is now far easier to access, is universally available and, as a consequence, less place-bound. This is due to dramatic advances in the transmission of information.[1087] Globalisation leads to the proliferation of innovations in terms of products on the market, manufacturing processes and managerial practices. However, in order to obtain or maintain a leadership position in such an environment, a firm is required to adapt to perpetual change.[1088]
- Production factors are as mobile as goods and services.[1089] New systems of conducting business by using the internet offer the prospect of significantly expanding the potential for international business transactions by providing a low-cost means of searching for and buying products across national frontiers.[1090] Thus, globalisation has increased the access of customers to most companies.

- **Greater possibilities for co-ordination:**
  - Information and communication technologies have also had a positive impact on the management of the supply chain. The strong cost decline of air transportation, telecommunications and information technologies since 1950 have brought in their wake a reduction in freight costs and a boom in service exports which are not tied to geographically close markets. The result has also been a breaking down of large global groups that began to reconstitute themselves as networks of firms a decade ago. IBM, for example, has within a ten-year period reduced its workforce by half, from 250,000 to 130,000 employees.[1091] Thus, large companies (such as IBM, Philips, GM, and ABB) act like a confederation of small, autonomous, entrepreneurial and action-oriented companies.[1092]
  - The reduction in costs and the widespread use of technologies such as video-conferencing and electronic mail have permitted the co-ordination of activities separated by great distances, and at the same time this has made co-ordination reliable and efficient.[1093]
  - Accelerated advances in information and communication technology (ICT) are also creating new tools to improve the management and co-ordination of activities as well as increasing the transparency of transactions and international markets. Truer price competition is encouraged by this unprecedented transparency of markets. [1094]
- **Greater margins of manoeuvrability:**
  - With the liberalisation of trade and trade flows, economic operators are given a greater margin of manoeuvrability.[1095]

1087 McDonald and Burton (2002), p. 14
1088 Opinion, Blili (2010)
1089 Opinion, Blili (2010)
1090 McDonald and Burton (2002), pp. 1-2, with reference to Giddens (1999) and Ohmae (1990/1995)
1091 Opinion, Blili (2010)
1092 Hollensen (2011), p. 7
1093 Opinion, Blili (2010)
1094 Opinion, Blili (2010)
1095 Opinion, Blili (2010)

- At the same time, especially with the rise of the BRIC countries, new and promising markets have emerged, and in recent years the opportunities to enter international markets have, in most cases, increased.
- Financial and business risks can be diversified by the opportunities of international markets.[1096] Furthermore, they can provide the amortisation of fixed costs and resource investments over wider customer bases, as well as the cutting of costs through both scale benefits and foreign production without necessarily hurting the value of the product.[1097] Generally, in global markets the rewards of gaining competitive advantages can be much greater.[1098]

- **Increased interactions with sophisticated new players:**
  - There is a growing recognition that better products, superior processes and greater knowledge can also be found outside the home country. Rapid improvements in information and communication technologies enable companies to co-ordinate multiple dispersed markets at costs that are below those of locating integrated operations in single markets, whether at home or abroad.[1099]
  - The assumption that innovation comes from the centre will gradually fade away. Increasingly, companies are finding that emerging markets are becoming an important source of innovation.[1100] Large emerging markets will have a significant influence on the product development philosophy of companies.[1101] Superior resources and capabilities can be found around the world, but companies are only beginning to understand how to do this effectively.[1102] Thus, they are not driven anymore into the international arena by just raw material extraction and foreign sales.[1103]
  - A much more diverse, non-western, non-white group of individuals will increasingly be the driving force of the future.[1104] With the transfer of technology and know-how from industrialised nations to developing countries, the latter have been enabled to reach western standards by offering qualified but cheaper manpower.[1105] In addition, companies will increasingly look for talent in emerging markets.[1106] Using managers from outside the home country to transfer knowledge is relatively new. This will grow to the point where the multinational becomes an organisation with several centres of expertise and excellence.[1107] Therefore, we conclude that quality has now become a tradable commodity. It has no citizenship

1096 Tallman (2009), p. 37
1097 Tallman (2009), p. 37
1098 Tallman (2009), p. 37
1099 Tallman (2009), p. 5
1100 Prahalad and Lieberthal (1998), p. 116
1101 Prahalad and Lieberthal (1998), pp. 116-117
1102 Tallman (2009), p. 33
1103 Tallman (2009), p. 5
1104 Friedman (2007), p. 11, in: Cambié and Ooi (2009), p. 4
1105 Opinion, Blili (2010)
1106 Prahalad and Lieberthal (1998), p. 117
1107 Prahalad and Lieberthal (1998), pp. 118-119

or culture anymore. The existing status has been broken down. The number of engineers in the developing countries of Asia is reaching a critical mass. This is not so much the case in Europe anymore.

- Furthermore, we expect to have an increased number of flagship companies from emerging countries. We can observe that their managers have access to sophisticated information and are operating in a professional way, since more and more managers worldwide graduate from the same business schools and share the same philosophy.
- In the global economy, over the next fifty years it is likely that the BRIC countries in particular will play a much more prominent role, and the rise of China is already being felt in areas outside Asia.[1108] The BCG's report of 2008[1109] lists not only Chinese, Brazilian and Indian enterprises, but also Mexican and Turkish ones that have begun operations in other parts of the world and are making their mark on the international brand landscape.[1110] The future prospects of the Middle East, despite political tensions throughout the region, are excellent and the economic climate is predicted to be favourable in the future.[1111] The states of the Arabian Gulf are also among the most dynamic economies.[1112]

5.4.2.4.2.2 Threats

"The environment is what gives organisations their means of survival.... However, the environment is also the source of threats."[1113]

Of course, and depending on one's perspective, some of the opportunities that have been listed may also be perceived as threats. Outsourcing,[1114] globalisation, brand preservation, and so on are true and real menacing forces and pressures for many companies[1115]. However, for SMEs from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand, we perceive them as opportunities. Nevertheless, major threats certainly include the following categories:

- **A new geopolitical scale:**
  - There are still widespread and entrenched views that the European consumer/client will never forgo the quality and precision of national production in order to obtain lower prices. However, import substitution strategies are obsolete and justifications such as social dumping and the exploitation of workers in rival countries, which

1108 Cambié and Ooi (2009), p. 4
1109 Boston Consulting Group (2008), in: Cambié and Ooi (2009), p. 7
1110 Cambié and Ooi (2009), p. 7
1111 Bundesagentur für Aussenwirtschaft (2007), in: Noack (2007), p. 110
1112 Rehman (2008), p. 1
1113 Johnson, Scholes and Whittington (2008), p. 54
1114 *"Outsourcing is the process by which activities previously carried out internally are subcontracted to external suppliers."*, in: Johnson, Whittington and Scholes (2011), p. 241
1115 Cokins (2009), p. 142

are put forward, are not convincing.[1116] They can even be dangerous, since the consumer's major preoccupation is the maximisation of value at minimum cost. In other words, the consumer is, above all, a rational being.[1117]

- Due to major obstacles to continued high growth, e.g. political disruptions slowing down and even reversing trends towards more open markets, certain emerging markets will certainly not always enjoy clear sailing.[1118] However, given the long-term prospects in these markets, multinational companies will have to compete there as they strive for growth.[1119] This, however, is seen as a threat by many companies.
- Even though manufacturing in China is becoming the norm for companies competing in developed markets in a variety of industries, many companies have found that profitability can be difficult to find in the unfamiliar Chinese market. After all, there are several business risks, including working with unfamiliar partners, the possibility that new markets will not respond to the company's products, or that finances will turn out badly. There are also risks tied to location, differences in government, laws and regulations, culture, and economic and technological development.[1120]
- If in foreign markets the company fails to understand and incorporate cultural demands, an ongoing loss of competitive advantage and eventual business failure can result, often with no realisation by managers that the company has done anything wrong.[1121] With a bit of common sense and the recognition that cultures vary and that assertions of cultural superiority are bad for business, ethnocentrism, which can be a great detriment to doing business internationally, can be avoided.[1122]
- As we have seen, a fundamental problem for exporters is how to acquire sufficient information about unfamiliar and either geographically or psychically distant markets in order to identify consumer tastes, competitors' strengths, market gaps, trade barriers, and other aspects that would allow them to assess whether their specific competencies make them potentially successful.[1123]

- **Stronger and harder to evaluate competition:**
  - Competition is not primarily domestic anymore.[1124] Globalisation has broken down barriers between national and regional markets, and competitors are multiplying and reducing the value of national

1116 Opinion, Blili (2010)
1117 Opinion, Blili (2010)
1118 Prahalad and Lieberthal (1998), p. 98
1119 Prahalad and Lieberthal (1998), pp. 96-98
1120 Tallman (2009), p. 34
1121 Tallman (2009), p. 62
1122 Tallman (2009), p. 63. Hollensen argues that *"How we perceive other cultures stems from our own cultural mindset, and it is very difficult not to take the ethnocentric point of view when classifying other cultures."*, in: Hollensen (2011), p. 253
1123 McDonald and Burton (2002), p. 208
1124 Prahalad and Hamel (1990), p. 88

market share.[1125] Today, a direct competitor does not always live in the same town or country anymore but might be situated on the other side of the globe.

- Competition within a global industry is often not only stronger but harder to evaluate than domestic-only situations, but also the macro-environment often complicates industry analysis issues that would be relatively simple in the firm's home market.[1126]
- At the same time, laws and regulations often protect markets, shipping can become a significant cost (particularly with climbing energy prices), technologies may be incompatible, brand names or product features may not be desirable in foreign markets, or cultural differences may make a product less attractive or even undesirable to consumers.[1127]
- Since globalisation brings much more uncertainty to environmental analysis, virtually all firms must also consider international threats and opportunities. While this is obvious for multinational companies, it is also true for domestic ones, because these may face international competition that is much stronger than, or at least considerably different from, immediate domestic competition.[1128] The increasing integration of economic activities leads to national firms increasingly being exposed to competitive pressures from multinational corporations and firms from other countries.[1129] There are severe cost pressures, particularly for western firms, from competitors able to source low-wage countries.[1130] Thus, on one hand, the opening of national borders to permit both investment and technology transfer has created new opportunities for firms, but on the other it has also encouraged the arrival of foreign competitors in domestic markets. This has heralded the advent of inter-organisational compatibilities and led to the end of purely geographical and cultural advantages.[1131] Companies nowadays face unprecedented levels of foreign competition at home and abroad.[1132] Thus, even if companies limit their geographical extension, they are exposed to competitors, technologies, products and money from other regions and countries to the point that regional physical scope does not mean that they are not engaged in the global economy.[1133]
- Finally, globalisation exacerbates international competition and leads to the proliferation of innovation. This is not only the case in terms of products or manufacturing processes, but also in terms of managerial practices.[1134] With the depreciation of resources, continuous investment is required to maintain and expand a firm's

1125 Stalk, Evans, and Shulman (1992), p. 182
1126 Tallman (2009), p. 70
1127 Tallman (2009), p. 37
1128 Tallman (2009), p. 11
1129 McDonald and Burton (2002), p. 13
1130 McDonald and Burton (2002), p. 13
1131 Opinion, Blili (2010)
1132 McDonald and Burton (2002), p. 319
1133 Tallman (2009), p. 4
1134 Opinion, Blili (2010)

critical resources, otherwise brand names age, technological know-how becomes outdated, and organisational capabilities grow rigid and fail to adapt.[1135] Building, maintaining, and exploiting assets and capabilities are all more challenging internationally.[1136] Thus, perpetual change is required by the company.[1137]

- **A new industry scale:**
    - In all industries, shortened business cycles have occurred due to fast economic change, and from a marketing perspective[1138] increased competition has significantly reduced product life cycles[1139]. In order to permit them to extend these latter, and despite a possible lack of resources, knowledge and experience, SMEs must find new markets and thus improve profit margins.[1140] As a result of being more exposed to competition, SMEs have to restructure and therefore bear significant costs and devastating impacts.[1141] At the same time, sufficient flexibility is required by companies in order to respond to customer demands which may originate anywhere in the world.[1142] Thus, while the globalisation of the economy enables a company to extend its markets, it simultaneously renders the environment more complex.[1143]
    - To the prevailing mindsets of managers, the transfer of power from producers to customers is one of the fundamental threats.[1144] This shift of power from sellers to buyers has irreversibly been achieved by the internet with its powerful search engines and near-instant gratification, and every product and service supplier is now scrambling to become more customer-focused.[1145] With the internet, the customer is to a greater extent than ever before in control.[1146] Consumers and purchasing agents can more effectively explore additional shopping options, quickly compare prices among dozens of suppliers, and also more easily and quickly educate themselves. Moreover, customers have an abundance of options, and with the internet they can, in a much shorter amount of time than with the antiquated ways of the past, get information about products or services that are of interest to them.[1147] Now, buyers can order from suppliers globally and are no longer restricted to local geo-graphy.[1148] Direct access to customers is easier and customers on their part can extensively and directly communicate with producers worldwide.[1149]

1135 Leonard-Barton (1992), pp. 111-125 *"suggested how core capabilities through time can become core rigidities"*, in: Collis and Montgomery (2005), p. 50
1136 Tallman (2009), p. 37
1137 Opinion, Blili (2010)
1138 Julien (1996), pp. 57-74
1139 Julien (1996), pp. 57-74; See also Kunde (2000), p. 51
1140 Bell, Murray and Madden (1992), pp. 37-53
1141 Opinion, Blili (2010)
1142 Opinion, Blili (2010)
1143 Opinion, Blili (2010)
1144 Wind and Crook (2006), p. 34
1145 Cokins (2009), p. 155
1146 Cokins (2009), p. 173
1147 Cokins (2009), p. 173
1148 Cokins (2009), p. 156
1149 von Oetinger (2000c), p. 263

5.4.2.5 Strategic Change Agenda

"Finally, multinational firms also are (or should be!) constantly looking to the future and considering how current strategies can set them up for the future."[1150]

The executive team may choose to make only incremental changes to the existing strategy if it is still functioning effectively. However, because strategies typically only have an effective life of five years or less, the team periodically draws up a wide range of strategy formulation tools to develop a transformational strategy that will guide the company forward for the next several years.[1151]

With the vision statement, a target and high-level description of how the organisation intends to create value in the future is provided. However, since employees may not understand why it needs a new strategy and why they need to change in order to achieve the stretch target, there are two critical leadership roles:

- to create a sense of urgency,
- and to communicate the need for change.[1152]

In this step, a set of guidelines called a strategic change agenda, which explains the need for changes in strategy, needs to be developed and communicated.[1153] The organisational change agenda helps to shape the development of the new culture and climate that is required by the strategy changes. This includes changes in cultural values, both internally focused (for example, teamwork) as well as externally (for example, customer focus).[1154]

5.4.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

5.4.3.1 Internal and External Environment

The internal and external analysis is performed once the company has a clear picture of what it needs to achieve.[1155] This understanding will help the management in pursuing its goals and objectives in support of the overall mission.[1156] A comprehensive assessment of its own capabilities and performance relative to those of its competitors, as well as its positioning relative to industry trends is included in such a comprehensive assessment.[1157] After all, in order to master and manage complexity, SMEs must first be capable of determining how to understand it.[1158] In addition, the environment has definitely become more volatile than before. This is why one element may not be analysed independently of others.

Nevertheless, many strategies fail because they are unrelated to the environmental and organisational analysis.[1159] Although the general environment is the same for everyone,

1150 Tallman (2009), p. 121
1151 Kaplan and Norton (2008), p. 66
1152 Kotter (1996), pp. 21-22, in: Kaplan and Norton (2008), p. 42
1153 Kaplan and Norton (2008), p. 10
1154 Kaplan and Norton (2004b), p. 207
1155 Kaplan and Norton (2008), p. 47
1156 Tallman (2009), p. 10
1157 Kaplan and Norton (2008), p. 47
1158 Opinion, Blili (2010)
1159 Lombriser and Abplanalp (1998), p. 261

successful players differ in their insights, perceptions, and abilities to detect patterns of change and relate them to their landscape, industries, competition, and business.[1160]

In any case, companies can only ensure their development and survival if they operate in a competitive environment. Therefore, they are constantly forced to re-examine their operating conditions and must keep scanning the horizon for the most favourable environment.[1161]

Hence, in order to be successful, a strategic analysis has to fulfil the following requirements:

- **From data to useful knowledge:** Sun Tzu[1162] observed that effective information gathering may have a bearing on the outcome of a military conflict.[1163] Even though it is especially challenging in an international context, the gathering of information and the processing of it into useful knowledge regarding the many and complex factors that influence international business is important.[1164] We have seen that an important element in the ability of firms to derive net benefits from global e-business systems will be the effective transforming of information gathered from them into knowledge.[1165]

  Strategic planning, with its methodological and rational approach, requires very large amounts of information as well as the ability to convert this information into valuable knowledge. Many companies, however, lack the resources to conduct such complex analysis of their external environment.[1166] For Stöger, data needs to be seen in the context of the environment and must be well interpreted. Only when data becomes information, which means useful knowledge,[1167] does it become the basis for a decision.[1168] This is how the step from data to implementation is carried out.[1169] For McDonald and Burton, on the other hand, it is information that needs to be transformed into knowledge.[1170] The transformation of data into knowledge also has to do with organisational learning.[1171] Bürgi, Jacobs and Roos point out that knowledge is best seen as an active operation of human engagement with the world.[1172] Drucker argues that knowledge is not impersonal and does not reside in a book, a databank, or a software program: these contain only information. For him, knowledge is always embodied in a person. It is carried, created, augmented or improved, applied, taught and passed on, and used or misused by a person. Therefore, with the shift to the knowledge society the (educated) person is put at the centre.[1173]

1160 Bossidy and Charan (2002), p. 189
1161 Opinion, Blili (2010)
1162 Stahel (2003), p. 13ff, in: Pümpin and Pedergnana (2008), p. 57
1163 Pümpin and Pedergnana (2008), p. 57
1164 McDonald and Burton (2002), p. 5
1165 McDonald and Burton (2002), p. 361
1166 McDonald and Burton (2002), pp. 250-251
1167 Concerning information and knowledge, see Probst, Raub and Romhardt (1999), in: Stöger (2010), p. 104
1168 It is interesting to learn that fast decision makers use more, not less, information than slow decision makers do, in: Eisenhardt (1989a), p. 544
1169 Stöger (2010), p. 104
1170 McDonald and Burton (2002), p. 357
1171 McDonald and Burton (2002), p. 253
1172 Bürgi, Jacobs and Roos (2005), p. 80, referring to Piaget (1971), who developed a theory of human psychological development and individual epistemology called constructivism, which states that human intelligence grows from the interaction of the mind with the world (Furth 1981; Harel and Papert (1991); Piaget 1971; Piaget, Inhelder and Sinclair 1968), in: Bürgi, Jacobs and Roos (2005), p. 80
1173 Drucker (1993), in: Drucker (2008), p. 287

- **Learn better ways:** Emergent strategies are based on learning. Their effectiveness is connected to the development of relationship assets (network memberships, access to resources that can help to transform information into useful knowledge) and the ability to transfer knowledge (especially tacit knowledge) across the various parts of the firm. The monitoring and control of the strategic planning process is also connected to the ability to learn, which is related to the characteristics of the organisational system, and therefore the ability of firms to accumulate relationship or social capital.[1174] In accordance with this view, the strategic planning process is not an exercise in rational measurement and calculation to gather and process information to design optimal strategies, but can be viewed as a process that evolves as companies learn better ways to achieve their goals.[1175] This implies that multinationals which are successful develop their network of subsidiaries into effective learning machines. Therefore, as a means to structure the strategic planning process, the use of techniques such as PEST and SWOT analyses, and the use of conceptual frameworks of the Porter type are still useful. However, in this evolutionary view of strategic planning, and compared to complicated exercises in optimisation, mistakes are made, lessons are learned, or there is failure to learn and firms often end up in very different positions from those they had initially planned.[1176]

- **Early warning:** Like well-prepared battalion units, the most enduring and successful organisations are constantly looking for relevant information by scanning the environment. This serves as a benchmark against which they can assess their potential vulnerabilities to business disaster, and also provides time-sensitive, critical information on the barriers that prevent them from fully executing their vision and strategy.[1177] Without the regular monitoring of signals that come from an early-warning system, vulnerability is increased.[1178]

  An effective early-warning system should not be limited to recognising characteristics alone but must also register recognisable signals much earlier.[1179] Crises send out early warning signals before they actually occur. If these are picked up, amplified, and acted upon, many crises can be averted before they happen.[1180] For Cokins, the early warning of potential problems and early indications of the successful realisation of a plan are provided by predictive information. However, the focus of most reporting, whether financial or non-financial, looks back at history rather than forward to the future. Therefore, in his opinion, real power kicks in when predictive analytics are applied.[1181] However, in terms of strategic anticipation, managers cannot peer deep into the future to make accurate long-term predictions in uncertain markets, but they can gather real-time data from multiple sources, look for patterns from the present and past, and select mental models to represent the situation and anticipate how circumstances might unfold. Yet, anticipation hinges on pattern recognition, which is a daunting task in such

1174 McDonald and Burton (2002), pp. 252-253, as well as Dasgupta and Serageldin (2000), in: McDonald and Burton (2002), pp. 252-253
1175 Gulati (1999); Kale, Singh and Perlmutter (2000), in: McDonald and Burton (2002), p. 253
1176 McDonald and Burton (2002), pp. 252-253
1177 Finkelstein (2006), p. 115
1178 Finkelstein (2006), p. 117
1179 See also Mitroff (2001), p. 40
1180 Mitroff (2001), p. 102
1181 Cokins (2009), p. 28

a situation. Therefore, from the welter of data, early-warning signals must be identified by managers who can see fresh connections among apparently unrelated events and find the needles of decisive variables in the haystacks of insignificant ones. This must be done in real time and based on incomplete, ambiguous and often conflicting data. Pattern recognition may only be done by sensing a situation in all its complexity, and requires managers to scan their environment, to gather data from multiple sources, and to make sense of the information through informal discussions and formal scenario planning.[1182]

If companies take action that helps them to see the signals of change and to act on them, early-warning signals translate into early-mover advantages and companies thereby get a jump on the competition.[1183] Consequently, small as well as large firms should first establish links with traditional business partners, e.g. customers, suppliers and financial institutions. Other actors in the environment (research centres, universities, sectoral and professional associations, and government agencies) constitute the firm's development infrastructure. These latter support or constrain the firm in its quest for competitiveness by providing it with additional resources, information, and expertise.[1184]

5.4.3.2 Review of Actions and the Situation

It is vital to choose the right strategy and rigorously implement it. In order to do so, the internal and external environment has to be constantly analysed, and conclusions implemented. In a fast-moving world with a new nature of change, such statements have even gained more importance.[1185]

In other words, the environment is analysed in order to understand how a company is affected by it and to realise emerging opportunities and risks. A company's ability to identify and capture value to sustain future growth will strongly be affected by the results of this analysis. Therefore, it is important to draw conclusions from the information generated. This in turn will help a company to develop a plan of action.[1186] It is obvious that in order to be successful, a company has to constantly review these actions as well as the situation it finds itself in.

5.4.3.3 SWOT Analysis

The SWOT analysis[1187] is perhaps the earliest and most fundamental of all strategy tools.[1188] Yet, this simple tool, even though it is the most widely used one in strategy,[1189] is often used in a way far from the technical ideal.[1190]

Nevertheless, the SWOT analysis is definitely a pivotal tool in strategy. We have seen that the opportunities and threats of the markets are contrasted with the strengths and

1182 Sull (2006), pp. 9-10
1183 Porter (2008a), p. 208
1184 Raymond (2003)
1185 Johnson, Scholes and Whittington (2008), p. 11
1186 Opinion, Blili (2011)
1187 An early SWOT reference is Learned, Christensen, Andrews and Guth (1969), in: Kaplan and Norton (2008), p. 49
1188 Kaplan and Norton (2008), p. 49
1189 Hodgkinson, Whittington, Johnson and Schwarz (2006), pp. 479-496, in: Johnson, Scholes and Whittington (2008), p. 569
1190 Johnson, Scholes and Whittington (2008), p. 569

weaknesses of a company with the view to realising a "fit" between the company and its environment.[1191]

When formulating strategy, the TOWS (Threats, Opportunities, Weaknesses, Strengths) matrix directly builds on the information of a SWOT analysis.

5.4.3.4 Strategic Change Agenda

When implementing a strategy, it may be necessary to uncouple an old strategy.[1192] If that strategy has been followed for a number of years, its impact on the company may be strong. In this case, it will not only affect the formal systems and structure, but the informal ones as well. Thus, the challenges, ramifications and time of dismantling that system must be carefully assessed and planned for.[1193]

With the strategic change agenda, leaders can provide the motivation for why transformational change[1194] is necessary. This management tool compares the current status of several organisational structures, capabilities, and processes with what they need to become over the next three to five years.[1195] In this way, a strategic change agenda defines the journey from where a company is to what it could become.[1196]

5.5 FORMULATE THE STRATEGY

Historical examples from both business and military-diplomatic settings suggest that effective strategies should as a minimum encompass the following critical factors and structural elements:

- Clear, decisive objectives;
- Maintaining the initiative;
- Concentration;
- Flexibility;
- Co-ordinated and committed leadership;
- Surprise; and finally,
- Security.[1197]

Based on their analysis to date, their objectives, themes, critical issues, opportunities, and threats, executives must decide how they will accomplish the company's agenda.[1198] Methodologies such as Porter's five forces and competitive positioning framework, the resource-based view of strategy, core competencies, disruptive strategies, and blue ocean strategies may all be included in strategy formulation. Executives also use scenario planning, dynamic simulations, and war-gaming to test the robustness of their strategies.[1199]

1191 Porter (1980), in: Osterloh and Frost (2000), p. 169
1192 See Hobbs and Heany (1997), pp. 119-24, in: Collis and Montgomery (2005), p. 203
1193 Collis and Montgomery (2005), p. 203
1194 According to Collis and Montgomery (2005), p. 247, true transformation involves a dramatic change process affecting all elements of corporate strategy.
1195 Kaplan and Norton (2008), p. 42
1196 Kaplan and Norton (2008), p. 43
1197 Quinn (1980a), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 15-16; See also the principles of combat, in: Schweizer Armee (2004), p. 54
1198 Kaplan and Norton (2008), p. 53
1199 Kaplan and Norton (2008), p. 6

However, Mintzberg, Lampel, Quinn and Ghoshal also remind us that one of the products of a successful strategy course should be a little humility, since a company may have succeeded or failed not because of its specific decisions, but among other reasons, because of luck, an outstanding personality, the bizarre action of an opponent, or international actions over which it had no control.[1200]

In any case, not only good analytical skills and data but also in-depth knowledge of managerial behaviour and systems, as well as intuition and creativity, are required in order to develop a strategy. Thus, the challenge is to develop this kind of insight and to translate it into a unique and viable advantage.[1201]

Therefore, in this step, companies formulate the strategy and ask themselves how they can best compete. Executives do this by addressing the following issues:

- *"In what niches will we compete?*
- *What customer value proposition will differentiate us in those niches?*
- *What key processes create the differentiation in the strategy?*
- *What are the human capital capabilities required by the strategy?*
- *What are the technology enablers of the strategy?"*[1202]

However, before going through these five issues (see chapters 5.4.2 to 5.4.6), we will focus on the TOWS matrix.

5.5.1 THE TOWS MATRIX

5.5.1.1 Summary

A TOWS analysis is built on the information of a SWOT analysis. It identifies strategic options by combining internal strengths and weaknesses as well as external opportunities and threats. Since we advocate an agile strategy, these strategic options have to correspond to the four sources of competitive advantage in combination with the X-factor.

5.5.1.2 Description

Strategic choices have to do with decisions about a company's future and the way in which it needs to respond to the many pressures and influences.[1203] For strategic success, a fit with the environment[1204] at both the macro- and industry-level is required.[1205] If strategies do not adapt to the changing environment (shifts in consumer demand, technology, or channels of distribution, for example), strategies may fail because there has been no alteration in scope or organisation.[1206]

1200 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. xii
1201 Collis and Montgomery (2005), p. 205
1202 Kaplan and Norton (2008), p. 10
1203 Johnson, Scholes and Whittington (2008), p. 217
1204 See also Collis and Montgomery (2005), p. 202
1205 Tallman (2009), p. 144
1206 Collis and Montgomery (2005), p. 201

Hence, the main elements influencing strategic choices are environmental forces and threats.[1207] Reality is a social construct which requires a response, and a continuous state of flux is proof of a conflictual universe in perpetual motion where it is necessary to respond with action and innovation.[1208]

Therefore, in this step of the research, strategic choices have to been taken. These are to be considered in the context of the understanding of a company's strategic position. The strategic analysis in the previous chapters may be combined in the form of a SWOT analysis and then used as a way of generating strategic options by applying the TOWS matrix,[1209] which itself builds directly on the information in a SWOT analysis. The boxes of the TOWS matrix are used to identify options with different combinations of internal (strengths and weaknesses) and external factors (opportunities and threats).[1210]

Figure 10: The TOWS Matrix[1211]

	*"**Strengths (S)***	***Weaknesses (W)***
Opportunities (O)	*SO Strategic options* *Options that use strengths to take advantage of opportunities*	*WO Strategic options* *Options that take advantage of opportunities by overcoming weaknesses*
Threats (T)	*ST Strategic options* *Options that use strengths to avoid threats*	*WT Strategic options* *Options that minimize weaknesses and avoid threats"*

The resource-based view[1212] also combines the internal analysis of phenomena within companies[1213] with the external analysis of the industry and the competitive environment,[1214] and builds on, but does not replace, these two broad approaches to strategy by combining their internal and external perspectives.[1215]

There are three key success criteria which can be used to assess why some strategies might succeed better than others, and thus which assess the viability of strategic options:

- **Suitability:** the TOWS matrix does not only identify strategic options on the basis of a SWOT analysis, as shown above, but can also provide an assessment of suitability (which is concerned with whether a strategy addresses the

1207 Porter (1985a); Butera (1991); Blili and Raymond (1993); Bjorn-Andersen and Chatfield (1996)
1208 Hine, Gasen and Goul (1996)
1209 See Weihrich (1982), pp. 54-66, in: Johnson, Scholes and Whittington (2008), p. 218
1210 Johnson, Scholes and Whittington (2008), pp. 218-219
1211 According to Johnson, Scholes and Whittington (2008), p. 219
1212 See also the following insightful articles: Wernerfelt (1984), p. 171; Barney (1986), pp. 1231; Rumelt (1987), p. 137; Dierickx and Cool (1989), p. 1504; Conner (1991), pp. 121-154; Amit and Schoemaker (1993), p. 33; Peteraf (1993), pp. 179-191, in: Collis and Montgomery (1995), p. 36
1213 This has been a preoccupation of many management experts since the mid-1980s, in: Collis and Montgomery (1995), p. 36
1214 A central issue of earlier strategy approaches, in: Collis and Montgomery (1995), p. 36
1215 Collis and Montgomery held that Porter (1985a), and in the dynamic context, Porter (1991), p. 95, , had paid the most attention to the integration of the two perspectives, in: Collis and Montgomery (1995), p. 36

key issues in understanding a company's strategic position)[1216] by justifying options in terms of the extent to which they address the strengths, weaknesses, threats and opportunities relating to the strategic position of the organisation.[1217]

- **Acceptability:** relates to a strategy's expected performance outcomes (such as the return or risk) and the extent to which these meet the stakeholders' expectations.
- **Feasibility:** deals with whether a strategy could work in practice.[1218] It looks at whether a company has the required resources and competencies to deliver a strategy.[1219]

Below we list, on a very aggregate level, a summary of how ongoing challenges have to be faced. Since we advocate an agile strategy, the strategic options of the TOWS matrix have to correspond to the four sources of competitive advantage in combination with the X-factor universe.

1216 Johnson, Scholes and Whittington (2008), p. 366
1217 Johnson, Scholes and Whittington (2008), p. 368
1218 Johnson, Scholes and Whittington (2008), p. 366
1219 Johnson, Scholes and Whittington (2008), p. 380

Figure 11: The TOWS Matrix for SMEs

		Strengths				Weaknesses			
		Agility (flexibility, market proximity, speed of reaction, and reorientation)[1220]	innovative.[1221]	Ability to rapidly diversify activities.[1222]	Tradable goods that have a low likelihood of imitation and (the potential for) a global brand.[1223]	Environmental uncertainty and vulnerability to partners.[1224]	Simple organisational structures and "scarcity" of resources.[1225]	Short-term horizon and tendency to react based on physical flows rather than information flows when it comes to decision-making.[1226]	On the psycho-sociological level, there is a dominant role of the owner-manager.[1227]
Opportunities	Compression of time and space.	B/D/E	C/E	B/D/E	A/E	D/E	D/E	C/D/E	C/D/E
	Greater possibilities for co-ordination.	B/D/E	B/D/E	B/D/E	A/E	D/E	D/E	C/D/E	C/D/E
	Greater margin for manoeuvrability.	A/E	B/D/E	B/D/E	A/E	D/E	D/E	C/D/E	C/D/E
	Increased interactions with sophisticated new players.	B/D/E	B/D/E	B/D/E	A/E	A/D/E	D/E	C/D/E	C/D/E
Threats	New and geopolitical scale.	B/D/E	C/E	B/D/E	A/E	C/D/E	D/E	B/D/E	A/C/E
	Stronger and harder to evaluate competition.	A/E	A/E	B/D/E	A/E	C/D/E	C/D/E	B/D/E	A/C/E
	New industry scale.	B/D/E	B/D/E	B/D/E	A/E	C/D/E	D/E	B/D/E	A/C/E

1220 Blili and Raymond (1993), pp. 439-448
1221 Opinion, Blili (2010)
1222 Opinion, Blili (2010)
1223 As discussed throughout this thesis
1224 Blili and Raymond (1993), pp. 439-448
1225 Blili and Raymond (1993), pp. 439-448
1226 Blili and Raymond (1993), pp. 439-448
1227 Blili and Raymond (1993), pp. 439-448

Four Sources of Competitive Advantage as well as the X-factor

A: International marketing as well as global branding;

B: The value chain as well as the integrated management of the logistics chain;

C: The development of human capital through the management of innovation and knowledge;

D: The virtualisation of enterprises through the use of information systems.[1228]

E: The X-factor[1229]

5.5.1.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

Whereas in military strategy one's own strengths are ideally concentrated in areas where the enemy has its weaknesses, a concentration of the strengths of a company is meaningful in areas where particular market opportunities exist. It goes without saying that this can also be in areas where competitors have their weaknesses.[1230]

Any strategy formulation approach, however, has to develop a direction that differentiates the company's position and offering from those of its competitors so that it can create a sustainable competitive advantage and eventually superior financial performance. This is independent of whatever methodology is used. Nevertheless, the creativity of the strategy becomes an important means to this end.[1231]

5.5.2 IN WHAT NICHES TO COMPETE

The first issue of strategy formulation addresses the niches in which the company will compete.[1232]

5.5.2.1 Summary

The achievement of synergies can be very profitable but also challenging and requires due diligence. However, focusing as an alternative is dangerous too. Instead, most profitable firms diversify around a set of resources in profitable industries in which the resources give them competitive advantage. Intangible resources often qualify best as a basis for an effective strategy.

1228 Opinion, Blili (2010)
1229 Andersen, Froholdt and Poulfelt (2010), pp. 4-90
1230 Pümpin and Pedergnana (2008), p. 52
1231 Kaplan and Norton (2008), pp. 56-57
1232 Kaplan and Norton (2008), p. 10

5.5.2.2 Description

5.5.2.2.1 Synergies are Challenging to Capture

"Capturing cross-business synergies is at the heart of corporate strategy – indeed, the promise of synergy is a prime rationale for the existence of the multibusiness corporation. Yet, synergies are notoriously challenging to capture…. The truth is, for most corporations, the 1 + 1 = 3 arithmetic of cross-business synergies does not add up."[1233]

Managers quite often refer to economies of scope[1234] and scale[1235] effects as synergy.[1236] Companies must actively grapple with questions of scope, i.e. expansion or contraction, throughout their histories.[1237]

Many corporations have pursued a strategy of expansion, i.e. expanding scale and scope within an industry, and then branching out into new markets and geographies.[1238] The creation of new businesses, for example, can be facilitated by establishing internal joint ventures or alliances. With the increased concern for corporate regeneration and growth, several companies have placed added emphasis on this type of synergy.[1239]

In business usage, Goold and Campbell refer to synergy as *"the ability of two or more units or companies to generate greater value working together than they could working apart"*,[1240] and list the following six forms that most business synergies take:

- *"shared know-how,*
- *coordinated strategies (e.g. between corporate intervention and business-units),*
- *shared tangible resources,*
- *vertical integration,*
- *pooled negotiating power,*
- *combined business creation."*[1241]

They go on to argue that when it is well managed it can be a boon, creating additional value with existing resources.[1242] They also believe that it can provide a big boost to the

1233 Eisenhardt and Galunic (2000), p. 112. Johnson, Whittington and Scholes define this concept as follows: *"Synergy refers to the benefits gained where activities or assets complement each other so that their combined effect is greater than the sum of the parts (the famous 2 + 2 = 5 equation)."*, in: Johnson, Whittington and Scholes (2011), p. 238

1234 "*Economies of scope exist when the cost of producing and selling multiple products together is lower than the cost of producing and selling the same quantity of goods individually.*", in: Collis and Montgomery (2005), p. 72. They may also be defined as follows: *"Reusing a resource from one business/country in additional businesses/countries."*, in: Hollensen (2011), p. 17

1235 *"Economies of scale exist when average cost declines as a good or service is produced or sold in larger volume."*, in: Collis and Montgomery (2005), p. 72. They can also be defined as: *"Accumulated volume in production, resulting in lower cost price per unit."*, in Hollensen (2011), p. 16

1236 Collis and Montgomery (2005), p. 78

1237 Collis and Montgomery (2005), p. 66

1238 Collis and Montgomery (2005), p. 66

1239 Goold and Campbell (1998), pp. 91-93

1240 Goold and Campbell (1998), pp. 91

1241 Goold and Campbell (1998), pp. 91-93

1242 Goold and Campbell (1998), p. 91

bottom line but that the challenge is to separate the real opportunities from illusions.[1243] For example, new global firms, whether they are large or small, are constantly preoccupied with how to revitalise relations with suppliers and customers in such a way as to improve synergies within the value chain.[1244]

However, expanding into market segments that appear to be related to existing businesses, but in fact are quite different, is a mistake. This is particularly the case when companies define relatedness on the basis of product characteristics rather than resources. This often masks the fact that segments in an industry can have different key success factors that prevent the exploitation of scale and scope economies.[1245]

For the industrial thermostats producer Mercury, for example, entering household thermostats just looked like adding an additional product line. Although it was able to leverage some of its technological know-how, R&D was not critical for success in the household thermostats market, nor did it constitute a significant portion of the added value. However, it lacked the resources necessary to be competitive in household thermostats, i.e. expertise in design, product appearance, packaging, capabilities for mass production, and distribution through industry representatives to mass marketers and contractors. Finally, Mercury had to write off the business.[1246]

Only when comparing the value chains for the two businesses are the critical differences revealed.[1247] When they are placed side by side, it becomes clear that the resources needed to support the two businesses are very different, and that there are few opportunities for scale or scope economies.[1248]

5.5.2.2.2 Focusing as an Alternative

On the other hand, some authors think that due to increasing competition and shortened product life cycles, it is important to strive for a narrow product programme and therefore reach a consistent profile in all markets.[1249]

Yet, since there are successful diversified companies, the often-heard adage that firms should stick to their knitting must be interpreted very carefully.[1250] Companies that leverage their resources appropriately, such as Disney or the Newell Company, have high rewards. [1251]

5.5.2.2.3 Leveraging of Core Competencies

The most profitable firms diversify around a set of resources that are specialised enough to confer a meaningful competitive advantage in an attractive industry, yet fungible enough to be applied across several such settings.[1252] Simultaneously, a diversification should seek to enter the most profitable industries in which the company's resources will give it a competitive advantage.[1253]

1243 Goold and Campbell (1998), p. 65
1244 Opinion, Blili (2010)
1245 Collis and Montgomery (2005), p. 78
1246 Collis and Montgomery (1998), pp. 26-27
1247 Collis and Montgomery (2005), p. 79 and 81
1248 Collis and Montgomery (2005), pp. 81-82
1249 Kunde (2000), p. 36
1250 Collis and Montgomery (2005), p. 104
1251 Collis and Montgomery (1995), pp. 55-56
1252 Collis and Montgomery (2005), p. 103
1253 Collis and Montgomery (2005), p. 101

For Collis and Montgomery, valuable resources can be leveraged through transfer or co-ordination. When resources and skills are transferred across businesses, the interference in the autonomy of divisions is still minimised. For example, companies move highly skilled managers or replicate best demonstrated practices, such as supply chain management, across all the businesses in the firm's portfolio. Others may have the potential to exploit their multi-business nature by co-ordinating activities across businesses. Some companies may jointly purchase common raw materials so that they can take advantage of purchasing scale economies. Others may share a sales force, common manufacturing facility or distribution system instead. The co-ordination of activities may not only reduce costs but also provide direct benefits to the customer (e.g. a single point of contact).[1254]

For Stalk, Evans and Shulman, capabilities-based growth may be found in at least the following two ways. The first is by "cloning" business processes and the second is by creating processes so flexible and robust that the same set can serve many different businesses. Honda, which manages its dealers to ensure that they become successful businesspeople and has depended on re-creating this same dealer-management capability in each new sector, is a good example of the former. Wal-Mart, which uses the same inventory-replenishment system in its discount stores, is a good example of the latter.[1255]

Capabilities-based companies transfer their most important processes to new geographic and new (usually with a bigger pay-off) business areas.[1256] With innovation processes, existing or new products are extended into new markets.[1257] After all, who would have predicted what the mobile phone has become today?

With its excellence in engine performance, originally developed for motorcycles and automobiles, Honda was able to enter such diverse segments as lawn-mowers and backup engines for utilities. Canon leveraged its product leadership in optics for cameras into superb products for printers, copiers and medical electronics. eBay's consumer auction capability was expanded into a powerful tool for selling used and reconditioned commercial equipment. Because innovation processes are very expensive, it is in a company's interest to get the maximum return from such investments by applying their leading products, services and processes to applications well beyond the ones initially targeted.[1258]

Newell's range of products may appear to be a bizarre collection of unrelated items. Nevertheless, it is far from being a conglomerate, since the relatedness across its businesses comes not from similarities in the products themselves but from the common resources they draw on: relationships with discount retailers, efficient high-volume manufacturing, superior service, including national coverage, on-time delivery, and programme merchandising.[1259] Newell transfers many resources, but the only activity it shares among its businesses is its advanced data-management system.[1260]

In this context, it is interesting to ask who would have anticipated that Canon would come up with personal copiers; Sony would develop the 8-mm camcorder; Yamaha the digital piano; Komatsu an underwater remote-controlled bulldozer; and Casio a

1254 Collis and Montgomery (2005), p. 175
1255 Stalk, Evans, and Shulman (1992), pp. 193-195
1256 Stalk, Evans, and Shulman (1992), pp. 192-193
1257 Kaplan and Norton (2004b), p. 149
1258 Kaplan and Norton (2004b), p. 150
1259 Collis and Montgomery (1998), p. 8
1260 Collis and Montgomery (1998), pp. 9-10

LCD television? In addition, it was difficult to anticipate that Honda would move from motorcycles to four-wheel off-road buggies.[1261] Engines and power trains are the core competencies that give Honda a distinct advantage in the car, motorcycle, lawn mower, and generator businesses.[1262] The evolution of these vanguard markets could not be anticipated by many.[1263] Neither could, for example, Philips have imagined all the products that would be spawned by its optical-media competence, and nor could JVC have anticipated miniature camcorders when it first began exploring videotape technologies.[1264]

To identify a company's core competence, the following three tests can be applied. It:

- provides potential access to a wide variety of markets,
- should make a significant contribution to the perceived customer benefits of the end product, and
- should be difficult for competitors to imitate.[1265]

However, strategies of diversification on the basis of what a company does well will not always result in stellar performance on an absolute basis. If the bases are very general resources in pedestrian industries, it is especially unlikely that high profits will follow.[1266]

Collis and Montgomery hold that in order to qualify as a basis for an effective strategy, a resource must pass the following external market tests:

- inimitability,
- durability,
- appropriability,
- substitutability
- competitive superiority.[1267]

The best of the resources that meet these five tests are often intangible, not physical, and are hence soft aspects, such as culture, technology and transformational leaders. Thus, managers are forced to look inward and outward at the same time, because the test that has been outlined above captures how market forces determine the value of resources.[1268]

However, even truly distinctive competencies erode over time and because of competition.[1269] Probably one of the greatest mistakes is that company resources are not assessed relative to competitors'. Often, the identification of core competencies has become a "feel good" exercise that no one fails, since every company has an activity that it does relatively better than other activities and which it claims as its core competence. Unfortunately, this should not be an internal assessment but a harsh external assessment of what the company does better than its competitors.[1270]

1261 Prahalad and Hamel (1990), p. 83
1262 Prahalad and Hamel (1990), p. 85
1263 Prahalad and Hamel (1990), p. 83
1264 Prahalad and Hamel (1990), p. 85
1265 Prahalad and Hamel (1990), p. 86
1266 Collis and Montgomery (2005), p. 104
1267 Collis and Montgomery (1995), pp. 39-45
1268 Collis and Montgomery (1995), p. 47
1269 Collis and Montgomery (1995), p. 48
1270 Collis and Montgomery (1995), pp. 39-45

Thus, for most companies the harsh truth is that their resources do not pass the objective application of the market tests,[1271] and with the majority of companies not being market leaders with sustainable competitive advantages, they do not possess any valuable resources[1272]. Companies make the following three common and costly errors when they try to grow by leveraging resources: They

- Tend to over-estimate the transferability of specific assets and capabilities (since valuable resources are hard to imitate, it is difficult to replicate them in new markets),[1273]
- Overestimate their ability to compete in highly profitable industries (where entry barriers limit the number of competitors),
- Assume that leveraging generic resources, such as lean manufacturing, will be a major source of competitive advantage in a new market, regardless of the specific competitive dynamics of that market.[1274]

5.5.2.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

5.5.2.3.1 Synergies are Challenging to Capture

The Mercury example illustrates that scale and scope economies have no value in the abstract. Instead, they create value only when they translate into material advantages for the firm.[1275]

Moreover, the problem with synergy programme goals is that they tend to be expressed in broad, vague terms (e.g. "sharing best practices", "co-ordinating customer relationships", "cross-fertilising ideas").[1276] Such overly broad goals make good slogans but provide little guidance in the field.[1277] Broad generalities about resources and activities may not lead to advantages.[1278] After all, the acid test is that the company's businesses must not be worth more to another owner.[1279]

Indeed, in order to realise synergies, due diligence is required. Malik, for example, suggests that diversifications rarely lead to synergies and that whenever a strategy is explained with the realisation of synergies, special caution is advised.[1280]

The transferring of skills and resources or the co-ordination of activities across operating units involves inevitable costs and can violate the sanctity of divisional differentiation and autonomy. Moreover, synergies are confronted with serious charges and have been characterised as the "enemy of focus". In any case, in order to realise a net benefit, the

1271 Collis and Montgomery (1995), p. 47
1272 Collis and Montgomery (2005), p. 48
1273 See also Collis and Montgomery (2005), p. 91; Iacocca, for example, has never gone along with the idea of interchangeability, that, for example, the president of Ford could be running any other large corporation just as well. To him, it's like a person who plays the saxophone in a band and to whom one day the conductor says: ""You're a good musician. Why don't you switch over to the piano?" He says: "Wait a minute, I've been playing the sax for twenty years! I don't know beans about the piano."", in: Iacocca (1984), pp. 149-150
1274 Collis and Montgomery (1995), pp. 54-55
1275 Collis and Montgomery (2005), p. 84
1276 Goold and Campbell (1998), pp. 75-76
1277 Goold and Campbell (1998), p. 78
1278 Collis and Montgomery (2005), p. 79
1279 Collis and Montgomery (1998), pp. 24-25
1280 Malik (1999), p. 45

costs of pursuing coherence must be lower than the benefits it generates, otherwise the strategy is misguided.[1281]

The downsides of synergy are that if it is poorly managed, it can undermine an organisation's confidence and erode trust among the business units as well as between the units and the corporate centre.[1282] Goold and Campbell argue that synergy initiatives often fall short of management's expectations and end up destroying value rather than creating it.[1283] Collis and Montgomery even conclude that countless instances have been exposed where synergies once expected, never materialised.[1284]

However, executives often view the achievement of synergy as central to their jobs. That is why they are prone to four biases that distort their thinking.[1285]

- The first is the **synergy bias**, which perhaps most fundamentally reflects the fear of being left without a role if they are not able to promote co-ordination, standardisation, and other links among the various businesses they control. This leads them to overestimate the benefits and underestimate the costs of synergy.[1286]
- The **parenting bias** is the belief that synergy will only be captured by cajoling or compelling the business units to co-operate.[1287] Yet, if business-unit managers choose not to co-operate, they either do not believe there are any benefits to be gained or they believe the costs, including the opportunity costs, outweigh the benefits.[1288]
- A natural corollary to the parenting bias is the **skills bias**, which is the assumption that whatever know-how is required within the organisation to achieve synergy will be available.[1289] When managers are convinced that an intervention is needed to make synergies happen, they are likely to overlook any skills gaps, or at least assume that they can be filled when necessary.[1290]
- Finally, the **upside bias** causes executives to concentrate so hard on the potential benefits of synergy that they overlook the downsides.[1291]

With the combination of these four biases, synergy seems more attractive and more easily achievable than it truly is.[1292] Instead, what is needed is awareness and the discipline which spots distortions in executives' thinking and puts their ideas to the test.[1293] When expansion is based on an impressionistic assessment rather than on a more careful analysis of the source and magnitude of expected cost savings, scale and scope effects fail to materialise because management have misjudged their potential from the start.[1294]

1281 Collis and Montgomery (2005), p. 165
1282 Goold and Campbell (1998), p. 91
1283 Goold and Campbell (1998), p. 65
1284 Collis and Montgomery (2005), p. 78
1285 Goold and Campbell (1998), pp. 66-75
1286 Goold and Campbell (1998), pp. 66-69
1287 Goold and Campbell (1998), p. 66
1288 Goold and Campbell (1998), p. 70
1289 Goold and Campbell (1998), pp. 66 and 73
1290 Goold and Campbell (1998), p. 73
1291 Goold and Campbell (1998), p. 66
1292 Goold and Campbell (1998), p. 66
1293 Goold and Campbell (1998), p. 75
1294 Collis and Montgomery (2005), pp. 78-79

To summarise, Johnson, Scholes and Whittington argue that the problems in achieving synergistic benefits are excessive costs, overcoming self-interest and illusory synergies.[1295] They go on to note that synergistic benefits are not as easy to achieve as they would appear to be, and that the failure of many companies to extract expected synergies from their businesses has led to growing scepticism about the notion of synergy.[1296]

5.5.2.3.2 Focusing as an Alternative

To focus is dangerous too. Renowned Swiss quality, for example, made its mark by exploiting market niches and small market segments, enabling it to sell at high prices and extract a sizable profit margin in the absence of competition. Swiss firms played their differentiation card brilliantly and succeeded with this strategy. Nowadays, however, globalisation has forced Swiss SMEs to open up and they are no longer alone in their segmented market.[1297]

5.5.2.3.3 Leveraging of Core Competencies

High quality rather than pedestrian resources, strong market positions in attractive industries, and an efficient administrative organisation are aspects of great corporate strategies, and a tight fit regarding these is important for gaining true corporate advantage.[1298]

We have seen that the most profitable firms diversify around a set of resources that are specialised enough to confer a meaningful competitive advantage in an attractive industry, yet fungible enough to be applied across several such settings[1299]

Thus, competitive advantage results when a company's resources are critical to the success of its businesses. When those resources can be leveraged, synergy can be captured and co-ordination achieved. Finally, the fit between the measurement and reward systems and its businesses produces strategic control.[1300]

On one hand, we conclude that there is a lot of paradigmal rigidity about entering new businesses. In the literature about core competencies, on the other hand, it is emphasised how product excellence along a given functionality dimension can often be leveraged into many other applications and market segments.[1301] The goal of a core competence is to build world leadership in the design and development of a particular class of product functionality.[1302]

The point is that a company which competes on capabilities gains the benefits of both focus and diversification in a remarkable diversity of regions, products and businesses, and does it far more coherently than the typical conglomerate can. Stalk, Evans and Shulman call such a company a *"capabilities predator – able to come out of nowhere and move rapidly from nonparticipant to major player and even to industry leader."*[1303]

1295 Johnson, Scholes and Whittington (2008), p. 275
1296 Johnson, Scholes and Whittington (2008), p. 276
1297 Opinion, Blili (2010)
1298 Collis and Montgomery (1998), p. 4
1299 Collis and Montgomery (2005), p. 103
1300 Collis and Montgomery (1998), p. 4
1301 Prahalad and Hamel (1990) and (1994), in: Kaplan and Norton (2004b), p. 150
1302 Prahalad and Hamel (1990), p. 88
1303 Stalk, Evans, and Shulman (1992), pp. 192-193

With the ability to develop new resources and capabilities and to apply them to new markets as the economic and competitive environment changes, sustained advantage can be realised.[1304]

Thus, a company's scope needs to be continually reassessed. Strategists must respond to the question: how far can the company's valuable resources be extended across markets? With the difference in their specificity, from highly fungible resources (such as cash, many kinds of machinery, and general management skills) to much more specialised ones (such as expertise in narrow scientific disciplines and secret product formulas), there will be widely different answers.[1305]

Core competencies are the wellspring of new business development.[1306] Unlike physical assets, which deteriorate over time, core competencies do not diminish with use but instead are enhanced as they are applied and shared. Nevertheless, they need to be nurtured and protected, since knowledge fades if it is not used. Competencies are the glue of existing businesses and also the engine for new business development. They can also guide diversification patterns and market-entries, so that these decisions are not just guided by the attractiveness of markets.[1307]

Prahalad and Hamel predicted early on that in the long-run, competitiveness would derive from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products. They hold that the real source of advantage is to be found in management's ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities.[1308]

If the resources of a company create a competitive advantage in the businesses it competes in, there is consistency between its resources and its businesses. Therefore, corporate resources have to be evaluated against the key success factors in each business. In this, it is important that the resources convey a substantial advantage in order to justify retaining or entering a business. If merely pedestrian resources can be applied, it is rarely sufficient to justify entry or presence in an attractive industry. It also needs to be remembered that one great resource is not enough for a successful competitive position. Regardless of the advantage it appears to yield, the company must also compete in all other resources that are required to produce and deliver the product or service in each business.[1309]

Specialised resources often play a critical role in securing competitive advantage. On the other hand, because they are so specific, they lose value quickly when they are moved away from their original settings. For example, the brand of the Shell Oil Company will not transfer well outside cars and energy regardless of how valuable it is within these fields. Conversely, highly fungible resources transfer well across a wide range of markets. These, however, only rarely constitute the key source of competitive advantage.[1310]

Compared to vertical integration, the building of core competencies is different and more ambitious. Make-or-buy decisions will start with end products and look upstream to the efficiencies of the supply chain, and downstream towards distribution and customers,

1304 Tallman (2009), p. 10
1305 Collis and Montgomery (1995), pp. 53-54
1306 Prahalad and Hamel (1990), p. 93
1307 Prahalad and Hamel (1990), p. 85
1308 Prahalad and Hamel (1990), p. 83
1309 Collis and Montgomery (2005), p. 195
1310 Collis and Montgomery (1995), pp. 53-54

but will not take inventory of skills and look forward to applying them in non-traditional ways. At the same time, it is obvious that decisions about competencies provide a logic for vertical integration.[1311]

5.5.3 CUSTOMER VALUE PROPOSITION FOR DIFFERENTIATION

"It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or for a service converts economic resources into wealth, things into goods. What the customer buys and considers value is never just a product. It is always a utility, that is, what a product or service does for him."[1312]

5.5.3.1 Summary

The customer value proposition is the second perspective of the strategy map. With the power that has shifted from suppliers/manufacturers to customers, these latter have become the most important element for every company. Before a value proposition can be defined, a company must first understand who its targeted customers are. Moreover, it has to better understand and anticipate their needs but at the same time also be able to educate them about improved product functionalities. Thus, companies have to develop a market orientation and display this orientation in their processes. Finally, brands and reputation are particularly important, since at their most basic level they serve as markers for the offering of a company.

5.5.3.2 Description

5.5.3.2.1 Increased Focus on Customers

The customer value proposition is the second perspective of the strategy map and the core of any business strategy.[1313] It addresses which customer value proposition will differentiate the company in the niches[1314] that have been mentioned above. Moreover, it describes the unique mix of product and service attributes, customer relations, and image that an organisation offers.[1315]

In the end, it is the customer who decides what needs to be produced and what will be successful. This is now a general awareness and the reason why customer orientation is so focused and all marketing activities aligned accordingly.[1316] Malik argues that a company's prime purpose is to have satisfied customers, since with this it will be able to make its shareholders and stakeholders content.[1317]

5.5.3.2.2 Understand Customers

The following five major forces have placed immense pressure on companies (particularly business-to-customer ones) to better understand their customers:

1311 Prahalad and Hamel (1990), p. 86
1312 Drucker (1974a), in: Drucker (2008), p. 20
1313 Kaplan and Norton (2000a), p. 81
1314 Kaplan and Norton (2008), p. 10
1315 Kaplan and Norton (2000a), p. 81
1316 Maucher (2007), p. 125
1317 Malik (2011), in: Handelszeitung, p. 16

1. To acquire new customers is generally more expensive than to retain existing ones who will also, if satisfied, spread the word to others like a referral service.

2. Many products and service lines are one-size-fits-all and have become commodity-like. Product development management methods have also matured and accelerate the quick "me-too" copying of new products or service lines by competitors. Due to these developments, there has been an unarguable shift from product-driven differentiation towards service-based differentiation. With the importance of services increasing, the customer relationship grows and as a consequence many marketing organisations focus on segment, service, and channel programmes, as opposed to traditional product-focused initiatives.

3. There is a shift from mass marketing to one-to-one marketing[1318]. This requires a much better understanding of customers' unique preferences and what they can afford. Sometimes this even requires a better understanding of the customers' customers. Technology has become an enabler to identify customer segments, and tailor marketing offers and service propositions to individual customers (or segments). In addition, traditional marketing measures (e.g. market share and sales growth) are being expanded to more reflective measures of marketing performance, e.g. additional products and services sold to existing customers. Companies are supposed to continuously seek ways to engage in more content-relevant communications and interactions, which gives them the opportunity to gain knowledge about customer preferences and to strengthen the relationship.[1319]

4. With expanded product diversity, variation, and customisation, complexity is increased and thus the company is required to invest in and spend more on expanded product offerings and services to increase its customers' satisfaction.[1320] Moreover, to manage the complexity, more indirect expenses are needed. This again requires enhanced managerial accounting practices and activity-based costing (ABC), which traces and assigns costs based on cause-and-effect relationships.

5. With the internet, power is shifting irreversibly from sellers to buyers. Customers and purchasing agents can more effectively explore more shopping options, quickly compare prices among dozens of suppliers, and also more easily and quickly educate themselves. They have an abundance of options and, with the internet, information about products or services that are interesting to them is available in a much shorter amount of time than was the case with the antiquated ways of the past. Since the customer is in control more than ever before, customer retention becomes even more critical and treating customers as *"a lifetime stream of revenues"* becomes paramount. The increased power of buyers is placing relentless pressure on suppliers where shakeouts and consolidations are constant.[1321]

Hence, before a company can identify the value proposition it intends to offer, it must first understand who its targeted customers are. A company's strategy for the

1318 Sophisticated modeling has enabled marketers to convert customer base data into insights and current technology permits the leverage of these insights as well as the customisation of marketing programs for individual customers., in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140
1319 Cokins (2009), p. 172
1320 Cokins (2009), p. 173
1321 Cokins (2009), p. 173

customer is defined by the value proposition which describes the unique mix of product, price, service, relationship, and image that a company offers its targeted group of customers. The value proposition should communicate what the company, compared to its competitors, expects to do better or differently for its customers. This can be a best buy or lowest total cost offer by companies as diverse as Southwest Airlines, Dell, Wal-Mart, McDonald's and Toyota. Sony, Mercedes, and Intel emphasise product innovation and leadership. IBM and Goldman Sachs successfully deliver another type of value, i.e. the provision of complete customer solutions. Finally a lock-in generic strategy arises when companies create high switching costs for their customers. This is the case when, for example, a computer operating system or microchip hardware architecture becomes the standard for the industry.[1322] Yellow Pages and eBay, by becoming a dominant exchange, offer other examples of successful lock-in strategies.[1323] In some industries, the network effect enormously favours high market-share companies, because sometimes customers buy the same product as others, for instance, to make sure it is compatible, as is the case with personal computers. Thus, the market quickly gravitates towards a single supplier (Microsoft) whose product nobody can really compete against, even if their product is technically superior (Apple), because it is not compatible with those used by most buyers.[1324]

Moreover, the understanding of what a company's most attractive and prospective customers value helps to fine tune the business and its offerings. This enables a company to maximise the likelihood of the business achieving high levels of customer satisfaction and therefore commercial success.[1325] A comprehensive assessment will identify which market segments exist and which are the most attractive.[1326] It will also provide insights into the main factors that influence customers' value perceptions, and map the relative importance of these value perception factors[1327].

5.5.3.2.3 Reputation and Branding are Vital

"It is all about building corporate reputations to support strong brands."[1328]

In addition to identifying and understanding one's customers, brands play an important role in a company's value proposition.

For customers, brands, which at their most basic level serve as markers for the offerings of a firm, can:

- simplify choice,
- promise a particular quality level,
- reduce risk,
- engender trust.[1329]

They are built on the product itself, the accompanying marketing activity, and use (or non-use) by customers and others. Brands reflect the complete experience that customers

1322 Shapiro and Varian (1998), in: Kaplan and Norton (2004b), p. 42
1323 Kaplan and Norton (2004b), pp. 40-42
1324 Jarillo (2003), p. 20
1325 Opinion, Blili (2011)
1326 More and more market segments can be seen on a global level.
1327 Opinion, Blili (2011)
1328 Cambié and Ooi (2009), p. 28
1329 Keller and Lehmann (2006), p. 740

have with products and also play an important role in determining the effectiveness of marketing efforts such as advertising and channel placement. Moreover, they are an asset in the financial sense. In summary, brands have an impact on the customer, product and financial market. Often, the value accrued by these various benefits is called brand equity.[1330]

Strategy experts like Chandler, Porter or Mintzberg all tend to focus on issues such as the return on investment (ROI) or shareholder value. Instead, we conclude that this is not the right approach anymore. Nowadays, the growth concept is being questioned and instead reputation and branding have become much more important.

For Grant, reputation, understood as an intangible resource, is about brands, customer relationships and reputation with stakeholders.[1331] Following Fombrun, reputation can also be defined as *"a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals."*[1332] Weiss, Anderson and MacInnis view reputation as *"a global perception of the extent to which an organization is held in high esteem or regard."*[1333] With this definition, it is suggested that corporate reputation is a general organisational attribute that reflects the extent to which external stakeholders see the firm as "good" and not "bad".[1334] In this context, reputation, like branding, clearly becomes a customer value proposition for differentiation.

According to the resource-based view, firms that have valuable and rare assets possess a competitive advantage and may expect to earn superior returns. The ones with assets that are difficult to imitate may achieve sustained superior financial performance.[1335] Within this line of reasoning, intangible assets, such as good reputation, are critical because they have a potential for value creation and their intangible character makes replication by competing firms considerably more difficult. It is therefore not surprising that several studies confirm the expected benefits associated with good reputation.[1336] Roberts and Dowling look at the extent to which a good reputation at a point in time allows superior financial performance to persist over time.[1337]

We can deduce that the increased importance of reputation has to do first and foremost with altered values.

Over the past century, a shift in management focus has occurred leading to the following overarching management philosophies that have emerged in response to the changing dynamics of the work environment and marketplace: first, management by instruction ("how"); second, management by objectives ("what"); and third, leading through values ("why").[1338]

Future values, though, will be of a qualitative nature. The time when the sales of products were a dependent variable on technical advance alone has passed. Instead, the attitudes towards a brand and the emotional and immaterial values that are associated

1330 Keller and Lehmann (2006), p. 740
1331 Bailom, Matzler and Tschemernjak (2006), p. 143 referring to Grant (2005)
1332 Fombrun (1996), p. 72, in: Roberts and Dowling (2002), p. 1078
1333 Weiss, Anderson and MacInnis (1999), pp. 74-89, in: Roberts and Dowling (2002), p. 1078
1334 Roberts and Dowling (2002), p. 1078
1335 Barney (1991), pp. 99-120; Grant (1991), pp. 114-135, in: Roberts and Dowling (2002), p. 1077
1336 Fombrun and Shanley (1990), pp. 233-258; Herremans, Akathaporn and McInnes (1993), pp. 587-604; Landon and Smith (1997), pp. 289-323; McGuire, Schneeweis and Branch (1990), pp. 167-180; Podolny (1993), pp. 829-872, in: Roberts and Dowling (2002), p. 1077
1337 Roberts and Dowling (2002), p. 1077
1338 Henderson, Thompson and Henderson (2006), in: Andersen, Froholdt and Poulfelt (2010), pp. 176-177

with it are decisive for success. This positioning is relevant and will be the marketing goal of companies.[1339]

Andersen, Froholdt and Poulfelt summarise that, in essence, the key driver is the question of sensemaking and whether the tasks and values make sense for the people involved in the execution.[1340]

In addition to the ability to attract and retain high quality employees, we will list below some additional advantages of reputation and branding:

- **Scope Economies:** The role that intangible resources play in scope economies has recently received considerable attention. The value that comes from a firm's reputation, for example, can extend across a range of markets, so that the individual businesses of a firm like General Electric may well benefit from its corporate reputation for integrity and high-quality management. More particularly, by using the same brand name on multiple products (a practice called umbrella branding), firms put at risk the future sales of all products as bonds for the quality of each product marketed under that name. In this way, they can lower the average cost of assuring quality while delivering a powerful message to the customer, which is a clear benefit of scope.[1341] By proliferating products out of their core competencies, companies such as 3M, Black & Decker, Canon, Honda, NEC, and Citicorp have built global brand umbrellas. In the race for global brand dominance, the brand umbrella has allowed their individual businesses to build image, customer loyalty, and access to distribution channels.[1342]

  From a more general point of view, scope economies which explain the value of truly distinctive corporate competencies[1343] may be the result of large investments and include routines that embrace tacit knowledge and many years of trial and error. The cost of building such competencies, however, can often be recovered by applying them to a succession of products or markets over time. Therefore, if competencies are created, they can produce sizable scope economies and thus serve as a valuable source of competitive advantage across multiple products.[1344]

- **Financial performance:** Empirical research confirms that there is a positive relationship between reputation and financial performance. Furthermore, firms with relatively good reputations are better able to sustain superior profit outcomes over time.[1345]

  There is a variety of potential benefits of a good reputation that provide the rationale for a cross-sectional relationship between reputation and financial performance.[1346] Reputation is valued in its own right, and therefore customers value associations and transactions with high-reputation firms. Because reputation also serves as a signal of the underlying quality of a firm's products and services, they may also pay a premium for the offerings of high-reputation firms, at least in markets characterised by high levels of uncertainty.[1347]

1339 Kunde (2000), p. 2
1340 Andersen, Froholdt and Poulfelt (2010), p. 177
1341 Montgomery and Wernerfelt (1992), pp. 31-50, in: Collis and Montgomery (2005), p. 73
1342 Prahalad and Hamel (1990), p. 89
1343 Milgrom and Roberts (1992), in: Collis and Montgomery (2005), p. 73
1344 Collis and Montgomery (2005), p. 73
1345 Roberts and Dowling (2002), p. 1077
1346 Fombrun (1996); Podolny (1993), pp. 829-872, in: Roberts and Dowling (2002), p. 1079
1347 Shapiro (1983), pp. 659-679, in: Roberts and Dowling (2002), p. 1079

Furthermore, a good reputation may also lead to a cost advantage for the firm because, all things being equal, employees prefer to work for high-reputation firms, and should therefore work harder or for lower remuneration. At the same time, due to suppliers being less concerned about contractual hazards when transacting with high-reputation firms, good reputations should also lead to lower contracting and monitoring costs. There are a number of ancillary benefits that complement these direct benefits. For example, it is suggested that potential customers receive advertising claims (especially extreme ones) more favourably if the reputation of the firm making those claims is more positive.[1348] Along similar lines, marketing literature suggests that a good reputation supports and enhances the effectiveness of the sales force, the introduction of new products and, in the event of crises, respective recovery strategies.[1349] It has also been demonstrated that investments in quality made by California wineries experienced a higher pay-off if the winery in question had a better reputation.[1350]

When looking at the relationship between reputation and sustained superior financial performance, it needs to be added that reputation differences across firms are relatively stable over time.[1351] The replication of a good reputation in the short-term is difficult, if not impossible.[1352]

Moreover, it is suggested that the positive interactions between reputation and other salient firm features or actions (e.g. production costs or investments in product quality and advertising) create a virtuous cycle, wherein firms with good reputations have a greater incentive to engage in actions that further increase their reputations.[1353]

- **Barriers of entry:** It is clear that the first group of barriers consists of the different reasons that truly prevent entry to businesses, for example patents, governments or the network effect. Yet, another example is reputation. This is because in some instances, a rational buyer does not make life difficult for himself or herself by shopping around too much, and simply buys the product with the reputation of being "the best". Imagine a product having the following characteristics:
    - Because of the technical complexity, the buyer cannot really appreciate the quality of the different offerings.
    - The product is critical to the buyer because the buyer sustains a serious loss if the quality turns out to be bad.
    - Compared to the buyer's total costs, the product's cost is not very high.[1354]

  If the products or services of the supplier continue to provide good quality, its reputation will grow, which will make entry very difficult for a potential competitor. Even if such a potential competitor has a comparable (or even

1348 Goldberg and Hartwick (1990), pp. 172-179, in: Roberts and Dowling (2002), p. 1079
1349 Dowling (2001), in: Roberts and Dowling (2002), p. 1079
1350 Benjamin and Podolny (1999), pp. 563-589, in: Roberts and Dowling (2002), p. 1079
1351 Barney (2001), pp. 41-56; Henderson and Cockburn (1994), pp. 63-74, in: Roberts and Dowling (2002), p. 1079
1352 Dierickx and Cool (1989), pp. 1504-1511; Rumelt (1987), pp. 137-157, in: Roberts and Dowling (2002), p. 1079
1353 Podolny (1993), pp. 829-872, in: Roberts and Dowling (2002), p. 1079
1354 Jarillo (2003), p. 18

better) quality product, entry will not be easy, for the buyer cannot judge the quality and is seriously risk averse (the product being critical and not too expensive, anyway). To lower the price in order to enter that market is not the way, as buyers will simply not try it, and if they never do, the potential competitor will never develop the necessary reputation.[1355]

Another barrier to entry is brands. As we have seen, brands are closely related to a company's reputation. Brands may be appreciated for several reasons:

- They may identify a truly unique product, whose singularity is protected by secret or difficult-to-copy processes, as may be the case with Nescafé.
- They may also represent a status symbol, as with many fashion and luxury products.
- They may simply be a guarantee of quality. Buyers often prefer to pay a little more for the branded article to be sure they are not making a mistake. In contrast to this, many articles, e.g. petrol, are sold under a brand but buyers do not really care about it, and the brand does not enter into the purchasing decision. In such cases, although present, the brand does not really act as a barrier to entry, and so does not have much value.[1356]

Thus, some of the most profitable companies are simply protected by very high entry barriers.[1357] Nevertheless, other variables like leadership, politics, technical capacity, opportunity and luck also greatly influence the results of specific companies.[1358]

5.5.3.2.4 Processes Improve the Customer Value Proposition

Below, we will discuss the four key processes that create differentiation. In order to facilitate the link, we will list how they produce and deliver the value proposition for customers.[1359]

- **Operations management processes:** These are enablers that offer customers important elements of an attractive value proposition (competitive prices and low total cost of supply; perfect quality; speedy, timely purchase; and excellent selection) and which manage operations for effectiveness and efficiency.[1360] Moreover, intimate customer relationships offer the possibility of producing customised solutions for customers.[1361]
- **Customer management processes:** Relationship and image dimensions of the basic customer value proposition are focused by the customer management processes. The brand image helps both to select and acquire customers. Relationships with targeted customers are built by customer retention and growth processes.[1362] Similarly, Javalgi, Martin and Young summarise the

1355 Jarillo (2003), p. 18
1356 Jarillo (2003), p. 18
1357 Jarillo (2003), p. 225
1358 Jarillo (2003), p. 3 and p. 226
1359 Kaplan and Norton (2004b), p. 43
1360 Kaplan and Norton (2004b), p. 77
1361 The reasons for this are twofold. First, reputation is also about customer relationships; See Bailom, Matzler and Tschemernjak (2006), p. 143 referring to Grant (2005). Second, if customers feel that their business or personal issues are understood, they trust the company to develop customised solutions tailored to them, in: Kaplan and Norton (2004b), p. 329
1362 Kaplan and Norton (2004b), p. 120

four main components of CRM as follows: customer satisfaction, customer loyalty programmes, customer retention programmes and customer lifetime profitability.[1363] Reichheld asserts that loyal customers are more profitable than non-loyal ones.[1364] The following major CRM activities have also been identified: customer interaction management (customer identification, acquisition, retention), customer relationship upgrading (cross-selling and up-selling), and customer relationship win-back.[1365] In order to establish long-term relationships, CRM systems have to be periodically updated.[1366]

- **Innovation processes:** The following components of a customer value proposition are linked to excellent innovation:
    - The first ones are the specific performance attributes of the company's products and services, which describe how the performance of the new product or service dominates the performance of competitive offerings (high-performance products).[1367] In addition, the most important functionality aspects of newly introduced products and services are described and communicated, so that all employees learn about the specific performance dimensions that the company must continually strive to enhance.[1368]
    - The second one has to do with the time at which the enhanced functionality becomes available to customers. To get to the market with the offer of an excellent functionality but several months or years after competitors will not be the basis for high margins. Being late in many product innovations may be far more costly to a company than incurring a cost overrun on the innovation process itself. Thus, companies with excellent innovation and product leadership bring their superior products and services to the market faster than competitors. For product leaders, this is an important source of revenue and margin growth ("First-to-Market").[1369]
    - To extend existing or new products into new markets is a third customer objective from the innovation process ("Extend into New Markets"[1370])[1371]. We have already seen that the core competency literature emphasises leveraging or product excellence along a given functionality dimension into many other applications and market segments.[1372]
- **Regulations and social processes:** Finally, an outstanding reputation generally enhances the image of a company with customers and with socially conscious investors.[1373]

1363 Javalgi, Martin and Young (2006), pp. 12-23, in: Kolis and Jirinova (2013), p. 23
1364 Reichheld (1996), in: Kolis and Jirinova (2013), p. 23
1365 Reinartz, Krafft and Hoyer (2004), pp. 293-305, in: Kolis and Jirinova (2013), p. 23
1366 Schögel and Herhausen (2011), p. 50
1367 Kaplan and Norton (2004b), p. 137
1368 Kaplan and Norton (2004b), p. 149
1369 Kaplan and Norton (2004b), p. 149
1370 Kaplan and Norton (2004b), p. 137
1371 Kaplan and Norton (2004b), p. 149
1372 Prahalad and Hamel (1990) and (1994), in: Kaplan and Norton (2004b), p. 150
1373 Kaplan and Norton (2004b), p. 46

5.5.3.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

5.5.3.3.1 Increased Focus on Customers

In the past, the centre of power shifted from the supplier and the manufacturer to the distributor. Because the customer now has full access to information worldwide, Drucker holds that in the future the customer will be the centre of gravity and power.[1374]

Therefore, in order to stay in business today, organisations have realised that they must be increasingly focused on customers. This is not only due to the higher availability of information for the customer, especially via the internet, but also due to slimmer margins and the commoditisation of products.[1375]

5.5.3.3.2 Understand Customers

For Cokins, the implication of the pressures on companies to better understand their customers is that profit growth for suppliers and service providers will come from building intimate relationships with customers. They have to provide more products and services to their existing customer base and carefully target future customers.[1376]

Because business success will depend on getting close to customers, many firms are developing a market orientation. In the past, production orientation was typical of many companies. It describes a method of working that places operational concerns before market needs, and thus focusing one's resources on producing goods and services, and only later considering the needs of those outputs.[1377] Kaplan and Norton point out that when specific objectives and measures for a particular value proposition are defined, the organisation translates its strategy into tangible measures that all employees can understand and work towards implementing.[1378]

Thus, for product leadership companies, it is critical to identify leading-edge customers and to learn from them. However, they must also be able to educate customers about the benefits from improved functionality. This second issue is important because existing customers are not always the best source of new ideas. Even the most advanced customers often cannot appreciate the benefits of innovative product capabilities which are new and different from existing ones.[1379] At the same time, to outperform the competition, companies will have to combine scale and flexibility with acuity, i.e. the ability to see the competitive environment clearly and thus anticipate and respond to customers' evolving needs and wants.[1380]

After all, the crucial question is: what makes a customer pay the bill?[1381] In order to answer this question, it is important to not define the customer value proposition too narrowly. For example, it may be possible that a customer is looking more for mobility or an *"oasis of well-being"* than anything else when buying a car.

1374 Drucker (2008), Afterword in Spring 2001, p. 348
1375 Cokins (2009), p. 155
1376 Cokins (2009), p. 173
1377 Opinion, Blili (2011)
1378 Kaplan and Norton (2004b), pp. 42-43
1379 Kaplan and Norton (2004b), p. 328
1380 Stalk, Evans, and Shulman (1992), pp. 186-187
1381 Stöger (2010), p. 57

In every company, there are numerous commitments towards customer orientation. However, this does not mean that it has already been realised. This is because, as just mentioned, it is not that easy to find out what the customer is really paying the company for. Even if one knows, there are still a lot of opportunities to organise around the customer instead of actually putting the customer at the centre.[1382] The implementation of a customer-oriented culture helps to achieve customer-centricity.[1383] However, successful customer-centricity requires that processes are sustainably geared towards customers.[1384]

What seems important to us is that customers are not robots.[1385] They do not just buy products but also behaviours and attitudes. Thus, to an increasing degree, buying decisions are made based on beliefs and assumptions about the excellence of a brand.[1386] The increasing trend of global branding rewards transnational standardisation with promises of world-class quality, technology, and price norms for customers anywhere.[1387] Directly, branding efforts can actively manage impressions for external audiences, and do the same indirectly for insiders.[1388]

5.5.3.3.3 Reputation and Branding are Vital

The values of Google, Apple, General Electric and Saxo Bank have played a vital part in their success. They are authentic and have developed the notion of values from being primarily focused on finance to cover a broader spectrum. If a company adopts a set of authentic and clearly defined values, it can successfully brand itself to current and potential employees. Furthermore, if these values are aligned with the organisation's strategy, it will render the communication of its shared purpose and goals more understandably, thus creating a common sense of why they exist and why people should spend their time at this particular organisation.[1389] Thus, values-based leadership which is founded on authentic values is a longer-term perspective in contrast to the more traditional short-term financial values that are still central to many companies' value statements:[1390]

Figure 12: Conventional Wisdom versus the Values-Based Approach[1391]

*"**Conventional wisdom***	***Values-based approach***
Focus on solely maximizing shareholder value	*Focus on authentic values*
Short-term perspective	*Long-term perspective"*

Therefore, investments in the environment, health, safety, employment practices and community development need not be motivated by altruistic reasons alone. If a company

1382 Malik (2001), p. 195
1383 Schögel and Herhausen (2011), p. 50
1384 Matzler and Fässler (2004), pp. 627-649, in: Bailom, Matzler and Tschemernjak (2006), p. 198
1385 Kunde (2000), p. 10
1386 Kunde (2000), p. 10
1387 Tallman (2009), pp. 81-82
1388 Corley and Gioia (2004), p. 197
1389 Andersen, Froholdt and Poulfelt (2010), pp. 181-182
1390 Andersen, Froholdt and Poulfelt (2010), p. 182
1391 According to Andersen, Froholdt and Poulfelt (2010), p. 182

has an excellent reputation for performing along regulatory and social dimensions, it assists it in attracting and retaining high-quality employees. This also makes human resource processes more effective and efficient. Moreover, it leads to a reduction of environmental incidents and, together with improved employee safety and health, it improves productivity and lowers operating costs. Lastly, an outstanding reputation generally enhances the image of a company with customers and with socially conscious investors.[1392] All these linkages illustrate how long-term shareholder value creation can be driven by effective management of regulatory and community performance.[1393]

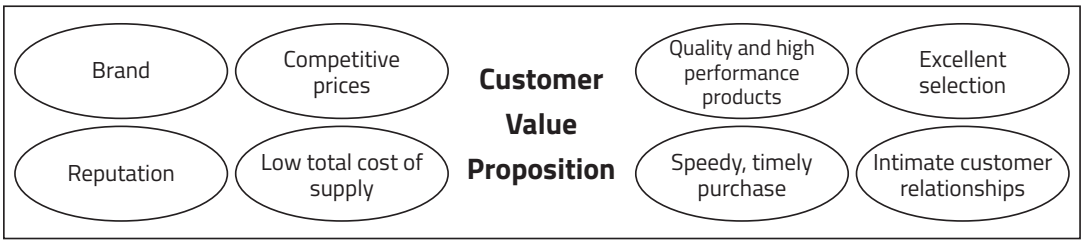
However, not only media relations but also corporate reputation management is needed to create the character and identity behind a brand.[1394] Hence, as we have already seen, *"It is all about building corporate reputations to support strong brands."*[1395] This is also the case when it comes to product-branding. In this regard, a brand like Nike serves as a good example, as it is the result of an integrated global marketing strategy with selective sponsoring being a key aspect. Nike's central concern was to establish its products beyond sports and as an expression of individual identity. For this purpose, superstars were built up to the status of mystical heroes whose success was significantly dependent on Nike products. The advertising campaigns often looked like statements of belief. The best example of this is Michael Jordan, who joined the Nike family during the mid-eighties. The message is always the same: winners wear Nike. Like Adidas before, Nike has attained the image of the brand of winners. It has recognised that people do not invest any feelings into products and that the creation of immaterial benefit is the foundation for the specific brand-name inclusion of customers. There are many dreams surrounding people like Michael Jordan, and by acquiring Nike products, customers buy their share of it.[1396] Michael Jordan, who was used as a world-renowned symbol of achievement and athletic performance, was later replaced by Tiger Woods for the same purpose.[1397] Employees along the whole distribution chain see instantaneously which products their idols are wearing. Consequently, nobody has to be convinced of the extraordinary product quality.[1398] Moreover, with the marketing-slogan *"Just do it"* a tight link between the idols and consumer is established. Just wearing Nike equipment makes the owner feel a sense of winning.[1399]

By sponsoring the cycling team that won the Tour de France in 2008, Saxo Bank also displayed an ability to pick winners outside their business that could increase the brand of their company.[1400]

We will conclude this chapter by adding a summary of the second perspective of the strategy map, i.e. the customer perspective.

1392 Kaplan and Norton (2004b), p. 46
1393 Kaplan and Norton (2004b), p. 47
1394 Cambié and Ooi (2009), p. 29
1395 Cambié and Ooi (2009), p. 28; *"Several studies show the power of a corporate brand."*, in: Argenti and Druckenmiller (2004), pp. 368-374, in: Keller and Lehmann (2006), p. 742
1396 Kunde (2000), p. 98
1397 Rehman (2008), p. 163; More recent examples may be observed in tennis, for example Rafael Nadal and the Korean auto manufacturer KIA, or Roger Federer and the Swiss household appliance manufacturer Jura.
1398 Kunde (2000), p. 101
1399 Kunde (2000), p. 101
1400 Andersen, Froholdt and Poulfelt (2010), p. 4

Figure 13: Customer Value Proposition[1401]



Below, we will see in what way a company's internal processes produce and deliver the value proposition for customers.[1402]

5.5.4 KEY PROCESSES THAT CREATE DIFFERENTIATION

The first perspective of the strategy is the financial perspective, which is then followed by the customer perspective (customer value proposition). The third perspective is about which key processes create the differentiation in the strategy.[1403] Eisenhardt and Sull argue that strategy is about pursuing opportunities by focusing on key processes and establishing simple rules.[1404]

As we have already seen, Kaplan and Norton group an organisation's myriad internal processes into the following four clusters:

1. *"Operations management processes.*
2. *Customer management processes.*
3. *Innovation processes.*
4. *Regulatory and social processes."*[1405]

From the customer perspective, objectives describe the strategy (the targeted customers as well as the value proposition), and from the financial perspective the objectives describe the economic consequences of a successful strategy (revenue and profit growth as well as productivity). Once a company has a clear picture of the objectives in these two perspectives, the accomplishment of the strategy is described by the objectives in the processes as well as the learning and growth perspectives.

A company's internal processes, with their development of human, information and organisation capital, are managed to deliver the differentiating value proposition of the strategy. They first produce and deliver the value proposition for the customers, and secondly improve processes and reduce costs for the productivity component in the financial perspective.[1406]

More specifically, the four high-level processes[1407] impact on the financial perspective as follows:

1401 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353
1402 Kaplan and Norton (2004b), p. 43
1403 Kaplan and Norton (2008), p. 10
1404 Eisenhardt and Sull (2001), in: Andersen, Froholdt and Poulfelt (2010), p. 40
1405 Kaplan and Norton (2004b), p. 43
1406 Kaplan and Norton (2004b), p. 43
1407 Kaplan and Norton (2000a), p. 86

- Excellence in **operations management** is directly linked to the productivity theme and indirectly to the revenue growth theme of the financial perspective. Reductions in the cost of ownership, operations and distribution processes should lead directly to improvements in the company's overall cost structure, and thus the productivity theme. The indirect link occurs as companies improve their price, quality and delivery performance to customers. This results in increased revenues from satisfied customers as well as opportunities to capture customers from competitors in price-sensitive and value-preferring market segments.[1408]

- The results of successful **customer management** processes are reflected primarily in revenue growth objectives. In particular, when companies move into new markets and add new products and services, the selection and acquisition of customers provide new sources of revenue. The retention and growth of customers should also yield increased customer value. In addition to these revenue growth objectives, the use of sales force automation and electronic marketing can contribute to effective customer management, and thus to a company's productivity objectives.[1409]

- The objectives of the **innovation** processes are, of course, related to revenue growth and enhanced margins from new products and services. First-to-market products and services offering distinct advantages over those of competitors should either command a price premium or generate sales growth that is faster than the industry's (and frequently both, i.e. higher prices and higher sales growth). Revenue and margin growth can be realised with existing as well as entirely new customers and markets. Therefore, revenue and margin objectives can be developed with both existing and new customers. Objectives for getting a return on research and development spending should also be in place. Perhaps the main benefit in the relationship between innovation and cost management (with which innovation is not often associated) arises from the opportunity to manage costs over the entire life cycle of products. This includes the consideration of product environmental issues and regulations requiring companies to internalise the cost of "put-back" for their products.[1410]

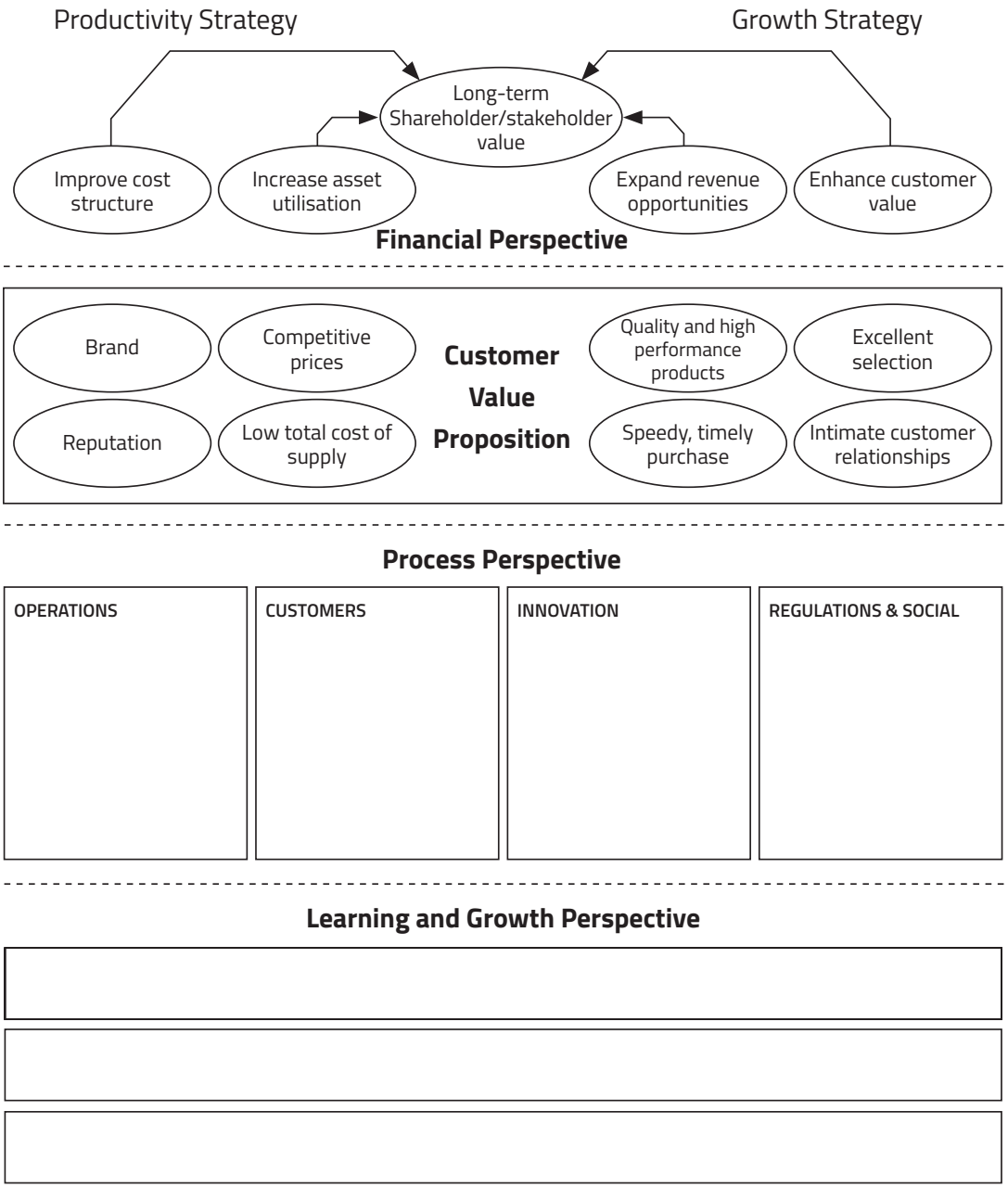
- Concerning the financial outcomes of the **regulatory and social** perspective, we have already seen that investments in the environment, health, safety, employment practices, and community development need not be motivated by altruistic reasons alone. If a company has an excellent reputation for performing along regulatory and social dimensions, this assists the company in attracting and retaining high-quality employees. This also makes human resource processes more effective and efficient. Moreover, it leads to a reduction of environmental incidents, and together with improved employee health and safety, improves productivity and lowers operating costs. Finally, an outstanding reputation generally enhances the image of a company with customers and with socially conscious investors.[1411] As we have already seen, all these linkages illustrate how long-term shareholder value creation can be driven by effective management of regulatory and community performance.[1412]

1408 Kaplan and Norton (2004b), p. 81
1409 Kaplan and Norton (2004b), p. 122
1410 Kaplan and Norton (2004b), p. 151
1411 Kaplan and Norton (2004b), p. 46
1412 Kaplan and Norton (2004b), p. 47

Other financial outcomes of this process are not so evident at first sight. It is clear, though, that compliance with regulations, for example, increases the acceptance of authorities and the local population. It furthermore ensures the reputation of a company and ensures that talented employees are attracted by such a company. All these aspects have, of course, a positive impact on a company's financial results.

The detailed financial perspective as well as the three other perspectives of the strategy map can be depicted as follows:

Figure 14: Financial Perspective[1413]



1413 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

As depicted in the figure above, the two levers for a company's financial strategy are revenue growth and productivity. Generally, both of these can be divided into two components.[1414] Since the best way to build strategy maps is from the top down, executives should start with the financial perspective and first review their mission statement and core values, i.e. why their company exists and what it believes in. With this information, a strategic vision which should create a clear picture of the overall goal, e.g. to become the profit leader in an industry, can be developed. Subsequently, executives must define the logic of how to arrive at that destination,[1415] i.e. they have to determine the value proposition that will deliver the goal, identify the processes most critical to creating and delivering the value proposition, and finally determine the human, information and organisation capital the processes require[1416]. The human, information and organisation capital represents the components of the learning and growth perspective.[1417]

In the following chapters, we will go into more detail regarding the four clusters of the strategy map's process perspective, i.e. the operations, customers, innovation, and regulations and social ones.

5.5.4.1 Operations

5.5.4.1.1 Summary

The increasing approach towards collaboration and partnering is an ideal basis for one of the four sources of competitive advantage: the integrated management of the value chain and the logistics chain. To stay competitive, the company must improve its competencies, agility, flexibility, and rapidity. Thus, the ability to form networks and co-operate in partnership with others, which has been facilitated by improved information and communication technologies, will increasingly become itself a core competence. As a result, it is not the individual company but the network that it is part of that will lead to competitive advantage (the meta-value chain). This will result in rivalries between different collaborating enterprises. Obviously, such a development requires increased streamlining of cross-company processes. Moreover, it questions traditional scope and authority issues. Virtual corporations are reducing the scale and scope of their activities. These are particular cases of the general trend towards relying on networks, and represent another source of competitive advantage: the virtualisation of enterprises through the use of information systems. Finally, a company must not forget to identify its core competencies in order to keep them in-house, emphasise services, produce quality, cut costs and deliver quickly.

5.5.4.1.2 Description

The basic, day-to-day processes according to which companies produce their existing products and services and deliver them to customers are called operations management processes.[1418]

1414 Kaplan and Norton (2000a), pp. 79-80
1415 Kaplan and Norton (2000a), p. 79
1416 Kaplan and Norton (2000a), pp. 79-88
1417 Kaplan and Norton (2004b), p. 199
1418 Kaplan and Norton (2004b), p. 43

5.5.4.1.2.1 Collaboration and Partnering

In order to advance their competitive edge internationally and in response to global competitive forces, companies are increasingly turning to co-operative arrangements.[1419]

With the integration of product-development processes, companies, their suppliers, and even their customers are sharing information and activities to speed up the design of a product and raise the odds of its success on the market.[1420]

General Mills and Land O'Lakes combined their distribution networks, giving them the scale necessary for high efficiency. This led to lower costs and higher customer satisfaction. Since they are non-competitive suppliers, Hammer has come to call these two companies co-suppliers. It is to their mutual advantage to find ways to work together, but in the past it was difficult, if not impossible, to share information quickly and accurately enough.[1421] It was the internet and associated communications technologies that suddenly made these kinds of business relationships feasible.[1422]

Due to collaboration, advantages may be achieved or competition avoided. It also helps to:

- build switching costs, since collaboration can help increase selling and buying power;
- build barriers to entry or avoid substitution;
- gain entry and competitive power;
- share work with customers.[1423]

5.5.4.1.2.2 Integrated Management of the Value Chain and the Logistics Chain

"Not the competitiveness of an individual firm but the concept of competitiveness of the entire production chain is important. Hence, strategy can no longer be defined in isolation within each enterprise, but instead it is the strategy of the whole value chain that should prevail."[1424]

One way in which firms can develop a competitive advantage has to do with the integrated management of the value chain and the logistics chain.[1425] This is the first source of competitive advantage, as presented previously. In a complex and uncertain environment, the purpose of supply chain management is to maintain a balance between product supply and market demand.[1426] With the successes of supply chain management starting in the early 1990s, there is no doubt that a competitive advantage can be obtained from good management of the logistics chain. It considerably reduces co-ordination costs and delivery deadlines, and ensures that the right products are delivered to the right customer at the right time.[1427]

1419 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 261
1420 Hammer (2001), pp. 212-213
1421 Hammer (2001), pp. 213-216
1422 Hammer (2001), p. 216
1423 Johnson, Scholes and Whittington (2008), pp. 240-241
1424 Opinion, Blili (2010)
1425 Opinion, Blili (2010)
1426 Kopczak and Johnson (2004)
1427 Sengupta (2004)

Three levels of integration in its logistic chain are targeted by the SME: the co-ordination of its various logistical subsystems, the interface with other functions of the firm, and its value chain[1428] upstream and downstream co-ordination.[1429] Apart from these three levels, companies which efficiently manage their logistical chain must:

- market arbitration costs (protection of stocks and prices, ensuring sufficient production capacity in the face of variations in demand, and forecasting patterns of merchandise returns and lost sales), and
- focus on the reduction of physical supply costs (from the manufacturer through retailers to the final consumer).[1430]

The integration of suppliers, distributors and logistics in order to automate the order process and to address customer needs in an integrated process, is what the management of this chain attempts. A company that manages the supply chain in an efficient manner, tries to reduce delivery times as well as related costs by keeping only those internal operations which add value for the customer, by reducing inventory costs and by ensuring delivery "just in time".[1431] Thus, an integrated logistics chain improves planning and control of the flows of materials and information. It enables the company to eliminate waste and reduce its cycle time, and improves its ability to make personalised products.[1432]

It is very important to note that transorganisational technology is used to organise business networks with a significant amount of decomposition and re-combination of individual value chains.[1433]

Hence, an organisation rarely undertakes alone in-house all of the value activities from design through to delivery of the final product or service to the final customer. Usually, the roles are specialised so that any one organisation is part of a wider value network,[1434] which is the set of inter-organisational links and relationships that are necessary to create a product or service.[1435] Thus, to highlight it once again, the idea of the competitiveness of an individual firm is giving way to the concept of the competitiveness of the entire production chain.[1436]

5.5.4.1.2.3 Networks

Even though enterprise networks are receiving a significant amount of attention from researchers and world business analysts alike, they are among the practices whose critical importance managers appear reluctant to acknowledge.[1437] Yet, the general trend to rely on networks is clearly part of the second source of competitive advantage: the virtualisation of enterprises through the use of information systems.

Networks may be defined as formal well-structured associations of companies that aim to deliver improvements in efficiency and effectiveness to their members.[1438] For

1428 Porter (1985)
1429 Raymond and Blili (2001)
1430 Kopczak and Johnson (2004)
1431 Opinion, Blili (2010)
1432 Jacob and Ouellet (2001); Raymond and Blili (2001)
1433 Opinion, Blili (2010)
1434 The term value network often refers to *"a group of companies, each specializing in one piece of the value chain, and linked together in some virtual way to create and deliver products and services"*., in Hollensen (2011), p. 34. Timmers (2000), pp. 182-193, discusses how value networks are being created and changed by IT, in: Johnson, Scholes and Whittington (2008), p. 111
1435 Johnson, Scholes and Whittington (2008), p. 111
1436 Opinion, Blili (2010)
1437 Opinion, Blili (2010)
1438 Opinion, Blili (2011)

Herber, Singh and Useem, networks are an organised set of relationships among autonomous or semi-autonomous work units for delivering a complete product or service to a customer. They can be found across sets of companies as well as inside companies:[1439]

- **External networks** can be viewed as outsourcing in the extreme, where organisations that have chosen to concentrate on a particular competence or specific slice of the value chain are at the core. To aggregate the necessary skills, assembly and services, central organisations create symbiotic ties among legally independent entities, relying on other entities from suppliers and distributors to complete the value chain in the delivery of a complete product or service. A set of loosely affiliated firms that work relatively autonomously but nonetheless engage in mutual monitoring and control of one another may be described as federated networks. Others may be viewed more as evanescent organisational webs in which constellations of players coalesce around an emerging business opportunity and dissipate just as rapidly once it runs its course. Companies that form co-operative deals, often across continents, with suppliers to achieve lowest cost manufacturing, or collaborate with research companies worldwide to acquire the highest quality innovation, are part of another subspecies, the strategic partnership.

  The external network is exemplified by the textile industry in Prato in Italy during the 1980s, where tiny firms came to specialise in a particular niche of the industry in response to customer demand for lower prices and greater variety. Independent master brokers served as the customer interface, taking orders that far exceeded the capacity of any one producer and divided and dispatched the orders to hundreds of producers over which they held no formal authority. What was collectively produced by the region's 15,000 independent firms, with an average of just five employees each, would ordinarily have only been available from a few massive companies. While competing vigorously against each other, they also established strong co-operatives for tasks where economies of scale and joint practices proved lucrative, relying on lateral communication instead of vertical clout to achieve co-ordination.[1440]

- The structure of the **internal network** builds on much the same premise as the external network, i.e. aligned but loose relations among a set of operations can often beat a hierarchy of control among operations, but here the premise is applied inside the firm. In internal networks, the work of strategic business units, microenterprises, and autonomous work teams is co-ordinated and disciplined but rarely directed by the top of the hierarchy, which sets global strategy, allocates assets, and monitors results, but is otherwise little concerned with daily operations. Top executives also establish a cultural esprit and common mindset across the operating units and teams, and then almost entirely leave it to each of the operations to devise its own methods for making and selling. Asea Brown Bovery (ABB), described as *"obsessively decentralized"*, is an exemplary case, which has networked its many fully owned subsidiaries and business units to an extreme. As a result of its pyramid being very flat, the field managers have the autonomy to do what they want so long as their decisions are aligned with the firm's goals.[1441]

1439 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 236
1440 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 237
1441 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 237

The benefit for both the external and internal network is derived from the adaptive flexibility that comes with their built-in modularity. Inside as well as across a lattice of companies, units can be opened, moved, or closed, and each is far closer to its respective customers than anybody else in the operation. In industries with fast-moving technological change and rapidly emergent new ways of producing and selling, such organisational forms may be particularly useful. With the modularity of the network, quick responses to high uncertainty, great risks, and pushing time can be provided. In addition, the network provides customer focus and, due to local autonomy, creative responses.[1442]

McDonald and Burton identify another distinction between networks: **business** and **social networks**. The former are inter-firm relationships involving all firms within a district with the main task of gathering, processing and diffusing information that helps in the operation of the system. When decisions in a volatile environment need to be made, these networks help to obtain (at low cost) useful information on which to base decisions.[1443] Social networks, on the other hand, are based on interpersonal relationships which derive from social factors and cultural characteristics. They do not involve only geographically concentrated companies but also the local community.[1444] One disadvantage of social networks is that because of the commitment to a shared system of values, they may change only gradually and incrementally over time, and therefore adapt slowly to new economic and social conditions.[1445]

Cambié and Ooi point out that the knowledge-based society and its climate of openness have led to new types of networks, like Endeavor.[1446] This is a community of like-minded entrepreneurs with the mission to link the know-how of international business leaders with high-potential entrepreneurs in emerging countries that are beginning to attract international investment, including Argentina, Brazil, Colombia, Mexico, South Africa, Chile, Turkey, and Uruguay.[1447]

In general, strategic networks include all types of agreements between suppliers and buyers that go beyond the pure external relationship of client/supplier, e.g. long-term contracts with determined prices for the duration of the contract, including contingencies, sometimes even with open book policies. In some cases, this leads to joint ventures or combined enterprises. Jarillo calls these halfway solutions between integration and subcontracting.[1448]

Thus, a variety of methods stitch together external networks, ranging from joint ventures and formal partnerships to franchising systems and research consortia.[1449] The network multinational described by many scholars, with its need for closely aligned operations with many interdependent sub-organisations combined with lowered costs of management and greater flexibility than usual, would be impossible to operate without accumulated experience from managing alliances and joint ventures.[1450] Important aspects include decentralisation of decisions, minimal investment for maximum returns, embeddedness in local communities, and rapid adaptation to the

1442 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 238
1443 McDonald and Burton (2002), p. 141
1444 McDonald and Burton (2002), p. 142
1445 McDonald and Burton (2002), p. 142
1446 This network was established in 1997 by Rottenberg L. and Kellner P., in: Cambié and Ooi (2009), p. 81
1447 Cambié and Ooi (2009), p. 81
1448 Jarillo (2003), pp. 120-122
1449 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 237
1450 Tallman (2009), p. 156

changing environment.[1451] The network multinational is more and more becoming a network of alliances and joint ventures.[1452]

Suppliers on whom companies such as Toyota and Wal-Mart depend, produce high-quality products at short notice. Such companies enjoy significant competitive advantages as a result of their established networks of superb supplier relationships. In these networks, the best suppliers are low-cost, not merely low-price,[1453] accept electronic orders (internet or EDI)[1454] and deliver products with no defects, requiring no inspection, just-in-time, and directly to the manufacturing process or point of use. Some companies have even eliminated their purchasing function for certain items entirely. Instead, suppliers have their own person at the company's site who orders and manages the flow of incoming materials (including any local storage) before releasing the materials to the company's production process as needed. Beyond cost reduction, suppliers are measured related to timeliness and the quality of supplied goods and services. Many companies have an overall supplier scorecard measure where their supplier cost, time and quality metrics are aggregated.[1455]

The following advantages of networks can also be listed:

- **Information to knowledge:** Reliable information is very important for economic decisions and is acquired more readily and more reliably locally than from afar. This is part of the explanation why companies tend to cluster close to others in their industry.[1456]
- **Collective learning:** In a network, the quality of learning is altered. Probst and Büchel[1457] mention single-loop learning. This concerns closing gaps between the results achieved by the organisation and its objectives by adapting procedures and actions within the existing frame of reference. This type does not question the values and norms of the organisation. In double-loop learning, on the other hand, a transformation of relations between the organisation and the environment occurs. Double-loop learning, though, may have the effect of restructuring dominant values and may result in a complete revision of existing objectives and norms. Thus, in a network it can be assumed that processes have developed beyond the boundaries of the organisation. Consequently, a form of collective learning takes place.[1458] Increasingly, international marketing strategy, like international strategic management, is focused on firms as learning machines that evolve their internationalisation policies as they learn and make new and hopefully more effective network connections.[1459] The increasing focus on networks for international business activities is also reflected in the international marketing literature. In uncertain and competitive environments, learning is important. It leads to sophisticated

1451 Tallman (2009), p. 156
1452 Tallman (2009), p. 156
1453 Kaplan and Norton (2004b), p. 68
1454 *"Electronic data interchange (EDI) is an electronic communication system that provides standards for exchanging data via any electronic means. By adhering to the same standard, two different companies, even in two different countries, can electronically exchange documents (such as purchase orders, invoices, shipping notices, and many others)."*, available at: http://en.wikipedia.org/wiki/ Electronic_data_interchange, accessed on 27 March 2014
1455 Kaplan and Norton (2004b), p. 69
1456 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 290
1457 Probst and Büchel (1997)
1458 Opinion, Blili (2010), based on Argyris and Schön (1978)
1459 McDonald and Burton (2002), p. 281

buying behaviour by firms rather than the mechanistic approach that is expounded in traditional views of international marketing.[1460]

- **Exposure in emerging markets:** Because doing business abroad probably means stretching one's comfort zone, the support of an international network is essential. It includes the identification of a foreign partner, preparatory work and familiarisation for venturing into another culture, opening up to behaviours and practices never encountered before, as well as changing mind-frames.[1461] Moreover, with the confluence of global challenges, there is a need for education about different cultural backgrounds. For interacting professionally with people from other cultures and developing ideas that will help add an international component to a company's business, networks are the perfect platform.[1462] Moreover, consumer goods and professional services have quickly spotted the opportunities in emerging markets and appreciate staff who can do business in regions like Asia and the Middle East.[1463] Thus, they are encouraging people to gain exposure to emerging markets. Given this trend, an increasing number of leaders are likely to find themselves working in unfamiliar cultures. For corporations to prepare their staff for such daunting assignments, international networks can help.[1464]

- **Capitalise on market opportunities:** When connected by networks, different companies can easily combine their capabilities and resources into temporary and flexible alliances to capitalise on particular market opportunities.[1465] Sawhney and Parikh define a network as a conduit for information, and the intelligence of a network as its ability to distribute, store, assemble, or modify information. The internet as a smart network can improve the utility of information in multiple ways. Doing so in an information economy is synonymous with creating economic value. Where intelligence resides, so does value.[1466] In a networked world, managing interactions can be more lucrative than actually performing actions.[1467] In such a connected environment, intelligence becomes fluid and modular.[1468] Companies like Cisco and Hewlett-Packard are evolving into intelligent hubs that co-ordinate interactions among a network of channel partners, suppliers and customers, thereby extracting the bulk of the value created by the network.[1469] Networks and relationships with networks are clearly important factors for sales between firms, and for arranging packages of products and distribution to final customers.[1470]

Particular cases of the general trend to rely on network[1471] relationships outside the organisation's boundaries are

- outsourcing,
- alliances,

1460 Hakansson (1982), in: McDonald and Burton (2002), p. 272
1461 Cambié and Ooi (2009), p. 79
1462 Cambié and Ooi (2009), p. 78
1463 Clegg (2008), p. 14, in: Cambié and Ooi (2009), p. 80
1464 Cambié and Ooi (2009), pp. 79-80
1465 Sawhney and Parikh (2001), pp. 181-182
1466 Sawhney and Parikh (2001), p. 178
1467 Sawhney and Parikh (2001), p. 180
1468 Sawhney and Parikh (2001), p. 181
1469 Sawhney and Parikh (2001), p. 182
1470 McDonald and Burton (2002), p. 273
1471 See Ruigrok, Achtenhagen, Wagner and Ruegg-Sturm (2000) pp. 117-143; See also Jarillo (1993), in: Johnson, Scholes and Whittington (2008), p. 460

- and virtuality.

Together, they show that more organisations have become dependent on internal and external networks to ensure success, and that co-operation has become a key aspect of organising for success.[1472]

On the following pages, we will discuss these three particular cases.

5.5.4.1.2.4 Outsourcing

"Cisco, for example, lived up to the motto "do what you do best and leave the rest for others to do.""[1473]

"In fact, to the famous saying of "don't put all your eggs in one basket" the opposite can be stated: "put all your eggs in one basket and watch it closely.""[1474]

Outsourcing is an important issue of strategic capability that arises from the value chain concept. It occurs when services or products that previously were produced in-house are moved outside. The following two principles have been established when searching for outsourcing candidates:

- first, they must provide better value for money than in-house provision,
- and second, core competence activities should not normally be outsourced, because they critically underpin competitive advantage.[1475]

At the same time, managers are required to be much more competent at maintaining performance through their management of supplier (or distributor) relationships than through management control systems within their own organisation.[1476]

In recent years, non-core functions, such as information technology, telecommunications, financial transaction processing, and plant maintenance, as well as the production of mature products and services, have been outsourced by many organisations. This has enabled companies to focus their resources and management time on the processes that provide differentiation, uniqueness, and competitive advantage.[1477] Hence, capabilities-based competitors integrate vertically to ensure that they control the performance of key business processes.[1478]

After all, outsourcing enhances the concentration on a company's core competencies and cost advantages.[1479] In order to have an impact, a critical mass of resources and capabilities is needed. This can only be achieved if all forces are concentrated. The concentration of forces is one of the most important principles in strategic management.[1480] Cost pressures are pushing many companies to outsource more and more activities.[1481] Close co-operation across all stages of the value-adding chain is required by global integration, and with the advent of improved tools for management

1472 Johnson, Scholes and Whittington (2008), p. 460
1473 Andersen, Froholdt and Poulfelt (2010), p. 123
1474 Jarillo (2003), p. 166
1475 Johnson, Scholes and Whittington (2008), p. 459
1476 Johnson, Scholes and Whittington (2008), p. 459
1477 Kaplan and Norton (2004b), p. 69
1478 Stalk, Evans, and Shulman (1992), p. 185
1479 Kunde (2000), p. 102
1480 Lombriser and Abplanalp (1998), p. 243; See also Pümpin and Pedergnana (2008), p. 41
1481 Stalk, Evans, and Shulman (1992), p. 185

of ventures, global firms are making greater use of offshore outsourcing contracts in developing countries such as China, India, or Eastern Europe.[1482] Parts of the US automotive industry have been outperformed by Asian and European competitors who have focused on delivering higher customer value with the core product.[1483]

In the meantime, multinational consulting firms like Accenture offer extensive business process outsourcing services that allow clients to move non-core activities to an expert that operates on a more efficient scale, and can use offshore locations if necessary to further improve service and reduce costs.[1484] Furthermore, Accenture can offer ICT management and development services, customer relationship management, supply chain management, and many other consulting and management services on a worldwide basis supported by a global knowledge network.[1485] One great strength of Accenture and other large consulting firms is that they can access knowledge from many locations, whether internal to the company or available from other suppliers which have been discovered by one of their far-flung affiliates.[1486]

5.5.4.1.2.5 Alliances

Issues concerning synergy and strategic alliances are quite often discussed in strategy development.[1487]

International strategic alliances can be defined as cross-border alliances created by two or more firms that remain independent, and which involve ongoing interdependence (not just a one-time affair) and which are characterised by some uncertainty about the co-operation of the partners (since they are independent firms).[1488] They run the gamut in increasing levels of commitment from training or management agreements through supply or production agreements to franchising, R&D contracts, equity joint ventures and finally minority acquisitions.[1489]

Alliances can be considered the "rent alternative" to internal sourcing and the open market, which offer a "make-buy" choice for assets.[1490] In order to generate superior value-adding processes, key complementary resources are accessed on an ongoing, but not permanent or internalised basis.[1491]

The following aspects are strategic objectives of alliances:[1492]

- First, a firm may enter into the alliance with the intention of **acquiring necessary know-how from the partner** through the learning process. This becomes attractive when a firm is incapable of performing certain value-chain activities that have the potential to make it either more powerful or more profitable. The following two important assumptions are linked to this objective. First, there is an advantage in maintaining the function/technology within the firm hierarchy, and second, the function/technology is embedded within the firm.[1493]

1482 Tallman (2009), p. 156
1483 Andersen, Froholdt and Poulfelt (2010), p. 122
1484 Tallman (2009), p. 117
1485 Tallman (2009), p. 118
1486 Tallman (2009), p. 118
1487 Lombriser and Abplanalp (1998), p. 290
1488 Inkpen (2003), in: Rugman and Brewer (2003), pp. 402-427, in: Tallman (2009), p. 153
1489 Contractor and Lorange (1988), pp. 3-30, in: Tallman (2009), p. 153
1490 Tallman (2009), p. 153
1491 Tallman (2009), pp. 153-154
1492 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 263
1493 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 263

- **Leaning** is the second objective in international strategic alliance relationships. Here, the intention is to have the partner replace an element of the firm's value-chain activities that was previously performed internally. By ceding certain elements, an important assumption is that firms will be able to focus on what they do best, placing an emphasis on their core competence. The firm which picks up the value-chain activity is assumed to have its own core competence in that particular area.[1494]
- **Leveraging**, and thus an alliance that represents a major integration of firm functions between partners in order to benefit from size and/or scope advantages, is the third objective to be addressed. Often a critical mass in areas such as market reach, R&D dollars, and product offerings is required to compete with other dominant global players. The cost of amassing the necessary size or scope may be prohibitive for an individual firm. Instead, two or more smaller firms can enter into an international strategic alliance to achieve similar results. The outcome is that they can leverage their individual firm strengths with those of a partner for size and/or scope advantages.[1495]
- The fourth objective is **linking**, which is a particular relationship approach most frequently associated with vertical relationships (as opposed to horizontal ones) and often singular in its functional scope. In the United States, traditional models have changed and become strategic supplier and customer relationships. Here, the trend for manufacturers is to seek tighter links with supplier companies. This is based on the belief that such closer co-operation and co-ordination will lead to a more effective relationship, because the sharing of information, specifications, and expertise over time will result in shorter lead times, higher quality, and greater control in the manufacturing process. These opportunities for greater co-ordination and tighter relationships between partners than would be available in an arm's-length supplier relationship, are the advantages of the linking strategic objective. On the other hand, the major negative element of this strategy is inflexibility. In contrast to the traditional supplier relationship that is re-evaluated annually or biannually and where there is little problem in severing a relationship when it becomes necessary, the same becomes much more difficult with an alliance relationship.[1496]
- The fifth objective is **leaping**, where a company benefits from the expertise of another firm whose core competency is substantially different, thereby allowing the former to expand into largely disparate but potentially viable areas in which it would otherwise not venture. It enables the firm to explore product or market opportunities, leaping over otherwise formidable entry barriers that would be difficult to exploit internally due to a lack of specific firm capabilities.[1497]
- Finally, a last objective to be considered is **locking out**. This is where two or more partners come together in order to thwart competition and benefit from the combined market power or structural relationship of the co-operating firms. These partners do not particularly intend to advance a new technology, innovation or market, but rather to protect existing advantages from potential competition.[1498]

1494 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 264
1495 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 264
1496 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 265
1497 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 265-266
1498 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 266

5.5.4.1.2.6 Virtual Corporations

Although many corporations are expanding, others are reducing the scale and scope of their activities. These latter are downsizing the number of employees, decreasing the extent of their diversification across businesses, and outsourcing a broad range of activities.[1499] This is probably best represented by the virtual corporation.[1500] Such a firm concentrates on developing and maintaining a few core competencies and only performs activities directly related to those competencies. All other activities and businesses are outsourced or licensed to other firms.[1501] In the virtual corporation, the command and control hierarchy is replaced by a network of flexible marked-based linkages between independent entities.[1502]

Virtual organisations[1503] are the logical extension of networking, outsourcing and alliances.[1504] In contrast to strategic alliances, virtual organisations are short-term forms of co-operation. In some cases, this may be a convenient concept, e.g. for simple transactions like direct check-in or for young industries in which products and procedures are constantly changing.[1505]

In virtual organisations, in-house (owned) resources and activities are minimised and nearly all resources and activities reside outside the organisation. Such organisations are not held together through formal structures and the physical proximity of people, but by partnership, collaboration and networking. What is important is that it feels real to clients and meets their needs at least as adequately as other organisations.[1506] For example, only a few clients of Dell, Calvin Klein or Nike are aware of the virtuality of these companies.[1507] Nike, for example, subcontracts manufacturing to a variety of Far Eastern producers, and even relies on outside design houses for many of its product innovations. Another firm supplies "Nike clothing" under a license agreement.[1508]

The virtual organisation is a form in which employees, suppliers, and customers are geographically dispersed but united by technology. A network of units and individuals act together in order to serve widely scattered customers. Since these latter, as well as companies, are utilising high-speed, broadband communication systems to buy and sell products and services anywhere rather than at a point of direct contact in a store or office, such new information technologies have driven the rise of virtual organisations and also created mechanisms for inexpensively weaving together far-flung organisations and operations.[1509] As we have already seen with networks in general, it is definitely technical developments that have given rise to the new organisational form of the virtual enterprise. After all, computerised planning systems better enable the management of inter-dependencies among companies and allow them to know in real time what is happening in the logistics chain or within the organisation.[1510]

1499 Collis and Montgomery (2005), p. 115
1500 Newsweek (1993), pp. 42-53; BusinessWeek (1993), pp. 98-103; BusinessWeek (1992), pp. 90-100, in: Collis and Montgomery (2005), p. 115
1501 Collis and Montgomery (2005), p. 115
1502 Halal, Geranmayeh and Pourdehnad (1993), in: Collis and Montgomery (2005), p. 6
1503 There has been a wide discussion about virtual organisations and the extensive use of subcontracting. See, for example, Davidow and Malone (1992); Chesborough and Teece (2002), pp. 127-136; Jarillo (1993), in: Johnson, Scholes and Whittington (2008), p. 463
1504 Johnson, Scholes and Whittington (2008), p. 463
1505 Osterloh and Frost (2000), p. 154
1506 Johnson, Scholes and Whittington (2008), p. 463
1507 Johnson, Scholes, Whittington and Fréry (2008), p. 546
1508 Collis and Montgomery (2005), p. 115
1509 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 235
1510 Opinion, Blili (2010)

Moreover, many virtual organisations have been enabled by the internet to use market transactions in order to provide the activities necessary to complete the production and delivery of a product or service.[1511]

Sulzer, a Swiss machinery manufacturer,[1512] is an unusual and more traditional example of this. Due to its valuable design expertise it has been able to make substantial margins while other participants in the value chain make only normal returns.[1513] As already mentioned, in the virtual corporation, new information technologies play a crucial role, since, people now communicate with each other by means of monitors and electronically created virtual realities. Thus, numerous companies are programming their standard software in India, or customers virtually configure their car in the showroom according to the desired colour or equipment. Further examples are telebanking or direct check-in at airports. Basically, virtual companies are characterised as organisations with ever-changing parting lines between producers and customers. Hence, the customer becomes a co-producer or a "pro-sumer" in permanently new and changing constellations.[1514]

The virtual organisation is largely boundaryless and performs tasks, accesses suppliers and delivers products in widely-strewn physical locations. The headquarters of such an organisation may be represented by little more than the chief executive's home computer and an internet connection, which minimises asset commitments and results in greater flexibility, lower costs, and consequentially faster growth. In order to respond quickly and precisely to fast-evolving customer demand, Dell seized on emergent technologies and information management to integrate supplier partnership, mass customisation,[1515] and just-in-time manufacturing. From suppliers to manufacturers to customers, across the entire value chain, it introduced a virtual organisation and achieved exceptional productivity efficiency and mass customisation through company-wide co-ordination. Other companies, too, have been using electronic technologies to push the limits of virtual relationships, where products never appear in showrooms, customers never meet salespeople, and money never physically changes hands (Amazon.com, CDNow, and many e-commerce start-ups). They have mastered the use of cyber catalogues in place of storefronts, credit cards instead of cash, and e-mail configurations in place of paper receipts.[1516]

Yet, especially when it comes to the area of authority relations, this new flexibility of the virtual organisational form has created its own new set of challenges. With the lessening of physical proximity and contact frequency, as well as the vertical organisation giving way to lateral relations, the traditional role of supervisors changes from overseeing work processes to job outcomes, and from exercising authority over tasks to delegating responsibility for results. Instead, peers have become more central in giving feedback and appraising performance. For companies that are themselves building and marketing emerging technologies, the virtual form brings many advantages and serves as a magnet for attracting creative and energetic employees who eschew bureaucracy and favour sovereignty. On the other hand, according to Herber, Singh and Useem, due to reasons of a critical mass of creative people working intensively together, even the most technologically advanced industries (which would seemingly lend themselves best to virtual forms) are often geographically concentrated, e.g. Silicon Valley.[1517]

1511 Collis and Montgomery (2005), p. 139
1512 See Rawlinson (1986), in: Collis and Montgomery (2005), p. 139
1513 Collis and Montgomery (2005), p. 139
1514 Osterloh and Frost (2000), pp. 153-154; We have already seen that the discount strategy also views customers as co-producers, in: Andersen, Froholdt and Poulfelt (2010), p. 53
1515 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 235
1516 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 236
1517 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 236

Since it performs one or two critical activities and accesses other goods and services from competitive markets, the virtual corporation is presumed to capture most of the profits from an industry. Furthermore, it may use its flexibility and low fixed costs as a source of competitive advantage.[1518] Nike, for example, focuses on innovation, product development and the co-ordination of its dealers.[1519] Thus, it is more important to know how than to own.

5.5.4.1.2.7 Streamlining Cross-Processes

With the themes that have been discussed so far, it becomes obvious that cross-processes need to be streamlined. Thus, business processes must not be seen as ending at the edges of their companies, but must be managed as they truly are: chains of activities that are performed by different organisations.[1520]

Indeed, Business Process Reengineering (BPR), which was triggered by an article by Hammer,[1521] seems to be topical again.[1522] It became popular at the beginning of the nineties, and then reached a culmination towards the end of that decade. BPR represented a radical turning away from organisational principles which had been in use until then in favour of a process-oriented redesign of the company. This redesign integrates information technology and focuses on customers. However, experience shows that the switch from a simple process change to real process management rarely succeeds.[1523]

Davenport suggests that with the support of software and information technology, such a second wave of Business Process Reengineering will lead to a complete standardisation of processes and thus to a radical redesign of company structures, especially beyond company borders.[1524] A survey by Hess and Schuller[1525] confirms this and also points out the importance of supply chain management and outsourcing, or rather offshoring. These trends are also endorsed by research by Bailom, Matzler and Tschemernjak in which executives identify big cost-cutting potentials within transformations of the whole value chain.[1526]

5.5.4.1.2.8 Scope of the Company

The constellations we have seen above question the limit to the scope of the firm. In particular, the virtual corporation challenges the tradition of the fully-integrated corporation and directly questions the limit to the scope of the firm.[1527]

Scope questions start from the initial business as a core and proceed along three dimensions along the value chain: geography (where they do it),[1528] product/market (what they do),[1529] and vertical integration (which specific activities are actually carried

1518 Collis and Montgomery (2005), p. 139
1519 Kunde (2000), p. 101
1520 Hammer (2001), p. 207
1521 Hammer (1990), in: Bailom, Matzler and Tschemernjak (2006), p. 193
1522 Hess and Schuller (2005), in: Bailom, Matzler and Tschemernjak (2006), p. 193
1523 Hess and Schuller (2005), in: Bailom, Matzler and Tschemernjak (2006), p. 193
1524 Davenport (2005), pp. 101-108, in: Bailom, Matzler and Tschemernjak (2006), p. 195
1525 Hess and Schuller (2005), in: Bailom, Matzler and Tschemernjak (2006), pp. 195-196
1526 According to a study by Bailom, Matzler and Tschemernjak (2006), p. 196
1527 Collis and Montgomery (2005), p. 116
1528 Jarillo (2003), p. 7
1529 Jarillo (2003), p. 7

out in the company and which are sourced outside[1530])[1531]. These are the three axes along which companies make their decisions.[1532]

5.5.4.1.2.9 Services

We have already seen that in today's markets, many products and service[1533] lines are one-size-fits-all and have become commodity-like. Product development management methods have also matured and accelerate quick me-too copying of new products or service lines by competitors.[1534]

At the same time, with expanded product diversity, variation and customisation, complexity is increased and thus the company is required to invest in and spend more on expanded product offerings and services to increase its customers' satisfaction.[1535]

5.5.4.1.2.10 Produce Quality, Cut Costs and Excel at Delivery

There are many dimensions to what a consumer means by quality, and it is a major challenge to design products that satisfy all of these at once.[1536]

Nevertheless, strategic quality management is not simply about avoiding repairs for consumers, but it means that firms have to learn from customer experience and reconcile what they want with what engineers can reasonably build.[1537] Since small and medium companies have shorter communication lines with their customers, they can react in a quicker and more flexible way to customer enquiries.[1538]

Thus, the quest for productivity, quality, and speed has led to management tools and techniques such as benchmarking, time-based competition, outsourcing, partnering, reengineering or change management,[1539] and the resulting operational improvements have often been dramatic[1540]. Other operational improvement philosophies include Six Sigma or ISO.[1541] Activity-based management and Total Quality Management are two other important initiatives that help companies to improve not only the responsiveness of their critical operations management processes but also costs and quality.[1542]

5.5.4.1.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

1530 Jarillo (2003), p. 7
1531 Collis and Montgomery (2005), p. 66
1532 Jarillo (2003), p. 7
1533 The following features characterise services: intangibility (they cannot be touched or tested, buyers cannot claim ownership or anything tangible in the traditional way); perishability (they cannot be stored for future use); heterogeneity (they are rarely the same, because they involve interactions between people and there is high customer involvement in the production of services); inseparability (the time when services are produced is very close or even simultaneous with the time when they are consumed), in: Hollensen (2011), pp. 461-462
1534 Cokins (2009), p. 172
1535 Cokins (2009), p. 173
1536 Garvin (1987), p. 4, in: Hauser and Clausing (1988), p. 64
1537 Hauser and Clausing (1988), p. 64
1538 Hollensen (2011), p. 15
1539 Poter (1996), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 17
1540 Poter (1996), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 17
1541 Kaplan and Norton (2008), p. 54
1542 Kaplan and Norton (2004b), p. 85 and pp. 96-97

5.5.4.1.3.1 Collaboration and Partnering

Many multinational companies are learning that they must replace predation, and instead collaborate to compete. They can create the highest value by selectively sharing and trading control, costs, capital, access to markets, information, and technology with competitors and suppliers alike. Competition does not vanish, but instead companies should increasingly compete only in those precise areas where they have a durable advantage or where participation is necessary to preserve industry power or capture value. In many necessary elements of a global business that are

- costly (like R&D in semiconductors),
- generic (like assembly),
- or impenetrable (like some Asian markets),

it makes no sense to have a traditional competitive stance. When reaching across borders, a company's ability and willingness to collaborate is the best predictor of success, and the more equal the partnership is, the brighter the future will be.[1543]

Thus, the lesson that we draw form this is that collaboration leads to new and successful inter-organisational interfaces (i.e. the greater role of suppliers, strategic alliances, enterprise networks, integrated logistics management, the virtual enterprise and concurrent engineering).[1544] With the success of companies that collaborate, certainly more and more managers will start to recognise that there needs to be a very strong reason to choose strategic solutions that differ significantly from collaboration and partnering.

5.5.4.1.3.2 Integrated Management of the Value Chain and Logistics Chain

We have seen that companies are increasingly turning to co-operative arrangements.[1545] The integrated management of the value chain and logistics chain can form the basis of a competitive advantage, substantially decreasing manufacturing time as well as costs related to transactions, production, research and development, and marketing.[1546]

Flexibility and improvement of operating processes are especially important for product leadership companies.[1547] In addition, companies are constantly preoccupied with how to progress from stock management to flow management, enabling them to directly respond to customer demand.[1548]

This is because with the transition from an industrial economy to a knowledge-based one, companies have had to focus on managing flows rather than goods. This new paradigm has enabled firms to improve their performance in such areas as delivery, stock management, accuracy of forecasts, productivity, the utilisation of production capacity, and the reduction of costs associated with the management of the logistical chain.[1549] A buffer stock and certain excess production capacity help the company to react quickly to market demand and unforeseen events.[1550]

1543 Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 257
1544 Opinion, Blili (2010)
1545 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 261
1546 Opinion, Blili (2010) following Jacob and Ouellet (2001)
1547 Kaplan and Norton (2004b), p. 328
1548 Opinion, Blili (2010)
1549 Raymond and Blili (2001); Jacob and Ouellet (2001)
1550 Kopczak and Johnson (2004)

Within global markets where the development of know-how is key, a company can no longer operate within a closed system and must become part of a network if it wants to remain competitive. The results of a shorter product life cycle and the growing diversity of products are a much more complex logistical chain and also the inflation of related costs.[1551] With the pressures of globalisation and the proliferation of subcontracting, logistics partners and a preparedness to collaborate with others are a must for companies. In order to avoid ending up being swallowed by the competition, companies must put even more into the development of their key competencies, and improve their agility, flexibility, and rapidity.[1552] Thus, competitive advantage can clearly no longer be grounded in the individual enterprise but must come from the network of which it is a part.[1553]

In this context, Sawhney and Parikh point out that strategy has always been about finding the right position in a chain of value-creating activities. What has changed, however, is the nature of the value chain itself, which increasingly takes the form of a network.[1554] With the redefinition of links among companies, the most successful ones have highlighted the challenge of enhancing production. This tends to relate to the management of processes within a collective framework.[1555]

5.5.4.1.3.3 Networks

Blili argues that a company involved in a network will be able to exploit benefits that normally accrue to larger units while retaining its identity and control. Benefits from a network will occur if a co-operative style with other network members is adopted. However, it needs to be remembered that different stakeholders in the organisation may have very different motives for pursuing network strategies, and thus motives should be clarified and clear communication encouraged.[1556]

Although broad network relationships are important, a converse trend, i.e. concentration and privileged relationships with certain selected suppliers, has also been initialised.

We have seen that the opening of national borders has encouraged the arrival of foreign competitors in domestic markets and spelled the end of purely geographic and cultural advantages. Instead, the advent of inter-organisational compatibilities has been heralded. Thus, subcontractors are no longer selected purely on the basis of proximity but have to demonstrate their ability to become part of a network. Price or quality have become variables and are fixed by the client. Instead, a subcontractor will be selected more on the basis of their competencies and potential synergies with the client.[1557] We will see that such aspects also play an important role when it comes to the streamlining of cross processes.

Thus, by comparing mass production and the new paradigm of agile production, the following factors may be put forward. Close ties are maintained with a limited number of suppliers,[1558] who are thought of as partners and expected to collaborate closely and respect the quality standards and plans of the firm. [1559]

1551 Kopczak and Johnson (2004)
1552 Jacob and Ouellet (2001)
1553 Opinion, Blili (2010)
1554 Sawhney and Parikh (2001), p. 194
1555 Opinion, Blili (2010)
1556 Opinion, Blili (2011)
1557 Opinion, Blili (2010)
1558 Nike, for example, has kept the same shoe manufacturers for years, in: Tallman (2009), p. 194
1559 Duguay, Landry and Pasin (1997)

SMEs are directly affected by new challenges, because their role in the economy is increasingly important. However, since they are usually bound to their local environment or to the socio-economic environment of the region from which they originate or in which they have established themselves (especially if that environment has played an active role in their development),[1560] they do not possess the resources of large enterprises. Therefore, what constitutes a viable alternative is the network, i.e. a new type of economy of scale in terms of collective action, virtual integration or added value through associations.[1561] On the other hand, SMEs can innovate and rapidly diversify their activities due to their flexibility, adaptability and creativity.[1562] This advantage should not be underestimated, as Johnson, Scholes and Whittington suggest that organisations, with the speed of change and increased levels of uncertainty, need to have flexible designs and be skilled at reorganising.[1563]

We can conclude that the ability to form networks and co-operate in partnership with others is increasingly becoming a core competence in itself. However, we believe that partners have to be the right ones. They have to be qualified and ready to consider the situation of the other partner.

The willingness to adjust to the inevitable difficulties and conflicts on a co-operative and fair basis is important.[1564] Doppler and Lautenburg argue that this is not concerned with due diligence, the letters of a contract or formal organisational structures and processes but is, in the broadest sense, about interpersonal skills.[1565]

To summarise, and as Blili ceaselessly repeats during his lectures, yesterday's companies can be compared to strong castles rooted in a stable environment. Today's companies, on the other hand, must function in a network, outsource, specialise, and consider the global environment as their near environment.

5.5.4.1.3.4 Outsourcing

An important strategic objective for operations management in a company whose strategy involves extensive outsourcing is the enhancement of the performance (cost, quality, and response time) of outsourced services.[1566]

In the 1980s, reengineering increased effectiveness, and during the following decade subcontracting reduced costs. Nowadays, the objective is to increase productivity by working globally, thanks to off-shoring.[1567]

Primarily domestic businesses, particularly in the United States, have discovered that many information-based business processes could be provided at a much lower cost.[1568] This has been possible thanks to the information technology revolution (worldwide fibre-optic cable networks, faster computers, the internet and worldwide web, jet travel, cellular telephones, and other technological solutions to the problem of long delays in international communication), which has changed the terms of competition in service industries.[1569]

1560 Julien and Marchesnay (1996)
1561 Raymond and Blili (1997)
1562 Opinion, Blili (2010)
1563 Johnson, Scholes and Whittington (2008), p. 435
1564 Doppler and Lauterburg (2002), p. 182
1565 Doppler and Lauterburg (2002), pp. 182-183
1566 Kaplan and Norton (2004b), p. 69
1567 According to Garelli (2005)
1568 Tallman (2009), pp. 86-87
1569 Tallman (2009), p. 87

With highly educated labour in emerging markets, knowledge-intensive tasks have followed simple manufacturing to these markets.[1570] At the same time, technologies, programs, accounting systems, human resource (HR) systems, and other tools that are needed to perform these services have become highly mobile, particularly over the internet or on the worldwide web. Hence, essentially identical tasks can be performed by these workers and easily integrated into the business systems of Western companies for dramatically lower labour costs.[1571]

Whether it is about underemployed mathematicians in Eastern Europe, farmers migrating to factories to manufacture cheap consumer goods in China, or the brightest IT graduates in India, multinational firms are busily outsourcing to such foreign resources to reduce the costs of their products sold in advanced nations.[1572]

In addition, an increasingly competitive environment has forced firms to restructure in order to concentrate on their core business and to subcontract other activities.[1573] This development has resulted in an enormous wave of specialisation.[1574] Thus, we can conclude that this has led to the appearance of "meta-value chains". At the same time, we can see that this has also resulted in "nano-designs", i.e. companies focusing on one certain issue and defining this specific process in great detail. Everything else can be outsourced. Therefore, it is important for a company to identify its core competencies and keep them in-house.

Successful companies like the European challengers Ryanair and EasyJet illustrate the importance of the stickiness of the core product. These two carriers concentrate on delivering transportation from point A to point B and having a much more attractive core product than flag carriers (low fares, punctuality, electronic ticketing and very low turn-around rates, i.e. the time it takes to disembark and board planes).[1575]

Ryanair, for example, was able to sell tickets much more cheaply than conventional carriers because it cut to the core, closed down expensive dealers, diminished production costs by having only one type of plane, utilised inexpensive airports, had high turn-around rates, and let the customers do the electronic ticketing.[1576]

Not only Ryanair and EasyJet, but also other successful companies such as Costco, Saxo Bank and Google, have concentrated their energy on making the core product attractive.[1577]

With outsourcing, the idea of modularisation is extended beyond the boundaries of the company. The advantages are the lower complexity of manufacturing as well as the possibility of concentrating on one's own company-specific capabilities.[1578]

In some cases, for example when suppliers are not just producing components but whole sub-systems, it might make sense to involve them in the product development processes too.

Suppliers also have to be controlled with evaluation methods which ensure their (just-in-time) readiness for delivery, accountability for cost reductions, and quality control. In

1570 Tallman (2009), pp. 42-43
1571 Tallman (2009), p. 43
1572 Tallman (2009), p. 32
1573 OECD (2002)
1574 Opinion, Blili (2010)
1575 Andersen, Froholdt and Poulfelt (2010), p. 122
1576 Andersen, Froholdt and Poulfelt (2010), p. 126
1577 Andersen, Froholdt and Poulfelt (2010), p. 122
1578 Osterloh and Frost (2000), pp. 151-152

such "value-chain-partnerships", the economic autonomy of companies is restrained and a vertical strategic alliance comes into existence, a third way between the market and integration.[1579]

Despite the many advantages, decisions regarding offshoring and outsourcing add considerable complexity to the organisation of multinational companies and present significant challenges to their management.[1580] Moreover, outsourcing typically contributes little to building the people-embodied skills that are needed to sustain product leadership. On the other hand, it can provide a short-cut to a more competitive product.[1581]

5.5.4.1.3.5 Alliances

There is an increasing need for a better understanding of cross-border alliances and acquisitions. Globalisation, changes in Europe, the opening of Eastern and Asian markets, and an increased need for foreign sales to cover the large fixed costs of playing in high-technology businesses have been drivers of booming cross-border linkages. What often takes too long, costs too much, or fails to provide insider access to markets are go-it-alone strategies. However, when Bleeke and Ernst examined the cross-border alliances and acquisitions of the largest 150 companies in the United States, Europe, and Japan, they found that only half of these linkages succeed. Most had an average life expectancy of approximately seven years. From their studies, the following common lessons may be drawn:

- Since companies are learning that they must collaborate to compete, different measurements of success from those used for traditional competition are required.
- There is an arbitrage[1582] of skills, market access and capital between companies in an alliance that are potential competitors, and it is essential for success to maintain a fair balance in this arbitrage.
- The vision of cross-border acquisitions and alliances should not be seen as one-off deals driven by temporary competitive or financial benefit, but as a flexible sequence of actions.[1583]

This last aspect means that the most successful companies make a series of acquisitions that build presence in core businesses over time in the target country and do not view cross-border acquisitions and alliances as a purely financial deal. In addition, over time the initial character and contract of alliances often evolve and require the willingness of the partners to rethink their situation on a constant basis, and renegotiate as necessary.[1584]

Complementary to this, and in conclusion to the strategic objectives of alliances listed earlier, Preece identifies the following three steps for the development of appropriate international strategic alliance arrangements:

1579 Osterloh and Frost (2000), p. 153
1580 Tallman (2009), p. 193
1581 Prahalad and Hamel (1990), p. 87
1582 *"The global arbitrage reflected in cross-border alliances and acquisitions takes place at a slower pace than in capital markets, but the mechanism is similar. Each player uses the quirks, irrational differences, and inefficiencies in the marketplace as well as each company's advantages to mutual benefit."*, in: Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 258
1583 Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 258
1584 Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 260

- First, the firm has to conceive and adequately define a primary objective for the alliance arrangement. After all, there are several possible alliance objectives, and these can have significantly differing implications for the firm.
- Second, given the firm's broader strategies and objectives, it has to ensure that such an objective is appropriate.
- Finally, if there is a good fit between the alliance and the strategy, the firm has to ensure that the partner's alliance objectives are compatible.

It is likely that these three steps will reduce any conflictual foundations in international strategic alliances and increase the possibility that they will ultimately contribute to firms' competitive advantages as planned.[1585]

Below, we will look at alliances as seen from the internationalisation point of view of organisations.

5.5.4.1.3.6 Virtual Corporations

Virtual corporations are certainly the most radical form of the second source of competitive advantage, i.e. the virtualisation of enterprises through the use of information systems.

As we have seen, there are many very successful virtual companies. In our globalised and digitalised world, virtuality will certainly continue to be a promising factor for companies and a formidable tool to leverage internationalisation.

The real fundamental competence of virtual organisations resides in their capacity to orchestrate external participants and to mobilise resources which they do not possess.[1586] This is one of the reasons why the most performant virtual organisations are those which gravitate around a core or strategic agency which assumes the triple nodal task of conception, leadership and control.[1587] Yet, since there is no one with the competence or authority to integrate knowledge in virtual organisations, the danger is that knowledge creation and innovation only occur within the specialist boxes represented by the activities of separate partners.[1588]

However, in the large majority of cases, virtual corporations might arguably fail because fruitful co-operation always calls for fairly long-term processes of interorganisational learning.[1589] In addition, many virtual corporations have the disadvantage that prices and activities between virtual partners have to be specified. This specification makes it easier for competitors to imitate such activities.[1590]

Finally, the virtual corporation may also be seen as a new variation of lean management.[1591] Just like business reengineering, the concept of virtual corporations integrates customers and suppliers in the organisational chart. In doing so, cross-company process chains are formed. However, what is different is that business reengineering is based on

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1585 Preece (1995), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 266-267
1586 Johnson, Scholes, Whittington and Fréry (2008), p. 546
1587 Fréry (2008), pp. 65-79; Ettighoffer (1992); Davidow and Malone (1995); Guilhon and Gianfaldoni (1990), pp. 97-112; Chesborough and Teece (2002), pp. 127-136, in: Johnson, Scholes, Whittington and Fréry (2008), p. 546
1588 Johnson, Scholes and Whittington (2008), p. 463
1589 Müller-Stewens and Osterloh (1996), pp. 18-24; Gerybadze (1995), in: Osterloh and Frost (2000), p. 154
1590 Chesborough and Teece (1996), pp. 63-70; Osterloh and Frost (1998), pp. 185-235; Osterloh and Wübker (1999), in: Osterloh and Frost (2000), p. 154
1591 Davidow and Malone (1992); See also Wüthrich, Philipp and Frentz (1997), in: Osterloh and Frost (2000), p. 153

fairly long-term co-operation, whereas the characteristic feature of virtual corporation is its permanently changing customer-supplier relationships.[1592]

5.5.4.1.3.7 Streamlining Cross Processes

Streamlining cross-company processes requires a rigorous, structured approach. No matter how tough it is to get different departments in the same company to work together, it is even harder with people from different companies.[1593] After all, it is an unfamiliar experience to work on an interdisciplinary process design team. This difficulty increases dramatically when one's teammates come from another company and not just another department. Frequently, there will be a lack of operations and concerns from the other company. Therefore, team members have to develop an appreciation of the challenges facing the other company and learn that they do not represent their company's interests but those of the process as a whole.[1594]

Many supply chain integrations have also had problems because they are viewed as merely a technological challenge. In reality, however, they represent both a process and a management challenge.[1595]

Hence, for Hammer, new technologies may be the glue for separate processes in separate companies that now work as one. Yet, for him, the more important innovation is the change in the way people think and work.[1596]

This is why the design team should include people from both companies. In addition, its core members should not only be experts in existing processes, people skilled in process redesign and specialists in technology, but also specialists in change management.[1597] Once the process has been redesigned, the roll-out must be carried out according to the following two principles that are critical to success in this stage:[1598] "think big, start small, move fast"[1599] and "communicate relentlessly"[1600]. The former stresses that trying to implement a radically new process in one step is almost always a recipe for disaster. The latter takes into consideration that the necessary cultural change will simply not occur without constant reminders of the rationale for the redesign, the benefits that will accrue to each company, and the expectations of every employee.[1601]

A comprehensive process orientation implies that a horizontal view of business operations[1602] perforates the whole company, and sees the whole as a strategic process system. With Business Reengineering, "structure follows strategy"[1603] is turned into

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1592 Osterloh and Frost (2000), p. 155
1593 Hammer (2001), pp. 216-217
1594 Hammer (2001), pp. 221-222
1595 Hammer (2001), p. 207
1596 Hammer (2001), pp. 206-207
1597 Hammer (2001), p. 220
1598 Hammer (2001), p. 222
1599 Hammer (2001), p. 222
1600 Hammer (2001), p. 222
1601 Hammer (2001), p. 222
1602 The basic idea of Business Reengineering is to rearrange companies not vertically according to their functions but horizontally according to their processes, in: Osterloh and Frost (2000), p. 24. It is therefore not surprising that most authors have their roots in information technology. The scientific background is provided by the research programme "Management in the 1990s" of the Massachusetts Institute of Technology (MIT). One of its most important results was that successful companies did not use information technology for traditional automation purposes anymore, but instead as an enabler for completely new processes, in: Davenport and Short (1990); Venkatraman (1994); in Osterloh and Frost (2000), p. 74
1603 Chandler (1962)

"structure follows process". If it is broadened to strategic process management, it becomes "process follows strategy". This means that processes become sustainable strategic competitive advantages, i.e. the dynamic core competencies of companies. If these cannot be easily imitated or substituted and also provide additional value to customers, they assure a sustainable competitive edge.[1604]

However, often the importance and value of data in organisations is underestimated as well as being disconnected, inconsistent, and inaccessible, which is the result of too many non-integrated single-point solutions.[1605] This is even more the case in cross-company processes. Processes that involve interactions with other companies certainly still have the potential for improvement.[1606] If these processes are not streamlined, work is no longer co-ordinated, information no longer shared, and overheads and duplication are introduced.[1607]

Finally, we have already seen that subcontractors are selected on the basis of their competencies and potential synergies with the client.[1608] In addition, such a partnership also has to involve interpersonal skills.[1609] Blili points out that companies have to find the right partners with whom it will be easy to deal and with whom they can realise synergies when merging company flow-systems. This means that they have to share the same philosophy, e.g. Toyota with its Kanban. He goes on to argue that it is primarily about the merging of the "flow-systems" of companies in a relationship where each company is at the same time both the sender and receiver. This includes operational technology and IT issues as well as cultural matters. In certain cases, it might also mean that the partner has enough employees who speak the local language of the other partner well. If there is a fit of these issues, the partners may be located anywhere in the world and still be able to establish an intense global proximity and relatedness for successful co-operation.[1610]

5.5.4.1.3.8 Scope of the Company

With the reassessment of their entire value chain, large companies have reduced the importance previously placed on maintaining control over certain business and operating processes. They are increasingly resorting to outsourcing, and consequently hierarchical networks of subcontractors have emerged (ranging from subcontractors who basically offer their capacity, to subcontractors able to provide more value added). In some sectors, production has been reorganised in a modular fashion, encouraging shared platforms and a wider range of products. The result is a transformed company whose boundaries defy definition. With these new links between companies, i.e. the emergence of enterprise networks and virtual firms, the basic aspects of the traditional strategic development models have been challenged. In summary, it is the eloquent victory of markets over hierarchies.[1611]

To examine which activities and businesses should be retained inside a firm, and which should be pursued by other means, organisational economics has been introduced. This

1604 Osterloh and Frost (2000), p. 7
1605 Cokins (2009), p. 22
1606 Hammer (2001), p. 201
1607 Hammer (2001), p. 203
1608 Opinion, Blili (2010)
1609 Doppler and Lauterburg (2002), pp. 182-183
1610 Opinion, Blili (2012)
1611 Opinion, Blili (2010)

covers a number of different theories[1612] that have been the focus of much research. Although incomplete in a number of important ways, organisational economics represents the best understanding of how to rigorously analyse the organisational determinants of firm boundaries.[1613] However, the question why a particular business or activity should be performed inside the firm remains open. This is also a question of whether the best way for a firm to realise value from its resources is to diversify into new businesses itself rather than to just sell or rent its resources to others. The choice lies, as mentioned above, between two basic forms of economic organisation: the market and the hierarchy. In the first, the price system is used to co-ordinate the flow of goods and services across separate legal entities, while in the second, goods and services are produced and exchanged within the confines of a firm.[1614] According to organisational economics, activities should be performed inside the company rather than *accessed on the market* if administering the activity within the corporate hierarchy is more efficient than conducting it through a market exchange.[1615]

Typically, these questions are analysed in the context of vertical integration, but the comparison of costs and benefits applies equally to diversification and geographic expansion.[1616] This means that companies should only become multinational when it is more efficient for them to perform activities in a foreign country themselves rather than renting their resources (e.g. brand names) to local firms.[1617]

If a company's resources do not create a competitive advantage in a business or activity, it should not be active in that business. That is the reason why a metal manufacturing company does not compete in the computer industry.[1618] The choice of vertical scope follows the same argument, and that is why the virtual corporation is supposed to only perform those activities in which the company's core competencies are valuable, and to outsource all remaining activities to other firms. More generally, companies are not vertically integrated into the manufacturing of all the materials and equipment they use, such as telephones, because their scale would be so low that the company would be at a substantial competitive disadvantage if it did so.[1619]

In most cases, having clear interfaces between activities or businesses, behind which each can work without mutual adjustments, is the discriminating factor in favour of the market. Because gardening, for example, has no effect on other corporate decisions, it can easily be outsourced. Instead, the design of a new product must continually be adjusted to accommodate the needs of both R&D and manufacturing, and can only rarely be outsourced. Such interfaces between activities give rise to explicit co-ordination, and may therefore favour the hierarchy.[1620]

Williamson basically predicted that standardised transactions (whatever the frequency) will be handled through the market (classical contracting procedures), whereas

1612 As with Williamson (1975), and based on the transaction cost economics of Coase (1937), pp. 386-405, *"the Internationalization Model proposes that international transactions will be governed through market processes – pricing levels – until the cost of doing so becomes too great, at which point the transaction will be internalized, brought inside the corporation."*, in: Tallman (2009), pp. 149-150

1613 Collis and Montgomery (2005), p. 116

1614 Collis and Montgomery (2005), p. 117

1615 Collis and Montgomery (2005), p. 118

1616 Collis and Montgomery (2005), pp. 119-120

1617 Dunning (1977), pp. 395-419, in: Collis and Montgomery (2005), pp. 119-120; Intermediate forms of organisation, such as joint ventures, are neither pure hierarchies nor pure market exchanges, in: Collis and Montgomery (2005), p. 120

1618 Collis and Montgomery (2005), p. 116

1619 Collis and Montgomery (2005), p. 116

1620 Collis and Montgomery (2005), pp.142-143

transactions involving repeated asset-specific investments will be carried out within the firm hierarchy (unified governance). In between, there is a host of intermediate solutions, such as joint-ventures, where the autonomy of the parties is maintained.[1621]

Frequently, vertical integration is meant to improve margins based on absorbing the supplier's margin (or the distributor's).[1622] It makes sense if carrying out distinct activities in a company signifies a decrease in costs or a clear improvement for the client. This, however, is a lot less frequent than many managers think and has associated costs.[1623] Since it knows its own business, a specialised company has much less operational risk than a diversified one. The same is true for the general management who must determine the company's strategy.[1624] Malik even thinks that size is increasingly unimportant. The fussiness of large companies, their bureaucracy, the disorientation of middle management, their slowness, and so on, paralyse scale economies.[1625]

Outsourcing a product is likely to be preferred if it can be fully specified, quality control is simple, and opportunistic partners controlled. Nike, for example, when making its sports shoes through contract manufacturers in China, is able to monitor the processes and products closely and can quickly and easily discipline a straying supplier.[1626]

Authority and unified ownership are the advantages of hierarchies, but they inevitably incur agency costs.[1627] In theory, it is suggested that these costs will be highest when an employee's skill and effort are important, but at the same time difficult to measure accurately. Therefore, most large corporations do not have in-house advertising departments, since the skill and effort of creative talent is critical to the development of a good advertisement. Yet, creative work is very difficult to monitor, especially when it comes to evaluating the performance of an advertising campaign.

Talented advertising executives may also choose to establish their own companies. Thus, instead of having agency costs inside the corporate hierarchy, most corporations, including those like Unilever that once had their own advertising staff, now employ outside agencies.[1628]

At the same time, the organisational boundaries of a firm represent some of the most complicated issues facing the corporate strategist, and there are often no easy answers.[1629] For example, some suggest that with faster and more ubiquitous communications (e.g. the internet), the scope of a firm will contract because there will be a reduction in the cost of external market contracting. A producer in Shanghai, for example, can be in direct real-time contact with a retailer in France, resulting in a substantially cheaper and more effective outsourcing of manufacturing for that retailer. Yet, exactly the same arguments also apply inside the hierarchy, as monitoring the behaviour and performance of an overseas manufacturing facility becomes much easier as communications improve. Therefore, it cannot be predicted with certainty whether the scope of the firm is increasing or decreasing.[1630]

1621 Collis and Montgomery (2005), pp. 134-135
1622 Jarillo (2003), p. 99
1623 Jarillo (2003), p. 118
1624 Jarillo (2003), p. 166
1625 Malik (2005), in: Bailom, Matzler and Tschemernjak (2006), p. 79
1626 Tallman (2009), pp. 152-153
1627 Agency costs are probably the greatest costs of the corporate hierarchy. *"These are the costs that arise when individuals act in their own self-interest, rather than acting to maximize corporate performance."*, in: Collis and Montgomery (2005), p. 129, referring to Jensen and Meckling (1976), pp. 305-360, and Eisenhardt (1989b), pp. 57-74
1628 Collis and Montgomery (2005), p.132
1629 Collis and Montgomery (2005), p.136
1630 Collis and Montgomery (2005), pp.133-134

However, even if work is not entirely outsourced, companies have been reducing their full-time lifelong employees in search of workforce flexibility, [1631] and the share of part-time and contract employees in the United States has increased[1632]. In the high-technology sector, companies such as Cisco, IBM and Intel often foster ecosystems of smaller companies which are communities of connected suppliers, agents, distributors, franchisees, technology entrepreneurs, and makers of complementary products.[1633] We have already seen that IBM, for example, has within a ten-year period reduced its workforce by half, from 250,000 to 130,000 employees.[1634]

In fact, what has been happening at large corporations is a shrinking of the traditional core and an expanding of the periphery. The reason for these two simultaneous but offsetting forces is that, on the one hand, companies outsource a broad range of activities and substitute part-time or contract employees for their permanent staff.[1635] In contrast, through a series of alliances, joint ventures and partial ownership stakes, the periphery of the corporation has expanded.[1636] The result, however, is that although firms have become active in a much broader range of businesses and geographies than ever before, they do not necessarily have authority over those activities. Thus, because day-to-day operations are managed by others, running such corporations may be easier, but the strategic challenge will be more difficult because they do not fully control the activities.[1637]

However, more and more companies distinguish between the ownership of activities and their control over them. McDonald's, for example, carefully co-ordinates most of the units that carry out its activities, but does not possess them. In doing so, it has the advantages of vertical integration (overall design of the entire chain, quality assurance, efficiency between different activities, cross-training between certain activities and others), without suffering the inconveniences (lack of motivation, size imbalances, technological stagnation). Instead of being integrated, the owner's proximity ensures good service, something which is well known in this type of business. At the same time, the necessary volume for advertising or investments in technology would not exist if there were no integration, i.e. if the different restaurants were simply independent restaurants.[1638] Thus, a network combines the characteristics of integration and those of disintegration.[1639] McDonalds' network organisation in itself, however, does not represent a sustainable competitive advantage. It can be copied and, in fact, McDonald's organising principle can also be found in many of its direct competitors. Certain organisational solutions, however, are hard to copy, for example Toyota's production techniques, Dell's direct approach or Easyjet's low-cost system. However, by developing this organisational form first, a company has a precious time lead during which it can

1631 Collis and Montgomery (2005), p. 240
1632 Bureau of Labor statistics, 1997, in: Collis and Montgomery (2005), p. 240
1633 The director of research of IBM describes ecosystems in Horn (2005), pp. 28-33; See also Iyer, Lee and Venkatraman (2006), pp. 28-47, in: Johnson, Scholes and Whittington (2008), p. 345
1634 According to Blili (2010)
1635 Collis and Montgomery (2005), p. 239. They distinguish the phenomenon of outsourcing from the relatedbut more contentious phenomenon of offshoring. *"The former refers to the shedding of noncore activities. Thelatter refers to the movement of white-collar jobs overseas, typically to India and other developing countries. While the two may go together, as when a company's internal U.S. call center is replaced by a contract with an Indian callcenter, outsourcing is much more common than offshoring."*, in: Collis and Montgomery (2005), p. 239
1636 Hamel and Doz (1998), in: Collis and Montgomery (2005), p. 240
1637 Collis and Montgomery (2005), p. 240
1638 Jarillo (2003), p. 121
1639 Jarillo (2003), p. 122

develop other advantages. McDonald's system, can be easily copied now,[1640] but what it has built up over the years, i.e. its brand, technology and economies of scale, are strong barriers that protect its profitability.[1641]

Thus, it is likely that trends toward the separation of ownership and strategic control will continue, and that the trend to replace control with co-ordination and communication will continue and even grow. As long as these networks are given increasing communication capacity by continuing communication technology improvements, they seem likely to become increasingly common.[1642] In typical process industries like petrochemicals and forestry products, on the other hand, well- managed vertical integration can yield particularly large benefits.[1643] However, a careful analysis will probably lead to a reduction in the vertical scope of most corporations. The fact is that too many firms have inherited a particular vertical scope, and the assumption that the market is the preferred arrangement of production will lead to the continuing outsourcing of many corporate activities.[1644]

For many companies, the bias has been to perform in house. These companies tend to overestimate the costs of market exchange while simultaneously overestimating the benefits of the hierarchy. An increasing number of firms, however, are using market contracting rather than vertical integration to co-ordinate production. Examples include (as we have already seen) Benetton, the Italian clothing manufacturer whose brand has achieved great popularity,[1645] or Dell, which does no manufacturing itself but outsources everything to contract manufacturers. Since the model of independent market contracting is viable, the historical bias to perform activities inside the firm can be problematic. It will require a fundamental shift in thinking about the appropriate scope of many companies and a careful assessment of the production and governance costs of the two modes of organisation at every stage in their activities.[1646]

5.5.4.1.3.9 Services

With core products or services becoming very similar,[1647] we can conclude that performant and high quality support services offer a huge potential to companies to differentiate from each other in a highly competitive environment. This will increase a company's performance as well as its relationship of trust with customers.

At the end of the day, it is about advantages over the competition. Such an advantage may be achieved, for example, by providing better value services than other providers.[1648]

Due to these developments, there has been an unarguable shift from product-driven differentiation towards service-based differentiation. With the importance of services increasing, the customer relationship grows and as a consequence many marketing organisations focus on segment, service, and channel programmes, as opposed to traditional product-focused initiatives.[1649]

1640 In fact, it was not McDonald's who operated the first fast-food franchise network, but Kentucky Fried Chicken, in: Jarillo (2003), p. 122
1641 Jarillo (2003), p. 122
1642 Tallman (2009), p. 202
1643 Goold and Campbell (1998), pp. 91-93
1644 Collis and Montgomery (2005), pp.145-146
1645 Heskett (1995), in: Collis and Montgomery (2005), p.136
1646 Collis and Montgomery (2005), p.136
1647 Andersen, Froholdt and Poulfelt (2010), p. 125; See also Schiller (2007), p. 11: There are environments in which products are becoming more and more alike.
1648 Johnson, Scholes and Whittington (2008), p. 3
1649 Cokins (2009), p. 172

Thus, for organisations producing or distributing physical products, competitive advantage is more likely to be achieved through service performance (for example, speed, reliability of delivery or maintenance) rather than through product features per se. Therefore, a business has to be conceived not as a product company with support services but a service company which supplies a product. However, when considering what the most crucial competencies for competitive performance are, a profound mindset shift is required for some managers.[1650] Thus, the service standards expected by customers, for example regarding speed or reliability, become benchmarks crossing all industries and public services.[1651] It is very hard to imitate service.

5.5.4.1.3.10 Produce Quality, Cut Costs and Excel at Delivery

In order to satisfy the requirements of a strategy of operational excellence, a company has to produce quality products and services, cut costs and excel at delivery, i.e. speedy order fulfilment and on-time delivery.[1652] However, we believe that the critical success factors of the past decades (e.g. activity-based costing, Six Sigma, etc.) are known by management and have simply become given practices. They are necessary but not sufficient conditions for success in the future.

We will conclude this chapter with a summary of the first cluster, i.e. the operation management processes, of the strategy map's process perspective:

Figure 15: Operations: First Cluster of the Process Perspective[1653]

Process Perspective

OPERATIONS	CUSTOMERS	INNOVATION	REGULATIONS & SOCIAL
▪ Collaborate; ▪ Integrate management of the value chain and logistics chain; ▪ Virtualise by using information systems; ▪ Network, including the particular cases of outsourcing, alliances and virtuality; ▪ Control key business processes; ▪ Shift from product-based differentiation towards a service-based one; ▪ Guarantee high quality, reduce costs and assure quick availability.			

1650 Johnson, Scholes and Whittington (2008), p. 483
1651 Johnson, Scholes and Whittington (2008), p. 483
1652 Kaplan and Norton (2000a), p. 84
1653 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

5.5.4.2 Customers

5.5.4.2.1 Summary

After having discussed two sources of competitive advantage (integrated management of the value chain and the logistics chain, as well as the virtualisation of enterprises through the use of information systems), the next source (international marketing as well as global branding) applies to the customer perspective. Both are closely related, since international marketing is an important component which leads to global branding. With marketing and branding having a global scope, but also due to important pressures, as well as objectives and imperatives, there are many reasons for a company to internationalise. However, it must achieve a balance between market selection, market entry mode and speed of internationalisation. In addition, the management of cultural differences also offers significant comparative advantages, and finally, to build on customer attitudes is, as we have already seen, a part of the required X-factor universe and an interesting basis for innovative business models. These latter will be discussed under the innovation perspective.

5.5.4.2.2 Description

In the chapter about the customer value proposition, we have already mentioned some differentiating customer perspective processes. Below, we will add additional ones.

5.5.4.2.2.1 International Marketing

The essence of what constitutes international marketing was provided by the literature of the 1980s and early 1990s.[1654] Basically, it is the process of exchanging products across frontiers, involving a range of activities such as market research, promotion, pricing, distribution and decisions on the characteristics of the products to be exchanged.[1655]

Since it includes

- the process of deciding which markets to operate in,
- aspects such as the mode of supply (for example, exporting or a joint venture),
- the pricing of products, and
- decisions on where to expand and contract selling operations,

international marketing is closely linked to international strategic management.[1656] After all, it is a process which aims to optimise resources and focuses organisational objectives on the opportunities presented by the global market.[1657] Thus, international marketing's strategic impact involves the entire organisation, from its mission to its operations.[1658]

1654 Cavusgil and Nevin (1980/1981); Douglas and Craig (1989/1992); Hakansson (1982); Johanson and Mattson (1986); Turnbull and Valla (1986); as well as two early works on the development of exporting: Bilkey and Teasar (1977); Johanson and Wiedersheim-Paul (1975), in: McDonald and Burton (2002), p. 271

1655 McDonald and Burton (2002), p. 271

1656 McDonald and Burton (2002), p. 271

1657 Keegan (1980), p. 27

1658 Opinion, Blili (2010)

Because they are closely related to the development of competitive advantage in the global marketing[1659] of small and medium brands, particular attention has been paid to the following two aspects of international marketing: global branding and the internationalisation of the organisation[1660].

5.5.4.2.2.1.1 Global Branding

There is no doubt that a brand image is highly strategic in nature, and constitutes a considerable competitive advantage.[1661] It is an essential ingredient in the accumulation of brand equity, which is generally defined as the long-term added value that imbues the product or service with the attributes of the brand, and whose ultimate beneficiary is the customer and/or the firm.[1662] Brand equity and brand image can confer strategic advantages, and the company should do everything to ensure that communications between the firm and consumers lead to increased brand equity.[1663]

As early as the mid-eighties, some authors had already focused on global brands.[1664] Today, brands are omnipresent in all parts of the global culture.[1665] There is also an increasing necessity to manage corporate intellectual property, such as brand names and patents, on a global basis.[1666] New models of change which try to respond to the challenge of the new competitiveness of global organisations, also tackle brand management from a global point of view.[1667] Global branding has traditionally been associated with multinationals but has recently become a strategy that SMEs also aspire to.[1668]

Because the brand constitutes an intangible value which produces an enduring symbol remembered by current as well as potential customers, concerning present or future products[1669] its management is a major challenge for enterprises that want to carve for themselves a special place in the market[1670]. A brand also guards against imitations, secures the loyalty of the customer, sends a message about the quality of the product, and associates the product with qualities that justify a difference in price.[1671] With a brand considered to be attractive, the consumer is willing to consume on terms that are also more beneficial to the producer than they would have been otherwise.[1672]

Several multinationals have transformed their portfolios into ones of global brands, since consumers prefer these to local ones.[1673] The explanations that have been put forward for this behaviour include:

1659 Based on Perlmutter (1969), as well as Chakravarthy and Perlmutter (1985), Hollensen offers the following definition: *"Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition."*, in: Hollensen (2011), p. 19
1660 Opinion, Blili (2010)
1661 Shocker, Srivastava and Ruekert (1994)
1662 Erdem, Swait, Broniarczyk, Chakravarti, Kapferer, Keane, Roberts, Steenkamp and Zettelmeyer (1999), pp. 301-318
1663 Erdem and Swait (1998), pp. 131-157
1664 For example, Hamel and Prahalad (1985), pp. 139-148, in: Tallman (2009), p. 107
1665 Cayla and Arnould (2008), in: Hollensen (2011), p. 480
1666 Kuboi (2003), p. 78
1667 Ruddle et al (2004)
1668 Opinion, Blili (2010)
1669 Bouvier-Patron (2003), p. 76
1670 Opinion, Blili (2010)
1671 Kotler and Dubois (1997)
1672 Andersen, Froholdt and Poulfelt (2010), p. 109
1673 Steenkamp, Batra and Alden (2003), pp. 53-65

- First, global brands are reputed to permit economies of scale in research and development, in manufacturing and in marketing.[1674]
- They are also perceived as being of better quality and of having prestige, both of which increase the likelihood that the consumer will purchase them,[1675] and consequently generate larger sales volumes.
- Others believe that a global brand offers a competitive advantage over local brands simply because (whether legitimately or not) being global confers upon them an illusion of higher quality and greater prestige.[1676]

This relationship has received empirical support from Steenkamp, Batra and Alden, who believe that consumers are attracted to global brands for the following three reasons:

- the perception of greater quality,
- the associated prestige,
- the psychological benefits of what they call "Perceived Brand Globalness", i.e. the feeling of contributing to a global consumer culture.[1677]

Hence, customers assume the superior quality of a brand which is considered to be global, because for them quality is a prerequisite for a brand to become global. This means that in order for a brand to be deemed global by consumers, it has to fulfil the criteria of superior quality.[1678] Furthermore, it seems that consumers prefer global brands because they confer greater prestige,[1679] an argument supported by the exclusiveness and higher price of global brands relative to local ones[1680].

In addition, global brands with their cosmopolitan and modern character contribute to an improved self-image on the part of consumers, which in turn contributes to the greater prestige of the brands.[1681] Hence, they give consumers the positive feeling of participating in a global consumer culture.[1682]

In global branding, it is fundamental to ensure that the symbols and meanings associated with a brand are known internationally.[1683] It is global when consumers encounter it under the same name in several countries and when the same marketing strategies are used to launch it in each market.[1684] The consistent international appearance is one of the most important preconditions that a company needs to fulfil.[1685] In order to be successful with this, companies must first have the competencies to manage the brand as well as its image and equity.[1686]

Nevertheless, a global branding strategy also has weaknesses, since a global brand is exposed to much greater risk if an unfortunate incident affects one of the products in

1674 Yip (1995)
1675 Shocker, Srivastava and Ruekert (1994), pp. 149-158; Kapferer (2002), pp. 163-170; Steenkamp, Batra and Alden (2003)
1676 Shocker, Srivastava and Ruekert (1994); Kapferer (1997)
1677 Steenkamp, Batra and Alden (2003)
1678 Kapferer (1997)
1679 Kapferer (1997)
1680 Batra, Ramaswamy, Alden, Steenkamp and Ramachander (2000), pp. 83-95
1681 Friedman (1990), pp. 311-328
1682 Steenkamp, Batra and Alden (2003)
1683 Yip (1995)
1684 Yip (1995)
1685 Kunde (2000), p. 12
1686 Opinion, Blili (2010)

its range.[1687] Equally, the ethnocentrism of consumers can slow down the success of global brand strategy.[1688]

Prahalad and Doz,[1689] as well as Bartlett and Ghoshal,[1690] argue that multinationals have to manage often conflicting demands to develop standardised products and policies (global integration) and to respond to local tastes and requirements (local responsiveness), as well as to search for ways to stimulate innovation and learning[1691]. It is rare to have true global products whose characteristics and communications strategy are identical across markets. They exist, for example, in financial services, aeronautics, electronic appliances, perfumes, and certain sub-sectors of the apparel industry.[1692] In most cases, however, there is some level of product adaptation to address regional requirements. This generally concerns adapting products to local markets while maintaining the characteristics which constitute the essence of the brand identity.[1693]

Maucher also argues that in worldwide advertising certain fundamental messages and slogans should be used globally, but the remaining details should be adapted to local conditions. This is because mentalities and traditions are different but also different countries are in different phases of market development.[1694]

Prahalad and Lieberthal are convinced that multinationals, with their powerful, established brands, are likely to overestimate the extent of westernisation in emerging markets and the value of using a consistent approach to brand management around the world. In the Indian market, for example, Coca-Cola which had based its advertising strategy on its worldwide image, watched its advantage slip to Pepsi, which instead had adopted a campaign that was oriented towards the local market.[1695]

Hence, the local macro-environment must be considered and the strategy fitted and designed for all constraints and influences. A company also has to take advantage of every opportunity that arises.[1696]

Thus, across industries, global integration has a different value. Companies that can approach the world as one are rewarded to some extent by economies of scale, similarities of demand, and technological consistency. In other industries, however, local idiosyncrasies of demand and limits on available factors of production may force companies to dramatically adapt both in marketing and manufacturing.[1697]

5.5.4.2.2.1.2 Internationalisation of the Organisation

5.5.4.2.2.1.2.1 Strategy is Global

Global branding permits a firm to improve its ability to differentiate its brands by the simple fact that they are perceived as being global. At the same time, however, it must

1687 Chevalier and Mazzalovo (2004)
1688 Shimp and Sharma (1987), pp. 280-289
1689 Prahalad and Doz (1987), in: Schneider and Barsoux (2003), p. 254
1690 Bartlett and Ghoshal (1989), in: Schneider and Barsoux (2003), p. 254
1691 Schneider and Barsoux (2003), p. 254
1692 Chevalier and Mazzalovo (2004)
1693 Chevalier and Mazzalovo (2004); Croué (1999)
1694 Maucher (2007), p. 136
1695 Prahalad and Lieberthal (1998), pp. 102-103. Agrawal (1995) notes that in the debate on international advertising, proponents of standardisaton of marketing and advertising (mostly Americans) assumed that the world would homogenise, while the proponents of customisation (mostly Europeans) based their opinions on assumptions that various influences, including cultural differences, would prevent successful standardisation., in: De Mooij (2000), p. 104
1696 Tallman (2009), p. 167
1697 Tallman (2009), p. 78

adopt growth strategies.[1698] We have already learnt that as the twenty-first century dawns, business strategy is global strategy, and much is made of global markets, competition, innovation and organisation.[1699] Hamel and Prahalad[1700] have defined a global company as a firm with distribution systems in key foreign markets that permit cross-subsidisation, international retaliation, and world-scale volume[1701].

In the context of adapting to current economic upheavals, it is imperative that even SMEs globalise and develop goods and services for the international market.[1702] However, SMEs' ability to engage in international business activities is in principle restricted due to the limited resources available to them.[1703] On the other hand, engagement in international business permits SMEs to reap economies of scale and scope and to diversify in order to reduce the risks associated with concentration in domestic markets. Yet, what deters many, if not most SMEs, from engaging in such activities is the transaction costs of gathering and processing the information necessary to engage in international business activities, and the design and maintenance costs of systems to manage cross-cultural business,[1704] combined with the costs associated with exchange rates[1705].

Traditional wisdom assumes that where they engage in international activities, they are restricted to niche markets[1706] and follow the stage theory of internationalisation by progressing from simple forms, such as exporting, to more complex entry modes as they accumulate knowledge of international business conditions[1707]. This means that entry modes are frequently selected according to the stages of organisational development. A new and often unknown territory requires managers to learn new ways of doing business.[1708]

Therefore, internationalisation is considered a sequential process whereby companies gradually increase their commitment to newly entered markets, accumulating knowledge and increasing their capabilities along the way. This is a strategy of staged international expansion and means that companies begin by using entry modes such as licensing and exporting that allow them the acquisition of local knowledge whilst minimising the exposure of their assets. When they have sufficient knowledge and confidence, companies can sequentially increase their exposure, perhaps first through a joint venture and finally direct foreign investment.[1709]

1698 Opinion, Blili (2010)
1699 Tallman (2009), p. 3
1700 1985, in: Rugman and Verbeke (2004), p. 4
1701 Rugman and Verbeke (2004), p. 4
1702 OECD (2002)
1703 McDonald and Burton (2002), p. 262
1704 Hence, many SMEs are limited to exporting into countries to which they are culturally close. This is due to the costs associated with dealing with a large number of countries, especially those with substantially different cultural values, as well as due to the management of more complex modes of entry, in: McDonald and Burton (2002), pp. 262-263
1705 McDonald and Burton (2002), p. 262
1706 Simon (1996a), in: McDonald and Burton (2002), p. 262
1707 Johanson and Vahlne (1977), in: McDonald and Burton (2002), p. 262
1708 See, e.g. Guillén (2003), pp. 185-198; Erramilli (1991), pp.479-501, in: Johnson, Scholes and Whittington (2008), p. 311
1709 Johnson, Scholes and Whittington (2008), p. 311. Pedersen holds that the Uppsala internationalisation model introduced by Johanson and Wiedersheim-Paul (1975), as well as Forsgren and Johanson (1975), was launched primarily as a criticism of the theories at that time. It tried to explain direct investments and was developed as a more independent model to explain the sequential steps in the direction of increased foreign commitment (Johanson and Vahlne (1977 and 1990)), in Pedersen (1999), p. 3. As an incremental "learning process", it is primarily based on Penrose (1959), Cyert and March (1963) and Aharoni (1966), and its description of gradual geographic expansion from the domestic market through close markets to culturally distant markets is strongly inspired by Vernon (1966). The sequential development seems to be an original Swedish contribution by Turnbull (1987), p. 23, all in: Pedersen (1999), p. 4.

However, this rather mechanistic view, suggesting a rigid linear development of internationalisation, is often not verified by empirical work.[1710] It has also been challenged by companies (some of them SMEs) that are heavily engaged in international business activities and that began these activities upon their founding or soon afterwards.[1711] In contrast to gradual internationalisation, which was originally followed by many large and established companies, certain small so-called "born global" firms are internationalising rapidly at early stages in their development, using multiple modes of entry to several countries.[1712] However, with their rapid internationalisation, "born global" firms need to simultaneously develop their wider strategy and infrastructure, whilst often lacking the usually expected experimental knowledge to do so.[1713]

For "born globals", research has identified the development of networks as the key strategic way to successfully expand the internationalisation of SMEs.[1714] "Born global"[1715] companies (mostly in the high tech sector[1716]) make extensive use of networks to simultaneously expand in several markets[1717]. By using networks, SMEs are able to engage in rapid expansion into several foreign markets by concentrating on particular activities such as distribution and logistics in certain markets, while sales and after-sales are handled by partners in others.[1718] E-business systems offer the opportunity to expand networking and to further reduce the transaction costs of doing business.[1719]

Another type of networking that can help SMEs in internationalisation is geographical clustering.[1720] A cluster may be defined as *"a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementaries. The geographic scope of a cluster can range from a single city or state to a country or even a network of neighboring countries."*[1721] It may also be characterised as a system of interconnected firms and institutions, the whole of which is greater than the sum of its parts, playing an important role in competition and raising important implications for companies, governments, universities, and other institutions in an economy.[1722]

Nevertheless, since there are so many different varieties of clusters and so many confusing claims about their theoretical basis, form, identification and significance, the concept is peculiarly elusive and hard to pin down.[1723]

Hence, Martin and Sunley write that Porter's cluster idea acts as an umbrella brand for many different things, and its meaning lies more in this image than in a coherent and

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1710 Andersen (1993), in: McDonald and Burton (2002), p. 271

1711 McDonald and Burton (2002), p. 263. See also Rasmussen and Madsen (2002), p. 3: *"It has been demonstrated that many firms now do not develop in incremental stages with respect to their international activities. Firms are often reported to start international activities right from birth, to enter very distant markets right away, to enter multiple countries at once, to form joint ventures without prior experience, etc."* They write that such firms have been labelled International New Ventures (Oviatt and McDougall (1994)), High Technology Start-ups (Jolly, Alahuta and Jeannet (1992)), and Born Globals (McKinsey & Co. (1993), Knight and Cavusgil (1996), Madsen and Servais (1997)), in: Rasmussen and Madsen (2002), p. 3

1712 Knights and Cavusil (2005), pp. 15-35, in: Johnson, Scholes and Whittington (2008), p. 311.

1713 Johnson, Scholes and Whittington (2008), p. 313

1714 McDonald and Burton (2002), pp. 263-264

1715 Knight and Cavusgil (1996), in: McDonald and Burton (2002), p. 263

1716 Bell (1995), in: McDonald and Burton (2002), p. 263

1717 Madsen and Servais (1997), in: McDonald and Burton (2002), p. 263

1718 Oviatt and McDougal (1994), in: McDonald and Burton (2002), p. 263

1719 Kleindl (2000), in: McDonald and Burton (2002), p. 263

1720 Brown and Bell (2001), in: McDonald and Burton (2002), p. 263

1721 Porter (2008a), p. 215; *"See Enright (1993) for examples that illustrate clusters' varying geographic scope."*, in: Porter (2008a), p. 215; See also geographical concentration in clusters as another networking route to internationalisation by SMEs in: McDonald and Burton (2002), pp. 263-264

1722 Porter (2008a), p. 282

1723 Malmberg (2002), in: Martin and Sunley (2003), p. 28

carefully defined set of ideas. For them, it even displays all of the key features needed for a metaphor[1724] to assume the power of a successful "brand" (or even myth[1725])[1726].

5.5.4.2.2.1.2.2 Reasons for Internationalisation

Jarillo holds that there are multiple reasons for internationalisation. It makes sense when the following three conditions are met:

- The local market is saturated.
- There are still economies of scale available.[1727]
- The costs of internationalisation are less than the savings in production costs.[1728]

At the same time, he points out that it may not be favourable for a company to expand just because it can no longer grow in its home market. After all, instead of growing ruinously it is better not to grow and to stay profitable.[1729] Before a company launches itself into the process of internationalisation, it must develop a clear vision that is compatible with strategic logic and the realities in the company.[1730]

Nevertheless, there are many general pressures which increase internationalisation: [1731]

- International trade, investment and migration barriers have become much lower.
- With improving international regulation and governance, investing and trading overseas is less risky.
- Improved communications (from cheaper air travel to the internet) make movement and the spread of ideas much easier around the world.
- Not least, there are new opportunities and challenges for business in the new and successful BRIC countries (Brazil, Russia, India and China).[1732]

Hence, for Lombriser and Abplanalp, the most important opportunities and advantages of internationalisation are as follows:

- New labour markets.
- Reasonable prices for supply sources.
- Differences in wage costs and other costs.
- Access to qualified personnel.
- Economies of scale for globally demanded goods and services.

1724 According to Martin and Sunley (2003), p. 29, the metaphor must first accord with some strong, if not always clearly defined, aspirations, be expressed in language sufficiently flexible as to permit a wide range of interpretations, have authority and be capable of continual and consistent re-invention and re-application. Finally, the language of the metaphor must allow the possibility of providing practical action.

1725 See Harfield (1998), p. 1, in: Martin and Sunley (2003), p. 29

1726 Martin and Sunley (2003), p. 29

1727 In this context, McDonald and Burton add that the major motives for many companies for "going international" is not only size but also a small home market, in: McDonald and Burton (2002), p. 332

1728 Jarillo (2003), p. 133

1729 Jarillo (2003), p. 151

1730 Jarillo (2003), pp. 151-152

1731 Johnson, Scholes and Whittington (2008), p. 295

1732 Friedman (2006), in: Johnson, Scholes and Whittington (2008), p. 295

- Economies of scope by means of know-how-transfer between various countries, the consolidation of resources, the repartition of research and development (R&D) costs, and so on.[1733]

Reasons for international investment also include the following objectives:

- Searching for new markets to exploit existing competencies.
- Searching for new resources.
- Seeking production-efficiency through economies of scale.
- Technology seeking.
- The search for lower risk (portfolio effects and by direct involvement).
- And finally, the countering of competition from other multinational firms.[1734]

When these reasons are looked at from a capabilities-oriented strategic perspective, they collapse into the following three main objectives:

- leveraging existing capabilities in new or larger markets,
- acquiring or building new resources and capabilities in new places, and
- reducing uncertainty and risks from a variety of sources.[1735]

However, pursuing a strategy in the international arena presents two major strategic imperatives:

- First, for a company with existing unexploited or slack resources, additional rents derive from existing capabilities, i.e. capability leverage.[1736]
- Second, due to international expansion and global integration, new opportunities are provided to create or build new firm-specific resources and capabilities (FSRCs). This can be done through exposure to new markets, internalisation of new concepts, ideas from new cultures, access to new resources, and exposure to new competitors and terms of competition. These factors can turn the multinational firm into a pluralistic rather than nationalistic entity.[1737]

Finally, in order to achieve a balance among the various elements of their strategies for developing a global presence, companies must achieve a balance between

- market selection,
- market entry mode and
- speed of internationalisation.[1738]

1733 Lombriser and Abplanalp (1998), p. 273, referring to Bartlett and Goshal (1992); Hill and Jones (1992); Thompson and Strickland (1995)
1734 Robock and Simmonds (1989), in: Tallman (2009), pp. 23-24
1735 Tallman (2009), p. 24
1736 Tallman (2009), p. 103
1737 Tallman (2009), p. 104
1738 According to Govindarajan and Gupta (2004)

5.5.4.2.2.1.2.3 Market Selection

One of the main reasons why companies decide to relocate[1739] is the search for comparative advantage. It is fundamental to the understanding of why firms establish themselves beyond their national borders.[1740]

Yet, strategy which is focused only on globalness is clearly too simple, since location still matters.[1741] Porter argues that the competitiveness of locations is primarily rooted in the nature of the business environment they offer to firms. However, since access to labour, capital and natural resources has become widely accessible, they no longer determine prosperity. Rather the productivity with which firms in a location can use inputs to produce valuable goods and services leads to competitiveness.[1742] At the same time, according to Porter, the productivity and prosperity that is possible in a given location do not depend on what industries firms compete in but on how they compete.[1743]

Moreover, and as we have seen, the sources of advantage can be drawn from the international configuration of the value network and need not be purely domestic. The systematic exploitation of the different skills, resources and costs of countries around the world can be carried out in order to locate each element of the value chain in that country or region where it can be conducted most effectively and efficiently. This goal may also be achieved through global sourcing, i.e. the purchasing of services and components from the most appropriate suppliers around the world, regardless of their location.[1744] Fleisch, Geginat and Löser hold that in order to remain competitive in the long-term, Swiss manufacturing companies, for example, need to bundle their levels of added value in those locations where these functions can most effectively be provided. In this way, all company locations become part of a worldwide network of value added, i.e. the global footprint.[1745]

Comparative advantage is not only about labour costs[1746] but can take the form of a lower cost of setting-up, or a more acceptable total cost made up of a combination of several factors including:

- Rent or the cost of real estate;
- Risk concerning interest and the exchange rate;
- Transportation costs and tariff barriers;
- Allowances or subsidies offered for the establishment of a company;
- Tax advantages;
- The right to repatriate revenues as well as the free movement of capital;
- Proximity to raw materials or subcontracting networks;
- Technology access;

1739 According to Aldon, Brunel, Delporte and Rola (1997), in most cases, companies only relocate part of their production. Some well-known sectors, however, for example textiles, shoes, toys, furniture and electronics, in which the county of origin ("Made in") is of little or no consequence, are the main exceptions to this.

1740 Opinion, Blili (2010)

1741 Porter (2008a), p. xx

1742 Porter (2008a), p. xviii

1743 Porter (2008a), p. xix

1744 Johnson, Scholes and Whittington (2008), p. 302

1745 Fleisch, Geginat and Löser (2004), p. 4

1746 It is not just wage costs that matter but delivered unit costs. With low wages, productivity tends to be low as well, in: Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 291

- Qualified personnel or human resources;
- The existence of a critical mass of companies in the same sector, etc.[1747]

Rangan suggests that in order to minimise tariffs, transport costs and logistical problems, and in order to create a structural hedge against unfavourable changes in real exchange rates, it is generally optimal for manufacturers to be in (or at least near) big markets. Mercedes, for example, would have traded off its currency exposure for a peso-dollar exposure if it had opened its plants in Mexico rather than in the United States.[1748]

Furthermore, Tallman identifies the following four major forces that drive the entry decisions of multinational companies and may give them reason to choose one location over another:

- The entry decision should, first, be tied to the overall strategy of the multinational company.
- Norms and policies are the second consideration. They are related to (but distinct from) global strategy. They concern organisational characteristics that persist over time. Often, they are part of the company's core identity and include corporate commitments to employee rights, union membership, the advancement of women within the company, corporate policies towards bribery and other forms of corrupt dealings with local authorities, environmental ethics, community involvement, and other concerns of corporate social responsibility.
- Third, resources and capabilities must be considered. They are not only critical to selecting a corporate international strategy, but are also important in specific entry decisions. This is because companies must have access to the necessary capital to make the investment and should consider how effectively their human and organisational assets can be employed in the market. After all, not every place is equally resonant with the core competencies and products of even the most powerful companies.
- Finally, the local macro-environment must be considered by firms that make market entries. This aspect includes natural and man-made comparative advantages, economic development, technological advancement, political stability, regional trade agreements, home-host government issues, local rule of law, language, customs, values, time sense, and the other attributes of national culture and institutions.[1749]

If a company truly expects to earn a desirable return on investment anywhere, it must choose an entry strategy that addresses rather than fits all of these constraints and influences. Moreover, the entry strategy must be designed to take advantage of every opportunity that arises.[1750]

Johnson, Scholes and Whittington identify the following locational advantages:

- **Cost advantages:** Cost advantages refer to labour costs, transportation and communications costs, and taxation and investment incentives. Due to low labour costs, American and European firms, for example, are increasingly moving software programming tasks to India.[1751]

1747 Opinion, Blili (2010)
1748 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 291
1749 Tallman (2009), pp. 165-167
1750 Tallman (2009), p. 167
1751 Johnson, Scholes and Whittington (2008), p. 302

- **Unique capabilities:** Competitive advantage may be enhanced by unique capabilities. A reason for choosing the Chinese city of Dalian to locate Accenture's rapidly expanding software development office was that communication with potential Japanese and Korean multinational firms operating in the region was easier than if an equivalent location in India or the Philippines had been chosen.
- **Characteristics of nations:** The characteristics of nations support organisations in their efforts to develop differentiated product offerings aimed at different market segments.[1752]

The practical process of international marketing begins with the assessment of market conditions in the various possible countries in which firms may choose to sell.[1753]

To an extent, the attractiveness of countries can initially be compared by using the PESTEL framework or according to the industry's five forces analysis.[1754] The PESTEL analysis, which has already been discussed, also enables the assessment of key issues such as good locations for production, research and development (R&D), etc.[1755]

Market selection is also determined by "market potential" and "learning potential". Other issues include the choice of the best time to enter the market, its barriers to entry, and the intensity of competition.[1756]

Companies will consider where to make and sell products, but economic, political, legal, regulatory, social, and cultural differences limit multinational companies, and also give those companies which can get it right considerable advantage over the competition.[1757] Thus, decisions will be made on where to focus operations to obtain the best outcomes.[1758] Companies can be attracted to a region in order to become parts of networks or new organisational forms (strategic alliances, enterprise networks, virtual enterprises),[1759] or because they want to co-operate with partners (contractors, subcontractors, competitors, etc.) Informal or emerging clusters can also be attractive to foreign enterprises, which in turn can have a positive impact on the development of the local cluster.[1760]

In any case, relocation strategies must take into account the complexity of the environment and be grounded in a systemic view of the company and the context of its environment.[1761] This view needs to consider the identification of the boundaries separating the organisation from its environment, and the flows between the two, as well as the breaking down of the organisational system into the following three interrelated subsystems:

- **The value added chain** (or operating system), i.e. the business processes transforming resources by adding value in order to produce and sell goods and services in major markets.

1752 Johnson, Scholes and Whittington (2008), p. 304
1753 McDonald and Burton (2002), p. 275
1754 Johnson, Scholes and Whittington (2008), p. 306
1755 McDonald and Burton (2002), p. 245
1756 Opinion, Blili (2010), following Govindarajan and Gupta (2004)
1757 Tallman (2009), p. 56
1758 McDonald and Burton (2002), p. 249
1759 Grotz and Braun, (1996); Jacob, Julien and Raymond (1997), pp. 93-100
1760 Chapus, Lesca and Raymond (1999)
1761 Opinion, Blili (2010)

- **The management system**, i.e. the source of strategies and decisions (planning organisation, co-ordination, and control) affecting productivity and the international competitiveness of the value added chain.
- **The information and knowledge systems**, i.e. the memory of an organisation which processes data supporting operations (value chain, database), management and decision-making (management system, fundamental models and knowledge bases), and the links between the organisation and its environment, using information and communications technology (ICT).[1762]

Thus, the firm's choice of a particular location is not attributed to a single criterion affecting competitiveness. Instead, it is based on a whole range of factors relating to the host country. At the same time, for countries, regions or cities, it has become increasingly important to position themselves vis-à-vis an identified niche in which they have a defendable and visible advantage for the customer.[1763]

5.5.4.2.2.1.2.4 Market Entry Mode

After having selected a particular national market, the company needs to choose the entry mode into that market.[1764] Yet, the identification of the optimum entry mode that maximises returns and minimises risk is a challenge.[1765] Therefore, entry strategies also have to be given due consideration. Basically, they can be executed by new entry into a market, acquisition of a local firm, or co-operation with an existing participant.[1766] Some sections of the linear path of internationalisation may be missed by companies or they may begin the process at different stages.[1767]

The decision about the market entry mode revolves around the extent to which the firm:

- Will have to rely on imports or on local production in its target markets, e.g. there is a significant proportion of local production if the local market exceeds the minimum size required for efficient production; costs of shipping and related import duties cancel out all cost advantages of producing elsewhere; the need to adapt the product to the local market is high and local content requirements are significant.
- Needs to own/control activities which must be carried out locally, i.e. from structures with no participation like licensing or franchising, to partial ownership structures such as joint-ventures or affiliations or, at the opposite end of the spectrum, full ownership.[1768]

The following two resources and capabilities of a company are also relevant to entry strategies:

- First, a company needs to consider whether its strategic company-specific resources will play a role in the new market. Brands, for example, do not all resonate in every market.[1769] Even though most tend to assume that the assets that have brought a company sustained advantage in its home market

1762 Adapted from Raymond (2003)
1763 Opinion, Blili (2010)
1764 Johnson, Scholes and Whittington (2008), p. 311
1765 McDonald and Burton (2002), p. 207
1766 Tallman (2009), p. 182
1767 McDonald and Burton (2002), p. 281
1768 Govindarajan and Gupta (2004)
1769 Tallman (2009), p. 175

or other international situations will apply in subsequent markets, this is not necessarily the case.[1770] That is why they should be evaluated in as much detail as possible to assess whether they will provide competitive advantage in a potential new market or not.[1771]

- Second, it is critical for a company to have significant skills at co-ordinating networks of internationally dispersed affiliates, since these companies have a great advantage in entering any new country, whether seeking a new market or looking for a new production location.[1772] In addition, research shows that companies which have developed specific units to manage alliances are even more successful than equally experienced firms that have not formalised their processes within the organisation.[1773]

The entry modes into a market also differ in terms of the degree of resource commitment to a particular market and the extent to which a company is operationally involved in a particular location. Johnson, Scholes and Whittington list the following entry mode types: exporting; joint ventures and alliances; contractual arrangement through licensing and franchising; foreign direct investment.[1774]

Below is a summary of the specific advantages and disadvantages of these market entry modes:

1770 Tallman (1992), pp. 455-471, in: Tallman (2009), p. 175
1771 Tallman (2009), p. 175
1772 Tallman (2009), p. 176
1773 Kale, Dyer, and Singh (2002), pp. 747-768, in: Tallman (2009), p. 176
1774 Johnson, Scholes and Whittington (2008), p. 311

Figure 16: Market Entry Modes: Advantages and Disadvantages[1775]

"Exporting	
Advantages	***Disadvantages***
• *No operational facilities needed in the host country* • *Economies of scale can be exploited* • *By using Internet, small/inexperienced firms can gain access to international markets*	• *Does not allow the firm to benefit from the locational advantages of the host nation* • *Limits opportunities to gain knowledge of local markets and competitors* • *May create dependence on export intermediaries*[1779] • *Exposure to trade barriers such as import duties* • *Incurs transportation costs* • *May limit the ability to respond quickly to customer demands*

Joint ventures and alliances	
Advantages	***Disadvantages***
• *Investment risk shared with partner* • *Combining of complementary resources and know-how* • *May be a governmental condition for market entry*	• *Difficulty of identifying appropriate partner and agreeing appropriate contractual terms* • *Managing the relationship with the foreign partner* • *Loss of competitive advantage through imitation* • *Limits ability to integrate and coordinate activities across national boundaries*

Licensing	
Advantages	***Disadvantages***
• *Contractually agreed income through sale of production and marketing rights* • *Limits economic and financial exposure*	• *Difficulty of identifying appropriate partner and agreeing contractual terms* • *Loss of competitive advantage through imitation* • *Limits benefits from the locational advantages of host nation*

1775 According to Johnson, Scholes and Whittington (2008), p. 312

1776 *"Indirect exporting, in particular the role of export houses and specialist export agents, has declined with the emergence of intra-firm trade and the decline of arms' length trade and its future is threatened further by the advent of e-commerce. The role of these specialists can be predicted to decline further as e-commerce becomes established as a reliable and trustworthy channel to markets."*, in: McDonald and Burton (2002), p. 217

Figure 16: continued

Foreign direct investment	
Advantages	***Disadvantages***
• *Full control of resources and capabilities* • *Facilitates integration and coordination of activities across national boundaries* • *Acquisitions allow rapid market entry* • *Greenfield investments allow development of state-of-the-art facilities and can attract financial support from the host government*	• *Substantial investment in and commitment to host country leading to economic and financial exposure* • *Acquisition may lead to problems of integration and coordination* • *Greenfield entry time consuming and less predictable in terms of cost"*

The means by which a strategy can be pursued is another important criterion. Such methods can be divided, for example, into the following three types:

- organic development,
- mergers and acquisition (or disposal),
- alliances.[1777]

None of internal (or organic)[1778] development, acquisitions, mergers, joint ventures, alliances, or contracting with external partners guarantee easy expansion. Internal development can be slow and uncertain and each mode of expansion has its own benefits and costs. Therefore, choosing among the various modes involves unavoidable trade-offs and careful weighting of each alternative against a company's needs and the exigencies of a particular competitive situation.[1779]

Organic Development

Organic development (or internal development) occurs when strategies are developed by building on and developing an organisation's own capabilities.[1780]

We consider exporting and foreign direct investment (FDI) as organic development activities.

Exporting

Many companies initiate their activities on a national level.[1781] Especially if they are operating in the service sector, but also manufacturing, they are destined to remain purely domestic for a number of reasons.[1782] Either the products or services are too standardised, uncompetitive, and in other ways unsuited to foreign markets, or they are lacking adequate managerial resources and skills. Production might also be located

1777 Based on Johnson, Scholes and Whittington (2008), p. 356
1778 *"The default method for pursuing a strategy is to "do it yourself", relying on internal capabilities. Thus organic development is where a strategy is pursued by building on and developing an organisation's own capabilities".*, Johnson, Whittington and Scholes (2011), p. 328
1779 Collis and Montgomery (2005), p. 104
1780 Johnson, Scholes and Whittington (2008), p. 357
1781 Kunde (2000), p. 38
1782 McDonald and Burton (2002), p. 209; *"Non-exporters are more likely to possess mature products and be positioned in low growth sectors of their market."*, in: McDonald and Burton (2002), p. 212, referring to Burton and Schlegelmilch (1987), pp. 38-49

too far away from cost-effective transport routes.[1783] However, as a consequence of internationally expanding markets, the home-market advantage is disappearing.[1784] In addition, more intensive competition is also leading to the disappearance of the home market.[1785]

Even with the growing instances of "born global" companies,[1786] exporting is often considered to be the first step in the internationalisation process[1787]. With regard to the resource limitations of SMEs, this strategy seems to be the one which combines the lowest level of financial risk with the greatest opportunity for learning in the international market.[1788] It offers important benefits in terms of sales volume, revenues, and economies of scale.[1789] Moreover, exporting through local distributors in the host market requires relatively small commitments of resources, such as capital, management time or attention.[1790]

Consequently, a good export strategy for entering certain global markets can prove to be a comparative advantage for managers of brands with world class potential.[1791]

Companies that export are likely to regard their products as sufficiently differentiated and price competitive to succeed in foreign markets. Moreover, they have stronger growth aspirations than non-exporters and are more likely to be positioned in growth markets and to specialise in new products.[1792]

Export stimuli may also arise from a saturated or declining home market, excess capacity, recession, business pessimism about future prospects in the home economy or a failure to achieve objectives in the home market. In addition, companies combining high fixed costs and falling domestic sales may be attracted to foreign markets in the expectation that mainly variable costs will be incurred and that fixed costs can be spread over a larger output, thus reducing the ratio of fixed to variable costs. This, however, is often a short-term strategy that gives rise to allegations of dumping.[1793]

Exporting involves little or no ownership of foreign subsidiaries.[1794] However, exporting is faced with trade barriers, additional transport costs (both issues have already been mentioned in the table above), foreign exchange risks, and the threat of non-payment.[1795] These threats may be deemed sufficient to deter potential exporters from taking the first steps into potentially lucrative markets.[1796]

Moreover, in order to allow exporters to assess whether their firm-specific competencies make them potentially successful, a fundamental problem is once again how to acquire sufficient information about unfamiliar and distant markets (either geographically or psychically) to enable them to identify consumer tastes, competitors' strengths, gaps in the market, barriers to trade, and a host of other aspects.[1797]

1783 McDonald and Burton (2002), p. 209
1784 Rasmussen and Madsen (2002), p. 18
1785 Rasmussen and Madsen (2002), p. 18
1786 Moen and Servais, (2000), pp. 49-72
1787 Kogut and Chang, (1996), pp. 221-232
1788 Erminio and Rugman, (1996)
1789 Kogut (1985), pp. 27-38
1790 Tallman (2009), p. 182
1791 Opinion, Blili (2010)
1792 McDonald and Burton (2002), p. 212
1793 McDonald and Burton (2002), p. 210
1794 McDonald and Burton (2002), p. 250
1795 McDonald and Burton (2002), p. 234
1796 McDonald and Burton (2002), p. 234
1797 McDonald and Burton (2002), p. 208

Foreign Direct Investments

Foreign direct investment has become very important over the last few years.[1798] Together with exporting, foreign direct investment is the most popular method of internationalisation.[1799] In the former, the company mostly utilises available resources in the home market. In the latter, the company mostly utilises resources located outside the home country.[1800] Since foreign direct investment involves capital transfer to the county of destination, it carries a much higher risk than exporting but is also potentially more profitable.[1801]

After World War II, the development of direct foreign investment was started by US firms in order to exploit new technologies such as electrical equipment. However, when products reach maturity, foreign direct investment is used to lower costs of production and to take advantage of the expansion phase in foreign markets.[1802] Johnson, Scholes and Whittington consider foreign direct investments primarily as new ventures which not only include greenfield investments, i.e. development from scratch, but also the acquisition of established companies.[1803]

Generally, foreign direct investment is chosen when a company has a comparative advantage in terms of technology, know-how, economies of scale, distribution networks or a diversified range of products, with the objective of gaining greater control over the market.[1804]

However, most of the world's trade and investment is covered by a relatively small set of multinational enterprises. Indeed, over 90% of the world's stock of foreign direct investment is carried out by the largest 500 multinational enterprises, who themselves conduct about half of the world's trade.[1805] At the same time, nowadays foreign direct investment is no longer beyond the reach of SMEs.[1806]

By gaining access to a cheaper labour supply[1807] or by acquiring know-how which may enable the company to develop a competitive advantage,[1808] foreign direct investment allows a company to take advantage of the resources of the destination country[1809]. This refers to the localisation theory, according to which an enterprise may choose foreign direct investment if it thinks it can take advantage of resources available in the territory in which it wants to establish itself.[1810] However, it also requires knowledge about how to engage in local partnerships, the availability and legitimacy of recourse in the case of contract disputes, and the variety of licenses and restrictions required to set up a business in any specific country.[1811]

1798 Opinion, Blili (2010)
1799 Reynolds (1997)
1800 McDonald and Burton (2002), p. 234
1801 Cortes and Ramon (2003)
1802 McDonald and Burton (2002), p. 257
1803 Johnson, Scholes and Whittington (2008), p. 311
1804 Hymer (1976)
1805 Rugman (2000), in: Rugman and Verbeke (2004), p. 3
1806 Cortes and Ramon (2003), pp. 105-132
1807 Deeds and Hill (1998), pp. 41-56
1808 Shan and Son (1997), pp. 267-284
1809 Kogut (1985)
1810 Cortes and Ramon (2003), pp. 105-132
1811 Tallman (2009), p. 60

Mergers and Acquisitions

The number of mergers and acquisitions has significantly increased in recent years.[1812] Contrary to a merger, which implies a mutually agreed decision for joint ownership between organisations, an acquisition occurs when an organisation takes ownership of another organisation.[1813] Acquisitions may be carried out because companies know they can manage the acquired company better than current managers.[1814]

Increasingly, acquisitions with their benefits have become a popular alternative for entry. Whereas a start-up is an expensive and possibly uncertain approach, an acquisition brings an immediate market share and no increase in competitive pressures. Moreover, it can leave existing structures in place, and bring in strategic control and new technologies.[1815]

The acquisition of a local competitor, for example, gives immediate access to the understanding of local demand and production in the foreign market and is a way to perhaps internalise new products or processes.[1816]

In any case, mergers and acquisitions can rapidly produce business outcomes and provide substantial control of the process.[1817] They allow swift growth at times when this may be necessary and are therefore a solid source of value creation. Moreover they permit restructuring, international deployment of the company, the combining of different technological capacities to create new products and services and, in general, realise innovative and profitable strategies.[1818]

However, according to Jarillo, mergers and acquisitions only make sense if:

- The goal is to grow in order to reach the minimum efficient size.
- The company wants to gain reach and thus expand geographically.
- It simply wants to reduce the installed capacity in the market.[1819]

He argues that mergers and acquisitions often create costs of their own.[1820] It should not be underestimated that they pose enormous management difficulties and the temptation to see things too optimistically.[1821] In addition, the cost of planning and orchestrating a merger or an acquisition is likely to be high and can in many instances be risky. Therefore, mergers and acquisitions require careful planning to succeed.[1822]

The result of acquisitions may be, for example, a loss of organisational identity and can lead key local personnel to leave the target firm, taking their skills with them, and leaving an expensive hollow shell for the acquirer. Other problems with acquisitions are the payment of an excessive price, the discovery of hidden problems, or supposed assets that turn out to be less than advertised. All such problems are exacerbated in the case of acquisitions in foreign markets.[1823]

1812 Opinion, Blili (2010)
1813 Johnson, Scholes and Whittington (2008), p. 357
1814 Jarillo (2003), p. 183
1815 Tallman (2009), p. 187
1816 Tallman (2009), p. 129
1817 Opinion, Blili (2011)
1818 Jarillo (2003), p. 198
1819 Jarillo (2003), pp. 180-182
1820 Jarillo (2003), p. 179
1821 Jarillo (2003), p. 198
1822 Opinion, Blili (2011)
1823 Tallman (2009), p. 187

In up to 70% of acquisitions, shareholders of both organisations end up with lower returns. The most common mistake is paying too much for a company (possibly due to a lack of experience in acquisitions or poor financial advice). The acquiring company may also be over-optimistic about the benefits of the acquisition. Further risks include the poor resources and competencies of the acquisition or the incompatibility of the merging organisations.[1824]

In another survey, 35% of senior executives ranked cultural differences as the number one problem in foreign acquisitions (20% ranked unrealistic expectations and 13% poor management as major problems).[1825]

At the same time, SMEs are confronted with growing pressures to internationalise. Compared to large firms, they may have less international experience, the influence of top management is perhaps more direct, and the cultural background of the employees more homogeneous (home-country based).[1826] Companies that look across borders seek opportunities for growth and expansion or face threats of greater competitive pressures at home. They want to expand their activities and to leverage their competitive advantage.[1827] However, the greater the cultural distance in cross-border acquisitions, the less value is created for the shareholders of the acquiring companies.[1828]

In general, managers have been found to discount the importance of the role of culture.[1829] Nevertheless, cultural similarities may facilitate internationalisation, but differences may hinder such efforts.[1830]

The alternative to acquisitions is to build one's own subsidiary from scratch. However, with start-ups the greatest concern is perhaps time. To build customer relationships, access local knowledge, become a trusted member of trade groups and industry clusters, or become part of the local social network involves the building of an atmosphere of trust at the individual level, and therefore takes time.[1831] Compared to such local investments, acquisitions and alliances, when established local firms and alliances remain in place, are faster.[1832]

Alliances

Since the internationalisation of markets has intensified, strategic alliances have increasingly become popular.[1833] This is where two or more organisations share resources and activities to pursue a strategy.[1834]

1824 Johnson, Scholes and Whittington (2008), p. 359
1825 Buchanan (1989), in: Schneider and Barsoux (2003), p. 9
1826 Schneider and Barsoux (2003), p. 143
1827 Schneider and Barsoux (2003), p. 139
1828 Schneider and Barsoux (2003), p. 139; Culture can be either a barrier or an enabler, in: Kaplan and Norton (2004b), p. 281. According to studies, cultural incompatibility (Schmidt (2002), in: Kaplan and Norton (2004b), p. 281) is a prime reason for a large percentage of mergers and acquisitions that fail to deliver synergies (Chadturi and Tabrizi (1999), pp. 123-130, in: Kaplan and Norton (2004b), p. 281).
1829 Datta and Puia (1995), pp. 337-359, in: Schneider and Barsoux (2003), p. 139
1830 Schneider and Barsoux (2003), p. 140; It is interesting to note that the mode of entry into foreign markets or how companies go international is explained by cultural dimensions. Because they desire to reduce uncertainty, Japanese companies, for example, tend to prefer greenfield operations and joint ventures rather than acquisitions, especially when there is greater cultural distance, in: Kogut and Singh (1988), pp. 411-432, in: Schneider and Barsoux (2003), p. 137
1831 Tallman (2009), p. 188
1832 Tallman (2009), p. 189
1833 Beamish (1999), p. 43-61
1834 Useful publications include: Hamel and Doz (1998); Child (2005); ul-Haq (2005); Doz, Faulkner and de Rond (2001); Rigsbee (2000), in: Johnson, Scholes and Whittington (2008), p. 360

Both alliances and acquisitions allow access to the resources and capabilities of local incumbent firms. If a multinational company acquires a uniquely skilled local competitor, it allows that firm to continue competing locally. Yet, it also allows the multinational to either start exporting products or to transfer knowledge, including tacit knowledge, to other subsidiaries in other markets without having to co-ordinate with a possibly resistant partner.[1835]

From a resource-based perspective, an alliance may well provide the solution if the required resources are not directly available in the marketplace (which is often the case with tacit capabilities) and an acquisition (which tends to be more expensive than alliances) is problematic.[1836]

Strategic alliances vary from simple two-partner alliances co-producing a product to ones with multiple partners providing complex products and solutions. They have become more popular because organisations cannot always cope with increasingly complex environments or strategies (such as globalisation)[1837] with internal resources and competencies alone. Companies recognise that materials, skills, innovation, finance or access to markets may be as readily available through co-operation as through ownership. Therefore, many organisations face the choice between acquisition and alliance.[1838]

When markets are entered with an alliance, it permits companies to share costs and inherent risks, while giving rapid access to local know-how.[1839] Alliances bring together sets of resources in a relatively fast and inexpensive manner that none of the partners could economically assemble alone.[1840] Compared to an acquisition, for Tallman, alliances bring together only needed assets, allow the partners to pursue other business with other assets, are much less costly, and involve far fewer managerial opportunity costs.[1841]

Limited resources in terms of information, capital and experience are more likely to incline companies towards investing in strategic alliances than in mergers and acquisitions. This can make it easier for them to enter new markets through access to the resources of their partner, and thereby increases the probability of both companies internationalising successfully.[1842] Thus, the most important benefits are the resources and business networks that the partner can make available.[1843] An alliance also allows the company to avoid expensive mistakes, since it can take advantage of the experience of its partner.[1844]

As one part of the mix, the research and development portfolio should include alliance projects. These enable a company to acquire a new product (or process) from another firm, either through licensing or through subcontracting. The following are reasons for alliance projects: sufficient internal resources are not available for a desired project, in-house development efforts have failed to deliver desired results, or smaller firms have already developed the basic capability for a new product or process, and purchasing this capability is less expensive than duplicating the development effort internally.[1845]

1835 Tallman (2009), p. 186
1836 Tallman (2009), p. 154
1837 *"For considerations of the special aspect of global strategic alliances"*, see Yip (2003b), pp. 82-85, in: Johnson, Scholes and Whittington (2008), p. 360
1838 Johnson, Scholes and Whittington (2008), p. 360
1839 Opinion, Blili (2010)
1840 Tallman (2009), p. 155
1841 Tallman (2009), p. 185
1842 Beamish (1999), pp. 43-61
1843 Gulati (1998), pp. 293-317
1844 Opinion, Blili (2010)
1845 Kaplan and Norton (2004b), pp. 139-140, material from Wheelwright (1999)

Alliances can work,[1846] but at the same time, about half of them fail[1847]. Jacob and Ouellet even report an extremely high failure rate of 65% for alliances.[1848] Of the 49 alliances Bleeke and Ernst examined in detail, two thirds of those between equally matched strong partners succeeded, while about 60% of those involving unequal partners failed. The same goes for ownership, as a fifty-fifty partnership had the highest rate of success of any deal structure that they examined.[1849]

One possible explanation for the failure of alliances is the complexity[1850] of the alliance. With an increasing number of partners, operations become more difficult to co-ordinate, given the large number of interactions that must be managed.[1851] This results in increased transaction costs and a weaker alliance. Other factors can likewise contribute to their weakening, such as problems caused by a lack of confidence, tensions relating to the control of operations, and cultural differences.[1852]

On the other hand, the following three broad headings are success factors for alliances:

- A clear strategic purpose.
- Managing expectations as the alliance evolves.
- Managing a wide range of alliance relationships with the support of senior management.[1853]

A strategic alliance increases the probability of both companies internationalising successfully,[1854] and there is no doubt that it can enhance the competitive advantage of a company[1855]. Especially when capital is scarce, the lower capital requirements of alliance structures seem attractive.[1856] If seen from an internalisation/transaction cost perspective, alliances offer useful intermediate stages of integration between markets and hierarchies.[1857] Thus, alliances are often concluded in order to obtain resources that an organisation needs but does not possess itself.[1858] For Prahalad and Hamel, it is clear that Japanese companies have benefited from alliances and used them to learn from Western partners who were not fully committed to preserving core competencies of their own.[1859]

Multinational firms tend to be larger companies, since overseas costs and risks are more easily accepted by large companies with important financial means. However, in order to compete on an equal basis in today's knowledge-intensive industries, high tech companies also have to become involved in both international markets and production. In order to compete on an equal basis, they do not necessarily produce locally for local markets anymore. Due to the limits on financial resources, these companies tend to forge alliances, often contractual ones.[1860]

1846 See Dyer, Kale and Singh (2001), pp. 37-43, in: Johnson, Scholes and Whittington (2008), p. 360
1847 Johnson, Scholes and Whittington (2008), p. 360
1848 Jacob and Ouellet (2001)
1849 Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 258
1850 According to Blili (2010), alliances are a potential source of risk and complexity.
1851 Inkpen and Beamish (1997), pp. 177-202
1852 Opinion, Blili (2010)
1853 Hamel and Doz (1998); Pietras and Stormer (2001), pp. 9-12; Kaplan and Hurd (2002), pp. 38-42; Parkhe (2001), pp. 2-4; ul-Haq (2005); Hipkin and Naude (2006), pp. 51-69; Inkpen (1998), pp. 69-80; and Inkpen (2000), pp. 1019-1045, in: Johnson, Scholes and Whittington (2008), p. 364
1854 Beamish (1999), pp. 43-61
1855 Opinion, Blili (2010)
1856 Tallman (2009), p. 202
1857 Williamson (1991), pp. 269-296, in: Tallman (2009), p. 155
1858 Johnson, Scholes and Whittington (2008), p. 360
1859 Prahalad and Hamel (1990), p. 87
1860 Tallman (2009), p. 174

Below, we will list some aspects that will improve our understanding of the types and arrangements of alliances:

- Some types of strategic alliances are **loose arrangements** of co-operation and informal networking between organisations, with no shareholding or ownership involved.[1861] In less formal arrangements, like networks, organisations gain mutual advantage by working in collaboration without relying on cross-ownership arrangements or formal contracts.[1862] Such arrangements are characterised by co-ordination through the mutual adaptation of working relationships, mutual trust and typically a hub organisation that may have promoted the network and maintains a proactive attitude towards it.[1863]

- Other types may be **formalised interorganisational relationships**, like joint ventures. These are relatively formalised alliances and may take different forms. In joint ventures, organisations set up a newly created organisation jointly owned by the parents, but at the same time remain independent.[1864]

  In the first wave of market entry, joint ventures were extensively used as a way not only to navigate through bureaucratic processes but also to learn about new emerging markets. However, there were only a few exceptions where problems did not arise. Such tensions within joint ventures have in most cases diverted management attention away from learning about the emerging market.[1865]

  In the literature, the traditional joint venture between western partners and host government entities in developing countries has been considered as an inferior entry mode. This is because the company has to share some of its monopoly power, usually because the host market is regulated so that this is the only feasible way to enter the foreign market. Even though this view still prevails, there is growing recognition that the developing country partner may have "competencies" to offer the venture based on local market knowledge. In the traditional view, companies seek to exploit their existing strengths, whereas in an international strategic alliance firms seek to acquire new strengths based on "leverage" in technological, marketing and/or organisational knowledge.[1866]

  In contrast to traditional international joint ventures, the main feature of new strategic alliances is that they target global and high technology industries. Partners are often competitors not only in each other's markets, but also in the alliance market. Whereas in traditional joint ventures, they seek to exploit their existing competencies in new markets, in strategic alliances they seek to gain new capabilities to be exploited on an international (or even global) scale. This is why technology transfer, R&D collaboration, production and market sharing agreements account for most strategic alliances.[1867]

  Some additional forms of joint ventures are consortia and cost-sharing activities:

1861 Johnson, Scholes and Whittington (2008), p. 362
1862 Johnson, Scholes and Whittington (2008), p. 362
1863 See e.g. Jarillo (1988), pp. 31-41, in: Johnson, Scholes and Whittington (2008), p. 362
1864 Johnson, Scholes and Whittington (2008), p. 362
1865 Prahalad and Lieberthal (1998), pp. 113-114
1866 McDonald and Burton (2002), pp. 234-235
1867 McDonald and Burton (2002), pp. 225-226

- A consortium is a joint venture arrangement. It may involve two or more organisations typically more focused on a particular venture or project.[1868] Thus, for example, flexible collaboration can be identified in the sharing of internet-based business infrastructures. Consortia in the automobile industry, the chemicals industry, and the packaged-goods industry have been formed by direct competitors coming together to share supply chain platforms.[1869]
- Cost-sharing activity flows are quasi joint ventures. Shared services (e.g. payroll processing and benefits administration), established as central service units,[1870] are believed to be more efficient than if provided independently by each business unit. Value-adding functions, which will vary between companies according to their strategy, should also be created as centres of competence.[1871] In addition, "mid-sourcing" can be identified, i.e. the implementation of an internal reorganisation to provide an adequate level of service within the reach of the local operational level.[1872] In some cases, the corporate unit is allowed to compete for outside business in order to demonstrate that it is cost effective and to increase its scale. This approach has again resulted in the outsourcing of many corporate services, such as data processing and legal affairs, when third-party suppliers are found to be more efficient and responsive. The movement of administrative functions, particularly those related to IT and call centres to India and other developing countries (offshoring), is an extension of outsourcing to domestic third parties.[1873]

- Franchising, licensing and subcontracting are **other alliance arrangements** which are usually of a **contractual nature** and unlikely to involve ownership.[1874] Franchising and licensing are ways of operating that involve little or no ownership of foreign subsidiaries.[1875]
  - In a franchising arrangement, the franchise holder undertakes specific activities such as manufacturing, distribution or selling, whilst the franchiser is responsible for the brand name, marketing and probably training.[1876]
  - Even though franchising is often described as a form of licensing, the only commonality between the two is that they both involve the transfer of intellectual property rights.[1877] In science-based industries where, for example, for a fee the right to manufacture a patented product is granted, licensing is common.[1878] Licensing, as a low-resource commitment option, will also be favoured in the

1868 Johnson, Scholes and Whittington (2008), p. 362
1869 Sawhney and Parikh (2001), pp. 186-187
1870 Externalisation in the case of BP and DuPont, for example, is used to ensure that support services are the best worldwide, in: Ruddle et al (2004)
1871 Collis and Montgomery (2005), p. 253
1872 Ruddle et al. (2004)
1873 Collis and Montgomery (2005), p. 170
1874 Johnson, Scholes and Whittington (2008), p. 363
1875 McDonald and Burton (2002), p. 250
1876 Johnson, Scholes and Whittington (2008), p. 363
1877 McDonald and Burton (2002), p. 233
1878 Johnson, Scholes and Whittington (2008), p. 363

following environments: high country risk, large cultural distance between the host and home country, uncertain demand or declining markets, and host country competition that is subject to rapid technological and regulatory change.[1879]

Franchising and licensing offer low-cost, low-risk means of entering foreign markets and much shorter lead times. Nevertheless, in the literature, both modes are commonly regarded as inferior to exporting and foreign direct investment, and only to be engaged in when there are punitive trade barriers or controls on foreign direct investment.[1880] Even though licensing and franchising are considered to have a strong family resemblance, with the former being the appropriate term for goods and the latter for services, the differences far outweigh the similarities.[1881] We will not further discuss these differences, but point out that this false premise can lead to a faulty analysis.[1882]

- Finally, a company may choose to **subcontract** (or outsource) particular services or parts of a process, e.g. waste removal, cleaning or IT services, to private companies.[1883]

The following three important factors can influence the type of alliance.

- When the speed of market change is high, quick strategic moves will be required. In such an environment, less formal and flexible network arrangements may be more appropriate than a joint venture, which could take too long to establish.
- If separate, dedicated resources and capabilities are required by the strategy, then a joint venture will be appropriate. In contrast, a looser contractual relationship or network is favoured if the strategic purpose and operations of the alliance can be supported by the current resources of the partners.[1884]
- Finally, the alliance partners' expectations and motives play a role. If they see the alliance as a means of spreading their financial risk, this will favour more formal arrangements such as joint ventures.[1885]

An additional aspect of this chapter is the hierarchical mode of market entry.

- A domestic-based sales representative often resides in the home country of the employer and travels abroad to perform the sales function. Compared to independent intermediaries, better control of sales activities can be achieved. A company can insist that various activities be performed by its sales representative. It has no control over the attention that an agent or distributor gives to its products or the amount of market feedback provided. Instead, the

1879 McDonald and Burton (2002), p. 229
1880 The central proposition of Caves (1971), p. 273, is that barriers to entry force companies to choose licensing as an alternative to exporting or foreign direct investment. Similarly, Buckley and Davies (1981) contend that for companies licensing is the favoured entry mode only when they are faced with constraints, for example when exporting or carrying out foreign direct investment. For example, small firms that are faced with a shortage of capital and government restrictions on foreign direct investment may be forced to license their proprietary advantage, in: McDonald and Burton (2002), pp. 227
1881 McDonald and Burton (2002), p. 235
1882 McDonald and Burton (2002), p. 235
1883 Johnson, Scholes and Whittington (2008), p. 363
1884 Johnson, Scholes and Whittington (2008), p. 363
1885 Johnson, Scholes and Whittington (2008), p. 364

use of its own employees shows a commitment to the customer that the use of agents or distributors may lack.

- In the case of
    - resident sales representatives,
    - foreign sales branches (an extension and legal part of the firm to which a resident salesperson is assigned) or
    - foreign sales subsidiaries (a local company owned and operated by a foreign company under the laws of the host country),

  the actual performance of the sales function is transferred to the foreign market. All three options display a greater customer commitment than the use of domestic-based sales representatives.
- If a company believes in the long-term market potential of its products in a country, only full ownership of sales and production will provide the necessary control to meet the company's strategic objectives.
- Since there is an increasing regionalisation through the formation of such groupings as the European Union (EU), the North American Free Trade Area (NAFTA) and the Association of South East Asian Nations (ASEAN), companies may operate region centres that usually play the role of co-ordinating and stimulating sales in the whole region.
- In the final stage of internationalisation, companies manage transnational organisations that attempt to integrate and co-ordinate operations (R&D, production, marketing and sales and services) across national boundaries so as to achieve potential synergies on a global scale.[1886]

With the exception of domestic-based sales representatives, all these hierarchical modes involve investments in foreign-based facilities.[1887]

5.5.4.2.2.1.2.5 Speed of Internationalisation

When the process of globalisation begins, the final decision that needs to be made concerns the speed of international expansion.[1888] Rapid globalisation is synonymous with aggressive growth, but can also result in a company spreading its financial, managerial and operational resources too thinly.[1889]

The speed of internationalisation is a function of both the market selection and market entry mode. Other variables that have an impact on this decision are the following threats and disadvantages that force a company to internationalise:

- Massive cost increases in the original place of location. SMEs in particular are often affected and forced to relocate their production abroad, since they lack the money for automated production facilities at home.
- A strong currency in the place of location. This often explains why companies which are dependent on exports outsource.

1886 Hollensen (2011), pp. 386-393
1887 Hollensen (2011), pp. 393-394
1888 Govindarajan and Gupta (2004)
1889 Govindarajan and Gupta (2004)

- General increased cost pressures. This prompts numerous companies to look for suppliers worldwide.
- Domestically operating companies are in competition with foreign competitors. Due to realised profits abroad, these latter can aggressively penetrate the home market without having to fear any effective retaliatory measures. Thus, in most cases domestically operating companies have no other choice than to compete internationally. This is how they can make up for their cost disadvantages.[1890]

5.5.4.2.2.2 Cultural Diversity

"Nestlé has always shown respect for the cultures and traditions of all countries where its products are sold. We try to adjust as much as possible to the customs and traditions of the different countries where we do business. Nestlé appreciates cultural and social differences and opposes against any kind of discrimination based on ethnicity, religion or on any other reasons."[1891]

"What know they of England, who only England know?"[1892]

The following definitions might create more awareness about culture and diversity:

- *"Culture serves as a lens through which we perceive the other. Like the water surrounding the fish, culture distorts how we see the world and how the world sees us. Furthermore, we tend to use our own culture as a reference point to evaluate the other."*[1893]
- Culture can also be defined as *"shared patterns of behavior"*,[1894] as *"systems of shared meaning or understanding"* (a *"web of signification"*)[1895] or *"a set of basic assumptions – shared solutions to universal problems of external adaptation (how to survive) and internal integration (how to stay together) – which have evolved over time and are handed down from one generation to the next."*[1896]
- The meaning of diversity is variety[1897] or a range of different things[1898]. In the business and management context, diversity is mainly understood in terms of race, ethnicity and gender.[1899]

There are many reasons why issues about cultural diversity are relevant:

- We have already seen that behind the economic processes of globalisation, there are human beings from different cultures, individual interests and

1890 Lombriser and Abplanalp (1998), pp. 273-274
1891 Management and Leadership Principles at Nestlé, 6. Principles of the Nestlé Culture, in: Maucher (2007), p. 165
1892 Kipling (1987), in Schneider and Barsoux (2003), p. 209
1893 Schneider and Barsoux (2003), p. 11
1894 Mead (1953), in: Schneider and Barsoux (2003), p. 21
1895 Lévi-Strauss (1971); Geertz (1973), in: Schneider and Barsoux (2003), p. 22
1896 Schein (1985), borrowing the framework developed by anthropologists Kluckholm and Strodtbeck, in: Schneider and Barsoux (2003), p. 22
1897 Merriam-Webster's Collegiate Dictionary (2000), in: Maier (2002), p. 8
1898 The New Oxford Dictionary of English (1998), in: Maier (2002), p. 8
1899 E.g. Biggins (1999), pp. 11-16; Lear and Yavitz (1998), pp. 32-39, in: Maier (2002), p. 8

competencies. In order to collaborate, they have to agree across borders.[1900] Thus, with the confluence of global challenges there is a need for education about different cultural backgrounds.[1901]

- Internationalisation and organising for an international context is one of the key challenges for organisations in the twenty-first century. This includes communicating across wider geography, co-ordinating more diversity and building relationships across diverse cultures.[1902]
- As already mentioned, in order to deal with changing and complex situations, companies need a constant flow of ideas and creative solutions. Cambié and Ooi ask whether there is a better source of alternative ideas than a multicultural workforce.[1903]
- The opportunity that big emerging markets represent will demand a new way of thinking. A successful approach will, however, require more than simply developing greater cultural sensitivity.[1904]
- Internationalisation has led to a polyculture in companies and the emergence of "world citizens". On a daily basis, at home as well as abroad, individuals, teams, and organisations will be confronted more and more with cultural differences, and thus will have to learn how to manage them.[1905]
- Business today has become not just international but also more interdependent. Global expansion is happening through alliances, joint ventures, and cross-border mergers and acquisitions. Employees are expected to operate across borders, perhaps for short periods or as part of multidisciplinary, multicultural teams. Furthermore, with advances in communication and information technology, even those who rarely leave their home base may find themselves interacting with foreigners. Thus, cultural sensitivity is now required at all levels of the organisation.[1906]

Even though these examples demonstrate the significance of this issue, some authors are of the view that issues of cultural diversity are not so important. D'Souza, for example, takes a disapproving stance on diversity and argues that the expected benefits of managing diversity are *"entirely speculative and unproven"*. He, furthermore, warns that the effect of managing diversity programmes is to sacrifice performance and productivity at the altar of social and cultural diversity.[1907] In addition, Schneider and Barsoux hold that most companies do not see cultural differences as a source of competitive advantage.[1908]

On the other hand, we regard issues about cultural diversity as very important and conclude that due consideration of this aspect is very beneficial.

Schiller claims that his interest in politics and religion has brought him closer to people in faraway countries.[1909] Thus, we can argue that an interest in the local culture may also increase public recognition and eventually brand image.

1900 Hecht-El Minshawi (2007), p. 13
1901 Cambié and Ooi (2009), p. 78
1902 Johnson, Scholes and Whittington (2008), p. 435
1903 Cambié and Ooi (2009), pp. 82-83
1904 Prahalad and Lieberthal (1998), p. 97
1905 Schneider and Barsoux (2003), p. 176
1906 Schneider and Barsoux (2003), pp. 185-186
1907 D'Souza (1996), pp. 42-47, p. 45, in: Maier (2002), p. 56
1908 Schneider and Barsoux (2003), p. 277
1909 Schiller (2007), p. 22

The question is how to match these new developments. While at the end of the Cold War the challenge had been to engage with a part of the world everybody had feared, today's changes require the understanding of the dynamic BRIC countries and other economies, and to work out how to tie fortunes to their growth.[1910] In this context, managing diversity is also important for strategic alliances and joint ventures.[1911]

There are a few authors who have devoted entire articles to the case of diversity in business.[1912] Often, however, writers on managing diversity commence their texts with some kind of business rationale. This is then added to the demographic, moral and legal aspects as an attempt to eradicate any potential doubts that managing diversity's time has come.[1913]

In addition to such aspects as morale, legislation and demographics, an increasing number of managers and academics appear to believe that managing diversity can have a positive impact on the bottom line.[1914] Business reasons include lower costs as a result of a lower level of turnover and absenteeism,[1915] access to and understanding of new markets,[1916] the opportunity to tap all available sources of talent,[1917] higher creativity and innovation,[1918] and better problem-solving in general[1919]. Moreover, stock prices can be influenced by managing diversity in the form of high quality affirmative action programmes.[1920]

Hence, when it comes to cultural differences the question is how they should be utilised in order to provide competitive advantage.[1921]

According to Cox and Blake, the following competitive advantages derive from cultural diversity:

- **The marketing argument:** The ability to respond to local cultural preferences increases.
- **The resource acquisition argument:** An increased ability to recruit employees of different nationalities and host country elites.
- **The cost argument:** A cost reduction incurred by the turnover of non-home managers.
- **The problem-solving argument:** Better decision-making due to a wider range of perspectives and more thorough critical analysis.
- **The creativity argument:** Improved creativity because of the diversity of perspectives and less emphasis on conformity.

1910 Cambié and Ooi (2009), p. 79
1911 Schneider and Barsoux (2003), p. 275
1912 Lattimer (1994); Robinson and Dechant (1997), pp. 21-31, in: Maier (2002), p. 56
1913 Ferguson and Johnston (1995), pp. 33-36; Mathews (1998), pp. 175-185, in: Maier (2002), p. 56
1914 Capowski (1996), pp. 12-19; Hallagan and Jadick (1993), pp. 58-59; Lattimer (1994); Makower (1995), pp. 48-54, in: Maier (2002), p. 55
1915 Cox and Blake (1991), pp. 45-56; Mathews (1998), pp. 175-185; Teicher and Spearitt (1996), pp. 109-134, in: Maier (2002), p. 55
1916 Abbasi and Hollman (1991), pp. 24-31; Jenner (1994), p. 11; McNerney (1994a), pp. 22-24; McNerney (1994b), pp. 9-10, in: Maier (2002), p. 55
1917 Abbasi and Hollman (1991), pp. 24-31; Taylor (1995), pp. 12-15; Teicher and Spearitt (1996), pp. 109-134; Vielhaber Hermon (1996), pp. 427-442, in: Maier (2002), p. 55
1918 Cox and Blake (1991), pp. 45-56; Jenner (1994), p. 11; Morrison (1992); Piturro and Mahoney (1991), pp. 45-49, in: Maier (2002), p. 56
1919 Lattimer (1994), in: Maier (2002), p. 56
1920 Wright, Ferris, Hiller and Kroll (1995), pp. 272-287, in: Maier (2002), p. 56
1921 Schneider and Barsoux (2003), p. 276

- **The system flexibility argument:** Improved organisational flexibility and responsiveness to multiple demands and changing environments.[1922]

Only when it is well managed[1923] and led[1924] can diversity become a competitive advantage[1925]. The term "managing diversity" was coined because the common conception of diversity is that it can and should be managed.[1926] Instead, Maier introduces the concept of leading diversity, meaning leading a diverse group of people. Thus, "leading" or leadership often and parsimoniously defines a process which profoundly influences the activities of a group in achieving certain goals.[1927]

Maznevski and Jonsen assert that the more uncertainty an organisation faces, the more diversity can help it adapt to changing circumstances. However, as we have already seen, to work in this way, diversity must be managed well, using certain skills and an approach to management in which diversity is accepted, acknowledged and appreciated in a working environment where people feel safe and encouraged to express different views.[1928]

Thus, on the one hand, with advances in television, telecommunications, and transportation, the world is en route towards what McLuhuan called the "global village".[1929] On the other, culture seems to matter, since a massive[1930] survey conducted by Harvard Business Review concluded that *"the idea of a corporate global village where a common culture of management unifies the practice of business around the world is more dream than reality"*[1931]*.*

Yet, in Eastern Europe and South-East Asia, there has been quite an impressive pace of technological and economic development. It bears evidence of convergence,[1932] and has also been encouraged through management education, which is being exported wholesale to these regions.[1933] However, this development on different levels (economic, technological and managerial) has not necessarily led to a warm embrace of Western-style (or Asian-style) management, but in fact has triggered a forceful reassertion of local values and beliefs.[1934] Foreign occupation and forced ideology have led to heightened sensitivity, if not ambivalence, towards the invasion of foreign companies and their business ideologies and practices. Moreover, national pride and the desire to develop a style of management more congruent with local cultural values[1935] are a natural outcome of knowledge transfer, an increasing sense of self-confidence and also efficacy. A good example of this is China, where the convergence of management practices is not necessarily apparent.[1936]

Still, worldwide operating companies quite often forget that the managers they send off must be better prepared, both in terms of their attitude and their practical knowledge of the different local markets, traditions, regulation, and so forth.[1937]

1922 Cox and Blake (1991), pp. 45-56, in: Schneider and Barsoux (2003), p. 279
1923 Cox (1993), in: Hilb (2004), p. 12
1924 Maier (2002), in: Hilb (2004), p. 12
1925 Hilb (2004), p. 12
1926 Thomas (1990), pp. 107-117, in: Maier (2002), p. 9
1927 Barker (1997), pp. 343-362; Gardner (1990); Yukl (1989); Zaleznik (1992), pp. 126-135, in: Maier (2002), p. 9
1928 Maznevski and Jonsen (2006), p. 79
1929 McLuhan (1968), in: Schneider and Barsoux (2003), p. 3
1930 A survey of 11,678 managers in 25 countries, in: Schneider and Barsoux (2003), p. 7
1931 Kanter (1991), pp. 151-164, in: Schneider and Barsoux (2003), p. 7
1932 Schneider and Barsoux (2003), p. 5
1933 Schneider and Barsoux (2003), p. 6
1934 Schneider and Barsoux (2003), p. 6
1935 Religious traditions still endure, although economic development appears to have a powerful impact on cultural values, in: Schneider and Barsoux (2003), p. 7, also referring to Inglehart and Baker (2000), p. 49
1936 Schneider and Barsoux (2003), p. 6
1937 Maucher (2007), p. 34

There is an intellectual, emotional, and moral appeal in seeing cultural diversity as an opportunity rather than a threat. However, to manage diversity is easier said than done.[1938]

Schneider and Barsoux list multiple competencies for managing internationally. They distinguish between:

- managing differences abroad,
- and managing differences at home.

The former include interpersonal skills; linguistic ability;[1939] motivation to work and live abroad;[1940] the ability to tolerate and cope with uncertainty;[1941] patience and respect;[1942] cultural empathy;[1943] a strong sense of self; and finally a sense of humour[1944].[1945]

In the latter, managers with international responsibilities need to understand interdependencies; respond to different cultures simultaneously;[1946] recognise cultural differences at home; be willing to share power;[1947] demonstrate cognitive complexity;[1948] adapt a cultural-general approach; rapidly learn and unlearn.[1949]

In this list, we especially want to point out the aspect of "be willing to share power", since it needs to be stressed that there no longer exists a relationship of boss and subordinate between home country and foreign nation. This is because the most sophisticated customers, the most important market, and the leading suppliers of companies that have global aspirations are no longer assumed to be based in the home country.[1950] With the dispersal of key resources and markets, head office is not all-powerful and nor are all shareholders necessarily compatriots. Relations have become much more equal due to increases in economic power, wider access to business education, and the decentralisation of organisations. Furthermore, it may just be that a foreigner is a head-office representative's boss.[1951] Thus, an international manager's role has evolved, i.e. the pattern of cultural contact as well as the nature of the relationships have changed. Therefore, head-office managers can no longer afford to ignore learning opportunities from their foreign counterparts. They have to engage in a dialogue with subsidiary managers, listen and also search for new ideas around the world. Consequently, with the changing demands on international managers, there is an ongoing need for cross-cultural skills in daily interaction with clients and colleagues worldwide.[1952]

What is necessary for managing cultural differences, whether at home or abroad, is now often referred to as a global mindset.[1953] This concept helps to differentiate between

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1938 Schneider and Barsoux (2003), p. 183
1939 Brein and David (1973), in: Schneider and Barsoux (2003), p. 192
1940 Borg (1988), in: Schneider and Barsoux (2003), p. 192
1941 Lobel (1990), pp. 39-47; and Frenkel-Brunswik (1949), pp. 108-143, in: Schneider and Barsoux (2003), p. 192
1942 Ferraro (1990), in: Schneider and Barsoux (2003), p. 193
1943 Kets de Vries and Mead (1992), pp. 194-205, in: Schneider and Barsoux (2003), p. 193
1944 Ferraro (1990), p. 151, in: Schneider and Barsoux (2003), p. 194
1945 Schneider and Barsoux (2003), pp. 190-194
1946 Adler and Bartholomew (1992), pp. 52-65, in: Schneider and Barsoux (2003), p. 196
1947 Reich (1990), pp. 53-64; Rosenzweig (1994), pp. 107-123, in: Schneider and Barsoux (2003), p. 196; Adler and Bartholomew (1992), pp. 52-65, in: Schneider and Barsoux (2003), p. 197
1948 Ghoshal and Bartlett (1990), pp. 138-145; Barham and Antal (1994), pp. 222-241; Jacques (1990), pp. 127-133, in: Schneider and Barsoux (2003), p. 197
1949 Schneider and Barsoux (2003), pp. 195-198
1950 Reich (1990), pp. 53-64, in: Schneider and Barsoux (2003), p. 196
1951 Rosenzweig (1994), pp. 107-123, in: Schneider and Barsoux (2003), p. 196
1952 Adler and Bartholomew (1992), pp. 52-65, in: Schneider and Barsoux (2003), p. 197
1953 Schneider and Barsoux (2003), p. 198

expatriates (managers who are working in a different country from their own) and global managers (defined by their *"state of mind"*, i.e. people who can work effectively across organisational, functional, and cross-cultural boundaries).[1954]

Exposure to other cultures is an essential but not sufficient condition to develop the skills needed to manage across cultures.[1955] Nevertheless, the other's behaviour should no longer be evaluated as good or bad as viewed through one's own cultural filters.[1956] Moreover, one's own culture can be better understood with the experience of other cultures and, in turn, leads back to a better understanding of the other.[1957]

What promises to lead to better decision-making, greater creativity, more responsiveness to different customers, and easier local implementation of strategy is the pooling of expertise across functional, company, and national boundaries.[1958] Thus, multicultural teams are seen more and more as a way of managing increasingly complex and dynamic environments. Companies perceive them as solutions to problems concerning external adaptation, responding to complexity by bringing together a variety of perspectives while responding to dynamic changes by encouraging teams to make decisions where the action is.[1959]

However, in order to reach these goals, multicultural teams have to create the right tension between integration and differentiation. This means building shared expectations while preserving enriching differences with the aim of not neutralising or containing cultural differences but building on them. For virtual teams, this is an even bigger challenge.[1960]

Thus, with greater complexity and speed of change in the international business environment, it seems obvious that people with different cultural backgrounds will enhance the quality of decisions taken.[1961] Cultural differences offer a greater range of perspectives and options, given the increased uncertainty and ambiguity in decision-making. Moreover, they can contribute to new ways of looking at old problems, creating the opportunity for greater creativity and innovation. Last but not least, multicultural groups can help minimise the risk of uniformity and pressures for conformity which can occur in groups with many like-minded individuals.[1962]

Multicultural teams can contribute to the organisation's *"glue technology"*[1963] and also create *lateral networks* which can improve communication and information flows between subsidiaries and headquarters, and among subsidiaries.[1964] By sending an important message regarding career opportunities, these transnational teams facilitate recruitment of local managers with high potential. The creation of such teams may therefore have a wider strategic reason: organisational integration, organisational learning, and managerial development.[1965]

1954 Evans, Pucik and Barsoux (2001), p. 385, in: Schneider and Barsoux (2003), p. 199
1955 Schneider and Barsoux (2003), p. 202
1956 Schneider and Barsoux (2003), p. 207
1957 Schneider and Barsoux (2003), p. 209
1958 Schneider and Barsoux (2003), p. 184
1959 Schneider and Barsoux (2003), p. 216
1960 Schneider and Barsoux (2003), p. 184
1961 McLeod and Lobel (1992), pp. 227-231; Maznevski (1994), pp. 531-552; Kirchmeyer and McLellan (1991), pp. 72-78, in: Schneider and Barsoux (2003), p. 218
1962 Janis (1971), in: Schneider and Barsoux (2003), p. 218
1963 Evans (1992), pp. 85-106, in: Schneider and Barsoux (2003), p. 217
1964 Ghoshal, Korine and Szulanski (1994), pp. 96-110, in: Schneider and Barsoux (2003), p. 217
1965 Schneider and Barsoux (2003), p. 217

Business across borders is increasingly carried out by virtual teams that may be defined as *"a group of people who interact through independent tasks guided by common purpose"* and that work *"across space, time and organizational boundaries with links strengthened by webs of communication technologies."*[1966] These people may not only come from different national cultures, but also from different corporate and functional cultures.[1967] A key condition for cross-cultural teams to be effective is considered to be the development of trust, and this is even more challenging when these teams are virtual and temporary.[1968]

At the same time, this very rich diversity also makes the group dynamics much more complex. Effective teamwork, thus, does not happen spontaneously but needs to be actively managed to avoid the loss of time and resources, missed opportunities, and disappointing outcomes.[1969]

It seems that, as indicated by research, multicultural teams tend to perform either much better or much worse than monocultural teams,[1970] whereas other evidence suggests that heterogeneous teams can outperform homogeneous ones. Moreover, the results of group performance research indicate that teams composed of members with different profiles were more effective than teams made up of "star" performers (the best and the brightest), or with members having similar profiles. Those teams which included a mix of profiles with a balance of roles performed better.[1971]

5.5.4.2.2.3 Build on Customer Attitudes

We have already seen that a constant preoccupation of global firms is how relations with suppliers and customers can be revitalised in such a way as to improve synergies within the value chain. Moreover, they are preoccupied with how innovation and product development can be fostered in order to achieve a more rapid response to market requirements.[1972]

As we have seen in connection with the X-factor universe, some companies create their own unique key success drivers constituted by the following four customer attitudes:[1973]

- **Consumer involvement:** Instead of perceiving the customer as a mere consumer and the object of marketing efforts, many companies break the rules of such conventions by including them in the production of goods or services. They team up with customers to develop the market as a whole or by asking them to provide valuable information used in product development. Customers, thus, become a vital part of the company's value chain.[1974] With unconventional thinking, the traditional perception of customers has been redefined.[1975] This is demonstrated by companies such as Google, Facebook, Ryanair, Saxo Bank and Dell.[1976] Here, the consumer becomes a "pro-sumer", which effectively short-circuits the traditional supply chain. This is exactly what some X-factor companies are looking for.[1977]

1966 Lipnack and Stamps (1997), in: Schneider and Barsoux (2003), p. 244
1967 Schneider and Barsoux (2003), p. 244
1968 Schneider and Barsoux (2003), p. 246
1969 Schneider and Barsoux (2003), p. 219
1970 Adler (1991), p. 135, in: Schneider and Barsoux (2003), p. 219
1971 Belbin (1981), in: Schneider and Barsoux (2003), p. 219
1972 Opinion, Blili (2010)
1973 Andersen, Froholdt and Poulfelt (2010), p. 114
1974 Andersen, Froholdt and Poulfelt (2010), p. 104
1975 Andersen, Froholdt and Poulfelt (2010), p. 112
1976 Andersen, Froholdt and Poulfelt (2010), p. 265
1977 Andersen, Froholdt and Poulfelt (2010), p. 113

The emergence of the "pro-sumer", a consumer who develops his or her product in dialogue and together with other users, has only been made possible by the internet. The "pro-sumer" is at the same time a consumer as well as a producer. This has become most obvious with the spread of the open-source software Linux. This shows that innovations are not always controlled top-down by companies but that they can also emerge bottom-up.[1978] Thus, we can conclude that it is not about the value chain but about its interfaces and mobilisation capability. Facebook, for example, makes others work and therefore its proposition is made by others. Without any doubt, one can say that Facebook uses others without using them.

However, there are also other examples of companies which were not dependent on the internet. As early as the eighties, Hilti had started to grapple with easy-to-handle fastening systems. Up until then, there had been no workable systems but one could observe that some customers themselves had developed their own solutions. Fourteen especially demanding lead users who were ahead of the mass market by months, if not years, were picked. They also had their own ideas for innovations but, at the same time, they benefited from innovation. In a workshop,[1979] these lead users developed an innovative fastening system which then became the fundament for a business division at Hilti.[1980]

- **Customer-centric marketing:** The involvement of the customer to a greater degree also allows for a customer-centric approach to marketing and competitive positioning in general, thereby contrasting with the traditional marketing mix.[1981] The latter describes or prescribes what needs to be at the centre of attention for a company to achieve a competitive position. The conventional marketing mix began with the 4Ps of product, price, place, and promotion, which was later revised to the 7Ps by adding presence, people and processes. The customer, however, is hard to identify as a key element in this.[1982] Instead of trying to second guess what the customer wants in terms of product features, some companies actively involve their customers in the production of goods, allowing for competitive pricing.[1983] Procter & Gamble, for example, circumvents traditional theory on marketing by using customer-centric marketing.[1984] Saxo Bank's customer-centric approach played a key part in the subsequent strategic journey of the bank and their ability to migrate to the X-factor universe. The company provided individual worldwide investors with an online FX trading platform without having to contact a broker by telephone. Ryanair also focuses with great success on what the customer really wants: cheap air fares from point A to B.[1985]
- **Customers from conflicting channels:** In conventional wisdom, the two different channel conflicts that may occur (horizontal and vertical) should

1978 von Oetinger (2000d), pp. 498-499
1979 Workshops or projects are typically oriented to creating an output in the form of a business case (a particular proposal, perhaps an investment in new equipment) or a strategic plan (taking an overall view of the firm's direction over a substantial period, usually three years and sometimes more), in: Johnson, Scholes and Whittington (2008), p. 581
1980 Herstatt, Lüthje and Lettl (2002), pp. 60-68, in: Bailom, Matzler and Tschemernjak (2006), p. 97
1981 Andersen, Froholdt and Poulfelt (2010), p. 113
1982 Andersen, Froholdt and Poulfelt (2010), pp. 110-111
1983 Andersen, Froholdt and Poulfelt (2010), p. 111
1984 Andersen, Froholdt and Poulfelt (2010), p. 266
1985 Andersen, Froholdt and Poulfelt (2010), p. 111

be avoided, as they can have a devastating effect on a company. The former arises when companies at the same level of the channel are in disagreement with each other and the latter, which is more common, arises when companies at different levels, for example the product producer and the wholesaler, experience conflicting interests such as the situation where both target the end consumer. Yet, for Saxo Bank, who offered other financial institutions the opportunity to gain an unbranded version of the SaxoTrader platform and at the same time offered it to their own customers, a channel conflict is at the core of its success. Instead of having a devastating effect (as Saxo Bank was distributing its products through a wholesaler as well as directly to its customers), it catapulted the success of Saxo Bank onto a new level. The company was not hindered by conventional wisdom but rather driven by a desire to partner both end customers and other wholesalers to grow the e-FX market as a whole. With Disney, P&G, Google and Ryanair, to a considerable extent it was the same. Once again, the conventional wisdom was challenged.[1986]

- **Customers as viral ambassadors:** If customers feel that they get *"a big bang for the buck"*, they will be more likely to recommend other potential customers to follow suit. The WOW and the WOM effect, are equally important here. The first is a primarily event-driven effect very much tied to cases like entertainment, sports and cultural institutions.[1987] The WOW effect, which is a combination of surprise, admiration and satisfaction, is experienced by many customers precisely because of the "pro-sumer" trend. It was very common with Google search, the e-mail service of Hotmail, Saxo Bank's trading platform, Skype's telephony software, the advanced e-ticketing system and logistics of Ryanair, but also Facebook's "shared" platform. Here, some of the key components involve combinations of accessibility, consumers and "pro-sumers", consumer control, speed of delivery and price. The WOW effect is the basis for the second: the WOM effect. This is the word-of-mouth effect, which revolutionises the economics of a company by shrinking the cost structure radically. Up to 80% of every purchase decision is based on the WOM effect, yet at the same time the WOM effect does not occur just because of a customer's satisfaction. Instead, something extra is needed. It requires special attention when dealing with the aspects of the X-factor universe. For example, eBay, a "born-WOM" case, opened as an online store with no inventory, leaving it up to customers to fill its "shelves" with goods to sell. Wikipedia is another example. It gutted the value proposition of Encyclopaedia Britannica by offering a free encyclopaedia frequently written and updated by unpaid amateurs.[1988] The same type of effect can also be found by looking at Facebook, Skype, Google and many others.[1989]

5.5.4.2.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

1986 Andersen, Froholdt and Poulfelt (2010), pp. 105-106
1987 Mossberg (2003), in: Andersen, Froholdt and Poulfelt (2010), p. 102
1988 Cook (2008), p. 62, in: Andersen, Froholdt and Poulfelt (2010), p. 103
1989 Andersen, Froholdt and Poulfelt (2010), pp. 102-103

5.5.4.2.3.1 International Marketing

The strategy of a company must take into account the increasing degree of globalisation.[1990] Most large firms are only at the beginning of the globalisation process.[1991] The consequence is clear: companies of any size are affected by the globalisation trend and have to respond to it with international strategies.[1992]

5.5.4.2.3.1.1 Global Branding

With the growing realisation that brands are one of the most valuable intangible assets that firms have, branding has become a top management priority.[1993] Neither international marketing nor selling with an unknown brand name are easy tasks. Well-known brand names provide low-cost indications of quality and engender trust on matters such as reliability and safety.[1994] It is therefore clearly a barrier to entry for competitors.

At the same time, when operating in a complex reality like that of India, the development of a new kind of creativity is needed.[1995] What needs to be communicated is one's passion and inspiration so that the public is also inspired and spreads the message. Therefore, public relations (PR) practitioners will have to assume the role of strategic consultants, able to sense the environment in a particular country or market and to advise senior management on which course to take.[1996]

Maucher is convinced that professional public relations are more important than ever before. This is due to the increasing interest of the public and different stakeholders (media, customers, investors) in companies, but also due to an increased tendency of the general public to view the manufacturing industry with a critical eye.[1997]

For the projection of a brand image, not only public relations but also communications are an important vector. Here, one should not only think about traditional activities and tools. For example, social media, which may be described as *"People talk to people about things they care about"*,[1998] is also becoming an important platform for branding and reach. It includes multiple media, and therefore it needs to be evaluated thoroughly which social media is convenient for the company.

Working with social media (blogs, wikis, multimedia, social networks, instant messaging, VoIP and audio/video interaction, Twitter, RSS feeds and Google juice),[1999] if appropriate, adds value by extending one's reach to a much wider audience and can be a means of representing what a company stands for.[2000] It should be integrated in a company's marketing and PR strategies[2001] and engage social network audiences in active participation.[2002]

1990 Maucher (2007), p. 34
1991 Govindarajan and Gupta (2004)
1992 Lombriser and Abplanalp (1998), p. 274
1993 Keller and Lehmann (2006), p. 740
1994 McDonald and Burton (2002), pp. 362-363
1995 Cambié and Ooi (2009), p. 6
1996 Cambié and Ooi (2009), p. 25
1997 Maucher (2007), p. 145. According to Hollensen, *"Public relations (PR) seeks to enhance corporate image building and influence favourable media treatment. PR (or publicity) is the marketing communications function that carries out programmes designed to earn public understanding and acceptance."*, Hollensen (2011), p. 597
1998 Nappo (2011)
1999 Cambié and Ooi (2009), pp. 103-112
2000 Cambié and Ooi (2009), p. 113
2001 Cambié and Ooi (2009), p. 125
2002 Cambié and Ooi (2009), p. 208

Successful innovators also use a phenomenon which has recently appeared: online consumer communities.[2003] Niketalk, for example, which has no official connection to Nike Inc., is a community of more than 45,000 basketball fans where thousands of discussions take place on a monthly basis. Among these fans, there are basketball fanatics, sports goods retailers, as well industrial design students. Some examples of discussion topics are: *"How to customize your Basketball-shoe"*, *"How to distinguish a branded shoe from a fake"*, *"Design the basket shoe for the year 2050"* or simply discussions about the newest models of Nike. In such online communities, not only is enormous knowledge exchanged but innovation is also generated by the members themselves. This is similar to the open-source movement,[2004] where problems are discussed and resolved within the community.[2005]

There is also a convergence of multimedia, social media and mobile communications.[2006] Online communications, i.e. social media, will probably be the very core of the global shift.[2007] Certainly, a high premium is placed on authenticity and trustworthiness.[2008]

5.5.4.2.3.1.2 Internationalisation of the Organisation

5.5.4.2.3.1.2.1 Strategy is Global

At the start of the twenty-first century, business strategy is global strategy.[2009] This, of course, requires strategic decisions that are made from a global perspective.[2010] Thus, business strategy is global and even SMEs have to globalise.

However, choosing international strategy is like choosing a form of diversification into new geographical markets, and is often at least as challenging as diversification.[2011] Most studies of international diversification look to leveraging capabilities across more markets as the key to success,[2012] and according to the resource-based theory, the same benefits of shared capabilities should occur across markets as across product markets.[2013] Matching products to markets is part of international expansion. At the same time, companies must consider how much they want to integrate their international operations, i.e. how global they want to become.[2014]

The implementation of internationalisation strategies provides an opportunity to deepen the understanding of various international markets.[2015] Yet, when operating in foreign markets, the appreciation of cultural sensitivities and beliefs also has to be included.[2016]

2003 Füller, Jawecki and Mühlbacher (2006), pp. 161-183, in: Bailom, Matzler and Tschemernjak (2006), p. 100
2004 von Krogh (2003), pp. 14-18, in: Bailom, Matzler and Tschemernjak (2006), p. 101
2005 Bailom, Matzler and Tschemernjak (2006), pp. 100-101
2006 Cambié and Ooi (2009), p. 185
2007 Cambié and Ooi (2009), p. 207
2008 Cambié and Ooi (2009), p. 207
2009 Tallman (2009), p. 3
2010 See, for example, Kuboi p. 10, who advises Japanese companies to make strategic decisions from a global perspective.
2011 Johnson, Scholes and Whittington (2008), p. 14
2012 Tallman (2009), p. 106
2013 Tallman and Li (1996), pp. 179-196, in: Tallman (2009), p. 106
2014 Tallman (2009), p. 121
2015 Porter (1990)
2016 Cambié and Ooi (2009), p. 43

5.5.4.2.3.1.2.2 Reasons for Internationalisation

Global expansion represents a high level of risk for companies that are venturing into the international arena for the first time. Immediate globalisation of the entire product portfolio also considerably increases the complexity of the strategy and, as a result, its feasibility.[2017] Therefore, the challenge is to know which product line(s) to internationalise first, and especially from which production, marketing or R&D platform. The decision has to address both objectives profit maximisation and risk minimisation.[2018]

Consequently, competitive advantages are not limited to development back in the home market, as companies can uncover and incorporate new capabilities and resources abroad. This suggests that existing assets and capabilities can be leveraged and enhanced through greater international presence.[2019]

This is a common process, since economic activity moves from one country to another as soon as productivity in the new location exceeds the costs of relocation, the liabilities of foreignness in the new location, and the barriers to re-importing the goods or services produced into the original market.[2020] In addition, when the minimum efficient scale (MES) of production in an industry is greater than what can be absorbed by a single national market, it is likely to move towards becoming a single global market.[2021]

Companies are confronted with both the decision to select an appropriate market to enter and thereafter to approach and integrate into it.[2022] In other words, they must achieve a balance between the various elements of their strategies for developing a global presence. This includes questions about market selection, market entry mode and speed of internationalisation.[2023]

5.5.4.2.3.1.2.3 Market Selection

Most large companies are trying to respond to today's fundamental changes with a globalisation strategy combining low risk with maximum profit. Moreover, they have to decide which country they should choose as a base for globalisation for their specific industry and which country will reflect the most appropriate image.[2024]

In this context, it should be noted once again, that in the course of the last few years the technology and know-how transfer from industrialised to developing countries has enabled the latter to reach Western standards by offering qualified but cheaper manpower.[2025] It should come as no surprise that the Indian subcontinent, Eastern Europe, and Latin America provide rich pools of low-cost human resources. In particular, specialty services for software development, engineering design, architectural design, and statistical analysis can be provided by countries like India which has a significant English-speaking population and skilled engineering talent.[2026]

2017 Govindarajan and Gupta (2004)
2018 Govindarajan and Gupta (2004)
2019 Tallman (2009), p. 104; A strong argument for competitive advantage based on internal expansion by multinational firms is provided by the transaction cost theory, in: Teece (1986), pp. 21-45, in: Tallman (2009), p. 106
2020 Tallman (2009), pp. 78-79
2021 Tallman (2009), pp. 78-79
2022 Terpstra and Sarathy (2000), p. 10 ff, in: Noack (2007), p. 8
2023 Govindarajan and Gupta (2004)
2024 Govindarajan and Gupta (2004)
2025 Opinion, Blili (2010)
2026 Sawhney and Parikh (2001), pp. 188-189

For a long time the basic principle of the search for the lowest possible costs underpinned the decision to relocate businesses. Firms that were located in countries where the cost of factors of production was relatively high relocated to countries which offered comparative advantages with regard to these costs. In the '70s and '80s, this led to the emergence of new countries exporting manufactured products (Asia, North Africa, etc.) Furthermore, the pricing advantages of low-cost production drove ever more companies, even those focusing strictly on domestic markets, to make their products in China.[2027] Today, however, a double phenomenon of production shifting may be witnessed. There are still relocations conducted in order to take advantage of lower production costs. Their number continues to grow, with China and Asia clearly emerging as the chief beneficiaries of this trend. At the same time, firms are relocating to obtain advantages related to marketing strategies, supply network management, and other aspects of financial engineering and knowledge management.[2028]

Nevertheless, national culture and borders are still significant. The latter represent the combined forces of national history, institutions, and conditioning, and give potent meaning to the terms insiders and outsiders. National institutions, economic values and ethos are shaped or influenced by national culture, which also tends to influence the relationship of a company to its customers, national and local governments, rivals, shareholders, financial institutions, and the local community. Cultural values are an aid for interpretations and provide an input in business decisions. In addition, business still operates differently across nations and regions. The reasons for this are language, labour policy, punctuality, property rights, taxation, transfer pricing, accounting rules and supplier relationships. This is why companies, when going abroad, tend to face sharp discontinuities, and those that disregard or fail to anticipate these influences are likely to see successful home-grown strategies meet a poor reception. Thus, national language and cultural affinity are still a crucial determinant in trade and investment decisions and the reason why US companies still head for Canada first, Portuguese companies for Brazil, Spanish companies for Latin America, and Japanese companies for other parts of Asia. This is still the case, even in an increasingly digital and anglicised global economy.[2029] Thus, both the reasons for internationalisation and the decisions of how and where to internationalise may have cultural determinants.[2030]

Due diligence is required when selecting the right market, since there are many rational reasons to choose one country or region over another. For Rangan, it continues to make sense to head for familiar markets before unfamiliar ones, i.e. to expand regionally before entering more distant markets. He argues that when respecting national borders and cultures, companies are more likely to win respect from employees, suppliers, customers, and national authorities. Yet, this hardly means forsaking globality, but just placing added emphasis on being both local and global. Companies that embrace this ambiguity are more likely to achieve profitable growth.[2031] Moreover, it is not just the attractiveness of different countries relative to each other that matters, but also the compatibility of the possible countries with the internationalising firm itself.[2032] The argument put forward by Ghemawat is that firms coming from any particular country have to take into account the fact that some countries are more distant or incompatible than others. This means that companies with different nationalities will not fit equally

2027 Tallman (2009), p. 42
2028 Opinion, Blili (2010)
2029 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 290-291
2030 Schneider and Barsoux (2003), p. 143
2031 Rangan (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 291
2032 Ghemawat (2001), pp. 137-147, in: Johnson, Scholes and Whittington (2008), p. 307

well in all top-ranked countries.[2033] Ghemawat, in arguing that distance still matters, offers the following framework with each letter of the acronym highlighting different dimensions of distance ("CAGE"): cultural distance; administrative and political distance; geographical distance; economic (particularly referring to wealth) distance.[2034] Nevertheless, in the final stage of the evaluation of the attractiveness of foreign markets, an important factor that is taken into consideration by firms is "management feel".[2035]

5.5.4.2.3.1.2.4 Market Entry Mode

Licensing, franchising, industrial countertrade (e.g. buyback and turnkey projects), joint ventures and strategic alliances represent intermediate modes of foreign market entry modes.[2036] An extreme mode in the spectrum of foreign market entry modes is exporting, where available resources in the home market are mostly utilised. Another extreme mode is foreign direct investment in wholly owned subsidiaries, where mostly resources located outside the home country are utilised. However, major alternatives to exporting and foreign direct investment are offered by international joint ventures and strategic alliances.[2037]

5.5.4.2.3.1.2.5 Speed of Internationalisation

As we have seen, the speed of internationalisation is mainly a function of both market selection and market entry mode. Another variable in this decision is the threats and disadvantages that push a company to internationalise. Obviously, the large amounts of funds required are a risk as such. When entering new markets, a company risks incurring higher production and transaction costs than those of its competitors which are already established locally in these markets.[2038] Only as it gains experience in these new markets, can these costs decrease.[2039] When the various costs associated with internationalisation are reduced, the profit margin will rise until the costs of co-ordinating operations overseas exceed the benefits. As soon as managers improve the international activities of their company, these costs will decrease again.[2040]

5.5.4.2.3.2 Cultural Diversity

Despite efforts at integration or convergence, the forces for fragmentation are equal or perhaps greater. Because one of the latter is culture, it needs to be considered how it can be a powerful force, undermining or shoring up the effectiveness of nations, businesses, and managers. In addition, the power of culture needs to be harnessed in order to gain competitive advantage.[2041] This includes a strategy for working together and the management of cultural differences.[2042]

2033 Johnson, Scholes and Whittington (2008), p. 307
2034 Johnson, Scholes and Whittington (2008), p. 308
2035 Rahman (2003), in Hollensen (2011), p. 274. In this qualitative study, one of the managers noted the following: *"At the end of the day much of the decision depends on the management's feel about the market. There will always be some uncertainties in the market, particularly when you are deciding about the future, and international markets are no exceptions in this regard. So, we managers will have to make the decision within the limited information available to us, and "gut feel" plays a big role in that."*. Rahman (2003), p. 124, in: Hollensen (2011), p. 274
2036 McDonald and Burton (2002), p. 234
2037 McDonald and Burton (2002), pp. 234-235
2038 Tallman and Li (1996), pp. 179-196
2039 Tallman and Li (1996), pp. 179-196
2040 Opinion, Blili (2010)
2041 Schneider and Barsoux (2003), p. 7
2042 Schneider and Barsoux (2003), p. 184

Yet, there are often different assumptions about the root causes of problems and also different ideas on how to solve these among people of different nationalities.[2043] Diversity provides adaptive capacity. First, it gives access to a broader scope of perspectives to help understand and clarify uncertainty.[2044] Second, it helps companies by combining perspectives in innovative ways.[2045]

Schneider and Barsoux challenge the reader to experience and enjoy the richness of cultural differences, rather than experiencing them as threats to be overcome or as unfortunate remnants of history to be endured.[2046] They are convinced that in a globalised world ethnocentric thinking needs to be replaced by multi-paradigm thinking. Hence, potential benefits from cross-cultural interactions can only be obtained if minds are open to alternative perspectives. This also includes the willingness to go towards others, rather than hide behind sameness. They argue that cultural mosaics, where each culture preserves its uniqueness, and not melting pots where cultures are merged losing their distinctiveness, better reflect and respond to the complexity of operating in a global arena.[2047]

We agree with Schneider and Barsoux, who argue that in order to respond to the demands of a global market economy, to reap the full benefit of cross-border alliances, and to enhance organisational learning, it is essential to treat diversity as a resource rather than a threat. Therefore, the real test of the global mindset of a global company is its ability to utilise cultural differences. This also means that drawing on the abilities of employees world-wide is a competitive necessity and not an ideological luxury in today's global competition.[2048]

When an organisation values and utilises rather than just contains its diversity, it can be defined as being truly multicultural.[2049] A strategy which utilises cultural differences can lead to competitive advantage. *"Thus, rather than one culture overriding another, or compromising to find "safe" solutions that will antagonize neither, the challenge is to discover solutions that capture the differences in creative ways so that the sum of the parts is greater than the whole."*[2050] It takes people from different backgrounds, with different expectations and at different stages of life, and melds them into a force that will drive the company's profitability and competitiveness.[2051]

5.5.4.2.3.3 Build on Customer Attitudes

The four approaches that build on customer attitudes introduce new and innovative approaches that are based on the X-factor universe. One of their most central concepts is the so called "pro-sumer", which is a core aspect of innovative business models. After all, for technology and service companies, strategic strengths often arise from co-operation with customers. This is a trend which will gain increased importance in our knowledge-based economy.[2052]

Finally, we will conclude this chapter by adding a summary of the second cluster, i.e. the customer management processes, of the strategy map's process perspective.

2043 Maznevski and Jonsen (2006), p. 80
2044 Maznevski and Jonsen (2006), p. 80
2045 Maznevski and Jonsen (2006), p. 81
2046 Schneider and Barsoux (2003), p. xi
2047 Schneider and Barsoux (2003), p. 284
2048 Schneider and Barsoux (2003), p. 184
2049 Cox (1991), pp. 34-47, in: Schneider and Barsoux (2003), p. 277
2050 Adler (1980), pp. 163-184, in: Schneider and Barsoux (2003), p. 277
2051 Noble (1994), p. 9, in: Schneider and Barsoux (2003), p. 277
2052 Schiller (2007), p. 34

Figure 17: Customers: Second Cluster of the Process Perspective[2053]

Process Perspective

OPERATIONS	CUSTOMERS	INNOVATION	REGULATIONS & SOCIAL
▪ Collaborate; ▪ Integrate management of the value chain and logistics chain; ▪ Virtualise by using information systems; ▪ Network, including the particular cases of outsourcing, alliances and virtuality; ▪ Control key business processes; ▪ Shift from product-based differentiation towards a service-based one; ▪ Guarantee high quality, reduce costs and assure quick availability.	▪ Excel at international marketing, in particular global branding and the internationalisation of organisations; ▪ Build on customer attitudes; ▪ Understand customers' unique preferences; ▪ Strengthen customer relationships; ▪ Look for customer tailored offers; ▪ Expand product offerings and services; ▪ Watch for customer retention; ▪ Develop customer/market orientation; ▪ Learn from customers but also educate them. Use social media; ▪ Anticipate and respond to customers' evolving needs and wants; ▪ Respect and manage cultural diversity.		

5.5.4.3 Innovation

"Business must be able to innovate or else their competitors will render them obsolete."[2054]

"An enterprise, whether a business or any other institution, that does not innovate and does not engage in entrepreneurship will not survive long."[2055]

5.5.4.3.1 Summary

The leveraging of core competencies has already been mentioned before. In this chapter, we focus on the fact that successful innovation is typically achieved through relationships that come in many forms. As a consequence, competition among companies is shifting towards competition among networks, a phenomenon which has already been identified in the context of the integrated management of the value chain and logistics chain. Another issue that has already been discussed is bringing superior products and services to the market faster than competitors. In this context, we also consider the so-called time to market. Even though it is not an easy choice, it is usually better for SMEs to be a first mover than a late mover. Finally, compared to product, service and process

2053 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353
2054 Drucker (1974a), in Drucker (2008), p. 29
2055 Drucker (1999a), in Drucker (2008), p. 92

innovations, business model innovations may represent an opportunity to remain aloof from the competition and offer profitable growth.

5.5.4.3.2 Description

Drucker defines innovation *"as the task of endowing human and material resources with new and greater wealth-producing capacity."*[2056] According to Stalk, Evans, and Shulman, innovativeness is *"The ability to generate new ideas and to combine existing elements to create new sources of value."*[2057] And von Oetinger defines innovation as a creative power output which only becomes effective when there are not only talented employees but also structures and processes that are geared towards new ground.[2058]

With innovation processes, companies develop new products, processes and services. These often enable them to penetrate new markets and customer segments.[2059]

Thus, intellectual capital does not deplete the more you use it, but instead follows positive sum principles.[2060]

Cokins argues that today, innovation is as mission-critical as achieving quality was in the 1980s.[2061] Undoubtedly, innovation plays an important role in strategic thinking. In the military field, time and again significant innovations have determined success and sealed the fate of whole empires. Obviously, innovations are important for companies, too. Some examples are the personal computer, which put mainframe manufacturers into difficulties, or the iPod which replaced the originally successful Walkman of Sony.[2062]

Johnson, Scholes and Whittington are convinced that an organisation will be successful only if senior management has a strong commitment to innovation through technology and business acumen based on an understanding of the business strategy and technology relationship.[2063]

A creative climate is required where innovation is fostered, communication extensive, and where there is a learning organisation culture. The creation of this environment must be facilitated by structures and processes which also provide a commitment to individual and team development. Moreover, key individuals who will champion and facilitate the exploitation of technology for strategic success must be particularly supported.[2064]

5.5.4.3.2.1 Networked Innovation

We have already seen that competitive advantages need not be limited to development back in the home market anymore, but that multinationals can uncover and incorporate new capabilities and resources abroad. This suggests that with a greater international presence, existing assets and capabilities can be leveraged.[2065]

Hence, in the globalised knowledge economy, resources that are required for innovation are not concentrated in a single region anymore but distributed across the globe.

2056 Drucker (1974a), in: Drucker (2008), pp. 22-23
2057 Stalk, Evans, and Shulman (1992), pp. 186-187
2058 von Oetinger (2000b), p. 72
2059 Kaplan and Norton (2004b), p. 45
2060 Opinion, Blili (2011)
2061 Cokins (2009), p. 17
2062 Pümpin and Pedergnana (2008), p. 64
2063 Johnson, Scholes and Whittington (2008), p. 505
2064 Johnson, Scholes and Whittington (2008), p. 505
2065 Tallman (2009), p. 104

Therefore, it is a challenge for global companies to identify, pool and deploy their knowledge resources across a range of markets and settings.[2066] IBM, for example, has established research labs in China and India, together with six other countries, and is a major supplier of IT consulting and outsourcing management.[2067]

Nowadays, innovation comes from many locations and with the outsourcing of production moves rapidly to low-cost but competent locations. For example, companies focus on China for manufacturing and India for IT projects.[2068]

Successful innovation or new organisations are very rarely achieved alone but typically through relationships that come in many forms (relationships between organisations and customers; big business and small start-ups; business and social entrepreneurs).[2069] With the important trend of the globalisation of technology, joint research and development platforms, as well as international technology transfers, have exploded in recent years.[2070] Firms can now become part of innovation networks. This eventually enables the bringing together of product design, research and development, process planning, manufacturing, assembly and marketing into a single operation.[2071]

At the same time, however, it requires companies to work in cross-cutting teams and to employ concurrent engineering.[2072]

New models of change include better exploitation of research and development capacity. Some companies which depend on technological innovation (e.g. Canon, Motorola and BMS, i.e. Bristol-Myers Squibb) have reorganised themselves in order to exploit certain rare resources in a few key centres, and connected them in a network to enable development in each market.[2073]

Thus, R&D activities are also undergoing revolutionary changes. Companies will increasingly participate in networks, cartels and partnerships and externalise even strategically important parts like their research and development activities as well as the development of products and processes.[2074]

Moreover, for innovation projects, teaming with internal employees from other disciplines and functions, but also being actively involved with the external scientific and technological community, is critical for success.[2075]

With accelerated globalisation, interest in "regional clusters" has accelerated as well.[2076] Such clusters of high tech firms provide proximity benefits. Increasingly, they are using e-business systems to connect with one another but also to other such clusters in different parts of the world.[2077] From a capability-building perspective, there are several possibilities for a firm to tap regional clusters in other countries. This can be done either with an acquisition or an alliance with a cluster member, or a start-up in a highly advantaged region.[2078] It seems that, in the majority of cases, innovation in most industries is concentrated in such clusters and that by locating inside the right one in the

2066 Malhotra and Majchrzak (2006), p. 125
2067 Tallman (2009), p. 21
2068 Tallman (2009), p. 28
2069 Johnson, Scholes and Whittington (2008), p. 324
2070 Hollensen (2011), p. 90
2071 Jacob and Ouellet (2001)
2072 Opinion, Blili (2010)
2073 Ruddle et al (2004)
2074 Opinion, Blili (2010)
2075 Kaplan and Norton (2004b), p. 153; See also Johnson, Scholes and Whittington (2008), p. 478
2076 Enright and Sun Hung (1998), p. 3
2077 A study by Kearney (2000), in: McDonald and Burton (2002), pp. 352-353
2078 Porter (1998), pp. 77-90, in: Tallman (2009), p. 104

appropriate city, multinationals are most likely to maximise their benefits when looking to other countries for offshore sites for production, R&D, or business support.[2079]

However, other studies suggest that clusters tend to become inward-focused while the world moves on elsewhere.[2080] There is also some evidence that most innovative multinationals tend to avoid clusters to avoid losing more knowledge to spillovers than they can gain.[2081] Yet, these firms are likely to be seeking markets more than new know-how, since they often come from clusters in their own home countries.[2082]

5.5.4.3.2.2 Products and Services

"Although often seen as a high-technology event involving inventor-entrepreneurs, innovation may, of course, occur in high- or low-technology, product or service, large or small organizational situations. Innovation may be thought of as the first reduction to practice of an idea in a culture. The more radical the idea, the more traumatic and profound its impact will tend to be. But there are no absolutes. Whatever is newest and most difficult to understand becomes the "high technology of its age"."[2083]

The above quote indicates that innovation may occur in products or services. Process innovations, which positively influence costs,[2084] should also be added.

Innovation also means finding new uses for old products. Successfully selling refrigerators to Eskimos to prevent food from freezing is as innovative as developing brand-new processes or inventing a new product.[2085] An objective of the innovation process is to extend existing or new products into new markets. Pharmaceutical firms frequently discover that a new drug therapy is effective for diseases beyond the one initially targeted, and since it has already passed approval for safety and toxicity, the approval process for applying the drug to these diseases is less onerous. In similar ways, agricultural chemical companies can find that their treatments are effective on fields other than the specific ones initially targeted and approved.[2086]

In addition, it is important to note that innovation cannot be drawn just from technology but must be drawn from all parts of the value chain.[2087] Moreover, social or economic innovations are at least as important as technological ones.[2088]

Nevertheless, innovation is often seen as driven by technology. In such a technology push,[2089] new knowledge is created by technologists or scientists who carry out research in their laboratories.[2090] Yet, technology itself is not necessarily a source of advantage, since it may easily be acquired by competitors. The advantage may be achieved much

2079 Tallman (2009), p. 101
2080 Pouder and St John (1996), pp. 1192-1225, in: Tallman (2009), p. 102
2081 Shaver and Flyer (2002), pp. 1175-1184, in: Tallman (2009), pp. 101-102
2082 Tallman (2009), p. 102
2083 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 403
2084 Johnson, Scholes and Whittington (2008), p. 328, p. 100
2085 Drucker (1974a), in: Drucker (2008), p. 22
2086 Kaplan and Norton (2004b), pp. 149-150
2087 Johnson, Scholes and Whittington (2008), p. 331
2088 Drucker (1974a), in: Drucker (2008), p. 22
2089 E.g. Rothwell (1992), pp. 221-239, in: Johnson, Scholes and Whittington (2008), p. 326
2090 Johnson, Scholes and Whittington (2008), p. 326

more by the way in which the technology is exploited.[2091] An alternative to this view is market pull, which reflects a view that goes beyond innovation and sees the importance of actual use. It has been promoted since Hippel's discovery that in many sectors it is users rather than producers who are common sources of important innovations.[2092] Thus, when designing their innovation strategies, companies should listen in the first place to users rather than their own scientists and technologists.[2093]

5.5.4.3.2.3 First or Late Movers

"Folks in Tschi have a saying: To seize the most favourable moment is more important than wisdom and acumen; to wait for the right time for fieldwork is more important than the best plough."[2094]

Another strategic principle concerns timing. In the military sphere, this is often about occupying important positions before the enemy does. Here, quick action can significantly contribute to success. This also tends to be the case in strategy, where an early market entry can offer advantages. As a general rule, a company which first achieves an important innovation realises competitive advantages.[2095] As we have already seen, if companies act on signals of change, early-warning signals translate into early-mover advantages and companies thereby get a jump on the competition.[2096]

However, if market entry takes place too early, for example if the product is still immature, or if the consumer does not yet have the necessary knowledge how to use it, wrong timing can definitely lead to setbacks. Hence, every strategic action also needs to consider the right timing with regard to market entry and market exit.[2097] The question, though, is when is being a first mover or fast second in innovation a critical decision.[2098]

With accelerated product life cycles, it has become more important to create new products and exploit them quickly.[2099] Thus, global firms are constantly preoccupied with innovation and product development in order to achieve a more rapid response to market requirements.[2100]

After all, being late in many product innovations may be much more costly to a company than incurring a cost overrun in the innovation process itself. This is why for product leaders the objective of being first-to-market with new products and services is an important source for the growth of revenues and margins.[2101] Schumpeter, for example, describes waves of innovation that allow early movers to dominate the market and earn substantial profits.[2102]

2091 Johnson, Scholes and Whittington (2008), p. 497
2092 Abernathy and Utterback (1975), pp. 142-160, in: Johnson, Scholes and Whittington (2008), p. 326
2093 Johnson, Scholes and Whittington (2008), p. 326
2094 Schwarz (2000) on Meng Tse, c. 372-289 BC, p. 27
2095 For example, Amazon is very well known. On the other hand, this is not the case for the number two or three in online bookselling. Similarly, when thinking of a personal hygiene company most people first think of Nivea. Similarly, Nespresso has become very well known, in: Pümpin and Pedergnana (2008), p. 61
2096 Porter (2008a), p. 208
2097 Pümpin and Pedergnana (2008), p. 61
2098 Johnson, Scholes and Whittington (2008), p. 324
2099 Stalk, Evans, and Shulman (1992), p. 182
2100 Opinion, Blili (2010)
2101 Kaplan and Norton (2004b), p. 149
2102 Collis and Montgomery (1995), p. 43

A first-mover advantage may be described as a situation where an organisation is better off than its competitors as a result of being first to enter the market with a new product, service or process. Despite fundamentally being monopolist, such innovators often prefer to sacrifice profit margins for sales growth. The monopolist position is also usually temporary. Potentially, there are the following additional robust advantages:[2103]

- Experience curve benefits, i.e. the rapid accumulation of experience with innovation gives first movers greater expertise than late entrants, who are still relatively unfamiliar with the new product, process or service.
- First movers typically enjoy scale benefits. For example, they establish the volumes necessary for mass production and bulk purchasing earlier than competitors.
- Late movers do not have the same access to scarce resources (key raw materials, skilled labour or components) as first movers.
- First movers can enhance their reputation, especially since consumers have little mind-space to recognise new brands once a dominant brand has been established on the market.
- First movers can exploit buyer switching costs by locking in their customers with privileged or sticky relationships that later competitors can only break with difficulty. These can even be increased by establishing and exploiting a technological standard.[2104]

The first three advantages permit first movers to retaliate against challengers with a price war, while the last two allow them to charge high prices, which can then be reinvested in order to consolidate their position against late-entry challengers.[2105]

Product leadership companies in particular, with their innovative or enhanced features and functionality, are keen on being first-to-market. This allows them to ask high prices from early adopters who most value the unique functionality of the products, or else capture a high market share in situations characterised by large switching costs or system lock-in that enable them to defend their early advantage without price cutting.[2106] In many businesses which are suitable for franchising, important first-mover advantages and scale economies can also be exploited.[2107]

In the context of getting to the market sooner, the stages prior to actual sales are important. They represent the so-called time to market,[2108] which is the length of time it takes from a product being conceived until it is available for sale.[2109] Hollensen lists the following key process requirements for rapid time to market:

2103 Markides and Geroski (2005); Kerin, Varadarajan and Peterson (1992), pp. 33-52; Suarez and Lanzolla (2005), pp. 121-127, in: Johnson, Scholes and Whittington (2008), p. 336

2104 Johnson, Scholes and Whittington (2008), p. 336. The establishing and exploiting of a technological standard usually leads to network externalities. McDonald and Burton mention, for example, a telecommunications system, and that in some cases the most valuable connections to networks are made when they are first started. They go on to describe that network externalities arise due to the fact that as the number of agents using a network increases, the more valuable it becomes. Hence, because in developed economies most people have access to a telephone, which can be used to contact nearly everyone, the value of owning or renting it is great, in: McDonald and Burton (2002), p. 359

2105 Johnson, Scholes and Whittington (2008), p. 336

2106 Kaplan and Norton (2004b), p. 326

2107 Collis and Montgomery (2005), p. 144

2108 See also Hollensen (2010), Fig. 11.7, in: Hollensen (2011), p. 465

2109 Hollensen (2011), p. 465

- *"clear understanding of customer needs at the start of the project and stability in product requirements or specifications;*
- *a characterized, optimized product development process;*
- *a realistic project plan based on this process;*
- *availability of needed resources to support the project and use of full-time, dedicated personnel;*
- *early involvement and rapid staffing build-up to support the parallel design of product and process;*
- *virtual product development including digital assembly modelling and early analysis and simulation to minimize time-consuming physical mock-ups and testing; and*
- *design re-use and standardisation to minimize the design content of a project."*[2110]

On the other hand, first-mover advantages are not necessarily overwhelming, and late movers have two principal potential advantages:[2111]

- First, they can free-ride by imitating technological and other innovations at less expense than that originally incurred by the pioneers.[2112]
- Second, late movers can learn by observing what worked well for innovators and what did not, and thus not make so many mistakes and be able to get it right the first time.[2113]

5.5.4.3.2.4 New Business Models

"If you get your passengers to their destination when they want to get there, on time, at the lowest possible fares, and make darn sure they have a good time doing it, people will fly your airline."[2114]

An innovation may be based on the development of a market or an offer.[2115] As we have already seen, there are basically the following three levels for differentiation through innovation:

1. Products,
2. Services,
3. Processes.

However, there is also another dimension of innovation, i.e. the transformation of the business model.[2116]

2110 Hollensen (2011), pp. 465-466
2111 Suarez and Lanzolla (2005), pp. 121-127; Min, Manohar and Robinson (2006), pp. 15-33, in: Johnson, Scholes and Whittington (2008), p. 337
2112 As suggested by research, the costs of imitation are typically only 65% of the cost of innovation, in: Johnson, Scholes and Whittington (2008), p. 337
2113 Johnson, Scholes and Whittington (2008), p. 337
2114 A brief profile article on Southwest, www.beysterinstitute.org, in Bailom, Matzler and Tschemernjak (2006), p. 205
2115 Stöger (2010), p. 156
2116 Bailom, Matzler and Tschemernjak (2006), p. 180; See also Müller and Volery (2010), p. 8 or Stöger (2010), p. 156

As with other concepts, there are different definitions for the term business model. Chesbrough notes that whether a company articulates it or not, in every case it has a business model which at its heart performs two important functions: value creation and value capture.

- The first is achieved by defining a series of activities, from procuring raw materials to satisfying the final consumer, which will yield a new product or service in such a way that there is net value created throughout the various activities. It needs to be noted that the other companies involved in the set of activities will not participate if there is no net creation of value.
- Moreover, a business model, and this is critical, captures value from a portion of these activities for the company developing and operating it. It is important to note that if a company cannot earn a profit from some portion of its activities, it cannot sustain these activities over time.[2117]

Hamel has defined a business model as essentially a *"way of doing business".*[2118] More formally, it describes the structure of product, service and information flows and the role of participating parties.[2119]

For Timmers, a business model is the architecture for the product, service and information flows, including a description of the various business actors and their roles, and a description of the potential benefits for the various business actors as well as a description of the sources of revenues.[2120] Similarly, for Weill and Vitale, a business model is a description of the roles and relationships among a firm's consumers, customers, allies and suppliers, and an identification of the major flows of products, information, and money, as well as the major benefits to participants.[2121] According to Müller and Volery, business models describe the economic logic of companies. Sometimes, established companies keep the competition at bay with new business models. However, start-ups surprise their environment with business model innovations, too.[2122]

For Osterwalder,[2123] a business model is an abstract representation of a company's business logic, while business logic is an abstract comprehension of the way a company makes money, i.e. what a company offers, to whom it offers it, and how it can accomplish this goal.[2124] He goes on to describe it as an abstract conceptual model representing the business and money earning logic and a business layer (acting as a sort of glue) between the business strategy and processes of a company.[2125] Osterwalder then uses the following working definition for business models: *"A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing a company's logic of earning money. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams."*[2126]

2117 Chesbrough (2007), p. 12
2118 Hamel (2000), in: Johnson, Scholes and Whittington (2008), p. 329
2119 Johnson, Scholes and Whittington (2008), p. 329
2120 Timmers was among the first to explicitly define and classify business models: Timmers (1998), pp. 3-8, in: Osterwalder (2004), p. 25
2121 Weill and Vitale (2001), in: Osterwalder (2004), p. 25
2122 Müller and Volery (2010), p. 6
2123 By referring to Cambridge (2003)
2124 Osterwalder (2004), p. 14
2125 Osterwalder (2004), p. 15
2126 Osterwalder (2004), p. 15

Osterwalder describes a triangle with three elements surrounding business models. Each of the three elements: business strategy, business organisation and information and communication technology looks from a different angle and business layer at the firm.[2127]

- The first, **business strategy**, is described by Mintzberg and Lampel as an elephant of which we can only grab hold of some part or another. It is a nice metaphor for the fact that business strategy is an enormous domain in which little consensus exists and in which a variety of schools reign.[2128] Learned, Christensen and Andrews, for example, argue that strategy is about providing a company vision or designing an organisation that achieves a fit between internal strengths and weaknesses and external threats and opportunities.[2129] Other views include strategy being about positioning the company in the market, as described by Porter,[2130] defining a set of goals and objectives (see Drucker[2131] or Kaplan and Norton[2132]), and finally the steps to achieve them and the way to measure them, as proposed by Kaplan and Norton.[2133] Osterwalder argues that the business model and the first element of the triangle (strategy) deal with similar issues but in a different business layer. He understands the business model as the implementation of the strategy as a conceptual blueprint of the company's money earning logic. Otherwise stated, for him it is the vision of the company and its strategy translated into value propositions, customer relations and value networks.[2134]
- The second element, **the business organisation**, is about the "material" form the conceptual business model takes, such as departments, units and workflows. Both the business organisation and the business model are closely interrelated.[2135]
- By **information and communication technology**, Osterwalder refers to the information and communication technology used in the company (hardware, mobile phones, and software and tools, such as websites, customer relationship management applications, management informa-tion systems, and so on). Its link with business models is particularly significant, since ICT has been a strong enabler for a variety of innovative business models.[2136]

A business model does not only relate to the elements in the triangle but is continuously subject to external pressures, such as technological changes, competitive forces, changes in customer demand, and changes in the social or legal environment that oblige a company to constantly adapt its business model.[2137]

Although there is no complete consensus on what a business model is, for many authors the following issues constitute its foundations:

- The customer value proposition describes the kind of benefit the company is offering to its customers or partners.

2127 Osterwalder (2004), p. 16
2128 Mintzberg and Lampel (1999), pp. 21-30, in: Osterwalder (2004), p. 16
2129 Learned, Christensen and Andrews (1965), in: Osterwalder (2004), p. 16
2130 Porter (1985b), pp. 149-160, in: Osterwalder (2004), p. 16
2131 Drucker (1954b), in: Osterwalder (2004), p. 16
2132 Kaplan and Norton (1992), in: Osterwalder (2004), p. 16
2133 Kaplan and Norton (1992), in: Osterwalder (2004), p. 17
2134 Osterwalder (2004), p. 17
2135 Osterwalder (2004), p. 17
2136 Osterwalder (2004), p. 18
2137 Osterwalder (2004), p. 18

- The kind of goods and services is another building block of the business model.
- The profit formula describes from which sources and how the company realises earnings while generating value for its customers.[2138]

When all competitors are continuously developing new products and services, it becomes difficult to realise superior performance through further product and service innovations. The same goes for the optimisation of business processes. Even though in such an environment product, service and process level innovations are important in order for one to stand one's ground in competition, they often no longer suffice for differentiation and for standing to the fore. Innovations in the business model, though, may be an opportunity to remain aloof from the competition and to grow profitably.[2139]

Within the airline industry, for example, there is the same type of core service, namely transportation from one destination to another. However, Southwest Airlines, Ryanair and EasyJet have managed to package their service differently by emphasising elements in which they position themselves differently. Another example is Starbucks, which sells coffee like many other competitors, but has managed to develop a competitive positioning based on much more than just handing coffee over the counter. In doing so, it significantly differs from its competitors. Therefore, companies should not only be concerned about the product or service, but should also ask the strategic question of "What do our customers really want and how can our products or services match this need?" Thus, the question is much more about the business model developed and used by a company, and therefore the value proposition offered to its customers.[2140]

A lot of successful innovations do not rely simply upon new knowledge in the form of scientific or technological advances. Many more innovators are creating whole new business models, and bringing customers, producers and suppliers together in new ways, with or without new technologies. EasyJet's business model, for example, cut out travel agents by using direct sales through the internet, bringing customers and the airline together in a new way, while also using cheaper secondary airports. These changes were much more important than technological innovation, as EasyJet had the same aircraft as most of its competitors.[2141]

Other differing business models include Southwest Airlines and Amazon, who do not deal only in transportation and selling books. In both cases, their underlying business model reaches out for the X-factor universe, because they are building their products into a business model based on substitution effects. Southwest Airlines substitutes road traffic and Amazon substitutes physical transportation when buying and selling books. In both cases, this is achieved with substantial cost savings for customers. With Skype too, substitution of conventional telephony has gradually appeared. From a business modelling perspective, such substitution effects are important because they bring about the willingness to pay, since consumers will compare the price (and quality) of conventional services with the price (and quality) of the new services. Obviously, the mentioned companies compare very well and their business modelling therefore works well. One can argue that business modelling is more important than the product itself.[2142]

Nevertheless, new products and services will continue to play an important role in order to continue in competition. However, globalisation, technical progress, as well as

2138 Amongst others: Stähler (2001), in: Müller and Volery (2010), p. 6
2139 Müller and Volery (2010), p. 8
2140 Andersen, Froholdt and Poulfelt (2010), p. 125
2141 Johnson, Scholes and Whittington (2008), p. 329
2142 Andersen, Froholdt and Poulfelt (2010), p. 126

IT technologies make sure that new products and prices are available anywhere and market niches disappear. In many product categories, the offer exceeds demand and products are more and more similar to each other. This makes customers consider the price more and the producer less. Yet, by changing the specifications of customer relevant factors, a company like Hilti, for example, was able to create blue oceans.[2143] The successful change of its business model was probably possible due to its manifold daily customer contacts. Being so close to its customers helps to understand which products are beneficial to them. Thus, towards the end of 2003, Hilti did not surprise its customers and employees with another new product but with an innovation that revolutionised its relationship with its customers. Instead of buying single products, customers were now able to lease their tool fleet for a fixed monthly amount. With this, customers are entitled to use operational equipment on a basis of 24 hours a day, 7 days a week and 365 days a year. If a tool needs to be repaired, Hilti immediately takes care of the replacement. The monthly leasing rate conserves liquidity and avoids high expenses for equipment. Fleet management is difficult to copy. It increases the growth rates per customer and resolves a customer problem. In fact, a customer survey showed that many customers were unable to cope with the management of their equipment. Often they neither knew how many tools were in use on which construction site nor how old these tools were. When a machine dropped out, it often took them days or weeks until it was repaired or until a replacement was acquired. This actually took up to three weeks. Hilti's fleet management instead resolved this problem and guaranteed customers access to operational products at any time. In return, customers are disposed to commit themselves to long-term partnerships. Thus, fleet management is an excellent tool for customer retention.

On the other hand, this model is not a secret, since essential information about it is known. Nevertheless, it cannot be easily copied. The product, for example, can only be offered by quality suppliers. Since the service contracts guarantee customers that broken tools are repaired or replaced at once, suppliers of products with high failure rates cannot offer a similar service. From a logistical and financial point of view, they would simply not be able to handle this. There are competitors who also offer quality products. Yet, since they offer their products through dealers, they are missing the direct customer contact which is needed in order to sell such complex products with similar success. Another aspect is the financial power, since the pre-financing of leased tools would not be possible for financially weak companies. For these reasons, the innovative business model cannot readily be copied and offers a lasting competitive advantage. Hence, to repeat once again, with the offering of fleet management, Hilti has created itself a blue ocean.[2144]

Finance and strategy should closely work together and be aligned, too.[2145] We have already seen that new business models can be altered by building on customers' attitudes. Below, we will add a couple of innovative financial aspects.

The financial circuit is often included by X-factor universe companies as a central part of their strategy. They apply unconventional thinking and an out-of-the-box approach to this area.[2146] Such companies view finance as more than just the outcome of a strategy but include the financial circuit as a central element of it.[2147] For these companies, the financial elements become a significant independent variable, i.e. a key success driver

2143 See Kim and Mauborgne (2004), in: Müller and Volery (2010), p. 9
2144 Müller and Volery (2010), pp. 10-13
2145 Grief (2008), pp. 66-67
2146 Andersen, Froholdt and Poulfelt (2010), p. 161
2147 Andersen, Froholdt and Poulfelt (2010), p. 160

which may be broken down into several bearing points. Some of the most important ones address the following aspects:[2148]

- **Price killers** are companies such as Skype for which the free of charge service has been fundamental to its success.[2149] By centring on a service free of charge, Google and Facebook also developed entirely new business models.[2150] One explanation for the fact that some companies can offer their products or services at significantly lower prices or entirely free of charge and still make a sound profit rests with the idea of a reverse charging mechanism in which a third party provides the revenue. Another valid explanation covers the ability to cross-sell other products or services. In this way, the company generates high-volume sales and finally builds a brand value which can subsequently be capitalised. Such a business model is typical of many internet services which, for example, provide information free of charge on the internet while creating revenues through banner advertising.[2151]
- The **cost innovation approach** stretches beyond solely Chinese companies and also encompasses organisations such as Samsung Electronics and Dell. These have innovated production processes in order to offer high quality at a low price.[2152] Companies such as Huawei and Samsung have also innovated the production process with the aim of offering high quality at low prices and thus a strategy of low cost and differentiation or dual advantage. This ability clearly contradicts the traditional view which argues that this is a strategy of being "stuck in the middle", leading to mediocre performance.[2153]
- Innovation in the production process can also lead to the **reverse of cash flows**. Dell, for example, managed to reverse the traditional cash flow, which means that it was paid by its customers prior to paying its suppliers.[2154] Dell's direct business model has turned the traditional flow of cash on its head and as such realises revenue (cash inflow) prior to incurring the cost of producing the actual PCs (cash outflow). This, of course, leads to strong financial health.[2155]
- **Co-opetition and financial partnering** is successfully done by Saxo Bank, which offers its proprietary trading platform to the competition in order to grow the market as a whole. Another example is Wahaha. Thanks to financial partnering, it was able to break into the market for carbonated drinks in rural China, as its distributors were approached with considerable effect.[2156] The unique and highly successful strategy of both Wahaha and Saxo Bank is based on the choice of partnering external companies, distributors and competitors.[2157]

5.5.4.3.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

2148 Andersen, Froholdt and Poulfelt (2010), p. 269
2149 Andersen, Froholdt and Poulfelt (2010), p. 137
2150 Andersen, Froholdt and Poulfelt (2010), p. 141
2151 Andersen, Froholdt and Poulfelt (2010), p. 142
2152 Andersen, Froholdt and Poulfelt (2010), pp. 269-270
2153 Andersen, Froholdt and Poulfelt (2010), p. 161
2154 Andersen, Froholdt and Poulfelt (2010), p. 270
2155 Andersen, Froholdt and Poulfelt (2010), pp. 154-155
2156 Andersen, Froholdt and Poulfelt (2010), p. 270
2157 Andersen, Froholdt and Poulfelt (2010), p. 159

5.5.4.3.3.1 Networked Innovation

In many industries, more innovations emerge from the outside than the inside.[2158] A McKinsey survey in the automotive industry shows that as much as 65% of a car is built by suppliers and that this portion is set to rise to 75% by the year 2015.[2159] For this reason, competition among companies is shifting towards competition among networks, a phenomenon we have already mentioned in the context of the integrated management of the value chain and logistics chain. Only by having the best and most innovative network partners can the highest innovative capability be achieved. Thus, the systematic and effective use of the external knowledge of partners is increasingly becoming a question of survival.[2160]

The increase in R&D co-operation can be explained by the following key factors:

- The globalised competition, as well as ever increasing R&D investments, force even the most prosperous companies to share the risks and costs of those investments which are more speculative in nature.
- Companies are compelled to develop new products more quickly because of the accelerated product life cycle.
- The refocus on core activities in combination with the knowledge-based economy and competence management have led to the emergence of companies that are more equal to becoming the catalysts for innovation and R&D than the largest groups could ever be.
- Due to the underfinancing of universities, the undercapitalisation of public research and the emergence of new countries in the field of R&D, a new paradigm has been created in the relationship among universities. These now see themselves less and less as ivory towers of research. Instead, they have increasingly become providers of knowledge and services to enterprises. They also sense the increasingly urgent obligation to produce results.
- The clustering and geographic agglomeration around centres of competencies and finance of very mobile actors involved in research has encouraged the pooling of competencies and resources. In addition, the maturing and professionalised research market is becoming more complex, and thus the burden on companies increases.
- Finally, because of the declining economic value of manufacturing and its relocation to developing countries, the economic importance of R&D as well as science has increased for richer nations. This is noticeable in several respects. In particular, it has led to the appearance of science and technology parks in several major cities.[2161]

5.5.4.3.3.2 Products and Services

As we have seen, companies should in the first place listen to users rather than their own scientists and technologists.[2162] However, they must also anticipate customers' needs and discover new opportunities for superior products and services,

2158 Bailom, Matzler and Tschemernjak (2006), p. 92, referring to von Hippel (1988)
2159 Wesselhöft (2006), pp. 8-11, in: Bailom, Matzler and Tschemernjak (2006), p. 92
2160 Bailom, Matzler and Tschemernjak (2006), p. 92
2161 Opinion, Blili (2010)
2162 Johnson, Scholes and Whittington (2008), p. 326

maintain an optimal balance in fundamental research, introduce the resulting break-throughs through new product platforms, and enhance their existing platform products. They must, furthermore, have superb product development processes that bring new products to the market quickly, and finally provide protection for their innovative products through excellence in patenting, and regulatory and branding processes.[2163]

Drucker points out that a different product or service creating a new satisfaction potential rather than an improvement is the most productive innovation.[2164] Therefore, companies need a better understanding of their customers' hidden needs to design and market successful products.[2165]

For example, customers are not looking for 50-millimetre drill bits but they want 50-millimetre holes in their walls.[2166] Hence, it is important to orientate towards the real problems of customers and not wishes that have been identified in quantitative market research. This works much better when the customer application is observed rather than when customers are interviewed. After all, numerous innovations would never have been introduced to the market if only the wishes that were articulated by customers had been relied upon. Akio Morita, the founder and former CEO of Sony put it this way: *"If you survey the public for what they think they need, you'll always be behind in this world. You'll never catch up unless you think one to ten years in advance and create a market for the items you think the public will accept at that time."*[2167]

5.5.4.3.3.3 First or Late Movers

According to Markides and Geroski, the most appropriate response of large established companies to innovation, especially radical innovation, is often not to be a first mover, but to be a fast second.[2168] This goes along with the aim of consolidating the early experiments of first movers as a durable business model.[2169]

For Drucker, creative imitators do not succeed by taking away customers from pioneers but serve markets the pioneers have created but do not adequately service. They thus satisfy a demand that already exists rather than creating one.[2170]

The choice between striving to be first or coming in later is not an easy one. Thus, the likely value of first-mover and late-mover advantages must be evaluated in each particular case. The following three contextual factors may swing the balance between moving first or not:[2171]

- According to Teece, it is important for innovators to be able to capture for themselves the profits of their innovations.[2172] This depends on the ease with which followers can imitate, and thus the likelihood of imitations. This is increased in the following two cases: if the innovation is in itself easy to replicate (e.g. little tacit knowledge is involved) or if intellectual property rights

2163 Kaplan and Norton (2004b), pp. 326-328
2164 Drucker (1974a), in: Drucker (2008), p. 22
2165 Goffin and Mitchell (2006), p. 73
2166 Bailom, Matzler and Tschemernjak (2006), p. 117, referring to Harvard marketing professor Theodor Levitt
2167 Lorange (1998a), pp. 18-29, in: Bailom, Matzler and Tschemernjak (2006), p. 117
2168 Markides and Geroski (2005), in: Johnson, Scholes and Whittington (2008), p. 338
2169 Johnson, Scholes and Whittington (2008), p. 338
2170 Drucker (1985), in Drucker (2008), p. 168
2171 Johnson, Scholes and Whittington (2008), pp. 337-338
2172 Teece (2000), in: Johnson, Scholes and Whittington (2008), p. 337

are weak (e.g. patents are hard to define or impracticalto defend).[2173] Hence, if imitators are likely to quickly seize their share of innovation profits, it is unwise to be a first mover.

- Often, it is critical to possess the assets or resources necessary to scale up the production and marketing of the innovation.[2174] This constraint is faced by many small European biotech start-up companies, as marketing and distribution in the world's largest pharmaceutical market, the USA, are essential complementary assets controlled by the big established pharmaceutical companies. Thus, these start-ups can find themselves obliged either to sell out to a larger player with the complementary marketing and distribution assets, or to license their innovation to it on disadvantageous terms. If organisations want to remain independent and exploit their innovations themselves, it makes little sense to invest heavily in being a first mover in the absence of the necessary complementary assets.
- If markets or technologies move very fast, and especially when both are highly dynamic, it is unlikely that first movers will be able to establish a durable advantage. Contrary to such fast-moving arenas, in slower-moving markets and technologies, such as Coca-Cola's drinks arena, durable first-mover advantages are more probable. Therefore, future market and technological dynamism need to be assessed in calculating the likely value of first-mover advantage.[2175]

The larger companies become, the more difficult it is to enter new emerging markets, because, at least during the first phase, they do not offer sufficient growth potential. Therefore, large companies often put themselves into a stand-by position until the market becomes large enough to be interesting. However, at that time it is often too late, since smaller companies have already occupied the market with an innovation.[2176] Therefore, we conclude that for the more flexible SMEs, it is generally more advantageous to be a first mover. For SMEs, such an approach is also in line with the requirement to be better, faster and more dynamic.

5.5.4.3.3.4 New Business Models

Globalisation, the increasing spread of technology and cost-cutting programmes provide for high competitive pressures. This necessitates innovations on the product, service and process levels. Yet, simply because of such innovations it becomes increasingly difficult to differentiate from the competition. One opportunity to elude the competition is by reinventing one's own business model. This is especially important in highly contested markets where it is extremely difficult to gain additional market shares. Instead, companies which focus on innovative business models can realise higher growth rates in operative results than companies which focus on innovations in products, services and processes.[2177] Thus, product, service or business model innovation all have a positive impact on the success of a company. However, business model innovations potentially have the strongest impact.[2178] In contrast to product

2173 See, for instance, a survey of intellectual property rights in The Economist magazine (2005), in: Johnson, Scholes and Whittington (2008), p. 337
2174 Teece (2000), in: Johnson, Scholes and Whittington (2008), p. 337
2175 Johnson, Scholes and Whittington (2008), pp. 337-338
2176 Bailom, Matzler and Tschemernjak (2006), p. 80, referring to Christensen (1997)
2177 Müller and Volery (2010), p. 27
2178 Müller and Volery (2010), p. 20

innovations, for example, business model innovations can have implications for the complete organisation.[2179]

Analyses that show a relationship between the different types of innovation and the success of companies are rare. However, in 2006 a global IBM CEO survey on the topic of "innovation and co-operation management" revealed that companies which focused their innovation on business models realised a bigger increase in their results than companies which put product, service or process innovation at the top of their agenda.[2180] A good part of the success of the very profitable companies comes from their understanding of the rules of the game and how to use them in a different way for their own benefit.[2181] As soon as the business model of a company differs fundamentally from the business models of its competitors, there is an opportunity to achieve significant competitive advantages in existing or entirely new markets. Thus, not only products, services and processes can be the source of innovations, but also business models. These latter are gaining more and more importance, since there is strong competition in product and service innovations.[2182]

In addition to financial success, innovations in business models have another advantage: they are more durable since they are more difficult to copy.[2183] This is why an extraordinary profitability will be obtained by those companies which are capable of organising activities in a non-copiable and more efficient way than others, even if the profitability of the activities themselves is the same.[2184]

Innovations also account for improvements in image, which makes it easier for companies to recruit the best employees.[2185]

However, at the same time, Osterwalder points out that a business model is not a guarantee of success. It has to be implemented and managed and (with reference to Gordijn, Akkermans and Vliet) something different from the company's business process model.[2186] Osterwalder believes that a conceptual and modular business model approach can foster innovation by giving a business model designer a box of Lego bricks with which they can play around to create completely new business models, limited only by their imagination and the pieces supplied.[2187] He furthermore refers to Amit and Zott, who explicitly perceive the business model as a locus of innovation.[2188]

Organisational learning's central tenets[2189] are akin to aspects of logical incrementalism and also correspond to what Gary Hamel calls *"resilient"* organisations. These continually reinvent themselves by refusing to take their success for granted and building the capability to imagine new business models.[2190]

Chesbrough, however, suggests that many companies innovate their business model because they have a business model innovation leadership gap. By this he means that no one person in the organisation has the authority or capability to innovate the business model. Since it takes time to create new business models, most general managers

2179 Müller and Volery (2010), p. 26
2180 IBM Global Business Services (2006), in: Müller and Volery (2010), p. 8
2181 Jarillo (2003), p. 224
2182 Müller and Volery (2010), p. 8
2183 Müller and Volery (2010), p. 27
2184 Jarillo (2003), p. 58
2185 Müller and Volery (2010), p. 27
2186 Gordijn and Akkermans and Vliet (2000), in: Osterwalder (2004), p. 15
2187 Osterwalder (2004), p. 22
2188 Amit and Zott (2001), pp. 493-520, in: Osterwalder (2004), p. 22
2189 Johnson, Scholes and Whittington (2008), p. 422
2190 Hamel and Valikangas (2003), pp. 52-63, in: Johnson, Scholes and Whittington (2008), p. 422

simply stay with the current one, and show top management their ability to grow the business within the constraints of that model. Business model responsibility itself is delegated by the CEO to the general manager of the business unit. Moreover, the top managers have reached their current level of responsibility by acting within the current business model, which is familiar and reassuring to them. All this reinforces inertia with the result that the established business model becomes unchallengeable.[2191]

In order to innovate a business model, Chesbrough is convinced that, to begin with, an organisation must give a senior manager the resources and authority to define and launch business-model experiments.[2192] One way to protect business-model experiments internally is by funding them with a separate pool of money set aside specifically for this purpose. Business models with real potential which can work at a higher volume and greater scale of operation increase the competition for resources between the new model and the established one. Both models deserve a chance and, ultimately, customers will be the final arbiter of whether one is better than the other. In many cases, however, the business models may co-exist because there may be market segments in which each one works well.[2193]

At the same time, business model innovations can actively be promoted. There is a set of enablers that can be used for the development of innovations.[2194] Companies that have the right employees, and which look out for good ideas that have a chance to be discovered and developed, increase their chance of success on the market. Keeping close to customers and listening to their needs can pay off.[2195] Novel co-operation between single partners may be the foundation for business model innovations and allow value enhancements in the value chain.[2196] Moreover, the use and inclusion of new technologies in the value chain may render the formation of new business models possible.[2197] In addition, for innovations to be promoted, an innovative culture,[2198] courage, attentiveness, commitment, power of endurance and the willingness to allocate resources are required. Thus, to make innovations possible, many things are needed which cannot be decreed but which can be stimulated by means of a positive company culture.[2199]

With the help of the value chain, the actual situation may be analysed and evaluated. Subsequently, and on the basis of this, a future value chain may be formed. Such a step is particularly necessary when major turbulence in the environment or organisation are expected. This procedure eventually leads to the further development of the business model. Concretely, it leads to the question of what will or will not be done in the future (in- and outsourcing). Not only performance, but also value chains that become business models can be innovated.[2200]

The costs of creating, developing, and then shipping novel products have risen tremendously and the shortening of product lives means that even great technologies

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2191 Chesbrough (2007), p. 16
2192 Chesbrough (2007), p. 17
2193 Chesbrough (2007), p. 17
2194 See e.g. Kim and Mauborgne (2004), in: Müller and Volery (2010), p. 22
2195 With its 12,000 field staff, Hilti has a very high number of customer contacts. Senior management is also looking for close customer contacts, in: Müller and Volery (2010), p. 20
2196 Kim and Mauborgne (2004), in: Müller and Volery (2010), p. 21
2197 See e.g. the on-demand assembly of Dell computers or iPods, in: Müller and Volery (2010), p. 21
2198 Innovation, disruption and change must be emphasised as core values by organisational culture. The latter should also foster the acquisition of knowledge from outside the company and overcome the natural tendency called the not-invented-here (NIH) syndrome, in: Kaplan and Norton (2004b), p. 153
2199 Müller and Volery (2010), p. 20
2200 Stöger (2010), p. 98

can no longer be relied upon to earn a satisfactory profit before becoming commoditised. This is why nowadays innovation must include business models rather than just technology and R&D. Better business models matter and will often beat a better idea or technology.[2201]

To summarise, as a consequence of increasing international price and quality competition, there are many indicators according to which companies from high-cost countries will have to significantly increase their innovation performance in order to compensate for their locational disadvantage.[2202]

Finally, we will conclude this chapter by adding a summary of the third cluster, i.e. the innovation process, of the strategy map's process perspective.

Figure 18: Innovation: Third Cluster of the Process Perspective[2203]

Process Perspective

OPERATIONS	CUSTOMERS	INNOVATION	REGULATIONS & SOCIAL
▪ Collaborate; ▪ Integrate management of the value chain and logistics chain; ▪ Virtualise by using information systems; ▪ Network, including the particular cases of outsourcing, alliances and virtuality; ▪ Control key business processes; ▪ Shift from product-based differentiation towards a service-based one; ▪ Guarantee high quality, reduce costs and assure quick availability.	▪ Excel at international marketing, in particular global branding and the internationalisation of organisations; ▪ Build on customer attitudes; ▪ Understand customers' unique preferences; ▪ Strengthen customer relationships; ▪ Look for customer tailored offers; ▪ Expand product offerings and services; ▪ Watch for customer retention; ▪ Develop customer/market orientation; ▪ Learn from customers but also educate them. Use social media; ▪ Anticipate and respond to customers' evolving needs and wants; ▪ Respect and manage cultural diversity.	▪ Watch for networked innovation; ▪ Develop new products, services and processes; ▪ Apply new business models; ▪ Bring superior products and services faster to the market than competitors; ▪ Leverage product excellence along a given functionality dimension into many other applications and market segments; ▪ Exploit information and communication technologies.	

5.5.4.4 Regulations and Social

5.5.4.4.1 Summary

In the regulation and social perspective, companies seek to earn their right to operate. Many corporations, however, wish to perform better than the minimal standard established by regulations. By doing this, they want to develop a good reputation and thus social capital in order to be attractive for potential and talented employees. Even

2201 Chesbrough (2007), p. 12
2202 Bailom, Matzler and Tschemernjak (2006), p. 73
2203 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

though many companies just pay lip service to such issues, sustainability can pay off. For example, being socially responsible can bring social, economic and environmental benefits. Moreover, the resulting social capital becomes a production factor that is centred on the customer's confidence and trust which is attached to the company. In this context, a company's history (on which, finally, these concepts are based), corporate social responsibility, corporate governance and also environmental protection play a crucial role. Consequently, a company's customer value proposition will have to respond not only to the values of end users but to civil society. The importance of reputation management and sustainable employee engagement will increase. Moreover, for mature economies, concepts such as corporate social responsibility will be used for the installation of non-tariff-barriers against companies from developing countries.

5.5.4.4.2 Description

5.5.4.4.2.1 Earn the Right to Operate

Regulatory and social processes help to continually earn the right to operate in the communities and countries in which companies produce and sell.[2204] Standards for companies' practices are imposed by national and local regulations.[2205] Moreover, in order to help increase the efficiency, safety and cleanliness of the development, manufacturing, and supply of products and services, the International Organization for Standardization (ISO) develops voluntary technical standards for businesses around the word.[2206]

Moreover, companies systematically and deliberately seek to influence the regulatory powers,[2207] because, after all, they have to be vigilant when managing regulatory and social processes associated with their new products[2208]. This includes the avoidance of adverse side effects from their introduction, and objectives relating to improving product safety, employee and customer health, and environmental impact. It also means high sensitivity to the total environmental costs, including product take-back over the life cycle of products. Finally, companies must have excellent government relations because new products and services have to receive any necessary regulatory approval, and delays associated with regulatory approval must be minimised.[2209]

A fundamental decision that companies have to take is whether the purpose of the strategy should be determined in response to a particular stakeholder,[2210] for example shareholders in the case of a commercial enterprise, or to broader stakeholder interests at the extreme society and social good level[2211]. Johnson, Scholes and Whittington consider this issue in relation to the following notions:

- The first one is **corporate governance** as well as the **regulatory frame-work** within which organisations operate. More specifically, it is about the way in which formally constituted bodies (such as investors or boards) influence strategic purpose through the formalised processes of supervising executive decisions and actions. At the same time, this raises the question of the accountability of strategists. Internationally, there are significant differences

2204 Kaplan and Norton (2004b), p. 46
2205 Kaplan and Norton (2004b), p. 46
2206 Kaplan and Norton (2004b), p. 175
2207 Andersen, Froholdt and Poulfelt (2010), p. 246
2208 Kaplan and Norton (2004b), p. 328
2209 Kaplan and Norton (2004b), p. 329
2210 *"Stakeholders are those individuals or groups who depend on an organization to fulfill their own goals and on whom, in turn, the organization depends."*, in: Johnson, Scholes and Whittington (2008), p. 132
2211 Johnson, Scholes and Whittington (2008), p. 132

in the approach to corporate governance. It either has a shareholder or a wider stakeholder orientation.

- When it comes to **social responsibility** and **ethics**, the question is which purposes an organisation should fulfil. It is about how the managers of a company should respond to the expectations society has of their organisation, both[2212] in terms of corporate social responsibility and in terms of individual behaviour.
- In all this, the different (perhaps conflicting) **stakeholder expectations** which influence the decisions that managers have to make about the purpose and strategy of their organisation need to be understood.[2213] Thus, first it needs to be analysed which stakeholders will have the greatest influence. Second, managers need to examine which expectations they need to pay most attention to, and third, to what extent the expectations and influence of different stakeholders vary.[2214]

Waddock and Bodwell argue that being socially responsible can be justified in terms of the triple bottom line: social and environmental benefits and increased profits.[2215] Goleman, too, describes the embraced initiatives of companies as a triple bottom line, where social impact, financial outcomes as well as environmental issues matter.[2216] Igalens and Joras argue similarly and hold that most of the definitions of social responsibility describe it as the voluntary integration of social and ecological concerns into the industrial and commercial activities of companies. This is the reason why sometimes the notion of the triple result is mentioned (economic, social and environmental). One can also consider a company as being embedded in a society, i.e. in permanent interaction with social groups that have diverse expectations. Igalens and Joras hold that from this perspective the company becomes responsible for its activities and the consequences of these activities towards each one of the following groups:[2217]

- The company is responsible towards the **women and men who work directly or indirectly for it**. This responsibility includes employment as well as employability and the quality of work conditions.[2218] Iacocca, for example, noted that it made him think a lot more about social responsibility when he watched people getting *"kicked around"*.[2219] Moreover, companies are also working on codes for workplace standards which include health and safety aspects.[2220] Employee volunteering, too, is becoming an increasingly important component of social responsibility programmes.[2221] Community actors claim that this enables leverage of resources, institutional capacity building, and enhanced staff skills and knowledge.[2222] It is a powerful tool for discovering stakeholders' expectations, but must be rooted in trusted relationships and shared values, i.e. it has to be closely linked to a company's core values and must have the support of employees.[2223]

2212 Johnson, Scholes and Whittington (2008), p. 132
2213 Johnson, Scholes and Whittington (2008), p. 133 and p. 153
2214 Johnson, Scholes and Whittington (2008), p. 133 and p. 153
2215 Waddock and Bodwell (2004), pp. 25-37 and Orsato (2006), pp. 127-143, in: Johnson, Scholes and Whittington (2008), p. 150
2216 Goleman (2009), p. 238
2217 Igalens and Joras (2002), p. 13
2218 Igalens and Joras (2002), p. 13
2219 Iacocca (1984), p. 200
2220 Goleman (2009), p. 228
2221 Cambié and Ooi (2009), p. 52
2222 Muthuri, Matten and Moon (2007), p. 11, in: Cambié and Ooi (2009), p. 52
2223 Cambié and Ooi (2009), pp. 52-53

- The company is also responsible towards its **shareholders**, who provide equity capital.[2224]
- Finally, it is responsible towards the neighbours of its facilities and, in the broader sense, towards **the populations that are affected by its activities**. This responsibility includes the environment and any damage which may permanently affect it. Moreover, the company is responsible towards regional authorities, the state, and also suppliers, clients, moneylenders, and so forth.[2225] More and more global companies have systems in place to deal not only with such issues as child labour violations but also the adulteration of products with harmful chemicals.[2226] Thus, steps are taken by many companies to ensure that their goods are clean.[2227]

From Igalens and Joras, we also learn that the universe of social responsibility creates the basis for a new conception of business life, i.e. one which cares more about ethics, integrating the concerns of future generations and adapted to what has come to be called sustainable development.[2228]

In society, sustainability is seen as a comprehensive responsibility in relation to social, economic, and ecological matters.[2229] As a subject, sustainability has gained more and more importance over the last couple of years. Increasingly, it is becoming an integrated part of a company's strategy. On one hand, sustainability protects companies from unexpected negative impacts and has an important role in risk management. On the other, it opens up new market opportunities for companies, or rather it helps to satisfy the demands of several customer groups for sustainable products. Moreover, for employees, particularly younger generations, it is increasingly important to work for such companies.[2230] In fact, in the context of the triple bottom line, (where environmental and social impact matters as well as financial outcomes) sustainability is a recurring theme for companies.[2231]

We will now look in more detail at corporate social responsibility (social), but also corporate governance (economical) and environmental protection (ecological), which together represent major and closely related concepts of sustainability.

5.5.4.4.2.1.1 Corporate Social Responsibility

"The essential test ... is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is a meaningful benefit for society that is also valuable for the business."[2232]

"Only a conceptual ostrich, with his head deeply buried in the abstractions of economic theory, could possibly use the distinction between economic and social goals to dismiss social responsibility."[2233]

2224 Igalens and Joras (2002), p. 13
2225 Igalens and Joras (2002), p. 13
2226 Tallman (2009), p. 156
2227 Goleman (2009), p. 228
2228 Igalens and Joras (2002), p. 14
2229 Baehny (2008), p. 18
2230 Hallauer (2011), p. 3
2231 Goleman (2009), p. 238; See also Igalens and Joras (2002), p. 19
2232 Porter and Kramer (2002), pp. 56-68, in: Johnson, Scholes and Whittington (2008), p. 150
2233 Mintzberg (1989), p. 318

Things could be a lot better in today's corporation, but they could also be worse."[2234]

Igalens and Joras hold that generally the authorship of the concept of corporate social responsibility is assigned to Bowen, who sensitised businessmen to values that were considered to be important in society.[2235] However, today there are several definitions of corporate social responsibility.

Synthesising a central thread in the literature,[2236] Bezençon and Blili define corporate social responsibility *"as the firm's voluntary actions designed to accomplish social and environmental benefits beyond the legal requirements."* Using this definition, they also place fair trade distribution within the corporate social responsibility framework as a voluntary firm action aiming to improve social and environmental conditions.[2237] In many northern countries, the demand for fair trade products is rapidly increasing, and it is one of the most popular of the different social, environmental and organic labels.[2238]

For Strong,[2239] fair trade represents an opportunity for distributors to gain strategic competitive advantage through targeting the ethical consumer market segment, while Nicholls[2240] argues that if addressed, it offers retailers the opportunity to develop their CSR profile and a chance to develop a competitive advantage in a new niche market.[2241]

Cambié and Ooi cite the definition of corporate social responsibility from Wikipedia: It *"is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large."*[2242]

For Johnson, Scholes and Whittington, corporate social responsibility *"is concerned with the ways in which an organization exceeds its minimum obligations to stakeholders specified through regulation."*[2243] Furthermore, they provide some questions against which an organisation's actions on corporate social responsibility can be assessed,[2244] for example whether organisations should be responsible for the following internal (employee welfare;[2245] working conditions;[2246] job design;[2247] intellectual property[2248])

2234 Mintzberg (1989), p. 318
2235 Bowen (1953), in: Igalens and Joras (2002), p. 33
2236 E.g. Aguilera, Rupp, Williams and Ganapathi (2007), pp. 836-863; Davis (1973), pp. 312-322; Mackey, Mackey and Barney (2007), pp. 817-835; McWilliams and Siegel (2001), pp. 117-127, in: Bezençon and Blili (2009), p. 98
2237 Bezençon and Blili (2009), p. 98
2238 De Pelsmacker, Janssens, Sterckx and Mielants (2005), pp. 512-530; Loureiro and Lotade (2005), pp. 129-138, in: Bezençon and Blili (2009), p. 97
2239 Strong (1996), pp. 5-13, in: Bezençon and Blili (2009), p. 97
2240 Nicholls (2002), p. 6, in: Bezençon and Blili (2009), p. 98
2241 Bezençon and Blili (2009), pp. 97-98
2242 Wikipedia, in: Cambié and Ooi (2009), p. 39
2243 Johnson, Scholes and Whittington (2008), p. 146
2244 Johnson, Scholes and Whittington (2008), pp. 150-151
2245 *"providing medical care, assistance with housing finance, extended sick leave, assistance for dependents, etc."*, in: Johnson, Scholes and Whittington (2008), p. 151
2246 *"job security, enhancing working surroundings, social and sporting clubs, above-minimum safety standards, training and development, etc."*, in: Johnson, Scholes and Whittington (2008), p. 151
2247 *"designing jobs to the increased satisfaction of workers rather than just for economic efficiency … This would include issues of work/life balance"*, in: Johnson, Scholes and Whittington (2008), p. 151
2248 *"respecting the private knowledge of individuals and not claiming corporate ownership"*, in: Johnson, Scholes and Whittington (2008), p. 151

and external aspects (environmental issues;[2249] products;[2250] markets and marketing;[2251] suppliers;[2252] employment;[2253] community activity;[2254] and human rights[2255]).

There are a number of differences when it comes to corporate social responsibility. Some companies set high standards for themselves and their sector, others make idiosyncratic or half-hearted efforts, and still others use toothless measures that may merely sound good to stakeholders.[2256] For Goleman, the worst are those for whom corporate social responsibility is just an "irritant", i.e. something they have to put up with, or pay lip service to. He cites an executive who confides that his company would only pay attention to it if customers stopped buying certain brands based on their ethical sourcing practices.[2257] Thus, in many debates and criticisms, it either distracts from the fundamental economic role of businesses or is nothing more than superficial window-dressing.[2258] The Economist magazine, for example, wrote: *"True, much of what is done in the name of CSR is nothing of the sort. It often amounts to little more than the PR department sending its own messages to the outside world."*[2259] For others, it is just marketing hypocrisy for making money. "Greenwashing" is such an example. Blili calls it deliberate disinformation which is aimed at the company's public image so that it looks as if it has a responsible attitude towards the environment.

Based on their study, Barratt, Korak-Kakabadse and Barratt argue that non-executive or outside directors in particular are typically uncomfortable with the corporate social responsibility label. For them, it has connotations of simply *"giving away profits"*. For many of them, however, the term corporate responsibility implies a more reciprocal approach, whereby the organisation establishes projects which then either directly or indirectly provide a straightforward return for the company.[2260]

Today's dilemma for entrepreneurs is that on one hand they are confronted with the ever-increasing demands of society with regard to ethics, ecology, and social conduct (including sponsorships and support for charitable foundations). On the other hand, they have to face increasing financial pressures with regard to short-term results, shareholder-value orientation, and profit maximisation. Thus, it is not easy for them to find and maintain a sound balance in the midst of these conflicting requirements.[2261] After all, modern corporations heavily depend on performance control systems[2262] and these tend to drive out social goals in favour of economic ones.[2263]

2249 *"reducing pollution to below legal standards if competitors are not doing so ... energy conservation"*, in: Johnson, Scholes and Whittington (2008), p. 151

2250 *"dangers arising from the careless use of products by customers"*, in: Johnson, Scholes and Whittington (2008), p. 151

2251 *"deciding not to sell in some markets ... advertising standards"*, in: Johnson, Scholes and Whittington (2008), p. 151

2252 *""fair" terms of trade ... blacklisting suppliers"*, in: Johnson, Scholes and Whittington (2008), p. 151

2253 *"positive discrimination in favour of minorities ... maintaining jobs"*, in: Johnson, Scholes and Whittington (2008), p. 151

2254 *"sponsoring local events and supporting local good works"*, in: Johnson, Scholes and Whittington (2008), p. 151

2255 *"respecting human rights in relation to: child labour, workers' and union rights, oppressive political regimes ... Both directly and in the choice of markets, suppliers and partners"*, in: Johnson, Scholes and Whittington (2008), p. 151

2256 Goleman (2009), p. 240

2257 Goleman (2009), p. 240, by referring to the head of corporate compliance at a clothing firm.

2258 Cambié and Ooi (2009), pp. 39-40

2259 The Economist magazine (2008), p. 22, in: Cambié and Ooi (2009), p. 40

2260 Barratt, Korak-Kakabadse and Barratt (2003), p. 1

2261 Maucher (2007), p. 50

2262 *"Performance control systems, which specify the desired result of whole ranges of actions after the fact (for example, that sales of a division should grow by 10 percent in a given year)."*, in: Mintzberg (1989), p. 105

2263 Ackerman (1975), in: Mintzberg (1989), p. 317

In addition, until recently multinationals of the global North had a tendency to cascade their national corporate social responsibility practices into developing markets. Cambié and Ooi cite someone responsible for corporate social responsibility from Hewlett-Packard as follows: *"After having forced suppliers to deliver at the lowest prices possible, corporations would pull out codes of conduct and tell them to stick to them."*[2264] Such conduct was resented by factories in China and India who began to view it as a form of neo-colonialism.[2265] Due to the evident limits of this approach, multinationals now prefer to sign contracts for the long-term and to work together on issues like factories' sanitary conditions or the minimum age of female workers. Thus, western companies do not dictate conditions but are beginning to treat their suppliers like subsidiaries and to use a more inclusive style.[2266]

Even though companies often do not place great importance on corporate social responsibility, we are convinced that its meaningfulness will increase. Below, we list some reasons for this assertion.

Broadly speaking, the four arguments used by the proponents of corporate social responsibility are: moral obligation, sustainability, licence to operate, and reputation.[2267] If a company wants to survive in the long-term, it has to be conscious of its actions and must not dominate its environment but cohabitate with it. Thus, as part of a superordinate system, the company also has to assume certain responsibilities. It has to apprehend these responsibilities not only towards those groups directly concerned (e.g. employees, consumers, capital providers) but also towards indirectly concerned groups in society. This is how the expression corporate social responsibility was coined.[2268]

According to Steiner, the advantages of corporate social responsibility may be summarised as follows:

- Better financial performance.
- Strengthening of the brand and image improvement.
- Greater customer loyalty and increased revenue.
- Greater productivity and quality.
- Better and more loyal employees.
- Higher tolerance of regulatory authorities.
- Easier access to the capital market.[2269]

Increasingly, the view of managers is that a laissez-faire position is not acceptable[2270] and that business needs to take a socially responsible position. This position is not solely taken for ethical reasons but because there is a belief that there are advantages for businesses in doing so and dangers in not. Being socially responsible reduces the risk of negative reactions by stakeholders and customers and can help to retain loyal, motivated employees. As we have already seen, it can therefore be justified in terms of the "triple bottom line", i.e. social and environmental benefits, as well as increased profits. Socially responsible strategies are supposed to be followed because they

2264 Matten D., Hewlett-Packard Chair in Corporate Social Responsibility at the Schulich School of Business in Toronto, discussion with co-author Cambié, June 2008
2265 Cambié and Ooi (2009), p. 41
2266 Cambié and Ooi (2009), p. 41
2267 Porter (2008a), p. 483
2268 Thommen (2003), p. 14
2269 Steiner (2001), p. 27, in: Thommen (2003), p. 15
2270 Vogel (2005), pp. 19-45, in: Johnson, Scholes and Whittington (2008), p. 150

can provide a basis for gaining competitive advantage. The need is to seek "win-win" situations so that the economic return on environmental investments is optimised.[2271] Thus, a car manufacturer that helps to reduce carbon emissions is provided with a business opportunity. More eco-friendly packaging prompted not only the production of packaging that is environmentally friendly but also less expensive.[2272] However, Johnson, Scholes and Whittington point out that it is less clear when it comes to the question of whether there really are economic pay-offs. Arguably, and if taken seriously, the competitive advantage case should be seen in terms of enhanced profits, yet the evidence is equivocal.[2273]

For Porter, corporate social responsibility has emerged as an inescapable priority for business leaders, but the prevailing approaches are so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit society. If, instead, companies were to analyse their prospects for corporate social responsibility based on the way that they make their core business choices, they would discover that it can be much more than a cost, a constraint or a charitable deed, but a source of opportunity, innovation, and competitive advantage.[2274]

Mintzberg holds that even though social responsibility may be a naive concept, it is necessary for the following two reasons:

- First, social as well as economic consequences are inextricably intertwined and inevitably involved in the strategic decisions of large organisations.
- Second, it is primarily ethics that keep people responsible and thus, there is always some degree of discretion involved in corporate decision-making, discretion to thwart social needs or to attend to them.[2275]

Mintzberg asserts that if corporate social responsibility was dismissed, it would allow corporate behaviour to drop to the lowest level, propped up only by external controls such as regulation and pressure campaigns.[2276] He refers to Solzhenitsyn, who experienced *"a society without any objective legal scale"* and who warns that *"a society with no other scale but the legal one is not quite worthy of man either. A society which is based on the letter of the law and never reaches any higher is scarcely taking advantage of the high level of human possibilities."*[2277]

Moreover, Drucker proposes that business is an organ of society, and enterprises have to have an impact on people, communities and society. They have to add to its fundamental concern for the quantities of life (economic goods and services) and also its quality (the physical, human, and social environment of modern man and the modern community).[2278]

There is a high degree of exposure of companies to political uncertainty, which will never be easy to manage.[2279] Yet, companies which can win local community support for their operations will be politically surer and thus able to protect their business.[2280]

2271 Waddock and Bodwell (2004), pp. 25-37 and Orsato (2006), pp. 127-143, in: Johnson, Scholes and Whittington (2008), p. 150
2272 Orsato (2006), pp. 127-143, in: Johnson, Scholes and Whittington (2008), p. 150
2273 Johnson, Scholes and Whittington (2008), p. 150
2274 Porter (2008a), pp. 479-480
2275 Mintzberg (1989), p. 318
2276 Mintzberg (1989), p. 318
2277 Solzhenitsyn (1978), p. B1, in: Mintzberg (1989), p. 318
2278 Drucker (1974a), in: Drucker (2008), pp. 16-17
2279 Kapstein (2006), pp. 20-22
2280 Kapstein (2006), pp. 20-22

The opportunities represented by big emerging markets will require more than simply developing greater cultural sensitivity.[2281] We therefore agree with Cambié and Ooi, who argue that corporate social responsibility is a product of globalisation, since companies need a broader understanding of the world in order to be successful in foreign markets. This not only includes understanding local communities but also the art of establishing sustainable relationships with them.[2282]

In any case, a complex blend of local sensitivity and global knowledge is required for the leadership of a multinational company in an emerging market. To get the balance right is critical but never easy, yet frequently such companies lack the cultural understanding to get the mix of expatriate and local leaders right.[2283]

Nevertheless, companies that want to make a real impact with their corporate social responsibility programmes need to partner local players who enjoy the trust of the community and who are open to new solutions.[2284] At the same time, Cambié and Ooi are convinced that with global interconnectedness it is no longer sufficient to work only at the local community level, as a company will also be expected to influence global debates.[2285] Companies are expected to take a position on global issues, to work together with governments and other corporations to find sustainable solutions[2286] in matters such as world food security, water management and climate change.[2287]

Maucher, on the other hand, suggests that for entrepreneurs in a competitive market, the most important social and ethical responsibility is to be successful, thus ensuring lasting profitability for their companies. In this way, companies make a major contribution to the prosperity of the economy, from which everyone benefits in the end. By doing so, companies will be able to pay their taxes in order to fund services in the community', and last but not least, successful management is essential to create, and increase employment.[2288] Thus, a true long-term focus will automatically be ethically responsible and social.[2289]

At the same time, global long-term challenges lie ahead and business is obliged to take responsibility for the planet. Over the last decade, Milton Friedman's statement that a firm's only social responsibility is to make a profit has been challenged by a number of stakeholders who demand that a company act on aspects such as climate change and social issues in the supply chain. In addition, institutional investors have developed strategies towards responsible investing and are developing methods to integrate environmental, social and governance criteria into their investment decisions. As a result, corporate social responsibility is no longer solely treated as a business risk which is mainly related to a company's reputation. Instead, direct financial risks have emerged, too. These include:[2290]

- The risk of turnover loss due to customers responding to (perceived) irresponsible environmental behaviour.

2281 Prahalad and Lieberthal (1998), p. 97
2282 Cambié and Ooi (2009), p. 39
2283 Prahalad and Lieberthal (1998), pp. 109-110
2284 Cambié and Ooi (2009), p. 56
2285 Cambié and Ooi (2009), p. 59
2286 Cambié and Ooi (2009), p. 57
2287 Cambié and Ooi (2009), p. 59
2288 Maucher (2007), p. 51
2289 Maucher (2007), p. 52
2290 de Boer (2011), pp. 4-5

- The risk of losing clients as a result of non-compliance with supplier codes and rising cost levels due to increased energy costs, as well as the impact of climate change.
- Moreover, it can be more difficult to attract talented employees when no attention is paid to CSR.[2291]

With the promotion of corporate social responsibility as part of their product, companies may win market share. There are more and more companies who have successfully incorporated corporate social responsibility into their business strategy and have benefited from it financially: Toyota, with high volume sales of the Prius hybrid; Wal-Mart, which decided to put their most environmentally friendly products visibly on the shelves; and BASF, who achieved significant cost savings after starting to pay attention to carbon reduction opportunities in their production process.[2292] Research suggests that organisations which are respectful of stakeholders' needs and maintain and develop a good reputation are likely to be more profitable than those which rely solely on profitability as their end goal.[2293]

Thus, the bottom line is that there is without doubt a growing dimension concerning corporate social responsibility and that it will increasingly become a winning business model.

Often, however, the boardroom's language is financial.[2294] Nevertheless, findings suggest a growing interest of the boardroom in how best to facilitate corporate social responsibility issues.[2295] Research also suggests that there is an increasing understanding among board members of the role of corporate social responsibility in organisational success over the long-term.[2296]

5.5.4.4.2.1.2 Corporate Governance

While corporate social responsibility is a means, corporate governance is one of its drivers. Thus, there is a closely intertwined relationship between the two, which is also reflected by Igalens and Joras, who list good governance as one of the twelve essential principles that characterise the concept of corporate social responsibility.[2297] On the other hand, the King Report lists the following seven characteristics of good corporate governance:[2298] discipline, transparency, independence, accountability, responsibility, fairness and social responsibility[2299].

Basically, there are two governance structures, i.e. the shareholder and the stakeholder model,[2300] and both have advantages and disadvantages[2301]. In the former, shareholders

2291 Since employees want to work for a company whose commitment to society and the planet reflects their personal values, Cambié and Ooi believe that corporate social responsibility will be at the core of any successful recruitment strategy, in: Cambié and Ooi (2009), p. 64
2292 de Boer (2011), p. 5
2293 Roman, Hayibor and Agle (1999) pp. 109-125; Caccese (1997), pp. 9-14; Vergin and Qoronfleh (1998), pp. 19-26; Szwajkowski and Figlewicz (1997), pp. 362-386; Petrick, Scherer, Brodzinski, Quinn and Ainina (1999), pp. 58-69, in: Barratt, Korak-Kakabadse and Barratt (2003), p. 2
2294 Barratt, Korak-Kakabadse and Barratt (2003), p. 14
2295 Barratt, Korak-Kakabadse and Barratt (2003), p. 15
2296 Barratt, Korak-Kakabadse and Barratt (2003), p. 16
2297 Igalens and Joras (2002), pp. 59-60, by taking into consideration the declaration of Rio de Janeiro on sustainable development of 1992 as well as the directing principles of the OECD, Paris 2000
2298 CLSA Emerging Markets (2000), in: King Report II (2002) p. 10
2299 King Report (2002) pp. 10-11 (paragraph 18). According to Hilb, the South African KING Report is deemed to be the most progressive best practice approach worldwide, in: Hilb (2004), p. 7.
2300 According to Malik, these two approaches emerged after the Second World War, in: Malik (1999), p. 108
2301 Johnson, Scholes and Whittington (2008), pp. 139-141

have the legitimate primacy in relation to the wealth generated by the corporations, though proponents argue that maximising shareholder value benefits other stakeholders, too. This model is epitomised by the economies of the USA and UK.[2302] In the latter model, management need to be responsive to multiple stakeholders who themselves may be formally represented on boards.[2303]

Underlying the discussion of corporate governance, there is again the question of whether the purpose of an organisation and its strategy is for the benefit of primary stakeholders, such as the shareholders of a company, or a wider group of stakeholders. This, in turn, is about societal expectations placed on organisations and how these impact on an organisation's purposes. Increasingly, governments think that these expectations cannot be achieved through regulation alone. This is the province of business ethics, which exist at two levels:

- At the macro level, the expectations of the role of businesses and other organisations in society range from laissez-faire free enterprises at one extreme, to shapers of society at the other. The organisation's broad ethical stance is a matter of corporate social responsibility.
- Instead, business ethics concerning the behaviour and actions of people in organisations is at the individual level and can be discussed in terms of the role of managers in the strategic management process.[2304]

What can be said, though, is that the organisation's minimum obligations towards its stakeholders are determined by the regulatory environment and corporate governance arrangements.[2305]

The main concept of corporate governance is based on the principal-agent problem. Its roots go back to the thirties.[2306] Nevertheless, the concept of corporate governance has long been perceived as a typically Anglo-Saxon theme. Only since the mid-nineties has it become an omnipresent discussion, and with the revelations about Enron it has dominated political and economic agendas.[2307] Since then, it has also become one of the most common terms in business and finance discourse.[2308]

Since the seventies, the notions of corporate social responsibility and therefore business ethics have gained in importance. As a result of this development, the concept of corporate governance basically explains how corporations implement clear guidelines and rules in order to better include shareholder and stakeholder interests.[2309] Corporate governance is also strongly related to risk management, and one of its main goals is to restore confidence in the economy.

However, the notion is as diffuse as the expectations of numerous stakeholders. There is broad agreement on such principles as transparency, focusing on long-term value

2302 Johnson, Scholes and Whittington (2008), p. 139
2303 Johnson, Scholes and Whittington (2008), p. 140
2304 Johnson, Scholes and Whittington (2008), p. 145
2305 Johnson, Scholes and Whittington (2008), p. 145
2306 Berle and Means (1932), in: Bourquoi (2002), p. 1126. They write about the power of agents and the divergence of property and control. Later, the Law-and-Economics movement expanded on these aspects, in: Nobel, 2003, p. 8; Mintzberg argues that the publication by Berle and Means was not the start of the debate, but certainly brought it into sharp focus by presenting evidence that the large business corporation was more likely to be controlled by its managers than its shareholders, in: Mintzberg (1989), p. 303; Concerning the principal-agent problem, another author refers to Graham, Dodd, Cottle and Tatham (1934), in: Hummler (2002), p. 1
2307 Bourquoi (2002), p. 1123 ; See also Johnson, Scholes and Whittington (2008), p. 133
2308 Keasey, Thompson and Wright (2005), in: Brunninge, Nordqvist and Wiklund (2007), p. 295
2309 Thommen (2003), pp. 14-17

added, or reasonable management of risks. Yet, it is much more difficult to agree on the concretisation of specific rules. Internationally, there are certain corporate governance principles which are widely accepted, such as the segregation of the two functions of the president of the board and the chief executive officer; audit, remuneration and nomination committees; competency; independence; meaningful and externally audited financial reporting, etc. However, there are also aspects where huge differences among countries or the person in question are revealed.[2310] Hence, like with other concepts, there are different views and approaches to corporate governance. Notions and interpretations about its content are still manifold and even contradictory.[2311]

Basically, *"Corporate Governance is the system by which companies are directed and controlled"*[2312] or, broadly defined, it is the exercise of power over corporate entities[2313]. It *"refers to the mechanisms through which firms are strategically led, organized, controlled and made accountable to investors, customers, employees and the society."*[2314] In addition, it *"is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in an organization."*[2315]

Malik perceives the following five essential functions for the effective control of companies:

- The retrospective function, i.e. the identification of outcomes and the assessment of the quality of these outcomes.
- The preview function in a world characterised by turbulence, discon-tinuities and fundamental change, which requires a precursory steering control.
- Selection, direction, assessment, compensation and dismissal of the highest executive organs.[2316]
- Organisation of the executive organ, and the allocation of duties and internal regulations.
- The arrangement of stakeholder relationships.[2317]

He holds that there is only one right way to lead companies, i.e. in the interest of the company and not in the interest of a group or all groups together. Not the *"Best Balanced Interests of Interest Groups"* but the *"Best Interests of the Company"* must be the decisive dictum.[2318]

From a more operational aspect, the following description defines concrete requirements: *"Good governance requires that the board is responsible for applying high ethical standards; for guiding strategy and risk policy; for monitoring corporate performance; and for ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control. Executive management is responsible for implementing these systems".*[2319]

2310 Klauser and Kleibold (2012), p. 610
2311 Thommen (2003), p. 5
2312 Cadbury Report (1992), p. 15
2313 Tricker (1997), pp. 1-2, in: Brunninge, Nordqvist and Wiklund (2007), p. 295
2314 Hilb, Peck and Ruigrok (2002), in: Hilb (2004), p. 9
2315 This is a definition which is based on but adapted from that in Jacoby (2005), pp. 69-87, in: Johnson, Scholes and Whittington (2008), p. 133
2316 Yet, Malik also asserts that the effectiveness of corporate governance should first and foremost not be improved with individual-related recommendations but with constitutional regulations, in: Malik (1999), p. 17
2317 Malik (1999), pp. 155-161
2318 Malik (1999), p. 115
2319 ECIIA (2005), p. 13

At the same time, due consideration needs to be given when it comes to certain risks of corporate governance. Wiesenthal, for example, is convinced that overregulation is not good for the entrepreneurial spirit and will crush innovation, as more and more resources are shifted towards compliance and away from staying ahead of the pack.[2320] Moreover, although changes in the structure of board committees might be needed, there is a concern that the really important issue is the behaviour of boards of directors.[2321]

At the board level, the set of problems emerging from the multitude of international and national standards may be summarised as follows:

- A mixture of responsibilities between the board of directors and executive board.
- An unclear description of what kind of controlling functions the board of directors exactly accounts for.
- The danger of bureaucratisation of the work of the board of directors, especially the audit committee.
- A danger that the members of the board of directors are overwhelmed by their function.
- A danger that the members of the audit committee are overwhelmed by their function.[2322]

Moreover, Casal and Caspar point out the danger of negligent, over-optimistic or ill-informed boards.[2323]

5.5.4.4.2.1.3 Environmental Protection

"Some very simple changes to the way we run our businesses can yield startling benefits for today's shareholders and for future generations."[2324]

"As Daniel Vasella, ... of Swiss pharmaceutical giant Novartis, observes, business is being transformed by information technology that creates a "boundless world" where once there were walls. Inexorably, the Internet is shattering the walls companies have set up to keep information about products locked away, letting news spread about adverse impacts that in a former day could have been kept from the public eye."[2325]

Goleman argues that throughout history companies have been able to consume or pollute resources (air, water or land) with little or no consequence, and the costs have been borne by the general public. For him, this can be seen as unsustainable and ethically unacceptable.[2326]

2320 Wiesenthal (2003), p. 16, in: Johnson, Scholes and Whittington (2008), p. 138
2321 Johnson, Scholes and Whittington (2008), p. 138
2322 Böckli (2001), pp. 9-11, in: Hilb (2004), p. 23
2323 Casal and Caspar (2014), p. 1
2324 Lovins, Lovins and Hawken (1999), p. 3 Garvin (1993) p. 78
2325 Goleman (2009), p. 103
2326 Goleman (2009), pp. 233-234

The need for the regulation of environmental protection has obtained widespread (everyone wants a liveable planet) but grudging acceptance (due to the lingering belief that environmental regulations erode competitiveness). This has resulted in the prevailing view that there is an inherent and fixed trade-off: ecology versus the economy.[2327]

However, if environmental standards are properly designed, they can also trigger innovations, thereby lowering total costs of a product or improving its value. This allows the use of a range of inputs more productively, and ultimately makes companies more competitive.[2328]

Tougher environmental standards can enhance competitiveness, because companies use resources more productively.[2329] Thus, instead of focusing on the actual costs of eliminating or treating pollution, managers should concentrate on the enormous opportunity costs of pollution, wasted resources, wasted effort and diminished product value to the customer.[2330]

Reich,[2331] on the other hand, provocatively argues that since companies are not moral beings and exist to make money for their shareholders, objectives such as social responsibility or minimising environmental impact can be pursued only to the degree that they help the bottom line. Instead, when profitability is threatened by the price of doing the right thing, these good things are skipped.[2332]

However, Goleman offers a way out of this dilemma, which he calls radical transparency.[2333] It unites what seem to be polarities: the self-interest of a company aligns with the best interests and values of the consumer.[2334] He is convinced that changes in ecological habits are laudable, but that radical transparency goes further and also offers sounder and more promising opportunities than present-day "green" marketing.[2335] Goleman foresees a new formula for success and competitive advantage, which can be described as *"sustainable is better, healthier is better, and humane is better".*[2336] He is convinced that humanity will no longer be able to afford comforting cover stories about the illusion that we are doing enough ("green" labels), while ignoring the remaining adverse impacts.[2337] Eventually, he holds that companies will have to offer the kinds of products our collective future needs, since consumers will vote with their money.[2338] Such informed choices will also shape new mandates for today's engineers, chemists, and inventors. He furthermore holds that this market force will drive a demand for a wave of innovations, each of them an entrepreneurial opportunity.[2339] All of this will also be possible, because:

2327 Porter (2008a), p. 347
2328 Porter (2008a), p. 348
2329 Porter and van der Linde (1995), p. 131
2330 Porter and van der Linde (1995), p. 132
2331 Reich R.B., Professor of Public Policy at the University of California at Berkeley, in: Goleman (2009), p. 241
2332 Goleman (2009), pp. 241-242
2333 Goleman (2009), p. 242
2334 Goleman (2009), p. 243
2335 Goleman (2009), pp. 8-9
2336 Goleman (2009), p. 11
2337 Goleman (2009), p. 36
2338 Hollensen argues in a similar way: *"Various polls and surveys reveal that many consumers are taking environmental issues into consideration as they buy, consume and dispose of products. Consequently there is a direct connection between a company's ability to attract and keep consumers and its ability to develop and execute environmentally sound strategies."*, in: Hollensen (2011), p. 503
2339 Goleman (2009), p. 10

- first, the control of data has shifted from sellers to buyers,[2340] and
- second, because of the remarkable fragility of a product's reputation[2341].

Today, many companies have accepted their responsibility towards the environmental burden, and their products and production processes are becoming "cleaner".[2342] As they realise that they can reduce pollution and increase profits simultaneously, more and more companies in the industrialised nations are "going green".[2343]

As a consequence of all this, farsighted companies have already found profitable openings with green products.[2344]

Hart has identified the following opportunities that open up when greening becomes part of the strategy and which will allow companies to sell solutions to the world's environmental problems:

- Pollution prevention (minimising or eliminating waste before it is created).
- Product stewardship (minimising not only pollution from manufacturing but all environmental impacts associated with the full life cycle of a product).
- Clean technology (tomorrow's technologies that replace the existing technology base, which in many industries is not environmentally sustainable).

All these opportunities move a company towards sustainability.[2345]

However, disputes with local partners may emerge as one side or the other evinces greater concern for profits than environmental conservation.[2346] This, of course, also bears an ethical and moral component. We are unable to assess how successful or not Monsanto's measures for the protection of the environment have been. In an interview, however, Monsanto's CEO points out the relationship between environmentally correct behaviour and profitability, and also social responsibility. He has discussed how the company has moved from a decade of progress in pollution prevention and clean-up to spotting opportunities for revenue growth in environmentally sustainable new products and technologies.[2347] He has stated that because of Monsanto's history as a chemical company people reacted in a disapproving way to its employees because of what they thought they did at Monsanto. This, he confirmed, hurt because people do not want to be made to feel ashamed of what they do. In his opinion, economic motives are obviously important but sustainability offered Monsanto a huge hope for healing the rift between their economic activity and their total human activity. [2348]

2340 Goleman (2009), p. 11
2341 Goleman (2009), p. 119
2342 Hart (1997), pp. 105-106
2343 Hart (1997), p. 107
2344 Biddle (1993), p. 170
2345 Hart (1997), pp. 106-121
2346 Tallman (2009), p. 173
2347 Magretta (1997), p. 61
2348 Magretta (1997), pp. 74-75

5.5.4.4.2.1.4 History and Image

"If you want to properly understand our company you need to know that everything begins with our values and that they are the foundation for and support our strategy."[2349]

"Values are strongly rooted in history and appear to be pretty stable over time".[2350]

Many SMEs are closely held, and governance issues are more entwined than in large, publicly held companies where the separation of ownership and management is more pronounced.[2351] Thus, ownership, board, and top management often overlap with the same people, or people from the same family are involved at all levels,[2352] and leaders and their characteristics drive the strategy[2353]. The literature suggests that owner-managers' personalities, in particular their values and goals, are indistinguishable from the goals of their business.[2354] It also seems that their personal values influence the management and business practices they adopt in operating their businesses and ultimately the performance of these businesses.[2355]

The environment, organisational capabilities and stakeholder expectations all have important influences on the development of a strategy. However, there is a danger that managers only take into account relatively recent phenomena but do not understand how these phenomena have come about or how the past influences current and future strategy.[2356] After all, the strategic position of an organisation has historical and cultural roots and therefore it is important to understand these roots, since they help managers develop the future strategy of their organisations.[2357] Hence, strategy unfolds in response to current events within a historical and organisational context.[2358] Moreover, a firm's resources are not only causally ambiguous and socially complex but also history dependent.[2359]

Companies such as the Mitsui Group, Daimler or Sainsbury's as well as many public-sector organisations are strongly influenced by their historical legacies that have become embedded in their cultures.[2360]

Thus, founders through their values and beliefs influence the culture of the company and therefore play a particularly important role.[2361] Founding figures, turnaround leaders, a company's unique history, and also the stage of development all influence the corporate culture.[2362]

2349 Smucker R./J.M. Smucker Company in an interview, in: Jennings (2009), p. 25
2350 De Mooij (2000), p. 104
2351 Cowling (2003) pp. 335-344; Schulze, Lubatkin, Dino and Buchholtz (2001), pp. 99-116; Schulze, Lubatkin, Dino and Buchholtz (2003), pp. 473-490, all in: Brunninge, Nordqvist and Wiklund (2007), p. 296
2352 Mustakallio, Autio and Zahra (2002), pp. 205-222; Nordqvist and Melin (2002), all in: Brunninge, Nordqvist and Wiklund (2007), p. 296
2353 Salvato (2004), pp. 68-76, in: Moog, Mirabella and Schlepphorst (2009), p. 7
2354 O'Farrell and Hitchins (1988), pp. 1365-1382; Bamberger (1983), pp. 25-39, all in: Pushpakumari (2009), p. 98
2355 Thompson and Strickland (1986), in: Pushpakumari (2009), p. 98
2356 Johnson, Scholes and Whittington (2008), p. 178
2357 Johnson, Scholes and Whittington (2008), p. 179
2358 Schneider and Barsoux (2003), p. 121
2359 King and Zeithaml (2001), as well as Eisenhardt and Martin (2000), in Dhanaraj and Beamish (2003), p. 245
2360 Johnson, Whittington and Scholes (2011), p. 157
2361 Schein (1991), pp. 14-25; Westney and Mintzberg (1989), pp. 17-32, in: Schneider and Barsoux (2003), p. 71
2362 Schneider and Barsoux (2003), p. 71; See also Schein (1992), in: Bailom, Matzler and Tschemernjak (2006), p. 169

5.5.4.4.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

5.5.4.4.3.1 Earn the Right to Operate

As widely acknowledged, the necessary conditions for a company to produce an output are financial capital, human resources, management, technology, raw materials, and so on. However, Andersen, Froholdt and Poulfelt note that what does not seem to have a place in this equation is social capital: a production factor which the company can tap into, and which is centred on the confidence and trust that the customer attaches to the company.[2363]

At the same time, many companies wish to perform better than the minimum standards established by regulations.[2364] By going beyond compliance with local regulations and expectations, companies want to develop a reputation as an employer of choice in every community in which they operate.[2365] This helps to attract and retain valuable employees who take pride in their companies' roles in improving the environment, the workplace, and the community. Reputations among customers and investors can also be enhanced by companies that excel in critical regulatory and social processes.[2366]

It is no longer sufficient to only use media relations to shape the profile of a company. Instead, to create the character and identity behind a brand, corporate reputation management is needed. In addition, a brand can also be kept alive with a solid strategy and active issue management.[2367]

Consequently, the customer value proposition will have to respond not only to the values of end users but to civil society. We believe that this approach will almost certainly be used by mature economies as non-tariff barriers against companies from developing countries.

In numerous cases, organisational decision-making has been based on a tendency towards greed, poor governance, and the relentless drive for short-term earnings. Due to such an ethically challenged climate, the need for well-defined strategic visions and a firm commitment to high ethical standards is perhaps greater than ever before.[2368]

5.5.4.4.3.1.1 Corporate Social Responsibility

Even though many companies might have been paying little more than lip service to corporate social responsibility, this discipline will doubtlessly become one of the pillars of successful reputation management and sustainable employee engagement. For younger generations, environmental and social issues are important and these people want to contribute to global causes.[2369] Public awareness of the global consequences of climate change is high and businesses can expect their sustainability practices to be scrutinised.[2370]

The consequences are that corporate social responsibility will be advanced when it is rooted in a broad understanding of the interrelationship between a corporation

2363 Andersen, Froholdt and Poulfelt (2010), p. 107
2364 Kaplan and Norton (2004b), p. 46
2365 Kaplan and Norton (2004b), p. 46
2366 Kaplan and Norton (2004b), p. 190
2367 Cambié and Ooi (2009), p. 29
2368 Wright (2010), p. 72
2369 Cambié and Ooi (2009), p. 52
2370 Cambié and Ooi (2009), p. 12

and society, and at the same time is anchored in the strategies and activities of specific companies. After all, it is a basic truth that business and society need each other.[2371]

Companies are perceived as entities which have other goals than the realisation of profits.[2372] Thus, corporate social responsibility and sustainability are closely related to legality and ethics.

On the other hand, and as already mentioned, we can conclude that for mature economies corporate social responsibility will be used in order to install a non-tariff-barrier against companies from developing countries. After all, nobody is going to argue against green policy and, in the medium and long-term, such an approach helps to punish competitors.

Even though corporations are neither responsible for all the world's problems and nor do they have the resources to solve them, they can identify the particular societal problems that each company is best equipped to help resolve and from which it can gain the greatest competitive benefit.[2373] At the same time, corporate social responsibility has to be adequate for the actual needs of society and respond to the challenges of the world's situation.[2374]

Below, we list some ideas of Cambié and Ooi for the design of a corporate social responsibility strategy in the new environment:

- the education of senior management concerning the complexity of modern corporate social responsibility;
- the use of corporate social responsibility programmes for the increase of employees' well-being and sense of belonging;
- the building of an emotional link with stakeholders (including media);
- the learning of the language of social media;
- the ability to relate to the needs of local players with deep roots in their communities;
- the integration of global issues (water management, climate change) into the strategy. These global issues should be used to position the company as a partner for multilaterals and international institutions.[2375]

If a company is well managed, it will be aware of and respond to social issues, placing a high priority on ethical standards. Good corporate citizens are increasingly seen as actors that are non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. Finally, it is likely that indirectly a company will experience economic benefits such as improved productivity and corporate reputation by taking these factors into consideration.[2376]

We can conclude that corporate social responsibility is a structural matter and therefore more and more research will be done on it. Nevertheless, with all the problems and failures we have just mentioned, it remains to be seen what the independent and dependent variables are.

2371 Porter (2008a), p. 486
2372 Conti (1999), pp. 19-20
2373 Porter (2008a), p. 499
2374 Schneider (2010), p. 2
2375 Cambié and Ooi (2009), p. 59
2376 CLSA Emerging Markets (2000), in: King Report (2002) paragraph 18, p. 11

5.5.4.4.3.1.2 Corporate Governance

Corporate governance is a widely discussed issue and we can conclude that it is very unlikely that it will become less important. On the contrary, it will continue to stay at the top of the agenda in terms of public interest.[2377] The King Report states that the 19th century was the century of the entrepreneur, the 20th century the century of management,[2378] and as the focus swings to the legitimacy and effectiveness of the wielding of power over corporate entities worldwide, the 21st century promises to be the century of governance.[2379]

After all, transparency and clarity pay off because they make companies particularly attractive for investors.[2380] A survey by McKinsey has ascertained that *"institutional investors would pay heavy premiums – in some cases, nearly a third more – for well-governed emerging market companies compared with less transparent and less honest entities, even if the financial performance was similar."*[2381]

Johnson, Scholes and Whittington summarise that due to the following three reasons corporate governance has become an increasingly important issue for organisations:

- The separation of principals and agents (i.e. the separation of ownership and management).[2382]
- Corporate scandals since the end of the 1990s.
- The increasingly advocated accountability of corporations to wider stakeholder interests and not only to owners and managers.[2383]

From Klauser and Kleibold, we learn that in discussions about the notion of corporate governance, the human factor is still generally underestimated. Thus, the implementation of laws and rules concerning corporate governance is of minor use if executives on boards of directors and executive boards neither possess the capability nor the will to meaningfully coin the strategy and culture in order to create conditions where tasks and controls are actually carried out.[2384]

They also advocate that corporate governance has to be aimed at effective formulation, guidance and development. Thus, corporate governance has to focus on the company's long-term success. In addition to its retrospective function, it also has to take into account its preview function, and thereby deal with the recognition of environmental development, the definition of strategy, as well as opportunities. Further functions include the organisation of the executive board and allocation of the duties of its members, and also the relationship towards essential stakeholders. Hence, corporate governance is not only about the prevention of negative developments, but first and foremost is about causing something positive.[2385]

2377 See also the importance of corporate governance in an organisational crisis: Probst and Raisch (2004)
2378 See also Mintzberg (1989), p. 5: *"In some sense, the twentieth century might be characterized as the age of management."*
2379 King Report (2002) paragraph 24, p. 14; However, with the emerging trend towards leasing things instead of owning them, some specialists argue that the 21st century is going to be the age of "access".
2380 Hilb (2004), p. 22
2381 Vermeulen (2002), p. 20, in: Hilb (2004), pp. 22-23
2382 See also Johnson, Scholes and Whittington (2008), p. 138
2383 Johnson, Scholes and Whittington (2008), p. 133
2384 Klauser and Kleibold (2012), p. 611
2385 Klauser and Kleibold (2012), p. 611

5.5.4.4.3.1.3 Environmental Protection

Executives who frame environmental problems solely in terms of social responsibility may overlook the business opportunities and risks that come with such problems. If environmental issues are treated like other business issues, they can lead to more creative problem-solving and better bottom-line results.[2386]

Hence, the debate on business and the environment has typically been framed in terms of whether it pays to be green. Yet, this issue requires a more complex approach and managers need to ask under what circumstances particular kinds of environmental investments deliver returns to shareholders.[2387]

This is because environmental problems do not automatically lead to profitable opportunities. At the same time, it is also incorrect to state that it never pays for a company to invest in improving its environmental performance. Therefore, companies should look at environmental problems as business issues and make environmental investments when they expect them to deliver positive returns or to reduce risks. This means that they have to go beyond the question whether it pays to be green and ask instead whether particular kinds of environmental investments deliver benefits to shareholders.[2388] This does not mean that questions of social responsibility can be safely ignored. Nevertheless, companies are not in business to solve the world's problems and since they have shareholders who want to see a return on their investments, they need to bring the environment back into the fold of business problems and determine when it *really* pays to be green. Managers who are imaginative and capable and look at the environment as a business issue will find that the possibilities are greater than they ever realised.[2389]

Thus, corporate social responsibility and environmental/climate change management (global warming, pollution, deforestation, the dwindling of non-renewable energy sources, consumer safety, health, and poverty reduction) are no longer just hollow words in an annual report or a "me-too" message. Instead, sustainability and "going green" have arrived as requirements for all organisations and are surfacing throughout business media.[2390]

5.5.4.4.3.1.4 History and Image

The causes supported by corporate social responsibility are likely to be closely connected with the image of the family behind it and their set of beliefs.[2391] In the case of companies which are controlled by families, the role of the communicator then becomes that of a storyteller who will have to take the public on an emotional journey and have them arrive at their destination with a new awareness of the owner's or family's heritage and the values behind the brand.[2392] What was said for families is certainly also valid for other founders and/or long-time owners in general. In any case, Johnson, Whittington and Scholes hold that the power and influence of different stakeholders are likely to have historical origins that are important to understand.[2393]

2386 Reinhardt (1999), p. 54
2387 Reinhardt (1999), p. 35
2388 Reinhardt (1999), p. 37
2389 Reinhardt (1999), p. 53
2390 Cokins (2009), pp. 201-204
2391 Cambié and Ooi (2009), p. 9
2392 Cambié and Ooi (2009), p. 9
2393 Johnson, Whittington and Scholes (2011), p. 158

Hence, historical and cultural perspectives can help to understand both the opportunities and constraints that an organisation faces.[2394] Moreover, the business environment can only be understood when the development of a company is considered over time.[2395] At the same time, the capabilities of companies, especially ones that provide competitive advantage, may have built up over time in ways unique to these organisations. As a consequence, such capabilities may become difficult to copy for another company because they have become part of the culture of a particular company or, otherwise said, the taken-for-granted way of doing things. On the other hand, such capabilities may also be difficult to change. Thus, if one wants to understand the strategic position of an organisation, one also has to understand that its culture sometimes has deep historical roots. Such an understanding is important, since it also informs the evaluation of the feasibility of a strategy, it helps explain how strategies develop, and it informs the challenges of strategic change.[2396]

Finally, we will conclude this chapter by adding a summary of the fourth cluster, i.e. the regulatory and social processes, of the strategy map's process perspective.

Figure 19: Regulations and Social: Fourth Cluster of the Process Perspective[2397]

Process Perspective

OPERATIONS	CUSTOMERS	INNOVATION	REGULATIONS & SOCIAL
▪ Collaborate; ▪ Integrate management of the value chain and logistics chain; ▪ Virtualise by using information systems; ▪ Network, including the particular cases of outsourcing, alliances and virtuality; ▪ Control key business processes; ▪ Shift from product-based differentiation towards a service-based one; ▪ Guarantee high quality, reduce costs and assure quick availability.	▪ Excel at international marketing, in particular global branding and the internationalisation of organisations; ▪ Build on customer attitudes; ▪ Understand customers' unique preferences; ▪ Strengthen customer relationships; ▪ Look for customer tailored offers; ▪ Expand product offerings and services; ▪ Watch for customer retention; ▪ Develop customer/market orientation; ▪ Learn from customers but also educate them. Use social media; ▪ Anticipate and respond to customers' evolving needs and wants; ▪ Respect and manage cultural diversity.	▪ Watch for networked innovation; ▪ Develop new products, services and processes; ▪ Apply new business models; ▪ Bring superior products and services faster to the market than competitors; ▪ Leverage product excellence along a given functionality dimension into many other applications and market segments; ▪ Exploit information and communication technologies.	▪ Systematically and deliberately seek to influence regulatory powers; ▪ Earn the right to operate; ▪ Develop a good reputation; ▪ Act in a sustainable way by using high standards in corporate social responsibility, corporate governance, and environmental protection.

2394 Johnson, Whittington and Scholes (2011), p. 157
2395 Johnson, Whittington and Scholes (2011), pp. 157-158
2396 Johnson, Whittington and Scholes (2011), p. 158
2397 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

5.5.5 HUMAN CAPITAL CAPABILITIES REQUIRED BY THE STRATEGY

"Selecting the right management talents is more important than continuous training (which is obviously necessary as well). Along with professional training and experience, key factors are the right leadership skills and personal qualifications, such as courage, nerves and composure, commitment to the company, the ability to communicate internally and externally, the ability to motivate people and create an innovative climate, et cetera."[2398]

5.5.5.1 Summary

It is vital for companies to have the right human capital, i.e. to attract, recruit and develop people and align them to the strategy. Moreover, a fit between its people and the company's culture is required. Thus, in order to find the right people, a company may also have to look for appropriate candidates in emerging countries. However, people can always leave. In order to avoid this, companies have to make sure that strategic human resource management is in place. Moreover, companies need firm-specific resources and capabilities as well as dynamic capabilities. These are tied/linked to the organisation and not to any of its component parts. Equally important, though, is that the company creates a DNA (deoxyribonucleic acid) which remains even after the most important people have left.

5.5.5.2 Description

Up to this point, we have discussed in which niches a company should compete and which customer value will differentiate the company in those niches. In a third step, we have displayed which key processes create the differentiation in the strategy. In this chapter, we will turn to the question of which human capital capabilities are required by the strategy. According to Kaplan and Norton, this is the fourth part of strategy formulation.[2399]

5.5.5.2.1 Finding and Nurturing the Right Human Capital

The greatest return on intangible assets is created when companies develop their human, information and organisation capital and align and integrate it with their critical strategic processes.[2400] Thus, if a company wants to gain value from its employee competencies, human capital must be aligned to the strategy.[2401]

Although having widely different cultures, it is interesting to see that Saxo Bank and Huawei put such an emphasis on the real gasoline of the company: their people. Both of them use similar tactics such as branding themselves according to their values in order to attract the people that will fit the culture, allowing for progressive career development and rewards based on performance.[2402] Thus, from a more general point of view, the organisation needs people whose personalities fit its culture.[2403]

2398 Management and Leadership Principles at Nestlé, 10 Basic Principles of Business Success, in: Maucher (2007), p. 168
2399 Kaplan and Norton (2008), p. 10
2400 Kaplan and Norton (2004b), p. 207
2401 Kaplan and Norton (2004b), p. 243
2402 Andersen, Froholdt and Poulfelt (2010), p. 193
2403 Barsoux and Bottger (2006), p. 40

From Kunde, we learn that employees are often appointed based on their professional qualifications, which of course they need to have. However, beyond this, it is just as important that the attitudes, modes of behaviour and values of the employees coincide with those of the company.[2404]

Drucker argues that not only organisations but also people have to have values. To be effective in an organisation, one's own values do not need to be the same but must be compatible with the organisation's. If they are not close enough so that they can co-exist, the person will be frustrated and unable to produce results.[2405]

The company also has to build a culture that is going to deal well with uncertainty, and thus has to look for people with a track record of resourcefulness.[2406]

Again, the question in this chapter is whether the company is staffed with the right kind of people to execute the plan and if not, what is it going to do about it?[2407] After all, selecting and appraising people is a leader's most important job.[2408]

Innovative companies are dependent on scientists and engineers with appropriate education and experience in the organisation's fundamental technologies.[2409] It is also interesting to note that compared to their lesser competitors, leading organisations can attract better talent because the most qualified professionals want to work with the best in their field.[2410] The achievement of customer satisfaction and the company goals are unequivocally dependent on the qualifications and competence of employees.[2411] This is also the case with uncertainty, where employees must respond quickly and creatively to the unexpected, and devise countermoves and initiatives under crisis conditions. The best preparation for this is when individuals and the company's processes are up to date, which means that executives must relentlessly review existing projects and processes and discard those that have lost their relevance.[2412]

Technological change requires that employees have higher qualifications.[2413] There is, for example, a demand for new employee competencies to respond to the expectation of heightened levels of customer marketing and services generated by advances in information technology and communications. Such competencies include knowledge about database marketing, data mining, customer analytics, call centres, customer interaction centres, and webpage design.[2414]

Nowadays, it is unlikely that an in-depth competence in a given science or engineering field will lead to important advances. Instead, successful approaches require the integration of science and technology from several disciplines. Therefore, a key competence of an employee is the ability to work with scientists and engineers from other disciplines and backgrounds and to fuse the diverse knowledge bases into product performance breakthroughs. Beyond this, people in product development projects need to be able to interact effectively with employees from functions outside research and development, such as marketing, operations and finance. Thus, the competence that supports innovation processes encompasses having people with strong skills in all the

2404 Kunde (2000), p. 13
2405 Drucker (1999a), in: Drucker (2008), p. 223
2406 Barsoux and Bottger (2006), p. 40
2407 Bossidy and Charan (2002), p. 2
2408 Bossidy and Charan (2002), p. 8
2409 Kaplan and Norton (2004b), p. 152
2410 Quinn, Anderson and Finkelstein (1996), p. 73
2411 Conti (1999), p. 19
2412 Barsoux and Bottger (2006), pp. 41-42
2413 Lombriser and Abplanalp (1998), p. 17
2414 Kaplan and Norton (2004b), p. 122

underlying scientific and engineering disciplines, and an ability to work effectively on multidisciplinary projects with multifunctional teams.[2415]

Small and medium firms are increasingly internationalising.[2416] Since firms are faced with unprecedented levels of foreign competition at home and abroad, they are beginning to recognise that not only international business is a high priority but also that finding and nurturing the human resources required to implement an international or global strategy is of critical importance. Especially for small and medium firms, where international expansion places extra stress on limited resources, particularly people,[2417] it is essential to have effective human resource management.[2418] In this context, McDonald and Burton refer to Duerr, who points out that in the final analysis virtually any type of international problem is either created by people or must be solved by people, and that therefore having the right people in the right place at the right time emerges as the key to a company's international growth.[2419]

Increasingly, the objective of asset-seeking investment is to fill the need for knowledge workers that simply cannot be found at home.[2420] Particularly in unknown local labour markets or when the company is unfamiliar with the available human resources, finding the right people is often one of the most important challenges. In such circumstances, it is difficult to find those candidates who have the competence to get the job done and who seem likely to fit in with the existing corporate culture. Therefore, a company may have to look in very different places to find the same kind of people in terms of abilities, behaviour, beliefs and values. A standard profile in one country may represent quite an exceptional one in another.[2421]

Because many multinationals, as a result of an imperialist mindset, did not consciously look at emerging markets as sources of technical and managerial talent, they have achieved only limited success in those markets.[2422] A key variable that differentiates domestic and international human resource management (HRM) is the complexities of operating in different countries and employing different national categories of workers.[2423]

5.5.5.2.2 People Can Leave the Company

From a resource-based perspective, companies gain and maintain sustainable competitive advantage with the internalisation of unique, firm-specific strategic resources.[2424] Barney[2425] lists physical, human, and organisational resources, but he focuses on unique organisational ones, also described as capabilities or core competencies,[2426] as the primary sources for sustained advantage. This is because physical and human resources are more easily compromised.[2427] Physical resources often offer only a temporary competitive advantage.[2428]

2415 Kaplan and Norton (2004b), p. 152
2416 Anderson (1995), in Dhanaraj and Beamish (2003), p. 242
2417 Hollensen argues that contrary to large companies, it is a characteristic of managers in small and medium companies to have limited business education, in: Hollensen (2011), p. 7
2418 McDonald and Burton (2002), p. 319
2419 Duerr (1986), in: McDonald and Burton (2002), pp. 319-320
2420 Tallman (2009), p. 33
2421 Schneider and Barsoux (2003), p. 151
2422 Prahalad and Lieberthal (1998), p. 97
2423 McDonald and Burton (2002), p. 322
2424 Tallman (2009), p. 92
2425 Barney (1991), in: Tallman (2009), p. 92
2426 Tallman and Fladmoe-Lindquist (2002), pp. 116-135, in: Tallman (2009), p. 92
2427 Tallman (2009), p. 92
2428 Tallman (2009), p. 94

After all, human resources can leave the company. Individuals who recognise their own value can leave the firm for a better-paid position (often with a competitor), start their own business, or just threaten to do so and force the company to pay them their true worth.[2429]

If a talented employee leaves the company, this person's exceptional faculties and company-specific experience leave the company too. Today, knowledge workers are specialists in their field and especially after a certain while also in their respective function. Thus, with their gained experience it gets very difficult to find an adequate replacement. This is why companies will place much more emphasis on their image in order to make employees more attached and loyal to the company.

5.5.5.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

5.5.5.3.1 Funding and Nurturing the Right Human Capital

The resource-based and core competencies approach places the focus on having the right strategic traits rather than necessarily carrying out the "right moves" or strategic actions. Japanese companies' success, like that of Canon and NEC for example, has been attributed to developing such competencies, which enabled them to capitalise on unexpected opportunities and to create or re-create markets.[2430] Honda, for example, has managed to resurrect the mature US motorcycle market, which was previously written off by Western firms.[2431]

From a leadership point of view, an assessment should be carried as to whether the company, among its executives and directors, has the right knowledge, attitudes and behaviours. Furthermore, it should analyse whether it possesses the best team, board structure and processes to optimise debate and engage in rigorous analysis. These issues also include the question of whether the company has the depth of talent to ensure future succession needs.[2432]

Therefore, Garelli observes: *"Only the right employees will become the most important resource of the enterprise. Competent individuals will not be sufficient. Competitive individuals are also needed. This implies, among other things, that a sense of decision-making and of urgency must be created. Furthermore, competitive individuals have the capacity to maintain a high level of energy in the organization, to be leaders, and to provide a long term vision of both the work and the enterprise. They encourage a permanent process of reinvention. They do not tolerate complacency or arrogance. In 2005, competitiveness means more diversity in core competencies of enterprises and in the qualifications of its personnel."*[2433]

Hence, successful companies need a strong match between the human resources that are needed to achieve a certain goal and the strategy.[2434] Enthusiasm can only occur and be effective long-term if employees can identify themselves in terms of content as well as emotionally with the company, its purpose, objectives and the values for which it stands.[2435]

2429 Tallman (2009), p. 95
2430 Schneider and Barsoux (2003), p. 122
2431 Pascale (1984), p. 56, in: Schneider and Barsoux (2003), p. 122
2432 Finkelstein (2006), p. 115
2433 Garelli (2005), p. 685
2434 De Sole (2008), p. 71
2435 Bailom, Matzler and Tschemernjak (2006), p. 165

5.5.5.3.2 People Can Leave the Company

Human resources can be of great value, but they can also be difficult to sustain.[2436] By definition, and in essence, the knowledge society is a society of mobility in terms of where one lives, what one does, and also one's affiliation.[2437] In fact, in the knowledge society, organisations need the knowledge worker far more than the knowledge worker needs the organisation. The relationship is increasingly one in which the knowledge worker has to learn what the organisation needs but in which the latter also has to learn what the knowledge worker needs, requires and expects. The organisation has to market its knowledge jobs so as to obtain knowledge workers in an adequate quantity and of a superior quality.[2438] After all, with the knowledge society, the essence of management is not techniques and procedures but to make knowledge productive.[2439]

It is relatively easy to imitate physical resources, but employees can always walk or shirk if they feel that they are not maximising their personal gain. Thus, for the company neither of these two is a long-term reliable asset for sustainable advantage.[2440]

Therefore, Tallman suggests that the company is better off when value is generated by teams of individuals, particularly teams of fairly ordinary individuals inspired by their organisation rather than their own genius.[2441]

Nelson and Winter claim that firm-specific resources and capabilities (FSRCs), i.e. knowledge resources that are tied to the organisation and not to any of its component parts, are needed by the multinational firm. These tend to be:

- tacit (an understanding, not codified knowledge),
- path-dependent (based on experience),
- organisationally embedded (group knowledge that is not destroyed by the coming and going of individual employees),
- and complex (consisting of multiple bits of knowledge).

Often, they are referred to as routines, or standardised ways of performing certain tasks that develop among groups of people engaged in a set of activities.[2442]

Capabilities are defined by Tallman as more complex sets of routines that guide people in an organisation in performing complicated operations in the most efficient manner. Core competencies are capabilities that are tied closely to the economic identity of the firm. These latter are the things that are the basis for the unique aspects of the company and that can be applied to multiple businesses within the firm.[2443] Teece, Pisano and Shuen go on to define dynamic capabilities as capabilities for adapting the firm's competencies to a changing situation that evolve (or co-evolve) with the ever-changing industrial environment of the firm.[2444] Dynamic capabilities achieve competitive advantage in dynamic conditions and are an organisation's ability to renew and recreate its strategic capabilities to meet the needs of a changing environment.[2445]

2436 Tallman (2009), p. 95
2437 Drucker (1995), in: Drucker (2008), pp. 313-314
2438 Drucker (1995), in: Drucker (2008), p. 311
2439 Drucker (1995), in: Drucker (2008), pp. 311-313
2440 Nelson and Winter (1982), in: Tallman (2009), p. 97
2441 Tallman (2009), p. 95
2442 Nelson and Winter (1982), in: Tallman (2009), pp. 96-97
2443 Tallman (2003), pp. 372-403, in: Tallman (2009), p. 97
2444 Teece, Pisano and Shuen (1997), pp. 509-534, in: Tallman (2009), p. 97
2445 Teece, Pisano and Shuen (1997), pp. 509-534, in: Johnson, Scholes and Whittington (2008), p. 107. See also Wang and Ahmed (2007), pp. 31-52, in: Johnson, Scholes and Whittington (2008), p. 107

It is the essence of resource-based strategy to find such firm-specific dynamic capabilities.[2446] An example of organisational capability is the Toyota Production System, which is a combination of Total Quality Management, just-in-time logistics, continual improvement, and a variety of other production management techniques, which has made Toyota the most efficient automotive producer for decades.[2447]

5.5.5.3.3 Strategic Human Resource Management

Andersen, Froholdt and Poulfelt see top leaders as captains of the corporate vessels that sail the competitive waters of today's business world but take them to different seas or universes. However, not only the captain, but also the company's ability to attract, recruit and develop the required people in order for leadership to flow through the whole organisation is important.[2448] To a certain degree, it is the responsibility of the human resources (HR) function to fulfil this task. In the first place, however, it is a leadership task to make sure this happens.

For example, the satisfaction and involvement of employees which leads to self-expression or personality development can be an important success factor and also contributes to customer satisfaction.[2449] For us, as part of strategic human resource management, leaders have to create an environment in which employees are satisfied, and not only involved in operations but also in strategic issues.

Below, we will discuss what we perceive to be two additional and crucial aspects of strategic human resource management, i.e. employment security and independence of employability:

- **Employment security:** We have seen that people cannot be owned like machines.[2450] Yet, and this is the same with machines, they become most valuable to a company by becoming specialised in the company's businesses and activities. The more specific their knowledge and skills are to a company's unique set of customers, technologies, equipment, and so on, the more productive employees will be and the more efficient the company becomes in all that it does. However, if the company does not provide employment security, employees hesitate to invest in the acquisition of specialised knowledge and skills that may have only limited value outside of the company. Without such a long-term assurance, companies also lack the incentive to commit resources in order to help their employees develop such company-specific expertise. Thus, such security of employment provides a viable basis for both to make such investments.[2451]
- **Independence of employability:** Hence, the affection-free environment of reciprocal opportunism and continuous spot contracting in a hire-and-fire regime is not an alternative, since ferocious competition and turbulent change (paradoxically the forces which also make job security impossible) increase the need for trust and teamwork. Therefore, companies such as Intel and 3M have intuited that value creation asks for a community of purpose in which individuals can share resources, including knowledge, without knowing

2446 Tallman (2009), p. 97
2447 Tallman (2009), p. 97
2448 Andersen, Froholdt and Poulfelt (2010), p. 253
2449 Conti (1999), pp. 19-20
2450 Ghoshal, Bartlett and Moran (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 308
2451 This is a core argument of the internal labour markets theory; See Doeringer and Piore (1971), in: Ghoshal, Bartlett and Moran (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 308

> precisely how they will benefit but being confident of collective gain. This means that innovation depends on a company acting as a social and economic institution. This then leads to a new moral contract in which employees take responsibility for the competitiveness of both themselves and the part of the company to which they belong. On the other hand, the company offers not the dependence of employment security but the independence of employability: a guarantee that they fulfil through continuous education and development. In this context, Ghoshal, Bartlett and Moran cite Welch, formerly CEO of GE: *"The psychological contract ... is that jobs at GE are the best in the world for people who are willing to compete. We have the best in training and development resources, and an environment committed to providing opportunities for personal and professional growth."*[2452]

Ghoshal, Bartlett and Moran argue that the new role for management breaks from the narrow economic assumptions of the past in order to recognise that the foundation of a firm's activity is a new *"formal contract"* with employees and society. Such a contract replaces paternalistic exploitation and value appropriation with employability and value creation in a relationship of shared destiny.[2453] Defined in terms of how value will be created for society, purpose allows strategy to emerge from within the organisation, from the energy and alignment which is created by this sense of purpose. Instead of managers focusing on the company's formal structure, they build the core organisational processes and integrate resources and capabilities to create new combinations of resources and knowledge and create the stretch that will drive the whole organisation into continuously striving for new value creation. Instead of managers being the builders of systems, they are transformed into company developers of people and help them become the best they can be. Thus, what was at the core of the managerial role, i.e. the three S's of strategy, structure and systems, gives way to the three P's of purpose, process and people.[2454]

5.5.6 LEARNING AND GROWTH

5.5.6.1 Summary

The human capital capabilities which we have outlined in the previous chapter are an important part of the learning and growth perspective. We complement human capital capabilities with aspects of organisational learning as well as change management. However, we do not consider these two capabilities as solely part of human capital but as discriminant variables of competitiveness which occur transversally all over the strategy map. The other two components of the learning and growth perspective are information and organisation capital. Since these intangible assets only have value in the context of a given strategy, they have to be systematically measured and aligned to the strategy. In addition, in today's globalised and increasingly complex world, companies must build their strategies on their intangible assets. These have to be understood, measured and leveraged in order to increase the value of the firm. After all, they are not only hard to imitate but also worth far more than a company's tangible assets.

2452 Ghoshal, Bartlett and Moran (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 309
2453 Ghoshal, Bartlett and Moran (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 304
2454 Ghoshal, Bartlett and Moran (1999), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 308

5.5.6.2 Description

The learning and growth perspective contains the following three components of intangible assets:

- human capital,
- information capital,
- organisation capital.[2455]

This perspective emphasises how a company[2456] deals with its people and how people deal with each other. It includes objectives related to the environment, structural alignment, performance management, company values, and pride.[2457] If companies develop, align and integrate the components of this perspective into a few strategic processes, they create the greatest returns from their intangible assets.[2458]

The learning and growth perspective is at the foundation of the strategy map and identifies the intangible assets that are most important to strategy.[2459] We believe that intangible assets are very different from physical and financial capital, and therefore need to be managed differently. Physical and financial capital abide by zero sum principles. This means that the more you use these assets (e.g. machinery, materials or money), the less you have left of them for future use. With intangible assets it is exactly the opposite.

5.5.6.2.1 Human Capital

"Perhaps the most important resource of an organization is its people."[2460]

"In the end, all business operations can be reduced to three words: people, product, and profits. People come first. Unless you've got a good team, you can't do much with the other two."[2461]

5.5.6.2.1.1 Summary

The competencies of human capital are skills, values as well as knowledge. Yet, we conclude that these elements only foster the individual expert level and therefore need to be complemented with two additional issues of a more collective character: organisational learning and change management.

In order to survive and gain competitive advantages, organisational learning is of major importance to companies. Many other advantages highlight the relevance of this concept, too. One new frame of reference especially needs to be pointed out: collective learning within the context of a network. Not only organisational learning but also knowledge management is an effective tool for facing uncertainty. In order to successfully adapt to an uncertain environment, change is important. The issue of how to actively destroy old knowledge deserves more attention. Hence, organisational learning and change

2455 Kaplan and Norton (2004b), p. 199
2456 In this specific case: Luxfer Gas Cylinders (LGC)
2457 Kaplan and Norton (2008), p. 77
2458 Kaplan and Norton (2004a), p. 207
2459 Kaplan and Norton (2004a), p. 54
2460 Johnson, Scholes and Whittington (2008), p. 434
2461 Iacocca (1984), p. 176

management are closely related to each other and relevant to the continued existence of every company. Organisational learning creates and fuels change. The latter is often met by resistance and inertia. To successfully change this, not only is agility needed but the types of change and also ineffective and successful approaches have to be known. Only then will it be possible to mobilise and sustain change and to play a sensemaking and sensegiving role.

The components of human capital are strongly linked to its development through the management of innovation and knowledge. The latter is the last source of competitive advantage mentioned by Blili that has not yet been explicitly looked at in this thesis.

5.5.6.2.1.2 Description

Kaplan and Norton identify skills, knowledge and values as being the competencies of human capital.[2462] We will add organisational learning and change management to this. These two concepts encompass knowledge and values as well.

5.5.6.2.1.2.1 Skills

Since all tasks are performed by people, the success of a company depends on the quality, expertise, motivation and commitment of executives and employees.[2463] Flexibility, loyalty, trust and co-operation are also relevant.[2464]

After all, people are an enterprise's only one true resource. Thus, a company will only succeed by making its people productive. Since goals are accomplished through work, making work productive is an essential function.[2465]

People's knowledge and experience can be the key factors influencing the success of strategies.[2466] Kaplan and Norton also add skills, values and knowledge to this.[2467]

Human capital can be developed through innovation and knowledge management, and this will help to build competitive advantage.[2468] Cokins, however, suggests that the capabilities of people are arguably the most wasted asset of an organisation.[2469]

Obviously, the arguments that are discussed here are closely related to the previous chapter. In the machine age, workers merely had to operate machines. In today's knowledge society, however, the knowledge of experts is needed.[2470] Personal networks may help to enhance such knowledge.

However, we conclude that this expert level, which we consider to be the individual aspect of human capital, needs to be complemented with the following two issues that have a more collective character:

- organisational learning,
- change management.

2462 Kaplan and Norton (2004a), p. 200 and p. 203
2463 Maucher (2007), p. 68
2464 Bailom, Matzler and Tschemernjak (2006), p. 143 referring to Grant (2005)
2465 Drucker (1974a), in: Drucker (2008), p. 15
2466 Johnson, Scholes and Whittington (2008), p. 475
2467 Kaplan and Norton (2004b), p. 226
2468 Opinion, Blili (2010)
2469 Cokins (2009), p. 81
2470 Malik (2011), p. 16

5.5.6.2.1.2.2 Organisational Learning

5.5.6.2.1.2.2.1 Major Relevance

Throughout this thesis, the major importance of organisational learning has been stressed time and again:

- Prahalad and Hamel describe the diversified corporation as a large tree, with the trunk and major limbs being core products and the smaller branches being business units. The end products are the leaves, flowers, and fruit. The core competence is the root system that provides nourishment, sustenance, and stability.[2471] Core competencies stand for the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies,[2472] as well as communication, involvement, and a deep commitment to working across organisational boundaries.[2473] Prahalad and Hamel go on to argue that firms, in order to have a competitive advantage, must exploit their core competencies which are the result of collective and accumulated organisational learning. Being the fruit of learning, these competencies can be considered as knowledge-based resources.[2474]
- Innovations imply "trial-and-error" processes,[2475] and hence organisational learning, which is decisive for the competitiveness of a company in dynamic and turbulent environments.[2476]
- It has become obvious that the success of corporations in the post-industrial era lies more in their intellectual and systems capabilities than in their physical assets. To manage human intellect and convert it into useful products and services is fast becoming a critical skill. This is why there has been a flurry of interest in intellectual capital, creativity, innovation and the learning organisation.[2477]
- Kaplan and Norton hold that the learning and growth perspective tells the company about the knowledge, skills and systems that its employees will need (their learning and growth) to innovate and build the right strategic capabilities and efficiencies (the internal processes) that deliver specific value to the market (the customers), which will eventually lead to higher shareholder value (the financials).[2478]
- In dynamic conditions, managers need to create the organisational conditions necessary to encourage individuals and groups to be forward-thinking, intuitive and prepared to challenge possible futures in an approximation of organisational learning.[2479]
- In international organisations, head-office managers can no longer afford to ignore learning opportunities from their foreign counterparts. They have to engage in a dialogue with subsidiary managers, listen and also search for new ideas around the world.[2480]

2471 Prahalad and Hamel (1990), p. 83
2472 Prahalad and Hamel (1990), p. 83
2473 Prahalad and Hamel (1990), p. 84
2474 Prahalad and Hamel (1990)
2475 Nelson (1991), in: Osterloh and Frost (2000), p. 170
2476 Osterloh and Frost (2000), p. 171
2477 Quinn, Anderson and Finkelstein (1996), p. 71
2478 Kaplan and Norton (2000a), pp. 74-75
2479 Johnson, Scholes and Whittington (2008), p. 423
2480 Adler and Bartholomew (1992), pp. 52-65, in: Schneider and Barsoux (2003), p. 197

- Finally, Mintzberg, Lampel, Quinn and Ghoshal believe that strategy-making is a learning process.[2481] We have seen that the stretch between the available constellation of resources and the aimed-for company goals becomes the most important challenge for top management. Hamel and Prahalad[2482] argue that in this way a continuous willingness to learn and innovate evolves, in which the development of specific competencies and capabilities is fostered.[2483] These issues lead to organisational learning, which is decisive for the competitiveness of a company in dynamic and turbulent environments. Thus, organisational learning constitutes the pivotal question of strategy.[2484]

The specific context of this last aspect, i.e. the close relationship between the incremental/emerging approach and organisational learning needs to be underlined. This brings us back to the beginning of this thesis. Organisational learning's central tenets[2485] are akin to aspects of logical incrementalism and also correspond to what Gary Hamel calls *"resilient"* organisations. These continually reinvent themselves by refusing to take their success for granted and building the capability to imagine new business models.[2486]

In emergent strategies, both formulation and implementation merge into a fluid process of learning and creative strategies.[2487] Incremental strategy development processes that lead to the emergence of strategy are the natural outcome of the influence of organisational culture,[2488] individual and collective experience, political processes[2489] and prior decisions. Hence, strategy development processes need to encourage people to have the capacity and willingness to challenge and change their core assumptions as well as their ways of doing things. This then leads to the idea of the learning organisation.[2490] However, it also emphasises the delicate balance faced by an organisation in developing its strategy. For example, it has on one side internal cultural forces for inertia that tend to constrain strategy development, while on the other it has behaviours and routines within its culture that might potentially provide the capabilities for competitive advantage.[2491] As structures that have been built for stability rather than change, organisations have traditionally been seen as hierarchies and bureaucracies set up to achieve order and maintain control. A learning organisation, on the other hand, is one that is capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture, and which encourages mutual questioning and challenge around a shared purpose or vision. Such organisations also emphasise the potential capacity and capability to regenerate themselves from within, and in this

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2481 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. ix
2482 Hamel and Prahalad (1993), in: Osterloh and Frost (2000), p. 166
2483 Osterloh and Frost (2000), p. 166
2484 Osterloh and Frost (2000), p. 171
2485 Johnson, Scholes and Whittington (2008), p. 422
2486 Hamel and Valikangas (2003), pp. 52-63, in: Johnson, Scholes and Whittington (2008), p. 422
2487 Mintzberg (1989), p. 26
2488 As we have already seen, *"Organisational culture is to do with the taken for granted in an organisation. That includes the basic assumptions and beliefs that are shared by members of an organisation ... and the taken-for-granted ways of doing things and structures ... So a cultural explanation of strategy development is that it occurs as the outcome of the taken-for-granted assumptions and behaviours in organisations. The important thing to stress here is that this taken-for-grantedness works to define, or at least guide, how the people in an organization view that organisation and its environment. It also tends to constrain what is seen as appropriate behavior and activity."*, in: Johnson, Scholes and Whittington (2008), p. 416
2489 As we have already seen, *"The political view of strategy development is, then, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders)."*, in: Johnson, Scholes and Whittington (2008), p. 414. See DeLuca (1999); and Miller (2006), in: Johnson, Scholes and Whittington (2008), p. 414
2490 Johnson, Scholes and Whittington (2008), p. 421
2491 Johnson, Scholes and Whittington (2008), p. 421

way for dynamic strategies to emerge naturally.[2492] By arguing for the need to craft strategy, Mintzberg frequently returns to the immediacy of the image of the potter, undergoing iterative and recursive learning and knowledge-building processes via the tactile immediacy of manipulating the clay: a feedback relationship between thought and action (recursive enactment).[2493]

As we have already seen, emergent strategies are based on learning.[2494] Their effectiveness is connected to the development of relationship assets (network memberships, access to resources that can help to transform information into useful knowledge), and the ability to transfer knowledge, especially tacit knowledge, across the various parts of the firm. The monitoring and control of the strategic planning process is also connected to the ability to learn, which is related to the characteristics of the organisational system, and therefore the ability of firms to accumulate relationship or social capital.[2495]

Usually, the collective knowledge of all the individuals in an organisation exceeds what the organisation itself knows and what it is capable of doing. This is highlighted by advocates of the learning organisation.[2496] Moreover, an organisation's formal structures typically stifle organisational knowledge and creativity. These advocates hold that the aim of management should be to encourage processes that unlock the knowledge of individuals and encourage the sharing of information and knowledge, so that every individual becomes sensitive to the changes occurring around them and contributes to the identification of opportunities and required changes.[2497] In this way, the importance of seeing organisations as social networks,[2498] where the focus is not so much on hierarchies as on different interest groups that need to co-operate with each other and potentially learn from each other, is emphasised. As ideas bubble up from below, the risk of their fizzling out because there is a lack of interest from other parts of the organisation is reduced. Thus, organisational learning's central tenets are as follows:

- First, the task of managers is to facilitate rather than direct.
- Second, there are lateral as well as vertical flows of information and relationships between people.
- Third, organisations are pluralistic and welcome conflicting ideas and views. These are surfaced and become the basis of debate.
- Finally, the norm is experimentation. In this way, ideas are tried out in action and in turn become part of the learning process.[2499]

5.5.6.2.1.2.2.2 Main ideas

Organisational learning is closely related to individual as well as to collective learning. Below, we will discuss the main ideas that are related to this field.

2492 Johnson, Scholes and Whittington (2008), p. 421
2493 Bürgi, Jacobs and Roos (2005), p. 82, referring to Mintzberg (1987c)
2494 McDonald and Burton (2002), p. 253
2495 McDonald and Burton (2002), pp. 252-253, as well as Dasgupta and Serageldin (2000), in: McDonald and Burton (2002), pp. 252-253
2496 Senge (1990a); Also Crossan, Lane and White (1999), pp. 522-537; See also Coopey (1995), pp. 193-213, in: Johnson, Scholes and Whittington (2008), p. 421
2497 Johnson, Scholes and Whittington (2008), pp. 421-422
2498 See e.g. Granovetter (1973), pp. 1360-1380; Carroll and Teo (1996), pp. 421-440, in: Johnson, Scholes and Whittington (2008), p. 422
2499 Johnson, Scholes and Whittington (2008), p. 422

- Organisational learning must first be grounded in **individual learning**.[2500] Individual learning can be described as the complex result of the interaction of an individual with his social and material environment, his memory and his thoughts. As a result of this, an individual develops both explicit and tacit knowledge.[2501] The former is a smaller proportion of the total knowledge of an individual than tacit knowledge, and can be more easily disseminated and shared with the whole of the organisation, because it can take a tangible form. Since it is conscious knowledge, it can easily be verbalised and found in a firm's manuals and documentation. Tacit knowledge, on the other hand, is the result of action learning and difficult to verbalise.[2502] Similarly, Hayek,[2503] as well as Jensen and Meckling,[2504] mention two types of knowledge: general knowledge that can cheaply and easily be transferred up an organisational hierarchy, and specific knowledge that is difficult and costly to transfer even with modern information systems. The latter, which includes, for example, the know-how of skilled craftsmen and experienced managers, is often tacit and can therefore not be written down in blueprints or easily communicated to other people.[2505] Jensen and Meckling advocate that those decisions which depend on specific knowledge should usually be delegated to those who possess the requisite know-how and information. Therefore, only decisions which rest on general knowledge can potentially be made higher up the corporate hierarchy.[2506] Yet, the things that individuals have learned by the age of twenty-one will begin to become obsolete five to ten years later and will have to be replaced, or at least refurbished, by new learning, new skills and new knowledge. Therefore, individuals will increasingly have to take responsibility for their own continual learning and relearning, for their own self-development and for their own careers.[2507] The capacity to educate oneself in organisations where strategies are constantly moving is essential.[2508] Furthermore, the ability to transform data into knowledge and to beneficially use it for the company makes the individual the central bearer of the organisational knowledge basis.[2509]
- **Organisational learning:** A company can be defined as a learning organisation when it is skilled at creating, acquiring, and transferring knowledge, and at modifying its behaviour to reflect new knowledge and insights.[2510] Organisational learning rests on the premise that an organisation is an entity with collective knowledge that is expressed by means of a "theory in use" reflecting the capacity of an organisation's individuals to adopt problem-solving behaviour.[2511] It arises when the "theory in use" can no longer solve the problems and anomalies confronted by those inside the organisation. This is why they develop new practices which will, if successful, be able to modify the "theory in use" shared by the entire organisation.[2512] Even though collective learning is more than the sum of the learning of individuals,

2500 Probst and Büchel (1997)
2501 Nonaka and Takeuchi (1995)
2502 Nonaka, Toyama and Nagata (2000)
2503 Hayek (1945), pp. 519-530, in: Collis and Montgomery (2005), p. 154
2504 Jensen and Meckling (1991), pp. 251-274, in: Collis and Montgomery (2005), p. 154
2505 Polyani (1962), in: Collis and Montgomery (2005), p. 154
2506 Collis and Montgomery (2005), p. 154
2507 Drucker (1985), in: Drucker (2008), p. 325
2508 Johnson, Scholes, Whittington and Fréry (2008), p. 566
2509 Probst, Raub and Romhardt (1999), p. 39
2510 Garvin (1993), p. 80
2511 Argyris and Schön (1978)
2512 Argyris and Schön (1978)

individual learning is a prerequisite of the former.[2513] When neither individual learning nor the learning of a small group spreads to the entire organisation in order to permeate its system and its structures, the potential will remain unexploited and will fall into oblivion.[2514] That is why organisational learning must become part of the processes and structures in order to have an effect on organisational practices and become a competitive advantage. Nonaka and Takeuchi[2515] hold that knowledge is created by the interaction between explicit and tacit knowledge, a phenomenon which they call *"knowledge conversion"*. Creating new knowledge is, therefore, the fruit of the interaction between individuals who have different types of knowledge, and by this means of conversion, tacit and explicit knowledge increase in quality and quantity.[2516] In order for the conversion and creation of knowledge to occur, organisational structures must be put in place for systems and individuals to learn how to learn. The following key elements facilitate this sharing of learning:

- Communication channels;
- The work environment, the architecture of the premises, procedures, routines and systems;
- Measures encouraging the members of the organisation to keep up to date with explicit knowledge instead of relying only on their tacit knowledge.[2517]

However, organisational learning in SMEs may differ significantly from large organisations, where most of the theories and research are developed. Since SMEs are faced with limited resources and a perpetually changing hostile environment, they must make innovation a priority. Unfortunately, SMEs, due to the circumstances they face, are often forced to use their resources to achieve short-term objectives rather than make long-term investments that could give them a competitive advantage. This is the reason why training and development in human resources in SMEs are generally informal and aimed at meeting short-term needs.[2518] Hence, action learning (i.e. learning in the field) is often the most common learning method in SMEs. Under such conditions, the transfer of tacit knowledge is more likely to take place through a socialisation process, that is to say, from tacit learning to tacit learning.[2519] With this limitation to a single type of learning transfer, it is clear that SMEs are at a disadvantage in comparison to large companies as far as their learning capacity is concerned.[2520]

- **Collective Learning:** We have already mentioned single-loop learning[2521] and double-loop learning[2522]. The former is about closing gaps between the results achieved by the organisation and its objectives by adapting procedures and actions within the existing frame of reference. Hence, this type does not question the values and norms of the organisation. In double-loop learning,

2513 Probst and Büchel (1997)
2514 Lundberg (1995), pp. 10-23
2515 Nonaka and Takeuchi (1995)
2516 Nonaka and Takeuchi (1995)
2517 Probst and Büchel (1997); Senge (1990b)
2518 Hill and Stewart (2000)
2519 Hill and Stewart (2000)
2520 Opinion, Blili (2010)
2521 Probst and Buchel (1997)
2522 Argyris and Schön (1978)

on the other hand, a transformation of relations between the organisation and the environment occurs. Double-loop learning, however, may have the effect of restructuring dominant values and may result in a complete revision of existing objectives and norms. In a network, it can be assumed that the processes have developed beyond the boundaries of the organisation. Thus, a form of collective learning is taking place.[2523]

However, there is much relatively superficial learning in companies. Incisive learning does not occur due to the following reasons:

- First, **many senior executives are overconfident**. They miss emerging threats through excessive faith in the current assumptions and ways of doing things and fail to heed or investigate the early warnings. Thus, all too often the key knowledge is not in the heads of those who must formulate the response but elsewhere in the company.
- Second, when executives have to make sense of faint or confusing signals and develop new responses and initiatives, they need **time out from regular activities**, otherwise they become overstretched. Yet, this calls for discipline.[2524]
- Third, because they are **overanxious**, executives sometimes come up with new ideas but then fail to follow through quickly enough and want complete information before setting off in a new direction. Hence, they feel intimidated by the level of resources required and the risk of failure.[2525]

Another problem is that in the business world, there is a phenomenon of knowing too much and doing too little.[2526] When confronted with problems, it is as if discussing them, formulating decisions, and hashing out plans for action are the same as actually fixing them. It is evident that talk, unlike action, carries little risk. Yet, this can paralyse a company.[2527]

5.5.6.2.1.2.3 Change Management

"We claim to embrace change, but are trained to avoid uncertainty as much as we can."[2528]

5.5.6.2.1.2.3.1 An Inherent Part of Strategy

Organisational learning not only creates but also fuels change,[2529] and managing uncertainty is not only or even primarily about learning: it is about change[2530]. Typically, strategic change is a crucial component of strategy.[2531] This becomes evident with Mintzberg, for example. He points out that emergent strategy-making is about the positioning of an organisation in market niches, deciding which products will be produced and for whom. In a broader sense, though, it refers to how the collective system called an organisation establishes and, when necessary, changes its basic orientation.[2532]

2523 Opinion, Blili (2010), based Probst and Büchel (1997) and Argyris and Schön (1978)
2524 Barsoux and Bottger (2006), p. 39
2525 Barsoux and Bottger (2006), p. 39
2526 Pfeffer and Sutton (1999), p. 23
2527 Pfeffer and Sutton (1999), p. 24
2528 De Holan (2006), p. 140
2529 Ferrand and Paquet (1994), pp. 1-16
2530 De Holan (2006), p. 142
2531 Johnson, Scholes and Whittington (2008), p. 6 and p. 15
2532 Mintzberg (1989), p. 25

Consequently, during the last few decades, enormous attention has been paid to the implementation of strategy, and therefore change management has gained in importance. Since there is an ever-increasing pace of change, be it technological, economic or consumer trends, it has become a crucial leadership task. However, it is also up to the board to manage emerging crises.[2533]

Thus, a substantial literature exists on the topic of change management.[2534] This also has to do with the fact that in today's fast-developing environment no company can afford not to implement its altered strategy in due time.

5.5.6.2.1.2.3.2 Tendency Towards Inertia and Resistance

The time that is left for a company to handle a crisis situation is scarce. Hence, quick action is required. Agility becomes an ability to change tactics or direction quickly.[2535] That is why we conclude that nowadays change management has become daily management.

Yet, the change of a system requires the understanding of its structure and functioning.[2536] People tend to hold on to existing ways of doing things.[2537] Since the major problem reported in managing change is the tendency towards inertia and resistance to change,[2538] designing a structure and putting in place appropriate resources do not of themselves ensure that people will make a strategy happen.[2539]

Inertia

"Active inertia exists because the pull of the past is so strong."[2540]

A company possesses momentum, which ensures that even without intervention it can coast for several years with little change to economic performance or organisational climate. At the same time, it also possesses inertia, which makes the task of wrestling the corporation from its current path extraordinarily difficult.[2541] Hence, Sull identifies *"active inertia"* as one of the most important reasons for failure.[2542]

This is the case when the company stops looking for other alternatives. Because the way how things are done is known and convenient, they become routines. This is supported by the recruitment process, which prefers *"people like us".*[2543] In fact, professionals, for example, tend to look to their peers in order to determine codes of behaviour and acceptable standards of performance, and often refuse to accept evaluations by those

2533 Maucher (2007), pp. 42-43
2534 Collis and Montgomery (2005), p. 255
2535 Gloria Miacias-Lizeso and Thiel (2007), in: Andersen, Froholdt and Poulfelt (2010), p. 73
2536 Katz and Kahn (1978), p. 710
2537 Johnson, Scholes and Whittington (2008), p. 518
2538 *"Many books and papers on strategic change build on the idea that the current state of an organization is likely to be one of inertia or resistance to change, and that there is, then, a need to "unfreeze" this situation. The dominance of this idea can be tracked back to the work of Lewin."* See Lewin (1958), in: Johnson, Scholes and Whittington (2008), p. 518
2539 Johnson, Scholes and Whittington (2008), p. 518
2540 Sull (1999), p. 52
2541 Collis and Montgomery (2005), p. 235
2542 Sull (1999), p. 42
2543 Sull (1999), p. 46

outside their discipline.[2544] Many tend to surround themselves with people who have similar backgrounds and values. Such discipline-based cocoons quickly become inward-looking bureaucracies resistant to change and detached from customers.[2545]

Yet, when values become dogmas there is a danger that *"the values no longer inspire, and their unifying power degenerates into a reactionary tendency to circle the wagons in the face of threats. The result, again, is active inertia."*[2546]

The danger also exists that culturally embedded competencies built up over time become so embedded that they are difficult to change and that they become core rigidities.[2547]

The more a planned change is contrary to a dominant company culture, the less chance of success it will have. To implement changes that require new thinking and which call for an attitude which so far has been neither intended nor rewarded and, consequently, not learnt, is extremely difficult.[2548]

Perhaps culture, embedded in the broader administrative context, is the hardest thing of all to change. This is because it ultimately requires changes in people and their attitudes. However, to address this can be the most long-term and difficult aspect of corporate transformation, because culture itself is not directly accessible.[2549] It is the consequence and cumulative interaction of so many different aspects that it cannot be directly managed. Instead, every executive has to be aware that each of his or her actions can be interpreted symbolically and may leave an enduring legacy. This is why the importance of understanding the strategy needs to be reinforced, since it demands that every single action is consistent with that strategy.[2550]

Thus, strategic change is often difficult due to the heritage of resources as well as the organisational culture.[2551] Sull is convinced that if one tries to make a break with a radical act of organisational revolution, the pull of the past, which is so strong and the reason for the existence of active inertia, will leave people disoriented and disenfranchised. They are simultaneously cut off from the past but unprepared to enter the future. For managers, it is therefore better to respect the company's heritage and to build on the foundations of the past, even if they teach employees that old strategic frames, processes, relationships, and values need to be recast in order to meet new challenges.[2552]

After all, for managers it can be very difficult to give up things that have worked well in the past for the uncertain possibility of future success from a different strategy.[2553] This is why changes are often made too late, and the crisis caused by the imminent failure of the original strategy triggers dramatic action.[2554]

Because of being locked into a given way of competing, a firm can also fail to exploit scale or scope economies emerging in an industry. For example, a firm with a leading market position that over the years has developed a set of resources specifically tailored

2544 Quinn, Anderson and Finkelstein (1996), p. 72
2545 Quinn, Anderson and Finkelstein (1996), p. 73
2546 Sull (1999), p. 48
2547 Johnson, Scholes and Whittington (2008), p. 106
2548 Doppler and Lauterburg, p. 91
2549 Collis and Montgomery (2005), p. 254
2550 Collis and Montgomery (2005), p. 255
2551 Johnson, Scholes and Whittington (2008), p. 6
2552 Sull (1999), p. 52
2553 Collis and Montgomery (2005), pp. 51-52
2554 Collis and Montgomery (2005), p. 52

to that strategy and with routines, a power structure, and a value system that were are aligned with that strategy has difficulties in changing. There are two reasons why such embedded practices make change difficult:

- first, they interfere with signals that suggest that change is necessary;[2555] and
- second, in myriad ways, they impede firms' attempts to do things differently.

Thus, while in its initial strategy these tightly woven systems and processes are a source of advantage, they often constitute for a firm *"the dark underside of organizational resources,"* when core capabilities become core rigidities.[2556] As a consequence, institutionalised capabilities can lead to inertia, as dramatically illustrated by companies such as Maytag and Iowa Beef.[2557]

Resistance

"Resistance to change is human nature."[2558]

The successful adaptation of the company to its environment leads to viable paths of change and may be identified by answering a series of questions about the relative strength of the forces of change and resistance.[2559]

Resistance can arise in different forms. For example, intended decisions or undertaken measures, which even after due consideration still seem to be logical or even urgently necessary, can be met with diffuse disapproval, induce concern which cannot immediately be comprehended, or they can be undermined with passive behaviour.[2560]

Kotter and Schlesinger list the following most frequent reasons for resistance to change: parochial self-interest; different assessments; low tolerance for change; misunderstanding and lack of trust.[2561] If a lack of trust occurs between the person initiating the change and the employees, people often resist the change, as they do not understand its implications and suspect that it might cost them much more than they will gain.[2562] Hence, implementation and change can only be successful when there is mutual trust between employees and executives.[2563]

Kotter and Schlesinger go on to list how resistance should be dealt with: education, communication, participation, facilitation, involvement, negotiation, agreement, manipulation, co-optation, as well as explicit and implicit coercion.[2564]

Leadership, too, plays an important role in change processes. Probst and Raisch argue that in order to implement change, strong leadership is required to sustain one's position against resistance.[2565] For Kotter, leadership does not produce consistency and order (as the word itself implies) but movement. He goes on to argue that throughout the ages individuals who have been seen as leaders have created change, sometimes for the

2555 Collis and Montgomery (2005), p. 75
2556 Leonard-Barton (1992), pp. 111-125, in: Collis and Montgomery (2005), p. 76
2557 Collis and Montgomery (2005), p. 76
2558 Cokins (2009), p. 77
2559 Strebel (1994) pp. 34-35
2560 Doppler and Lauterburg (2002) p. 323
2561 Kotter and Schlesinger (1979), pp. 107-109
2562 Argyris (1970) p. 70
2563 Stöger (2010), p. 315
2564 Kotter and Schlesinger (1979), pp. 109-113
2565 Probst and Raisch (2004), p. 41

better and sometimes not.[2566] He also sustains that leadership's primary function is to produce change. In *"effective leadership, the direction of that change is carefully selected in an activity that is at the core of what leadership is all about."*[2567]

5.5.6.2.1.2.3.3 Types of Change

When embarking on strategic change, an organisation faces important challenges in terms of the types of change that are required. The diagnosis includes the variety of contextual and cultural factors that need to be considered, as well as the forces blocking or facilitating change.[2568]

We have already seen that strategy development is typically incremental in nature. It builds on prior strategy and is adaptive in the way it occurs, with only occasionally more transformational changes.[2569] This has been further developed by Balogun and Hope Hailey, who identify four types of strategic change which have implications for how change might be managed.

The first aspect they look at is the nature of change. Since change should be built on the skills, routines and beliefs of those in the organisation, it may be argued that it is beneficial for change in an organisation to be **incremental**. However, in situations where an organisation faces a crisis or needs to change direction fast, a **big-bang** approach to the nature of change might be needed. Concerning the extent of change, it needs to be known whether change can occur within the current culture as a **realignment** of strategy or whether it requires a culture change. The latter is a more **transformational** change. The combination of these two axes suggests the following four types of strategic change:[2570]

Figure 20: Types of Change[2571]

		Extent of Change	
		Realignment	Transformation
Nature of Change	Incremental	Adaptation	Evolution
	Big Bang	Reconstruction	Revolution

- **Adaptation** is the most common form of change in organisations. It can be accommodated within the current culture and occurs incrementally.

2566 Burns (1978), in: Kotter (1990), p. 4; Levinson and Rosenthal conclude their study of CEOs as follows; *"Strong leaders are necessary, particularly for organizations that must undergo significant change. Not good managers or executives, but strong leaders."*, in: Levinson and Rosenthal (1984), p. 289, in: Kotter (1990), p. 4
2567 Kotter (1990), p. 35
2568 Johnson, Scholes and Whittington (2008), p. 518
2569 Johnson, Scholes and Whittington (2008), pp. 519-520
2570 Balogun and Hope Hailey (1999), in: Johnson, Scholes and Whittington (2008), p. 520
2571 Adapted from Balogun and Hope Hailey (1999), in: Johnson, Scholes and Whittington (2008), p. 520

- **Reconstruction** may involve rapidity and a good deal of upheaval, but it does not fundamentally change the culture. A possible situation is a turnaround, involving substantial structural changes or a major cost-cutting programme to deal with a decline in financial performance or difficult or changing market conditions.
- **Revolutionary** change requires both rapid and major strategic change but also culture change.[2572] When compared with reconstruction, a revolutionary change also differs in another way. It may be that to the employees the need for change is not as evident as in a turnaround situation, or that they see reasons to deny the need for change. Both differences make managing change especially challenging.[2573]
- **Evolution** is about change in strategy which requires culture change, but over time.[2574] To manage change in this way involves transformational change, but incrementally.[2575] First, it can be thought of in terms of the creation of an organisation capable of continual change, i.e. a learning organisation, and requires:
    - An empowerment of the organisation in which, rather than top-down management, there is the need for people throughout the organisation to accept responsibility for contributing strategic ideas, for innovating, and for accepting change as inevitable and desirable. It is thus obvious that there is a need for a high level of participation in the change agenda.
    - The creation of a context within which new ideas can bubble up from below around a coherent view of long-term goals. This is the responsibility of top management and requires them to provide very clear guidelines (vision, mission or simple rules) around which the ideas can cohere.
    - Continual change as well as a commitment to experimentation concerning organisational processes throughout the organisation.

  The second way of conceiving a strategic evolutionary change is in terms of the movement from one strategy to a changed strategy, but over time, perhaps many years. Here, the following principles might guide managers:
    - The identification of interim stages, i.e. stages of transition, in the change process is important.
    - Some changes may be identified which have no immediate major impact but which will have long-term and irreversible impacts.[2576]
    - There is a danger that the momentum for change falters because people do not perceive consistent and sustained commitment to it from top management.
    - It is likely that any transformational change requires a culture change. However, winning the hearts and minds of people may be

2572 Johnson, Scholes and Whittington (2008), p. 520
2573 Johnson, Scholes and Whittington (2008), p. 544
2574 Johnson, Scholes and Whittington (2008), p. 521
2575 One type of change is incremental, where people want to keep doing what they are doing, but they want to do it better. The other type of change is transformational and requires people to examine whether their basic assumptions are appropriate, in: Nevis (2000), p. 46
2576 Johnson, Scholes and Whittington (2008), p. 545

more problematic for evolutionary change than for revolutionary change. The reason is that people may simply not recognise that there are problems with the status quo.[2577]

5.5.6.2.1.2.3.4 Ineffective and Successful Approaches

Some examples of things that can go wrong in the management of change programmes are listed below:

- Programme overload due to the risk that initiatives are seen by others as change rituals, signifying very little, or that they become eroded by another event taking place.
- Well-meaning change efforts can become hijacked processes that are used by others for different purposes.
- The attempted change becomes a reinvention because it becomes reinterpreted according to the old culture.
- The change programme becomes disconnected, since people affected by the change may not see it as connected to their reality.
- There is only behavioural compliance, as people appear to comply with the changes being pursued in the change programme without actually buying into them.[2578]

At the same time, a myriad of successful approaches to change management is proposed in the literature.

Following the insights of Schumpeter, the creation of value first requires a creative destruction.[2579] Consequently, according to Bailom, Matzler and Tschemernjak, in many industries and companies there is an increasing awareness that the change of systems is more important than the mere improvement of systems.[2580]

All changes involve some process of moving that goes from an existing clarity of understanding to doubt, uncertainty, and/or ambiguity, and ultimately to a state of renewed clarity which resolves into an altered form. This observation echoes the long-lasting characterisation of change of Lewin,[2581] which involves the stages of unfreezing, moving and refreezing.[2582]

Schein finds Lewin's basic change model to be a theoretical foundation upon which change theory could be solidly built.[2583] Mintzberg, too, draws on this three-stage model to explain a "gestalt" shift in vision.[2584]

In any case, it must be recognised that perfectly sound strategies are not easily implemented.[2585] Hence, managing change is a major challenge and can be built on the following three key premises:

2577 Johnson, Scholes and Whittington (2008), p. 546
2578 Largely based on Harris and Ogbonna (2002), pp. 31-49, in: Johnson, Scholes and Whittington (2008), p. 546
2579 Schumpeter (1987), in: Bailom, Matzler and Tschemernjak (2006), p. 31
2580 Bailom, Matzler and Tschemernjak (2006), p. 31
2581 Lewin (1951), in: Corley and Gioia (2004), p. 174; See also Lewin (1947), in: Lombriser and Abplanalp (1998), p. 331
2582 Corley and Gioia (2004), p. 174
2583 Schein (1999), p. 2
2584 Mintzberg (1989), p. 126
2585 Gimartin and Biggadike (1991), in: Beer and Eisenstat (2000), pp. 29-30

- First, there is a need to understand that **strategy matters** and that therefore the need for the strategic change, the bases of the strategy in terms of strategic purpose, as well as the more specific strategy choices, have to be understood.
- Second, there is **no one right way** for the management of strategic change but instead the approach needs to be context dependent. Therefore, it has to be considered how different approaches may be balanced according to the circumstances faced.
- Finally, it is **unrealistic to suppose that change happens in a top-down manner** by top managers putting into effect the changes required. After all, there are also middle managers and junior ones who play major roles in managing change, and therefore strategies may emerge from lower down in the organisation.[2586]

Concerning this last aspect, Cokins mentions that a command-and-control style of management, trying to mandate change through force went out the window years ago with the Iron Curtain's Berlin Wall. In today's companies, employees are knowledge workers. When the executive team proclaims that they are now going to shift direction and go this new way, most managers still fold their arms in resistance and silently say to themselves, *"Convince me."*[2587] From Schreyögg, we learn that the readiness to change increases when:

- A mutual understanding of the necessity of change has been established.
- The change concept has been co-developed.
- The change has been jointly concluded.
- The change has been made easy to grasp.[2588]

In this context, Beer and Eisenstat list the following six strategy killers,[2589] i.e. barriers to strategy implementation[2590]:

- *"Top-down or laissez-faire senior management style.*
- *Unclear strategies and conflicting priorities.*
- *Ineffective senior management team.*
- *Poor vertical communication.*
- *Poor coordination across functions, businesses, or borders.*
- *Inadequate down-the-line leadership skills and development."*[2591]

Only if these six silent killers are met head on and if they are transformed into the following six core capabilities, can companies become fast and agile.

- A leadership style that embraces top-down direction as well as learning from the feedback of those down the line.
- The top team formulates a clear strategy and spends significant amounts of time discussing it with lower levels.

2586 Johnson, Scholes and Whittington (2008), p. 518
2587 Cokins (2009), p. 90
2588 Schreyögg (2000), p. 32
2589 Beer and Eisenstat (2000), p. 32
2590 Beer and Eisenstat (2000), p. 37
2591 Beer and Eisenstat (2000), p. 32

- An effective top team which arrives at a common voice through constructive conflict and creates and maintains the organisational context needed to implement the strategy.
- The top team and lower levels are engaged in an open vertical dialogue about the organisation's effectiveness.
- With effective and co-ordinated teamwork, activities around customers, products or markets across diverse functions, localities and businesses are integrated.
- Down-the-line leadership based on giving mid-level managers with the potential leadership skills and general-management perspectives clear accountability and authority.[2592]

With reference to this last aspect, Balogun found that whilst top managers believed they were being clear about the intended strategy, change actually took place as a result of middle managers who made sense of the change initiatives. This was done in terms of the middle managers' own mental models in relation to their local responsibilities and conditions, through discussions with their peers and on the basis of rumour. Inevitably, top managers were too far away from these dynamics and could not be expected to understand them in detail or to intervene in specific ways. Therefore, Balogun advocates that senior managers can initiate and influence the direction of change but not direct change.[2593]

In managing strategic change programmes and the change teams associated with them, the Boston Consulting Group claims that the following key factors, which it has used since 1994, greatly increase the likelihood of success:

- First, **milestones** in order to review progress. At least bi-monthly, senior management should formally review change programmes and compare them against key tasks that need to be completed. Thus, the criteria have to be explicit and widely known.[2594]
- Second, a **high-integrity change team** with the required mix of skills to execute the change programme. The selection of such a team is senior management's key responsibility.
- Third, top management's **visible commitment to change and consistency** in how it is explained. This includes straight talking about change with those who will be affected. Finally, it is the responsibility of the executive team to make sure that the change team has sufficient time and effort to carry out their task.[2595]

Concerning the extent to which top managers can manage strategic change, Kotter[2596] argues that problems arise because top executives fail to take the necessary steps to manage such changes, including:

- The establishment of a sense of urgency on the basis of market threats or opportunities.

2592 Beer and Eisenstat (2000), p. 35; Tsoukas and Chia hold that change is an inherent property of organisations which is, however, dampened by hierarchy and management control, in: Tsoukas and Chia (2002), pp. 567-582, in: Johnson, Scholes and Whittington (2008), p. 548

2593 Balogun and Johnson (2004), pp. 523-549; Balogun (2006), pp. 29-49, in: Johnson, Scholes and Whittington (2008), p. 548

2594 See Gratton, Hope Hailey, Stiles and Truss (1999), in: Johnson, Scholes and Whittington (2008), p. 547

2595 See Sirkin, Keenan and Jackson (2005), pp. 109-118, in: Johnson, Scholes and Whittington (2008), p. 547

2596 Who is, according to Johnson, Scholes and Whittington (2008), p. 548, one of the foremost authorities on leadership and change

- The formation of a powerful coalition of stakeholders for change.
- The creation and communication of a clear vision and strategy in order to direct the change and to ensure that the behaviour of the guiding coalition is in line with the vision.
- The removal of obstacles to change.
- The creation of short-term wins.
- The consolidation of improvements but also the continuation of the process of change.[2597]

What also need to be mentioned are the so-called levers for change that need to be considered by change agents, including changes in structure and control, organisational routines and system symbols, the role of political activity, and more specific tactics.[2598] Change agents then have to consider which of these levers for managing strategic change need to be emphasised according to the change context.

- **To challenge the taken-for-granted:** In order to achieve strategic change, one of the major challenges can be the need to alter often long-standing mindsets or taken-for-granted assumptions, i.e. the paradigm. One view of how to do this is that sufficient evidence will itself serve to change the paradigm.[2599] However, if long-standing assumptions have persisted, they will be very resistant to change.[2600]
- **To change operational processes and routines:** At the end of the day, strategies are delivered through the day-to-day processes and routines of the organisation's operations. These might be more or less formalised and codified or according to the *"ways we do things around here".*[2601] This view tends to persist over time and guides people's behaviour.[2602]
- **The nature of symbolic processes:**[2603] The changing of symbols (objects, events, acts or people that convey, maintain or create meaning over and above their functional purpose) can help to reshape beliefs and expectations.[2604] This is because meaning becomes apparent in the day-to-day experiences within organisations, such as the symbols that surround people (for example, office layout and decor), the type of language and technology used, as well as organisational rituals.[2605]
- **Power processes and political context:** The management of strategic change also has to consider the importance of the political context in and around the organisation. This can be important, because it may be first necessary to build a political context for change, and second, in order to effect change, powerful

2597 Kotter (1995), pp. 59-67, in: Johnson, Scholes and Whittington (2008), p. 548
2598 Johnson, Scholes and Whittington (2008), pp. 518-519
2599 Johnson, Scholes and Whittington (2008), p. 533
2600 Johnson, Scholes and Whittington (2008), p. 534
2601 Deal and Kennedy (1984) refer to this description of *"the way we do things around here"*. Routines have, however, also been focused on by researchers who take a resource-based view, because they are arguably the bases of organisational competencies. See, for instance, Knott (2003), pp. 929-943, in: Johnson, Scholes and Whittington (2008), p. 534
2602 Johnson, Scholes and Whittington (2008), p. 534
2603 For a fuller discussion of this theme, see Johnson (1990), pp. 183-200. See also Higgins and McCallaster (2004), pp. 63-73, in: Johnson, Scholes and Whittington (2008), p. 535
2604 Johnson, Scholes and Whittington (2008), p. 535
2605 For a fuller discussion of the role of rituals in change, see Sims, Fineman and Gabriel (1993), in: Johnson, Scholes and Whittington (2008), pp. 535-537

support may be required from individuals or groups. Alternatively, when managing change, a reconfiguration of power structures may be necessary. This is especially the case if transformational change is required.[2606]

Change processes might also be facilitated by the employment of more specific tactics, like for example timing, which is often neglected but when the right time is chosen, it is vital for the promotion of change. In addition, it is important that certain strategic change programmes (requiring detailed actions and tasks) are seen to be successful quickly.[2607]

5.5.6.2.1.2.3.5 Mobilise and Sustain Change

The successful performance of the critical internal processes identified in an organisation's strategy map invariably requires an organisation to change fundamentally. The assessment of the readiness of organisation capital is essential in order to assess how well the company can mobilise and sustain the organisational change agenda associated with its strategy. For instance, if a company has a strategy that focuses on the customer, it needs to determine whether its existing culture is customer-centric, whether its leaders have the requisite skills to foster such a culture, whether employees are aware of the goal and are motivated to deliver exceptional customer service,[2608] and finally how well employees share their knowledge of the company's customers with others. Such assessments may be made as follows:[2609]

- **Culture:** By using measurement instruments,[2610] an organisation's culture can be described with a reasonable degree of reliability and validity. After having done that, the organisation can assess to what extent the existing culture is consistent with its strategy and what kinds of changes may be needed.[2611]
- **Leadership:** In Kaplan and Norton's research, companies that have successfully changed their strategies have only needed a limited number of behavioural changes. In fact, to maximise the contributions of their people to the execution of their new strategies, they have just needed the following seven behavioural changes that fall into two categories:
    - Behaviours that support the creation of value are those that increase focus on customers, innovation, and results.
    - The ones that support strategy execution are those that increase employees' understanding of the company's mission, vision and values; accountability; communications; and teamwork.

  Obviously, no organisation will try to change all seven behaviours at once, but typically will identify the two to four most important ones for implementing a specific strategy. However, in Kaplan and Norton's studies, customer focus

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2606 Johnson, Scholes and Whittington (2008), p. 538
2607 Johnson, Scholes and Whittington (2008), p. 540
2608 *"The final piece of this capabilities mosaic is Wal-Mart's human resources system. The company realizes that its frontline employees play a significant role in satisfying customer needs. So it sets out to enhance its organizational capability with programs like stock ownership and profit sharing geared toward making its personnel more responsive to customers."*, in: Stalk, Evans, and Shulman (1992), p. 178
2609 Kaplan and Norton (2004a), pp. 60-63
2610 *"Organizational behavior scholars have developed measurement instruments, such as Charles O'Reilly and colleagues' Organizational Culture Profile, in which employees rank 54 value statements according to their perceived importance and relevance in the organization. Once ranked, an organization's culture can be described with a reasonable degree of reliability and validity. Then the organization can assess to what extent the existing culture is consistent with its strategy and what kinds of changes may be needed."*, in: Kaplan and Norton (2004a), p. 60
2611 Kaplan and Norton (2004a), p. 60

was the most frequently identified one. This may be explained partly by the fact that virtually every strategy initiative starts with a clarification or redefinition of the customer value proposition.[2612]

- **Alignment:** Behaviours such as innovation and risk-taking are encouraged by aligned organisations, since individuals' actions are directed toward achieving high-level objectives.[2613] Generally, alignment requires the creation of awareness and subsequently the establishment of incentives. First, the high-level strategic objectives must be communicated by leaders in such a way that all employees can understand them. Furthermore, they must ensure that individuals and teams have local objectives and rewards that, if achieved, contribute to achieving their targets for high-level objectives.[2614] The measurement of alignment readiness is relatively straightforward because many survey instruments for assessing how well employees understand high-level strategic objectives and how much they know about them are already available. Moreover, it is also quite easy to see whether or not individuals' personal objectives and the company's existing incentive schemes are consistent with a high-level strategy.[2615]
- **Teamwork and Knowledge-sharing:** In order to shift individuals from hoarding to sharing their local knowledge, most organisations have to go through a cultural change. There is no asset with a greater potential for an organisation than the collective knowledge possessed by all its employees. Therefore, many companies, hoping to generate, organise, develop and distribute knowledge throughout the organisation have spent a lot of money on purchasing or creating formal knowledge management systems. In implementing such systems, it is challenging to motivate people to actually document their ideas and knowledge to make them available to others. For knowledge-sharing to matter, there must be an alignment with the priorities of the strategy map, as in the case of a chemical company that created several best practice communities to complement the internal process objectives on its strategy map.[2616]

5.5.6.2.1.2.3.6 Sensemaking and Sensegiving Efforts

In general terms, change can be described as follows: it involves an attempt to alter the current way of thinking and acting by the organisation's membership. More specifically, strategic change involves an attempt to change current modes of cognition and action so that the organisation is able to take advantage of important opportunities. If not, it will have to cope with consequent environmental threats.[2617]

Clearly, any substantive change leads to the alteration of existing values and meaning systems.[2618] With strategies often reflecting the values of top managers,[2619] an initial focus is on the values or meaning system of the CEO.[2620] Gioia and Chittipeddi hold

2612 Kaplan and Norton (2004a), p. 62
2613 Kaplan and Norton (2004a), p. 62
2614 Kaplan and Norton (2004b), p. 299
2615 Kaplan and Norton (2004a), p. 62
2616 Kaplan and Norton (2004a), p. 63
2617 Gioia and Chittipeddi (1991), p. 433
2618 Gioia (1986), pp. 49-74, in: Gioia and Chittipeddi (1991), p. 434
2619 Bourgeois (1984), pp. 586-596; Bower and Doz (1979), pp. 152-165; Hambrick and Mason (1984), pp. 193-206; Quinn (1980b), in: Gioia and Chittipeddi (1991), p. 434
2620 Gioia and Chittipeddi (1991), p. 434

that he or she, as well as other members of the organisation, need to understand any intended change in a way that makes sense or fits into some revised interpretive scheme or system of meaning.[2621] Towards this end, the CEO has to develop a sense of the organisation's internal and external environment[2622] and then, via a process that is labelled sensemaking, define a revised conception of the organisation. As a result of this interpretive work by the CEO (or top management team), an abstract vision of the changed organisation evolves and is disseminated to stakeholders and constituents. This is done via a process labelled sensegiving.[2623] In order to communicate that the existing interpretive scheme is no longer appropriate, the use of symbols and symbolic action is typically used.[2624] This also implies the creation of instability in members' ways of understanding the organisation, and demands that they make some new sense of it.[2625] Yet, the disconfirmation of an existing interpretive scheme requires a revised scheme to take its place.[2626] Therefore, an opportunity is created for the CEO to articulate and advocate his or her vision or preferred interpretive scheme for the stakeholders. This then leads to another sensemaking activity, this time by the stakeholders. Since change efforts seldom happen by decree but often hinge on consensus-building, the result of the sensemaking and sensegiving efforts is that the original abstract vision is likely to become more well-defined and undergo modifications. At least, this will be the case concerning espoused manifestations of the vision or processes used to achieve it. Finally, the CEO and the top management team can make adjustments and then push for a concerted effort towards realisation of the vision by the organisation's stakeholders.[2627]

5.5.6.2.1.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

5.5.6.2.1.3.1 Skills

Even in full-time and fairly low-level jobs, fewer and fewer people are "subordinates" but are instead increasingly "knowledge workers" and therefore "associates". They must know more about their job than their superior and anybody else in the organisation. This is part of the definition of knowledge workers. Moreover, "superiors" usually have not held the jobs their "subordinates" hold, as was the case some time ago and as is still widely assumed.[2628]

Knowledge workers do not produce something that is effective in itself but knowledge, ideas and information. Another person of knowledge has to take this as input and convert it into output before it has any reality. Thus, the knowledge worker should not provide meaningless data but effectiveness, and cannot depend on the utility his output carries with it in the way a well-made pair of shoes does.[2629] After all, even though contributing something different, each member of the enterprise must contribute towards a common goal, pull in the same direction, and their contributions must fit together to produce a whole, i.e. without gaps, friction or unnecessary duplication of effort.[2630]

2621 Bartunek (1984), pp. 355-372; Ranson, Hinings and Greenwood (1980), pp. 1-17, in: Gioia and Chittipeddi (1991), p. 434
2622 Thomas and McDaniel (1990), pp. 286-306, in: Gioia and Chittipeddi (1991), p. 434
2623 Cf. Whetten (1984), pp. 38-43, in: Gioia and Chittipeddi (1991), p. 434
2624 Frost and Morgan (1983), pp. 206-237; Pfeffer (1981), pp. 1-52, in: Gioia and Chittipeddi (1991), p. 434
2625 Poole, Gioia and Gray (1989), pp. 271-289, in: Gioia and Chittipeddi (1991), p. 434
2626 Ranson, Hinings and Greenwood (1980), pp. 1-17, in: Gioia and Chittipeddi (1991), p. 434
2627 Gioia and Chittipeddi (1991), p. 434
2628 Drucker (1999a), in: Drucker (2008), p. 78
2629 Drucker (1966), in: Drucker (2008), p. 194
2630 Drucker (1954a), in: Drucker (2008), p. 112

Every worker by virtue of his position or knowledge is an executive because of his responsibility for a contribution materially affecting the capacity of the organisation to perform and obtain results. Such a person cannot just carry out orders but must make decisions and take responsibility for his contribution. By virtue of his knowledge, this person is supposed to be better equipped to make the right decision than anyone else.[2631]

Drucker foresaw that the number of highly-educated specialists would increase tremendously and new technology would demand much closer co-ordination among them. He also foresaw that management, even at the lowest level, would have to see the business as a whole and understand what it requires of them. Thus, new technology will not only need a drive for excellence in terms of workmanship, but also the consistent direction of managers at all levels towards a common goal.[2632]

There are considerable opportunities with the shift towards knowledge as a basic factor in the organisation. In this context, strategy becomes an instrument in the systematic development of the individual and collective body of knowledge, and the intentional management of knowledge as a resource. In practice, this leads to a concentration on a limited number of activities as well as a conscious fostering of a few bodies of knowledge which are crucial to the success of a company. With tightened global competition, only best-in-the-world activities promise success, and each company can only reach this standard in a limited number of areas.[2633]

5.5.6.2.1.3.2 Organisational Learning

Organisational learning is closely related to concepts such as the incremental/emerging approach or knowledge management, and is an enormously important concept for the survival of companies. Its significance is justified for the following reasons:

- **Permanent change:** The concept of the learning organisation emphasises the necessity of permanent change. It starts with the idea that the basic mode of performant organisations is learning. Consequently, organisations need, first and foremost, to be thought of as being dynamic and not static. The idea of the learning organisation no longer admits organisational change as being an exception but a transitory state of inquietude. In the learning organisation, change becomes a self-consistent ingredient of daily work. Thus, as a rule, organisational action is seen as a learning alteration and is not subject to a specific initiation anymore.[2634]
- **Adaptation to the environment:**
    - Most executives understand that due to tougher competition, more effective learning, broader empowerment, and greater commitment are required from everyone in the company.[2635] In addition, most executives know that the key to better performance is improved communication.[2636]
    - Moreover, the change of regulatory, technical and consumer preference developments has led to the need for quick, efficient and flexible responses. This increases the need to become a learning

2631 Drucker (1966), in: Drucker (2008), p. 194
2632 Drucker (1954a), in: Drucker (2008), p. 113
2633 Probst, Raub and Romhardt (1999), pp. 83-84
2634 Schreyögg (2000), p. 42
2635 Argyris (1994), p. 88
2636 Argyris (1994), pp. 88-89

organisation that can make the best use of its network of subsidiaries.[2637] The adaptation of such models results in organisations with strategic planning that is emergent or evolutionary in character as firms learn how to be lean and flexible.[2638]

- Pitcher has stated that in an age of discontinuity the old ways of doing things no longer work and that therefore organisations need to learn rapidly and continuously.[2639]
- In uncertain and competitive environments, learning is important.[2640] Particularly in an environment with fast-changing conditions, organisational learning may be recognised as central. In such circumstances, those firms that have developed the dynamic capabilities to continually readjust required competencies can be successful. Hence, their competence becomes that of learning and development, and may require the acceptance that different, even conflicting, ideas and views are valuable and that experimentation is the norm. Such characteristics become especially important and therefore the company needs to consider how to protect and foster such behaviour.[2641]
- To obtain or maintain a leadership position in an environment with globalised markets that exacerbate international competition and lead to the proliferation of innovations[2642] requires firms to adapt to perpetual change. Such organisations have no other choice but to develop practices which encourage individual and organisational learning. Moreover, firms are under pressure to make individual and collective learning a top priority, so that the knowledge which will serve as a cornerstone of their competitive strategies can be created and managed. The learning process, or the process of adaption, allows the firm to continuously adjust itself to its environment. This is how knowledge management and the development of human capital can constitute a competitive advantage.[2643]

- **Root new knowledge in the organisation:** It is all about creating organisational conditions so that new knowledge can continuously be developed and rooted in the organisation. Knowledge becomes relevant for the company whenever it serves as a sensorium for the perception of important new developments.[2644] If a company already disposes of a certain degree of expertise in a particular area, it can faster discern and better evaluate the value of new information in this area than companies without such prior knowledge. This is what the term absorbative capacity of organisations is all about.[2645] However, organisational learning processes need more time than individual ones, since more people are involved in them.[2646] Such processes cannot quickly be caught up with on

2637 Birkinshaw (2000), in: McDonald and Burton (2002), p. 259
2638 McDonald and Burton (2002), p. 259
2639 Pitcher (1993), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 50
2640 Hakansson (1982), in: McDonald and Burton (2002), p. 272
2641 Johnson, Scholes and Whittington (2008), p. 122
2642 i.e. innovation of products on the market, and manufacturing processes as well as managerial practices, Opinion, Blili (2010)
2643 Opinion, Blili (2010), referring to Garelli (2005), p. 685
2644 Osterloh and Frost (2000), pp. 175-176
2645 Cohen and Levinthal (1990), pp. 128-152, in: Osterloh and Frost (2000), p. 176
2646 Crossan, Lane and White (1999); Probst and Büchel (1998), in: Osterloh and Frost (2000), p. 176

crash programmes. Consequently, the capability to generate knowledge out of organisational learning that is relevant for the company's activities becomes the most important and sustainable competitive advantage of the future.[2647]

- **Difficult to imitate:** Moreover, it is difficult to imitate a competitive advantage if the company has not simply bought this capability but has itself created it within the organisation. For example, it is not possible to buy the ability to speak English and therefore non-tradable resources are much more sustainable competitive advantages than those which can be acquired on the market, such as computer software or a machine.[2648]
- **Generate new knowledge:** In addition, if a company manages to set up a knowledge basis, due to absorbative capacity, new knowledge can be generated with increased speed and intensity. This can be transferred to new innovative products, and thus time and again additional markets can be developed. In this perspective, the BCG's growth/share matrix, for example, becomes less important,[2649] since it only represents a snapshot of the current situation. It does not reveal anything about the competencies that are needed in order to make a "star" out of a "question mark". On one hand, it is difficult to identify these conditions, while on the other they cannot be acquired by simply transferring financial means from "cash cows" to "question marks".[2650]
- **Seize new opportunities:**
    - In order to solve a problem, to introduce a product and to reengineer a process, the world has to be seen in a new light, and the company has to act accordingly. If learning is non-existent, companies (and individuals) simply repeat old practices, the process changes are cosmetic, and improvements are either fortuitous or short-lived.[2651]
    - What gives firms the necessary flexibility and agility to remain competitive is their research efforts and the capacity to create new products and new knowledge while ensuring their dissemination throughout the company.[2652]
    - In the long-run, superior performance depends on superior learning. According to a Shell study,[2653] the key to the survival of a small number of companies that lasted for seventy-five years or more was running experiments on the margins, and continually exploring new opportunities for business to create potential new sources of growth.[2654] There are economic observers who argue that we are now evolving from the "Information Age" to the "Intelligence Age", and that therefore public organisations must become "learning" organisations. This means that they have to transform themselves on the basis of their own knowledge and through exposure to new external structural knowledge.[2655]

2647 Osterloh and Frost (2000), p. 176
2648 Osterloh and Frost (2000), pp. 176-177
2649 Osterloh and Frost (2000), pp. 176-177
2650 Osterloh and Frost (2000), p. 178
2651 Garvin (1993), p. 78
2652 Opinion, Blili (2010)
2653 de Geus (1988), pp. 70-74, in: Senge (1990b), p. 7
2654 Senge P.M. (1990b), p. 7
2655 Tyson (1998), pp. 14-18

- **Competitive advantage:**
    - With the strong pressures to change that firms are faced with, the quality of organisational learning has become a source of competitive advantage.[2656]
    - Creating new organisational knowledge is increasingly becoming a managerial priority, since it provides the basis for organisational renewal and sustainable competitive advantage.[2657]
    - There is a clear link between organisational learning and competitive advantage. If companies are skilled at learning, they are better positioned to take advantage of emerging opportunities and deal with upcoming threats, especially those that require significant organisational change. When companies create new knowledge, they innovate more effectively and adapt better to changing and uncertain environmental conditions.[2658]
    - Senge sees the ability to learn as being the primary source of a company's competitive advantage. He goes on to argue that facilitating organisational learning is the principal task of the strategist:[2659] *"In short, leaders in learning organizations are responsible for building organizations where people are continually expanding their capabilities to shape their future – that is, leaders are responsible for learning."*[2660] He also argues that the differentiator between successful and failing organisations will not just be the amount but the rate of organisational learning.[2661]
- **Internationalisation:**
    - Stage models of internationalisation are rather mechanistic and suggest that firms follow a rigid linear development of internationalisation that is often not verified by empirical work.[2662] In such models, the importance of learning is stressed, often originating from exposure to similar but slightly different cultural environments that induce the development of internationalisation strategies on a steady path towards more complex and deeper involvement with foreign markets.[2663]
    - Having the capabilities for change and learning is the key to sustained success for multinational firms.[2664] International opportunities can lead to organisational learning and the build-up of new capabilities that may be applicable not only to old but also to new locations, and thus to the evolution of the firm's strategic configuration. Being able to transfer or arbitrage tacit or difficult to codify knowledge to widely scattered operations appears to be a major source of advantage for

2656 Probst and Büchel (1997)
2657 Quinn (1992), in: Inkpen (1996), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 267
2658 De Holan (2006), p. 145
2659 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 31
2660 Senge (1990b), p. 9
2661 Senge (1990a), in: Cokins (2009), p. 101
2662 Andersen (1993), in: McDonald and Burton (2002), p. 271
2663 Andersen (1993), in: McDonald and Burton (2002), p. 271
2664 Collis (1991), pp. 49-68, in: Tallman (2009), p. 104

multinational firms.[2665] Similarly, Nohria and Ghoshal argue that the multinational's key advantage arises from its ability to create new value through the accumulation, transfer and integration of different kinds of knowledge, resources and capabilities across its dispersed organisational units.[2666]

- **Face uncertainty:** Knowledge management in general and organisational learning in particular can be considered as effective tools for facing uncertainty.[2667] Since today's economy runs on knowledge, most companies use, for example, cross-functional teams, customer- or product-focused business units, and work groups to capture and spread ideas and know-how. Communities of practice (groups of people informally bound together by shared expertise and a passion for a joint enterprise) are also promising to complement existing structures and to radically galvanise knowledge-sharing, learning and change.[2668]

  If the future cannot be predicted, companies can at least develop the new skills that are required as soon as they become necessary. Even though it has been argued that organisational learning is, in fact, the only sustainable source of competitive advantage,[2669] De Holan holds that managing uncertainty is not only or even primarily about learning: it is about change. For him, the main problem with change is not the lack of learning but the lack of a sustainable application of what has been learned. By this, he means that too much time is spent trying to find the solution, and not enough ensuring that the solution gets implemented.[2670] De Holan writes that this happens because old knowledge locks businesses into old ways. Yet, he argues that to actively destroy that old knowledge is a vital part of any change effort and a necessary condition for a successful adaptation to uncertain environments. When dismantling such old knowledge, the following dimensions are of specific interest:

  - **Assets:** are new assets required to introduce change?
  - **Procedures:** are they modified to the extent the situation requires?
  - **Structures:** is the division of tasks and authority still the same in spite of the new names and divisions?
  - **Culture:** this dimension is a powerful integrating mechanism and creates a sense of belonging to a common group with shared objectives and a unified view of the world. Yet, strong cultures are notoriously resistant to change.[2671] Is this the case?[2672]

  Together, these four dimensions explain why most change efforts fail.[2673] Consequently, when dealing with uncertainty it is not just about learning but about how knowledge is destroyed. Current knowledge can prevent new learning and be a barrier to the opportunity to create a new product, service or business model. Therefore, De Holan suggests that companies must become

2665 Kogut and Zander (1993), p. 637, in: Tallman (2009), p. 104
2666 Nohria and Ghoshal (1997), p. 208, in: Tallman (2009), pp. 110-111
2667 De Holan (2006), p. 141
2668 Wenger and Snyder (2000), p. 2
2669 De Holan (2006), p. 141
2670 De Holan (2006), p. 141
2671 In addition, the *"strong values of corporate leaders' cultures may prove to be a handicap when the business environment demands change."*, in: Schneider and Barsoux (2003), p. 71
2672 De Holan (2006), pp. 144-145
2673 De Holan (2006), p. 146

> as skilled at the management of forgetting as they have become at managing learning. If not, most change efforts will fail. When companies are skilled at destroying knowledge, the likelihood of successful adaptation to new conditions, a crucial feature for companies facing uncertain environments, will increase.[2674]

Principally, SMEs should take advantage not only of organisational learning but also the two other approaches that are closely linked to the restructuring of processes, namely Business Process Engineering and inter-organisational information systems. These transformational trends must be accompanied by the firm's re-equipment with appropriate information technology. In order to achieve deep-rooted changes as well as the expected results, all members of the organisation must be involved in the process. In fact, organisational learning not only creates but also fuels change.[2675]

5.5.6.2.1.3.3 Change Management

When it comes to change management, a reconciliation of external and internal views needs to be made. The pressures from the environment for change will be constrained by the capabilities available to make changes, or by organisational cultures which may lead to resistance to change. Internal capabilities will only be valuable if at the same time there are profitable opportunities in the environment to use them.[2676]

Whether it is about the adaptation to one's environment or the exploitation of one's distinctive organisational capacities, the strategy necessarily entails the allocation of financial, human, physical, technical, commercial or relational resources.[2677]

By influencing strategy, both through their competence and through their collective behaviour (culture), people are not like any other resource. The failure to understand, address and change culture is often the reason for the problems of managing change. This soft side of HR management, which is concerned with the individual and collective behaviour of people, is very often neglected. For example, these soft issues might include how to change an organisation's paradigm,[2678] which is particularly important when the business environment is changing quickly. It also helps to become a people-oriented shaper of context,[2679] not just a business analyst, or to understand the relationship between behaviours and strategic choices, as in some strategies where a company's current culture is a core competence,[2680] since it gives a unique advantage over other organisations. Moreover, it helps to be realistic about the difficulty and time scales in achieving behaviour changes, with culture change being a long process of changing behaviours. The use of hard change tools (structures and systems) alone is unlikely to deliver results. Finally, soft factors enable the varying of the style of managing change in different circumstances.[2681]

The CEO, and ultimately top management, can be considered as architects, assimilators, and facilitators of strategic change. The key processes that are involved in the instigation

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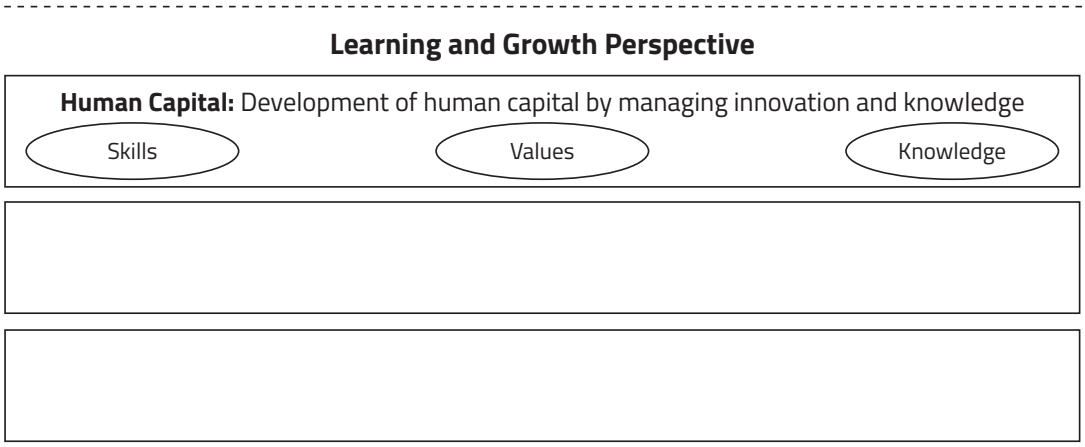
2674 De Holan (2006), pp. 145-146
2675 Ferrand and Paquet (1994)
2676 Johnson, Scholes and Whittington (2008), p. 52
2677 Johnson, Scholes, Whittington and Fréry (2008), p. 3
2678 Similar concept: "mental models". See Pfeffer (2005), pp. 123-128, in: Johnson, Scholes and Whittington (2008), p. 477
2679 Bartlett and Ghoshal (2002), pp. 34-41, in: Johnson, Scholes and Whittington (2008), p. 477
2680 *"Core competences may become embedded in an organisation's culture."*, in: Johnson, Scholes and Whittington (2008), p. 105
2681 Johnson, Scholes and Whittington (2008), p. 477

and management of change are the acts of making sense of the interpretation of a new vision for the institution, and giving sense about it. The imagery that is conveyed by metaphors like "sensemaker" and "sensegiver" not only broadens the conception of top management activities during this period but also tends to complement and widen the scope of the concepts of formulation and implementation. The reason for the latter is because they better capture the essence of the early stages of these processes, as they relate to undertaking a strategic change effort. Furthermore, the metaphors "sensemaker" and "sensegiver" complement or subsume other related descriptive metaphors, such as visionary teacher[2682] or symphony conductor,[2683] and can even serve to extend Mintzberg's[2684] strategic crafting metaphor by encompassing other organisational stakeholders who play an active part in reshaping the organisational image and identity[2685]. In summary, Gioia and Chittipeddi's interpretive perspective and ethnographic approach to the study of strategic change implies that the initiation of the process involves a set of top management activities that are key to the effectiveness of the overall change process. These activities can be usefully captured by the concepts of sensemaking and "sensegiving". They are not only simultaneously symbolic and substantive, but also involve reciprocal processes of cognition and action, and entail cycles of understanding and influence.[2686]

The enterprise is a dynamic, evolutive and adaptive system which learns intrinsically (endogenously and exogenously). The works of Probst and Büchel[2687] (among others) explain this capacity to sublimate the challenges faced by the adoption of learning attitudes, skills and investments. For us, the learning capability is a discriminant variable of competitiveness which occurs transversely all over the strategy map and therefore does not need to be mentioned separately. The same applies to change management, which also requires intimate knowledge of the company that is not usually available to outsiders.

Finally, we will conclude this chapter by adding a summary of the components of human capital as the first part of the strategy map's learning and growth perspective.

Figure 21: Human Capital[2688]



2682 De Geus (1988), pp. 70-74, in: Gioia and Chittipeddi (1991), p. 446
2683 Drucker (1988b), pp. 45-53, in: Gioia and Chittipeddi (1991), p. 447
2684 Mintzberg (1987c), in: Gioia and Chittipeddi (1991), p. 447
2685 Albert and Whetten (1985), pp. 263-295, in: Gioia and Chittipeddi (1991), p. 447
2686 Gioia and Chittipeddi (1991), p. 447
2687 Probst and Büchel (1997)
2688 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

5.5.6.2.2 Information Capital

5.5.6.2.2.1 Summary

The impact of information technology and communications on strategy and the strategic landscape has been tremendous. In particular, it has changed industry structure and enabled the development of core competencies and therefore learning. Moreover, it has had a major impact on product/service features, operations, and also competitive advantage. Information technology and communications have even had consequences for organisational structures and hierarchy. They have also improved internationalisation, interconnection, the opportunity to create new business models, as well as market and customer orientation. There are, however, also certain pressures and limitations that need to be kept in mind.

5.5.6.2.2.2 Description

According to Kaplan and Norton, the question of what the technology enablers of strategy are is the fifth part of the strategy formulation.[2689]

Information capital, which consists of systems, databases, libraries, and networks, makes information and knowledge available to the organisation, and is the raw material for creating value in the new economy. Like human capital, it only has value in the context of a given strategy.[2690] Nowadays, technology is an extremely valuable enabler of business.

On the following pages, we will see that the creation and destruction of an organisation's capabilities, and hence its competitive advantage, is profoundly influenced by information strategies.[2691]

5.5.6.2.2.2.1 Product/Service Features

With the help of enhanced IT capabilities, organisations provide the following product/service features that are valued by customers:[2692]

- Particularly where the product is information, such as in financial services, **lower prices** can be realised through **reduced costs**.[2693] In addition, e-business systems remove layers of intermediation involved in supplying markets, and therefore lead to lower distribution cost to customers.[2694] Studies[2695] indicate that e-commerce markets are more efficient than traditional markets because they tend to lead to lower prices and reduced price dispersal and increase the frequency of menu changes. Since these developments are mainly of benefit to consumers, sellers will probably find it hard to make large profits in such markets.[2696]

2689 Kaplan and Norton (2008), p. 10
2690 Kaplan and Norton (2004b), p. 249
2691 Johnson, Scholes and Whittington (2008), pp. 482-483
2692 Johnson, Scholes and Whittington (2008), p. 483
2693 Johnson, Scholes and Whittington (2008), p. 483
2694 Bradley, Hausman and Nolan (1993); Palvia, Palvia and Roche (1996); Prakash (1996); Speier, Harvey and Palmer (1998), in: McDonald and Burton (2002), p. 343
2695 Kearney (2000), in: McDonald and Burton (2002), p. 353
2696 McDonald and Burton (2002), p. 353

- Website browsing or customer bulletin boards provide improved pre-purchase information,[2697] and e-business systems definitely **enhance information-gathering**.[2698]
- With online ordering and delivery, the purchasing process becomes **easier and faster**, and can allow customers to move closer to just-in-time with their business processes.[2699] Just-in-time is also used for services. Nowadays, shared IT infrastructure can also be provided over a network.[2700] Moreover, low transaction cost systems for managing the contractual and administrative arrangements within and between organisations and with customers are provided by e-business systems.[2701] Generally, e-business systems reduce the time and effort associated with purchasing and selling.[2702]
- **Shorter development times** for new features might give purchasers an advantage with their own customers.[2703] Information technology can be exploited to achieve the rapid introduction of new products to commercial production. With the aid of flexible manufacturing equipment, new products can be introduced into production quickly and produced at commercial levels without having to acquire entirely new machines. The time from design to manufacturing is expedited considerably when project engineers' computer-aided-design (CAD) terminals interface with production manufacturing (CAM) equipment.[2704] Furthermore, innovation processes may be supported with transactional level CAD/CAM and product development pipeline management systems.[2705] Basically, information technology is increasingly vital for any important product development process. In lieu of physical mock-ups, project teams now use advanced three-dimensional simulation to experiment with and test alternative designs. Compared to traditional prototyping with physical models, virtual prototyping is faster and less expensive, and also allows more design cycles and learning.[2706]
- The **reliability and diagnostics** of products or services (for example, engine management systems in cars) are being improved.[2707] This enhances safety and efficiency.
- Further interesting features include **personalised products**. Standardisation is hampered by the resistance of customers to uniform products and a growing demand for products more tailored to customer's requirements.[2708] Moreover, persisting economic, legal and especially, cultural barriers to mass production

2697 Johnson, Scholes and Whittington (2008), p. 483
2698 Bradley, Hausman and Nolan (1993); Palvia, Palvia and Roche (1996); Prakash (1996); Speier, Harvey and Palmer (1998), in: McDonald and Burton (2002), p. 343
2699 Johnson, Scholes and Whittington (2008), p. 483
2700 This enabled Nike, as early as during the Olympic Games in Australia, when there was a dramatic traffic surge on Nike's site, to scale up its computing needs on a temporary, just-in-time basis. In particular, it allowed Nike to avoid the complexity and expense of expanding its capacity permanently, in: Sawhney and Parikh (2001), p. 190
2701 Bradley, Hausman and Nolan (1993); Palvia, Palvia and Roche (1996); Prakash (1996); Speier, Harvey and Palmer (1998), in: McDonald and Burton (2002), p. 343
2702 Bradley, Hausman and Nolan (1993); Palvia, Palvia and Roche (1996); Prakash (1996); Speier, Harvey and Palmer (1998), in: McDonald and Burton (2002), p. 343
2703 Johnson, Scholes and Whittington (2008), p. 483
2704 Kaplan and Norton (2004b), p. 153
2705 Kaplan and Norton (2004b), p. 252
2706 Kaplan and Norton (2004b), pp. 152-153
2707 Johnson, Scholes and Whittington (2008), p. 483
2708 The Economist (2001), in: McDonald and Burton (2002), p. 259

have generated an approach according to which markets should be segmented geographically based on cultural clusters and within countries according to social and demographic groups.[2709] In addition, products or services can be personalised without any price premium. For example, computer architecture can be customised for each purchaser.[2710] New IT-based technologies and flexible production systems that have been developed make it easier to reach minimum efficiency scale[2711] and thereby reduce the need for large standardised production runs.[2712] With built-to-order (BTO)[2713] systems and the use of sophisticated information from the internet, specifications from customers are matched to the supply chain to assemble the components to customers' exact requirements. This approach is also being pursued by major car companies like GM, Ford, Nissan and Volkswagen.[2714] Moreover, the information capital portfolio to support innovation processes might include analytic level knowledge management systems (KMS) for sharing best-practice information among product designers, as well as a transformation-level interactive system to allow customers to directly design their own products.[2715] Customers that use the company websites of Dell or Levi Strauss can design their own configurations for the products.[2716] Dell's success, the pioneer of mass customisation, is based on BTO systems for manufactured goods.[2717] BTO systems lead to lower production costs, as it is a very lean and effective just-in-time system. In addition, since they customise the product, premium prices can be charged. Based on the use of the internet, BTO systems also offer the prospects of customised promotion systems tailored to groups or even individuals that are targeted by e-business systems.[2718] In comparison with mass production, the new paradigm of agile production should also be mentioned.[2719]

2709 Czinkota, Ronkainen, Moffett and Moynihan (1998); Halliburton and Hunerberg (1993), in: McDonald and Burton (2002), p. 273

2710 Johnson, Scholes and Whittington (2008), p. 483

2711 *"Scale economies in part determine the maximum number of firms that can compete profitably in an industry. When the minimum efficient scale (MES) of production is large in relation to demand, the industry can support relatively few players. Significant multisite economies also increase the market share each competitor must command to remain viable."*, in: Collis and Montgomery (2005), pp. 68-69; *"the "minimum efficient scale" (or "minimum efficient size") or "critical mass", ... is the minimum size that a company must reach to be really cost-efficient."*, in: Jarillo (2003), pp. 24-25

2712 McDonald and Burton (2002), p. 259

2713 There are certainly several factors that limit the use of global BTO systems, in: McDonald and Burton (2002), p. 274. We are, however, convinced that sooner or later they will be overcome. At the same time, we believe that for now customisation is not very common. There is much talk about it, but a lot is about desire rather than reality.

2714 McDonald and Burton (2002), p. 273

2715 Kaplan and Norton (2004b), p. 252

2716 Kaplan and Norton (2004b), p. 105

2717 McDonald and Burton (2002), p. 274

2718 McDonald and Burton (2002), pp. 273-274

2719 In the comparison between mass production and the new paradigm of agile production, Duguay, Landry, and Pasin (1997) cite the following four factors: instead of having workers comply with established procedures and plans, it is their responsibility to satisfy customers' expectations; instead of having large projects that were developed and managed by experts and managers, measures for continuous improvement are part of the job of each manager; instead of carrying out production tasks under the managers' direction, workers' responsibilities go beyond production tasks, continuous training is generally encouraged and experts are considered an important resource; instead of preferring fierce competition among suppliers, close ties are maintained with a limited number of suppliers, who are thought of as partners and are expected to collaborate closely and respect the quality standards and plans of the firm

- Finally, **automatic service reminders**, for example, lead to improved after-sales services.[2720]

5.5.6.2.2.2.2 Market and Customer Orientation

The following areas offer important opportunities for competitive performance:

- **Data mining:** Since customers value some or all of the features listed above, it is likely that competitors will learn quickly how to provide them. This leads to rapidly rising threshold standards that need to be achieved to survive in a market.[2721] Thus, providers who are unable to deliver these higher standards will not be able to compete in the market anymore. In addition, performance is determined not just within a particular industry or sector, as customer expectations of service standards, for example speed or reliability, become universal benchmarks crossing all industries and public sectors.[2722] This means that market knowledge is important for competitiveness and applies in all sectors of industry, commerce and public services. It results from competencies in analysing the subtle differences between customer needs in different parts of the market and building product or service features to meet these needs. In most organisations, this is covered by a colossal amount of raw data as well as the IT processing capacity to analyse the data. Yet, companies are not good at the data-mining[2723] process, which converts data into market knowledge, i.e. finding trends, patterns and connections in data in order to inform and improve competitive performance.[2724] It is the spotter or recon person who plays the leading role in any ship metaphor (which is quite often used in strategy). He or she helps to transform information into knowledge and action. After all, if there is no knowledge about customers' needs, it becomes difficult to create and add value for them.[2725]
- **The customer management process:** With the aid of information technology, new dramatic possibilities are also created for the customer management process of organisations. Together with related analytic techniques, such as the abovementioned data mining and activity-based customer profitability measurement, it enables them to develop customised, personalised approaches even with millions of customers. New capabilities that are embedded within integrated customer relationship management (CRM) systems include customer databases and related analytics which permit better customer selection through cluster analyses from demographic data as well as customer profitability analysis. In addition, the telemarketing process to improve customer acquisition is supported by database marketing, and sales effectiveness is improved through sales force automation and lead management. Customer retention is enhanced by customer service centres as well as self-help capabilities, while the internet permits a new level of networking with customers that enhances education, collaboration and customer growth.[2726]

2720 Johnson, Scholes and Whittington (2008), p. 483
2721 Johnson, Scholes and Whittington (2008), p. 483
2722 Johnson, Scholes and Whittington (2008), p. 483
2723 See e.g. Carmen and Lewis (2002), pp. 56-60; Firestone (2005), pp. 47-52; Xu and Chen (2005), pp. 101-107; Hormozi, Amir and Giles (2004), pp. 62-71, in: Johnson, Scholes and Whittington (2008), p. 484
2724 Johnson, Scholes and Whittington (2008), p. 484
2725 Kotler (2009), p. 123, in: Tossavainen and Turta (2013), p. 9
2726 Kaplan and Norton (2004b), p. 124

The following two trends have also become obvious: it is more expensive to acquire new customers than to retain existing ones and, at the same time, products and service lines have become commodities from which there is little competitive advantage. This is the reason why organisations are reframing CRM more broadly as a way to analyse and identify characteristics of existing customers that are more profitable today and potentially more valuable in the future. These traits are then applied to formulate differentiated and tiered treatments (such as marketing campaigns, deals, offers, and service levels) for existing customers, as well as to attract new customers who will possess relatively higher future potential value (which, incidentally, requires ABC data[2727] to calculate customer lifetime value scores to differentiate prospects).[2728] In order to create greater shareholder wealth, a company must analyse its customer portfolio in new ways to discover new profitable revenue-growth opportunities.[2729] Hence, it is no longer sufficient for a company simply to grow its sales. It must, instead, grow its sales profitably, which involves a deep understanding of which types of products, services, channels and customers are more or less profitable, both today and potentially in the future.[2730]

However, during the last few years, managers have had to bitterly experience the fact that the lauded CRM-systems have neither increased effectiveness nor efficiency. Experience shows that a large part of these companies had forgotten to put in place innovative customer and market development strategies before they pushed for the implementation of such CRM systems.[2731] Hence, the success of customer orientation is dependent on how sustainably a company manages to alter its structures and to align its processes towards customers.[2732] In other words, market and customer orientation have to go along with customer-orientated process management and controlling.[2733] There is evidence that this does not seem to be so easy. A study from 2002 by the Gartner Group reveals that 55% to 75% of all CRM projects achieve no results.[2734] In many cases, process parameters just reflect internal measures which have nothing to do with the most important goals of process management, i.e. the increase of customer satisfaction.[2735] The key reasons for this poor result include the failure to create an enterprise-wide CRM strategy, the inability to integrate with legacy systems, and the lack of an approach to analytics.[2736] Hence, technology is only a means to the end,[2737] and CRM a combination of strategy and information system aimed at focusing

2727 *"Approximate Bayesian computation (ABC) constitutes a class of computational methods rooted in Bayesian statistics."*, available at: http://en.wikipedia.org/wiki/Electronic_data_interchange, accessed on 24 May 2014
2728 Cokins (2009), p. 52
2729 Cokins (2009), p. 157
2730 Cokins (2009), p. 153
2731 Bailom, Matzler and Tschemernjak (2006), p. 28
2732 Matzler and Fässler (2004), pp. 627-649, in: Bailom, Matzler and Tschemernjak (2006), p. 198; See also Rigby, Reichheld and Schefter (2002), pp. 55-63, in: Bailom, Matzler and Tschemernjak (2006), p. 198
2733 Hammer and Stanton (2000), pp. 68-81, in: Bailom, Matzler and Tschemernjak (2006), p. 198
2734 Rigby, Reichheld and Schefter (2002), pp. 55-63, in: Bailom, Matzler and Tschemernjak (2006), p. 198; See also Johnson J. (2004) Making CRM Technology Work, British Journal of Administrative Management, 39, pp. 22-23, in: Chan (2005), p. 32
2735 Korduplesk, Rust and Zahorik (1994), pp. 65-72, in: Bailom, Matzler and Tschemernjak (2006), p. 199; See also Hinterhuber, Handlbauer und Matzler (2003), in: Bailom, Matzler and Tschemernjak (2006), p. 199 Bailom, Matzler and Tschemernjak (2006), p. 199
2736 McKenzie (2001), pp. 26-27; Greenberg (2002); Bannan (2004), p. 13, in: Chan (2005)p. 32
2737 Johnson (2004), pp. 22-23, in: Chan (2005), p. 32

attention on customers in order to better serve them[2738]. This requires integration along the value chain, by organising, aligning and integrating the organisation processes all the way from the point of customer contact, through the organisation and subsequently back through the supply chain.[2739] Moreover, CRM processes must not be designed around internal functional silos,[2740] otherwise decision-making fragments across a business as different functions become entities in themselves.[2741] ERP implementations suffer a 70% failure rate, too.[2742] It comes as no surprise that one of the key lessons learned from such projects is that they are not just software implementations but come with built-in business processes.[2743]

5.5.6.2.2.2.3 Competitive Advantage and Resource Theory

"The key question is not whether to deploy Internet technology – companies have no choice if they want to stay competitive – but how to deploy it."[2744]

IS/IT as a source of competitive advantage may be presented from the point of view of two principal theories.[2745] First, the competitive advantages which IS/IT can confer on SMEs using Porter's model for analysing the structure of an industry, and second, the resource theory in terms of the role played by IT as a source of competitive advantage.

- **Structure of an industry:** The structure of an industry is changed by information systems and, consequently the rules of competition are changed, too.[2746] While a few examples are sufficient to demonstrate the impact of information systems on the major generic strategies identified by Porter,[2747] these systems also affect the industry structure. Although the five forces of this model vary from one industry to another, the constant is that information systems affect the strength of each of these forces. They increase the power of buyers in industries dedicated to the assembly of parts as well as the barriers to entry in industries that require the purchase of complex computer programs. Moreover, new information systems increase the threat of substitution products due to the flexibility of manufacturing systems and also increase the rivalry in the distribution sector due to automated ordering.[2748] Paradoxically, the internet's very benefits (making information widely available; reducing the difficulty of purchasing, marketing and distribution; allowing buyers and sellers to find and transact business with one another more easily) also make it more difficult for companies to capture these benefits as profits.[2749] This clearly leads to a negative net effect on the industry's structure. Yet, not every industry in which internet technology is applied will be unattractive, as the

2738 McKenzie J. (2001), pp. 26-27, in: Chan (2005) p. 32
2739 McKenzie J. (2001), pp. 26-27, in: Chan (2005) p. 32
2740 Kalakota and Robinson (2000), in: Chan (2005) p. 34
2741 Fraser, Shobrys and Kruse (2003), pp. 10-13, in: Chan (2005) p. 33
2742 Lewis (2001), p. 50, in: Chan (2005), p. 32
2743 Lewis (2001), p. 50, in: Chan (2005), p. 32
2744 Porter (2001), p. 4
2745 Dyer and Sigh (1998)
2746 Porter and Millar (1985), pp. 149-160; Porter (2001)
2747 1980, 1985
2748 Porter and Millar (1985), pp. 149-160
2749 Porter (2001), pp. 10-11

contrasting example of internet auctions shows.[2750]

- **Resource-based theory:** While in the theory of industry structure the impact of information systems is illustrated, in the resource-based theory it is suggested that competitive advantage comes from *"the accumulation of resources and competencies which are rare, whose value is non-suitable and which are difficult to imitate."*[2751] This view focuses on the resources which have to be developed by a firm so that it can gain a competitive advantage. There are two categories of resources that can be developed within the firm and help it gain a competitive advantage: resources based on ownership and resources based on knowledge.[2752] In a stable environment, those based on the idea of ownership, i.e. material resources, are reputed to add value, whereas in a dynamic and unstable environment intangible resources, based on the idea of knowledge, add more value. With knowledge-based resources, there is greater flexibility since they allow the enterprise to adapt its products, services and organisational structure to developments in the environment through learning. Furthermore, because knowledge-based resources are more subtle in nature, they are more difficult to imitate. Miller and Shamsie[2753] believe that it is not the existence of information systems per se but the way in which information systems are used which allows an enterprise to gain a competitive advantage.[2754] Moreover, Prahalad and Hamel argue that firms, in order to have a competitive advantage, must exploit their core competencies which are the result of collective and accumulated organisational learning. Because these competencies are the result of learning, they can be considered as knowledge-based resources.[2755] They offer potential access to several types of market, which is difficult for the competition to imitate, and which adds value to the final product. In applying this reasoning to information technology and systems, Andrew and Ciborra hold that information systems can enable the development of core competencies, and therefore learning, by combining the following two aspects:
    - The cross-cutting dissemination of core competencies throughout the entire organisation is enabled by information systems. By doing so, they help to improve work practices.
    - At the same time, the company's core competencies become rare and their imitation becomes difficult.[2756]

5.5.6.2.2.2.4 Value Chain and Imitation

The value chain is the basic tool for understanding the influence of information technology on companies.[2757] The creation, processing and communication of information are involved in every activity and therefore information technology has a pervasive influence on the value chain.[2758]

2750 Porter (2001), p. 13
2751 Dyer and Singh (1998), p. 660; For more details on this idea, see : Radder and Louw (1999), pp. 35-40
2752 Miller and Shamsie (1996), pp. 519-543
2753 Miller and Shamsie (1996), pp. 519-543
2754 Duhan, Levy and Powell (2001), pp. 25-40
2755 Prahalad and Hamel (1990)
2756 Andrew and Ciborra (1996), pp. 111-127
2757 Porter (2001), p. 41
2758 Porter (2001), p. 42

After all, an element of information processing is required by every activity with strong added value.[2759]

There are several reasons why resources or competencies might be difficult to imitate. This, however, can be influenced by information process capabilities.

- First, on the whole, it is no longer true that IT infrastructure costs are high. As a result, a few larger organisations cannot gain advantage over others through their IT infrastructure. IT is not rare anymore and it is pervasive even in very small companies, which can now afford the capital costs involved.
- In addition, today the mastery of the hardware and standard software to build information systems is not complex. At present, it is much more complex to master data-mining activities and the activities which underpin the speed of the market., Managing e-relationships with customers (e.g. joining up all the different routes through which customers interface with a company)[2760] can also be particularly important for the management of relationships in the value network.
- Moreover, the imitation of capabilities may be difficult because competitors find it hard to understand the reasons why an organisation is successful. The reason for this is that the competencies are culturally embedded in the organisation's way of working. Many IT developments attempt to codify tacit knowledge so that it becomes explicit. Nevertheless, the danger is that the company becomes overdependent on information systems and ignores tacit knowledge simply because it is difficult to codify and build into the system. This, however, is the very reason why imitation is so difficult and can be crucial to competitive advantage.[2761]

Information systems can also be used for a differentiation strategy, i.e. to create unique products and services with which firms can distinguish themselves from competitors and which allows them to compete on something other than the price of goods and services. Thus, now the use of information technology allows firms to create customised products which closely respond to customer expectations. Furthermore, the development of information technology has enabled new products such as automatic teller machines (ATM), web-based hotel reservations systems, automatic answer phones, etc.[2762]

At the same time, with information technology it becomes possible to transform the way value activities are performed at every point of the value chain, as well as the nature of the linkages among them. It also affects competitive scope and reshapes the way that products meet buyer needs. With these basic effects, it can be explained why information technology has acquired strategic significance and why it is different from the many other technologies businesses use.[2763]

Yet, in industries where competitive advantage lies essentially in the knowledge possessed by the firm, it is difficult to apply a value chain analysis.[2764] Consultancy companies, for example, cannot easily be subjected to a value chain analysis in the

2759 Porter and Millar (1985)
2760 The CBR Special Report (1999), pp. 7-20 discusses the need to join up the different customer interfaces (e.g. salesforce, websites, call centres), in Johnson, Scholes and Whittington (2008), p. 484
2761 Johnson, Scholes and Whittington (2008), p. 484
2762 Opinion, Blili (2010)
2763 Porter (2008a), p. 78
2764 Doyle (1991), pp. 273-280

sense defined by Porter.[2765] Moreover, although it applies very well to the production of goods, the value chain appears less appropriate in cases where new, non-material, and customised goods are manufactured, or when services require the mastery of complex knowledge that is difficult to codify.[2766]

For the enhancement of operational effectiveness, the internet is arguably the most powerful tool. Across almost every company and industry, the internet eases and speeds up the exchange of real-time information and thus enables improvements throughout the entire value chain. Yet, a competitive advantage is not provided by simply improving operational effectiveness but only by achieving and sustaining higher levels of operational effectiveness than competitors. However, this is an exceedingly difficult proposition even in the best of circumstances, since once a company establishes a new best practice, its rivals tend to copy it quickly. In addition, due to the nature of internet applications, it is more difficult to sustain operational advantages than ever. The traits of previous generations of information technology, with their often complex, arduous, time-consuming, and hugely expensive application development, made it harder to gain an IT advantage. However, at the same time they also made it difficult for competitors to imitate information systems. With the openness of the internet, combined with advances in software architecture, development tools, and modularity, it has become much easier for companies to design and implement applications.[2767]

Nevertheless, Porter holds that because all companies come to embrace it, the internet itself will be neutralised as a source of advantage and become table stakes with companies not being able to survive without it but not gaining any advantage from it. Instead, more robust competitive advantages will come from traditional strengths such as unique products, proprietary content, distinctive physical activities, superior product knowledge, and strong personal service and relationships. Internet technology may be able to fortify these advantages, since ultimately, strategies that integrate the internet with traditional competitive advantages and ways of competing should win in many industries.[2768]

Finally, Porter points out that while internet applications have an important influence on the cost and quality of activities in the value chain, they are neither the only nor the dominant influence. Scale, the skills of personnel, product and process technology, and investments in physical assets play dominant roles, too. He concludes that the internet is transformational in some respects, but that many traditional sources of competitive advantage remain intact. [2769]

5.5.6.2.2.2.5 Business Models

As we have seen, in companies such as Saxo Bank, Ryanair and Dell, technology has been deployed throughout their value chains not only to produce products and services but at the same time to include customers in the production of the same. By doing this, they have all managed to utilise the notion of the customer as co-producer (or "prosumer") while maximising the impact of technology. In contrast to Dell and Ryanair, who have aimed at eliminating the middleman, Saxo Bank has filled this very position by facilitating the flow between online investors and, for example, liquidity providers. In addition, while Ryanair focused mainly on customer inclusion through the deployment

2765 Porter (1985a)
2766 Duhan, Levy and Powell (2001)
2767 Porter (2001), p. 24
2768 Porter (2001), pp. 35-36
2769 Porter (2001), p. 46

of unconventional technology, the other two companies have managed to fully integrate the value chain to also encompass suppliers.

What is common to all three companies is that they have actively utilised technology to implement a full chain to support the existing strategy, allowing for seamless operation throughout the value chain or large parts of it. These examples are, to some extent, in contrast with conventional wisdom, where often silos of technology supporting different steps in the value chain are seen and where technology seldom crosses the boundaries to encompass external actors. Andersen, Froholdt and Poulfelt illustrate this in the following table:[2770]

Figure 22: Stand-alone Technology versus Integrated Technology[2771]

"Stand-alone technology	*Integrated technology*
Silos of technology supporting either production, back office or front office	*Seamless technology throughout the value chain"*[2780]

It is interesting to note that all three cases of Saxo Bank, Dell and Ryanair broke new ground in how to utilise the technological chain in order to move beyond traditional thinking. Yet, they chose this way to support a given strategy rather than to just do it for the sake of technology.[2773] Dell, for example, utilised the technological opportunities provided by the internet before others and did it in order to support the initial business model of selling directly.[2774]

This illustrates that technology comes in many shapes and forms, but as such it is not the technology itself which is interesting. Rather it is the ability to utilise it in ways that either support the strategy or allow the strategy to develop.[2775]

However, there is no generic way, since some companies have achieved a high return on strategy by developing ground-breaking technology, whereas others have gone with proven technology. Nevertheless, companies in the X-factor universe that go for proven technology tend to utilise it in new and unconventional ways. Thus, unconventional and out-of-the-box thinking also becomes the driving factor when seeking to utilise the technological chain.[2776]

Porter, too, confirms that advances in IT change industry structures, offer companies an increasingly important lever, and spawn completely new businesses.[2777]

Completely new industries were born because the information revolution:

2770 Andersen, Froholdt and Poulfelt (2010), p. 204
2771 Andersen, Froholdt and Poulfelt (2010), p. 205
2772 Andersen, Froholdt and Poulfelt (2010), p. 205
2773 Andersen, Froholdt and Poulfelt (2010), p. 205
2774 Andersen, Froholdt and Poulfelt (2010), p. 208; Yet, it is not only the internet that has been instrumental in utilising the technological chain to great advantage. This is shown by Ryanair who began a series of cost-cutting exercises that included the harmonising and scrutinising of their fleet when they decided upon a low-cost strategy, in: Andersen, Froholdt and Poulfelt (2010), p. 208
2775 Andersen, Froholdt and Poulfelt (2010), pp. 210-211
2776 Andersen, Froholdt and Poulfelt (2010), p. 216
2777 Porter (2008a), p. 84

- made new businesses technologically feasible (e.g. modern imaging and telecommunications technology blend to support new facsimile services, such as Zapmail of Federal Express);
- created derived demand for new products (e.g. Western Union's Easy Link service, which allows personal computers, word processors, and other electronic devices to send messages to each other and to telex machines throughout the world);
- created new businesses within old ones (e.g. because of its skills in processing credit card accounts and its massive scale to provide similar services to others, Sears sells credit-authorisation and transaction-processing services to Phillips Petroleum and retail remittance-processing services to Mellon Bank).[2778]

In Osterwalder's opinion, one of the major impacts of ICTs has been an increase in the possible business configurations a company can adopt because of reduced co-ordination and transaction costs.[2779] In other words, companies can increasingly work in partnerships, offer joint value propositions, build-up multi-channel and multi-owned distribution networks, and profit from diversified and shared revenue streams. However, with this, a company's business has more stakeholders, becomes more complex and is harder to understand.[2780]

Thus, ICT's impact is as follows:

- **First**, by becoming affordable, it has reduced transaction and co-ordination costs as defined in transaction cost economics.[2781] This means that the costs of collaborating with partners (e.g. outsourcing) and integrating customers in the company's processes (e.g. customisation, customer services) are not prohibitive anymore. In this way, the traditionally isolated firm is shifting to new forms of network organisation. Andriani, in referring to a literature review, explains that *"this transition reflects the widely acknowledged phenomenon of disintegration of traditionally integrated structures of business into more complex networks of independent parts."*[2782] For management, this results in a much larger choice of possible business configurations.[2783]
- **Second**, with ICT, e-commerce and e-business, it has become possible to offer completely new products and services, many of which have an important information component and which are frequently provided in collaboration with multiple companies.[2784]
- **Third**, it has now become possible to reach customers in the remotest places on the planet.
- **Finally**, the internet and the web have brought a range of new pricing and revenue mechanisms into business practice.[2785]

2778 Porter (2008a), p. 92
2779 See Coase (1937), pp. 386-405; and Williamson (1975), in: Osterwalder (2004), p. 2
2780 Osterwalder (2004), p. 2
2781 Coase (1937), pp. 386-405; Williamson (1975), in: Osterwalder (2004), p. 2; The special advantage of the internet is the ability to link different activities and make real-time data created in an activity widely available. This may be the case within the company as well as with outside suppliers, channels, and customers, in: Porter (2001), p. 42
2782 Andriani (2001), pp. 257-274, p. 261 in: Osterwalder (2004), p. 12
2783 Osterwalder (2004), p. 12
2784 Evans and Wurster (1997), pp. 71-82, in: Osterwalder (2004), p. 12
2785 Verma and Varma (2003), pp. 135-155, in: Osterwalder (2004), p. 12

Probably this list of ICT's impacts on business could be extended. What is most important to be retained, though, is that these evolutions bring an important increase in choices and decisions that managers face in terms of business models. This is also the reason why there is growing research in business models in general and business models with a strong ICT component (e.g. e-business).[2786]

Hence, e-business systems enhance the ability to develop markets and new business models because of access to a large pool of existing and potential customers, suppliers and other sources of information. Moreover, this leads to network externalities, since adding an extra agent to a network leads to an increased number of possible connections, and hence increases the value of the network to users.[2787]

Consequently, with information processing capability, it has become possible to transform the way in which organisations build their relationships with others in their value network. This is related to how business models,[2788] which describe the structure of product, service and information flows and the roles of the participating parties, have changed:[2789]

- Physical and paper-based processes have been replaced by electronic processes. This is evident in e-shops, which move marketing and display to websites, or e-procurement, which moves tendering, negotiating and purchasing processes to websites, too. These examples also offer such advantages as reduced costs and wider choice.
- Moreover, the functions offered by traditional business models have been extended significantly. Sourcing or selling through e-auctions, for example, is easy and can result in significantly reduced purchasing costs or increased revenues. Other functions in the value chain, like payments or logistics, can also be provided more efficiently.
- Furthermore, the business models of, e.g. Yahoo or Google, are transformational in the sense that business can only be done this way electronically. By knitting together separate activities with faster and more reliable information flows, value chain integration can become possible. This means that sales staff, for example, are capable of discussing requirements with customers using both real-time information about manufacturing capability, availability and production scheduling, and also straight-through information about the same issues in the supply chain.
- Additionally, the fourth aspect is that there can be important implications for how internal business models work. Thus, IT-based systems can allow direct communication between the top and the bottom of an organisation. Many chief executives use in-house websites for this purpose.[2790]

5.5.6.2.2.2.6 Internationalisation

As we have seen, stage theories envisage internationalisation proceeding in a concentric manner that begins with simple operations, such as indirect exporting to

2786 Osterwalder (2004), p. 12
2787 Bradley, Hausman and Nolan (1993); Palvia, Palvia and Roche (1996); Prakash (1996); Speier, Harvey and Palmer (1998), in: McDonald and Burton (2002), p. 343
2788 Timmers (2000), chapter 3; Sheehan (2005), pp. 53-60, in: Johnson, Scholes and Whittington (2008), p. 485
2789 Johnson, Scholes and Whittington (2008), p. 485
2790 Johnson, Scholes and Whittington (2008), pp. 486-487

geographically and culturally close countries. However, the use of e-business activities allows companies to rapidly adopt internationalisation strategies without having to undertake slowly evolving expansion of international business activities. Hence, the benefits which are proposed by the use of e-business appear to offer the potential for radical change in the process of internationalisation. As firms learn, they expand to more complex operations (such as the formation of global supply chains) and, hence, embrace countries which are geographically and culturally more distant.[2791]

Thus, most attention is paid to the use of the internet in international marketing[2792] and in the development of global supply chains based on internet-based buyer-supplier networks[2793].

At an international level, information technology facilitates the co-ordination of activities. With local firms relocating their activities, new and geographically distant markets are brought within their reach and extend their markets. The adjustment of products and services, advertising, and marketing campaigns to increasingly specialised market segments is allowed by information systems that supply information about consumers' purchasing behaviour, as well as their tastes and preferences.[2794]

With the internet as a global network, the cost-saving and business-creating opportunities of using e-business systems have increased the potential for companies to initiate or expand international business activities. Both large firms and SMEs use e-business systems in international business activities to focus on the prospects of expanding and speeding up the internationalisation process. The internet is supposed to generate new but also more effective relationships and communication systems for international buying and selling. Moreover, it is possible to gain a more effective management of subsidiaries, joint ventures and strategic alliances because of reduced search and transaction costs for monitoring, assessing and co-ordinating with partners.[2795] Due to network externalities, opportunities to multiply the numbers of international partners and thereby expand opportunities to increase international business activities are enhanced.[2796]

The organisational effects of the mobilisation of intelligence are that a company's capabilities are becoming more distributed and more modular. With the possibilities of the internet, geographically dispersed individuals and teams can connect to solve customer problems or respond quickly to market opportunities. Therefore, a company's R&D, engineering, manufacturing and customer-support capabilities can be located in different parts of the world.[2797]

Thus, it could be argued that the internet leads to an expansion of the scope of the firm. This is because it becomes possible for firms to operate seamlessly in many countries, to monitor individual performance in novel (and potentially intrusive) ways, and to easily foster co-ordination between different businesses in different locations.[2798] Consequently, e-business systems provide a potentially useful tool to help those small and medium-sized firms that have the products, knowledge and resources to internationalise.[2799] As a trade channel, e-commerce offers a highly effective vehicle

2791 McDonald and Burton (2002), pp. 349-350
2792 Bennet (1997); Hamill (1997); Quelch and Klein (1996), in: McDonald and Burton (2002), p. 349
2793 Samli, Wills and Herbig (1997), in: McDonald and Burton (2002), p. 349
2794 Opinion, Blili (2010)
2795 Bradley, Hausman and Nolan (1993), in : McDonald and Burton (2002), p. 349
2796 McDonald and Burton (2002), p. 349
2797 Sawhney and Parikh (2001), p. 186
2798 Collis and Montgomery (2005), p. 238
2799 McDonald and Burton (2002), p. 362

for rapid entry into global markets, although with financial costs and risks being much higher than envisaged in the early days.[2800]

5.5.6.2.2.2.7 Interconnection

Information and communication technologies have resulted in dramatically increased interconnection. The way how all networks, human as well as technological, operate, has fundamentally changed with the digitalisation of information in combination with advances in computing and communications. These changes have profound consequences for doing work and creating value throughout the economy.[2801]

For example, with e-business systems, the search and transaction costs of managing global supply chains are considerably reduced.[2802] The systems are used to link potential buyers and sellers into large supplier networks. Suppliers can link with other suppliers and buyers and new sources of supply, and demand can be added to this virtual supply chain at very low marginal cost. Thus, significant network externalities are possible using such systems.[2803] Driven by advances in information technology as well as the internet, the information systems of every partner which is included in the logistics chain can now be interconnected. This presents an opportunity to achieve greater competitiveness for the entire group of companies[2804]. Because of their ability to accelerate the transmission and accessibility of information, information systems constitute precious assets in gaining strategic advantages in firms.[2805] They cannot be ignored when companies want to optimise the flow of information and knowledge within the logistics chain.[2806]

Outsourcing is another form of partnering, and internet technologies have made it easier for companies to co-ordinate with their suppliers, which has given widespread currency to the notion of the virtual enterprise. This is a business created largely out of purchased products, components and services.[2807] Complex virtual enterprises can be formed quickly due to their ability to creatively combine capabilities distributed among many different companies. The glue for such "plug-and-play" organisations is provided by a whole new class of software.[2808]

5.5.6.2.2.2.8 Organisations and Hierarchy

The organisational consequences are that in many companies the new possibilities have led to a shrinkage of middle management, as intelligence gets pushed to the core (in this case, top management) and the periphery (front-line employees).[2809] The communication of information through a large organisation used to be difficult before robust digital networks and easy-to-use collaboration tools like e-mail, groupware, and intranets appeared. Therefore, many middle managers were needed to package and distribute information between top management and frontline employees. Now, however, their information-transport function has become superfluous, since people are connected

2800 McDonald and Burton (2002), p. 219
2801 Sawhney and Parikh (2001), p. 177
2802 McDonald and Burton (2002), p. 361
2803 McDonald and Burton (2002), pp. 346-347
2804 Jacob and Ouellet (2001)
2805 Lefebvre and Lefebvre (1999), pp. 20-33
2806 Opinion, Blili (2010)
2807 Porter (2001), p. 19
2808 Sawhney and Parikh (2001), pp. 186-187
2809 Hamel holds that a hierarchy of managers exacts a hefty tax on any organisation: first, because managers add overheads; second, it increases the risk of large, calamitous decisions; third, more approval layers and slower responses are involved in a multi-tiered management structure; and finally, a hierarchical structure systematically disempowers lower-level employees, in: Hamel (2011), p. 50

electronically and information and intelligence can be transported more seamlessly.[2810] The opportunity for senior managers to communicate with frontline employees leads to a centralisation of leadership and strategy at the top management level, while the ability to act and make decisions is pushed to the periphery of the organisation. The remaining middle managers have to redefine their roles as co-ordinators, facilitators, organisers and mentors in order to provide new kinds of organisational intelligence.[2811]

Thus, the communication of knowledge and project experiences across functions, departments and geographic units, as well as the sharing of best practice, has been enhanced and fostered by information technology.[2812]

The result of such changes is often a flattening of organisational structures, i.e. the removal of hierarchical levels.[2813] Furthermore, with innovative technologies creating different opportunities for doing business, companies have entered an era of intense experimentation with new organisational forms. This has resulted in changing company architectures, flattening reporting relations, empowering work designs and opening markets.[2814] There is a search for the understanding of what makes these organisational forms distinctive and how they provide competitive advantage.[2815]

5.5.6.2.2.2.9 Procedures and Limitations

The development of information technology, however, does not only offer significant opportunities but also poses some major threats. Both customers and firms have access to real time information about prices and the quality of products around the clock. It is evident that this phenomenon accelerates decision-making but also accessibility to products on a global scale. In this way, it condemns local enterprises which are not connected to limited visibility and thus to a loss of their market share and, by extension, to decreasing revenues. Due to this threat, SMEs are forced to open themselves up to the global market and to offer their products and services via the internet. As a consequence of this forced choice, firms are required to restructure their back-offices in order to be able to integrate the range of data made available thanks to the internet.[2816]

At the same time, with e-commerce there is a danger that not only intellectual property rights but also consumer and data protection laws are circumvented.[2817]

E-business operations also face problems which are similar to the problems confronted by traditional international business operations, like difficulties in operations across different cultures and institutional systems. As a consequence, those firms that are facing low cultural and economic barriers will most likely reap net benefits from using global e-business systems. In addition, niche markets may be found by small and medium-sized firms in which they develop knowledge and which enable them to prosper in global e-business systems.[2818] In addition, for small and medium-sized firms that are engaged or seeking to be involved in international business, the cost of gathering information will be lower with global e-business systems. However, their ability to convert information into knowledge and to overcome the traditional cultural

2810 Sawhney and Parikh (2001), p. 185
2811 Sawhney and Parikh (2001), p. 186
2812 Kaplan and Norton (2004b), p. 153
2813 Opinion, Blili (2010), referring to a survey carried out in 1995 by the US Conference Board
2814 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 234-235
2815 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 235
2816 Jacob and Ouellet (2001)
2817 McDonald and Burton (2002), p. 219
2818 McDonald and Burton (2002), p. 362

and institutional problems of conducting international business activities is unlikely to be reduced by using these systems.[2819]

Finally, Porter lists the following limits:

- Products cannot be physically examined, touched and tested, and customers cannot get hands-on help in using or repairing them.
- Only codified knowledge can be transferred. This sacrifices the spontaneity and judgement that can result from interaction with skilled staff.
- Due to the lack of face-to-face contact, the ability to learn about suppliers and customers (beyond their mere purchasing habits) is limited.
- A powerful tool for encouraging purchases, trading off terms and conditions, providing advice and reassurance, as well as closing deals is eliminated because of the lack of human contact with the customer.
- The navigation of sites and finding of information encounters delays.
- The assembling, packaging and moving of small shipments requires extra logistical costs.
- Companies cannot take advantage of, for example, limited service and maintenance functions at a customer site, or other low-cost functions performed by sales forces, distribution channels and purchasing departments.
- Due to the absence of physical facilities, some functions are circumscribed, and means to reinforce image and establish performance are reduced.
- With the sheer magnitude of the available information and buying options, it becomes difficult to attract new customers.[2820]

5.5.6.2.2.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

The impact of information and communication technologies is tremendous and there are multiple consequences. Hence, *"Technology is a key factor in almost any conceivable strategy process today."*[2821] Since the 1980s, it has been recognised that information systems are indispensable for gaining a strategic advantage[2822] and with the internet growing in influence, it is now at the heart of business processes, goods and services, as well as strategy.[2823] Nowadays, the firm is considered to be a reservoir of knowledge, which it shares with its customers, suppliers, employees and stakeholders.[2824]

Thus, what becomes obvious is the huge interconnection among different partners. Moreover, companies are breaking ground in how to utilise ICT by thinking out-of-the box, thereby supporting their strategy and/or implementing new business models.

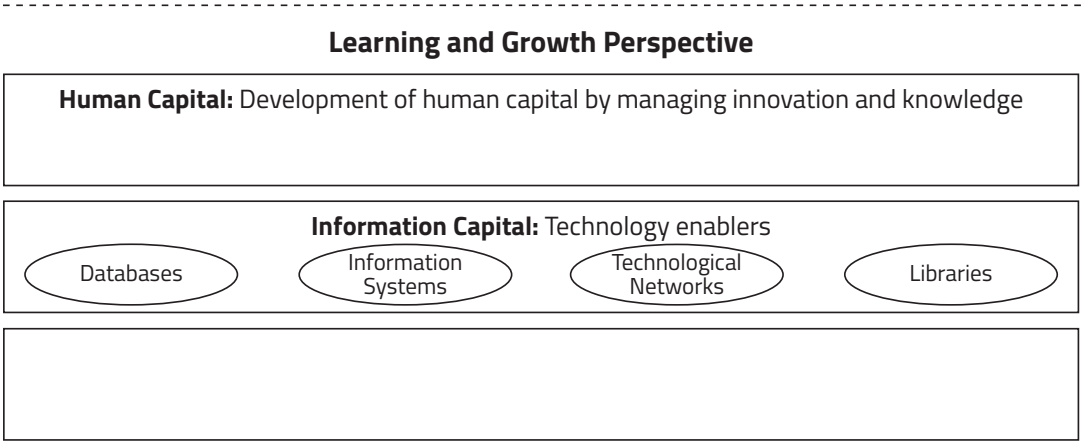
Often, the effective deployment of advanced information technology has made it possible for entirely new companies to enter industries.[2825] Yet, even the structure

2819 McDonald and Burton (2002), p. 362
2820 Porter (2001), pp. 32-33
2821 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 242
2822 Porter and Millar (1985), pp. 149-160
2823 Porter (2001)
2824 Opinion, Blili (2010)
2825 Kaplan and Norton (2004b), p. x

of an industry is changed by information systems and therefore also the rules of competition.[2826]

Finally, we will conclude this chapter by adding a summary of the components of information capital as the second part of the strategy map's learning and growth perspective.

Figure 23: Information Capital[2827]



5.5.6.2.3 Organisation Capital

5.5.6.2.3.1 Summary

Typically, the components of organisation capital are culture, leadership, teamwork and alignment. To these, we will add a fourth component: relationships. Each of these four components has a far-reaching impact on every company.

5.5.6.2.3.2 Description

According to Kaplan and Norton, a company with large organisation capital has a shared understanding of vision, mission, values, and strategy, is strongly led, has created a performance culture around the strategy, and shares knowledge up, down, and across the organisation so that everyone works together and in the same direction.[2828]

Typically, organisation capital is built upon the following four components:

- **Culture** (i.e. the awareness and internalisation of the mission, vision and core values needed to execute the strategy).
- **Leadership** (i.e. the availability of qualified leaders at all levels to mobilise the organisation towards its strategy).
- **Alignment** (i.e. individual, team, and departmental goals and incentives linked to the attainment of strategic objectives).
- **Teamwork** (i.e. knowledge with strategic potential shared throughout the organisation).[2829]

2826 Porter and Millar (1985), pp. 149-160; Porter (2001), pp. 1-50
2827 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353
2828 Kaplan and Norton (2004b), p. 275
2829 Kaplan and Norton (2004b), p. 277

5.5.6.2.3.2.1 Culture

"As Karl Weick has argued, "A corporation doesn't have a culture. A corporation is a culture. That's why they're so horribly difficult to change.""[2830]

Hall and Hall define culture as a technical term used by anthropologists to refer to a system for creating, sending, storing and processing information developed by human beings, which differentiates them from other life forms.[2831]

The culture of an organisation reflects the predominant attitudes and behaviours that characterise its functioning.[2832] The nature of the market and product characteristics, as well as the industry and national contexts, contribute to the corporate culture.[2833]

Johnson, Scholes and Whittington assert that organisational culture is to do with the taken-for-granted in an organisation. This includes the basic assumptions and beliefs which are shared by members of an organisation, as well as the taken-for-granted ways of doing things. Therefore, a cultural explanation of strategy development is that it occurs as the outcome of these taken-for-granted assumptions and behaviours in organisations. At the same time, this taken-for-grantedness works to define, or at least guide, how people view their organisation and its environment, and also tends to determine what behaviour and activity is seen as appropriate.[2834]

Basically, the values, attitudes and norms which constitute a company's culture have three sources:

- The beliefs, values and premises of the company founders.
- The experiences of employees in the course of the company's development.
- The beliefs, values and premises of new employees and senior management.[2835]

Generally, executives believe that strategy requires basic changes in the way of conducting business, and must be executed through individuals at all levels of the organisation. Hence, new attitudes and behaviours (culture) will be required throughout the workforce as a prerequisite for these changes.[2836]

Kaplan and Norton are convinced that strategy dictates culture and not vice versa. Moreover, they believe that most strategies require dramatic changes in the existing culture and that the leadership team must introduce new attitudes and behaviours for the new strategy to be successful.[2837] This means that, for example, companies competing in terms of consistency and reliability will probably want to establish a culture of quality and continuous improvement, whereas a continuous cost reduction culture would be relevant for companies competing on low total cost, especially with non-differentiated products. On the other hand, a company that strives to maintain product leadership will want to establish a culture of creativity and product innovation.[2838]

Bailom, Matzler and Tschemernjak hold that in most instances top performers possess a culture type which can be described as entrepreneurship culture. This type can be

2830 Quoted in Kiechel (1984), p. 11, in: Mintzberg (1989), p. 275
2831 Hall and Hall (1990), p. 183
2832 Kaplan and Norton (2004b), p. 281
2833 Schneider and Barsoux (2003), p. 71
2834 Johnson, Scholes and Whittington (2008), p. 416
2835 Schein (1992), in: Bailom, Matzler and Tschemernjak (2006), p. 169
2836 Kaplan and Norton (2004b), p. 281
2837 Kaplan and Norton (2004b), p. 281
2838 Kaplan and Norton (2004b), p. 283

characterised as a culture which is outward directed and which enhances flexibility and spontaneity.[2839] However, entrepreneurship may also be found inside larger, more bureaucratic organisations, where it has to do with change and innovation and often goes under the label of intrapreneurship. In such an environment, the entrepreneurial role is often not taken by the boss but by someone in an odd corner of the company: a champion of some technology or strategic issue.[2840]

5.5.6.2.3.2.2 Leadership

"Leadership is a study of human nature."[2841]

"Leadership does matter, of course. But, alas, it is something different from what is now touted under this label. It has little to do with "leadership qualities" and even less to do with "charisma". It is mundane, unromantic, and boring. Its essence is performance. In the first place, leadership is not by itself good or desirable. Leadership is a means. Leadership to what end is thus the crucial question."[2842]

Perhaps no other word is used with such varied meanings as leadership.[2843] It is evident that there is neither a common definition nor a clear and unequivocal understanding of leadership,[2844] but that it is dependent on the specific approach the researcher takes[2845]. Thus, leadership has different meanings and definitions.[2846] Researchers define it according to their individual perspectives as well as the aspect of the phenomenon which is of most interest to them.[2847] Most writers, however, agree that leadership is the process of influencing the activities of an individual or a group in efforts directed towards goal achievement in a given situation.[2848]

For other definitions of leadership, the focus has shifted to concepts such as vision, inspiration and organisational change. For Kotter, leadership epitomises the creation of a vision and strategic direction for the organisation, as well as the communication of that vision to its people and customers. It also involves inspiring, motivating and aligning people and the organisation to achieve this vision.[2849] He labels leadership good or effective when it moves people to a place in which both they and those who depend upon them are genuinely better off, and when it does so without trampling on the rights of others.[2850]

From Andersen, Froholdt and Poulfelt, we learn that leadership is also about crafting a vision and shaping expectations. However, since the real test of whether this works is when the "rubber meets the road", it is also about delivering according to expectations.[2851] Moreover, leadership is seen as an act of balance between what the organisation is

2839 Bailom, Matzler and Tschemernjak (2006), p. 82
2840 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 314
2841 Montgomery (1961), p. 233 in: Bindschedler (1993), p. 6
2842 Drucker (1992), in: Drucker (2008), p. 268
2843 Katz and Kahn (1978), p. 574
2844 Bennis and Nanus (1985), in: Maier (2002), p. 111
2845 Maier (2002), p. 111
2846 Maier (2002), p. 110
2847 Yukl (1989), in: Maier (2002), p. 110
2848 Hersey and Blanchard (1993); Ivancevic and Matteson (1996); Yukl (1989), in: Maier (2002), p. 111
2849 Kotter (1990), in: Maier (2002), p. 111
2850 Kotter (1990), p. 5
2851 Andersen, Froholdt and Poulfelt (2010), p. 254

geared for, the vision of the leader, and the assurance that it is all communicated and digested in a satisfactory manner by the organisation. It is needed at all management levels, not just at the executive layer, in order to execute the strategy of the company and even change the direction if needed. Moreover, it must be governed so that its practices are overseen by the board.[2852]

Burns sees leadership as a process that motivates followers by appealing to higher ideals and moral values.[2853] Likewise, it can also be conceptualised as a dynamic process of interaction which creates change.[2854] Strategic leadership, on the other hand, is the ability to align the company with external stakeholders.[2855]

Because mobilisation and focusing the entire workforce is essential to successful change, leadership is a core requirement for a strategy-focused organisation.[2856]

However, in many companies, leadership has degenerated into orchestrating operational improvements and making deals. Yet, the role of general management is more than the stewardship of individual functions, since its core is strategy: defining and communicating the company's unique position, making trade-offs, and achieving fit among activities. Moreover, it is one of its jobs to teach others in the organisation about strategy.[2857]

Pfeffer discusses the ambiguity of leadership and suggests that leadership is redundant and unnecessary by arguing that organisational effectiveness depends primarily on factors beyond the leader's control.[2858] This standpoint is, however, opposed by the majority of researchers, who argue that leadership is a major determinant of organisational effectiveness[2859] and report a significant relationship between leadership and the financial performance of a firm[2860]. Likewise, they cite empirical studies supporting the hypothesis that leaders have significant influence on the overall performance of their organisations, and also point out that more often than not, top management succession makes a substantial difference in the performance of organisations.[2861] Moreover, empirical studies show that group leadership is crucial to group performance.[2862]

Below, we will discuss some additional aspects of leadership:

- **Top leaders:** Something which is stressed time and again by most charismatic leaders is that leadership is work.[2863] To think through the mission, define it, and establish it clearly and visibly is the foundation of effective leadership. Leaders set goals, set priorities, and set and maintain standards, and of course, also make compromises. Indeed, the ones that are effective are painfully aware that they are not in control of the universe.[2864] Second, leaders see their role as responsibility rather than as rank and privilege. It is rare that effective leaders are "permissive". But when things go wrong, which is always the case,

2852 Andersen, Froholdt and Poulfelt (2010), p. 232
2853 Burns (1978), in: Maier (2002), p. 111
2854 Barker (1997), pp. 343-362, in: Maier (2002), p. 111
2855 Andersen, Froholdt and Poulfelt (2010), p. 241
2856 Kaplan and Norton (2004b), p. 289
2857 Porter (1996), p. 77
2858 Pfeffer (1977), pp. 104-112, in: Maier (2002), p. 118
2859 Katz and Kahn (1978); Peters and Waterman (1982), in: Maier (2002), p. 118
2860 Avolio, Waldman and Einstein (1988), pp. 59-80, in: Maier (2002), p. 118
2861 House and Aditya (1997), pp. 406-474, in: Maier (2002), p. 118
2862 Boss (1978), pp. 469-478; Larson and La Festo (1989); Sweeney and Allen (1988), pp. 262-266; Thamhaim and Wilemon (1988), pp. 301-314, in: Maier (2002), p. 118
2863 Drucker (1992), in: Drucker (2008), p. 269
2864 Drucker (1992), in: Drucker (2008), p. 270

they do not blame others.[2865] The third requirement of effective leadership is to earn trust, because otherwise there will not be any followers, and someone without followers is not a leader.[2866]

Andersen, Froholdt and Poulfelt argue that top leaders are the ones who map out the strategy of their companies, motivate the middle managers and employees, and excel at making tough decisions in times of crisis. As we already know, they see them as captains of the corporate vessels that sail the competitive waters of today's business world but who take these vessels to different seas or universes. In order to drive their organisations towards the X-factor universe, they must possess a passion for what they do. However, not only the captain, but also the company's ability to attract, recruit and develop the required people in order for leadership to flow through the entire organisation is important. Thus, for a company to execute its strategy with success and maintain a sense of urgency, it needs organisationally wide leadership. In short, this means that it must be aligned to execute. Successful leadership includes a certain portion of balanced behaviour, which enables the ability of a leader to project belief and instil a sense of purpose.[2867] In particular, this is true for those companies that enter the X-factor universe, since this is tied into the unconventional and the ability to apply out-of-the-box thinking.[2868]

- **Culture:** For Kotter, the ultimate act of leadership in an organisation is to create a leadership-oriented culture that continues after the creator has gone.[2869] He goes on to argue that the development of a culture that creates strong leadership and management is probably difficult under any circumstances. If in large, older organisations the right vision and values do not already exist, it can be a challenging task to create them. Moreover, to institutionalise such a culture so that it does not disintegrate after the creator has left is even tougher. It demands great skill, perseverance and courage to do this. Yet, he argues, for those who are successful in doing this, the pay-off is gigantic: in terms of long-term economic results; the quality of life offered to employees over the length of their careers; the overall package of goods and services offered to customers over a decade or more; and the general benefits to society.[2870]

  Hence, the development of a culture that creates strong leadership and management means, first and foremost, providing a vision of the kind of culture that is needed. It furthermore means:

  - being a visible role model of what is expected from others;
  - helping people understand what leadership is, why it is important, how it is different from management, and how it can be created;
  - giving people the opportunity to lead and manage;
  - supporting efforts with resources and enthusiasm that are consistent with the desired culture;
  - recognising and rewarding success.

2865 Drucker (1992), in: Drucker (2008), p. 270
2866 Drucker (1992), in: Drucker (2008), p. 271
2867 Andersen, Froholdt and Poulfelt (2010), p. 253
2868 Andersen, Froholdt and Poulfelt (2010), pp. 253-254
2869 Kotter (1990), p. x
2870 Kotter (1990), p. 137

Essentially, it means providing leadership on the issue of culture.[2871] Leadership and culture are as closely related as management and structure (or systems). In order to create a useful culture, strong leadership is required. One only finds competent leadership emerging throughout an organisation in certain kinds of culture. Thus, the ultimate act of leadership is to institutionalise a leadership-centred culture.[2872] Finally, Andersen, Froholdt and Poulfelt argue that leadership is about many things: *"The ability of the CEO to align strategy and culture, the ability of a company to develop leadership throughout the organization, the ability to govern leadership, the ability to drive the business and strategy of the organization while also using and influencing the external environment and the "Visible Hand" to execute all this."*[2873]

- **Leadership and management:** In the ongoing controversy in the literature over the differences between leadership and management, the point of disagreement is not the equivalence but the degree of overlap between them.[2874] Zaleznik suggests that *"Managers tend to adopt impersonal, if not passive, attitudes toward goals. Managerial goals arise out of necessities rather than desires and, therefore, are deeply embedded in their organization's history and culture"*. In contrast, leaders are *"active, instead of reactive, shaping ideas instead of responding to them. Leaders adopt a personal and active attitude towards goals. The influence a leader exerts in altering moods, evoking images and expectations, and in establishing specific desires and objectives determines the direction a business takes. The net result of this influence changes the way people think about what is desirable, possible, and necessary."*[2875] While Zaleznik bases his classic Harvard Business Review article on leaders and managers as agents, other writers appear to concentrate on the processes of leadership and management. Their basic argument is that leadership and management involve separate processes but need not involve separate people.[2876] Therefore, both leadership and management can be exerted by one and the same person.[2877] Hence, the leadership activities of managers also need to be mentioned. Each time a manager encourages or criticises a subordinate, the manager is acting in his capacity as leader.[2878] Such leadership skills focus on a manager's ability to deal with his subordinates, to motivate and train them, provide help, deal with problems of authority and dependence, etc. Leadership skills require, perhaps more than any other element, participative training, or as Mintzberg writes: *"Leadership, like swimming, cannot be learned by reading about it."*[2879]

  Kotter sustains that management ensures plan accomplishment through controlling and problem-solving, whereas leadership achieves a vision through appealing to basic but often untapped human needs and emotions.[2880] He describes management as planning and budgeting, organising and staffing, as

2871 Schein (1985), in: Kotter (1990), p. 138
2872 Kotter (1990), p. 138
2873 Andersen, Froholdt and Poulfelt (2010), p. 246
2874 Yukl (1989), in: Maier (2002), p. 120
2875 Zaleznik (1992), pp. 127-128, in: Maier (2002), p. 120
2876 House and Aditya (1997), pp. 406-474; Kotter (1996); Yukl (1994), in: Maier (2002), p. 120
2877 Capowski (1994), pp. 10-17; Napolitano and Henderson (1998), in: Maier (2002), p. 120
2878 Mintzberg (1973a), p. 61; See also Sayles (1964), p. 53, in: Mintzberg (1973a), p. 219: The manager's three basic types of leadership behaviour are: leadership as direction, as response, and as representation/ intervention.
2879 Mintzberg (1973a), pp. 189-190
2880 Kotter (1998), pp. 37-60, in: Maier (2002), p. 121

well as controlling and problem-solving,[2881] and leadership[2882] as establishing direction, aligning people, as well as motivating and inspiring.[2883] Kotter concludes that the differences between leadership and management create a potential for conflict but that the only logical conclusion is that they are both needed if an organisation is to prosper. [2884]

For Fagiano, management comprises the activity to get things done through other people, whereas leadership is helping others to do the things they know need to be done to achieve the common vision.[2885] For Bennis and Nanus, on the other hand, management is about doing things right, while leadership is about doing the right things. [2886]

Generally, leadership is seen as involving the articulation of an organisational vision, the introduction of major change, providing inspiration, and dealing with highly stressful and troublesome challenges. In contrast, management is about the implementation of a vision and strategies, and the maintenance and administration of organisational infrastructures.[2887] For Yukl, management is oriented towards stability, while leadership is oriented towards innovation.[2888] Whereas leadership tolerates chaos and lack of structure, management wants to eliminate it.[2889] Furthermore, Barker asserts that management protects stabilised patterns, while leadership seeks to create new patterns.[2890]

For Hinterhuber, leaders always try to create new paradigms and in doing so they have the ability to prompt, inspire and enable employees to discover new possibilities, to convert them into practice and to voluntarily and enthusiastically endeavour to achieve common goals.[2891] Nevertheless, he goes on to state that leadership and management are two different but mutually dependent competencies of successful executives.[2892]

Finally, for Cokins management copes with complexity, relying on budgets, plans, targets and organisational charts, whereas leadership copes with accelerating change management. Therefore, the latter requires vision, direction-setting, the ability to inspire employees, and intelligent risk management.[2893]

2881 Kotter (1990), p. 4
2882 By referring also to Bennis and Nanus (1985); Peters and Austin (1985)
2883 Kotter (1990), p. 5
2884 Kotter (1990), p. 7
2885 Fagiano (1997), p. 5, in: Maier (2002), p. 120
2886 Bennis and Nanus (1985), in: Maier (2002), p. 121
2887 House and Aditya (1997), pp. 406-474, in: Maier (2002), p. 121
2888 Yukl (1994), in: Maier (2002), p. 121
2889 Zaleznik (1992), pp. 126-135, in: Maier (2002), p. 121
2890 Barker (1997), pp. 343-362, in: Maier (2002), p. 121
2891 Hinterhuber (2003a), pp. 255-276; Hinterhuber (2003b), in: Bailom, Matzler and Tschemernjak (2006), p. 33
2892 Bailom, Matzler and Tschemernjak referring to numerous works in the field of leadership and management written by Hinterhuber: Hinterhuber (2002), pp. 40-52; Hinterhuber (2003b); Hinterhuber (2004); Hinterhuber, Friedrich and Krauthammer (2001); Hinterhuber and Krauthammer (1998), pp. 149-162; Hinterhuber and Krauthammer (2002); Hinterhuber and Renzl (2004), pp. 3-28; Hinterhuber, Renzl and Matzler (2006), in: Bailom, Matzler and Tschemernjak (2006), p. 214
2893 Cokins (2009), p. 58

5.5.6.2.3.2.3 Teamwork and Knowledge-sharing

"There is no greater waste than a good idea used only once. No asset has greater potential for an organization than the collective knowledge possessed by all its employees."[2894]

"Network features of the organization, mainly networked teams, drive the creation of new value. Management processes must be focused on driving growth, rather than on compliance with bureaucratic practices that merely take time and drain energy."[2895]

For Johnson, Scholes and Whittington, organisational knowledge is the collective experience accumulated through systems, routines and activities shared across the organisation. It has been highlighted as being important for the following reasons:

- First, the need of organisations to share people's knowledge becomes more of a challenge as they become more complex and larger.
- Second, information systems have provided more sophisticated ways to share people's knowledge.[2896]
- Finally, it is more likely that organisations will achieve competitive advantage through the way they do things and their accumulated experience than their physical resources. Therefore, knowledge about how to do things that draws on this experience becomes very important.[2897]

Even though knowledge management is nothing new, it was not until the 1990s that chief executives started talking about it. With the shift of industrialised economies from natural resources to intellectual assets, executives have been compelled to examine the knowledge underlying their business and how that knowledge is used. At the same time, the rise of networked computers has provided easier and cheaper ways to codify, store and share certain kinds of knowledge.[2898]

In order to generate, organise, develop and distribute knowledge throughout the organisation, many organisations use formal knowledge management systems.[2899] Formal knowledge-sharing enables the quick dissemination of successful process innovations throughout the organisation.[2900]

Within working groups, much of the knowledge that exists comes from their "war stories", i.e. the constant storytelling about problems, solutions, disasters and triumphs. Stories present things sequentially and causally. As such, they are a powerful way to understand what happened and why.[2901]

The shared knowledge or skills from which units often benefit may also be written in manuals or in policy-and-procedure statements. Very often, though, it exists tacitly, without any formal documentation. The importance attributed to shared know-how is

2894 Kaplan and Norton (2004b), pp. 300-303
2895 Lorange (1998b), p. 4
2896 Drucker (1999b) and others have already referred to the growth of a "knowledge-based economy", in: Johnson, Scholes and Whittington (2008), p. 107
2897 Johnson, Scholes and Whittington (2008), p. 109
2898 Hansen, Nohria and Tierney (1999), p. 62
2899 Kaplan and Norton (2004b), p. 303. They state that the content on knowledge management processes has been drawn from Garvin and March (1997), in: Kaplan and Norton (2004b), p. 303
2900 Kaplan and Norton (2008), p. 183
2901 Brown and Duguid (2000), p. 53, referring to Orr J. from Palo Alto Research Center

reflected by the emphasis placed by many companies on leveraging core competencies and sharing best practice.[2902]

The gathering of information leads to attempts to convert it into useful knowledge. The firm then seeks to transfer this knowledge across various activities. This, however, is difficult, particularly with tacit knowledge (that which is personalised, non-routine and intuitive). It can even be demanding to transfer explicit knowledge (that which is codified, formal and specific) if cultural understanding about the value and meaning of explicit knowledge is not shared. This results in a rather slow and evolutionary strategic planning process that emerges as firms learn.[2903]

Thus, the challenges for teamwork and knowledge-sharing are often related to so-called tacit knowledge. Nonaka and Takeuchi, on the one hand, distinguish between explicit knowledge, which is codified, objective and transmitted in formal systematic ways, and on the other hand, tacit knowledge, which is personal, context specific and therefore hard to formalise and communicate. Usually, in order to gain competence, both kinds of knowledge are required.[2904] The mutually beneficial sharing of knowledge and experience in organisations relies on communities of practice.[2905] Formal systems may be a means of doing this, but it is also highly dependent on social contact and trust.[2906]

In addition, there is a natural reluctance among professionals to share the knowledge which is their most precious asset. The competition among them often inhibits sharing, and assigning credit for intellectual contributions is difficult. With the power base of professionals being their knowledge, strong inducements to share are necessary. Furthermore, the tendency of each profession to regard itself as an elite with special cultural values may get in the way of cross-disciplinary sharing. Even when all parties are supposedly seeking the same goal, there are many professionals with little respect for those outside their field.[2907]

If, however, the problems related to knowledge-sharing are overcome, efficient knowledge management offers a multitude of advantages:

- Knowledge is the only resource which proliferates through use.[2908] It does not fray but expands with permanent enhancement. Consequently, it shows an exponential curve progression.[2909]
- Since intellectual assets, unlike physical assets, increase in value with use, the sharing of information is critical. If properly stimulated, sharing makes knowledge and intellect grow exponentially.[2910]
- If they learn from outsiders (especially customers, suppliers and specialists), companies can reap even greater benefits.[2911] Many are beginning to realise that it is not only important what corporations know, but also what customers,[2912] and stakeholders in general, know[2913].

2902 Goold and Campbell (1998), p. 92
2903 Quinn, Mintzberg and James (1988), in: McDonald and Burton (2002), p. 252
2904 Nonaka and Takeuchi (1995), in: Johnson, Scholes and Whittington (2008), p. 109
2905 Wenger and Snyder (2000) and Wenger (1999), in: Johnson, Scholes and Whittington (2008), p. 109
2906 Johnson, Scholes and Whittington (2008), p. 109
2907 Quinn, Anderson and Finkelstein (1996), p. 75
2908 Probst, Raub and Romhardt (1999), p. 17
2909 Osterloh and Frost (2000), p. 177
2910 Quinn, Anderson and Finkelstein (1996), p. 75
2911 Quinn, Anderson and Finkelstein (1996), p. 75
2912 Gibbert, Leibold and Probst (2002), p. 459
2913 See also Probst, Raub and Romhardt (1999), pp. 165-166: In the literature, customers, suppliers, owners, employees, employee representatives, politicians, media, opinion leaders, the world of finance and the general public are usually identified as the most important stakeholders.

Finally, knowledge management is bottom up and assumes that managers can best foster knowledge by responding to the inventive, improvisational ways people actually get things done. Furthermore, it assumes that value-creating activities are not easy to pin down and that organisations compete in an unpredictable environment. [2914]

5.5.6.2.3.2.4 Alignment

"The value does not reside in any individual intangible asset. It arises from the entire set of assets and the strategy that links them together."[2915]

"Alignment is the necessary condition before empowering ... the individual will empower the whole team."[2916]

In modern organisations, with their central feature of interdependence, no one has complete autonomy, and most employees are tied to others by their work, technology, management systems and hierarchy. When organisations attempt to change, it presents a special challenge to the process of leadership. If a large number of individuals do not line up and move together in the same direction, people will tend to fall all over one another.[2917]

Consequently, effective alignment crosses organisational boundaries, and thus requires the integration and co-operation of individuals from different units.[2918] This indicates how important the aspects of the previous chapter, i.e. teamwork and knowledge-sharing, are.

5.5.6.2.3.3 Discussion

5.5.6.2.3.3.1 Culture

Mintzberg suggests that there are no techniques for building ideologies and no five steps to a better culture. He is convinced that they are built slowly and patiently by committed leaders who have found interesting missions for their organisations and care deeply about the people performing them. Mintzberg believes that the critical ingredient is authenticity.[2919] In fact, successful companies have a clear focus on their values, which must be authentic and incorporate a long-term perspective which translates into a value-driven organisation that uses them to create a common purpose. Furthermore, these values are aligned to the company's strategy.[2920] At the same time, and as we have seen, values form and stand for reputation.

Culture determines numerous aspects in a company. It is, for example, a vital ingredient of the organisational design, as it acts as the glue that binds the values of the company to the strategy. This is illustrated by such examples as Huawei, Southwest Airlines, Disney, Ryanair, Apple and Google, which all have widely differing cultures. Nevertheless, all these companies have managed to instil a culture that drives their strategy and allows it to develop.[2921] To ensure that a company gets the kind of leaders it

2914 Brown and Duguid (2000), p. 47
2915 Kaplan and Norton (2000a), p. 74
2916 Senge (1990a), p. 235 in: Kaplan and Norton (2004b), p. 299
2917 Kotter (1990), p. 49
2918 Kaplan and Norton (2008), p. 140
2919 Mintzberg (1989), p. 275
2920 Andersen, Froholdt and Poulfelt (2010), p. 272
2921 Andersen, Froholdt and Poulfelt (2010), p. 188

needs, it has to define in a leadership competency model (which is a kind of job profile), the competencies a leader is expected to have to be effective in carrying out the company's strategy.[2922] Often, companies will measure such leadership traits through employee surveys.[2923]

Bryian and Joice use a ship metaphor when they discuss research suggesting that CEOs would be better off focusing on organisational design in order to prepare the organisation for what lies ahead: *"Strategic-minded executives may not be able to control the weather, but they can design a ship and equip it with a crew that can navigate the ocean under all weather conditions."*[2924] The organisational design of a company is to be understood as its culture and values as well as its people and knowledge. Therefore, it comprises the structure of the company, i.e. how it is organised, both internally and externally, the culture and values of the company, and last but not least its people.[2925] Andersen, Froholdt and Poulfelt argue that the above quote by Bryian and Joice captures how organisational design is an understood element for entering and staying in the X-factor universe. The ship is the company's structure and the ship's crew are its people and their shared values and culture.[2926] This view is in line with the Blue Ocean Strategy, another metaphor from the naval and sailing world.

5.5.6.2.3.3.2 Leadership

In the context of organisational design, Senge also uses a ship metaphor, and argues that the neglected leadership role is the designer of the ship. He refers to an executive who asserts that *"Organizational design is widely misconstrued as moving around boxes and lines."*[2927] Instead, *"The first task organization design concerns is designing the governing ideas of purpose, vision, and core values by which people will live".*[2928] With governing ideas being the first design task of leadership, the second one involves the policies, strategies and structures that translate guiding ideas into business decisions. He refers to Selznick, who calls policy and structure the *"institutional embodiment of purpose"*[2929] and Forrester, who says that *"Policy making (the rules that guide decisions) ought to be separated from decision making"*[2930]. Yet, Senge points out that writers like Selznick and Forrester have tended to see policy-making and implementation as the work of a small number of executives, whereas the dynamic business environment and the mandate of the learning organisation to engage people at all levels now make it clear that this second design task is changing and therefore more subtle.[2931] As we have seen, for Mintzberg, strategy is less a rational plan arrived at in the abstract and implemented throughout the organisation than an *"emergent phenomenon"*. He goes on to maintain that successful organisations *"craft strategy"*, as they continually learn about shifting business conditions and balance what is desired and what is possible.[2932] Thus, it is not the right strategy that is key but fostering strategic thinking.[2933] As we have already

2922 Kaplan and Norton (2004a), p. 61
2923 Kaplan and Norton (2004a), p. 56
2924 Bryan and Joyce (2007), p. 23, in: Andersen, Froholdt and Poulfelt (2010), p. 167
2925 Andersen, Froholdt and Poulfelt (2010), p. 167
2926 Andersen, Froholdt and Poulfelt (2010), p. 168
2927 Hanover's CEO William O'Brien, in: Senge (1990b), p. 10
2928 Hanover's CEO William O'Brien, in: Senge (1990b), p. 10; *"Few acts of leadership have a more enduring impact on an organization than building a foundation of purpose and core values."*, in: Senge (1990b), p. 10
2929 Selznick (1957), in: Senge (1990b), p. 10
2930 Forrester (1965), pp. 5-17, in: Senge (1990b), p. 10
2931 Senge (1990b), pp. 10-11
2932 See, for example, Mintzberg (1987c), pp. 66-75, in: Senge (1990b), p. 11
2933 Senge (1990b), p. 11

seen, Mintzberg asserts: *"Strategic planning isn't strategic thinking. One is analysis, and the other is synthesis."*[2934] In learning organisations, the creation of effective learning processes behind appropriate policies, strategies and structures is another key design responsibility. This does not absolve senior managers of their strategic responsibilities, but actually deepens and extends these responsibilities. This is because now they are not only responsible for ensuring that an organisation has well-developed strategies and policies, but also for ensuring that processes exist whereby these are continually improved.[2935]

Kotter believes that strong leadership is required in order to create a useful culture.[2936] As we have already seen, for him the ultimate act of leadership in an organisation is to create a leadership-oriented culture that continues after the creator has gone.[2937] However, transferring leadership and management is one of the most challenging issues in family companies.[2938] Many of them do not survive this process because succession occurs rarely, often unexpectedly, and without planning.[2939] Misreadings of a successor's qualifications and personality rank among the most frequent causes of failed business successions.[2940]

5.5.6.2.3.3.3 Teamwork and Knowledge-sharing

For successful companies, the promotion of teamwork, especially the sharing of strategic knowledge throughout the organisation, is important.[2941] After all, the collective knowledge possessed by all its employees is an asset and, according to Kaplan and Norton, there is no other asset with greater potential for a company. Moreover, it would be a great waste if a good idea was only used once. Thus, in order to matter, knowledge-sharing must be aligned with the priorities of the strategy map.[2942]

For organisations, knowledge creation and knowledge-sharing are a fundamental ingredient of strategic success. Therefore, both the concentration of expertise and the sharing of knowledge should be fostered.[2943]

The identification of innovations and best practice within or even outside the organisation and the rapid dissemination to every organisational unit is a critical learning and growth objective. Such best practice should be enabled by knowledge management systems.[2944] Its capability will be attested by measurements such as the number of new ideas posted or shared and the quantity of new ideas adopted from other organisations.[2945] At the same time, the adoption of easy-to-copy best practice advised by consultants will never lead to sought-after-profitability, as this only comes from original and difficult to imitate strategic approaches.[2946]

The following means can facilitate effective knowledge management:

2934 Mintzberg (1994a), p. 325, in: Lombriser and Abplanalp (1998), p. 56
2935 Senge (1990b), p. 11
2936 Kotter (1990), p. 138
2937 Kotter (1990), p. x
2938 Fox, Nilakant and Hamilton (1997), pp. 15-25, in: Moog, Mirabella and Schlepphorst (2009), p. 3
2939 Gersick, Davis, Hampton and Lansberg (1997), in: Moog, Mirabella and Schlepphorst (2009), p. 3
2940 Bennedsen, Nielsen, Pérez-González (2006), in: Moog, Mirabella and Schlepphorst (2009), p. 3
2941 Kaplan and Norton (2004a), p. 61
2942 Kaplan and Norton (2004a), p. 63
2943 Johnson, Scholes and Whittington (2008), p. 435
2944 Kaplan and Norton (2004b), p. 83
2945 Hansen, Nohria, and Tierney (1999), p. 83
2946 Jarillo (2003), p. 202

- Organisational measures, such as the institution of a chief knowledge officer (CKO) or organisational structures for the management of knowledge as a resource.[2947]

- In the complex projects of Merrill Lynch's mergers and acquisitions group, for example, it cannot have only specialists doing their own thing but the network of its rich and dispersed talents has to focus on a single customer's problem for a short time. The co-ordination of these teams is usually carried out by the client-relationship managers who best understand the customer's integrated needs. However, if there was no specifically tailored promotion and compensation evaluation processes, the firm's system would probably not work.[2948]

- Databases like the ""Yellow Pages" can make it easier to find relevant experts and expertise.[2949]

At the same time, effective knowledge management cannot only rely on isolated measures, but has to be considered as a whole. Probst, among other aspects, points out that:

- A purely technological approach will not solve transparency problems of knowledge management. Rather, it is much more important to integrate human beings who, after all, do not externalise their knowledge in computer systems, but need personal contacts and discussions.[2950]

- It must be ensured that team members have complementary skills and that each group as a whole has defined realistic goals. Furthermore, it is the atmosphere of openness and trust which makes collective learning results superior to individual ones.[2951]

- Knowledge transparency reduces the power base of the better-informed person in political games. Knowledge management has natural enemies, and many of its actions can only be successful if the undertaking has full top-management commitment. It must be rooted in organisational structures and in the corporate culture and be an organisation-wide task. Unfortunately, however, knowledge management often runs up against the "turf" issues of different departments.[2952]

Dynamic advantage is also created based on the ability to create new capabilities rather than exploiting old ones. As we have seen, joint ventures, alliances and acquisitions help to explore such new knowledge rather than focusing on whole ownership to protect old knowledge. In addition, capabilities must be shared through networks to make use of them before new learning makes them obsolete.[2953]

The constant adaption of firms to competition and environmental changes is allowed by organisational learning, and good knowledge management can be an invaluable asset on the basis of which a competitive advantage can be developed. However, its

2947 Vgl. Probst, 1998, p. 17
2948 Quinn, Anderson and Finkelstein (1996), p. 78
2949 Probst (1998), p. 27
2950 Probst (1998), p. 22
2951 Probst (1998), p. 24
2952 Probst (1998), p. 28
2953 Tallman (2009), p. 109

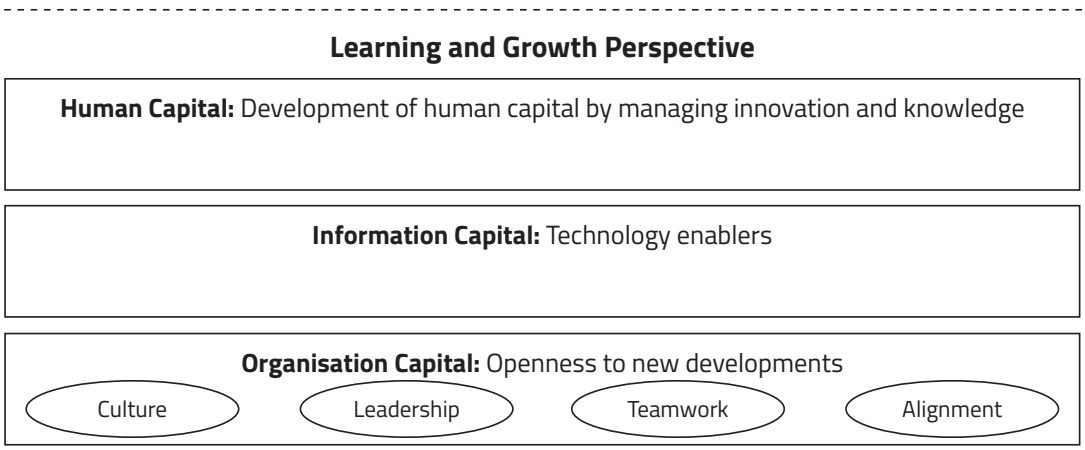
development can be seriously constrained by a lack of resources.[2954]

5.5.6.2.3.3.4 Alignment

We have seen that a broad-based change of organisations requires alignment. This is when all members of a team have a commonality of purpose, a shared vision and understand how their personal roles support the overall strategy. If an organisation is aligned, it encourages employee empowerment, innovation and risk-taking, because individual actions are directed at achieving high-level objectives.[2955]

Finally, we will conclude this chapter by adding a summary of the components of organisation capital as the third part in the strategy map's learning and growth perspective.

Figure 24: Organisation Capital[2956]



5.5.6.2.4 Aligning and integrating Intangible Assets to Strategy

5.5.6.2.4.1 Summary

Human capital, information capital and organisation capital only take on value in the context of strategy. Thus, they must be aligned with the strategy and integrated with each other. After all, the value of intangible assets arises from the entireness of assets and the strategy that links them together. Therefore, in this chapter a way is presented that systematically measures the alignment of a company's human, information and organisation capital, and determines the company's strategic readiness.

5.5.6.2.4.2 Description

The balanced scorecard's learning and growth perspective highlights the role of aligning the intangible assets to the organisation's strategy. This perspective contains the objectives and measures of the first three components, i.e. human capital, information capital and organisation capital, which are essential for the implementation of any strategy. Their objectives must be aligned with those of internal processes and

2954 Opinion, Blili (2010)
2955 Senge (1990a), in: Kaplan and Norton (2004b), p. 299
2956 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

integrated with each other. Instead of creating independent capabilities with no synergies among them, intangible assets should build upon the capabilities created in other intangible and tangible assets. [2957]

All organisations attempt to develop their people, technology and culture, but most of them do not align these intangible assets with their strategies.[2958] Yet, according to Kaplan and Norton, those that can mobilise and sustain their intangible assets for value-creating internal processes will be industry leaders.[2959]

They must be aligned with the strategy in order to create value, because they only take on value in the context of strategy, i.e. what they are expected to help the organisation accomplish. Moreover, the strategic role in intangible assets cannot be addressed on a stand-alone basis. Instead, in order to support the enhancement of all intangible assets, an integrated programme is required. When activities are grouped around functions, such as HR and IT, the organisation often creates silos of specialisation with solutions that are sought in isolation and which usually have disappointing results. Unless they are complemented with HR training and incentive programmes, investments in IT have no value.[2960]

According to Kaplan and Norton, few organisations exploit the potential competitive advantage from aligning and integrating human capital, information capital and organisation capital in the learning and growth perspective.[2961]

Instead, companies like Saxo Bank, Ryanair, Google and Huawei are all able to derive unprecedented value out of their organisations and design them in ways which lead to a high return on strategy. Even though they have different ways of utilising organisational design as a key success driver, they all place great emphasis on aligning the structure, the values, the culture and the people to their strategy. It seems that each and every element within a company like Saxo Bank, e.g. its structure (the backbone), values (the heart), culture (the glue) and people (the real gasoline), all contribute to this return on strategy.[2962]

Kaplan and Norton draw on the concepts and tools of the balanced scorecard to present a way to systematically measure the alignment of the company's human, information and organisation capital. They call this strategic readiness and note that without it even the best strategy cannot succeed.[2963]

Intangible assets are an organisation's foundation for strategy, and the measures in this perspective are the ultimate lead indicators. Human capital becomes most valuable only when it is concentrated in the relatively few strategic job families implementing the internal processes critical to the company's strategy. The greatest value of information capital is created when it provides the requisite infrastructure and strategic applications that complement the human capital. An organisation that introduces a new strategy and wants to help it succeed must create a culture of corresponding values, a cadre of exceptional leaders who can lead the change agenda, and an informed workforce aligned to the strategy, working together and sharing knowledge.[2964]

2957 Kaplan and Norton (2004b), p. 199
2958 Kaplan and Norton (2004b), p. 52
2959 Kaplan and Norton (2004b), p. 55
2960 Kaplan and Norton (2004b), p. 201
2961 Kaplan and Norton (2004b), p. 202
2962 Andersen, Froholdt and Poulfelt (2010), pp. 195-196
2963 Kaplan and Norton (2004a), p. 54
2964 Kaplan and Norton (2004a), p. 63

Thus, the value of intangible assets is determined according to the degree to which they do or do not contribute to the performance of the critical internal processes. This determines the strategic readiness of each type of intangible asset and can be thought of as follows:[2965]

- **Human capital's strategic readiness** is measured by whether employees have the right kind and level of skills to perform the critical internal processes on the strategy map.[2966]
- **Information capital's strategic readiness** is a measure of how well the strategic IT portfolio of infrastructure and applications supports the critical internal processes of a company.
- Finally, **organisation capital's strategic readiness** can be measured in successful companies. These have a culture in which people are deeply aware of and internalise the mission, vision and core values needed to execute the company's strategy. Such companies also strive for a clear alignment between the organisation's strategic objectives and individual, team and departmental goals and incentives. Finally, they promote teamwork, especially the sharing of strategic knowledge throughout the organisation.[2967]

Consequently, an organisation's readiness is high when:

- Human capital capabilities in strategic job families are closely aligned to the strategic themes;[2968]
- Information capital provides the infrastructure and strategic IT applications that are vital and complement the human capital in promoting outstanding performance in the strategic themes;
- Culture, leadership, alignment and teamwork reinforce the changes in the climate required to execute the organisation's strategy.[2969]

A company's readiness is essentially about assessing how well it can mobilise and sustain the organisational change agenda associated with its strategy.[2970]

An estimation of the value of intangible assets would ensure that companies could measure and manage their company's competitive position much more easily and accurately. Yet, in comparison with financial and physical assets, intangible assets are worth different things to different people[2971] and almost never create value by themselves. Unless combined with other assets, they have little value. For example, investments in IT have to be complemented with HR incentive and training programmes, and these latter have little value unless complemented with modern technology tools. For the realisation of their full potential, an organisation's HR and IT investments must be integrated and aligned with corporate strategy.[2972]

Intangible assets seldomly affect financial performance directly but work indirectly

2965 Kaplan and Norton (2004a), pp. 55-56
2966 Bailom, Matzler and Tschemernjak (2006), p. 143, referring to Grant (2005), mention the following intangible resources: the education and experience of employees, their flexibility, commitment and loyalty, as well as faith and co-operation.
2967 Kaplan and Norton (2004a), p. 56
2968 The critical few processes are referred to as strategic themes, in: Kaplan and Norton (2004b), p. 12
2969 Kaplan and Norton (2004b), p. 14
2970 Kaplan and Norton (2004a), p. 60
2971 Kaplan and Norton (2004a), p. 52
2972 Kaplan and Norton (2004a), p. 54

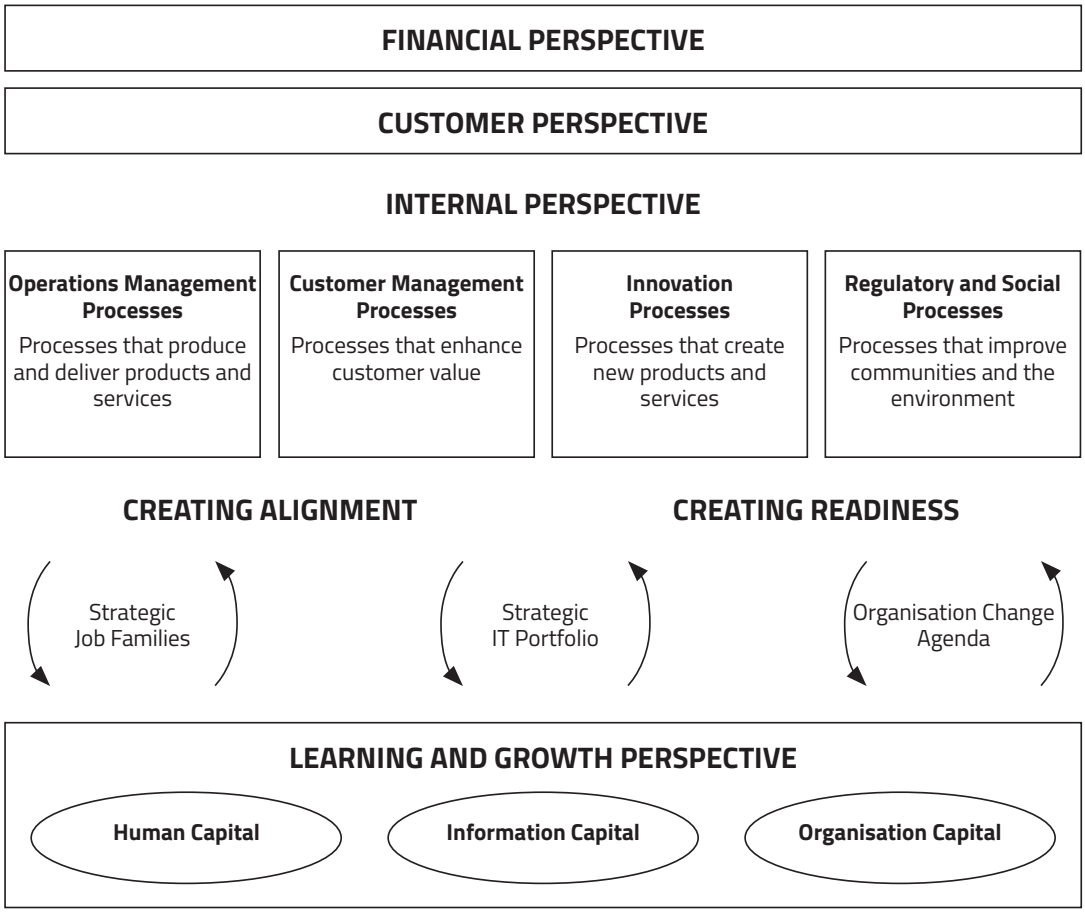
through complex chains of cause and effect. For example, the training of employees in Total Quality Management and Six Sigma should improve process quality. In turn, this increases customer satisfaction and loyalty, and also creates some excess resource capacity. However, such investment in training will only pay off if the company can transform that loyalty into improved sales and margins and eliminate or redeploy the excess resources. By contrast, a new tangible asset, like for instance the development of a new site, leads right away to financial benefits from the sales in the newly opened outlet. The measurement of the value of intangible assets, though, is embedded in the context of the strategy the company is pursuing. For instance, companies like Dell, Wal-Mart, or McDonald's, which pursue a low-cost strategy, derive value from Six Sigma and TQM training because their strategies are predicated on continuous process improvement. Instead, a strategy like the ones pursued by Goldman Sachs or IBM Consulting that offer customers integrated solutions (rather than discrete products) requires employees who are good at establishing and maintaining long-term customer relationships. When viewed like this, it becomes clear that measuring the value of intangible assets is really about estimating how closely aligned these assets are to the company's strategy.[2973] For instance, if the strategy of a company is oriented towards the growth of sales, it might require knowledge about customers, additional training for salespeople, new databases and information systems, a different organisational structure, and an incentive-based compensation programme. A company's strategy that just invests in one of these items, or in a few of them but not all, will cause it to fail. The value of an individual intangible asset cannot be considered separately from the organisational processes that will transform it and other assets, both intangible and tangible, into customer and financial outcomes. The value does not reside in any individual intangible asset but arises from the entire set of assets and the strategy that links them together.[2974]

To establish a bridge between the strategy map and intangible assets, Kaplan and Norton use three alignment techniques:

- For each strategic process, there are only one or two **job families** that have the greatest impact on strategy. If these job families are identified, their competencies defined and their development ensured, strategic results can be accelerated.
- For each strategic process, there is a **strategic IT portfolio** (i.e. specific IT systems and infrastructure) that supports implementation. Investments in these systems should receive priority in funding and other resources.
- The organisational **change agenda** helps to shape the development of the new culture and climate that is required by strategy changes. This includes changes in cultural values, both internally focused (for example, teamwork) as well as external (for example, customer focus).[2975]

2973 Kaplan and Norton (2004a), p. 54
2974 Kaplan and Norton (2000a), p. 74
2975 Kaplan and Norton (2004b), p. 207

Figure 25: Intangible Assets Must be Aligned with the Strategy to Create Value[2976]



5.5.6.2.4.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

According to Prahalad and Hamel, a competitive advantage can be obtained by converting resources into core competencies.[2977] They go on to point out that a wide range of resources can allow an enterprise to hold a competitive advantage, including: patents,[2978] brand name, brand equity, company reputation, but also access to unique know-how.[2979]

Yet, intangible assets do not have a value that can be measured separately or independently. Instead, their value derives from their ability to help the organisation implement its strategy.[2980] For example, a company's strategic IT portfolio of infrastructure and applications has to support the critical internal processes.[2981]

If a company's strategy is sound and its intangible assets are aligned with the strategy, they will create value for the organisation. If they are not aligned with the strategy or if the strategy is flawed, then intangible assets will create little value, even if large

2976 Based on Kaplan and Norton (2004b), p. 200
2977 Prahalad and Hamel (1990)
2978 As we have already seen, a patent system makes it illegal for any other firm to produce an invention, in: Jarillo (2003), p. 14
2979 Prahalad and Hamel (1990)
2980 Kaplan and Norton (2004b), p. 13
2981 Kaplan and Norton (2004a), p. 56

amounts have been spent on them.[2982] On the other hand, there is also a requirement for consistency between businesses and a company's resources, which should create a competitive advantage in the businesses in which a firm competes.[2983]

Alignment is achieved as soon as all employees have a commonality of purpose, a shared vision, and an understanding of how their personal roles support the overall strategy. These organisations encourage behaviours such as innovation and risk-taking, because individuals' actions are directed towards achieving high-level objectives. When an individual initiative is encouraged and empowered in an unaligned organisation, it leads to chaos, as the innovative risk takers pull the organisation in contradictory directions.[2984]

In order to achieve alignment, the following two steps are necessary:

- First, the high-level strategic objectives have to be communicated by managers in ways that all employees can understand. This can be done through a wide range of communication mechanisms, e.g. brochures or newsletters. Other communication mechanisms include town meetings, orientation and training programmes, executive talks, company intranets, and bulletin boards. The goal of these communication mechanisms is to create intrinsic motivation, and to inspire employees to internalise the organisation's values and objectives so that they want to help the company succeed.[2985]
- The second step uses extrinsic motivation. The company has employees set explicit personal and team objectives aligned to the strategy. Moreover, the company establishes incentives that reward employees when they meet personal, departmental, business unit or corporate targets.[2986] Hence, successful companies strive for a clear alignment between the organisation's strategic objectives and individual, team, and departmental goals and incentives.[2987]

The measuring of alignment is relatively easy and can be done with instruments which assess how much employees know about and how well they understand high-level strategic objectives. Moreover, it is quite straightforward to see whether or not individuals' personal objectives and the company's existing incentive schemes are consistent with the high-level strategy.[2988]

5.5.6.3 Discussion

The following conclusions and outlook may be drawn from this chapter:

In the past, when "bricks and mortar" companies dominated the business environment, intangible assets did not play a major role. In today's new environment, however, they play a decisive one.

In our globalised and increasingly complex world, companies, more than ever before, will have to build their strategies on their intangible assets, which will help them to successfully adapt to their environment and take the right decisions. Intangible assets

2982 Kaplan and Norton (2004a), p. 54
2983 Collis and Montgomery (2005), p. 195
2984 Kaplan and Norton (2004a), p. 62
2985 Kaplan and Norton (2004a), p. 62
2986 Kaplan and Norton (2004a), p. 62
2987 Kaplan and Norton (2004a), p. 56
2988 Kaplan and Norton (2004a), p. 62

will therefore become a production factor, and lead to an increase in the confidence and trust that the customer places in the company.

As many companies have widely similar core products or services,[2989] intangible assets are becoming another important differentiating factor. In fact, in scope economies, their role has received considerable attention.[2990] The understanding of skills that are capable of generating superior performance over time and sustained competitive advantage is essential.[2991]

After all, the value of a firm is the addition of its tangible and intangible assets.[2992] These latter are hard for competitors to imitate and worth far more to many companies than their tangible assets.[2993] Intangible assets, those not measured by a company's financial system, represent more than 75% of a company's value, leaving only an average of less than 25% of the market value to the company's tangible assets (the net book value of assets less liabilities).[2994] With this being the case, strategy formulation and execution need to explicitly address the mobilisation and alignment of intangible assets.[2995] In order to increase the value of the business, the challenge is to create a strategy that manages not only the tangible assets, which only make up 20-30% of a company's total assets, but also the intangible ones.[2996] When they are understood and measured, they can be leveraged, and therefore the value of the firm increases.[2997]

There are two categories of resources that can be developed within the firm and help it gain a competitive advantage:

- resources based on ownership;
- resources based on knowledge.

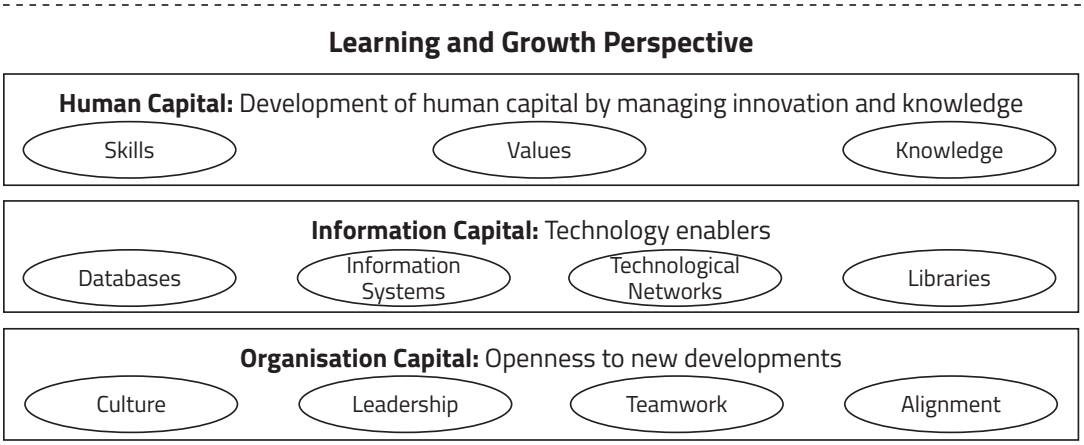
In a stable environment, those based on the idea of ownership, i.e. material resources, are reputed to add value, whereas in a dynamic and unstable environment, intangible resources, based on the idea of knowledge, add more value. With knowledge-based resources there is greater flexibility, since they allow the enterprise to adapt its products, services and organisational structure to developments in the environment through learning.[2998]

To summarise, in the information age, companies increasingly have to create and deploy intangible assets, e.g. customer relationships; employee skills and knowledge; information technologies; a corporate culture that encourages innovation, problem-solving, and general organisational improvements.[2999]

Below, we depict the three components of the learning and growth perspective, i.e. human, information and organisation capital, which is the last part of the strategy map.

2989 Andersen, Froholdt and Poulfelt (2010), p. 125; See also Schiller (2007), p. 11: This is an environment in which products become more and more alike.
2990 Collis and Montgomery (2005), p. 73; See also Montgomery and Wernerfelt (1992), pp. 31-50, in: Collis and Montgomery (2005), p. 73
2991 See also Tallman (2009), p. 14
2992 Opinion, Blili (2011)
2993 Kaplan and Norton (2004a), p. 52
2994 Kaplan and Norton (2004b), p. 4
2995 Kaplan and Norton (2004b), pp. 4-5
2996 Opinion, Blili (2011)
2997 Opinion, Blili (2011)
2998 Miller and Shamsie (1996), pp. 519-543
2999 Kaplan and Norton (2000a), p. 74

Figure 26: Learning and Growth Perspective[3000]



3000 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 50, 67, 137, 204, 226, 327, 337, 353

CHAPTER Ⅵ PLAN THE STRATEGY

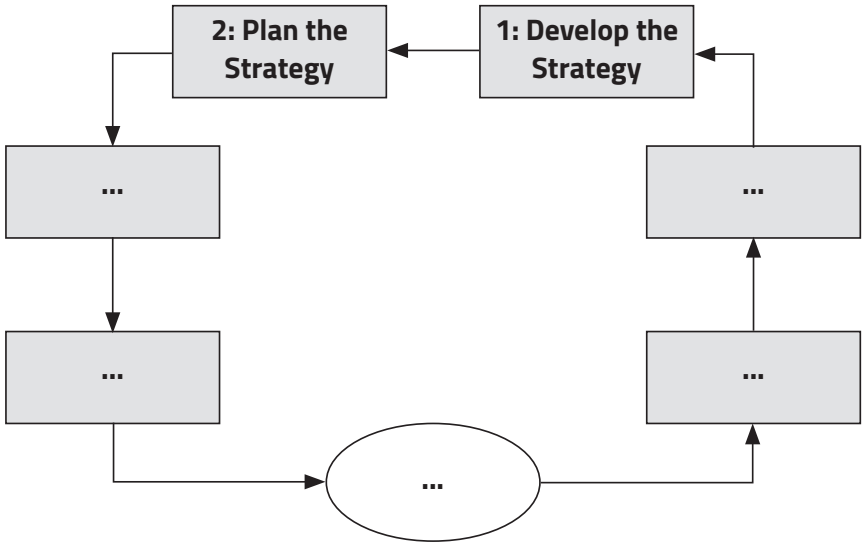
6.1 SUMMARY

With the strategy map and balanced scorecard framework in the second stage of Kaplan and Norton's closed-loop management system, strategy can be better executed by visualising it in a comprehensive way and aligning employees with the strategy. To be successful, the right strategic initiatives, measures and targets must be selected. Moreover, a process must be led which selects, funds and assigns accountability for theme-based portfolios of strategic initiatives.

6.2 DESCRIPTION

In the second stage of the closed-loop management system, the strategy has to be planned.

Figure 27: Plan the Strategy: Second Stage of the Management System[3001]



In this stage, the strategy is planned by developing strategic objectives, measures, targets, initiatives and budgets that guide action and resource allocation. Typically, the following five questions are addressed by companies:

- create strategy maps;
- select measures and targets;
- choose strategic initiatives;
- establish STRATEX;
- create theme teams.[3002]

The strategy that has been formulated is now planned.[3003] In the strategy-planning process, statements of strategic direction are converted into specific objectives, measures, targets, initiatives and budgets that guide actions and align the organisation

3001 Based on Kaplan and Norton (2008), p. 8
3002 Kaplan and Norton (2008), pp. 10-11
3003 Kaplan and Norton (2008), p. 97

for effective strategy execution. On the following pages, the translation of the strategy into a strategy map built around strategic themes, and an associated balanced scorecard of measures and targets for each of the map's strategic objectives, will be addressed.[3004]

6.2.1 CREATE STRATEGY MAPS

"We do not claim to have made a science of strategy; the formulation of great strategies is an art, and it will always remain so. But the description of strategy should not be an art."[3005]

A strategy encompasses various dimensions of organisational change, from short-term productivity improvements to long-term innovation, and is described with strategy maps. The latter provide a one-page visual representation of all the strategic dimensions, i.e. related objectives, which are clustered into four to six strategic themes that represent the major components of the strategy. These strategic themes must operate coherently and across functions and business units, thereby supporting the boundaryless approach necessary for successful strategy execution.[3006]

The use of a strategy map as an organising framework is the distinguishing feature of the strategy development and planning approach. Most strategy development approaches focus on the desired outcome of the strategy, for example they describe the customer value proposition that the organisation aims to achieve. This statement, though, does not address how the customer value proposition will be achieved. Thus, not the "how" but only the "what" are defined by most popular approaches to business strategy. However, a complete strategy should define both the what and the how, i.e. the desired outcomes as well as the drivers of the outcomes. With the structure of the strategy map, a comprehensive and logical framework for designing and executing a strategy is provided. Kaplan and Norton describe the strategy map as a *"managerial breakthrough that allows organizations to manage strategy more effectively and to achieve the execution premium from a successful implementation".*[3007]

They also claim to have developed the balanced scorecard in order to understand how organisations create value in the information age.[3008] It measures a company's performance from four major perspectives:

- financial,
- customer,
- internal process,
- learning and growth.[3009]

Kaplan and Norton state that it indicates to the company the knowledge, skills and systems that its employees will need (their learning and growth) to innovate and build the right strategic capabilities and efficiencies (the internal processes) that deliver specific value to the market (the customers), which will eventually lead to higher shareholder value (the financials).[3010]

3004 Kaplan and Norton (2008), p. 69
3005 Kaplan and Norton (2000a), p. 93
3006 Kaplan and Norton (2008), p. 10
3007 Kaplan and Norton (2008), p. 97
3008 Kaplan and Norton (1992), pp. 71-79, in: Kaplan and Norton (2000a), pp. 74-75
3009 See Kaplan and Norton (1996), in: Kaplan and Norton (2000a), pp. 74-75
3010 Kaplan and Norton (2000a), pp. 74-75

The general strategy map has evolved from the simple, four-perspective model of the balanced scorecard.[3011] After having developed the balanced scorecard, and as a result of their extensive research, Kaplan and Norton noticed certain patterns and brought them into a strategy map that embeds the different items on an organisation's balanced scorecard.[3012]

Consequently the strategy map and balanced scorecard framework are now understood as a mechanism to better execute strategy by communicating it in a comprehensive way to employee teams, and then aligning the employees' work behaviour, priorities, accountability and resources with the strategy.[3013]

Thus, the strategy map provides a visual framework for integrating the objectives of an organisation in the four perspectives of a balanced scorecard.[3014] It visualises the causal relationships among strategic objectives and is therefore the visual framework and starting point for all balanced scorecard projects.[3015] The latter, which was initially proposed to improve the measurement of an organisation's intangible assets, integrates the organisation's objectives in its four perspectives and can therefore be a powerful tool for describing and implementing an organisation's strategy.[3016]

With the strategy map, the logic of the strategy is described. It clearly shows the objectives for the critical internal processes that create value and the intangible assets required to support them. Strategy map objectives are translated by the balanced scorecard into measures and targets. Yet, objectives and targets will not be achieved simply because they have been identified. Instead, a set of action programmes that will enable the targets for all the measures to be achieved must be launched by the organisation. For each action programme, the organisation must supply scarce resources, such as people, funding and capacity. Kaplan and Norton refer to these action programmes as strategic initiatives with self-contained business cases.[3017]

For each measure on the balanced scorecard, the initiatives which are needed in order to achieve the target must be identified. Since initiatives create results, the execution of strategy is managed through the execution of initiatives. The action plans have to be aligned around the strategic themes and viewed as an integrated bundle of investments and not as a group of stand-alone projects.[3018]

The executive's team primary job is setting direction, i.e. it has to define the vision and mission of the company. The strategy map and its companion scorecard address how a company will get there.[3019]

The strategy map provides a framework for linking intangible assets to shareholder value creation through financial, customer, internal process and intangible asset perspectives. These perspectives are all interrelated.[3020]

- The first describes the tangible outcomes of the strategy in traditional financial terms, such as ROI, shareholder value, profitability, revenue growth

3011 Kaplan and Norton (2004b), p. 9
3012 Kaplan and Norton (2000a), p. 75
3013 Cokins (2009), p. 52
3014 Kaplan and Norton (2004b), pp. 55, 11
3015 Kaplan and Norton (2008), p. 100; Kaplan and Norton (2004b), p. 55
3016 Kaplan and Norton (2004b), p. 9; Kaplan and Norton (2004b), p. 55
3017 E.g. Just-in-time, Flexible Manufacturing, Relationship Management or Technology Partnership, in: Kaplan and Norton (2004b), p. 50, Figures 2-8: "*Strategy is made up of a set of themes based on value-creating processes.*"
3018 Kaplan and Norton (2004b), p. 52
3019 Cokins (2009), p. 94
3020 Kaplan and Norton (2004a), p. 54

and lower unit costs.[3021] In the **financial perspective**, the tangible outcomes of the strategy are described by using familiar metrics.[3022] Revenue growth and productivity are the two basic levers of the financial strategy for increasing shareholder value.[3023] From the shareholder's point of view, the cash-generating capability of the business matters because this determines the ability to pay dividends in the short-term and reinvest for the future (which in turn, should enable a future flow of dividend payments).[3024]

- The second perspective defines the value proposition the organisation intends to use to generate sales and loyalty from targeted customers. The value proposition is the context in which the intangible assets create value.[3025] As the core of any business strategy, the **customer value proposition** describes the unique mix of product and service attributes, customer relations and corporate image that a company offers. Furthermore, the customer value proposition instructs an organisation how to differentiate itself from competitors in order to attract, retain and deepen relationships with targeted customers. It is crucial because of the help it provides organisations with in connecting their internal processes to improved outcomes with customers.[3026] Typically, the value proposition is chosen from among the following three differentiators: operational excellence, customer intimacy, and product leadership. If companies pursue a strategy of operational excellence, they must excel in competitive pricing, product quality and selection, speedy order fulfilment, and on-time delivery. If they pursue customer intimacy, they must stress the quality of their relationships with customers, including exceptional service and the completeness of the solutions they offer. Finally, if they pursue a product leadership strategy, they must concentrate on the functionality, features and overall performance of their products or services.[3027] By identifying the customer value proposition, a company will know which classes and types of customers it will have to target.[3028]
- Third, the critical few processes that create and deliver the differentiating customer value proposition are identified within the internal process perspective.[3029] As soon as an organisation gets a clear picture of its customer and financial perspectives, it can then determine the means by which it will achieve the differentiated value proposition for customers and the productivity improvements to reach its financial objectives. The **internal process perspective** reflects these critical activities, which fall into four high-level processes[3030] that will satisfy the customer and financial objectives.[3031] Yet, although all of the hundreds of organisational processes (from meeting the payroll to inventing new products) must be performed adequately, only

3021 Kaplan and Norton (2004a), p. 54
3022 Kaplan and Norton (2008), p. 99
3023 Kaplan and Norton (2000a), pp. 79-80
3024 Johnson, Scholes and Whittington (2008), p. 489; Cokins argues that shareholder wealth creation is not a goal, in: Cokins (2009), p. 17; Furthermore, Drucker holds that profit is not an objective but instead a requirement that has to be objectively determined in respect to the individual business, its strategy, its needs, and its risks, in: Drucker (1974a), in: Drucker (2008), p. 30
3025 Kaplan and Norton (2004a), p. 54
3026 Kaplan and Norton (2000a), pp. 81 and 84
3027 Kaplan and Norton (2000a), p. 84
3028 Kaplan and Norton (2000a), p. 84
3029 Kaplan and Norton (2004a), p. 54
3030 Kaplan and Norton (2000a), p. 86
3031 Kaplan and Norton (2008), p. 100

a few create the real differentiation for the strategy. These key processes should be identified by the strategy map so that managers and employees can focus on continually improving them.[3032]

- Finally, the **learning and growth perspective** is at the foundation of the map and identifies the intangible assets that are most important to the strategy.[3033] In this fourth perspective, the objectives identify which jobs (the human capital), which systems (the information capital), and what kind of climate (the organisation capital) are required to support the value-creating internal processes. Such intangible assets must be integrated and aligned with the critical internal processes.[3034] Here, the organisation has to determine how it will satisfy the requirements of critical internal processes, the differentiated value proposition, and customer relationships.[3035]

By linking different performance targets into a mutually supportive causal chain, strategic objectives are supported.[3036] In a delivery company, for example, investments in well-trained and motivated drivers (innovation and learning perspective) lead to on-time deliveries (internal processes), satisfied customers (customer perspective), and finally profitable growth (financial growth).[3037]

Hence, when carrying out the integrated management system introduced by Kaplan and Norton, together with the four sources of competitive advantage and the X-factor, it leads to the *Initial* Strategy Map presented below.

Based on the results of the data collection in the empirical research at the end of this thesis, and in order to better synthesise and specify the objectives, components, clusters and perspectives of this *Initial* Strategy Map, we have adapted some of its denominations. Thus, the *Proposed* Dynamic Strategy Map on the subsequent page uses the suffix "centrism" for the objectives of the "Financial" and "Customer" Perspectives. Hence, not actions but concerns/issues are in the foreground. If these concerns/issues are of relevance for the company, the concrete actions will certainly follow in the field.

Moreover, in the "Strategy Implementation Perspective" (formerly "Process Perspective"), three clusters have been renamed as follows: "Positioning" (formerly "Operations"), "Customer Interfacing" (formerly "Customers") and "Business Citizenship" (formerly "Regulations and Social"). In order to group the strategic themes in more accurate terms, the objectives of all four clusters have been either replaced or concentrated in a few new objectives as follows:

3032 Kaplan and Norton (2008), p. 100
3033 Kaplan and Norton (2004a), p. 54
3034 Kaplan and Norton (2004a), p. 54
3035 Kaplan and Norton (2000a), pp. 88-89
3036 Johnson, Whittington and Scholes (2011), p. 447
3037 Lawson, Stratton and Hatch (2005), p. 64, in: Johnson, Whittington and Scholes (2011), pp. 447 and 449

Figure 28: Replacement and Concentration of Objectives

Positioning		
Collaboration		• Collaborate
Meta-value chain	has replaced	• Integrate management of the value chain and the logistics chain • Network, including the particular cases of outsourcing, alliances and virtuality
Virtualisation		• Virtualise by using information systems
Focus on core competencies		• Control key business processes
Increase servuction		• Shift from product-based differentiation towards a service-based one
Lean model		• Guarantee high quality, reduce costs and assure quick availability
Customer Interfacing		
Focus on adaptive internationalisation	has replaced	• Excel at international marketing, in particular global branding and the internationalisation of organisations
Client life-time value		• Anticipate and respond to customers' evolving needs and wants
Focus on customer unique preferences		• Understanding customers' unique preferences
CRM-model		• Strengthen customer relationships • Develop customer/market orientation
Added value		• Look for customer tailored offers • Expand product offerings and services • Learn from customers but also educate them. Use social media
Maximise retention		• Build on customer attitudes • Watch for customer retention
Endogenous multi-culturalism		• Respect and manage cultural diversity

Figure 28: continued

Innovation		
Collaborative innovation networks	has replaced	• Watch for networked innovation
Market readiness of R&D and innovation		• Bring superior products and services to the market faster than competitors • Exploit information and communication technologies
Innovation relies on core competencies		• Develop new products, services and processes • Apply new business models • Leverage product excellence along a given functionality dimension into many other applications and market segments
Business Citizenship		
Business advocacy	has replaced	• Systematically and deliberately seek to influence the regulatory powers
Legitimate		• Earn the right to operate
Social image		• Develop a good reputation • Act in a sustainable way by using high standards in corporate social responsibility, corporate governance, and environmental protection

Furthermore, in the "Learning and Growth Perspective" the objective "Values" has been adapted to "Corporate Ethics", the objective "Educate Permanently" has been added and the objectives "Libraries" (an expression which, in our opinion, is no longer up-to-date) and "Alignment" have been removed. In addition, the short circumscription of the component "Human Capital" has been slightly changed, and the description of the component "Organisation Capital" changed to "Explorators", which we may call the "Steve Jobs Syndrome". Steve Jobs was once too innovative within the Apple Group and then called back by the same people to revolutionise habits and patterns on a day-to-day basis.

We will further define and come back to these variables and newly introduced terms in the chapter "Empirical Research".

In addition, a new perspective, "STRATEGIC FIT", has been added at the bottom of the Proposed Dynamic Strategy Map, replacing the "alignment" concept. This perspective is emphasised visually by means of several additional arrows which point vertically and horizontally, and leads to a fitting of the shareholder/stakeholder expectations, with a slightly adapted wording, in the "Value Creation Process".

In contrast to Kaplan and Norton's "alignment concept", the "STRATEGIC FIT" concept relies on the meta-level fit between the upstream perspectives (i.e. the Financial, Client, Strategic, Learning and Growth perspectives) on the one hand with, on the other hand,

the downstream impacts, outcomes and expectations (i.e. people enabling, strategy delivering, client expectations and shareholder/stakeholder expectations). Moreover, the "STRATEGIC FIT" concept also addresses the consistency between the decisional choices among each level of the strategic equation: Customer Value Proposition versus Human Capital, Information Capital and Organisation Capital.

To the last believers of what has too often been described as the "old fashioned" systemic dynamics theory,[3038] our statement will not be seen as the next revolution. In fact, we must humbly admit that, despite a little updating of the conceptual wording, our strategic proposal structurally confirms that system dynamics theory is not yet obsolete, thanks to its initial developers and fathers.[3039]

The strategy fitness principle is a necessity which does not rely on an optimal strategy configuration to imply success and performance. In fact, the scoring matrix of the strategy map key elements shows that among the six cases in our empirical research the levels are differentiated. Whatever the single scores illustrate, the global FIT is the essential determinant of the global performance.

3038 See Forrester (1987), pp. 156-159
3039 See e.g. Simon (2000)
3040 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 51, 67, 137, 204, 226, 327, 337, 353

Figure 29: Initial Strategy Map[3038]

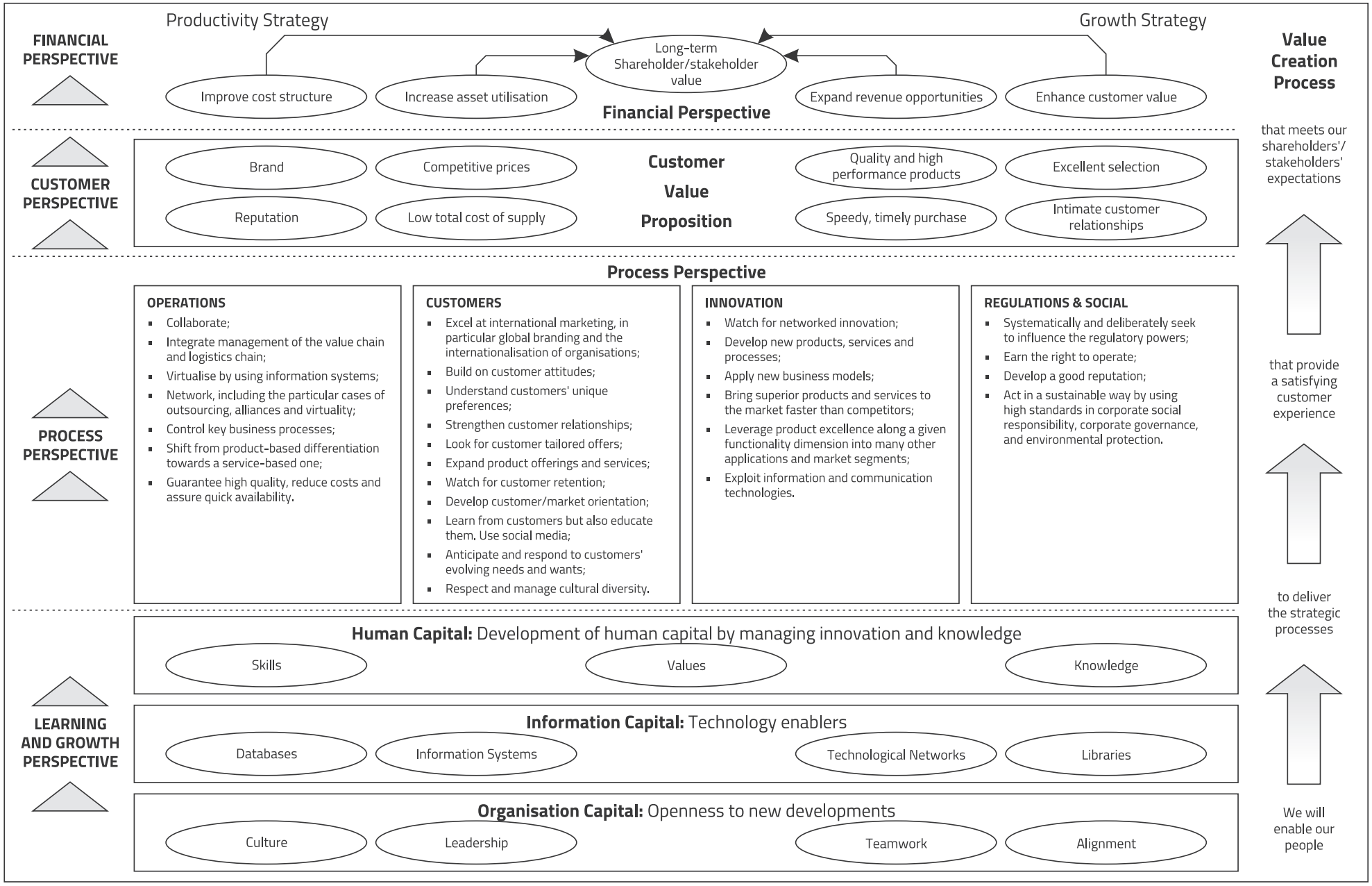
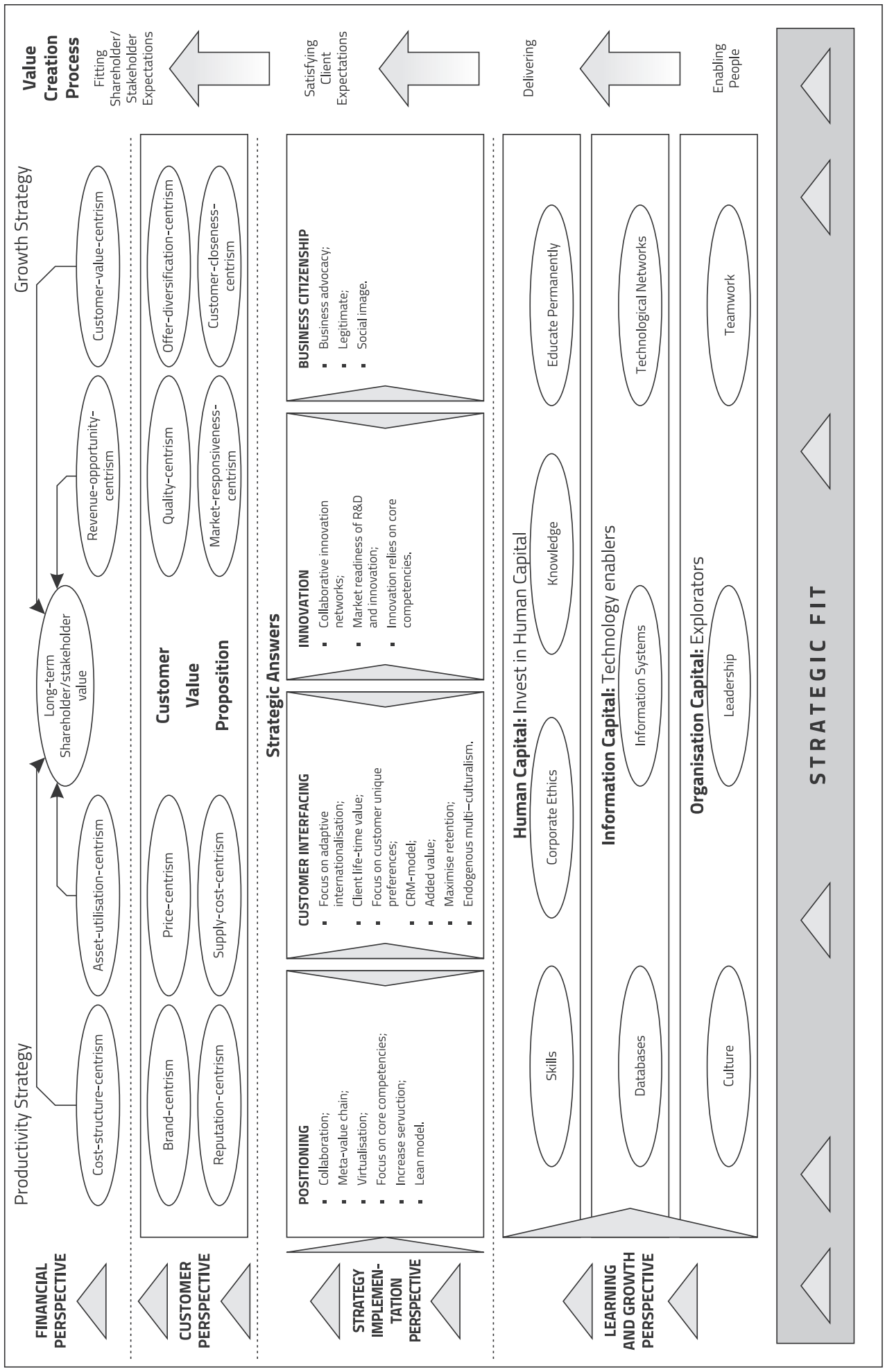


Figure 30: Proposed Dynamic Strategy Map [3039]



The Proposed Strategy Map reflects a hybrid strategy with elements of all three value proposition differentiators, i.e. operational excellence, customer intimacy, and product leadership. In particular, our proposition discloses those components, clusters and objectives which are important for small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand.

In summary, a strategy map, which provides the missing link between strategy formulation and strategy execution,[3042] may be characterised as follows:

- With the structure of the strategy map, a comprehensive and logical framework for designing and executing a strategy is provided.[3043]
- It is a visual representation of the cause-and-effect relationships among the components of an organisation's strategy,[3044] i.e. the cause-and-effect relationships linking the objectives in the four perspectives.[3045] These objectives need to be aligned in order to create value and thus achieve a focused and internally consistent strategy.[3046]
- It is important that the objectives of human capital, information capital and organisation capital, which are essential for the implementation of any strategy (and which have been described earlier), are aligned with the objectives of the internal processes.[3047] The interrelationship among the company's intangible assets and internal processes creates sustainable competitive advantage.[3048] The above-depicted strategy map focuses on the strategy implementation perspective (formerly the process perspective as described by Kaplan and Norton). The listed processes are the critical few processes out of literally hundreds of subprocesses in each of these clusters that create and deliver the differentiating customer value proposition. As we have seen, these critical few processes are referred to as strategic themes.[3049]
- There is clear bottom-up alignment, i.e. from the learning and growth perspective, through the process perspective, to the customer and finally the financial perspective. In this way, we also see that intangible assets seldom affect financial performance directly but work indirectly through complex chains of cause and effect.[3050]
- However, alignment within the learning and growth perspective is crucial, too. For example, the objectives of human capital, information capital and organisation capital must also be integrated with each other.[3051] For instance, as we have already seen, unless they are complemented with HR training and incentive programmes, investments in IT have no value.[3052] On the other hand, the greatest information capital value will be created when it provides

3041 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 51, 67, 137, 204, 226, 327, 337, 353
3042 Kaplan and Norton (2004b), p. 10
3043 Kaplan and Norton (2008), p. 97
3044 Kaplan and Norton (2004b), p. 9
3045 Kaplan and Norton (2004b), p. 32
3046 Kaplan and Norton (2004b), p. 32
3047 Kaplan and Norton (2004b), p. 199
3048 Kaplan and Norton (2004b), p. 344
3049 Kaplan and Norton (2004b), p. 12
3050 Kaplan and Norton (2004a), p. 54
3051 Kaplan and Norton (2004b), p. 199
3052 Kaplan and Norton (2004b), p. 201

> the requisite infrastructure and strategic applications that complement the human capital.[3053]

The visualisation of a strategy is an important dimension of strategy-making, and has been addressed in research.[3054] In connection with this, mapping has been regarded as a particularly important action, e.g. through cognitive mapping.[3055] Some attempts have been made to develop such mapping activity in more innovative directions, such as cognitive sculpting,[3056] which consists of the arrangement of objects that have direct associations (e.g. light bulbs and ideas) and more neutral objects (e.g., driftwood) to help represent strategic thinking in three-dimensional and associative terms.[3057] This and the strategy workshop technique[3058] reinforce the idea that the visualisation and imagery of strategy may be a crucial factor in its development.[3059]

Cokins believes that a strategy map may be implemented by companies of all sizes and that the early twenty-first century missteps and misunderstandings in implementing balanced scorecards were only due to inexperience.[3060]

6.2.2 SELECT MEASURES AND TARGETS

"They demonstrated a fundamental principle underlying the Balanced Scorecard: "If you can measure it, you can manage it."[3061]

In this step, the objectives defined in the strategy maps and strategic themes have to be converted into a balanced scorecard of measures, targets and gaps. The overall value gap, which is typically defined by the ambitious vision statement, has to be split into gaps that in each strategic theme must be closed over a period of three to five years.[3062]

The strategy map serves as the visual vehicle from which the necessary projects and initiatives to accomplish each objective (or the necessary specific core processes to excel at) are identified. Next, the KPIs need to be selected and their performance targets set. Thus, the scorecard, as the strategy map's companion, serves more as a feedback mechanism to allow everyone in the organisation to answer the question of how they have been doing in relation to what is important.[3063] Every day, the strategic and operational performance feedback provided by scorecards and dashboards[3064] helps all employees to answer this fundamental question.[3065] In addition, the scorecard should also facilitate the analysis to know why, since the idea is not just to monitor the dials but also to move them.[3066]

3053 Kaplan and Norton (2004a), p. 63
3054 Huff (1990); Huff and Jenkins (2002), in: Bürgi, Jacobs and Roos (2005), p. 90
3055 Huff (1990), in: Bürgi, Jacobs and Roos (2005), p. 90
3056 Doyle and Sims (2002), pp. 63-85, in: Bürgi, Jacobs and Roos (2005), p. 90
3057 Bürgi, Jacobs and Roos (2005), p. 90
3058 Bürgi, Jacobs and Roos (2005), pp. 83-90
3059 Bürgi and Roos (2003), pp. 69-78, in: Bürgi, Jacobs and Roos (2005), p. 91
3060 Cokins (2009), p. 101
3061 Kaplan and Norton (2004b), p. 6
3062 Kaplan and Norton (2008), pp. 10-11
3063 Cokins (2009), p. 103
3064 *"Scorecards and dashboards provide strategic and operational performance feedback so that every employee, who is now equipped with a line of sight to how he or she helps to achieve the executives' strategy, can daily answer the fundamental question, "How am I doing on what is important?""*, in: Cokins (2009), p. 36
3065 Cokins (2009), p. 36
3066 Cokins (2009), p. 103

6.2.3 SELECTING, FUNDING AND ASSIGNING ACCOUNTABILITY

Once the strategy has been translated into a strategy map and balanced scorecard, a process which selects, funds and assigns accountability for theme-based portfolios of strategic initiatives must be carried out. Companies use the following three processes to select and manage their strategic initiative portfolios which will set the organisation into motion along a trajectory of successful strategy implementation:[3067]

1. **The choice of strategic initiatives:** For each strategic theme, new strategic initiatives are identified, ranked and selected.[3068] They are the force that accelerates the organisational mass into action, overcoming inertia and resistance to change.[3069] Strategic initiatives must not be looked at in isolation but viewed as a portfolio of complementary actions, each of which must be successfully implemented if theme targets and the overall strategy target are to be achieved. Strategic initiatives are action programmes which aim to achieve targeted performance for the strategy map objectives. Thus, it needs to be determined what action programmes a strategy needs.[3070]
2. **The funding of the strategy:** In order to fund the strategic initiative portfolios, a budget for strategic expenditures (STRATEX) is established.[3071] This is required in order to simultaneously execute the portfolio of initiatives in a co-ordinated manner. Strategic investments must be removed from operational budgets and managed separately. This process is facilitated when the special STRATEX budget category is created.[3072]
3. **The establishing of accountability:**[3073] In order to lead the execution of the strategy, companies assign executives to become theme owners, fund them with STRATEX, and support them with theme teams drawn from across the organisation. These theme owners and teams have to provide accountability for and feedback on the execution of the strategy within each theme.[3074]

6.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

6.3.1 CREATE STRATEGY MAPS

It may be summarised that the objectives in the learning and growth perspective, and also the process perspective, describe how the organisation will implement its strategy, whereas the financial and customer perspective in strategy maps and balanced scorecards describe what the organisation hopes to achieve.[3075]

A strategy that can be described increases the likelihood of its successful implementation. Strategy maps help to view strategies in a cohesive, integrated and systematic way. The key for the implementation of a strategy is to have everyone in the organisation clearly understand the underlying hypotheses, to align all organisational units and resources

3067 Kaplan and Norton (2008), p. 123
3068 Kaplan and Norton (2008), p. 123
3069 Kaplan and Norton (2008), p. 103
3070 Kaplan and Norton (2008), p. 11
3071 Kaplan and Norton (2008), p. 123
3072 Kaplan and Norton (2008), p. 11
3073 Kaplan and Norton (2008), p. 123
3074 Kaplan and Norton (2008), p. 11
3075 Kaplan and Norton (2008), p. 100

with these hypotheses, to test the hypotheses continually, and to use the results to adapt as required.[3076]

To summarise, a strategy map can provide both a clear picture of the desired outcomes of the strategy (in the financial and customer perspectives) as well as the critical processes and enabling infrastructure (people, systems and culture) required to achieve the outcomes.[3077] Therefore, the ability to communicate strategy to entire organisations is perhaps the greatest benefit of strategy maps.[3078]

6.3.2 SELECT MEASURES AND TARGETS

Each manager needs objectives that are clearly spelled out.[3079] This means that each strategic process should be analysed in order to identify the critical success factors and metrics that employees can work to improve in their daily activities. The feedback on such metrics, which is expected to drive process improvements, is provided by dashboards.[3080]

However, not everything can be measured. For example, measurements and tests that have been developed for manual work, from industrial engineering to quality control, are not applicable to knowledge work, which cannot be measured by any of the yardsticks for manual work. Thus, knowledge workers cannot be supervised closely or in detail but can only be helped. At the same time, they must direct themselves towards performance and contribution, i.e. towards effectiveness.[3081] Thus, Malik holds that controls, as such, are easy. Yet, when it becomes difficult to control beyond a quantifiable area, people renounce doing so or controls are generally deemed to be impossible, based on the motto *"what cannot be measured cannot be controlled."*[3082] However, he is convinced that this is a big error and a misapprehension about management. He holds that if something can be measured, no managers are actually needed for the task of controlling it, since in this case computers can be deployed. However, when one cannot measure anymore, managers must control by means of other practices: not by measuring but by evaluating and ultimately by judging. This illustrates that management is a profession in which experience is important, which is something that is not the case in every profession.[3083]

Malik also holds that in most cases the erroneous conception that everything which cannot be measured is of no importance is the main reason for holding on almost desperately to financial indicators. These latter can easily be quantified and consequently seem to provide certitude, objectivity, accuracy and reliability. A more thorough analysis, though, shows that this is not at all the case, which is precisely the reason which makes them so dangerous[3084] This may be demonstrated in the Swiss watch industry or the office machine industry during the early and mid-seventies. In both cases, the disasters were inevitable. However, with the tools of business accountancy, not the slightest warning signal was ascertainable.[3085]

3076 Kaplan and Norton (2000a), p. 93
3077 Kaplan and Norton (2008), p. 84
3078 Kaplan and Norton (2000a), p. 90
3079 Drucker (1954a), in: Drucker (2008), p. 115
3080 Kaplan and Norton (2008), p. 183
3081 Drucker (1966), in: Drucker (2008), p. 193
3082 Malik (1999), pp. 120-121
3083 Malik (2001), pp. 242-243
3084 Malik (1999), pp. 120-121
3085 Malik (1999), pp. 142-143

6.3.3 SELECTING, FUNDING AND ASSIGNING ACCOUNTABILITY

In order to select, fund and assign accountability for theme-based portfolios of strategic initiatives, companies use the following three processes:[3086]

1. the choice of strategic initiatives;
2. the funding of the strategy;
3. the establishing of accountability.

These processes align short-term action programmes with strategic and cross-functional priorities. Moreover, they provide high degrees of visibility and accountability to the programmes.[3087]

3086 Kaplan and Norton (2008), p. 123
3087 Kaplan and Norton (2008), p. 123

CHAPTER VII ALIGN THE ORGANISATION

7.1 SUMMARY

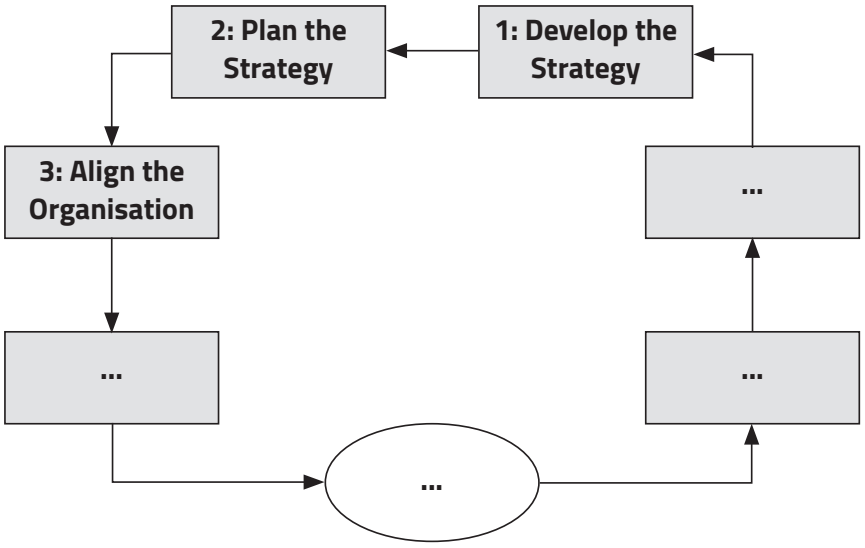
The main questions during the alignment process, i.e. the third stage of the closed-loop management system of Kaplan and Norton, are how to align organisational units, support units and employees. In order to do so, strategy maps and the balanced scorecard, service level agreements, training, career development programmes and simple and comprehensible expectations play a significant role. Moreover, the implementation of strategy is effective when it makes sense, when there is a commitment to it, and when there is the necessary energy and execution ability available in the organisation. In this context, communication is extremely relevant, too. This is because people will be unable to carry out a plan if they do not fully understand it.

7.2 DESCRIPTION

7.2.1 LINK THE STRATEGY TO THE COMPANY

In the third stage of the closed-loop management system, the organisation has to be aligned.

Figure 31: Align the Organisation: Third Stage of the Management System[3088]



It is important to maintain a sense of urgency and keep aligned to execute.[3089] Only if the company strategy is linked to the strategies of its individual business and functional units will the full benefits of operating a multi-business, multifunction organisation be captured. In addition, every employee must understand the strategy and be motivated to help the company succeed in it. During the alignment process, the following three questions must be addressed:[3090]

3088 Based on Kaplan and Norton (2008), p. 8
3089 Andersen, Froholdt and Poulfelt (2010), p. 253
3090 Kaplan and Norton (2008), pp. 11-12

1. How is the alignment of **organisational units** ensured so that they are on the same page ("Align business units")?[3091] According to Kaplan and Norton, strategy maps and the balanced scorecard are ideal mechanisms to help corporate headquarters align multiple organisational units for superior value creation.[3092] Due to vertical alignment, each business unit and department is enabled to contribute to higher-level strategic objectives while simultaneously striving to implement its local strategy for success in its competitive environment. Due to horizontal alignment with other business units, the corporation is able to realise synergies such as:

    - An integrated customer value proposition across multiple business units.
    - A reinforced corporate brand during each customer buying experience.
    - Economies of scale by sharing production, technology, distribution, or sales resources and corporate staff functions.
    - Shared knowledge and best practices across the corporation.
    - Enhanced employee capabilities through common training and managed career development plans.[3093]

    Such synergies would not be available if the business units were to operate independently of each other.[3094]

2. How is the alignment of **support units** with business unit and corporate strategies ensured ("Align support units")?[3095] In order to achieve a successful strategy execution, support units have to align their strategies with the value-creating strategies of the company and its business units.[3096] To understand corporate and operating unit strategies, support units must develop a clear understanding of enterprise and business unit strategies, as revealed by the line organisation's strategy maps and balanced scorecards. Only then will they be able to align their strategies by determining the set of strategic services to be offered. This is often formalised with a performance contract between the support unit and the business unit, i.e. a service-level agreement.[3097] Strategy maps and scorecards that are created on the basis of such service-level agreements will then enable each support unit to define and execute a strategy that enhances the strategies being implemented by the business units.[3098]

3. How are **employees** motivated to help with the execution of the strategy ("Align employees")?[3099] Ultimately, employees improve the processes and run the projects, programmes and initiatives that are required by the strategy. If they are to successfully link their day-to-day operations with the strategy, they must understand the latter. If they are not aware of or do

3091 Kaplan and Norton (2008), p. 12
3092 Kaplan and Norton (2008), p. 129
3093 Kaplan and Norton (2008), p. 154
3094 Kaplan and Norton (2008), p. 12
3095 Kaplan and Norton (2008), p. 12
3096 Kaplan and Norton (2008), p. 12
3097 Kaplan and Norton (2008), p. 136
3098 Kaplan and Norton (2008), p. 12
3099 Kaplan and Norton (2008), p. 12

not understand a strategy, employees cannot help implement it.[3100] To help employees comprehend the strategy and motivate them to achieve it, formal communication programmes are used and reinforced by aligning employees' personal objectives and incentives with business unit and company strategic objectives. Moreover, training and career development programmes help employees gain the competencies that they need for successful strategy execution.[3101] In addition, the best way to get results from people is by ensuring that the expectations set for them are simple and comprehensible.[3102]

Research has shown that the ability to implement a strategy and translate it into the expected performance is particularly affected by the following three key factors:

- **First**, the strategy must make sense to the organisation's members and therefore should be perceived as appropriate, rational and necessary according to the situation the firm is facing.
- **Second**, there must be commitment from the organisation's members to the strategy, which means that they must have the will and desire to work to realise it and feel a personal commitment to it. Moreover, it implies that its members must be ready to take on new tasks and give up others in order to realise the strategy.
- **Finally**, the necessary energy and execution ability must be available in the organisation. Thus, an organisation's members must have the necessary time and energy in order to contribute to the strategy's realisation. In addition, an organisation's members must feel themselves capable of doing it.[3103]

7.2.2 COMMUNICATIONS

"Without question, communicating the vision, and the atmosphere around the vision, has been, and is continuing to be, by far the toughest job we face."[3104]

After a strategy has been determined, it needs to be communicated. It must be considered which stakeholders to inform and how the message to each should be tailored. The communication strategy should match every new strategy. Typically, employee communication is vital to ensure that the strategy is carried out in the first place. Without understanding the strategy, it is unlikely that people will implement it. Thus, in particular the four following elements need to be considered in shaping a communications strategy for employees:

- Focus of the communication on the key components of the strategy.
- Impactful communication with powerful and memorable words and visuals.[3105]

3100 Kaplan and Norton (2008), p. 12
3101 Kaplan and Norton (2008), pp. 12-13
3102 Ahuja (2008), p. 1
3103 Holst-Mikkelsen and Poulfelt (2008), in: Andersen, Froholdt and Poulfelt (2010), p. 248
3104 Jack Welch, chairman of GE, in a 1987 speech to the Society of Automotive Engineers, in: Kotter (1990), p. 51
3105 Johnson, Scholes and Whittington (2008), p. 574

- An appropriate choice of media is important,[3106] yet face-to-face communication which demonstrates personal commitment and allows for interaction with concerned staff is vital, too.
- It is often helpful to engage employees directly in the strategy so that they can see the personal consequences for them.[3107]

Due to a lack of communication, a large proportion of strategies fail. After having spent a long time crafting a superior strategy, many executives are unable to create the commitment among the employees which is needed to then implement it. Without effective communication of the strategy throughout the organisation, employees are left stranded and in many cases unaware of the fact that a new strategy has been devised. If this is the case, a new strategy will arrive with great fanfare only to live a short life after which it becomes yet another document kept in a desk drawer.[3108]

After all, people are unable to carry out a plan which they do not fully understand. Therefore, organisations need tools, as provided by the strategy map, to communicate both their strategy and the processes and systems that will help them implement that strategy.[3109] Aligning employees starts with communication programmes and plans to deliver the message each year at least seven times in seven different ways.[3110]

Some further means of communication include the following:

- Planning by **narrative** is similar to traditional **storytelling**. It first has to define the current situation and introduce the dramatic conflict. Finally, the story reaches a resolution in a satisfying and convincing manner. This includes a plan that must illustrate how the company can overcome obstacles and win.[3111] Conger holds that communicating through stories is one of the most important mediums a leader has. Often, these stories have a strategic end in mind[3112] and enormous power in terms of recall.[3113] He argues that good stories should be very short and not have more than two or three characters at most. Furthermore, they should be built around a singular message and told as if they have actually happened in the present time. Good stories should also have a few visual images and finally should repeat a word or phrase that is the essence of the message.[3114] A good story awakens hope and the desire that the vision becomes a reality. The story itself has to match the intent and has to be retold time and again.[3115] Research has shown that stories also play an important role in learning.[3116]
- Moreover, **memorable and actionable phrases** may be used to distil a company's corporate strategy into its unique essence and to communicate it throughout the organisation.[3117] To distil a company's strategy into a pithy, memorable and prescriptive phrase is important because a brilliant business strategy is of little use unless people understand it well enough to apply it

3106 Lengel and Daft (1988), pp. 225-232, in: Johnson, Scholes and Whittington (2008), p. 575
3107 This builds on Thatcher (2006), pp. 14-18, in: Johnson, Scholes and Whittington (2008), pp. 574-575
3108 Andersen, Froholdt and Poulfelt (2010), p. 231
3109 Kaplan and Norton (2000a), pp. 72-73
3110 Kaplan and Norton (2008), p. 155
3111 Shaw, Brown and Bromiley (1998), pp. 58-59
3112 Conger (2008), p. 5
3113 Conger (2008), pp. 7-8
3114 Conger (2008), pp. 8-9
3115 Schiller (2007), p. 54
3116 Shaw, Brown and Bromiley (1998), p. 65
3117 Gadiesh and Gilbert (2001), p. 155

to either anticipated decisions or unforeseen opportunities. Particularly in today's rapidly and constantly changing business environment, memorable and actionable phrases have become a useful tool.[3118]

- As shown by research, the realisation of a strategy has better chances of becoming a success when people put their hearts and souls into it. For managers who aspire to better results, a personal interest and will to contribute to realising the strategy amongst employees is a valuable asset. People who are committed and enthusiastic will more likely make other people feel the same. Therefore, the appointment of a number of **strategy ambassadors** that are supposed to communicate the strategy to other employees can be a good idea.[3119] Consequently, for a typical strategy process it is important to create commitment among the people involved, not least with the hope that afterwards they will be able to pass on their commitment to the rest of the organisation.[3120]

7.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

Alignment of organisational units and employees is critical for successful strategy implementation and, together with the communication process, it should start as soon as the high-level corporate strategic themes and objectives have been determined.[3121] Successful alignment requires a great deal of communication.[3122]

It must be recognised that communication is likely to change strategy in various ways, since sensemaking by managers and staff typically involves reinterpretation, and roadshows and cascades may raise new issues.[3123] In this respect, communication, in a way, feeds into the identification of new strategic issues for the next round of strategising and is not the end-point of the strategy-making process.[3124] Yet, to communicate the vision and the atmosphere around it is not an easy task.[3125] For example, executives have to bear in mind that many messages are implied and have a cultural meaning. Moreover, they come in many forms which are embedded in the context and choice of channels.[3126]

3118 Gadiesh and Gilbert (2001), p. 157
3119 Andersen, Froholdt and Poulfelt (2010), pp. 250-251
3120 Andersen, Froholdt and Poulfelt (2010), p. 251
3121 Kaplan and Norton (2008), p. 154
3122 Kotter (1990), p. 51
3123 On middle manager sensemaking, see Balogun and Johnson (2004), pp. 523-540, in: Johnson, Scholes and Whittington (2008), p. 575
3124 Johnson, Scholes and Whittington (2008), p. 575
3125 See, for instance, Jack Welch, chairman of GE, in a 1987 speech to the Society of Automotive Engineers, in: Kotter (1990), p. 51
3126 Hall and Hall, p. 29

CHAPTER VIII PLAN OPERATIONS

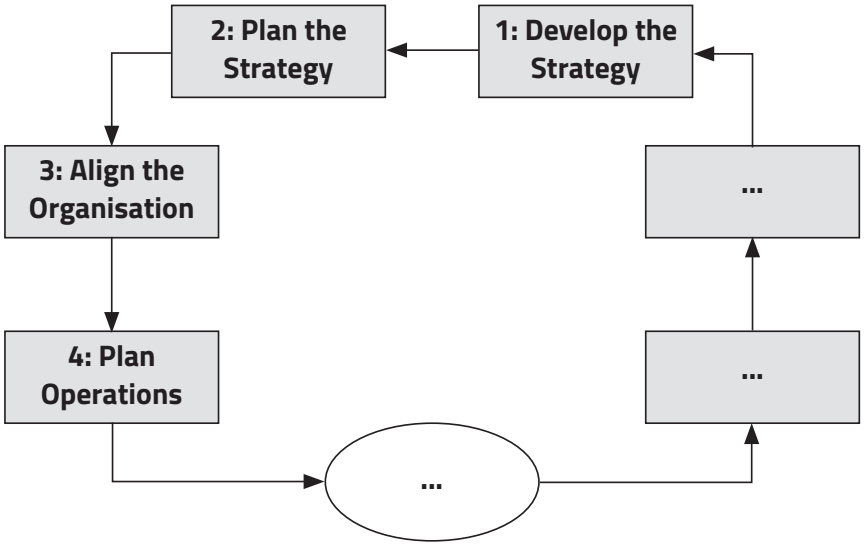
8.1 SUMMARY

To "Plan Operations" is the fourth step of the closed-loop management system of Kaplan and Norton. For operational planning, the improvement of process and functional areas is key. Thus, the company has to focus on performance enhancement of those processes identified as being most critical for executing the strategy. In addition, managers need to understand how the capabilities in their area contribute to the successful implementation of the strategy. Thereafter, the resources of key processes and functional areas have to be evaluated and managed in order to identify their possible contribution to a company's success. The resulting process improvement plans and high-level strategic measures and targets also have to be converted into an operating plan. Finally, the resource capacity plan shows how such operating plans and budgets are linked to the strategy.

8.2 DESCRIPTION

In the fourth stage of the closed-loop management system, operations need to be planned and subsequently executed.

Figure 32: Plan Operations: Fourth Stage of the Management System[3127]



In this part, process improvement activities need to be aligned with strategic priorities. Moreover, funding the resources which are necessary to operate the business must be consistent with the strategic plan. The following two key aspects are addressed during the operational planning process: improvement of key processes and functional areas, as well as the development of the resource capacity plan.[3128]

8.2.1 IMPROVE KEY PROCESSES AND FUNCTIONAL AREAS

8.2.1.1 Key Processes

When improving key processes, it needs to be asked which business process improvements are most critical for executing the strategy. The issue of how strategy gets

3127 Based on Kaplan and Norton (2008), p. 8
3128 Kaplan and Norton (2008), pp. 13-14

executed is represented by the objectives in a strategy map's process perspective. The strategic themes of the strategy map originate in the key processes which are defined in the map. This means that, for example, a strategic theme like "growing through innovation" demands excellent performance from the new product development process. A strategic theme like "the creation of heightened loyalty with targeted customers" demands greatly improved customer management processes. Certain improvements from the process perspective are designed to deliver the financial perspective's cost reduction and productivity objectives, whereas others focus on excelling at regulatory and social objectives. In order to deliver the improvements which are desired in the strategy's customer and financial objectives, Total Quality Management, Six Sigma, and reengineering programmes[3129] need to be focused on performance enhancement of those processes identified as being critical in executing the strategy. Once these critical processes for improvement have been identified, companies support their process management teams by creating customised dashboards consisting of key indicators of local process performance. Such dashboards provide focus and feedback to the process improvement efforts of employees.[3130]

Even if there is an emphasis on one of the four clusters of internal processes (depending upon the strategy),[3131] companies must follow a balanced strategy and invest in improving processes in all four clusters[3132].

8.2.1.2 Functional Areas

For most managers, however, the daily work is dominated by issues that are specific to their function, department, division or project team. This type of specialisation is usually a key factor underpinning success, except in the very smallest organisations. At this level, managers and individuals will control resources, activities and business processes that are crucial to the strategic success of the organisation as a whole. They are also likely to be the most knowledgeable about changes in parts of their business environment. For example, the labour market should be understood by HR specialists, the money markets by finance managers, the technological environment by R&D specialists, and so on. Thus, many of the issues in the different areas of organisations have strategic implications and therefore these managers need to understand how the capabilities in their resource area contribute to the overall success of organisational strategies. Moreover, they should be capable of managing these resources (such as people, information, etc.) strategically.[3133]

This also means that policies for the functional areas of business must be developed in order to implement strategies successfully.[3134] Therefore, we will discuss some issues which we consider to have important implications for significant functional areas.

3129 *"Quality and other process improvement programs play a critical role in enabling the strategic processes to achieve their performance targets."*, in: Kaplan and Norton (2008), p. 183

3130 Kaplan and Norton (2008), p. 13

3131 *"Also, the internal processes differ in priorities depending upon the strategy. For example, a company competing on product leadership should highlight innovation processes as the most important, while a company competing on low cost will emphasize operations management processes."*, in: Kaplan and Norton (2004b), p. 319

3132 Kaplan and Norton (2004b), p. 47

3133 Johnson, Scholes and Whittington (2008), p. 474

3134 McDonald and Burton (2002), p. 250

8.2.1.2.1 Human Resources

The four broad roles that a human resource function can fulfil in contributing to successful business strategies are as follows:

- A service provider to line managers (e.g. undertaking recruitment);
- A regulator setting the rules within which line managers operate (e.g. pay and promotion);
- An advisor on issues of HR strategy to line managers (e.g. ensuring the conformity of HR policies and practice with best practice);
- As a change agent that moves the organisation forward.[3135]

In order to reach a proficiency level in what we have mentioned as being strategic human resource management, the HR function must excel at the following tasks:

- HR must first be able to help **choose the right people** for the implementation of the chosen strategy. This is directly related to the chapter on "Human capital capabilities required by the strategy". Choosing the right people is the ultimate means of controlling an organisation well. These decisions reveal the competence of management, what its values are, and whether it takes its job seriously.[3136]
- With the support of current information technology, HR experts are able to obtain new insights and value from the data they already have, from systems that are already in place throughout their organisation, and from third-party data. Thus, HR has the opportunity to advance to **strategic human capital management**, which is often referred to as workforce analytics.[3137] With robust human capital management, the HR department can also determine what an organisation has in the way of skills and abilities, and also what it needs. This avoids the company muddling its way through periodic lay-offs and tardy recruiting of new employees but instead better anticipating workforce needs, and in many cases retraining employees for approaching requirements. It could also provide a talent scorecard and dashboard viewing of key performance indicator (KPI) metrics. Talent KPIs could include, for example, the return on employees, predicted turnover of critical workers, employee absenteeism, or skills gaps segmented by various employee type or group.[3138]
- As we know, a company that wants to gain value from its employee competencies has to align its human capital with the strategy. The critical few internal processes that create differentiation for the strategy are identified by the strategy map. These processes also determine the focused set of strategic job families that enable the critical internal processes to be performed at an exceptional level. Based on this, the HR department can develop competence profiles for the strategic job families and apply standard assessment approaches to measure human capital readiness and strategic competence gaps. The latter set the agenda for human capital development programmes that will increase the organisation's strategic human capital readiness.[3139] **Strategic capabilities** can be described as the resources and competencies

3135 Storey (1992), in: Johnson, Scholes and Whittington (2008), p. 478
3136 Drucker (1986), in Drucker (2008), p. 134
3137 Cokins (2009), p. 48
3138 Cokins (2009), p. 48
3139 Kaplan and Norton (2004b), p. 243

an organisation needs to survive and prosper.[3140] It often lies in the daily activities that people undertake in organisations. Thus, developing the ability to recognise the relevance of what they do in terms of the strategic capability of the organisation is important. More specifically, to develop particular competencies, the organisation needs to develop particular staffing policies.[3141]

- It is also important to create awareness in people that what they do in their jobs can matter at the strategic level. Helping them to see how their work relates to the bigger strategic picture can enhance the likelihood that they will firstly contribute positively to the achievement of competitive success and, secondly, increase their motivation to do so.[3142] Linking incentive and bonus awards to the attainment of employee, business unit and corporate objectives can help many companies to gain even more **employee awareness and commitment to the strategy**.[3143] In this context, Cokins suggests that human resources and personnel departments have traditionally been mired in daily administrative activities and viewed solely as a tactical support function instead of looking for ways to perform more strategically as part of the executive team and as a critical partner with business managers.[3144] This is why executives and HR professionals have to be familiar with the organisation's strategies and know how these might change in the future and what the implication for people's competencies will be.[3145] This alignment might be attempted through formalised approaches to performance management, assisted by IT-based systems.[3146]
- Moreover, for strategic purposes it may be important to target the development of competencies which can provide competitive advantage, and not to design training and development programmes that are very general.[3147] At some point, the HR department has to demonstrate how valuable it can be in **training and developing**[3148] its existing and future workforce.[3149]

  Thus, human resource departments should work closely with employees and their supervisors to craft customised training and experience-building programmes. This allows employees to develop the competencies that help them to achieve their personal objectives and to contribute to business unit and corporate success.[3150]

  The professional intellect of an organisation operates at the following four levels, presented in order of increasing importance:

  - Cognitive knowledge or **know-what**. Professionals achieve this basic mastery through extensive training and certification.
  - Advanced skills or **know-how**. These translate "book learning" into effective execution.

3140 Johnson, Scholes and Whittington (2008), p. 95
3141 Johnson, Scholes and Whittington (2008), pp. 121-122
3142 Johnson, Scholes and Whittington (2008), pp. 121-122
3143 Kaplan and Norton (2008), p. 155
3144 Cokins (2009), p. 47
3145 See e.g. Ulrich and Brockbank (2005), pp. 489-504, in: Johnson, Scholes and Whittington (2008), p. 477
3146 See also Van Fleet, Peterson and Van Fleet (2005), pp. 9-12, in: Johnson, Scholes and Whittington (2008), p. 477
3147 Johnson, Scholes and Whittington (2008), pp. 121-122
3148 Huselid (1995) holds that human resources practices influence employee skills through the attainment and development of a company's human capital., in: Nasution, Mavondo, Matanda and Ndubisi (2011), p. 339
3149 Cokins (2009), p. 48
3150 Kaplan and Norton (2008), p. 155

- Systems understanding or **know-why**. This is a deep knowledge of the web of cause-and-effect relationships underlying a discipline, the ultimate expression of a system's understanding being highly trained intuition.
- Self-motivated creativity or **care-why**. This consists of will, motivation, and adaptability for success. Without this, intellectual leaders can lose their knowledge advantage through complacency.

Whereas the first three levels can also exist in the organisation's systems, databases or operating technologies, the fourth is often found in its culture. As one moves up this scale from cognitive knowledge to self-motivated creativity, the value of intellect increases markedly. Nevertheless, virtually all the training attention of most companies is focused on developing basic (rather than advanced) skills, and little or none on systems or creative skills.[3151]

We have seen that the success of corporations in the post-industrial era lies more in their intellectual and systems capabilities than in their physical assets. To manage human intellect and to convert it into useful products and services is quickly becoming a critical executive skill. This is why there has been a flurry of interest in intellectual capital, creativity, innovation and the learning organisation.[3152]

- Effective strategy also requires **integration**, meaning that managers have to cross functional and operational boundaries to deal with strategic problems and come to agreements with other managers. These latter inevitably have different interests and perhaps different priorities.[3153] Thus, in order to enhance integration, it is important to take advantage of opportunities to wean key employees off the idea that they belong in perpetuity to any particular business. Early in their careers, they can receive exposure to a variety of businesses through a carefully planned rotation programme.[3154] Employees who embody critical core competencies should know that their careers are tracked and guided by corporate human resource professionals.[3155]
- Another responsibility of the HR function is to **navigate through the cultural differences** in designing practices which will support specific strategies and develop the corporate culture.[3156]
- Furthermore, the **internationalisation** of companies places heavy demands on the HR function. In order to make sure that HRM policies are aligned to corporate strategy, it:
  - First, requires, as mentioned before, a sound understanding of the strategy.
  - Second, a thorough awareness of the cultural assumptions embedded in HR practices themselves, as well as those which prevail in local subsidiaries, is also required.
  - Third, it demands judgement to assess political concerns, e.g. whether local resistance to headquarters' policies is really driven by cultural

3151 Quinn, Anderson and Finkelstein (1996), p. 72
3152 Quinn, Anderson and Finkelstein (1996), p. 71
3153 Johnson, Scholes and Whittington (2008), p. 6
3154 Prahalad and Hamel (1990), p. 93
3155 Prahalad and Hamel (1990), p. 93
3156 Schneider and Barsoux (2003), p. 151

> differences or desire for local autonomy, or whether headquarters just wants to have its own way. Thus, HR specialists at headquarters also have to be ready and willing to accept that they may have something to learn from their foreign subsidiaries and partners.[3157]

Despite all these challenges, it is interesting to note that many companies no longer administer their own HR programmes but rely on other companies instead.[3158] We conclude that this can be especially useful during change projects. If the HR function is not outsourced during change projects, we believe that professional external support is nevertheless more than welcome. In addition, in such cases a good interface with a performant headhunter is needed. However, in business schools there is not much space left for HR anymore. Thus, we can conclude that in the meantime, HR, contrary to strategic human resource management, has become a tradable commodity.

8.2.1.2.2 Marketing

Marketing is an integral part of every strategy,[3159] and for Cokins arguably the most critical function in an organisation[3160]. In our opinion, it has to fulfil the following critical tasks:

- Out of the portfolio of performance management methodologies, **customer relationship management** (CRM) is one of its critical components.[3161]
- We have also shown that **branding** is of enormous importance for every company. However, we conclude that it **must not be within the competence of any single department**. For example, in a company like Luxfer Gas Cylinders (LGC), the marketing department initially owned the image/branding theme, but it became more cross-functional and expanded its focus beyond marketing to concentrate on how to change companies from being operationally focused into market-led ones.[3162] These broad objectives spanned multiple departments and regions, and included building and leveraging the LGC brand, developing new products, and being easy to do business with. Even though themes do not replace functions, the strategic themes of LGC are based on activities and core competencies rather than functions. For example, it is not marketing but customer focus that is a theme. Likewise, human resources is not a theme but learning and growth is.[3163] Nevertheless, with the internationalisation of companies, it comes as no surprise that not only brand management but also other functions, for example category management, are now tackled from a global point of view.[3164]
- Moreover, in order to increasingly provide more financial analysis for trade-off analysis, the marketing and sales function has to measure, for example, customer lifetime value (CLV), i.e. it has to consider the future profit potential of customers as they pass through their life cycles.[3165] Yet, the evaluation of customers requires calculating prospective metrics which answer questions

3157 Schneider and Barsoux (2003), p. 175
3158 Collis and Montgomery (2005), p. 239
3159 Stöger (2010), p. 210
3160 Cokins (2009), p. 155
3161 Cokins (2009), p. 155
3162 The same is true for innovation, which can no longer be considered as a separate function and is not confined to engineering, research or manufacturing but extends across all parts of the business, all functions, as well as all activities, in: Drucker (1974a), in: Drucker (2008), p. 22.
3163 Kaplan and Norton (2008), p. 77
3164 Ruddle et al (2004)
3165 Cokins (2009), p. 177

such as how much money should be spent on marketing and advertising, where the highest paybacks to focus on are, and what should be avoided. This, in turn, demands a contribution from business analysis using managerial accounting techniques, and thus that **the CFO turns its attention from operations and cost control to the support of the marketing and sales director** in developing and monitoring strategies that will assist cost planning. Such activities are customer-centric and will grow the customer base, its loyalty, its revenue, and the company's brand.[3166] The benefits of CFOs that shift their assistance to the marketing and sales function can be substantial. Typically, these two functions rarely interact in the organisation chart. Cokins, however, is convinced that companies can no longer afford to have these two functions operating in silos.[3167]

- Better co-operation between finance and marketing is not the only field where increased interaction is required. **Other functions** need to increase their co-operation, too. For example, the links between marketing and R&D are also important.[3168] In addition, especially when there is unstable demand, the logistics chain must be organised in such a way that it can respond rapidly to demand.[3169] The production and marketing departments must co-operate closely, too.[3170] Hence, in order to design products that reflect customers' desires and tastes, marketing people, design engineers, and manufacturing staff must work closely together from the time a product is first conceived.[3171]

- Lorange encourages marketing departments to accept the challenge of identifying really new market opportunities before they actually become evident. This is the only opportunity to actively shape the market and not to be forced to always run after it. This, however, calls for marketing which is driven by **visionary thinking** and is not led by a copycat mentality.[3172] At the same time, marketing does not only have to identify potential new customers but also has to reach out to existing customers through cross-selling and up-selling.[3173] In this way, it maximises the value of the relationships a company already has.[3174]

8.2.1.2.3 Information Technology

Porter's advice, according to which internet technology should not be isolated but, instead, with the support of IT staff and outside consultants, be used strategically to enhance service, increase efficiency and leverage existing strengths,[3175] has already become a fact in many companies.

Below are some further important implications for managers and those responsible for information strategy in organisations:[3176]

3166 Cokins (2009), pp. 180-181
3167 Cokins (2009), p. 171
3168 See e.g. Nelson (1991), p. 68
3169 Fisher (1997), pp. 105-116
3170 Kopczak and Johnson (2004)
3171 Hauser and Clausing (1988), p. 63
3172 Lorange (2005), pp. 16-20, in: Bailom, Matzler and Tschemernjak (2006), p. 115
3173 *"E.g., when I sell you a shirt, I offer a second one at a lower price"*, in: Cokins (2009), p. 175
3174 Cokins (2009), p. 175
3175 Porter (2001), p. 35
3176 See also Rifikin and Kurtzman (2002), pp. 91-95, in: Johnson, Scholes and Whittington (2008), p. 487

- **First**, they need to realise that information processing capacity can transform the organisation, not just fine-tune current strategies and processes. Information management should **not be seen anymore as a support function but placed on a par with other business functions**.[3177]
- **Second**, information managers[3178] need to understand the full potential of IT from their professional knowledge and external networks, i.e. to be the **company benchmarker**. This includes an understanding of the limitations of formal information systems, which cannot replace certain types of knowledge, such as intuition, or knowledge-sharing that depends on social contact.
- **In addition**, they need to be involved in and credible regarding business strategy as part of the corporate team (not just sitting on the sidelines), and to **see new business opportunities that IT could open** up for the company.[3179]
- **Finally**, information managers need to have the influencing skills to **educate and persuade senior colleagues about these opportunities**.[3180]

Kaplan and Norton even think that if the full potential of corporate strategy is to be realised, functions like **IT and HR** should not be separated organisationally but integrated and aligned with corporate strategy. If not, they usually end up with competing silos of technical specialisation. This is the case when, for example, the HR department argues for increases in employee training, while the IT department lobbies for buying new hardware and software packages.[3181]

8.2.1.2.4 Communications

The communications function should reach an exceptional level within the following aspects:

- Today, in environments of unprecedented complexity, leaders have to communicate. They will have to become **integrators**, competent at aggregating large amounts of information and data.[3182] Leaders need a strong communication function with people who are able to understand different realities and to broker access to various stakeholders. As a consequence, Cambié and Ooi sense that communication is shifting from content creation to relationship management, and the study of new cultural ecosystems.[3183]
- In addition, it will have the responsibility for creating a corporate environment based on **knowledge-sharing and collaboration**, which are the new imperatives of social media. New communication channels, such as blogs, social networks and other tools, are being established and instantaneously bring people from different parts of a corporation together. The communicator not only has to introduce these new tools but also to help employees warm to them.[3184]

3177 What should be realised is that the "bits" aspects have become much more important. The budget of back-office functions, such as IT or R&D have exploded during recent decades. It is therefore no longer credible to assume that these functions only play a supporting role.
3178 Vernon (2006) treats the strategic contribution that CIOs should make, in: Johnson, Scholes and Whittington (2008), p. 487
3179 Johnson, Scholes and Whittington (2008), p. 487
3180 Johnson, Scholes and Whittington (2008), p. 487
3181 Kaplan and Norton (2004a), p. 54
3182 According to Roger Martin, Dean of the Rotman School of Management at the University of Toronto, in: Cambié and Ooi (2009), p. 208
3183 Cambié and Ooi (2009), p. 208
3184 Cambié and Ooi (2009), p. 208

- Moreover, globalisation, the interactive internet and people's conscious choice as to whom they want to trust are forcing communicators out of the comfort zone. This completely different context requires a different business communicator profile. It includes the ability to decipher environments or build relationships with selected audiences, with **cultural sensibility** being key.[3185]

- All this means that communicators will have to produce much more than colourful brochures. The communications profession needs experts who are able to get the message across to new audiences and markets by using the latest technologies. Thus, a much more **strategic view** of communication is needed.[3186] This view is in line with the X-factor universe, since aside from creating a commitment throughout the organisation, companies within the X-factor universe are also able to successfully communicate the strategy to the entire organisation, thus providing everyone with a sense of meaning.[3187] As has been stated many times throughout this thesis, strategy only makes sense to employees who all understand where they fit in and why they are doing what they do.[3188]

- We can conclude that the communications function will have to better fulfil its role within the regulations and social perspective, especially when it comes to **corporate social responsibility**. Cambié and Ooi argue that communication is crucial for bridging not only the gap between a company's sustainability efforts and the public but also the shaping of its corporate social responsibility policies. If a company wants to be able to draft a viable corporate citizenship strategy, it first has to understand the interests and agendas of its stakeholders. Although, communicators map stakeholders and analyse audiences on a daily basis to target a company's outreach, they are also the guardians of corporate reputation and brand values, which are two key components of the soul of a company and which have a major impact on its corporate social responsibility profile.[3189] Cambié and Ooi argue that the importance of this contribution is still widely misunderstood.[3190] For them, corporate social responsibility has to go beyond merely publicising philanthropy in order to boost corporate reputation.[3191] Thus, communicators will have to engage with senior management inside and outside the organisation as an integral part of the delivery of business objectives.[3192] The management of risks in the relentless pace of the globalised business setting requires a broader understanding and insight into a complicated patchwork of rules.[3193] Therefore, in the new environment the design of a corporate social responsibility strategy needs to involve the communication function at a strategic level, since communication is becoming more and more integrated. Moreover, the PR strategy should reflect the company's approach to corporate social responsibility, and the media should be treated as one of the company's stakeholders.[3194] Social responsibility

3185 Cambié and Ooi (2009), p. 13
3186 Cambié and Ooi (2009), p. 4
3187 Andersen, Froholdt and Poulfelt (2010), p. 248
3188 Andersen, Froholdt and Poulfelt (2010), p. 248
3189 Cambié and Ooi (2009), p. 40
3190 Cambié and Ooi (2009), p. 40
3191 Russel J., Executive Vice President Asia Pacific, Powell Tate, in a discussion with co-author Cambié via e-mail, March 2008, in: Cambié and Ooi (2009), p. 40
3192 Russel J., Executive Vice President Asia Pacific, Powell Tate, in a discussion with co-author Cambié via e-mail, March 2008, in: Cambié and Ooi (2009), p. 40
3193 Cambié and Ooi (2009), p. 40
3194 Cambié and Ooi (2009), p. 59

programmes are more sophisticated, now and no longer about only one aspect of corporate citizenship or one project. Companies also have to be aware of the reality that needs differ from country to country, and that sometimes it is the best approach to learn from the locals.[3195] Thus, a cross-cultural communicator has to educate executives about the nuances of CSR.[3196]

- Finally, **stories** are the most powerful tool for corporate social responsibility communications, since they give a voice to the soul of a project, create an emotional appeal, and are much more effective than data and figures.[3197] Therefore, with the art of storytelling, which is only one of many ways, communication can contribute to the success of social entrepreneurs.[3198]

8.2.2 DEVELOP THE RESOURCE CAPACITY PLAN

Process improvement plans and high-level strategic measures and targets on the balanced scorecard have to be converted into an operating plan for the year:

- The first component of the operating plan is a **detailed sales forecast**, which is a translation of a company's strategic plan's revenue targets.
- Second, in the resource capacity plan, a time-driven **activity-based costing** model can be used to translate detailed sales forecasts into estimates of the resource capacity required for the forecast periods.
- Finally, the third component of the operating plan is **operating and capital budgets**, in which managers can easily calculate the financial implications (summarised in a financial profit plan) and operating and capital budgets once they have agreed on the quantity and mix of resources for a future period.[3199]

8.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

8.3.1 IMPROVE KEY PROCESSES AND FUNCTIONAL AREAS

In order to execute a strategy, an architecture is required that integrates the strategies and operations of diverse units scattered throughout an enterprise. However, as shown by research, in the year 2002 more than 60% of organisations lacked an integrated strategy perspective, with functional units such as human resources, information technology and finance not linked to business unit and corporate strategy.[3200] We have seen that such a framework for an integrated view of strategy is provided by the strategy map.[3201]

Key processes, but also functional areas, are key drivers for corporate success. The latter often have resources with strategic implications and thus their resources have to be evaluated and managed in order to identify their possible contribution to corporate success.[3202] They also have to be strongly intertwined with each other.[3203]

3195 Cambié and Ooi (2009), p. 55
3196 Cambié and Ooi (2009), p. 55
3197 Cambié and Ooi (2009), p. 56
3198 Cambié and Ooi (2009), p. 90
3199 Kaplan and Norton (2008), p. 14
3200 Society for Human Resource Management (2002), in: Kaplan and Norton (2008), p. 45
3201 Kaplan and Norton (2000b) and Kaplan and Norton (2004b), in: Kaplan and Norton (2008), p. 45
3202 Johnson, Scholes and Whittington (2008), p. 474
3203 Kaplan and Norton (2008), p. 14

8.3.2 DEVELOP THE RESOURCE CAPACITY PLAN

The resource capacity plan explains how strategy is linked with operating plans and budgets.[3204] Thus, this plan is undoubtedly important. Prahalad and Hamel argue that managers are perfectly willing to compete for cash in the capital budgeting process. However, the authors find it strange that these same managers are unwilling to compete for people, i.e. the company's most precious asset. They find it ironic that top management devotes so much attention to the capital budgeting process yet typically has no comparable mechanism for allocating the human skills that embody core competencies. They are seldom able to look four or five levels down into the organisation, identify the people who embody critical competencies, and move them across organisational boundaries.[3205] Instead, managers should bid for core competencies in the same way they bid for capital, and thus send an important signal to middle managers by saying that core competencies are *corporate* resources and may be reallocated by corporate management.[3206] If in the annual strategic planning or budgeting process managers had to justify their hold on the people who carry the company's core competencies, this message would be further underlined.[3207]

3204 Kaplan and Norton (2008), p. 14
3205 Prahalad and Hamel (1990), p. 90
3206 Prahalad and Hamel (1990), p. 92
3207 Prahalad and Hamel (1990), p. 92

CHAPTER IX MONITOR, LEARN, TEST AND ADAPT

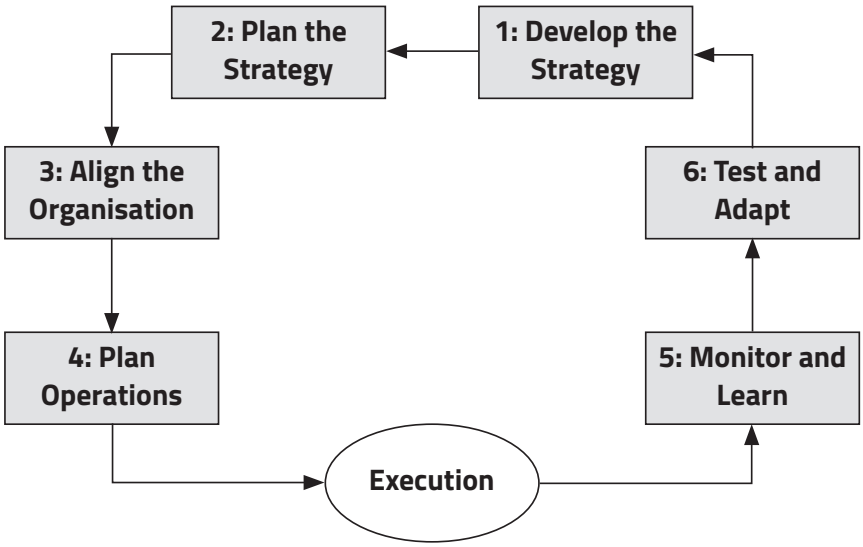
9.1 SUMMARY

The two steps "Monitor and Learn" and "Test and Adapt" complete Kaplan and Norton's closed-loop management system. After determining, planning and executing their strategy, firms have to hold operational review and strategy review meetings in order to monitor and control the implementation of strategic plans and, hence, to learn. To perform and co-ordinate the multiple cross-business processes that are required for a successful strategy execution, a new Office of Strategy Management (OSM) is presented. It has the task of taking responsibility and accountability for an effective organisational alignment process. It shows that internal auditing is another important function that can support this process of monitoring and learning. It can routinely evaluate policies and procedures and help to ensure that they are aligned with established organisational goals. The strategy testing and adapting meeting closes the loop in the integrated system of strategy planning and operational execution. It tests whether the fundamental strategic assumptions remain valid.

9.2 DESCRIPTION

Stages "5: Monitor and Learn" and "6: Test and Adapt" complete Kaplan and Norton's closed-loop management system.

Figure 33: Monitor, Learn, Test and Adapt: Finalising the Management System[3208]



9.2.1 MONITOR AND LEARN

When the company has determined and planned the strategy, and linked it to a comprehensive operational plan, it begins to execute its strategic and operational plans. The company then monitors the performance results, and acts to improve operations and strategy based on new information and learning. In order to examine departmental and functional performance and to address problems that have arisen or persist, companies hold operational review meetings. Strategy review meetings are also held in

3208 Based on Kaplan and Norton (2008), p. 8

order to discuss the indicators and initiatives from the unit's balanced scorecard[3209] and assess the progress of and barriers to strategy execution. Companies separate these two review meetings because they want to avoid the pitfall of having short-term operational and tactical issues drive out discussions of strategy implementation and adaption.[3210]

9.2.2 TEST AND ADAPT THE STRATEGY

In addition to frequent operational and strategy review meetings, a separate meeting which tests whether the fundamental strategic assumptions remain valid is needed. This is done based on additional data from operational dashboards and monthly balanced scorecard metrics, new information on changes in the competitive and regulatory environment, and new ideas and opportunities that employees may have contributed.[3211] Strategies related to how to run the company may come from customer satisfaction indexes that inform the management about what they have been doing well or badly.[3212]

Such a strategy testing and adapting meeting addresses whether the strategy is working. The strategy is questioned and challenged and, if necessary, adapted. This meeting closes the loop in the integrated system of strategy planning and operational execution. Information is provided by current external conditions (via PESTEL analysis) and the competitive environment. As an outcome, it can be seen where the existing strategy has been successful and where it is failing. Moreover, new approaches to transform losses into profits and expand the scope and scale of existing profitable operations can be formulated.[3213]

When updating a company's strategy, executives modify the organisation's strategy map and balanced scorecard, and start another cycle of strategy planning and operational execution (new targets, new initiatives, the upcoming period's sales and operating process improvement priorities, resource capacity requirements, and an updated financial plan). With this, the stage is set and strategic and operational plans establish the information demands for the next period's schedule of operational and strategy reviews, and also strategy testing and adapting meetings.[3214]

9.3 DISCUSSION

The following conclusions and outlook may be drawn from this chapter:

9.3.1 MONITOR AND LEARN

Operational and strategy review meetings are necessary, because the implementation of strategic plans needs to be monitored and controlled. In order to do so, an assessment is required. This includes an analysis of the extent to which goals have been met and what problems were encountered that led to underperformance, or where there is potential to improve performance to enhance the satisfaction of the goals of the firm. This allows processes to be controlled, policies developed, problems solved, and performance enhanced. For companies that are operating in a multinational environment and across diverse cultures, this is a complicated process, since it is difficult to reach agreement

3209 If professionally introduced, the balanced scorecard is a tool for strategy controlling, i.e. for the implementation and enhancement of a strategy, in: Stöger (2010), p. 281 and p. 283
3210 Kaplan and Norton (2008), p. 15
3211 Kaplan and Norton (2008), p. 17
3212 Eagan (2008), p. 77
3213 Kaplan and Norton (2008), p. 17
3214 Kaplan and Norton (2008), p. 18

on goals and the root cause of failure. Furthermore, the assessment of accounting and financial information is made difficult due to the different accounting, financial and taxation systems. Thus, it can be very demanding to precisely measure revenues, costs and rates of return on capital. In addition, subsidiaries may find excuses for poor performance caused by government regulations, and economic and social change. Together, these issues make it challenging to obtain clear and reliable quantitative and qualitative data to monitor the performance of subsidiaries and strategic business units in different parts of the world. Because of the difficulties encountered in monitoring performance, it is not easy to control strategic plans. Reaching agreement on goals across a wide range of cultural values may also require the setting of vague goals that cannot be precisely defined or measured. These circumstances make it very difficult to monitor and control the strategic planning process.[3215]

In order to be executed effectively, alignment (like other strategy execution processes) has to cross organisational boundaries and therefore requires the integration and co-operation of individuals from different organisational units. With most organisations having no natural home for cross-business processes, this poses a dilemma. Therefore, Kaplan and Norton have presented the case for establishing a new Office of Strategy Management (OSM)[3216] to perform and co-ordinate the multiple processes required for successful strategy execution. Its natural task is to take responsibility and accountability for an effective organisational alignment process. This includes ensuring that the strategy maps and scorecards of all business and support units are aligned with each other as well as with the enterprise-level strategy.[3217] With such a background, the OSM extends the traditional strategic planning department role, and enables the office to facilitate both the planning of strategy and its implementation.[3218]

Cokins, too, is convinced that the execution of strategy needs a formally dedicated manager with strategy execution competence. He argues that this issue is too important to be a part-time job of the chief operating officer, chief financial officer or strategic planning vice president.[3219] Together with Paladino, he sustains that the companies with the best performance management practices are those with a corporate performance management office and officer.[3220]

We conclude that the internal audit function can also help to monitor important parts of the performance of a company.[3221] This department performs permanent audits in a very challenging new business environment. Permanent audits (and controls) are necessary in order to assess if adjustments to a system are desirable or not.[3222]

The Institute of Internal Auditors (IIA)[3223] defines the activity as follows: *"Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by*

3215 McDonald and Burton (2002), p. 250
3216 Kaplan and Norton (2005), pp. 72-80
3217 Kaplan and Norton (2008), p. 140
3218 Kaplan and Norton (2008), p. 278
3219 Cokins (2009), p. 113
3220 Cokins and Paladino (2007), pp. 18-22, in: Cokins (2009), p. 113
3221 See also Clayton (2010), p. 61
3222 Probst (1992), p. 383
3223 *"Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association of more than 150,000 members with global headquarters in Altamonte Springs, Fla., United States. It has chapters in more than 190 countries across the world and has affiliated institutes in many countries. More than 100,000 professionals across the world are current members of this international body. Throughout the world, The IIA is recognised as the internal audit profession's leader in certification, education, research and technical guidance."*, available at: http://iiauae.org/about-us.html, accessed on 18 January 2013

bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".[3224] The internal audit function can routinely evaluate policies and procedures and help to ensure that they are aligned with established organisational goals.[3225] Thus, *"The IA activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives: Promoting appropriate ethics and values within the organization; Ensuring effective organizational performance management and accountability; Effectively communicating risk and control information to appropriate areas of the organization; Effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management."*[3226]

In fact, the expectations that internal auditing will provide extensive risk coverage and focus on strategy relevant matters have increased. However, often the role of internal auditing that has evolved over time, together with available resources, limit the volume of expenditure as well as the audit focal points.[3227] This is because for a long time internal auditing was viewed only as a necessary evil that tested processes to prevent any surprises. Internal auditors then began to discuss the relationship between risk and control, and found a role in process efficiency and effectiveness. However, according to today's definition of internal auditing, practitioners are placed in partnership with management and governance, and help to increase the chances of achieving strategic and business objectives through assessing control, risk management and governance.[3228]

Thus, in the context of strategy implementation, internal auditing can provide value and actively engage the business as a trusted partner in the establishment of the organisation's vision and as a facilitator of change. When internal auditing, along with other stakeholders, gets the opportunity to understand, question and embrace the strategic vision, it becomes possible for executives to obtain cohesive support for business strategy implementation. Internal auditing, in particular, can act as an objective source of feedback, since the opportunity for review from the "trenches" helps management put concepts into context and provides a valuable reality check., The commitment of internal audit specialists to aligning with management's strategic priorities can also serve as a model to others within the organisation.[3229]

If internal auditing is directly subordinated to the board, i.e. its audit committee or the chairman of the board,[3230] its feedback gets first-hand to senior management. In this way, it may contribute to preventing potentially asymmetric information being provided to management and the board.[3231]

Risk management and the internal control system are part of internal auditing's work. Since both components are pivotal for the success of good corporate governance,[3232] internal auditing has become essential for it being done well,[3233] which is also important for a good reputation. "Black swans" may also be mentioned in this context. These

3224 Institute of Internal Auditors (2007), introduction section
3225 Ngah (2013), p. 61
3226 Institute of Internal Auditors (2007), Standard 2130
3227 Schweizer and Sidler (2012), p. 626
3228 Clayton (2010), p. 61
3229 Wright (2010), p. 72
3230 This is recommended, for example, in Article 19/3 of the Swiss Code of Best Practice for Corporate Governance (2007); The results of an empirical survey showed that in Switzerland internal auditing most often reports directly to the board, in: Institut für Interne Revision and Füss (2005), p. 139; See also Pfyffer and Villiger (2000). This is also the case in the USA, in: Hofmann (2005), p. 132
3231 See also Linsi (2003), p. 22
3232 Tanski (2003), p. 91; Lück and Henke (2004), p. 8; Helbling (2003), p. 681
3233 Lück and Henke (2004)

are catastrophic and devastating sudden and unforeseen events that occur without warning and where no mitigation is possible (typically financial, but some are also non-financial in nature like reputational risk, which also can lead to financial losses).[3234] In order to help management identify and mitigate such risks, internal auditors can play a vital role because as part of the risk assessment process they monitor the environment and provide valuable information.[3235] Allen is convinced that they have to seek answers to questions such as how the next wave of technological, societal, industrial and environmental changes could affect the organisation, and what kind of implications these will have for it.[3236] Thus, the more diverse the sources of internal auditors and others involved in risk management are, the more effective the information gathering will be.[3237] Such effective information gathering, as well as the evaluation of processes and systems, can demystify black swans and bring opportunity rather than catastrophe.[3238]

Hence, the lesson that we can draw from this is that internal auditing has come a long way from its formal image of a solely financially oriented and sometimes "bean counting" activity. Now, it can fulfil an important early warning function.[3239]

9.3.2 TEST AND ADAPT THE STRATEGY

For executives, the strategy testing and adapting meeting provides an ideal opportunity to consider ideas about strategy revisions and initiatives that have emerged from within the organisation. A lot of ideas for new strategic options can arise from employees that are closest to customers and processes. Ideas for new strategic options should actively be solicited and assessed by companies. In this way, the company will benefit from the awareness of the strategy of all employees and their motivation to help it succeed.[3240]

Finally, it has to be questioned whether the strategy's underlying assumptions are still accurate in the light of competitive pressures as well as recent technological innovations.[3241]

3234 Allen (2013), p. 25; See also Taleb (2007)
3235 Allen (2013), p. 25
3236 Allen (2013), p. 27
3237 Allen (2013), p. 27
3238 Allen (2013), p. 27
3239 See also Dörner, Horvath and Kagermann (2000), p. 200
3240 Kaplan and Norton (2008), p. 254
3241 Finkelstein (2006), p. 115

CHAPTER X SUMMARISING DISCUSSION

10.1 INTRODUCTION

Throughout this thesis, it has been illustrated that by combining the four sources of competitive advantage (an approach mentioned by Blili and generally acknowledged in the literature) with the X-factor universe (introduced by Andersen, Froholdt and Poulfelt) companies can become mentally agile and map such a strategy with the aid of a strategy map. This is particularly important for small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand. Yet, in order to effectively and efficiently implement and map such a strategy, we conclude that the following critical success factors have to be in place:

10.2 MORE AGILITY, CREATIVITY, RAPIDITY AND EFFICIENCY

The combination of the four sources of competitive advantage introduced by Blili[3242] with the X-factor universe introduced by Andersen, Froholdt and Poulfelt[3243] leads to an agile strategy. At the same time, if companies want to survive and be successful, they first have to recognise the two important paradigm changes: from atoms to bytes and from recipes to mental agility. Hence, companies cannot only be concerned with analysis (i.e. what they wanted to accomplish, what the situation was internally and externally, whether they were staying true to the mission of the firm). Instead, they need to break out of the analytic, "just the facts" mode of thinking and engage in creative thinking. This means that all alternatives need to be considered, but also that viable alternatives (based on previous analysis) need to be recognised.[3244] In order to deal with changing and complex situations, companies need a constant flow of ideas and creative solutions. For alternative ideas, though, there is probably no better source than a multicultural workforce.[3245] Other important success factors for alternative ideas are a performant learning organisation as well as successful change management.

In addition, companies must put even more effort into the development of their key competencies and improve their agility, flexibility and rapidity.[3246] *"SMEs are under enormous pressure to do more – faster, better, and in a group – with fewer resources and competencies"*[3247]. This approach will definitely require mental and strategic agility, i.e. unconventional, and therefore "out-of-the-box", thinking.

10.3 SIMULTANEOUS FORMULATION AND IMPLEMENTATION

Another conclusion that can be drawn from this thesis is the simultaneous, i.e. tightly intertwined and iterative, process of strategic management and creativity.

Typically, an analysis covers only a limited period of time. Yet, given the complexity and dynamics involved, analysis needs to be ongoing. In an ever-changing world, a company cannot afford to have a sequential (internal then external or vice-versa) analysis. Instead, such an analysis must be done simultaneously. The diagnostics and strategic choices are not sequential, i.e. there is no predefined order, but instead the different steps must be carried out concurrently. Therefore, as Johnson, Scholes, Whittington and

3242 Opinion, Blili (2010)
3243 Andersen, Froholdt and Poulfelt (2010), p. 64
3244 Tallman (2009), p. 119
3245 Cambié and Ooi (2009), pp. 82-83
3246 Jacob and Ouellet (2001)
3247 Opinion, Blili (2010)

Fréry point out, it is precarious to strictly distinguish strategic choices from strategic diagnostics, since these two aspects are interdependent and not sequential.[3248]

Mintzberg, Lampel, Quinn and Ghoshal support this view, too. They hold that the traditional division of policy and strategy textbooks into two very different parts, i.e. a first part on the formulation of strategy and a second part on its implementation (including discussion of structure, systems, culture, etc.), is often a false dichotomy, because in many situations formulation and implementation can be so intertwined that it makes no sense to separate them.[3249]

Hence, in view of the fast-changing general conditions, it is not a rigid procedure but flexibility that is unavoidable. Therefore, strategic management needs to be understood as a tightly intertwined and iterative process. In each step of implementation, it may become necessary to refer to a former process step or to determine the next one.[3250]

Every achieved result, in turn, represents a new initial position which needs to be interpreted and evaluated. Thus, strategy starts from the beginning. The closed-loop illustration clarifies this interrelationship.[3251] Moreover, in practice, decisions are often made without great analysis and reinterpreted in subsequent communications.[3252]

To summarise, a simultaneous rather than a sequential working through of analysis and concretisation is required. In each step of the external and internal analysis, the interrelationship between strategy formulation and execution needs to be considered. This is especially important for strategies that could counter any identified problems and take advantage of any identified opportunities. At the same time, the complex environment needs to be taken into account for relocation strategies.[3253]

This also means that a company not only cares about future issues but also considers past aspects. After all, if a company wants to understand and preserve its core competencies, it first has to understand where these core competencies come from. Therefore, we believe that when it comes to strategy, the company simultaneously addresses the following three timeframes:

- **Diachronic:** A historical understanding of the main structural changes in the past.
- **Synchronic:** Today's issues, priorities, evidence and challenges.
- **Prospective:** Future projections, coming trends and changes, and a futurist vision of the environment.

10.4 APPLIANCE OF THE STRATEGY MAP

The strategy map, with its ability to convey strategy to an entire organisation,[3254] shows how to implement the proposed strategy and will make the implementation of it more readable and applicable.

We have already mentioned that we perceive the strategy map as the core and summarising tool of the integrated management system introduced by Kaplan and Norton.

3248 Johnson, Scholes, Whittington and Fréry (2008), p. 260
3249 Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 312
3250 Lombriser and Abplanalp (1998), p. 47
3251 Stöger (2010), p. 30
3252 Johnson, Scholes and Whittington (2008), p. 569
3253 Opinion, Blili (2010)
3254 Kaplan and Norton (2000a), p. 90

Since in strategy literature there are numerous metaphors with ships, we compare the strategy map with a simple to understand and remember metaphor from navigation: a sailing boat with its four sails representing the four strategic answers/clusters of the map. This metaphor corresponds to an open system and lends itself to an incremental strategy approach, since adjustments of the sails are always possible.

Maximum value can only be created when a company's intangible assets are aligned with each other, with the company's tangible assets and also with the strategy.[3255] Moreover, the "strategic fit" concept needs to be in place. The learning and growth perspective is represented by the hull of the sailing boat and therefore the place where most of the sailors and naval officers are. If the sailors and officers set the sails well, the ship will gain speed and momentum and sail to new horizons, i.e. to positive financial perspectives. At the same time, the ship has a flexible hull and is therefore able to adapt to high, aggressive and constantly transforming tides or even storms. These are recognised by the sailor in the look-out post. Thus, the spotter or recon person is like the conductor of an orchestra who initiates the transformation of information into knowledge or intelligence and therefore action. At the same time, the depth is constantly measured, thereby representing analysis. Many companies form a fleet of ships, consisting of specialised vessels like corvettes, destroyers or logistics ships, depending on their function and size within the group. In today's globalised and networked economy, such groups are usually formed by ships of different nations.

Their potential reach across the sea is defined by their width (i.e. their strength to realise maximum stakeholder value) and length (i.e. their strength to realise social responsibility, corporate governance, environmental protection, and also branding and reputation). Without such a potential reach in front of them, these ships are doomed to sink. Thus, new frontiers need to be tackled and new spaces conquered (Blue Ocean Strategy)[3256] with "out-of-the-box" concepts.

Cokins is convinced that there is little consensus about what a balanced scorecard is and that many organisations have a balanced scorecard but no strategy map.[3257] Together these frameworks do not provide the power to optimise financial results but set direction and determine which projects and core processes to improve.[3258] Yet, he believes that in order of magnitude, the strategy map is more important than the scorecard, which is merely a feedback mechanism. At the same time, he is surprised that executives would only want a balanced scorecard without a strategy map.[3259]

Moreover, he believes that with refinement in their usage, the strategy map and its companion, the balanced scorecard, are becoming the GPS (global positioning system) route navigator for organisations. The destination input into the GPS is the executive team's strategy.[3260] He also holds that the strategy map and the balanced scorecard for feedback are a sustained methodology in the long-term.[3261]

We agree with this view. Nevertheless, in order to clearly distinguish it from the traditional set of knowledge in strategy teaching, and to point to the X-factor, we go a

3255 Kaplan and Norton (2004b), p. 30
3256 Kim and Mauborgne (2005)
3257 See also Cokins (2009), p. 93; At the same time, he asserts that, typically, most new improvement methodologies start with misunderstandings, and adds that perhaps this was the reason why Drucker observed that it can take decades before a new and reliable management technique gets widely adopted, in: Cokins (2009), p. 7
3258 Cokins (2009), p. 67
3259 Cokins (2009), p. 94
3260 Cokins (2009), p. 98
3261 Cokins (2009), p. 100

step further with this thesis. Instead of thinking of GPS, we think in terms of a compass that has no clearly defined routes or road-maps. This is the reason why our research has not offered a GPS with a clearly defined roadmap which, after all, only helps to drive on the overcrowded roads. Instead, it has offered a compass that indicates the direction and takes companies to places where sometimes no one else has ever been. With a GPS, companies will be stuck in a traffic jam. If all taxi drivers use the same GPS, why should we make them pass a test? In this particular example, it is actually not necessary for the taxi driver to own the car, i.e. the production or innovation (outsourcing, integrated supply chain), or to do his job all alone without being part of a taxi-network (networking and partnering). The GPS is accessible to everybody, but innovation and therefore differentiation can only be achieved with a sextant and a compass combined with agility and creativity. The image is one of an aggressive conqueror, i.e.:

- knowing the direction,
- not knowing what will be there,
- but (in most cases) arriving there with a lot of creativity, and
- being "first-to-market".

10.5 CARING ABOUT VALUES

A good corporate reputation has a strategic value for the firm that possesses it. This is supported by a growing body of research.[3262] The lesson that we draw from this is that the same may be asserted for a company's brand.

Corporate reputation and brand values are two key components of the soul of a company and have a major impact on its corporate social responsibility profile.[3263] Therefore, corporate social responsibility has to go beyond merely publicising philanthropy in order to achieve corporate reputation.[3264]

Corporations are increasingly becoming aware of the power of perception, and are beginning to grasp the value of intangible assets like reputation and access to networks.[3265] In delivering growth, attracting top talent, and avoiding ethical mishaps, the reputation of a company can account for much of the 30-to-70% gap between the book value of most companies and their market capitalisation.[3266]

Von Oetinger argues that companies are complex economic and social entities. However, just as living is much more than simply breathing, daily business is more than just the accumulation of shareholder value. It is about difference, i.e. something more than the present situation, and thus the question is about growth. It is the pursuit of a vision and the ambition to be part of something bigger. Moreover, it is about doing something the organisation can be proud of and something which satisfies people's zest for action.[3267] The following quote from Jobs illustrates the growing importance that some companies place on those values that do not immediately lend themselves to be quantified and measured in annual reports but which can have a significant impact on the performance of companies: *"The only thing that works is management by values. Find people who are*

3262 Dierickx and Cool (1989), pp. 1504-1511; Rumelt (1987), pp. 137-157; Weigelt and Camerer (1988), pp. 443-454, in: Roberts and Dowling (2002), p. 1077
3263 Cambié and Ooi (2009), p. 40
3264 Russel (2008), in: Cambié and Ooi (2009), p. 40
3265 Cambié and Ooi (2009), p. 40
3266 Engardio and Arndt (2007), in: Cambié and Ooi (2009), p. 40
3267 von Oetinger (2000a), pp. 23-24

competent and really bright, but more importantly, people who care exactly about the same things you care about."[3268]

Thus, we have already seen that not only organisations but also people have to have values. To be effective in an organisation, their values do not need to be the same but they must be compatible with those of the organisation. If they are not close enough to coexist, the person will be frustrated and not produce any results.[3269]

10.6 BUILDING ON "WETWARE" AND INTANGIBLE SKILLS

As we already know, for Kotter the ultimate act of leadership in an organisation is to create a leadership-oriented culture that continues after the creator has gone.[3270] Similarly, we have seen that Nelson and Winter have defined firm-specific resources and capabilities (FRSCs) as knowledge resources that are tied to the organisation and not to any of its component parts.[3271] Teece has defined dynamic capabilities as capabilities for adapting the firm's competencies to a changing situation that evolve (or co-evolve) with the ever-changing industrial environment of the firm.[3272] Finally, Tallman tells us that the essence of resource-based strategy is to find such firm-specific dynamic capabilities.[3273]

We build on this basis but point out that such firm-specific dynamic capabilities are often characterised by something that cannot be completely explained, and thus also has to do with magic and charm. We identify such aspects as part of "wetware", which together with software" and "hardware" make up every company. What stays behind after people who are relevant to the company have left is similar to what we could term a company's DNA. This DNA belongs to strategy which, if we recall, is part of social science and thus different from the rules and natural laws of physics or chemistry. As a result, strategy has to be humble and modest and accept the possibility of mystery and magic and something that can barely be explained and therefore cannot with certainty be determined. Yet, it is what gives companies this special charming and magic nature, somehow differentiating and sustainable. It is the factor which distinguishes, for example, McDonalds from Burger King. Even though in the eyes of many consumers the latter may produce tastier and better-quality hamburgers, it is still McDonalds that is more successful. Apple or Jaguar are other good examples of this. Even after the founder or most important executive, owner or relevant employee(s) are not with the company anymore, the "wetware" of the company is still in place. Consequently, the myths and basis for ongoing success are still available. In this respect, we can see that myths can be even more important than human capital.

We consider the following to be part of "wetware":

- History,
- Culture,
- Services,
- Branding,

3268 Quote from Steve Jobs, accessed on the website: www.1000ventures.com/business_guide/crosscuttings/leadership_values-based.html, September 2010, in: Andersen, Froholdt and Poulfelt (2010), p. 176

3269 Drucker (1999a), in: Drucker (2008), p. 223

3270 Kotter (1990), p. x

3271 Nelson and Winter (1982), in: Tallman (2009), p. 97

3272 Teece, Pisano and Shuen (1997), pp. 509-534, in: Tallman (2009), p. 97

3273 Tallman (2009), p. 97

- Reputation,
- Strategic management of human resources,
- Organisational learning and change management.

At the same time, neither the elements of "wetware" nor intangible "assets" are really "owned" by a company but only tied to it. Consequently, companies have to work each and every day in order to improve and to sustain the quality of the "wetware". Therefore, it results that the use of the notion of intangible "skills" (i.e. not "assets") is much more appropriate to reality. By using this notion, we want to explicitly renounce its "asset" character, i.e. something a company "owns".

10.7 FUNCTIONING WITHIN NETWORKS

In this thesis, it has become obvious that networks are crucial for companies that want to survive in today's new environment. Nowadays, competitive strategy is not a stand-alone individual company process but a global joint network-based exercise. Professor Blili summarises this when ceaselessly repeating during his lectures that yesterday's companies could be compared to strong castles rooted in a stable environment, whereas today's companies must function in a network, outsource, specialise and consider the global environment as their near environment.

For example, an organisation rarely undertakes alone in-house all the value activities, i.e. from design through to the delivery of the final product or service to the final customer. Usually, the roles are specialised, so that any one organisation is part of a wider value network[3274] which is the set of interorganisational links and relationships that are necessary to create a product or service.[3275] With this, the idea of the competitiveness of an individual firm gives way to the concept of the competitiveness of the entire production chain.[3276]

Successful innovations or new organisations are very rarely achieved alone but typically through relationships that come in many forms (relationships between organisations and customers; big business and small start-ups; business and social entrepreneurs).[3277]

10.8 PUTTING THE HUMAN FACTOR AT THE CENTRE

Ultimately, a company is based on economic, business and commercial terms. At the same time, it is our deepest personal conviction that companies represent social systems (they could even be called organisms), where not everything is done on a rational basis.

It is obvious how values and expectations of powerful actors in and around the organisation can drive fundamental issues, for example such as whether an organisation should be expansionist or more concerned with consolidation, or where the boundaries for the organisation's activities are drawn.[3278]

3274 Timmers (2000), pp. 182-193, provides an interesting discussion on how value networks are being created and changed by IT, in: Johnson, Scholes and Whittington (2008), p. 111
3275 Johnson, Scholes and Whittington (2008), p. 111
3276 Opinion, Blili (2010)
3277 Johnson, Scholes and Whittington (2008), p. 324
3278 Johnson, Scholes and Whittington (2008), p. 3

In this context, we want to point out, once again, the term "strategic management". It underlines the importance of managers with regard to strategies, since strategies do not happen just by themselves. The process involves people, especially the managers who decide and implement it. Therefore, strategic management emphasises the human element of strategy.[3279] A successful company is, after all, nothing else than the result of the sum of good decisions. Furthermore, as we have seen, knowledge, operations, innovation, branding, image and learning, as well as change, have become paramount in today's world. In all these aspects, the human factor is decisive. Although intangible "assets" (or "skills") are also important, some managers are reluctant to measure them because these measures are usually "softer" or more subjective than the financial measures they usually take to motivate and assess performance.[3280]

The human element has actually been a guiding driver throughout this research. It is, for example, important for partnerships, whether they are in networks, alliances or meta-value chains. When it comes to services or personalised products and marketing, only human beings are able to communicate successfully and empathise with customers. Moreover, with the increased importance of ICT, human capital has become an even more indispensable factor for the well-functioning of companies. Only with the know-how of managers, technicians and researchers will it be possible for these tools to continue to function properly. Furthermore, the human aspect is also true for customers who value the brand, the reputation or the "wetware", and perceive the company in this way in one way or another. This perception also has an impact on the self-esteem of people working in such companies, and significantly determines whether a talented person likes working for a specific company or not.

Business schools tend to divide their curriculum between hard quantitative-oriented and soft behavioural courses. The former include operations management and finance and rely on a run-by-the-numbers management approach. The latter recognise that people and human behaviour matter most, and thus include change management, ethics, and leadership. This division is between managers who apply the quantitative approach of Newtonian mechanical thinking and managers who apply the behavioural approach and view an organisation as a living organism that is ever-changing and responding to its environment. The latter, i.e. Darwinian, way of thinking is about evolution, continuous learning, natural response, and adapting to changing conditions.[3281] Cokins senses that Newtonians are relatively more numerous but that the irony of this is that only a few organisations manage their people in a truly strategic way. Yet, the people in an organisation represent an enormous and essential asset. They are a significant component of its total value and an equally significant component of its expenses.[3282] He also believes that there are managers who see usefulness in blending the characteristics of the Newtonian and Darwinian styles.[3283]

10.9 A NEW METAPHOR OF THE MODERN COMPANY

With reference to the important human role in strategy and in order to summarise the most essential elements discussed in this thesis, we will introduce the following metaphor of the company. It is taken from human anatomy, neurology and behaviour, and represents a conceptual construction which is kept together by its culture (the

3279 Johnson, Scholes and Whittington (2008), p. 11
3280 Kaplan and Norton (2004a), p. 63
3281 Haeckel (1999), in: Cokins (2009), p. 79
3282 Cokins (2009), p. 47
3283 Cokins (2009), p. 81

glue)[3284] and, in a holistic way, is turned towards its stakeholders[3285] (and not only its customers). Our conceptual being is closely connected to these stakeholders and frequently applies the strategy map and adheres to it. Such a conceptual being has the following additional distinctive characteristics:

- The brain works according to incremental processes and an "out-of-the-box" approach. Its mindset is geared not only towards mental agility but also towards creativity, rapidity and efficiency. This approach requires a simultaneous formulation and implementation of strategy.
- The strategy is to the organisation what personality is to the individual.[3286] This personality is shaped by a sextant and compass which enhance the conceptual being's character of an aggressive conqueror.
- The arms and legs, which are connected to the brain, represent the four key processes that create differentiation. The fingers and toes represent the critical few processes out of literally hundreds of subprocesses in each of these clusters. The arms, legs, fingers and toes are constantly and simultaneously analysed.
- The spinal column is represented by tangible assets and the nerves and muscles surrounding it stand for the intangible "assets" (or "skills").
- The values are represented by the heart,[3287] which pumps the blood, i.e. the necessary financial means into the organism.
- The respiratory system, which guarantees that vital oxygen is added to the blood, illustrates the transformation of information into useful knowledge and the ability to transfer knowledge (especially tacit knowledge) across the various parts of the firm.
- The DNA consists of the "wetware", i.e. something charming and magic which is essential for the continued existence of the company. In combination with the "software" (human capital, intangible assets) and "hardware", it is indispensable for success.
- The behaviour of this organism, which lives in quite a hostile knowledge economy, is very much geared towards networking, partnering and collaboration characterised by cultural sensibility.
- Moreover, internally and externally, it is connected by means of ITC.
- Finally, the moral standards of this conceptual being are guided by corporate social responsibility, corporate governance, and also care for the environment. Corporate reputation and brand values are the two key components of the soul and have a major impact on its corporate social responsibility profile.[3288]

3284 Andersen, Froholdt and Poulfelt (2010), pp. 195-196
3285 In the literature, usually customers, suppliers, owners, employees, employee representatives, politicians, media, opinion leaders, the world of finance, and the general public are identified as the most important stakeholders, in: Probst, Raub and Romhardt (1999), pp. 165-166
3286 See Mintzberg (1987b), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 7
3287 Andersen, Froholdt and Poulfelt (2010), pp. 195-196
3288 Cambié and Ooi (2009), p. 40

CHAPTER XI RESEARCH METHODOLOGY

11.1. INTRODUCTION

Determining an appropriate research methodology is an important[3289] but also difficult step in a research study.[3290] In essence, it is focused on the problems to be investigated in the study, and therefore varies according to the problems under investigation. It is vital that there is consistency between the research questions, and the methodological and theoretical approaches.[3291] The research strategy, which is one of the components of research methodology, imposes and provides an overall direction for the process by which the research is conducted.[3292] One such research strategy is using case studies.[3293]

Here, we will try to explain our assumptions, our favoured meta-paradigm, interpretivist qualitative grounded theory, our intensive rather than extensive observation, and our data collection angle. Moreover, we shall try to justify why we selected case studies as our major research approach for the empirical validation effort of our theoretical framework.

11.2. EPISTEMOLOGICAL ASSUMPTIONS

Pragmatism is based on the argument that *"the most important determinant of the epistemology, ontology, and axiology you adopt is the research question."*[3294] Even though case-study design can be performed through a positivist approach,[3295] it is often linked with an "interpretivist" point of view or spectrum[3296].

Several researchers in other disciplines have incorporated interpretivist research designs. The primary assumptions of these methodology choices are that:[3297] *"access to reality (given or socially constructed) is only through social constructions such as language, consciousness and shared meanings. Such interpretive research does no predefine dependent and independent variables, but focuses on the full capacity of human sense making as the situation emerges*[3298]*."*

This is relevant, as qualitative[3299] rather than quantitative methodologies enable researchers to work closely with participants within an organisation and collect information specifically related to their needs and observation goals.[3300]

Levy holds that well-structured research can extend the boundaries of a discipline without taking a positivist approach. She further suggests that when the aim of a study is to introduce a conceptual model for the purpose of building a theory around a particular phenomenon or process, an interpretive approach utilising a qualitative methodology may be more appropriate. However, if the main goal of the researcher's problem-solving is to test the validity of a new model, where all the variables which could impact on a phenomenon or process are already known, then a quantitative methodology may be more appropriate.[3301] As an example, Strauss and Corbin define theory as: *"a set of well-developed categories (e.g., themes,*

3289 Wedawatta, Ingirige and Amaratunga (2011), p. 2
3290 Walker (1997), in: Wedawatta, Ingirige and Amaratunga (2011), p. 2
3291 Churchill and Sanders (2007), in: Wedawatta, Ingirige and Amaratunga (2011), p. 2; See also Wacheux (1998)
3292 Remenyi, Williams, Money and Schwartz (2003), in: Wedawatta, Ingirige and Amaratunga (2011), p. 2
3293 Wedawatta, Ingirige and Amaratunga (2011), p. 2; See also Hlady Rispal (2002)
3294 Saunders, Lewis and Thornhill (2009), p. 109, in: Wedawatta, Ingirige and Amaratunga (2011), p. 6
3295 E.g. Rezgui and Miles (2010), in: Wedawatta, Ingirige and Amaratunga (2011), p. 6
3296 E.g. Sexton and Barret (2003), in: Wedawatta, Ingirige and Amaratunga (2011), p. 6
3297 Levy (2008), p. 369
3298 Myers (1997), in: Levy (2008), pp. 369-370
3299 See e.g. Miles, Huberman and Saldaña (2013)
3300 Yin (2003); Bonoma (1985), in: Levy (2008), p. 370
3301 Levy (2008), p. 370

concepts) that are systematically interrelated through statements of relationship to form a theoretical framework that explains some relevant social, psychological, educational, nursing, or other phenomenon."[3302]

Obviously, qualitative research methodology is not suited to all types of research topics in management sciences, and the researcher must bear in mind the research aims as well as the research philosophy and epistemology driving the research.[3303] Therefore, Levy asserts that: *"In situations where a review of the extant literature does not reveal significant attempts at constructing a theoretical model of a phenomenon, the researcher may wish to take an alternative research approach to the more traditional quantitative techniques in order to uncover concepts and construct a conceptual model and build theory within a specific context".*[3304]

11.3 GROUNDED THEORY

11.3.1 DEFINITION

According to Moghaddam, grounded theory is a concept introduced by Glaser and Strauss in their seminal 1967 book.[3305] It refers to a theory developed inductively from data. Grounded theory takes a case and results in a theory which fits one dataset and explains the collected data through a middle-range theoretical framework.[3306] The grounded theory strategy consists of a typology of stages and techniques which are the structuring parts of a quality grounded theory. Grounded theory generates typologies or classifications of patterns drawn from counterparts (respondents as subjects and/or targets or units of analysis), and concentrates on trying to make implicit belief systems explicit.[3307]

According to Strauss and Corbin, a theory is a set of relationships among dimensions and variables that proposes a valid attempt at explaining the reality (phenomenon, problem or subject) being researched.[3308] Morse attempts to complete this statement or definition, suggesting that a working theory allows: "*the best comprehensive, coherent and simplest model for linking diverse and unrelated facts in a useful and pragmatic way."*[3309]

According to Goulding, a good theory *"is a way of enlightening the clear, the implicit, the unrecognized and the unknown. Theorising is the process of creating alternative explanations until a 'best-fit', which explains the data most simply is obtained. This involves asking questions of the data which will create links to established theory."*[3310]

This author is obviously not specifically describing "strategy mapping". However, we can inductively understand that a grounded theory approach could certainly be considered (to paraphrase Goulding) a way of shedding light on clear corporate behaviours, rational decisions, investments, assumptions and concerns, including those which are implicit, but also unrecognised, latent and unknown ones. Theorising strategy maps is there for the process of creating alternative descriptions, understandings and justifications until "best-fitting" cases which may explain or organise the data most naturally or easily

3302 Strauss and Corbin (1998), p. 22, in: Levy (2008), p. 370, or: Moghaddam (2006), p. 52
3303 Levy (2008), p. 370
3304 Levy (2008), pp. 370-371
3305 Glaser and Strauss (1967) in: Moghaddam (2006), p. 52
3306 Charmaz (2000), in: Moghaddam (2006), p. 52
3307 Moghaddam (2006), p. 52
3308 Strauss and Corbin (1990), in: Moghaddam (2006), p. 52
3309 Morse (1994), p. 25, in: Moghaddam (2006), p. 52
3310 Goulding (1999), in: Moghaddam (2006), p. 52

are obtained. This involves asking questions of the data which will create a network of relations to established theory.[3311]

According to Creswell, Glaser and Strauss's grounded theory is a *"systematic, qualitative process used to generate a theory that explains, at a broad conceptual level, a process, an action, or interaction about a substantive topic."*[3312]

Grounded theory is a qualitative methodology,[3313] and hence differs from and contrasts with quantitative positivist methodology. It takes its denotation from the practice of generating theory from research which is "grounded" in data.[3314] Indeed, one could define it as a set of methods for analysing data which is generally used on naturalistic field data but which has also been used to analyse historical and documentary data.[3315] Consequently, a grounded theory uses a *"systematic set of procedures to develop an inductively derived grounded theory about a phenomenon."*[3316]

Additionally, together with Creswell, Moghaddam explains that this methodology is a general method of comparative analysis to develop a new theory or model with four central criteria: work, relevance, fit, and modifiability.[3317]

11.3.2 USABILITY FOR OUR STUDY

Popper's writings suggest that good science and theory call for research design. To address this statement, one should understand that good methods should be selected and developed taking into account the constraints and specificities of the field and goals of the study. According to Strauss and Corbin, *"well performed grounded theory meets all the requirements of 'good science': significance, theory-observation, compatibility, generalizability, reproducibility, precision, rigor, and verification."*[3318]

For these authors, the applicability of grounded theory research designs is when the researcher tries to study, understand and isolate how complex multi-faceted and multi-dependent phenomena occur. This is precisely the case in our current study. Our theoretical model (the strategy mapping proposal) is diachronic and synchronic at the same time. It involves several dimensions, variables and temporalities (the need for a joint focus on contemporary and historical information and data), which obliges us to follow an intensive (as in deep), rather than an extensive (or superficial, as Karl Popper would say) methodology and sampling strategy.

Strauss and Corbin suggest the conditions and situations of a study in which grounded theory research design is preferable to its alternatives. Their list of attributes is as follows:

1. *"The need to go to the field to discover what is really going on.*
2. *The relevance of theory to the development of a discipline.*
3. *The complexity and variability of phenomena and of human action* [a typical attribute of strategy-making and/or thinking].

3311 Goulding (1999), in: Moghaddam (2006), p. 52
3312 Creswell (2002), p.439, in: Moghaddam (2006), p. 52
3313 Babchuk (1997), in Moghaddam (2006), p. 52
3314 Babchuk (1997), in Moghaddam (2006), p. 52
3315 Star (1998), in Moghaddam (2006), p. 53
3316 Strauss and Corbin (1990), p.24, in: Moghaddam (2006), p. 53
3317 Creswell (2002), in Moghaddam (2006), p. 53
3318 Strauss and Corbin (1990), p. 27, in: Moghaddam (2006), p. 53

4. *The belief that persons are actors responding to problematic situations* [a typical attribute of strategy-making and/or thinking].
5. *The assumption that persons act on the basis of meanings* [typical attributes of strategy making and/or thinking].
6. *The understanding that meanings are defined and redefined through interactions.*
7. *A sensitivity to the evolving and unfolding nature of events (process)."*

Strauss and Corbin follow by recommending:

"An awareness of the interrelationships among conditions (structure), action (process), and consequences".[3319]

11.4 CASE-STUDY-BASED RESEARCH

11.4.1 DEFINITION

Yin defines a case study as an *"empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident."*[3320]

He insists on three particular conditions that a research project has to meet in order to assess the applicability of the case-study approach: These conditions are:[3321]

1. *"The type of research questions posed"*. Thus, "how" and "why" are preferable (which is the case in our research question and which therefore allows our research to satisfy the first required condition highlighted by Yin).
2. *"The extent of control the researcher has over actual behavioral events"* (in our case, the investigator is a total outsider to the situations and targets, over which (s)he has no control or any access to means of manipulation, which allows our research to satisfy the second condition).
3. *"The degree of focus on contemporary as opposed to entirely historical events"* (in our research, most of the issues addressed are contemporary, although some are historical, which also allows us to satisfy the third required condition according to Yin).

Regarding the abovementioned third condition, Eisenhardt and Graebner confirm that case studies can also have a historical content,[3322] but that they are more likely to be contemporary descriptions of recent events[3323]. Some of the discernible characteristics of case-study strategy have also been identified by Collis and Hussey, who defined case studies as *"a methodology that is used to explore a single phenomenon in a natural setting using a variety of methods to obtain in-depth knowledge"*.[3324] Therefore, it can be seen that case-study research is capable of accommodating different research techniques and is preferably used when obtaining in-depth knowledge with regard to a specific research question or challenge.[3325]

3319 Strauss and Corbin (1998), pp. 9-10, in: Moghaddam (2006), p. 54
3320 Yin (2012), p. 16
3321 Yin (2012), pp. 9-10
3322 Eisenhardt and Graebner (2007), in: Wedawatta, Ingirige and Amaratunga (2011), p. 4
3323 Eisenhardt and Graebner (2007), p. 25
3324 Collis and Hussey (2009), in: Wedawatta, Ingirige and Amaratunga (2011), p. 4
3325 Wedawatta, Ingirige and Amaratunga (2011), p. 4

In addition to the aforementioned assumptions that Strauss and Corbin mention, Star believes that *"grounded theory is based on an empirical approach to data collection and analysis; a constant comparative approach to theory development; theoretical sampling rather than site or population driven; and developing a theory that works from substantive through to formal levels using constant comparison technique."*[3326]

When an unnoticed area for investigation is discovered, the process of generating a grounded theory begins. Usually investigators apply it when the topic of interest has been relatively overlooked or, in the opposite case, has been given only superficial attention. Therefore, their mission is to build their own theory from the ground. However, in most cases, they will have their own disciplinary background which will provide a perspective from which to investigate the problem.[3327]

Our very first statement about the existing knowledge on strategy maps is that there are a lot of superficial and opinion-based publications, and a lack of any attempt at intensive investigation. Generally, corporate strategy researchers select quantitative and superficial research designs in order to fit the dominant paradigm. However, Yin confirms that case-study methods may be involved in all three types of research, i.e. exploratory/descriptive, evaluation, and hypothesis testing.[3328]

Harvey, Smith and Wilkinson used multiple case research design for their "Managers and Corporate Social Policy" study. They saw the following three challenges that managers face:

- first, access to information;
- second, different relevant actors had different values;
- third, inter-organisational political processes were important.[3329]

The following four principal types of case study design may be identified. They are based on the number of cases in the research design (single-case vs. multiple-case), and the number of units of analysis within each case (holistic vs. embedded).[3330]

Figure 34: Basic Types of Design for Case Studies[3331]

Number of Units of Analysis in Each Case	Number of Cases in Research Design	
	Single-Case	Multiple-Case
Holistic (single unit of analysis)	Stand Alone Watch-making SME	The Watch Industry
Embedded (multiple units of analysis)	Investment Corp. Swatch Group	Watch Valley Cluster Project

3326 Star (1998), p. 221, in: Moghaddam (2006), p. 54
3327 Goulding (1999), in: Moghaddam (2006), p. 54
3328 Yin (2003), in: Barkley (2006), p. 1
3329 Harvey, Smith and Wilkinson (1984), in: Schell (1992), p. 8
3330 Barkley (2006), p. 3, referring to Yin (2003)
3331 The typology of research designs is provided by Yin (2012), p. 50. Illustrations of case-study types are provided by the author.

11.4.2 RIGOUR IN MULTIPLE COMPARATIVE CASE-STUDY RESEARCH

Comparative or multiple case studies consist of a method in which the researcher addresses the same research problem in a number of firms and compares their common characteristics with each other to formulate results and discuss them. The objective of data collection in this comparative approach is to compare (replicate) the phenomenon (e.g. strategy maps) in a systematic way, to explore different dimensions of the research issues or to examine different levels of research variables.[3332] Ghauri makes clear: "*that every case has to serve a particular purpose in the study. In other words, the researcher has to justify the selection of each case. However, case study design is often flexible and can be changed, modified or revised during the study with proper justification*".[3333] For example, in the current research on strategy mapping, we selected six cases of SMEs to investigate how their strategy map paradigms differ from others originating from different industries and markets.

In their famous article, Gilbert and Ruigrok[3334] notice a paradox about case-study design, i.e. that a lack of understanding as to what makes high-quality or methodologically rigorous research[3335] is unfortunate, since papers building theory from cases are often considered to be the *"most interesting"*[3336] and, moreover, are the most impactful papers in the academic environment[3337]. In addition, case studies have provided business management with some of its most seminal insights.[3338] However, it needs to be remembered that *"without rigor, relevance in management research cannot be claimed."*[3339]

In order to provide evidence-based strategies to ensure the rigour of case studies, the same authors have examined the types of rigour that authors report and how they report them. After analysing all the case studies published in ten management journals between 1995 and 2000, Gibbert and Ruigrok conclude that*: "addressing rigor extensively and less extensively, we reveal three strategies for insuring rigor. First, very few case-study authors explicitly label the rigor criteria in terms of the concepts commonly used in the positivist tradition (construct, internal, and external validity, as well as reliability). Despite this, papers addressing rigor extensively do report concrete research actions taken to ensure methodological rigor. Second, papers addressing rigor extensively prioritized rigor types: more, and more detailed, strategies were reported for ensuring internal and construct validity than for external validity. Third, emergent strategies used in the field were reported, such as setbacks and serendipities that necessitated changes to the originally planned research procedures. Authors focus squarely on the concrete research actions taken, carefully relaying them to the reader so that the reader may appreciate the logic and purpose of trade-off decisions in the context of the specific case study."*[3340]

When comparing multiple-case designs with single-case designs, there are distinct advantages and disadvantages.[3341] Yin states that all designs can lead to successful case studies. However, when the research investigator has the choice (and resources),

3332 Ghauri (2006), p. 7
3333 Ghauri (2006), p. 7
3334 Gibbert and Ruigrok (2010)
3335 E.g. Easterby-Smith, Golden-Biddle and Locke (2008); Gibbert, Ruigrok and Wicki (2008), in: Gibbert and Ruigrok (2010), p. 5
3336 Eisenhardt and Graebner (2007); Bartunek; Rynes, and Ireland (2006), in: Gibbert and Ruigrok (2010), p. 5
3337 Eisenhardt (1989c); Gersick (1988), in: Gibbert and Ruigrok (2010), p. 5
3338 Penrose (1960); Chandler (1962); Pettigrew (1973); Peters and Waterman (1982); Burgelman (1983b); Prahalad and Hamel (1990), in: Gibbert and Ruigrok (2010), p. 5
3339 Scandura and Williams (2000), p. 1263, in: Gibbert and Ruigrok (2010), p. 5
3340 Gibbert and Ruigrok (2010), p. 3
3341 Yin (2012), p. 57

multiple-case designs may be preferred over single-case ones.[3342] The evidence from the former is often considered more compelling, and the overall study is therefore regarded as being more robust.[3343]

From Flyvbjerg we have replicated the table below. Our final choice is described as "Type A", whose purposes are:

- *"To avoid systematic biases in the sample.*
- *The sample's size is decisive for generalization."*[3344]

Figure 35: Strategies for the Selection of Samples and Cases[3345]

"Type of Selection	*Purpose*
A. Random selection	*To avoid systematic biases in the sample. The sample's size is decisive for generalization.*
1. Random sample	*To achieve a representative sample that allows for generalization for the entire population.*
2. Stratified sample	*To generalize for specially selected subgroups within the population.*
B. Information-oriented selection	*To maximize the utility of information from small samples and single cases. Cases are selected on the basis of expectations about their information content.*
1. Extreme/deviant cases	*To obtain information on unusual cases, which can be especially problematic or especially good in a more closely defined sense.*
2. Maximum variation cases	*To obtain information on unusual cases, which can be especially problematic or especially good in a More closely defined sense.*
3. Critical cases	*To obtain information about the significance of various circumstances for case process and outcome (e.g., three to four cases that are very different on one dimension: size, form of organization, location, budget).*
4. Paradigmatic cases	*To develop a metaphor or establish a school for the domain that the case concerns."*

According to Edralin the comparative multiple design is *"a type of business research that aims at describing or exploring patterns or events in an in-depth manner"*[3346] while Eisenhardt insists on seeing the case study as a research strategy which *"focuses on understanding the dynamics present within single settings."*[3347]

The following issues are among the main objectives of our comparative goals:

3342 Yin (2012), p. 63
3343 Herriot and Firestone (1983), in: Yin (2012), p. 57
3344 Flyvbjerg (2006), p. 230
3345 Flyvbjerg (2006), p. 230
3346 Edralin (2000), in: Halcon (2011), p. 2
3347 Eisenhardt (1989c), in: Halcon (2011), p. 2; Eisenhardt (1989c), p. 534

- Understanding strategy map patterns in the companies (cases) under observation in our sample;
- Understanding the dynamics present within single settings of strategy map configuration;
- Comparing single strategy-making structures with the best-of-class and/or differentiation patterns (central categories) using triangulation[3348] techniques.

In addition, Eisenhardt concludes that the case-study approach is *"particularly well-suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, while the latter is useful in later stages of knowledge."*[3349]

Strauss and Corbin provide the following useful list of criteria for choosing a central category:

- *"It must be central; that is, all other major categories can be related to it.*
- *It must appear frequently in the data. This means that within all or almost all cases, there are indicators pointing to that concept.*
- *The explanation that evolves by relating the categories is logical and consistent. There is no forcing of data.*
- *The name or phrase used to describe the central category should be sufficiently abstract that it can be used to do research in other substantive areas, leading to the development of a more general theory.*
- *As the concept is refined analytically through the integration with other concepts, the theory grows in depth and explanatory power.*
- *The concept is able to explain variation as well as the main point made by the data; that is, when conditions vary, the explanations still hold, although the way in which a phenomenon is expressed might look somewhat different. One also should be able to explain contradictory or alternative cases in terms of that central idea."*[3350]

11.4.3 DATA COLLECTION AND SOURCES FOR MAXIMUM RIGOUR

Case-study research depends heavily on the integrative powers of research, i.e. the capacity to observe an object through different dimensions and then to draw the different elements together in a cohesive interpretation.[3351] Selltiz, Wrightsman and Cook explain that case studies: *"involve data collection through multiple sources such as verbal reports, personal interviews, observation and written reports (such as financial reports, archives, budget and operating statements including market and competition reports). The main feature is therefore the depth and focus on the research object, whether it*

3348 According to Stake (1995), p. 173 *"triangulation"* means *"working to substantiate an interpretation or to clarify its different meanings."*
3349 Eisenhardt (1989c), pp. 548-549
3350 Strauss and Corbin (1998), p. 147, in: Moghaddam, p. 59
3351 Selltiz, Wrightsman and Cook (1976), in Ghauri (2006), p. 2

is an individual, group, organisation, culture, incident or situation. We need to have sufficient information to characterise and explain the unique features of the case, as well as to point out the characteristics that are common to several cases. Finally, this approach relies on the integrative powers of research: the ability to study an object with many dimensions and then to draw the various elements together in a cohesive interpretation."[3352]

As we can see, the advantages of the case-study approach allow researchers to use them in any type of research: exploratory, descriptive or explanatory.[3353]

Figure 36: Primary and Secondary Reports on Validity and Reliability[3354]

*"**Primary Reports***	
Action/research procedure	*Coding rules in this study*
1. Construct validity	*To be mentioned explicitly*
2. Internal validity	*To be mentioned explicitly (or synonym "logical validity")*
3. External validity	*To be mentioned explicitly (or synonym such as "generalizability", "generalize")*
4. Reliability	*To be mentioned explicitly (or synonym such as "replicability", "replicate")*
Secondary Reports	
Construct validity: research actions	*Coding rules in this study*
Data triangulation	
5. Archival data	*Internal reports, minutes or archives, annual reports, press or other secondary articles*
6. Interview data	*Original interviews carried out by researchers*
7. Participatory observation derived data	*Participatory observation by researchers*
8. Direct observation derived data	*Direct observation by researchers*
9. Review of transcripts and draft by peers	*Peers are academics not co-authoring the paper*
10. Review of transcripts and draft by key informants	*Key informants are or have been working at organization investigated*

3352 Selltiz, Wrightsman and Cook (1976), in Ghauri (2006), p. 2
3353 Yin (1994); Bonoma 1985; Ghauri and Grønhaug (2002)
3354 Gibbert and Ruigrok (2010), pp. 53-54

Figure 36: continued

Clear chain of evidence	
11. Indication of data collection circumstances	*Explanation how access to data has been achieved*
12. Check for circumstances of data collection vs. actual procedure	*Reflection of how actual course of research affected data collection process*
13. Explanation of data analysis	*Clarification of data analysis procedure*
Internal validity: research actions	*Coding rules in this study*
14. Research framework explicitly derived from literature	*Diagram or explicit description of causal relationship between variables and outcomes*
15. Pattern matching	*Matching patterns identified to those reported by other authors*
16. Theory triangulation	*Different theoretical lenses and bodies of literature used, either as research framework, or as means to interpret findings.*
External validity: research actions	*Coding rules in this study*
Cross case analysis:	
17. Multiple case studies	*Case studies of different organizations*
18. Nested approach	*Different case studies within large organizations*
19. Rationale for case study selection	*Explanation why this case study was appropriate in view of research question*
20. Details on case study context	*Explanation of e.g. industry context, business cycle, P/M combinations, financial data*
Reliability: research actions	*Coding rules in this study*
21. Case study protocol	*Report of how entire case study was conducted*
22. Case study database	*Database with all available documents, transcribed interviews, case study notes, etc.*
23. Organization mentioned by own name	*Name to be mentioned explicitly (as opposed to anonymous)*
Alternative Reports	
24. Alternative actions and reports (whether primary or secondary reports)"	

The chief respondents in the study are the key informants, and have to be selected carefully and discerningly, as suggested by Edralin.[3355] The data gathered during a case study yield either qualitative or quantitative results. The following three[3356] data gathering techniques are suggested for investigations:

- **Archival analysis**: This concerns an assortment of historical data that have accumulated over time in the span of an individual's or organisation's existence;
- **Direct observation and participation which leads to field notes**: This approach is used in disciplines like sociology and anthropology. It is a method which takes a substantial amount of time and usually generates qualitative data through either structured or semi-structured interviews. Field notes correspond to the notes made by researchers in the process of observation of various phenomena. For a long time, they have been used in the fields of biology, ethnography and anthropology. According to Emerson, Fretz and Shaw,[3357] they are *"accounts describing experiences and observations the researcher has made while participating in an intense and involved manner"*. Field notes are unobtrusively recorded, yield qualitative data, and enable investigators to understand the phenomena being studied.
- **Structured or semi-structured interviews among key informants**: The former are also known as standardised interviews (or a survey administered by an investigator), and ensure that the questions asked are the same for all respondents. The latter, on the other hand, are an example of a qualitative research method used in social sciences that allows a focused, yet conversational and flexible, dialogue between the interviewer and the respondents of the study. The advantage is that semi-structured interviews enable the gathering of richer, and hopefully useful, information that might not surface in structured interviews.[3358]

11.4.4 VALIDITY AND RELIABILITY

As case-study research is subjected to criticism, it is important that its validity and reliability is established. The following widely-used tests and recommended case-study tactics have commonly been used to establish the quality of any empirical social research:[3359]

3355 Endralin (2000), in: Halcon (2011), p. 3
3356 On p. 3, Halcon (2011) points out that three data sources are required for triangulation purposes.
3357 Emerson, Fretz and Shaw (1995), p. 3, in: Halcon (2011), p. 4
3358 Halcon (2011), pp. 3-4
3359 Yin (2012), p. 45

Figure 37: Case-study Tactics for Four Design Tests[3360]

Test	Case-study tactic used in the research
Construct validity	Use of multiple sources of evidence Review of draft case-study reports by key informants
Internal validity	Pattern-matching Explanation building
External validity	Use of replication logic
Reliability	Use a case-study protocol Develop case study database

3360 Based on Yin 2012, p. 45

CHAPTER XII EMPIRICAL RESEARCH

12.1 RESEARCH OBJECTIVE

In order to validate our Dynamic Strategy Map framework, and thus to validate and clarify the meaning of its objectives, clusters and components, we carried out qualitative empirical research, which was conducted according to the data collection protocol below.

12.2 DATA COLLECTION PROTOCOL

Our methodology, as presented in the preceding chapter, was based on a grounded theory approach and comparative case studies. With regard to the six investigated companies, the research was conducted according to the following data research protocol:

- Headquartered in Switzerland;
- At least five years in existence (i.e. no start-ups);
- At least 20 employees (i.e. SMEs);
- Already exporting actively.

For reasons of confidentiality, the names of the participating companies have not been disclosed. This gives us the freedom to quite openly display the information that has been collected.

The data collection was conducted according to the following criteria:

Figure 38: Criteria for Data Collection

Average number of informal, structured and semi-structured interviews per company	5
Average length of interviews (with the help of a prepared schedule that focused on the objectives, clusters and components of the Initial Strategy Map)	2 hours
Period over which interviews were conducted	October to November 2013
Typical respondents	Top executives, 2-3 per site
Reviewed documentation	Internal documentation, annual reports, press review of the company and industry, website analysis, promotional documentation

In order to better direct and channel the field work and gathering of information, a standardised questionnaire was developed (see annexe). It included all the components and cluster objectives of the Initial Strategy Map, and was used as a check-list during field work.

12.3 DESCRIPTIVE RESULTS

At this point, we will describe the six investigated firms individually. This will provide a general overview of each company and give insights into its brand, reputation, industry, value chain, client approach and strategic positioning.

We will then establish for each case a specific dynamic individual strategy map.

For reasons of discretion, the six investigated companies have been given the following pseudonyms which reflect their main characteristics:

- Micro-technologist;
- Watcher;
- Tooler;
- Metrologist;
- Watch Parter;
- Opticer.

It should be pointed out that five out of the six companies operate in a B2B relationship, i.e. a form with a company on the supplier side and a sole trader, company or institution[3361] on the customer side,[3362] and thus the absence of intermediaries in between[3363]. The only exception is a company that produces watches ("Watcher"). We have assigned it a B2C (business-to-consumer) relationship because, first, it sells a certain part of its products directly and, second, because of the company's culture, which is very much focused on fashion and consumers. As a trendsetter, it is also the only company which emphasises that the possibility of switching from "business-to-business" to "business-to-customers" could increase margins and help develop even closer bonds with customers.

12.3.1 THE MICRO-TECHNOLOGIST

12.3.1.1 Description

The company operates in the micro-technology industry. In this field, electric motors and mechatronic systems are produced according to the specifications and expectations of each single business-to-business client (B2B). It has 10 different business units with 15 strategic businesses. A hierarchical structure with managers who decide is in place. The company owns several agencies, especially in France and the USA.

The Micro-technologist has five major competitors. It benefits from a large number of suppliers all around the world (Switzerland, France, Australia, USA, China), but has no influence on the price of raw materials.

The company was founded in 1936, and its values are well known by all its employees. Due to its well-anchored family culture, the company attaches a lot of importance to pleasant relationships among employees, to knowledge and experience-sharing, as well as to constructive and supportive collaboration among departments. In addition, respectful interaction between employees and superiors is in place.

3361 According to some sources, government institutions are also included in the B2B environment, in: Kotler and Armstrong (2009), in: Kolis and Jirinova (2013), p. 22

3362 Kumar and Reinartz (2012), p. 261, in: Kolis and Jirinova (2013), p. 22

3363 Hollensen (2011), p. 464

Because of its extensive experience in the industry and the loyalty of its clients, the company enjoys a good reputation, and branding has been a strategic concern since its foundation. Right from the start, it has been recognised for its "Swiss made" quality brand.

Faultless quality, expertise, and firmly rooted values are the most important elements that clients are looking for. Thus, the company builds on the following values: reliability, precision, know-how, and respect for the environment. Moreover, the "Swiss made" label refers to values such as honesty, assiduousness and, in particular, quality. Hence, the company aspires to provide faultless products and service as well as innovative and superior solutions which are adapted to each single client. It designs and makes compact, robust, reliable and high-quality products. This has become possible because of its experienced employees, the deployment of cutting-edge technology, and because it conducts precise simulations and rigorous tests on representative prototypes.

It has a long-term delivery time. However, the bases of certain products are sold on various markets. This permits a considerable gain in time during production. Compared to the standards in this industry, the products' time-to-market is still quite short. In fact, the company is able to introduce its products within some four to five years, which is a relatively short period.

Since clients are not only looking for low prices but superior value, the company is in a position to sell products above average prices. Nonetheless, it reduces prices annually. Moreover, the fact that certain bases have already been tested on other markets may reassure clients and facilitate a relationship of confidence.

The entire value chain is integrated from manufacturing to delivery. By internalising production as far as possible, the company believes that it can protect itself from potential problems. Modern machines and production lines are also employed.

The company has a zero default policy. In order to provide the best possible quality, precise simulations and meticulous tests on representative prototypes have to be conducted. Moreover, it concludes client agreements which predefine annual productivity. This permits it to offer its clients price reductions. In fact, the more a relationship with a client develops, the more the company tries to diminish tariffs or increase the number of pieces that it sells at the same price.

Important investments are made in R&D. Product improvements are carried out continuously and more frequently than major innovations, since certain products have been sold very well for years. Permanent cost reduction programmes are also in place.

In addition, the company protects its know-how with numerous patents. However, it does not apply networked innovation, since management is convinced that this method only focuses on highly specialised domains. Instead, it observes innovations in specific applications and the company's specialists attend corresponding seminars and congresses.

One major reason which enables the company to rapidly react to demand is its sophisticated logistics system, which automatically finds required components. The company relies on electronic data interchange (EDI), which permits the automatisation of order and invoice treatment. At the same time, procedures are simplified and contacts with suppliers, banks and clients improved. The company also has an important CRM system. On the other hand, only a few resources are allocated to marketing.

The majority of employees are expected to be highly qualified and have a high level of technical expertise, and there is a strong demand for competent personnel capable of

performing delicate tasks. Engineers, for example, have to be able to find innovative solutions, moderate multidisciplinary teams, and take part at all levels of the integrated production chain. Professional training is in place.

The company makes an effort to valorise the profession of each and every employee. The motto is that together they all participate in the well-functioning of the firm. Therefore, all employees are aware of their important role within the company and their participation in the creation of a quality product.

The firm's slogan reflects the company's client value proposition, i.e. to offer client-tailored products and to build up a long-term relationship based on confidence and partnership. In fact, the company has maintained a relationship with certain clients for 30 years or more.

However, clients have substantial power, since their number is not very large. Therefore, the company places great emphasis on their retention. It makes an effort to offer the best possible products and outstanding services to its customers, and to be as close as possible to them. Hence, the understanding of clients' unique preferences as well as anticipation of their needs is crucial. Once every three years, a client satisfaction survey is conducted. Such studies reveal important aspects that need to be improved. Moreover, the company uses a "market intelligence" (MI)[3364] application in order to learn about future trends and anticipate positive and negative impacts on the market.

If clients are unsatisfied, the company does not refund the client but replaces the product. This is cheaper than repairing it.

Clients participate in meetings in order to become integrated in the decision-making process. As a general rule, clients initiate innovations. The goal is to ceaselessly deliver innovative solutions which are adapted to each single client. Only if clients have a particular need or a precise idea does the company take care of it and search for the appropriate technology and precise target specifications in order to provide the best adapted solution. Hence, the array of products is enlarged as a function of clients' demands and not the other way round.

At the same time, the company constantly tries to penetrate additional markets in order to generate more turnover and increased margins.

Several international norms limit access to new entrants. Companies have to possess valid certification in order to manufacture marketable products. ISO 13485 certification permits an optimal reliability in the medical sector. The Micro-technologist also has ISO 16949 (automotive) and ISO 14001 (environment) certification. Moreover, public authorities can play their role as regulators and impose laws in the environmental or medical sector. In both sectors, sanitary norms are very important. Wherever there are regulations, the company meticulously complies with them.

Finally, the company acknowledges that issues about the environment, safety and employment are part of long-term value creation. It recycles 30% of its materials. Hence, over the years it has acquired the reputation of being a socially responsible company.

3364 According to Cornish (1997), p. 146 *"The function of information about markets, or MI, is to identify the products or attributes of products that are most valued by consumers in order to focus new product and incremental innovation effort where the greatest market potential exists. It is this process of fine-tuning product lines and searching for new product qualities on which to differentiate a firm's products from the competition that, when successful, leads one producer or complex of firms to expand faster than the competition, and to grow. Thus, continuous feedback from the market in the form of MI is one of the key inputs to production that makes the practice of perpetual innovation possible."*

Figure 39: The Micro-technologist: Company Cornerstones

General information
• Year of foundation: 1936; • Industry: Micro-technology; • Number of employees: < 900; • Headquartered: Canton of Berne.
Clients
• Automotive, manufacturing, medical, agriculture; • Business-to-business (B2B).
International aspect
Owner of several group companies abroad, particularly in France and the USA. Large number of suppliers all over the world.

12.3.1.2 Individual Dynamic Strategy Map

The provided information for the Micro-technologist results in the following individual Dynamic Strategy Map:

Figure 40: The Micro-technologist: Individual Dynamic Strategy Map

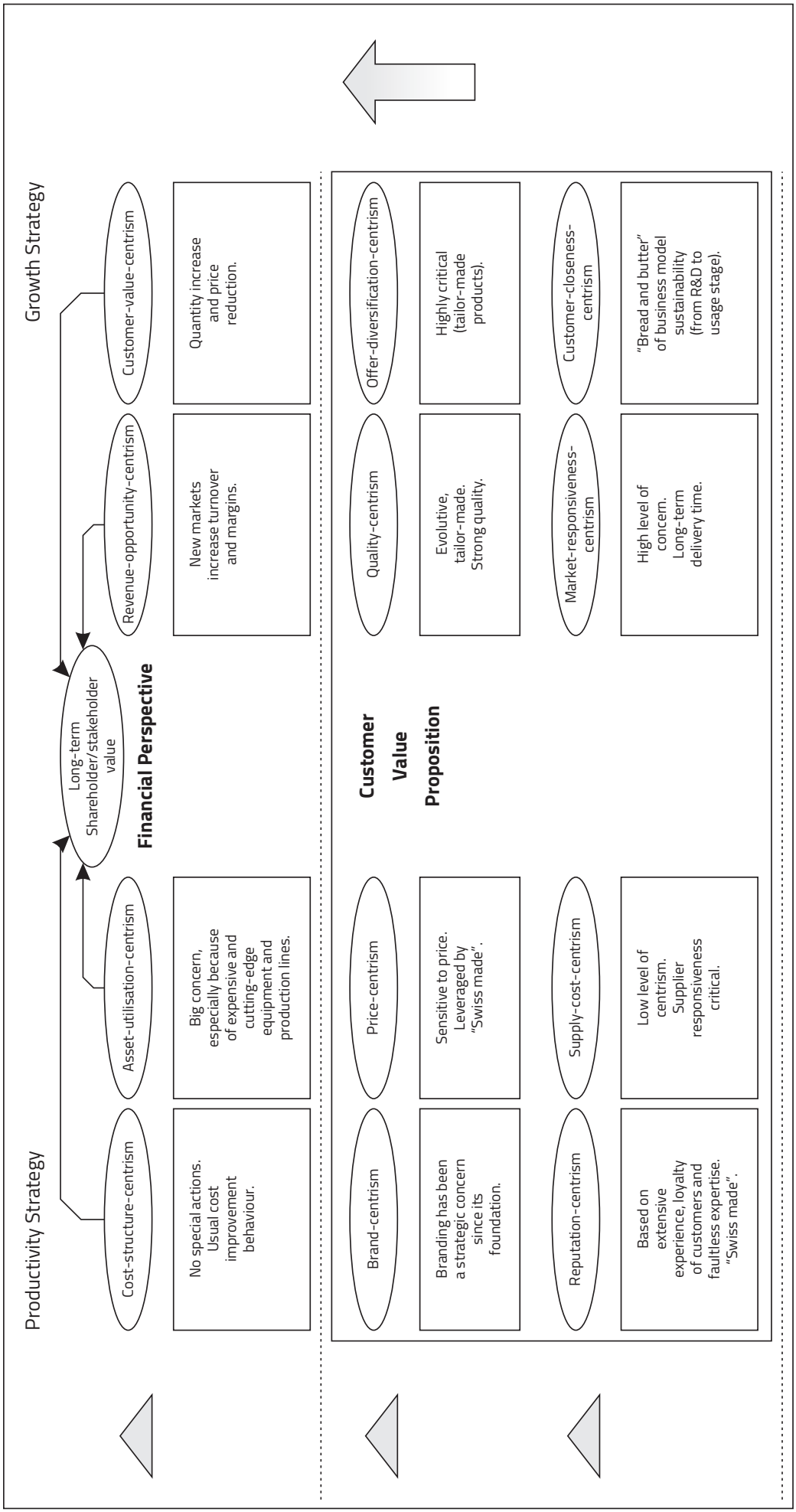
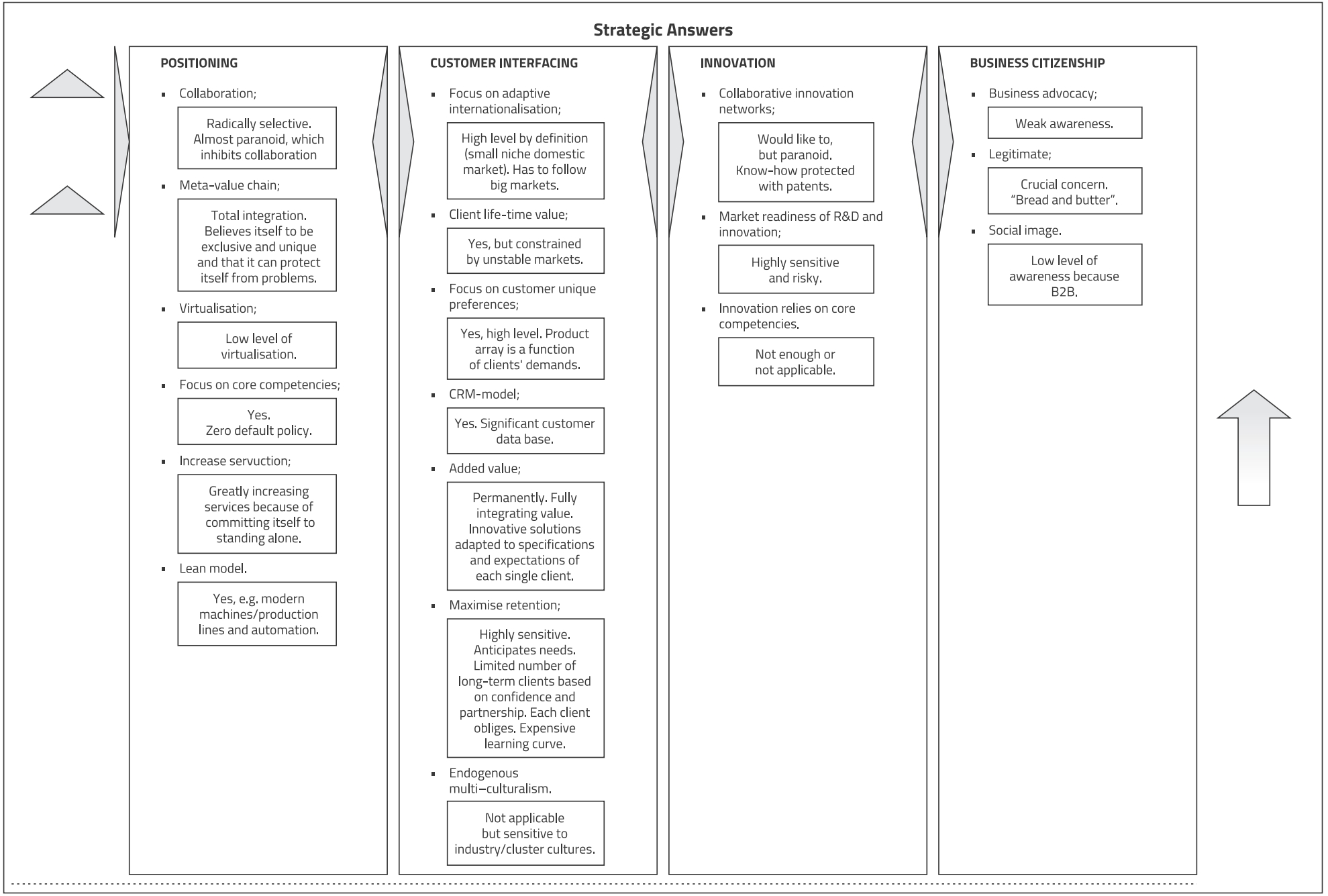


Figure 40: continued



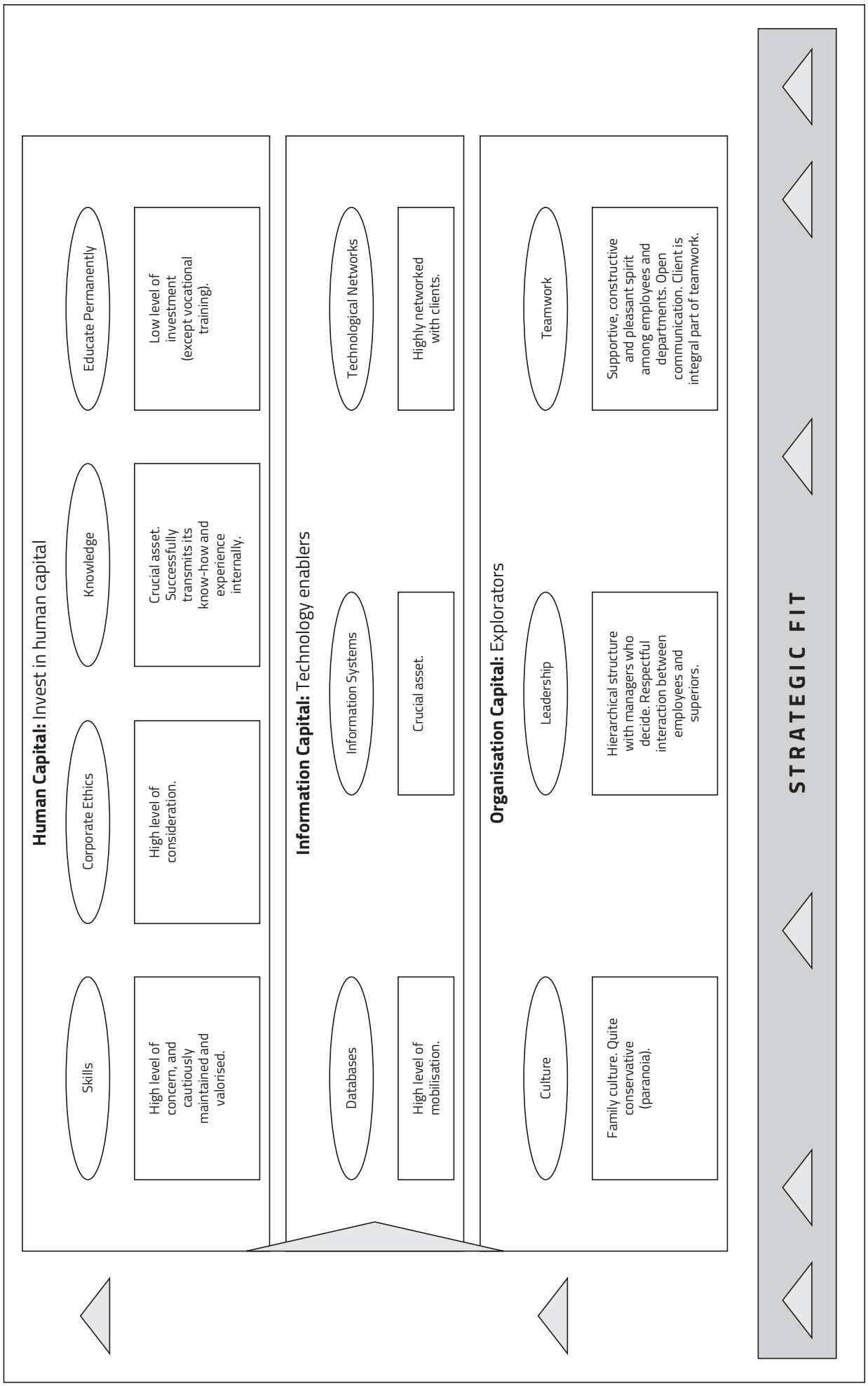


Figure 40: continued

12.3.2 THE WATCHER

12.3.2.1 Description

The company is specialised in the development of a limited selection of watches with highly complex movements.

Most of the watches are distributed through intermediate retail dealers worldwide who represent the fundamental network for sales. The opportunity to switch from "business-to-business" (B2B) to "business-to-customers" (B2C) and therefore avoid sale intermediaries could increase margins and help to develop even closer bonds with customers. The Watcher has only one strategic business: the manufacture of watches in limited editions. Since this niche segment is fairly small, it is not covered by large competitors.

The company has around a hundred suppliers, of which about twenty are considered to be important.

A familiar and participative leadership has been identified. Usually, the general manager discusses decisions with the two founders.

The Watcher's history conveys fundamental values which comprise the enterprise's inimitable and unique personality and nourish the company's myth. It was founded in 2004 during "Baselworld", where it launched its first invention. Since then, it has attracted clients thanks to the renown it acquired during this exposition.

In 2009, it centralised its sites in a new headquarters consisting of an old farmhouse, to which a modern building was added. The harmony of the two diverse architectural styles embodies cutting edge technology on the one hand and the rural traditional values which have embossed the commercial boom of the local watchmaking industry on the other. In 2011, one of its inventions received first prize in an important international chronometry contest.

The company has a creative family culture which is based on the aptitudes of artisans. The two founders are watchmaking artisans in the traditional sense of the term. The realisation of each watch constitutes a means of expression for the watchmakers and enables them to create a "work of art". Hence, the following values are transmitted to the employees: authenticity, pride, passion, creativity, sharing, respect, audaciousness, excellence, loyalty, continuity, and pleasure. The founders' skills, together with the managerial competencies of the general director, permit the constant development of the firm. Thus, high prices (the watches are produced in limited editions) create the sensation of owning an exclusive and authentic product and permit the owner to show their social status or taste for objects of art. The company aims to transform the innovation it generates into highly complex timepieces of excellent quality and value added. Branding is of great concern but with a low profile. Its brand image is loyal to the spirit of the two founders: *"The creation of traditional objects of art in a family structure within the cradle of watchmaking".*

On average, it produces about 100 watches a year, of which the great majority are exported. Each of these products is sold for several hundred thousand Swiss francs.

Production costs are minimised by the use of quality systems such as "Six-Sigma" or "just in time". Thus, the improvement of the cost structure is important. However, quality plays an even more important role. There is a perpetual focalisation on innovation and excellence, and the company offers an exclusive aesthetic quality and employs cutting edge technology.

However, its artisanal practices do not always favour rigid production processes. The value chain is not fully integrated, but key processes and design are controlled by the company. For cost reasons, the company mandates sub-contractors for the conception of certain parts that are considered to be secondary. Sometimes (during seasonal demand increases), it also co-operates with independent watchmakers for assistance. The geographic proximity to a local watchmaking cluster provides access to a solid network of several professions which are useful for the conception of a watch.

Repairs can also be made at the boutique of retail partners. This possibility is much appreciated by clients. In the case of dysfunctionality, the company offers an assistance service as well as after-sales consultants in order to respond to client requirements. If a client contacts the company because of a mechanical or aesthetic defect, a horologist replaces the watch where the client is domiciled. Only a few resources are allocated to marketing. On the other hand, the company's presence in blogs is crucial because numerous collectors look for precious information in such places. Blogs also help to create trends and take on the function of opinion leaders. Pages on Facebook and Twitter are less important. In addition, the company has taken out over fifty patents.

The main workforce consists of personnel with strong know-how and a lot of experience in high-end watchmaking. After all, only specialists are capable of developing highly complex and precise quality products with high added value.

Domestic demand has contributed to the growth of the company. However, it very soon had to turn towards exports, mainly to China, Japan, India and the USA. Today, the great majority of its products are sold abroad, where the company has numerous points of sale. Nevertheless, for certain models there is a one- to two-year waiting list.

Targeted customers have a strong financial background. The following subcategories emerge from this general classification: individuals who are attracted by horological complexity, passionate collectors, and people who like objects of high value. The company provides enhanced customer value due to the rareness and originality of its products. High prices (not least due to the watches being limited editions) create the sensation of owning an exclusive and authentic product and permit the owner to show his or her social status or taste for objects of art.

Even after purchase, the company continues to have a personalised relationship with each of its customers. For example, with the acquisition of their first watch, customers join a kind of "company club", which means that compared to potential customers they are treated in a privileged way.

In order to guarantee maximum safety for employees, a health and safety manager is in place and the company complies with REACH norms,[3365] which prescribe that only inoffensive chemicals may be used. The company also financially supports a charitable trust which helps disadvantaged children. In addition, the firm has introduced several measures for the protection of the environment. It promotes a carpooling system, charges fees for company parking places, and encourages employees to use public transportation. Sub-standard products are reused for internal tests or sent to horology schools in the region. Finally, its new plant has been constructed with thermal insulation.

3365 *"Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) is a European Union Regulation of 18 December 2006. REACH addresses the production and use of chemical substances (i.e. everything made of atoms), and their potential impacts on both human health and the environment."*, available at: http://en.wikipedia.org/wiki/Registration,_Evaluation,_Authorisation_and_Restriction_of_Chemicals, accessed on 2 April 2014

Figure 41: The Watcher: Company Cornerstones

General information
• Year of foundation: 2004; • Industry: High-end horologist; • Number of employees: < 200; • Headquartered: Canton of Neuchâtel.
Clients
• Wealthy individuals who are attracted by horological complexity, passionate collectors, and people who like objects of high value; • Business-to-customers (B2C).
International approach
The great majority of timepieces are exported, mainly to China, Japan, India and the USA.

12.3.2.2 Individual Dynamic Strategy Map

The provided information for the Watcher results in the following individual Dynamic Strategy Map:

Figure 42: The Watcher: Individual Dynamic Strategy Map

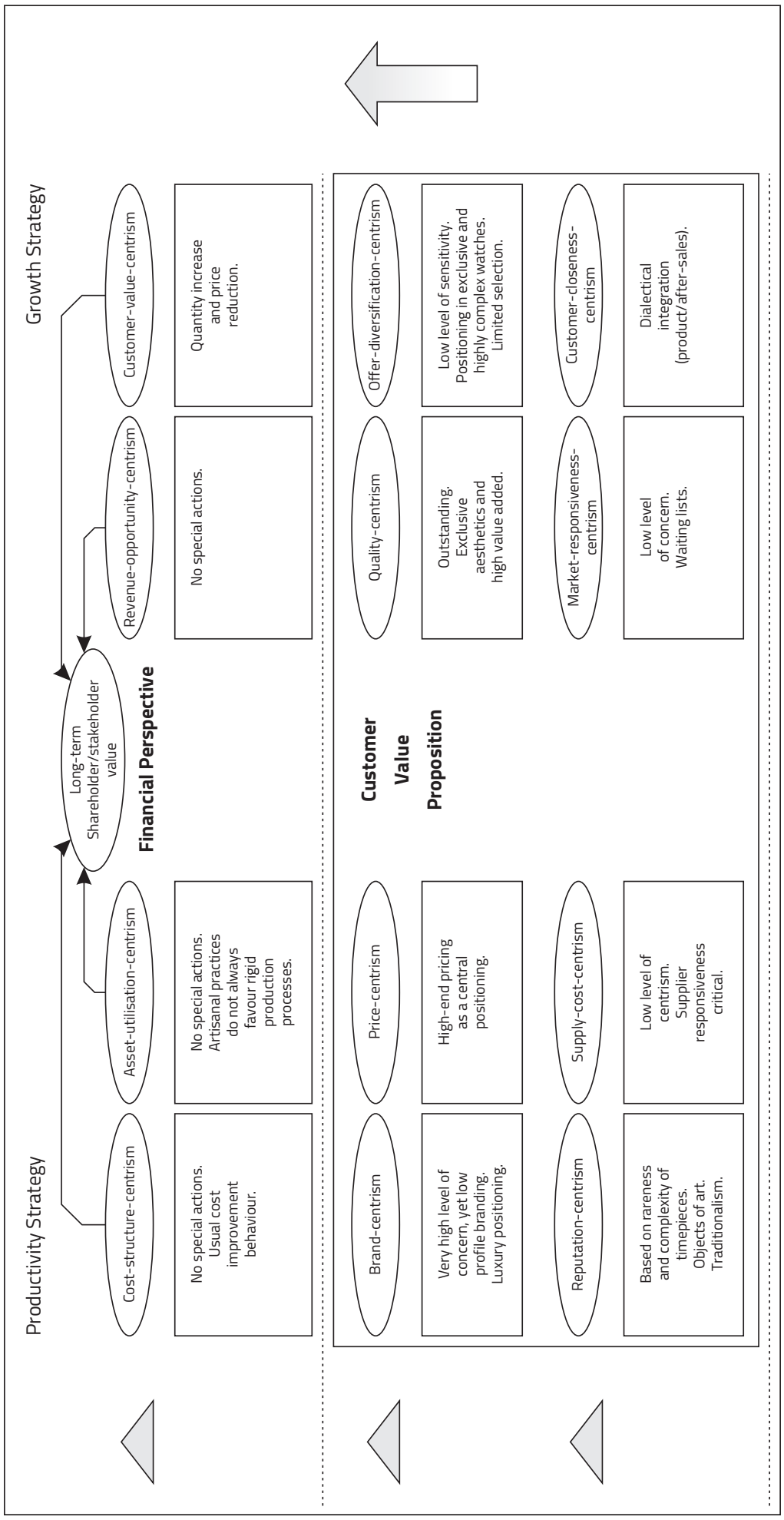
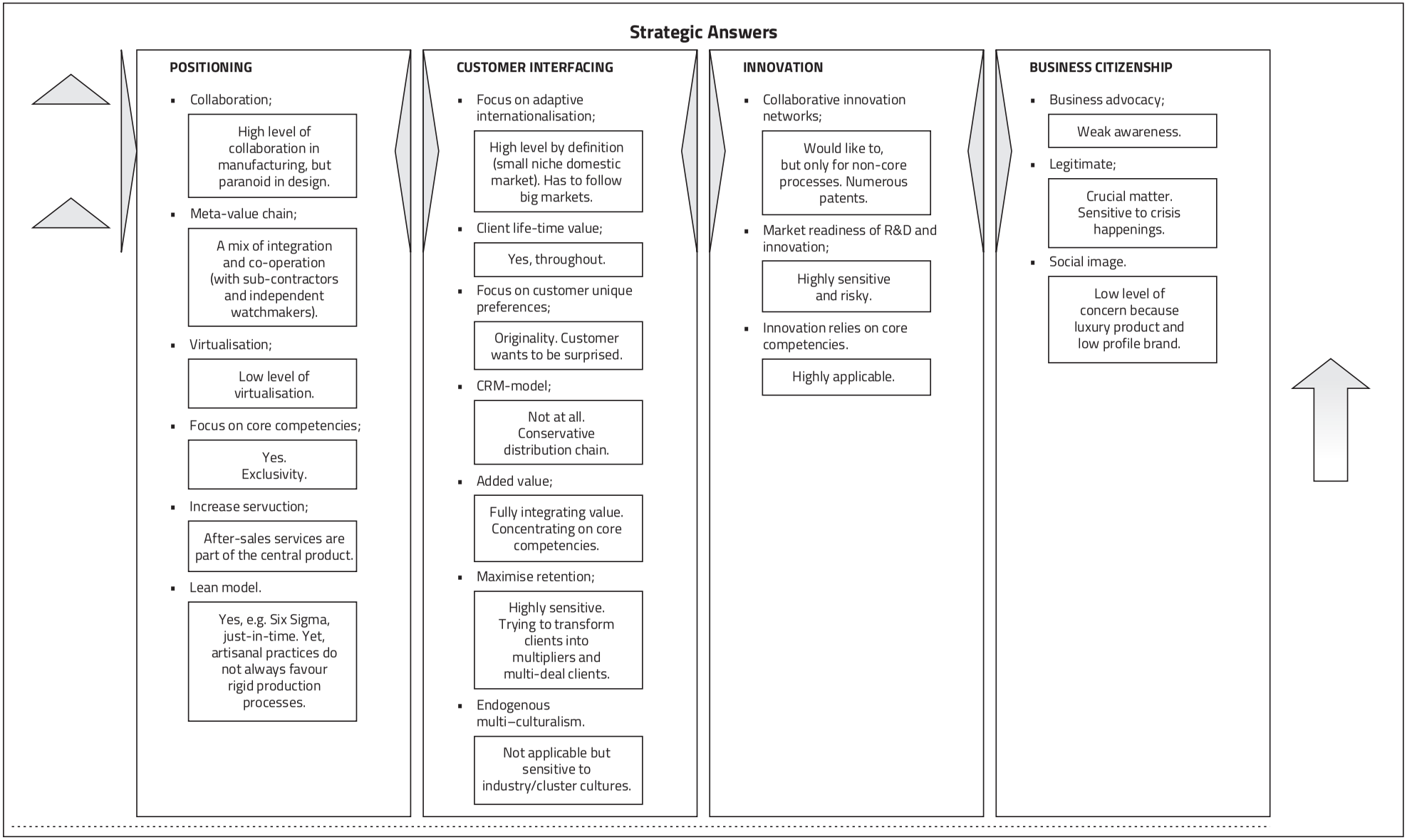


Figure 42: continued



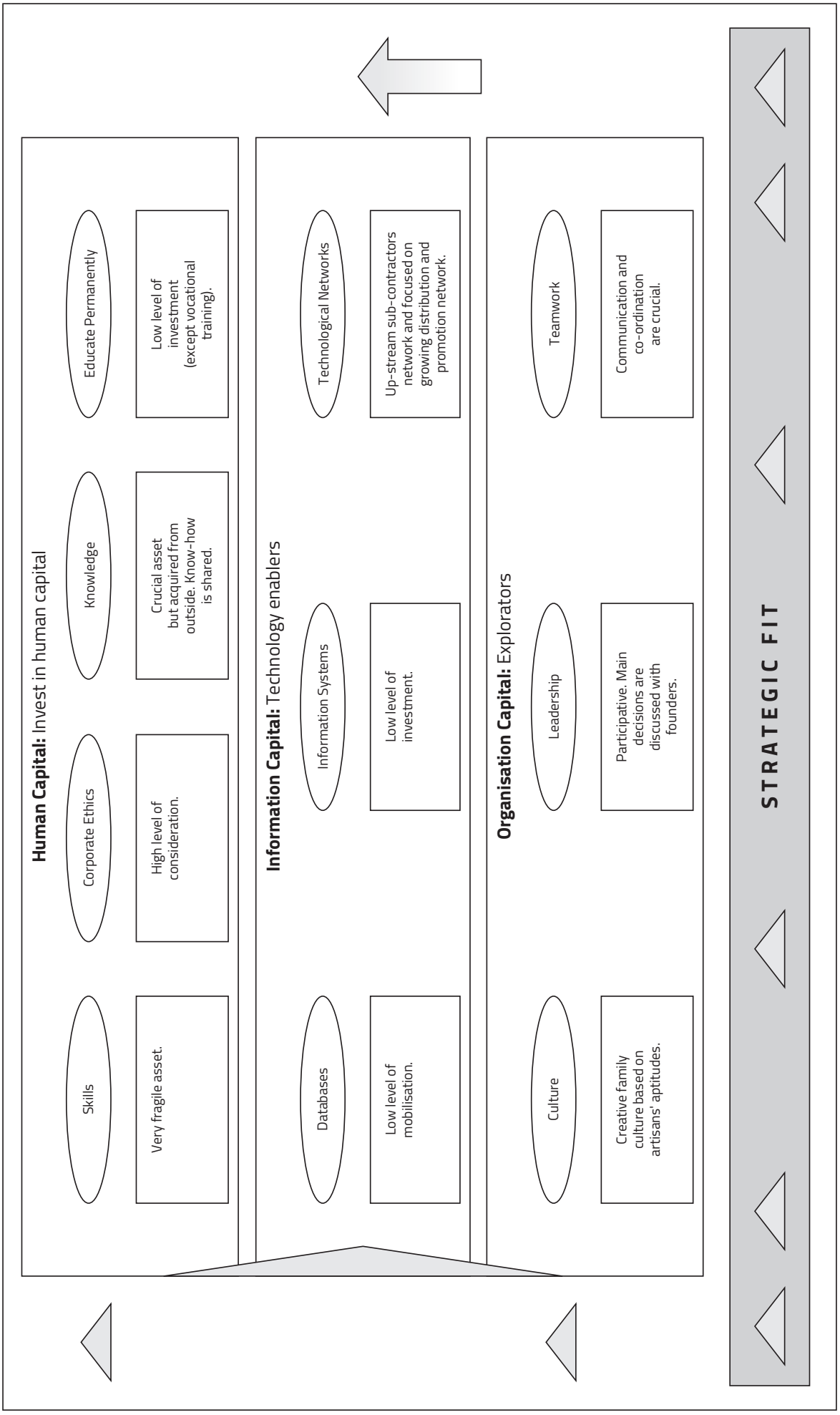


Figure 42: continued

12.3.3 THE TOOLER

12.3.3.1 Description

The company is a global leader in secateurs and wire cutters. The Tooler only operates in this strategic business. Its hierarchical structure aims to be as horizontal as possible.

It has privileged relationships with its suppliers and a developed distribution network, as well as independent branch offices in all main regions of the world.

The company is not faced with intense competition. This is due to its strong production capacity and distribution network, which is closely linked to a quality after-sales service, and also its innovative spirit. In addition, competitors produce tools of inferior quality and design. They are therefore not focused on the same customer segments.
The founder opened his workshop in 1945, and today his descendants, together with the CEO, continue the business. The company's founding principles are still in place. Its family culture and history, as well as the success of its founder, are a source of great pride among the employees, and are passed down from generation to generation. There is even a certain sense of mythology which is cultivated around the founder. The following fundamental values are transmitted to each employee: quality, innovation, professionalism, respect towards employees, integrity, ethics and humility. These values are supposed to be an integral part of everyone's daily work and attitude. Hence, the employees are proud to belong to a company which is a sort of family for them and a worldwide guarantee of quality. Loyalty towards the company is reinforced by the presence of long-time employees.

For the company, the brand essentially has the role of appropriation and authentication for customers. The inscription "Swiss made" in the company's logo directly confers Switzerland's values on products. By means of this logo, the company wants to put across the brand as a synonym of quality, durability, ergonomics and reliability.

Hence, the vision of the company consists of the following elements: to continuously transform, to remain a global leader in the industry, and to offer technical evolution for its products. In this way, its founder's approach is still in place: the tools have to be adapted to their users and not the other way round.

The manufacturing of tools with interchangeable pieces requires high-quality materials and a sophisticated conception. The product itself is a simple article. However, the company aspires to make a high precision tool out of it which permits its customers to work safely and more productively, but at a decent price. Customers are also looking for performant and easy-to-handle products. Finally, its technical procedures enable the company to manufacture the products so that they are entirely "Swiss made".

The Tooler is convinced that it has enough internally available know-how. Therefore, it controls almost the entirety of the production and logistics chain. For this purpose, its plants remain centralised in the same geographic area. Moreover, it owns the majority of a partner company that produces aluminium parts which are then assembled at the Tooler. The company believes that this integrated approach ensures irreproachable quality for the customer and allows it to use the "Swiss made" image, which is regarded as a synonym for quality.

The firm makes significant investments and has organised its production according to the "lean management"[3366] method. The focus is on production with simplified processes and therefore productivity gains. Despite its ample experience, the company has to continuously adapt to new organisational challenges. In recent years, it has implemented new quality methods like "Kaizen"[3367]. Moreover, there is an eagerness to respond to the requirements of the main stakeholders and to increase quality controls.

The stock management process is also constantly reviewed/improved, and during meetings, employees are invited to put forward constructive criticism of products. In addition, fifty percent of production is automated by means of twelve robots. Some of these robots have been built by the company itself. This reflects the company's will to entirely control the value chain.

The company complies with high service standards and has a strong after-sales service. Customers also appreciate the quality of its world-wide assistance. Its developed branch offices can respond to demands within 24 hours and can also offer immediate technical assistance. For this purpose, headquarters places important stock at their disposal. In addition, their intranet allows all agencies and importers worldwide to be connected in order to co-ordinate orders or check the availability of products.

Innovation has always been a credo for the company and is placed at the very heart of its value proposition. According to the company's representatives, innovation allows it to maintain a competitive advantage and to stay ahead in terms of technological progress. Hence, R&D investments are aimed at making existing products more precise, reliable and ergonomic.

Currently, the company is trying to cut costs, since it has very low margins and is not in a position to further decrease prices without compromising profitability.

Staff have particular competencies in their field and all new employees have to attend specific training.

Professional users generate 80% of turnover, and amateurs or exigent users 20%. The founder soon recognised that due to the very small domestic market a manufacturer of niche products is forced to export. Today, more than 90% of products are exported to over 120 countries all over the world (50% to Europe, 25% to North America, and 25% to the rest of the world).

Sales are concentrated during the period of November to February, which imposes important constraints on staff and production. Thus, the Tooler tries to increase its market share in the southern hemisphere of the world, where seasonal sales are inverted. The CRM-model is focused on intermediaries. The marketing department constantly tries to anticipate clients' needs and demands. The objective of the enterprise is "quality first", and employees try to achieve this collective objective by all means. The marketing research department focuses on the development of long-term client relationships. In order to guarantee global coherence, staff have to strictly

3366 *"Lean manufacturing, lean enterprise, or lean production, often simply, "lean", is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination. Working from the perspective of the customer who consumes a product or service, "value" is defined as any action or process that a customer would be willing to pay for."*, available at: http://en.wikipedia.org/wiki/Lean_management, accessed on 27 March 2014

3367 *"Kaizen ..., Japanese for "improvement" or "change for the best", refers to philosophy or practices that focus upon continuous improvement of processes in manufacturing, engineering, business management or any process."*, available at: http://en.wikipedia.org/wiki/Kaizen, accessed on 6 June 2014

adhere to corporate identity (CI)[3368]. Importers are encouraged to represent the brand in the best possible way. Therefore, the company finances around 50% of the importer's publicity campaigns. In order to keep direct contact with actual and potential clients, the company is present in specialised magazines as well as at fairs and expositions. A larger public is addressed through sponsoring sportsmen who represent the values of the company and act as ambassadors of the brand. This approach enables the company to share the values of the brand, such as performance and quality. The company also collects feedback from its test campaigns. Such test campaigns are aimed at providing better insights into the expectations of professional clients.

Even though the company has little direct contact with its end customers, it has built up relationships with them through different transactions. This is the reason for having a quality after-sales department which frequently offers complete training to its distributors. This training qualifies distributors to competently respond to customers' expectations. Finally, end customers also have the opportunity to visit the plant in Switzerland. This is an important mark of confidence for them. Customer visits and panel discussions make it possible for employees to become acquainted with the users of their products. This enables employees to get an idea of the customers' perceptions and expectations as well as their satisfaction. Social networks also offer the company the opportunity to obtain direct information from its end consumers in order to improve its offer. Therefore, the company has been present on social networks (Facebook, Twitter, etc.) since 2011, and built up a community of product users that can share their relevant professional experiences all over the world. This corresponds with the will of the company to convey the image of a modern and innovative player which is increasingly closer to its customers. The company is keen to learn from customers. It regularly informs its employees about customers' behaviours and needs. Based on this knowledge, employees can work meticulously and produce products which are adapted to customer needs.

The company behaves in a responsible way, be it in environmental or social matters. It limits the impact of its activities on the environment and also supports a programme which offers jobs to disabled people in its packaging department. The company uses recycled and recyclable material and even offers packaging material that is free of bisphenol A. The electricity that is used on its premises is exclusively generated from renewable resources. Due to this attitude, the company enjoys a very good reputation amongst its customers. In order to guarantee safety at work, the "5S-methodology"[3369] has been introduced. ISO 9001 (quality) and ISO 14001 (environment) certificates and the materials used in production comply with REACH norms, which prescribe that only inoffensive chemicals may be used. Finally, an environmental safety officer, who is responsible for the reduction of the "ecological footprint" of each and every employee, has been appointed.

3368 According to Knapp, Evans and Cullen (2001) *"A corporate identity is the overall image of a corporation or firm or business in the minds of diverse publics, such as customers and investors and employees. It is a primary task of the corporate communications department to maintain and build this identity to accord with and facilitate the attainment of business objectives. It is usually visibly manifested by way of branding and the use of trademarks."*, available at: http://en.wikipedia.org/wiki/Corporate_identity, accessed on 27 March 2014

3369 *"5S is the name of a workplace organization method that uses a list of five Japanese words: seiri, seiton, seiso, seiketsu, and shitsuke. Transliterated or translated into English, they all start with the letter "S". The list describes how to organize a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order. The decision-making process usually comes from a dialogue about standardization, which builds understanding among employees of how they should do the work."*, available at: http://en.wikipedia.org/wiki/5S_(methodology), accessed on 23 March 2014

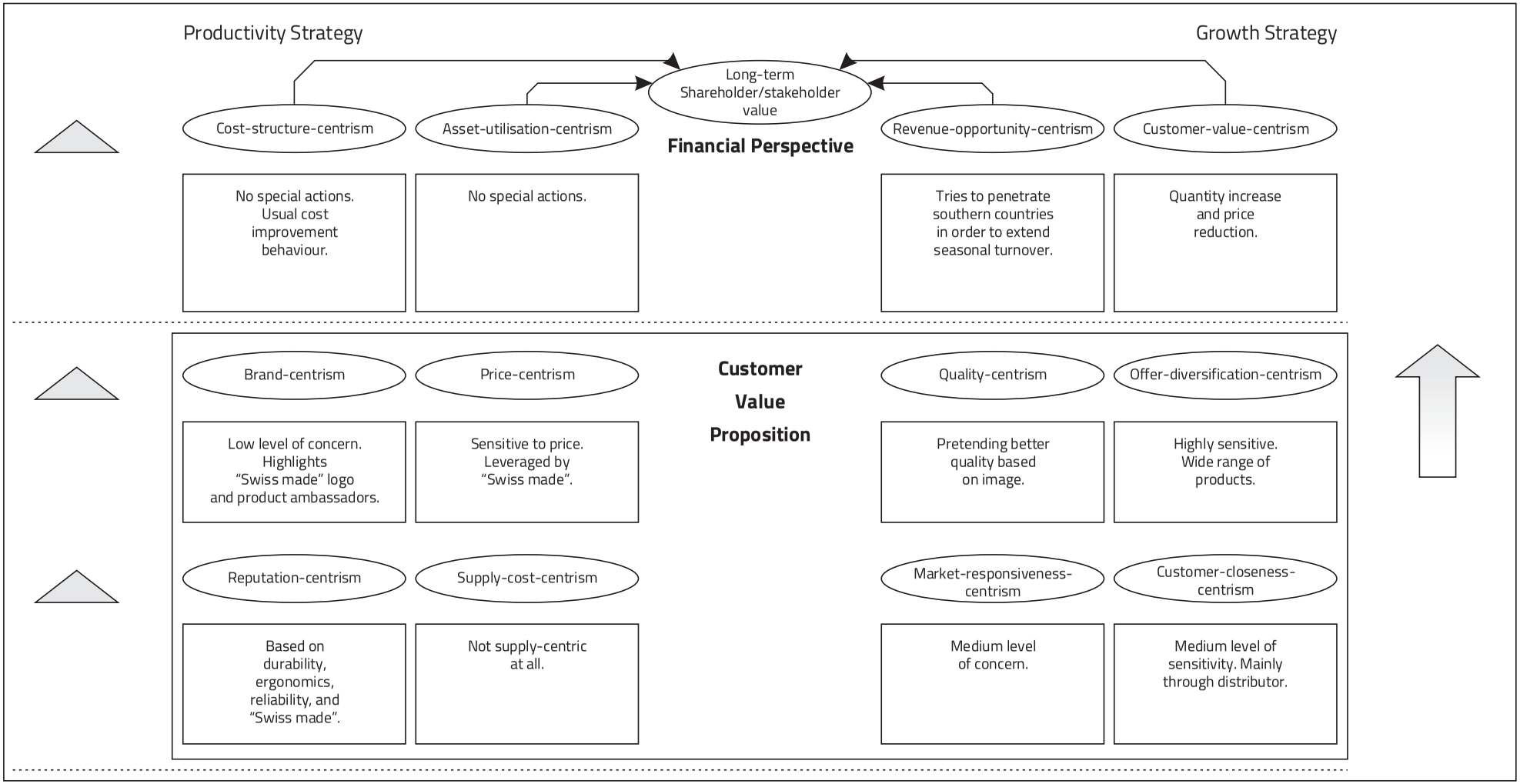
Figure 43: The Tooler: Company Cornerstones

General information
• Year of foundation: 1945; • Industry: Secateurs and wire cutters; • Number of employees: < 200; • Headquartered: Canton of Neuchâtel.
Clients
• Port activities, administration, police, aviation, agriculture, winegrowing, automobile, wire drawing plants, oil industry, theatres, cable cars, fruit-growing and other industries; • Business-to-business (B2B).
International approach
Today, over 90 % of the products are exported to more than 120 countries.

12.3.3.2 Individual Dynamic Strategy Map

The provided information for the Tooler results in the following individual Dynamic Strategy Map:

Figure 44: The Tooler: Individual Dynamic Strategy Map



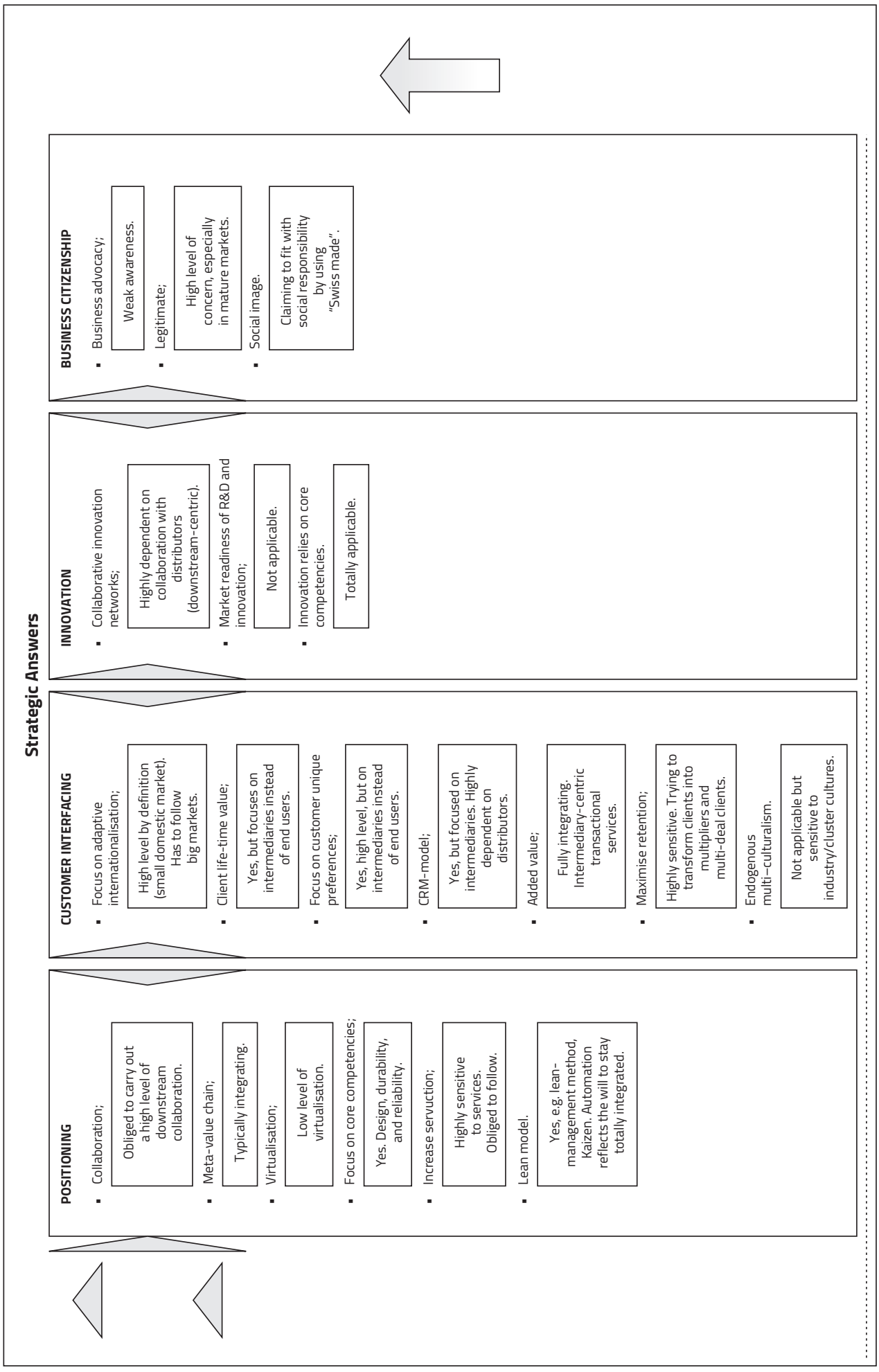


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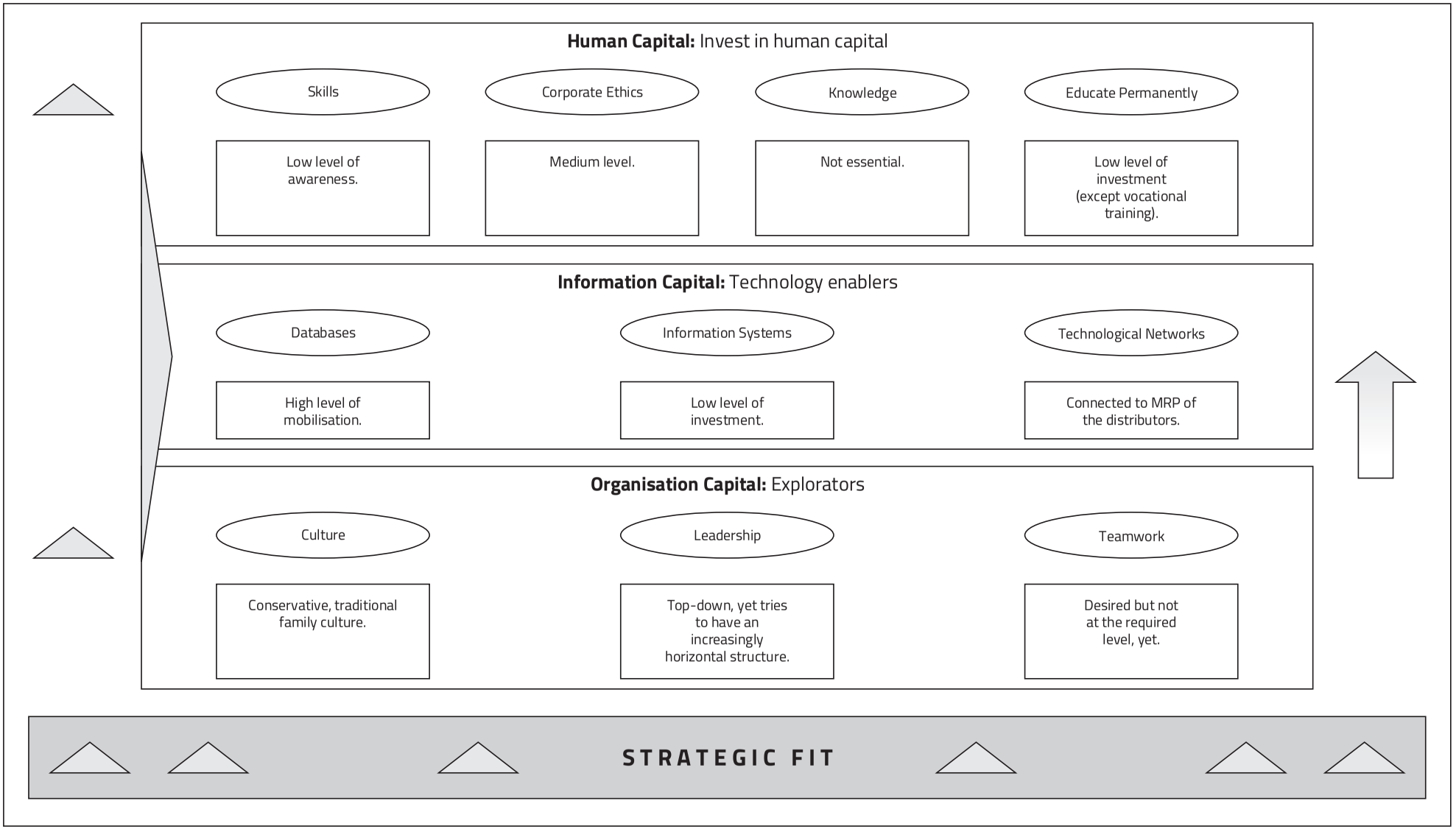
Figure 44: continued



12.3.4 THE METROLOGIST

12.3.4.1 Description

Due to the high quality and precision of its products, the company has become the global leader in metrology. One of its options is enlarging its operations towards other industries that are connected with the performance and quality of products, e.g. sensorial design.

Sales are mainly conducted through the 45 agents that represent the company in 45 different countries worldwide, e.g. Canada, USA, France, Spain, Austria, Switzerland, South Africa, China, South Korea, Japan. These sales agents are the principal clients of the company. They control a large part of the communication processes with the end customers and hence the majority of important information cannot be exploited directly by the company.

The Metrologist maintains good relationships with its few suppliers and sub-contractors. This affords on-time supply and on-time delivery of finished products to its clients.

The company has seven major competitors, and there is tough competition. Since several companies, e.g. in China and India, have bridged the technological gap, there is an even higher probability of new competitors entering the market. Therefore, new turnover opportunities are looked for.

When founded in 1972, the company was only a small organisation with three employees. In 1974, it developed its first measurement instrument in metrology. A significant development began in 2000 when the Metrologist was acquired by a family.

The culture of this family company is based on the quality and precision of its products, which have the "Swiss made" label. In order to be able to deliver the customer value proposition, it has developed an efficient entrepreneurial culture which allows it to transmit the company's values and objectives to all levels. Thus, quality and precision are key elements, followed by competence and knowledge. Finally, innovation and operations are also part of the culture. Decisions are taken by directors and then communicated top-down.

The company's objective is to offer its clients first-class products and services. A good exhibition of products, branding, and market expertise are of major importance to the company. It focuses strongly on branding and wants to gain customers' trust by highlighting the quality of its products and services, which are 99% "Swiss made".

Its reputation is built up by means of customer visits, word-of-mouth, the company's presence at expositions, as well as its webpage.

In short, one can say that the company's principal sphere of competence is neither marketing nor the build-up of relationships but the development of quality high-tech products with highly qualified personnel, mainly engineers, technicians, and computer scientists. Thus, the company is very technically oriented and so has certain difficulties in developing its branding other than by client satisfaction, which is based on a high value proposition or word-of-mouth.

It produces high-quality, multi-technological, innovative and customer-tailored precision instruments. It sells about 300 modular and adaptable measurement instruments every year. Since it was the first company to offer this kind of product on the market, it has a competitive advantage.

Its value chain is integrated and cost improvement programmes are in place. However, the Metrologist also outsources some activities, since it is convinced that outsourcing allows better work segregation and thus specialisation. For example, thanks to sub-contracting, the company is able to concentrate on its R&D function and innovation. By putting R&D and innovation at all times at the centre of its strategy, the company is able to respond to its customers' expectations and to strengthen its own positioning. Sub-contractors are selected based on their provided services as well as their value added. Once the instruments have been assembled, they are all tested and have to meet the highest standards. Each product is polyvalent, and since it is unique, the most technical tasks are produced manually. Delivery is guaranteed within a maximum of six weeks.

Most of the suppliers (mainly for aluminium) are located nearby, and with agents being responsible for sales the company can concentrate on the production and development of new products. The company has also established very good relationships with external suppliers, sub-contractors and agents. The Metrologist is convinced that its value is improved by the proximity of its suppliers and the competencies of its agents and sub-contractors.

The company's marketing focuses only on potential clients in its niche market. Word-of-mouth is particularly important for branding and reputation. Finally, the company intends to increase its client life-time value.

A highly specialised and experienced workforce is recruited, and employees also have to fit the company's values.

About 95% of turnover is generated abroad. For its clients, it is the functionality and quality rather than the price that are of the utmost importance. Tailor-made production allows it to charge higher prices.

The long-term relationship between the company and its clients is very important. It is based on technical confidence as well as personalised products and services.

In co-operation with its agents, a strong after-sales service is available. The Metrologist offers to overhaul old products. It also provides free-of-charge product and assistance training to agents, who then train end customers. In addition, the product software package is available in all major Asian languages. The company also regularly shares information and organises frequent contacts with end customers. The company has introduced ROHS norms, too.[3370]

3370 This directive restricts (with exceptions) the use of six hazardous materials in the manufacture of various types of electronic and electrical equipment, available at: http://en.wikipedia. org/wiki/ Restriction_of_Hazardous_Substances_Directive, accessed on 23 March 2014

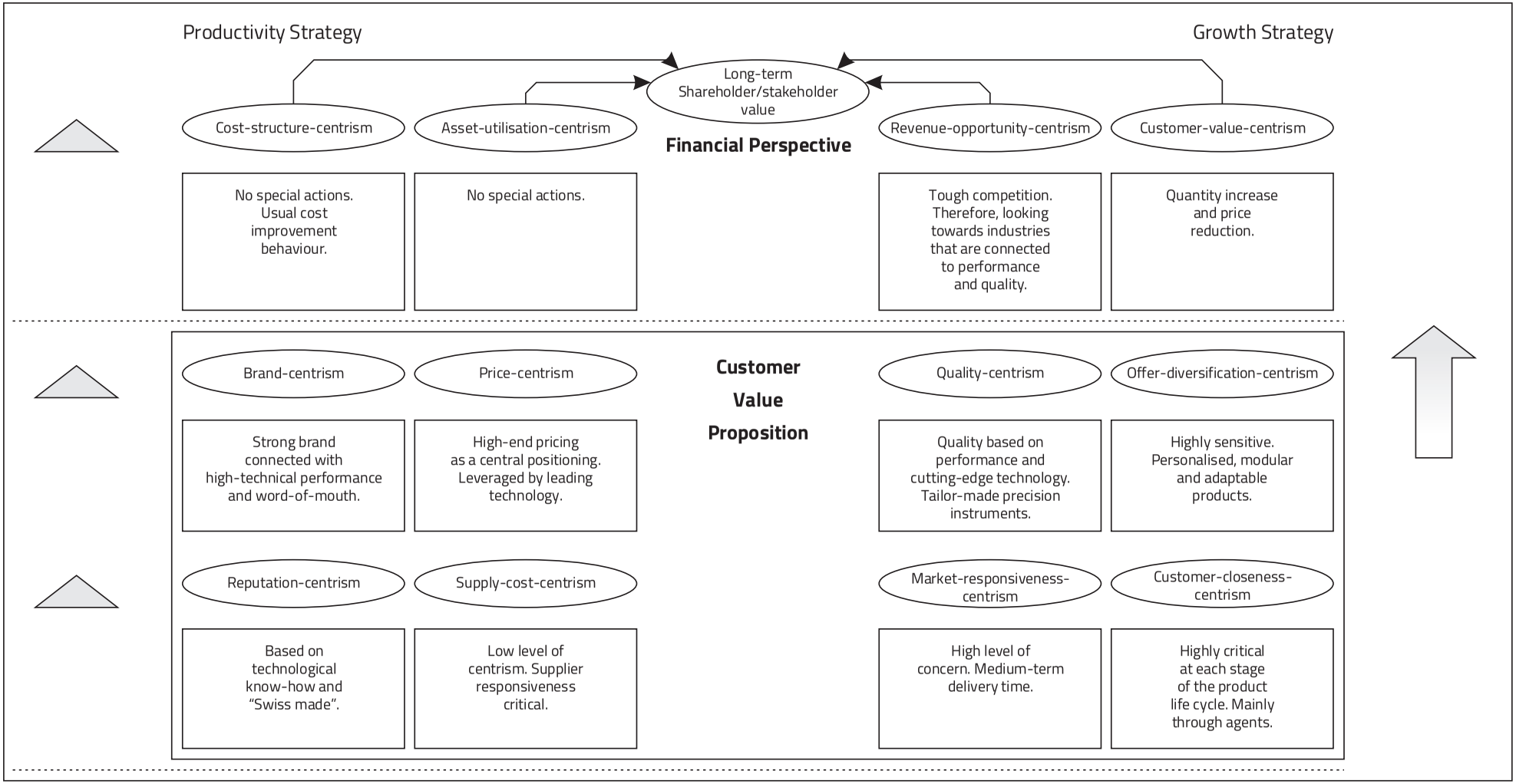
Figure 45: The Metrologist: Company Cornerstones

General information
• Year of foundation: 1972; • Industry: International leader in the field of metrology; • Number of employees: < 100; • Headquartered: Canton of Vaud.
Clients
• Machine industry, clock and watch industry, medicine, automobile industry; • Business-to-business (B2B).
International approach
Represented by agents in over 45 countries. About 95% of turnover is generated abroad.

12.3.4.2 Individual Dynamic Strategy Map

The provided information for the Metrologist results in the following individual Dynamic Strategy Map:

Figure 46: The Metrologist: Individual Dynamic Strategy Map



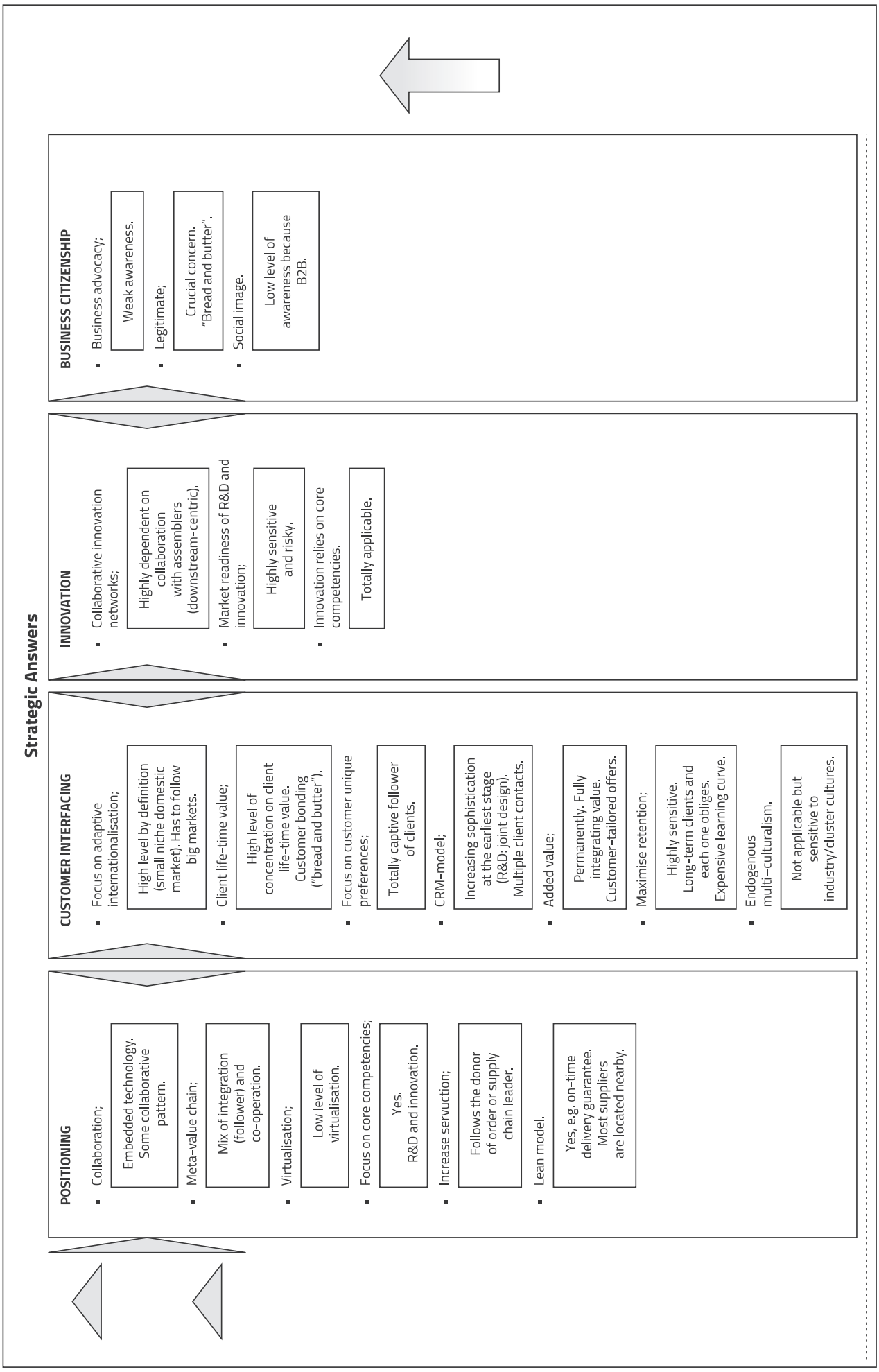


Figure 46: continued

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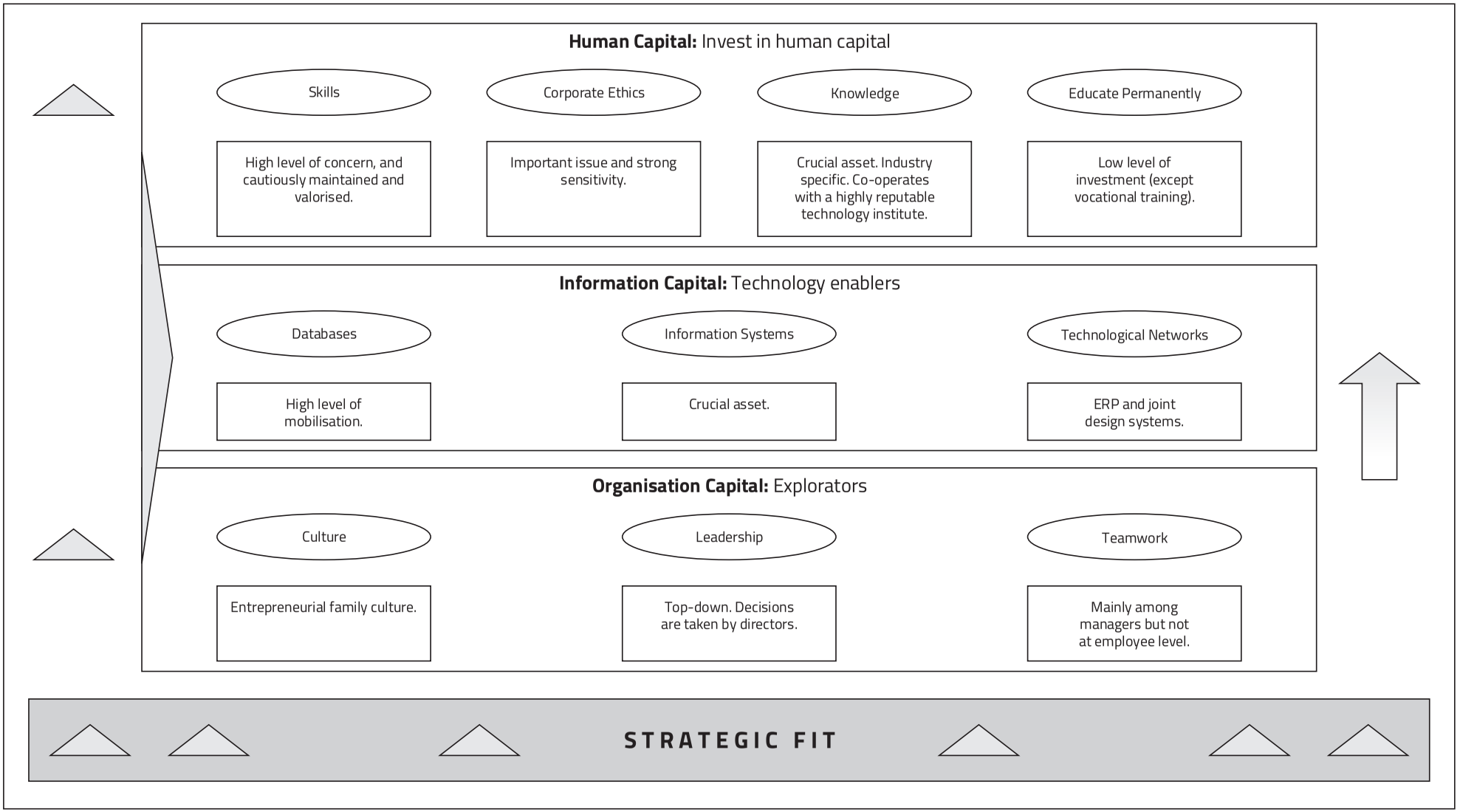


12.3.5 THE WATCH PARTER

12.3.5.1 Description

The company is a sub-contractor mainly for two large Swiss watchmakers which are located in its proximity. The Watch Parter has already co-operated with clients from Europe, China and the Middle East. For the foreseeable future, it aims to increase its co-operation with Chinese watchmakers, which emphasises the company's intention to grow internationally. In addition, the Watch Parter would like to launch two watch labels of its own. However, due to a lack of time and the risk of competing against its current clients, this has not been realised yet. The competition in the immediate environment is not very strong.

There is not a lot of communication. Vertical and direct interaction is clearly defined and without any ambiguity. Workers are supposed to stay focused on their prime mission, i.e. to produce products to the required volume and quality. On the other hand, this attitude limits workers' active participation in the continuous improvement process which management wants to implement as soon as possible. Moreover, teamwork is constrained because of language difficulties among employees from different nations, as well as weak group identification.

Recently, the son of the founder has assumed the leadership of the company. This succession has caused a number of difficulties. The culture is based on the aim of responding to clients' needs. The goal of delivering constant product quality is also deeply rooted in the family culture. Employees try hard to respond very quickly to top management's requirements, and strict adherence to a multitude of directives has been identified as one of the most important values. Hence, there is a culture of dutifulness.

The company has a renowned reputation in the small sub-contractor world, and is known for its "Swiss made" label. In addition, the fact that it is anchored in a region where the Swiss clock and watch industry has its roots conveys a positive image.

Its objective is to offer high standards of quality by delivering high-performance products at a constantly high level of quality.

The Watch Parter assembles pieces which are provided by companies of the Swiss clock and watch industry, and returns the finished products (movements) to these ordering clients. It also resells movements.

Over the years, and due to its experience, the company has adopted a precise demand forecast. This competence allows it to better anticipate order fluctuations. It also has polyvalent employees and flexible and dynamic production. Together, this permits an efficient and quick treatment of urgent production orders. Hence, it can reschedule quickly and adapt to clients' demands. However, such orders are fulfilled with exactly the same quality. Short average lead times are a crucial factor in client attraction and retention. The company's flexible production processes allow a reduction of error treatment fees and delivery times are guaranteed. Moreover, the company notes very few return shipments.

The company is equipped with technologically highly modern machines which help to increase productivity. A standardised working process is an important factor in the reduction of operational costs, and improved processes increase productivity and take up less space, which in turn decreases the rental costs of the production area.

There is an important relationship between price and quality. The majority of customers continuously aim to cut their costs and at the same time increase quality. Even though

the industry is dominated by such values as reputation and quality, price and due time delivery are very significant elements, too. Therefore, the company is constantly trying to increase employee productivity and improve production processes. It also focuses on the reduction of repair, production and renting costs, and continuously improves its quality, cost structure and flexibility in order to retain its major clients. Hence, it has a high cost sensitivity, which is particularly important in the Chinese market. In order to enable dynamic and flexible production processes, employees need to be polyvalent. Every employee has to attend regular training, which is focused on his/her specific responsibilities in the company. Yet, the main activities are quite simple and repetitive and therefore do not require a superior apprenticeship.

Strong client service is of the utmost importance to the company, which wants to live up to the high exigencies of the "Swiss made" label. Thus, management demands high quality standards and everybody in the company translates this into specific personal objectives.

In this business-to-business relationship, it is not traditional marketing but reputation, confidence, the quality of services, direct contacts and the word-of-mouth effect that are relevant. Contacts with international clients are maintained through intermediaries.

Regular clients are considered as trusted long-term partners. The Watch Parter's clients are also its suppliers. In this relationship, both sides respect values such as honesty, constancy, confidence and flexibility.

The company generates its turnover mainly with two Swiss watchmaking companies. In addition, there are some small foreign clients which are very demanding, but which are rarely loyal. On the other hand, with regard to these clients, it is easier for the company to raise prices and thus increase its profitability.

The company is completely focused on its clients and aims to respond to the demands of every single one. The flexibility of its workshops and some of its employees allows the company to satisfy in the best possible way all kinds of client demands. During periodic on-site visits, management attentively listens to the (explicitly or implicitly formulated) expectations of its clients. Thanks to this, management has gained a good insight into the market situation.

Even though the company has not signed the currently valid convention of the watchmaking industry, it has implemented one of the major demands of this convention, i.e. the introduction of minimum wages.

Figure 47: The Watch Parter: Company Cornerstones

General information
• Year of foundation: 2002; • Industry: Sub-contractor of the clock and watch industry; • Number of employees: < 100; • Headquartered: Canton of Neuchâtel.
Clients
• Supplies, among others, the largest Swiss companies in the clock and watch industry; • Business-to-business (B2B).
International approach
Works for renowned global Swiss companies and has already co-operated with clients from Europe, China and the Middle East. Has the intention to grow and expand internationally.

12.3.5.2 Individual Dynamic Strategy Map

The provided information for the Watch Parter results in the following individual Dynamic Strategy Map:

Figure 48: The Watch Parter: Individual Dynamic Strategy Map

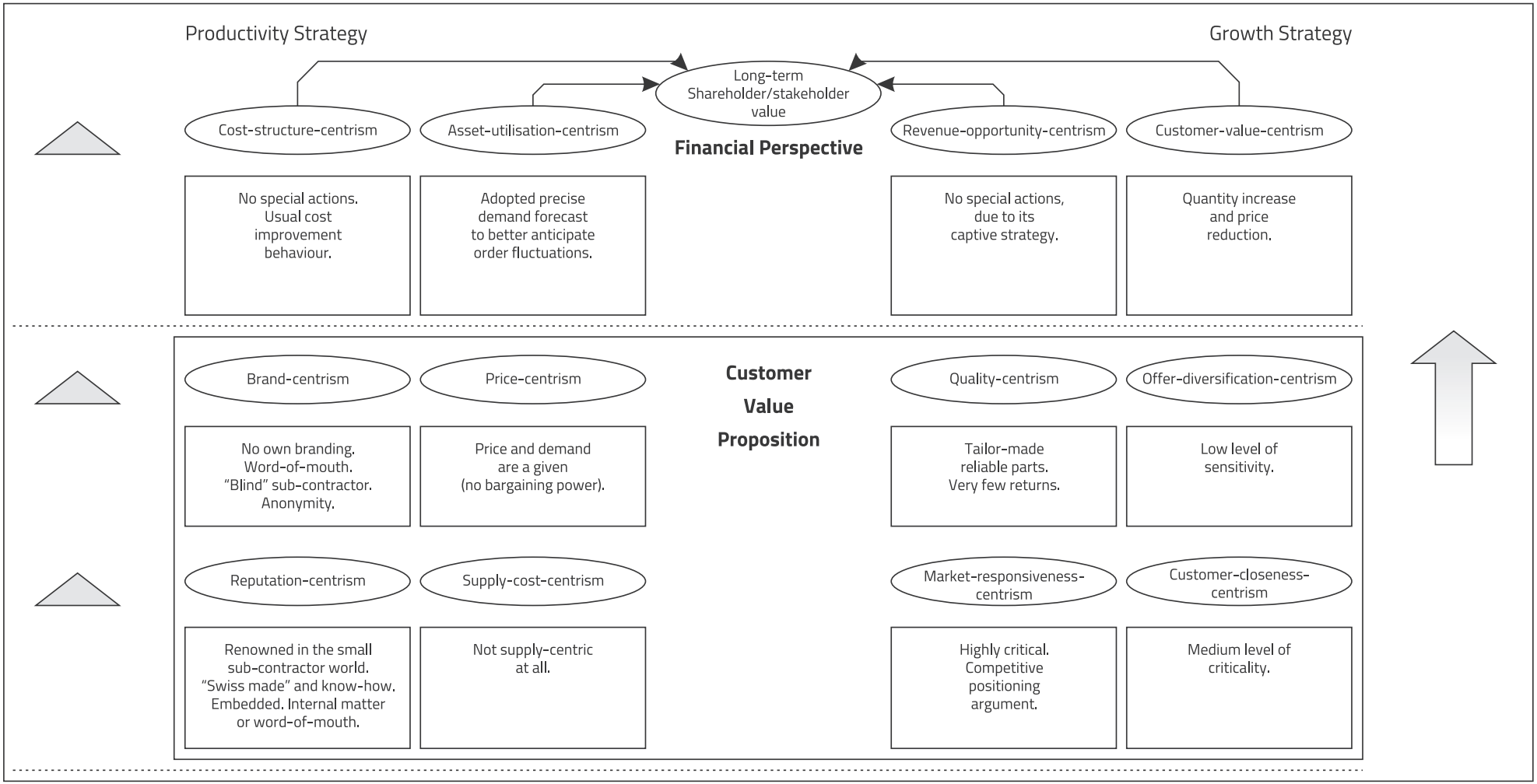


Figure 48: continued

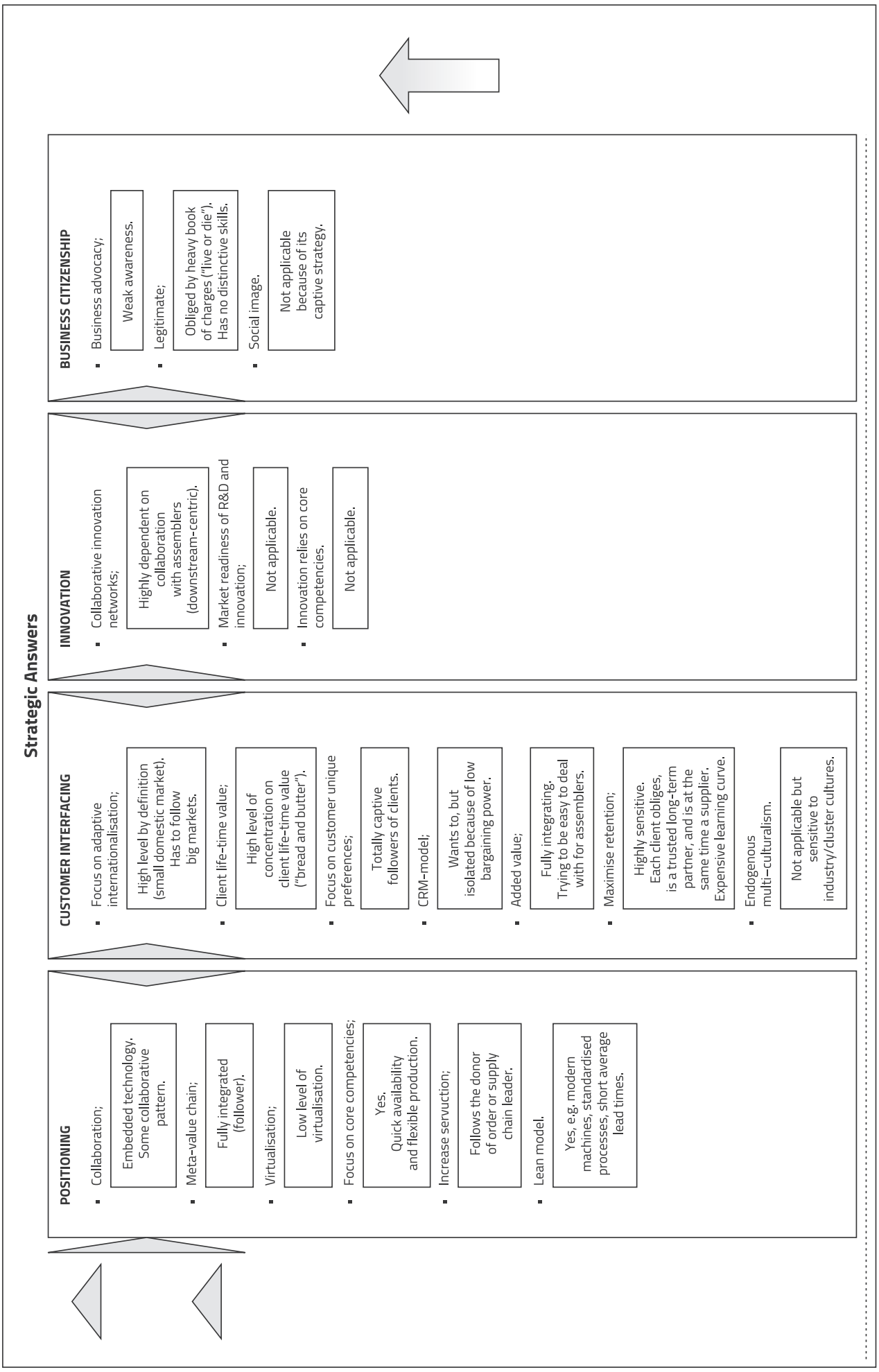
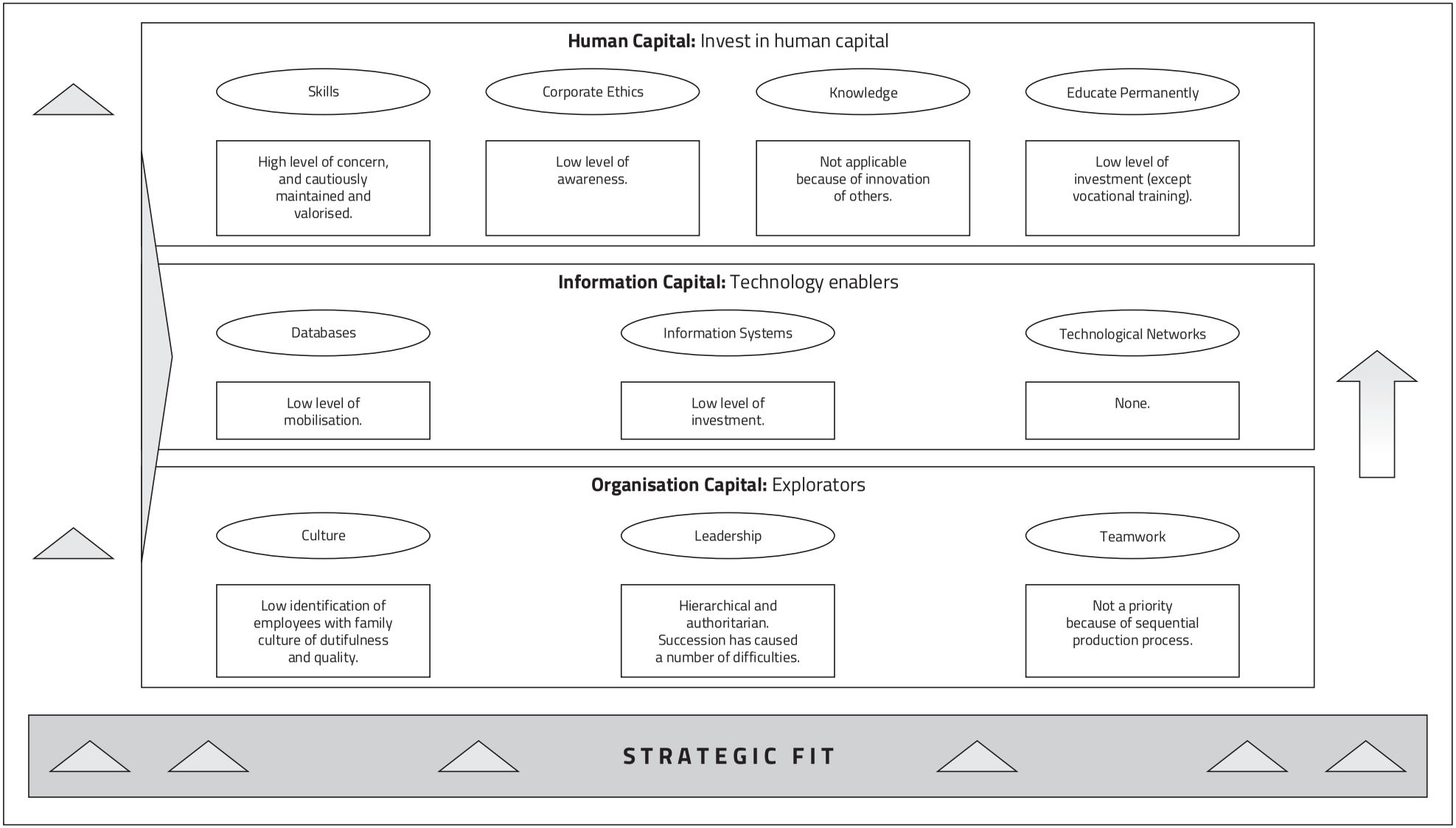


Figure 48: continued



12.3.6 THE OPTICER

12.3.6.1 Description

The company is a world-leading high-quality supplier in the micro-optics industry, which is a sub-industry of the semi-conductor industry. Basically, the market for micro-optics is divided into the following two segments: consumer markets and niche ones. In the consumer market, costs per unit are the main driving force. In niche segments, clients put the quality of the micro-optics in first place and are therefore willing to pay reasonable but hard to negotiate prices. The quality of micro-optics has a significant influence on the overall performance and lifetime of machines. The Opticer is a niche player, and therefore has to be very client-oriented and take into consideration their needs, especially in terms of required shape and size.

The micro-optics industry is developing very fast with the needs of many other industries such as the semi-conductor, fibre and telecommunications industries, and is continuously growing in developing countries. The Opticer serves B2B segments worldwide and has strong terms with suppliers. It has five main competitors.

The company has one strategic business unit. It produces micro-lenses and supplies clients from different industries.

The company originated from an institute of micro-technology and was founded in 1999 by three researchers. Certain techniques specific to micro-lens production were enhanced, such as lithography processing, which led to an outreaching of standards in the micro-optics industry. High demand and the Opticer's innovation, driven by the practical need to miniaturise, did not go unnoticed in the micro-optics industry.

In the year following its creation, the company was acquired by a German company which operates in the semi-conductor industry. It has established a fully equipped workspace, which has contributed to the growing business. This includes new cleanroom facilities which perfectly support the growth strategy of the micro-optics business.

There is a young and dynamic culture, and the company's staff, from managers to employees, have a good sense of humour and are full of energy. Managers co-operate closely and communicate openly with employees. This leads to a low "power distance". The fundamental values are client-centrism, precision and quality.

The company is the leading brand, with an image based on high quality and up-to-date products which are produced with cutting-edge technology. It also has the reputation of representing the best Swiss quality. The "Swiss made" label is highly esteemed with clients all over the world and refers to first-class quality. A broad variety of client challenges is also accepted.

The Opticer bases its production on high quality. In order to ensure this standard, it keeps on implementing and innovating state-of-the-art manufacturing techniques and keeps up to date with innovative technological advances. It is also committed to the development of highly innovative products which are based on the requirements of markets and clients. The Opticer offers a large selection of products and solutions as part of the development and manufacturing of high-quality refractive/diffractive optics, with particular expertise in optical design, metrology and packaging. In this specialised industry, the highest quality products, as well as integrated after-sales services, are the key to obtaining the loyalty of clients.

Although quality is the most relevant factor for the product, the company has to bear in mind that its main clients are not exclusively looking for innovation but also a balance between their product price and costs.

Value is mainly created in the operations process, where highly technical machines are deployed and cost-effective technology for optics is used and constantly improved. Operations are very sophisticated and precise, and a special system and particular software has been developed to personalise products according to clients' requests. To provide the best quality products, the company possesses high standard machines and a modern, well-equipped and ultra-clean working environment.

Finally, a quality inspection department ensures that each manufactured product is compliant with the industry standards and fulfils the requirements of the company.

The company needs about one week for the production of the final product. It wants to add value by providing faster delivery than its competitors, i.e. to deliver to its clients within 72 hours.

In order to manufacture top-quality micro-optical components, employees are highly qualified and experienced. In particular, they are required to be highly ambitious and possess a strong educational level in physics.

The company supplies high-quality micro-optical components to more than 200 clients in the telecom, laser, optics and metrology industries worldwide. Products have a medium-term delivery time. The Opticer's products are preferred by many clients because they can improve their own competitive advantage.

The firm aspires to long-term relationships with its clients. Therefore, it offers product and service personalisation and provides the best and highest quality micro-optics products. It deploys a CRM and complaint system (CS),[3371] and in post-sale meetings the client's honest feedback is asked for. After all, understanding the client's unique preferences and learning from them is the key to developing adjusted and integrated services and solutions for each individual client.

The Opticer obtained the ISO 9001 certification to demonstrate to its clients the quality of its production procedures. The ISO9001 certification ensures that quality is met at all levels of the organisation.

The company complies with regulations like the Swiss government's policy for chemical waste disposal, ensuring that activities are supported by sustainable development and not acting against the environment. Similarly, it also fulfils various regulations regarding the export of certain materials. The company believes that this policy reinforces its reputation as a "Swiss brand" that offers the best quality from conception to delivery of the product.

3371 *"A complaint system (also known as a conflict management system, internal conflict management system, integrated conflict management system, or dispute system) is a set of procedures used in organizations to address complaints and resolve disputes."*, available at: http://en.wikipedia.org/wiki/Complaint_system", accessed on 31 May 2014

Figure 49: The Opticer: Company Cornerstones

General information
• Year of foundation: 1999; • Industry: Micro-optics industry; • Number of employees: < 100; • Headquartered: Canton of Neuchâtel.
Clients
• Serving segments worldwide; • Business-to-business (B2B).
International approach
Supplies micro-optical components to more than 200 clients worldwide.

12.3.6.2 Individual Dynamic Strategy Map

The provided information for the Opticer results in the following individual Dynamic Strategy Map:

Figure 50: The Opticer: Individual Dynamic Strategy Map

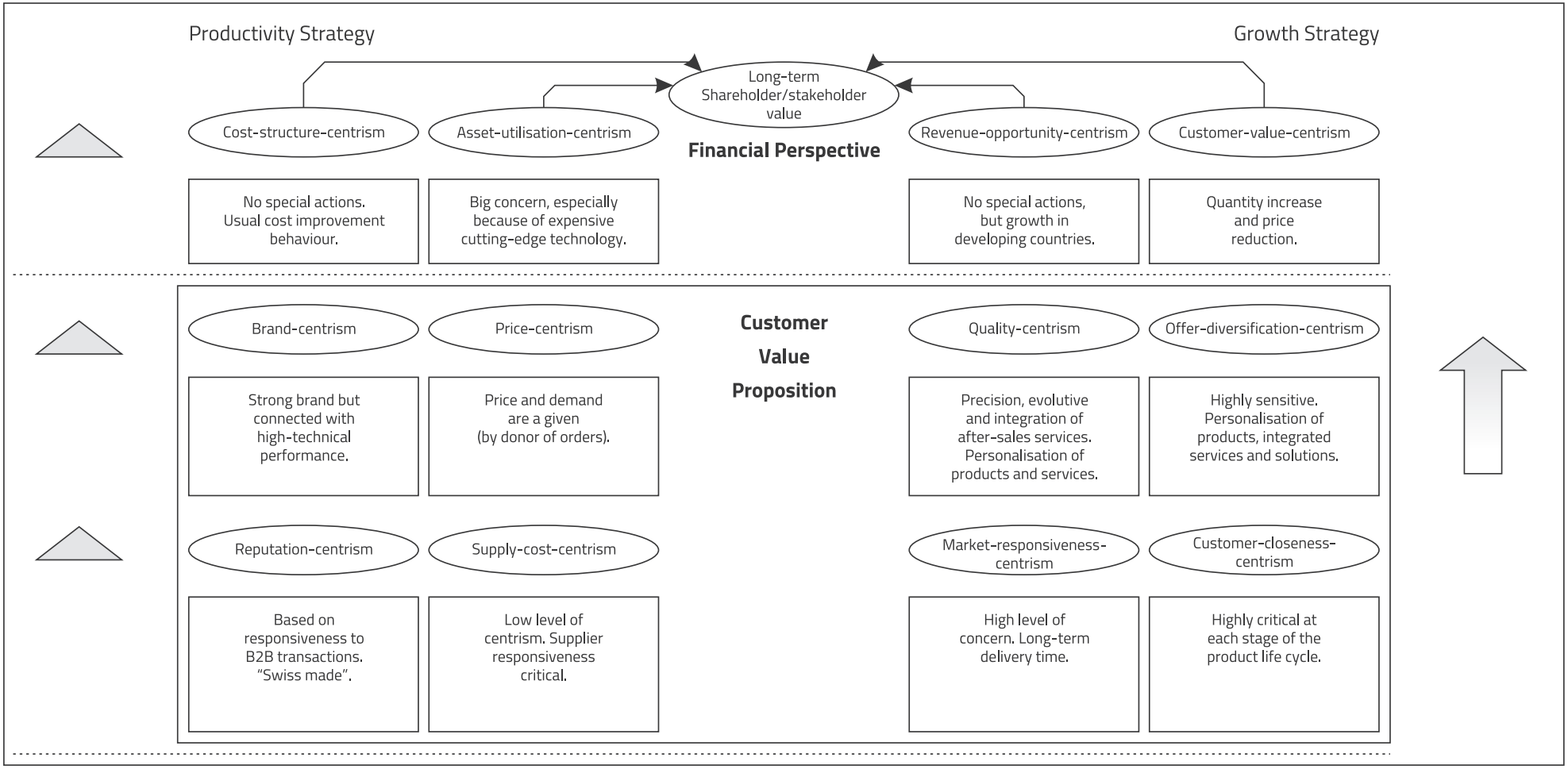


Figure 50: continued

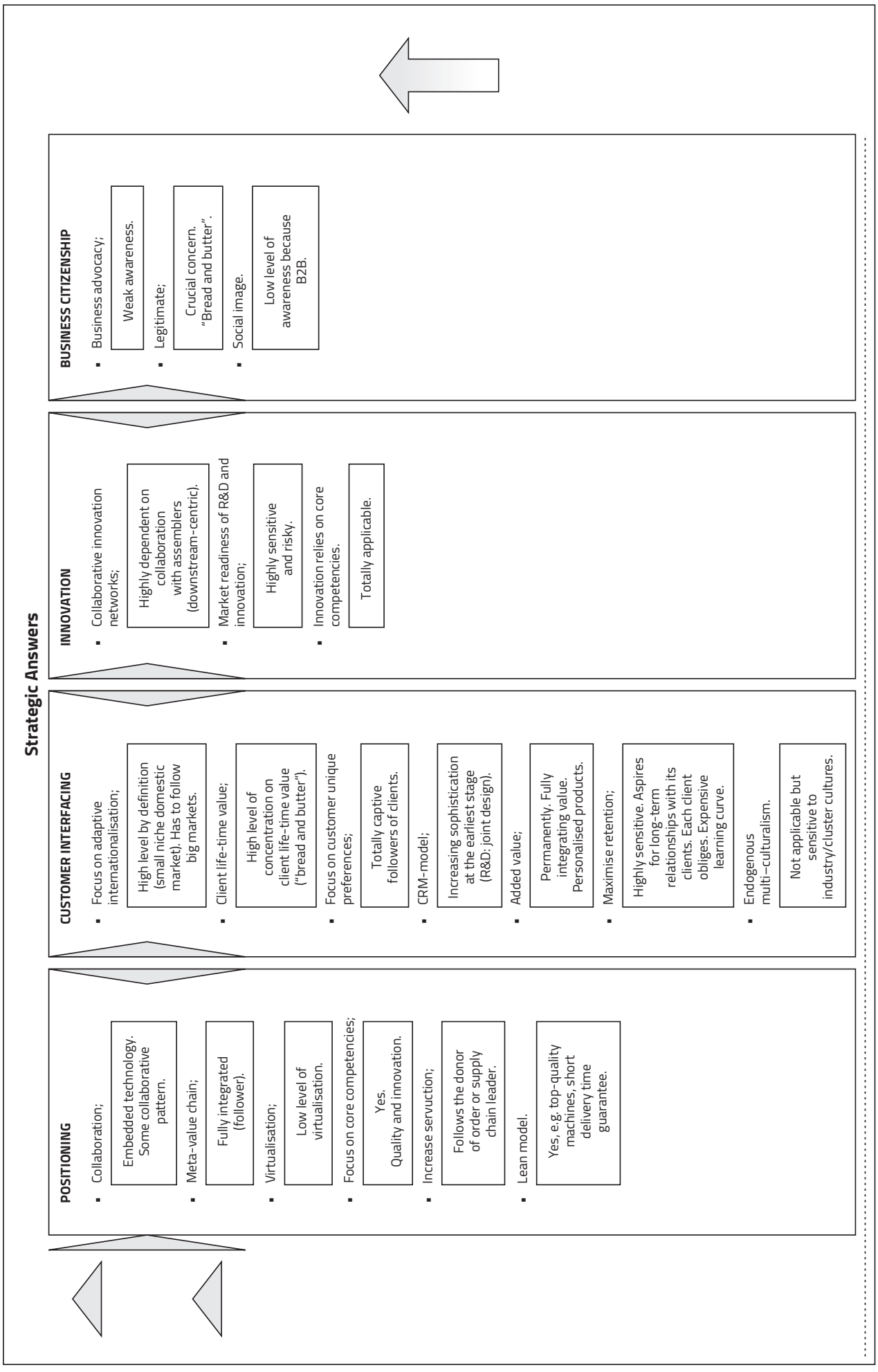
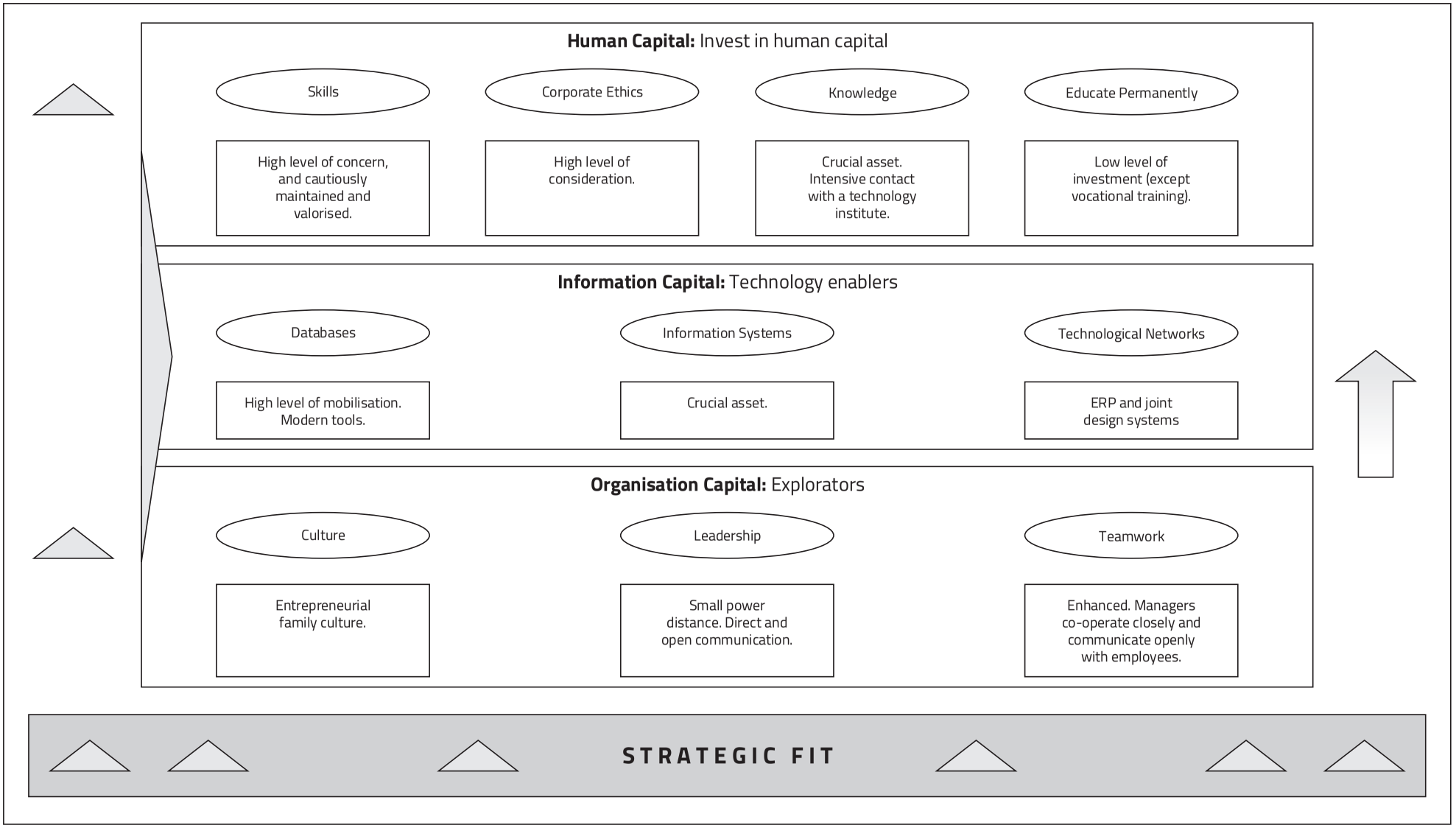


Figure 50: continued



12.4 COMPARATIVE RESULTS

Our objective is to validate that the strategy map framework can be applied to understanding the strategic patterns adopted by SMEs and to eventually improve the conceptualisation of the strategy map modules and constructs. This comparative analysis is aimed at evaluating internal and external validity but also the reliability of our framework. In order to achieve these goals, we pay special attention to the similarities and differences among the integrated strategy maps.

In the following sections, we will follow the structure of our strategy map framework in order to compare the cases following this outline:

- Financial perspective – comparing financial perspectives;
- Customer perspective – comparing customer perspectives;
- Strategy implementation perspective – comparing strategy implementation perspectives;
- Learning and growth perspective – comparing learning and growth perspectives.

In order to compare these four perspectives, we will start by briefly describing every objective, goal or attribute for each of the six investigated companies in a table and discuss the outcomes in the subsequent chapter ("Discussion"). In order to provide the theoretical background, this discussion will be complemented by some key sections and explanations that have been covered in previous chapters.

12.4.1 FINANCIAL PERSPECTIVE

12.4.1.1 Comparing Financial Perspectives

Productivity and revenue growth are the two basic levers of the financial strategy for increasing shareholder value.[3372] A comparison of the financial perspectives leads to the following results:

3372 Kaplan and Norton (2000a), pp. 79-80

Figure 51: Comparing Financial Perspectives

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Productivity Strategy					
Cost-structure-centrism	No special actions. Usual cost improvement behaviour.	No special actions. Usual cost improvement behaviour.	No special actions. Usual cost improvement behaviour.	No special actions. Usual cost improvement behaviour.	No special actions. Usual cost improvement behaviour.	No special actions. Usual cost improvement behaviour.
Asset-utilisation-centrism	Big concern, especially because of expensive and cutting-edge equipment and product lines.	No special actions. Artisanal practices do not always favour rigid production processes.	No special actions.	No special actions.	Adopted precise demand forecast to better anticipate order fluctuations.	Big concern, especially because of expensive cutting-edge technology.
	Growth Strategy					
Revenue-opportunity-centrism	New markets increase turnover and margins.	No special actions.	Tries to penetrate southern countries in order to extend seasonal turnover.	Tough competition. Therefore, looking towards industries that are connected to performance and quality.	No special actions, due to its captive strategy.	No special actions, but growth in developing countries.
Customer-value-centrism	Quantity increase and price reduction.	Quantity increase and price reduction.	Quantity increase and price reduction.	Quantity increase and price reduction.	Quantity increase and price reduction.	Quantity increase and price reduction.

12.4.1.2 Discussion

12.4.1.2.1 Cost-structure-centrism

As we already know, reductions in the cost of ownership, operations and distribution processes should lead directly to improvements in the company's overall cost structure, and thus the productivity theme.[3373] We have seen how information and communication technologies lead to cost decreases within the management of the supply chain. Intensified competition forces companies to take advantage of advanced technologies wherever possible and to reduce costs. Other possibilities for cost reductions and an increase in productivity are reengineering or working globally, thanks to off-shoring.[3374] In networks, for example, costs (and benefits) may also be shared.[3375]

All six examined companies have the same approach towards cost-structure-centrism. They are all Swiss-based and have to behave accordingly, since for western firms in particular there are severe cost pressures from competitors that are able to source low-wage countries.[3376] Cost-structure-centrism is also a major issue because all six examined companies are exporters and therefore confronted with the high Swiss franc exchange rate. A refusal to focus on costs would lead to even lower margins and eventually to a loss in profitability.

12.4.1.2.2 Asset-utilisation-centrism

As we can see, there are three distinct groups in the matter of asset-utilisation-centrism:

- The first group (the Watcher, Tooler and Metrologist) pays little attention to the level of utilisation of their capacity mainly because they have relatively mature, stable and underused capacity.
- In the second group (the Micro-technologist and Opticer), we clearly see a strong strategic concern with regard to asset-utilisation-centrism. These two companies are continuously trying to maximise their level of utilisation. We can explain this level of intensive mobilisation mainly on the grounds that their business model depends on their capacity to permanently adopt new processes, innovation, material and components. This type of value chain is by definition unstable and rarely allows a strong payback without high-end pricing.
- In the last group (the Watch Parter), the main challenge is to obtain some flexibility concerning the level of production capacity, because they have to cope with fluctuating, i.e. unstable, cycles of demand which are driven exclusively by clients (donor of order). In this context, the CEO of a Swiss manufacturing SME asserts the following: *"Our ability to scale production up and down in response to changes in capacity requirements is significantly advantaged in Switzerland versus neighboring countries. As a result, we have a greater incentive to employ staff in Switzerland than elsewhere."*[3377]

12.4.1.2.3 Revenue-opportunities-centrism

An improvement in price, quality and delivery performance to customers results in increased revenues from satisfied customers as well as opportunities to capture

3373 Kaplan and Norton (2004b), p. 81
3374 According to Garelli S. (2005)
3375 Opinion, Blili (2011)
3376 McDonald and Burton (2002), p. 13
3377 Loosli H., CEO of Feintool AG, in: Swiss-American Chamber of Commerce (2010), p. 22

customers from competitors in price-sensitive and value-preferring market segments.[3378] In order to create greater shareholder wealth, a company must analyse its customer portfolio in new ways to discover new profitable revenue-growth opportunities.[3379]

In this regard, the companies are divided into the following two groups:

- Group one (the Watcher, Watch Parter and Opticer) does not have any specific concerns. The Watch Parter, for example, has a captive strategy, and therefore simply follows the donor of orders. By analogy, one could describe the strategic captivity or lack of freedom of sub-contractors in terms of the attributes of the captivity of a single branch within a holding or global group. We can refer to Oshri, Kotlarsky, Rottman and Willcocks, who define captive centres as wholly-owned subsidiaries located in an offshore location that perform work for the parent company.[3380] It is obvious that when a supplier is highly or even totally dependent, then the donor of orders clearly has the authority required to shape the supplier's work organisation and processes, including its employment relations.[3381]
- The second group, on the other hand, (the Micro-technologist, Metrologist and Tooler) is clearly concerned with developing either new markets or new needs within the same markets. The Tooler, for example, is obliged to find new revenue opportunities because it realises very low margins per tool, and therefore has to increase its volume of sales

12.4.1.2.4 Customer-value-centrism

As far as customer-value-centrism is concerned, we can clearly see that quantity increases and price reductions are the common and consensual motto of all six companies. Being Swiss and therefore having high prices and costs, quality is surely their main positioning argument within their respective segments and industries. This positioning is reflected in a multitude of statements by Swiss executives, like for example the following one: *"'Made in Switzerland' stands for precision in design and in execution. The cultural affinity to meeting tight specifications and avoiding deviations to known standards, which is the very definition of quality itself, is unrivaled."*[3382]

12.4.2 CUSTOMER PERSPECTIVE

The customer value proposition describes the unique mix of product and service attributes, customer relations, and corporate image that a company offers. Furthermore, it instructs an organisation how to differentiate itself from competitors in order to attract, retain and deepen relationships with targeted customers. It is crucial because of the help it provides organisations with in connecting their internal processes to improved outcomes with customers.[3383]

12.4.2.1 Comparing Customer Perspectives

A comparison of the customer perspectives leads to the following results:

3378 Kaplan and Norton (2004b), p. 81
3379 Cokins (2009), p. 157
3380 Oshri, Kotlarsky, Rottman and Willcocks (2009), p. 196
3381 Jefferys (2011), p. 9
3382 Kern G., CEO of IWC Schaffhausen, in: Swiss-American Chamber of Commerce (2010), p. 22
3383 Kaplan and Norton (2000a), pp. 81 and 84

Figure 52: Comparing Customer Perspectives

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Customer Value Proposition					
Brand-centrism	Branding has been a strategic concern since its foundation.	Very high level of concern, yet low profile branding. Luxury positioning.	Low level of concern. Highlights "Swiss made" logo and product ambassadors.	Strong brand connected with high-technical performance and word-of-mouth.	No own branding. Word-of-mouth. "Blind" sub-contractor. Anonymity.	Strong brand but connected with high-technical performance.
Reputation-centrism	Based on extensive experience, loyalty of customers and faultless expertise. "Swiss made".	Based on rareness and complexity of timepieces. Objects of art. Traditionalism.	Based on durability, ergonomics, reliability, and "Swiss made".	Based on technological know-how and "Swiss made".	Renowned in the small sub-contractor world. "Swiss made" and know-how. Embedded. Internal matter or word-of-mouth.	Based on responsiveness to B2B transactions. "Swiss made".
Price-centrism	Sensitive to price. Leveraged by "Swiss made".	High-end pricing as a central positioning.	Sensitive to price. Leveraged by "Swiss made".	High-end pricing as a central positioning. Leveraged by leading technology.	Price and demand are a given (no bargaining power).	Price and demand are a given (by donor of orders).
Supply-cost-centrism	Low level of centrism. Supplier responsiveness critical.	Low level of centrism. Supplier responsiveness critical.	Not supply-centric at all.	Low level of centrism. Supplier responsiveness critical.	Not supply-centric at all.	Low level of centrism. Supplier responsiveness critical.
Quality-centrism	Evolutive, tailor-made. Strong quality.	Outstanding. Exclusive aesthetics and high value added.	Pretending better quality based on image.	Quality based on performance and cutting-edge technology. Tailor-made precision instruments.	Tailor-made reliable parts. Very few returns.	Precision, evolutive and integration of after-sales services. Personalisation of products and services.
Market-responsiveness-centrism	High level of concern. Long-term delivery time.	Low level of concern. Waiting lists.	Medium level of concern.	High level of concern. Medium-term delivery time.	Highly critical. Competitive positioning argument.	High level of concern. Long-term delivery time.
Offer-diversification-centrism	Highly critical (tailor-made products).	Low level of sensitivity. Positioning in exclusive and highly complex watches. Limited selection.	Highly sensitive. Wide range of products.	Highly sensitive. Personalised, modular and adaptable products.	Low level of sensitivity.	Highly sensitive. Personalisation of products, integrated services and solutions.
Customer-closeness-centrism	"Bread and butter" of business model sustainability (from R&D to usage stage).	Dialectical integration (product/after-sales).	Medium level of sensitivity. Mainly through distributor.	Highly critical at each stage of the product life cycle. Mainly through agents.	Medium level of criticality.	Highly critical at each stage of the product life cycle.

12.4.2.2 Discussion

12.4.2.2.1 Brand-centrism

There is no doubt that brand image is highly strategic in nature and constitutes a considerable competitive advantage.[3384]

Most of the six investigated companies try to link their brand with the "Swiss made" label and hence typical Swiss values and high-quality products. In this way, they try to promote the idea that the brand is a synonym of reliability, precision, know-how, honesty, assiduousness, respect for the environment, and up-to-date products. In the matter of brand-centrism, we have two clear groups:

- The proactive branding group (the Micro-technologist, Watcher, Metrologist and Opticer) uses a strong communication strategy. Their branding strategy is closely connected to their core competencies. However, their branding approaches differ significantly. For example, the Metrologist's principal sphere of competence is neither marketing nor the building-up of relationships but the development of quality high-tech products. Hence, it has some difficulties in developing its branding other than through client satisfaction based on its high value proposition or word-of-mouth. However, as we already know, up to 80% of every purchase decision is based on the word-of-mouth-effect.[3385]
- The second group (the Tooler and Watch Parter) is much less insistent on branding. The Tooler focuses on a fragile "Swiss made" image and 70 years of tradition, while the Watch Parter has no brand. However, with its captive strategy, the circumstance of having no brand is not a problem for the Watch Parter.

12.4.2.2.2 Reputation-centrism

We have seen that a good reputation has a strategic value for a firm that possesses it. This is sustained by a growing body of research.[3386] An outstanding reputation generally enhances the image of a company with customers and also socially-conscious investors.[3387] Moreover, there is a strong interrelationship between the "brand" and "reputation" components. It is worth recalling Cambié and Ooi, who state that *"It is all about building corporate reputations to support strong brands."*[3388]

As far as reputation-centrism is concerned, there are two groups:

- One in which we have a B2B reputation-centrism business model, i.e.:
  - the Micro-technologist, which highlights its large portfolio of skills;
  - the Metrologist, which is based on technological know-how and its "Swiss made" image;
  - the Opticer, which is based on responsiveness and being "Swiss made";
  - the Tooler, which is based on durability, ergonomics, reliability, being "Swiss made", and know-how; and, finally,

3384 Shocker, Srivastava and Ruekert (1994)
3385 Andersen, Froholdt and Poulfelt (2010), p. 103
3386 Dierickx and Cool (1989), pp. 1504-1511; Rumelt (1987), pp. 137-157; Weigelt and Camerer (1988), pp. 443-454, in: Roberts and Dowling (2002), p. 1077
3387 Kaplan and Norton (2004b), p. 46
3388 Cambié and Ooi (2009), p. 28

  - the Watch Parter, which is based on closeness and reliability. We have already seen that this latter has no brand. However, the company enjoys a renowned reputation in the small sub-contractor world and is known for being "Swiss made" and also its know-how. Hence, the brand of the Watch Parter is replaced by its reputation, which is based solely on the company's know-how and word-of-mouth. This means that high-quality products and "Swiss" values have a positive impact on reputation.

- The second group consists of the only B2C company, i.e. the Watcher. This company has a typical positioning of a *haute horloger* and represents luxury, complexity and *objets d'art*. Obviously, this type of reputation-centrism is not distinctive enough and probably too mainstream for a player which was founded only ten years ago. After all, in the luxury market, reputation is a major variable and evidence shows that it is highly sensitive and significantly associated with the respectable age of a brand (see e.g. Louis Vuitton, Patek Philippe). The success of other major brands in several segments of the luxury business demonstrates that tradition and classicism are fundamental aspects of reputation. One may call this phenomenon the "since" syndrome (e.g. "Louis Vuitton since 1854"). However, the relatively young Watcher is strategically behaving as an imitator or "new cousin" without any track record or family tree. Instead, innovativeness, radical differentiation and provocation could potentially create a more salient and visible emerging reputation.

12.4.2.2.3 Price-centrism

There are three distinct groups with regard to price-centrism:

- For the first group (the Watch Parter and Opticer), price and demand are a given. The Watch Parter is a follower with no bargaining power. Only with its smaller and less loyal clients may prices (and profitability) be raised. The Opticer not only has to permanently adapt to new processes, innovation, materials and components, but also to the respective prices. Often, price or quality become variables and are fixed by the client, and the sub-contractor will be selected more on the basis of its competencies and potential synergies with the client.

- For the second group (the Micro-technologist and Tooler), price-centrism is a sensitive issue. After all, the Micro-technologist has only a limited number of long-term clients, which therefore have substantial power. The Tooler first and foremost strives to satisfy its distributors. Hence, it is sensitive to price-centrism in order to allow it to realise as large as possible margins by adapting prices to its developed distribution channel (distribution driven).

- In the third group (the Watcher and Metrologist), companies are positioned in high-end pricing. For the Watcher, this is based on exclusive and rare products. By producing limited editions of high-end products with excellent quality, the Watcher has positioned itself in a niche market where it is not lower prices but the sensation of owning an exclusive and authentic product that is relevant. For the Metrologist, high-end pricing is leveraged by leading technology. Moreover, since the Metrologist customises its products, premium prices can be charged[3389]. In such cases, customers are not looking for lower prices but superior value.

3389 McDonald and Burton (2002), pp. 273-274

12.4.2.2.4 Supply-cost-centrism

Companies which efficiently manage their logistical chain must focus on the reduction of physical supply costs from the manufacturer through retailers to the final consumer.[3390] Effective and efficient operations enable lower total costs of supply.[3391] Moreover, we have seen that information and communication technologies have positively impacted on the management of the supply chain. Thus, there is no doubt that a competitive advantage can be obtained from good management of the logistics chain. This considerably reduces co-ordination costs and delivery deadlines, and ensures that the right products are delivered to the right customer at the right time.[3392]

Due to their business model, the supply-cost-centrism of all six investigated companies is very low. For the Micro-technologist, the Watcher, the Metrologist and Opticer, responsiveness is much more important. The Tooler and Watch Parter, on the other hand, are not supply-cost-centric at all.

12.4.2.2.5 Quality-centrism

Intensified competition forces companies to improve quality.[3393]

We have already seen that quality is an important aspect for Swiss companies. Therefore, all six investigated companies focus on quality. For example, even though the Tooler's products have almost become commodity articles, it still pretends to have better quality. The quality of its products is certainly reasonable, yet it is mainly based on its "Swiss made" image. The other five companies, on the other hand, have outstanding quality.

However, quality-centrism has its risks, too. The famous Swiss quality, for example, made its mark by exploiting market niches and small market segments, enabling it to sell at high prices and extract a sizable profit margin in the absence of competition. Swiss firms played their differentiation card brilliantly and succeeded with this strategy. Nowadays, however, globalisation has forced Swiss SMEs to open up and they are no longer alone in their segmented market.[3394] Therefore, we can conclude that quality has now become a tradable commodity. It no longer has a citizenship or culture. The status quo has been broken down. Engineers in the developing countries of Asia are obtaining a critical mass, which is not so much the case in Europe anymore.

Nevertheless, there are still widespread and entrenched views that the European consumer/client will never forgo the quality and precision of national production in order to obtain lower prices. However, import substitution strategies are obsolete and justifications such as social dumping and the exploitation of workers in rival countries which are put forward are not convincing.[3395] They can even be dangerous, since the consumer's major preoccupation is the maximisation of value at a minimum cost, in other words: (s)he is, above all, a rational being.[3396]

On the other hand, by providing tailor-made/personalised products and services to their clients, the Micro-technologist, Metrologist, Watch Parter and Opticer still have a very strong differentiation attribute.

3390 Kopczak and Johnson (2004)
3391 Kaplan and Norton (2004b), p. 77
3392 Sengupta (2004)
3393 Opinion, Blili (2010)
3394 Opinion, Blili (2010)
3395 Opinion, Blili (2010)
3396 Opinion, Blili (2010)

12.4.2.2.6 Market-responsiveness-centrism

Companies have to combine scale and flexibility to outperform the competition. This also includes speed, i.e. *"the ability to respond quickly to customer or market demands and to incorporate new ideas and technologies quickly into products."*[3397]

In order to respond quickly and precisely to fast-evolving customer demand, Dell, for example, seized on emergent technologies and information management to integrate supplier partnership, mass customisation and just-in-time manufacturing.[3398]

As far as responsiveness-centrism is concerned, the companies are divided into three groups:

- Group one (the Micro-technologist, Metrologist, Watch Parter and Opticer) is highly concerned with responsiveness. During periodic on-site visits, the Watch Parter's management, for example, attentively listens to the (explicitly or implicitly formulated) expectations of its clients. Thanks to this, management has gained a good insight into the market situation. After all, there is a higher loyalty in B2B relationships, which may be explained by the need for greater reliability among trading partners.[3399] In such relationships, companies usually adopt key account management,[3400] which is used by suppliers in order to target and serve high potential customers with complex needs by providing them with special treatment in the areas of marketing, administration and service[3401]. For the Watch Parter in particular, market-responsiveness-centrism is one of the most important goals of its business model. In order to comply with it, the company has adopted a precise demand forecast. This competence allows it to better anticipate fluctuations in orders. It also has polyvalent employees and flexible and dynamic production. Together, this permits efficient and quick treatment of urgent production orders. Hence, it can reschedule quickly and adapt to clients' demands. Yet, such orders are fulfilled with exactly the same quality. Short average lead times are a crucial factor in client attraction and retention. The company's flexible production processes allow a reduction in error treatment fees and delivery times are guaranteed.
- The Watcher is in group two. This company is on the opposite side to group one, since it is a trendsetter and, hence, has a low level of concern for responsiveness-centrism.
- Group three consists of the Tooler, which has a medium level of concern with responsiveness. The fine-tuning of market-responsiveness-centrism is done by its intermediaries. In order to support the efforts of its distributors, the Tooler places important stock at their disposal.

12.4.2.2.7 Offer-diversification-centrism

Expanded product diversity, variation and customisation all result in more complexity.[3402] With expanded product diversity, variation and customisation, complexity is increased and thus the company is required to invest in and spend more on expanded product

3397 Stalk, Evans, and Shulman (1992), pp. 186-187
3398 Herber, Singh and Useem (2000), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), pp. 235-236
3399 Davis, Golicic and Marquardt (2012), p. 200, in: Kolis and Jirinova (2013), p. 24
3400 Tossavainen and Turta (2013), p. 27
3401 Jobber and Lancaster (2000), p. 127, in Tossavainen and Turta (2013), p. 27
3402 Cokins (2009), p. 173

offerings and services to increase its customers' satisfaction.[3403] The use of information technology allows firms to create customised products which closely respond to customer expectations.[3404]

As we can see, there are two distinct groups regarding offer-diversification-centrism:

- The first group (the Micro-technologist, Tooler, Metrologist and Opticer) is highly sensitive to offer diversification. These companies have to satisfy the exigent and varied demands of their customers. The Micro-technologist, Metrologist and Opticer also provide tailor-made or personalised offers to their clients. The ability to produce personalised products represents a high level of diversification for their clients. In particular, this is enabled by an integrated logistics chain which improves planning and control of the flows of materials and information.[3405]
- In the second group (the Watcher and Watch Parter), there is a low level of sensitivity to diversification. The Watcher is intentionally positioned in only a small niche, while the Watch Parter simply produces what is required from its donors of order.

12.4.2.2.8 Client-closeness-centrism

In the past, production orientation was typical for many companies. It describes a method of working that places operational concerns before market needs, and thus focuses one's resources on producing goods and services, and only later considering the needs for those outputs. Nowadays, on the other hand, business success will depend on getting close to customers, and therefore many firms are developing a market orientation.[3406] Companies that have the right employees and look for good ideas that have a chance of being discovered and developed, increase their chances of success on the market. Hence, keeping close to customers and listening to their needs can pay off.[3407] During the last few decades, especially in B2B relationships, a trend towards closer relationships and a decreasing number of relationships overall has been observed.[3408]

With regard to client-closeness-centrism, the companies are divided into three groups:

- For the companies in group one (the Micro-technologist, Metrologist and Opticer), it is critical to be close to their clients. These companies offer tailored/personalised products to their customers, and therefore must be close to them. If customers feel that their business or personal issues are understood, they will trust the company to develop tailored, customised solutions.[3409] There is also greater loyalty in B2B relationships, which may be explained by the need for increased reliability among trading partners.[3410] Such closeness between buyer and seller is exemplary at the Micro-technologist. As we have seen, in this company clients participate in meetings in order to become integrated in the decision-making process. As a general rule, the clients initiate innovations. The goal is to ceaselessly deliver innovative solutions which are adapted to each single client. Only if clients have a particular need or a precise idea, does

3403 Cokins (2009), p. 173
3404 Opinion, Blili (2010)
3405 Jacob and Ouellet (2001); Raymond and Blili (2001)
3406 Opinion, Blili (2011)
3407 Müller and Volery (2010), p. 21
3408 Ulaga and Eggert (2006), pp. 311-327, in: Kolis and Jirinova (2013), p. 23
3409 Kaplan and Norton (2004b), p. 329
3410 Davis, Golicic and Marquardt (2012), p. 200, in: Kolis and Jirinova (2013), p. 24

the company take care of it and search for the appropriate technology and precise target specifications in order to provide the best adapted solution. Hence, the array of products is enlarged as a function of clients' demands and not the other way round. It is obvious that such an approach enables the Micro-technologist *"to respond quickly to customer or market demands and to incorporate new ideas and technologies quickly into products."*[3411] Hence, client-closeness-centrism usually leads to market-responsiveness-centrism. Beyond that, such an approach is close to what we have seen to be the "pro-sumer" concept. This is the case when companies team up with customers to grow the market as a whole or ask them to provide valuable information used in product development. In this way, customers become a vital part of the company's value chain.[3412] Hence, the consumer becomes a "pro-sumer", which effectively short-circuits the traditional supply chain.[3413]

- For the second group (the Watch Parter and Tooler), this issue has only a medium level of criticality. As with the companies in group one, it is important for them to be close to their clients. In a B2B market, companies are more unwilling to break the relationship because of the bonds between the buyer and seller and the high costs of changing supplier.[3414] On the other hand, the relationship of the Watch Parter with its clients is primarily realised through sub-contracting, where the company has to perform according to the needs of the donor of order and where, in the first line, market responsiveness is highly critical. For the Tooler, on the other hand, it is almost impossible to be close to all its numerous branch offices. However, this company frequently offers complete training to its distributors, which qualifies them to competently respond to customers' expectations.
- The Watcher, which is in the third group, has a dialectical integration characterised by different behaviour depending on whether it is concerned with product development or after-sales. In the former, it wants to be as far as possible from the client in order to create the myth. In the second stage, service closeness is crucial.

12.4.3 STRATEGY IMPLEMENTATION PERSPECTIVE

It is vital to choose the right strategy and rigorously implement it. Thus, management is about the implementation of a vision and strategies.[3415] In this context, Kaplan and Norton describe the strategy map as a *"managerial breakthrough that allows organizations to manage strategy more effectively and to achieve the execution premium from a successful implementation".*[3416]

12.4.3.1 Comparing Strategy Implementation Perspectives

A comparison of the strategy implementation perspectives leads to the following results:

12.4.3.1.1 Comparing Positioning

On the matter of positioning, the following table summarises the results:

3411 Stalk, Evans, and Shulman (1992), pp. 186-187
3412 Andersen, Froholdt and Poulfelt (2010), p. 104
3413 Andersen, Froholdt and Poulfelt (2010), p. 113
3414 Hollensen (2011), p. 464
3415 House and Aditya (1997), pp. 406-474, in: Maier (2002), p. 121
3416 Kaplan and Norton (2008), p. 97

Figure 53: Comparing Positioning

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Strategic Answers: Positioning					
Collaboration	Radically selective. Almost paranoid, which inhibits collaboration.	High level of collaboration in manufacturing, but paranoid in design.	Obliged to carry out a high level of downstream collaboration.	Embedded technology. Some collaborative pattern.	Embedded technology. Some collaborative pattern.	Embedded technology. Some collaborative pattern.
Meta-value chain	Total integration. Believes itself to be exclusive and unique and that it can protect itself from problems.	A mix of integration and co-operation (with sub-contractors and independent watchmakers).	Typically integrating.	Mix of integration (follower) and co-operation.	Fully integrated (follower).	Fully integrated (follower).
Virtualisation	Low level of virtualisation.	Low level of virtualisation.	Low level of virtualisation.	Low level of virtualisation.	Low level of virtualisation.	Low level of virtualisation.
Focus on core competencies.	Yes. Zero default policy.	Yes. Exclusivity.	Yes. Design, durability, and reliability.	Yes. R&D and innovation.	Yes. Quick availability and flexible production.	Yes. Quality and innovation.
Increase servuction	Greatly increasing services because of committing itself to standing alone.	After-sales services are part of the central product.	Highly sensitive to services. Obliged to follow.	Follows the donor of order or supply chain leader.	Follows the donor of order or supply chain leader.	Follows the donor of order or supply chain leader.
Lean model	Yes, e.g. modern machines/ production lines and automation.	Yes, e.g. Six Sigma, just-in-time. Yet, artisanal practices do not always favour rigid production processes.	Yes, e.g. lean-management method, Kaizen. Automation reflects the will to stay totally integrated.	Yes, e.g. on-time delivery guarantee. Most suppliers are located nearby.	Yes, e.g. modern machines, standardised processes, short average lead times.	Yes, e.g. top-quality machines, short delivery time guarantee.

12.4.3.1.2 Discussion

12.4.3.1.2.1 Collaboration

Many multinational companies are learning that they must replace predation and instead collaborate to compete. They can create the highest value by selectively sharing and trading control, costs, capital, access to markets, information, and technology with competitors and suppliers alike.[3417] Today, there are new and successful inter-organisational interfaces, i.e. the greater role of suppliers, strategic alliances, enterprise networks, integrated logistics management, the virtual enterprise and concurrent engineering.[3418] Close ties are maintained with a limited number of suppliers[3419], who are thought of as partners and are expected to collaborate closely and respect the quality standards and plans of the firm. [3420] Sub-contractors are no longer selected purely on the basis of proximity but have to demonstrate their ability to become part of a network. Price and quality have become variables and are fixed by the client. Instead, the sub-contractor will be selected more on the basis of its competencies and potential synergies with the client.[3421]

As far as collaboration is concerned, it is apparent that business models or skills, i.e. the collaborative patterns, are likely to be nuanced by their positioning within the meta-value chain (or supply chain) and by their bargaining power. We can distinguish the following three groups:

- The first group (the Metrologist, Watch Parter and Opticer) has embedded technology, and hence shows some collaborative pattern.
- The Tooler, in the second group, is obliged to carry out a high level of collaboration with its intermediaries.
- In the third group (the Micro-technologist and Watcher), there is some paranoia and thus a refusal to be involved in collaborative patterns. However, on the one hand the Watcher refuses collaboration in design, but on the other, in contrast to the Micro-technologist, maintains a high level of collaboration in manufacturing. Hence, the Watcher exhibits a dialectical and, in some ways, schizophrenic behaviour.

12.4.3.1.2.2 Meta-value Chain

The costs of collaborating with partners (e.g. outsourcing) and integrating customers in the company's processes (e.g. customisation, customer services) are not prohibitive anymore. In this way, the traditionally isolated firm is shifting to new forms of network organisation. Andriani, in referring to a literature review, explains that *"this transition reflects the widely acknowledged phenomenon of disintegration of traditionally integrated structures of business into more complex networks of independent parts."*[3422] In addition, cost pressures are pushing many companies to outsource more and more activities.[3423] Moreover, an increasingly competitive environment has forced firms to restructure in

3417 Bleeke and Ernst (1994), in: Mintzberg, Lampel, Quinn and Ghoshal (2003), p. 257
3418 Opinion, Blili (2010)
3419 Nike, for example, keeps the same shoe manufacturers for years, in: Tallman (2009), p. 194
3420 Duguay, Landry and Pasin (1997)
3421 Opinion, Blili (2010)
3422 Andriani (2001), pp. 257-274, p. 261 in: Osterwalder (2004), p. 12
3423 Stalk, Evans, and Shulman (1992), p. 185

order to concentrate on their core business and to sub-contract other activities.[3424] This development has resulted in an enormous wave of specialisation.[3425] Thus, we can conclude that this has led to the appearance of "meta-value chains" as well as "nano-designs", i.e. companies focusing on one certain issue and defining this specific process in great detail. Everything else can be outsourced. Therefore, it is important for a company to identify its core competencies and to keep them in-house.

With regard to the meta-value chain, the companies are divided into three groups:

- The first one (the Watch Parter and Opticer) is fully integrated (a follower).
- The companies in the second group (the Watcher and Metrologist) have a mixture of integration. They benefit from sub-contractors in order to better focus on their core competencies. The Metrologist, for example, is convinced that sub-contracting allows better concentration on R&D and innovation.
- In the third group (the Micro-technologist and Tooler), companies are integrated. The Micro-technologist believes that others are not good enough. One could also explain this closeness through a kind of natural paranoia of technological innovation. Due to its business model (i.e. distribution-centric driven), the Tooler typically integrates, too. The company is convinced that this ensures an irreproachable quality for the customer, and hence promotes the "Swiss made" image, which is regarded as a synonym for quality. Moreover, the Tooler is persuaded that it has enough internally available know-how. Yet, we believe that in our globalised and networked environment the position of fully integrated companies will be increasingly difficult to sustain in the mid- and long-term. After all, high-level production, qualified personnel and high-quality products may also be found elsewhere, both at home and abroad.

12.4.3.1.2.3 Virtualisation

Although many corporations are expanding, others are reducing the scale and scope of their activities. These latter are downsizing the number of employees, decreasing the extent of their diversification across businesses, and outsourcing a broad range of activities.[3426] This is probably best represented by the virtual corporation.[3427] In virtual organisations, in-house (owned) resources and activities are minimised, and nearly all resources and activities reside outside the organisation.[3428] Such a firm concentrates on developing and maintaining a few core competencies and performs only those activities directly related to these competencies. All other activities and businesses are outsourced or licensed to other firms.[3429] In the virtual corporation, the command and control hierarchy is replaced by a network of flexible marked-based linkages between independent entities.[3430] Such organisations are not held together through formal structures and the physical proximity of people but by partnerships, collaboration and networking. What is important is that it feels real to clients and meets their needs at least as adequately as other organisations.[3431]

3424 OECD (2002)
3425 Opinion, Blili (2010)
3426 Collis and Montgomery (2005), p. 115
3427 Newsweek (1993), pp. 42-53; BusinessWeek (1993), pp. 98-103; BusinessWeek (1992), pp. 90-100, in: Collis and Montgomery (2005), p. 115
3428 Johnson, Scholes and Whittington (2008), p. 463
3429 Collis and Montgomery (2005), p. 115
3430 Halal, Geranmayeh and Pourdehnad (1993), in: Collis and Montgomery (2005), p. 6
3431 Johnson, Scholes and Whittington (2008), p. 463

As we can see, all six investigated companies have a low level of virtualisation. They started their business model on terms other than virtualisation. We could explain this low level of virtualisation by the fact that the top management of the investigated firms have a conservative approach towards ITCs. This attitude is not rare within manufacturing SMEs, especially when it is mixed with trade and manufacturing secrets, as is the case for almost all the members of our sample.

With the expected increase in collaboration, networking and sub-contracting, the level of virtuali-sation will very probably rise.

12.4.3.1.2.4 Focus on Core Competencies

We have reviewed the concept of core competencies several times throughout this thesis. One of our descriptions was that core competencies are predicated to produce the innovation and uniqueness that result in competitive advantage.[3432] This is the result of companies focusing on what they are best at.[3433] However, there is no agreement among researchers on a standard definition of core competence, since it is an umbrella term which covers resources and capabilities.[3434]

Concerning this matter, all six investigated companies focus on their core competencies. If this was not the case, they would probably not have survived for very long. After all, there is a requirement for consistency between business models and a company's resources, which should create a competitive advantage in the businesses in which a firm competes.[3435]

Our result also shows that top management has a clear and adapted understanding of the critical success factors of their value propositions. The incarnation and understanding of their core competencies explain how competitive they are. The Swiss manufacturing sector is strongly competitive and mature.[3436] This reality explains that the selection of the survivors has already taken place. Our investigated companies are at a maturity stage of growth. The youngest one, the Watcher, is over ten years old and operates in a highly competitive market. Their levels of maturity essentially explain that their strategic foci are what they should be, as shown by their respective performances.

12.4.3.1.2.5 Increase Servuction

Many products and service lines are one-size-fits-all and have become commodity-like. Product development management methods have also matured and accelerate quick me-too copying of new products or service lines by competitors. Due to these developments, there is an unarguable shift from product-driven differentiation towards service-based differentiation. With an increase in the importance of services, the

3432 Prahalad and Hamel (1990)
3433 Srivastava (2005), p. 51, in: Özbag (2013), p. 10
3434 Özbag (2013), p. 10
3435 Collis and Montgomery (2005), p. 195
3436 In the literature, several reviews focus specifically on explanations of SME growth based on life-cycle stages through which growing businesses might typically pass, in: McMahon (1998), p. 8. McMahon refers to Hanks, Watson, Jansen, and Chandler (1993), for example, who describe the various development configurations or stages in their taxonomic life-cycle model as follows: "Start-up" (young and small companies with simple organisational structures), "Expansion" (slightly older and larger companies with more complex organisational structures), "Maturity" (companies typically more than twice as large as those in the expansion stage with organisational structures that are more complex than hitherto), and "Diversification" (generally medium-sized companies with an increasing tendency towards divisionalised structures)., in: McMahon (1998), pp. 12-14; See also the product life cycle which has already been defined (introduction, growth, maturity and sales decline), in: Hollensen (2011), p. 465

customer relationship grows and as a consequence many marketing organisations focus on segment, service, and channel programmes, as opposed to traditional product-focused initiatives.[3437] Hence, the manufacturing dimension (according to Ansoff, Porter, etc.) has faded away. Nowadays, the name of the game is services, finance, and non-tangible products, i.e. high value added activities. Yet, the value chain model is not adapted to service industries. Therefore, in adapted models, the "production" function has been replaced by the activity of "servuction". With the servuction concept, companies increase the amount of services that are provided to clients. Eiglier and Langeard underline that the process of "goods" innovation is called "production" while for services it is called "servuction". They define this as follows: *"the systematic and coherent organization of all the physical and human elements of the interface client/enterprise necessary to the realization of a provision of services whose commercial characteristics and the levels of quality were given."* The authors consider that the internal organisation (hidden part), physical support, contact personnel, as well as the customers (visible to the customer) are the principal elements of the servuction system.[3438]

In the matter of increasing servuction, we can determine two distinct groups:

- In the first one (the Micro-technologist, Watcher and Tooler), the increase in servuction is highly sensitive. However, the reasons for this outcome are different for each of the companies:
    - the Micro-technologist has to behave like this because it has committed itself to standing alone;
    - the Watcher has to focus on servuction because it is part of the central product;
    - the Tooler has to increase servuction because it is obliged to follow.

  With core products and services becoming widely similar,[3439] we conclude that for all three companies performant and high-quality support services offer huge potential for them to differentiate themselves from others in a highly competitive environment. They increase a company's performance as well as the trustfulness of its relationship with customers.
- The second group (the Metrologist, Watch Parter and Opticer) has no other choice than to increase servuction. They follow the donor of order or supply chain leader.

In today's global competition, there is an increased importance of services related to the value proposition of any firm. The positioning of a product relies increasingly on the understanding and expectations of clients regarding complementary services surrounding the offered product. This is true for players involved in service industries but also for manufacturers such as those in this study. In order to allow the stabilisation of their clientele or to differentiate their offer, agile players increasingly insist on offering a diversified and integrated portfolio of services to clients.

All our investigated firms are acting in highly competitive industries and our results clearly show their sensitivity to this necessary servuction development. A close look at the results shows that servuction efforts and investments follow the critical success factors and meta-value chain sensitivity of each company, e.g. when the investigated company

3437 Cokins (2009), p. 173
3438 Eiglier and Langeard (1987), in: Chebbi, Barin-Cruz and Zawislak (2007), pp. 6-7
3439 Andersen, Froholdt and Poulfelt (2010), p. 125; See also Schiller (2007), p. 11: There is an environment in which products become more and more alike.

depends highly on the donors of order, the servuction focus is dedicated to serving the client's needs (the Metrologist, Watch Parter and Opticer follow the donor of order). In the other cases, servuction takes the form of additional services to the client or intermediary.

Hence, the practices of the investigated firms are mainly imposed by common rules of practice within their respective markets. One can conclude that the level of sophistication of their servuction commitment is a kind of must.

12.4.3.1.2.6 Lean Model

There are highly elusive definitions for lean production.[3440] Referring to his research, Pettersen concludes that *"lean seems to be a reasonably consistent concept comprising just in time practices, resource reduction, improvement strategies, defects control, standardization and scientific management techniques. However, it is hard to formulate a clear definition that captures all the elements of Lean and integrates the various goals in the reviewed literature."*[3441]

In order to satisfy the requirements of a strategy of operational excellence, a company has to produce quality products and services, cut costs and excel at delivery (i.e. speedy order fulfilment, and on-time delivery).[3442] We are convinced that quick availability is a factor which permits a company to demand higher prices.

In addition, an element of information processing is required by every activity with strong added value.[3443]

As we can see, all six investigated companies comply with the lean model. Yet, and as stated before, the critical success factors of recent decades (e.g. activity-based costing, Six Sigma, etc.) are known by management and have simply become given practices. They are necessary but not sufficient conditions for success in the future. Nevertheless, in geo-economical terms, cost-cutting production helps to mitigate the negative effects of the high labour costs of Western countries, i.e. it decreases the labour costs per produced piece. However, due to the still high labour costs, we can conclude that simple manufacturing operations are not viable anymore in countries like Switzerland, and therefore will probably have to be outsourced in the mid- and long-term. In contrast, our respondents believe that production in Switzerland which is based on automation and specialised work in combination with outsourcing will continue to protect jobs in the country. All six investigated companies will also have to consider international networks as a decisive factor for their success. However, as we have already seen, they still do not all take advantage of the opportunities that are provided to them by meta-value chain closer networking.

12.4.3.1.3 Comparing Customer Interfacing

In the matter of customer interfacing, the following table summarises the results:

3440 Pettersen (2009), p. 127
3441 Pettersen (2009), p. 133
3442 Kaplan and Norton (2000a), p. 84
3443 Porter and Millar (1985)

Figure 54: Comparing Customer Interfacing

COMPANIES						
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Strategic Answers: Customer Interfacing					
Focus on adaptive internationalisation	High level by definition (small niche domestic market). Has to follow big markets.	High level by definition (small niche domestic market). Has to follow big markets.	High level by definition (small domestic market). Has to follow big markets.	High level by definition (small niche domestic market). Has to follow big markets.	High level by definition (small domestic market). Has to follow big markets.	High level by definition (small niche domestic market). Has to follow big markets.
Client life-time value	Yes, but constrained by unstable markets.	Yes, throughout.	Yes, but focuses on intermediaries instead of end users.	High level of concentration on client life-time value. Customer bonding ("bread and butter").	High level of concentration on client life-time value ("bread and butter").	High level of concentration on client life-time value ("bread and butter").
Focus on customer unique preferences	Yes, high level. Product array is a function of clients' demands.	Originality. Customer wants to be surprised.	Yes, high level, but on inter-mediaries instead of end users.	Totally captive followers of clients.	Totally captive followers of clients.	Totally captive followers of clients.
CRM-model	Yes. Significant customer data base.	Not at all. Conservative distribution chain.	Yes, but focused on intermediaries. Highly dependent on distributors.	Increasing sophistication at the earliest stage (R&D: joint design). Multiple client contacts.	Wants to, but isolated because of low bargaining power.	Increasing sophistication at the earliest stage (R&D: joint design).
Added value	Permanently. Fully integrating value. Innovative solutions adapted to specifications and expectations of each single client.	Fully integrating value. Concentrating on core competencies.	Fully integrating. Intermediary-centric transactional services.	Permanently. Fully integrating value. Customer-tailored offers.	Fully integrating. Trying to be easy to deal with for assemblers.	Permanently. Fully integrating value. Personalised products.
Maximise retention	Highly sensitive. Anticipates needs. Limited number of long-term clients based on confidence and partnership. Each client obliges. Expensive learning curve.	Highly sensitive. Trying to transform clients into multipliers and multi-deal clients.	Highly sensitive. Trying to transform clients into multipliers and multi-deal clients.	Highly sensitive. Long-term clients and each one obliges. Expensive learning curve.	Highly sensitive. Each client obliges, is a trusted long-term partner, and is at the same time a supplier. Expensive learning curve.	Highly sensitive. Aspires for long-term relationships with its clients. Each client obliges. Expensive learning curve.
Endogenous multi-culturalism	Not applicable but sensitive to industry/cluster cultures.	Not applicable but sensitive to industry/cluster cultures.	Not applicable but sensitive to industry/cluster cultures.	Not applicable but sensitive to industry/cluster cultures.	Not applicable but sensitive to industry/cluster cultures.	Not applicable but sensitive to industry/cluster cultures.

12.4.3.1.4 Discussion

12.4.3.1.4.1 Focus on Adaptive Internationalisation

Engagement in international business permits SMEs to reap economies of scale and scope and to diversify in order to reduce the risks associated with concentration in domestic markets.[3444] Jarillo mentions the following three reasons for internationalisation: the local market is saturated; there are still economies of scale available; and the costs of internationalisation are less than savings in production costs.[3445]

As we can see, by definition, all six investigated companies are highly focused on adaptive internationalisation. They all have small domestic markets[3446] and therefore have to follow big ones. Moreover, since they are operating in a niche, for the Micro-technologist, the Watcher, the Metrologist and the Opticer, the pressure for internationalisation is accentuated. After all, the probability of finding a large enough domestic market for a niche is very low.

12.4.3.1.4.2 Customer Life-time Value

As a consequence of today's service-based economies, firms increasingly focus on revenues from the creation and sustenance of long-term customer relationships.[3447] The concept of customer life-time value is usually defined as the present value of all future profits obtained from a customer during his or her relationship with a company.[3448] The concept is similar to the discounted cash flow approach used in finance, but there are two key differences. First, it is typically defined and estimated at the individual customer or segment level, which allows differentiation between customers who are more profitable than others rather than simply examining average profitability. Moreover, unlike finance, it explicitly includes the possibility that a customer may defect to competitors in the future.[3449] The growing interest in the concept of customer life-time value is based on the following. First, the pressure to make marketing accountable has increased.[3450] Second, in contrast to aggregate financial measures (e.g. aggregate profit, etc.), customer life-time value is a disaggregate metric which helps to identify profitable customers, and hence can be used to allocate resources accordingly.[3451] After all, it has been found that not all customers are equally profitable and therefore it may be desirable to "fire" certain customers or allocate different resources to different group of customers.[3452] In addition, the customer life-time value of current and future customers represents a good proxy of overall firm value.[3453] Finally, the collection of an enormous amount of customer

3444 McDonald and Burton (2002), p. 262
3445 Jarillo (2003), p. 133
3446 In this context, McDonald and Burton add that the major motive for many companies in "going international" is not only size but also a small home market, in: McDonald and Burton (2002), p. 332
3447 Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 139
3448 Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram point out that it can be argued that the use of the term "value" means that one should consider the cash flow associated with a customer rather than the profits. They refer to Pfeifer, Haskins and Conroy (2005) for a comprehensive discussion of this issue., in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 153
3449 Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 141
3450 Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140; They refer to Yoo and Hanssens (2005), who found out that marketing actions that improve sales or share may actually harm the long-run profitability of a brand.
3451 Kumar and Reinartz (2006), in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140
3452 Blattberg, Getz and Thomas (2001); Gupta and Lehmann (2005); Rust, Lemon and Zeithaml (2004), in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140
3453 Gupta, Lehmann and Stuart (2004), in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140

transaction data has become possible as a result of information technology. This enables companies to use data on revealed preferences rather than intentions.[3454]

Customer life-time profitability is a main component of CRM.[3455] Reichheld asserts that loyal customers are more profitable than non-loyal ones.[3456] In order to establish long-term relationships, CRM systems have to be periodically updated.[3457]

Since the customer is in control more than ever before, customer retention becomes even more critical and treating customers as *"a lifetime stream of revenues"* becomes paramount.[3458] After all, it is more expensive to acquire new customers than to retain existing ones.[3459]

Client life-time value is important for all six investigated companies. In particular, the Metrologist, Watch Parter and Opticer intervene as early as possible, even in the R&D phase, to fulfil client life-time value. For the Watcher, this aspect is important throughout, while the Tooler once again focuses mainly on its intermediaries. Finally, the Micro-technologist also gives importance to client life-time value, but is constrained by unstable markets.

12.4.3.1.4.3 Focus on Customer Unique Preferences

The following five major forces have placed immense pressure on companies (particularly business-to-consumer ones) to better understand their customers:

- to acquire new customers is generally more expensive than to retain existing ones;
- there is an unarguable shift from product-driven differentiation towards service-based differentiation;
- there is a shift from mass marketing to one-to-one marketing;
- with expanded product diversity, variation and customisation, complexity is increased and thus companies are required to invest in and spend more on expanded product offerings and services to increase customer satisfaction;
- with the internet, power is shifting irreversibly from sellers to buyers.[3460]

In the matter of customer unique preferences, we can identify the following three groups:

- Group one (the Metrologist, Watch Parter and Opticer) has a totally captive strategy. They must follow their clients and satisfy their unique preferences.
- Group two (the Micro-technologist and Tooler) also have to focus on customer unique preferences, but for individual reasons:
    - The Micro-technologist's product array is a function of client demand. This company also conducts client satisfaction surveys and uses market intelligence;
    - The Tooler, once again, is primarily focused on its intermediaries.

3454 Gupta, Lehmann and Stuart (2004), in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 140
3455 Javalgi, Martin and Young (2006), pp. 12-23, in: Kolis and Jirinova (2013), p. 23
3456 Reichheld (1996), in: Kolis and Jirinova (2013), p. 23
3457 Schögel and Herhausen (2011), p. 50
3458 Cokins (2009), p. 173
3459 Cokins (2009), p. 52
3460 Cokins (2009), pp. 172-173

- The Watcher represents the third group. Instead of focusing on customer unique preferences, the Watcher is a "trend maker", and therefore has to surprise its customers.

Blogs and social networks are important for both the Watcher and the Tooler. For the former, blogs help to create trends and have the function of opinion leaders. For the latter, professional experiences are shared in blogs.

12.4.3.1.4.4 CRM-Model

The objective CRM-model stands for investing in deeply understanding customers' needs, constraints and evolutive contingencies.

With regard to the CRM-model, we can determine two groups:

- The first one involves the Micro-technologist, the Metrologist and the Opticer. They have a similar CRM-model, which consists of entering the value chain of their main clients. To achieve this aim, they dedicate significant efforts at getting involved at the earliest stage of the life cycle of their clients' needs (this is also the reason why client closeness-centrism is highly critical for these three companies). This strategic concern leads them to adopt multi-flow and multi-direction CRM-practices and knowledge. A close look at their CRM-models shows that there are relationships upstream and downstream of the transactions for quite differentiated types of actors (at the strategic level, the monitoring level and the operational level) in each of the co-operation value chains (buyer versus seller).
- The second group has a traditional CRM-model. Here, we have the Watcher, the Tooler and the Watch Parter. Despite certain specificities, they all behave in line with traditional mainstream practices. Their success is highly dependent on being easy to deal with.

12.4.3.1.4.5 Added Value

All six investigated companies are at a state of maturity and fully integrate value:

- The Watch Parter adapts to the donor of order;
- The Tooler provides durable products and offers value to intermediaries who act as brokers and therefore have to be content;
- The Micro-technologist, the Metrologist and the Opticer offer innovative solutions;
- The Watcher offers exclusive and complex *objets d'art*.

As we have already seen, the Micro-technologist, the Metrologist, the Watch Parter and the Opticer offer personalisation or tailor-made products. We have also learnt that investment in a deep understanding of customer needs, constraints and evolutive contingencies (CRM-model) provides better insights into customer expectations, needs and unique preferences. This enables companies to offer tailored products or personalised services. Thus, with customised products, premium prices can be charged.[3461] At the same time, with the value proposition of long-lasting relationships, customers feel that their business or personal issues are understood, and they trust the company to develop customised solutions which are tailored to them.[3462]

3461 McDonald and Burton (2002), pp. 273-274
3462 Kaplan and Norton (2004b), p. 329

12.4.3.1.4.6 Maximise Retention

Customer retention is about the probability of a customer being active or repeat buying from a company. In contrast to contractual settings where customers inform the company when they terminate their relationship, in non-contractual settings, a company has to infer whether a customer is still active.[3463]

Since the customer is in control more than ever before, customer retention becomes even more critical.[3464] It is evident that this requires all companies to progress along the learning curve in order to constantly improve their offer.

As we can see, all six investigated companies are highly sensitive to maximising retention. This approach may be explained by the circumstance that the marketing mix in B2B markets is influenced by the interaction process between buyer and seller. The influence process is negotiation and not the persuasion implied in the traditional marketing mix.[3465] Moreover, compared to a B2C relationship, after-sales contacts in a B2B environment are more frequent, since the number of clients tends to be fewer and thus more valuable.[3466] As we already know, this is the reason why B2B companies usually have key account management,[3467] which is used by suppliers in order to target and serve high potential customers with complex needs by providing them with special treatment in the areas of marketing, administration and service.[3468]

12.4.3.1.4.7 Endogenous Multi-culturalism

With the confluence of global challenges, there is a need for education about different cultural backgrounds.[3469] Cultural diversity, for example, improves organisational flexibility and responsiveness to multiple demands and changing environments.[3470] After all, only complex systems can cope with complex environments.[3471]

However, for the six investigated companies, the matter of endogenous multi-culturalism is not applicable. Their size is manageable and their family business culture quite determinant. Moreover, their employees' everyday contact with foreign cultures is rather limited. Instead, all six investigated companies are sensitive to industry/cluster cultures. Thus, the following four forces influence a cluster: the general business environment in a nation; entrepreneurship and new strategies; the micro-policy of the region; cluster initiatives.[3472]

12.4.3.1.5 Comparing Innovation

In the matter of innovation, the following table summarises the results:

3463 Gupta, Lehmann and Stuart (2004), in: Gupta, Hanssens, Hardie, Kahn, Kumar, Lin and Sriram (2006), p. 144
3464 Cokins (2009), p. 173
3465 Hollensen (2011), p. 453
3466 Tossavainen and Turta (2013), p. 10
3467 Tossavainen and Turta (2013), p. 27
3468 Jobber and Lancaster (2000), p. 127, in Tossavainen and Turta (2013), p. 27
3469 Cambié and Ooi (2009), p. 78
3470 Cox and Blake (1991), pp. 45-56, in: Schneider and Barsoux (2003), p. 279
3471 For example, in a conceptualisation of network dynamics, Hite and Hesterly (2001) hold that networks develop in the process of adapting to the company's changing resource needs and challenges. In: Coviello (2005), p. 40
3472 Sölvell (2009), in: Kaiser (2010), p. 25

Figure 55: Comparing Innovation

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Strategic Answers: Innovation					
Collaborative innovation networks	Would like to, but paranoid. Know-how protected with patents.	Would like to, but only for non-core processes. Numerous patents.	Highly dependent on collaboration with distributors (downstream-centric).	Highly dependent on collaboration with assemblers (downstream-centric).	Highly dependent on collaboration with assemblers (downstream-centric).	Highly dependent on collaboration with assemblers (downstream-centric).
Market readiness of R&D and innovation	Highly sensitive and risky.	Highly sensitive and risky.	Not applicable.	Highly sensitive and risky.	Not applicable.	Highly sensitive and risky.
Innovation relies on core competencies	Not enough or not applicable.	Highly applicable.	Totally applicable.	Totally applicable.	Not applicable.	Totally applicable.

12.4.3.1.6 Discussion

12.4.3.1.6.1 Collaborative Innovation Networks

Innovation in SMEs is at the heart of economic development,[3473] and several studies show the positive relationship between innovation and the success of SMEs.[3474] Yet, with new technologies becoming more complex and, at the same time, information and communication technology being more pervasive, companies of all sizes are much less likely to innovate by themselves.[3475] They are co-operating with academic institutions and other companies through innovation networks in and between sectors, regions and nation states.[3476] Hence, companies can now become part of innovation networks. This eventually allows them to bring together product design, research and development, process planning, manufacturing, assembly and marketing into a single operation.[3477]

With regard to collaborative innovation networks, we have identified the following two groups:

- The companies in group one (the Tooler, Metrologist, Watch Parter and Opticer) are highly dependent on their collaboration with either their assemblers or distributors. Hence, their incentives for an active role within collaborative innovation networks that are not connected to their partners is very limited.
- The companies in the second group (the Micro-technologist and Watcher) would like to intensify their collaboration, but are restrained in doing so:
    - The Micro-technologist shows signs of paranoia and protects its know-how with numerous patents. Moreover, the company is convinced that collaborative innovation networks only focus on highly specialised domains.
    - The Watcher, on the other hand, is highly collaborative concerning non-core processes when it comes to manufacturing, but paranoid with regard to design.

  The approach of both companies is questionable, since we have already seen that successful innovation is very rarely achieved alone but typically through relationships that come in many forms (relationships between organisations and customers; big business and small start-ups; business and social entrepreneurs).[3478]

12.4.3.1.6.2 Market Readiness of R&D and Innovation

The Global Competitiveness Report of the World Economic Forum states that Switzerland's *"most notable strengths are related to innovation, technological readiness … and the strong collaboration between its academic and business sectors, combined with high company spending on R&D, ensures that much of this research is translated into marketable products and processes that are reinforced by strong intellectual property protection."*[3479]

3473 Jones and Tilley (2003), in: Edwards, Delbridge and Munday (2005), p. 1119
3474 Lloyd-Reason, Muller and Wall (2002); Camison, Lapiedra, Segarra and Boronat (2004), in: Jardon (2011), p. 7
3475 Powell, Koput, Smith-Doerr (1996), in: Edwards, Delbridge and Munday (2005), p. 1121
3476 Coombs, Richards, Savioti and Walsh (1996); Hakansson (1989); Hagedoorn and Schakenraad (1992); Soeters (1993), in: Edwards, Delbridge and Munday (2005), p. 1121, who refer to Pittaway, Robertson, Munir, Denyer and Neely (2003) for a review of the role of networks
3477 Jacob and Ouellet (2001)
3478 Johnson, Scholes and Whittington (2008), p. 324
3479 World Economic Forum (2011), p. 1

An important factor is also the time at which an enhanced functionality becomes available to customers. To get to the market with the offer of an excellent functionality but several months or years after competitors will not be the basis for high margins. Being late in many product innovations may be far more costly to a company than incurring a cost overrun on the innovation process itself. Thus, companies with excellent innovation and product leadership bring their superior products and services to the market faster than competitors ("first-to-market"). This is an important source of revenue and margin growth particularly for product leaders.[3480] With their innovative or enhanced features and functionality, they are keen on being first-to-market. Thus, they can charge high prices to early adopters who most value the unique functionality of the products, or else capture a large market share in situations characterised by large switching costs or a system lock-in, which enables them to defend their early advantage without price cutting.[3481]

As far as the market readiness of R&D and innovation is concerned, there are the following two groups:

- In the first group (the Micro-technologist, Watcher, Metrologist and Opticer), this issue is highly sensitive and risky:
    - The Micro-technologist has important investments in R&D and continuous product improvements.
    - The Watcher tries to act as a trendsetter and thus participates, for example, in innovation contests.
    - The Metrologist enjoys a first entry competitive advantage, and
    - the Opticer has to constantly adapt to innovative solutions that are required by its assembler.
- In the second group (the Tooler and Watch Parter), the market readiness of R&D and innovation is not applicable. The Tooler is not innovative enough and the Watch Parter is dependent on the innovations of others.

12.4.3.1.6.3 Innovation Relies on Core Competencies

Globalisation, the increasing spread of technology, and cost-cutting programmes provide for strong competitive pressures. This necessitates innovation at the product, service and process levels.[3482] Thus, refocusing on core activities in combination with the knowledge-based economy and competence management has led to the emergence of companies that are more equal to becoming catalysts for innovation and R&D than the largest groups could ever be.[3483] It has been shown by many researchers that core competencies have a positive impact on innovation and its success.[3484] Özbag, who has confirmed this relationship in his study, asserts that it is critical to generate and maintain a good fit between core competencies and new product development.[3485]

In the matter of innovation that relies on core competencies, there are two distinct groups:

3480 Kaplan and Norton (2004b), p. 149
3481 Kaplan and Norton (2004b), p. 326
3482 Müller and Volery (2010), p. 27
3483 Opinion, Blili (2010)
3484 Cooper and De Brentani (1991); Cooper and Kleinschmidt (1993); Kleinschmidt and Cooper (1991); Song and Parry (1997); Zirger and Maidique (1990), in: Özbag (2013), p. 15
3485 Özbag (2013), p. 15

- This matter is highly or totally applicable for the first group (the Watcher, Tooler, Metrologist and Opticer).
- For the second group (the Micro-technologist and Watch Parter), it is not enough or not applicable. The Micro-technologist is too integrated because of a certain paranoia. Moreover, in this company, it is the clients who initiate innovation. The Watch Parter is not innovative at all.

Moreover, innovation that relies on core competencies is also tied to the leveraging of core competencies. In the literature on core competencies, it is emphasised how product excellence along a given functionality dimension can often be leveraged into many other applications and market segments.[3486] The goal of a core competence is to build world leadership in the design and development of a particular class of product functionality.[3487] However, this aspect has not been examined. Only the Micro-technologist has several strategic business units, but these are not covered by the scope of this inquiry

12.4.3.1.7 Comparing Business Citizenship

In the matter of positioning, the following table summarises the results:

3486 Prahalad and Hamel (1990) and (1994), in: Kaplan and Norton (2004b), p. 150
3487 Prahalad and Hamel (1990), p. 88

Figure 56: Comparing Business Citizenship

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Strategic Answers: Business Citizenship					
Business advocacy	Weak awareness.	Weak awareness.	Weak awareness.	Weak awareness.	Weak awareness.	Weak awareness.
Legitimate	Crucial concern. "Bread and butter".	Crucial matter. Sensitive to crisis happenings.	High level of concern, especially in mature markets.	Crucial concern. "Bread and butter".	Obliged by heavy book of charges ("live or die"). Has no distinctive skills.	Crucial concern. "Bread and butter".
Social image	Low level of awareness because B2B.	Low level of concern because luxury product and low profile brand.	Claiming to fit with social responsibility by using "Swiss made".	Low level of awareness because B2B.	Not applicable because of its captive strategy.	Low level of awareness because B2B.

12.4.3.1.8 Discussion

12.4.3.1.8.1 Business Advocacy

Business advocacy is used analogously with "advocacy", which Kostecki explains as commercial diplomats' involvement in public affairs for the benefit of national companies and business associations in their dealings with the host country government, parliament or general public.[3488] This also means that commercial diplomats react to host country proposals for regulations and international trade agreements.[3489]

It is not surprising that there is only weak business advocacy awareness on the part of the six investigated companies. After all, they are characterised as entrepreneurial and growing SMEs operating in a consensual environment, i.e. they are neither operating in critical industries, such as banking or tobacco, and nor do they have a critical mass. The important organisational values in a consensual culture are elements such as tradition, loyalty, personal commitment, extensive socialisation, teamwork, self-management and social influence.[3490] Consensual and bureaucratic cultures are more inward looking and closed than entrepreneurial and competitive cultures, which are more innovative and likely to engage in risk taking.[3491]

Due to these characteristics, none of the six companies has a problematic relationship with either labour unions or trade associations. Thus, it should be recognised that large companies are of much more importance to trade unions and therefore are able to dominate association policy.[3492] SMEs are also underrepresented in industrial federations.[3493] Additional reasons for the lack of business advocacy apply to the Metrologist, the Watch Parter and the Opticer. These companies simply follow the donor of order. They are not empowered within their respective industries and hence do not require business advocacy.

An important means of influencing one's environment is lobbying, which is defined as *"the promotion, preservation and enhancing of a favourable legislative and regulatory environment."*[3494] However, due to time constraints on SMEs for lobbying, they are not in a position to influence the political arena as effectively as large companies, due to the fact that the professional preparation for such activities is lacking.[3495] Because of their geographical and personal proximity to local decision-makers, they may have advantages (or at least are not discriminated against severely) at the regional level. However, when it comes to the national and supranational level, the chances of SMEs carrying out effective and efficient lobbying, and hence influencing the political arena in order to secure regulations favourable for themselves, are substantially limited compared to the possibilities of larger companies.[3496]

12.4.3.1.8.2 Legitimate

For highly sensitive origins ("Swiss made"), compliance with international certification and quality control is a given. As we can see, all companies have to legitimate their

3488 Kostecki (2005), in: Kostecki and Naray (2006), p. 6
3489 Kostecki and Naray (2006), p. 6
3490 Deshpande and Farley (1999), in: Rashid, Sambasivan and Johari (2003), p. 712
3491 Deshpande and Farley (1999), in: Rashid, Sambasivan and Johari (2003), p. 712
3492 Rössl, Kraus and Fink (2006), p. 1
3493 Fassin (2008), p. 374, in: Lüthold (2010), p. 8
3494 Van der Straten W.C. (1989), in: Rössl, Kraus and Fink (2006), p. 1
3495 Rössl, Kraus and Fink (2006), p. 1
3496 Rössl, Kraus and Fink (2006), pp. 2-3

operations and be compliant with such norms and certifications. For all six investigated companies, this is a crucial matter of great concern and ensures that they can operate in their market and that the access of new entrants remains limited.

12.4.3.1.8.3 Social Image

Most definitions of social responsibility describe it as the voluntary integration of social and ecological concerns into the industrial and commercial activities of companies.[3497] Being socially responsible can be justified in terms of the triple bottom line: social and environmental benefits as well as increased profits.[3498]

In the matter of social image, we can identify the following two groups:

- Companies in the first group (the Micro-technologist, Watcher, Metrologist, Watch Parter and Opticer) have a low level of concern. In B2B relationships in particular, there is already a high degree of loyalty and reliability among trading partners,[3499] and hence companies are less dependent on having a good social image. For the Watcher, social image does not play an important role, since it is operating in the luxury segment and only has a low profile brand. At the same time, the low level of concern of the companies in this group does not exclude them all from being persuaded that social image reinforces their image as a "Swiss brand".
- The second group is represented by the Tooler, which not only has to look after its local social image but increasingly also its social image at the global company level. The Tooler tries to combine sustainable actions with its good reputation and consequently its "Swiss brand".

12.4.4 LEARNING AND GROWTH PERSPECTIVE

The learning and growth perspective consists of so-called intangible assets. These have been described by Stewart as *"knowledge that exists in an organization to create differential advantage"*[3500] or *"the capabilities of the company's employees to satisfy customer needs."*[3501]

12.4.4.1 Comparing Learning and Growth Perspectives

12.4.4.1.1 Comparing Human Capital

In the matter of human capital, the following table summarises the results:

3497 Igalens and Joras (2002), p. 13
3498 Waddock and Bodwell (2004), pp. 25-37 and Orsato (2006), pp. 127-143, in: Johnson, Scholes and Whittington (2008), p. 150; See also Goleman (2009), p. 238 or Igalens and Joras (2002), p. 13
3499 Davis, Golicic and Marquardt (2012), p. 200, in: Kolis and Jirinova (2013), p. 24
3500 Stewart (1991), pp. 44-60, in: Kaplan and Norton (2004b), p. 202
3501 Stewart (1998), p. 67, in: Kaplan and Norton (2004b), pp. 202-203

Figure 57: Comparing Human Capital

	COMPANIES					
	MICRO-TECHNOLOGIST B2	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Human Capital					
Skills	High level of concern, and cautiously maintained and valorised.	Very fragile asset.	Low level of awareness.	High level of concern, and cautiously maintained and valorised.	High level of concern, and cautiously maintained and valorised.	High level of concern, and cautiously maintained and valorised.
Corporate Ethics	High level of consideration.	High level of consideration.	Medium level.	Important issue and strong sensitivity.	Low level of awareness.	High level of consideration.
Knowledge	Crucial asset. Successfully transmits its know-how and experience internally.	Crucial asset but acquired from outside. Know-how is shared.	Not essential.	Crucial asset. Industry specific. Co-operates with a highly reputable technology institute.	Not applicable because of innovation of others.	Crucial asset. Intensive contact with a technology institute.
Educate Permanently	Low level of investment (except vocational training).	Low level of investment (except vocational training).	Low level of investment (except vocational training).	Low level of investment (except vocational training).	Low level of investment (except vocational training).	Low level of investment (except vocational training).

12.4.4.1.2 Discussion

Human capital becomes most valuable only when it is concentrated in the relatively few strategic job families implementing the internal processes critical to the company's strategy.[3502]

12.4.4.1.2.1 Skills

Mavondo, Chimhanzi and Stewart argue that employees' skills are possibly the most important strategic asset and have significant implications for organisational performance.[3503] As far as skills are concerned, the companies are divided into the following two groups:

- For the first group (the Micro-technologist, Watcher, Metrologist, Watch Parter and Opticer), this attribute is of great concern and cautiously maintained and valorised. They are looking for highly qualified and experienced personnel with high level competencies in their respective fields. For the Watcher, in particular, who requires strong know-how in high-end watchmaking, skills are a very fragile asset.
- In the second group, the Tooler represents a company with a low level of awareness. In this environment, the level of required skills is less demanding. Nonetheless, employees attend specific training.

We are convinced that all six researched companies are aware of their strategic job families, i.e. the positions in which employees with the right skills, talent, and knowledge have the biggest impact on enhancing the organisation's critical internal processes.[3504] With the exception of the Tooler, these strategic job families comprise highly qualified professions. Therefore, the result is that skills have become one of the most important assets of countries such as Switzerland. Moreover, it shows that this does not only refer to management but also, and especially, to qualified workers. After all, qualified workers with their specialised manual skills are crucial for the high quality of products required by clients. In this context, Mintzberg, together with other strategy scholars like Hamel, emphasises emerging strategies and therefore the limitations of top-down strategic direction.[3505] Arguing that some of the best ideas for new strategies come from employees within the organisation, they state that the role of senior management is to be ever alert to innovative ideas that employees who are close to technologies, processes, and customers may suggest, even when these suggestions originate outside the official strategy planning and review process.[3506] Yet, it is not only employees' skills and innovative ideas that are relevant but also whether they fit in with the company's values and culture.

12.4.4.1.2.2 Corporate Ethics

The province of business ethics exists at both the macro and individual level. In the first case, the expectations about the role of businesses and other organisations in society range from laissez-faire free enterprise at one extreme to shapers of society at the other. The organisation's broad ethical stance is a matter of corporate social

3502 Kaplan and Norton (2004a), p. 63
3503 Mavondo, Chimhanzi and Stewart (2005), in: Nasution, Mavondo, Matanda and Ndubisi (2011), p. 339
3504 Kaplan and Norton (2004a), p. 56
3505 Mintzberg (1987c), pp. 66-75; Mintzberg and Waters (1985), pp. 257-272; Hamel (1996), pp. 69-82, in: Kaplan and Norton (2008), p. 275
3506 Kaplan and Norton (2008), p. 275

responsibility. On the other hand, business ethics concerning the behaviour and actions of people in organisations is at the latter level and can be discussed in terms of the role of managers in the strategic management process.[3507] The notions of corporate social responsibility and therefore business ethics have gained in importance. As a result of this development, the concept of corporate governance basically explains how corporations implement clear guidelines and rules in order to better include shareholder and stakeholder interests.[3508]

In the matter of corporate ethics, we can distinguish the following groups:

- In the first group (the Micro-technologist, Watcher, Metrologist and Opticer), this attribute is given a high level of importance.
- In the second group, this issue is of medium (the Tooler) or low-level (the Watch Parter) concern.

12.4.4.1.2.3 Knowledge

In the machine age, workers merely had to operate machines. In contrast, in our knowledge society, the knowledge of experts is needed.[3509] Nowadays, the firm is considered to be a reservoir of knowledge, which it shares with its customers, suppliers, employees and stakeholders.[3510] People's knowledge and experience can be the key factors influencing the success of strategies.[3511] There is no asset with a greater potential for an organisation than the collective knowledge possessed by all its employees. Therefore, many companies, hoping to generate, organise, develop and distribute knowledge throughout the organisation, have spent a lot of money on purchasing or creating formal knowledge management systems.[3512]

When it comes to knowledge, the following two groups can be distinguished:

- For group one (the Micro-technologist, Watcher, Metrologist and Opticer), knowledge is a crucial asset. Their approach to knowledge is as follows:
    - The Micro-technologist: Know-how and experience is successfully transmitted internally;
    - The Watcher: Knowledge is acquired from outside and shared internally;
    - The Metrologist: The required knowledge is industry specific. The company successfully co-operates with a highly reputed technology institute;
    - The Opticer: Like the Metrologist, the Opticer has intensive contacts with a technology institute.
- For the companies in the second group (the Tooler and Watch Parter), knowledge plays a subordinate role:
    - For the Tooler, it is not essential due to the circumstance that its products (compared to those of the other companies) have a much lower degree of sophistication.

3507 Johnson, Scholes and Whittington (2008), p. 145
3508 Thommen (2003), pp. 14-17
3509 Malik (2011), p. 16
3510 Opinion, Blili (2010)
3511 Johnson, Scholes and Whittington (2008), p. 475
3512 Kaplan and Norton (2004a), p. 63

- For the Watch Parter, this issue is not applicable because it adopts innovations from others.

As we know, companies often use IT tools to foster knowledge-sharing. The Tooler, for example, facilitates the sharing of its information through channels such as databases, e-mail and dashboards. Many companies have spent millions of dollars on purchasing or creating formal knowledge management systems which are supposed to generate, organise, develop and distribute knowledge throughout the organisation.[3513] Unfortunately, in the Watch Parter this seems to be constrained by certain language difficulties among employees from different nationalities as well as weak group identification. Very rich diversity also makes group dynamics much more complex. Effective teamwork thus does not happen spontaneously but needs to be actively managed to avoid loss of time and resources, missed opportunities, and disappointing outcomes.[3514]

12.4.4.1.2.4 Educate Permanently

With the shift to the knowledge society, (educated) people are put at the centre.[3515] To obtain or maintain a leadership position in an environment with globalised markets, and that exacerbates international competition and leads to the proliferation of innovations[3516] requires firms to adapt to perpetual change. Such organisations have no other choice but to develop practices which encourage individual and organisational learning. Moreover, firms are under pressure to make individual and collective learning a top priority so that the knowledge which will serve as a cornerstone of their competitive strategies can be created and managed. The learning process, or the process of adaption, allows the firm to continuously adjust itself to its environment. This is how knowledge management and the development of human capital can constitute a competitive advantage.[3517] Instead, as we have already seen, training and development of employees in SMEs is generally informal and aimed at meeting short term needs.[3518]

It is therefore not surprising that all six investigated companies allocate only a low level of investment to permanent education, which is basically limited to vocational training. From this appraisal, we can deduce that the Swiss dual apprenticeship, which offers not only a solid theoretical background but, at the same time, also practical training probably prepares young trainees very well for the requirements of the labour market. However, individuals will increasingly have to take responsibility for their own continual learning and relearning, for their own self-development, and for their own careers.[3519] The capacity to educate oneself in organisations where strategies are constantly moving is essential.[3520] Furthermore, the ability to transform data into knowledge and to beneficially use it for the company makes the individual the central bearer of the organisational knowledge base.[3521]

12.4.4.1.3 Comparing Information Capital

In the matter of information capital, the following table summarises the results:

3513 Kaplan and Norton (2004a), p. 63
3514 Schneider and Barsoux (2003), p. 219
3515 Drucker (1993), in: Drucker (2008), p. 287
3516 i.e. innovation of products in the market, manufacturing processes and managerial practices, opinion, Blili (2010)
3517 Opinion, Blili (2010), referring to Garelli (2005), p. 685
3518 Hill and Stewart (2000)
3519 Drucker (1985), in: Drucker (2008), p. 325
3520 Johnson, Scholes, Whittington and Fréry (2008), p. 566
3521 Probst, Raub and Romhardt (1999), p. 39

Figure 58: Comparing Information Capital

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Information Capital					
Databases	High level of mobilisation.	Low level of mobilisation.	Low level of mobilisation.	High level of mobilisation.	Low level of mobilisation.	High level of mobilisation. Modern tools.
Information Systems	Crucial asset.	Low level of investment.	Low level of investment.	Crucial asset.	Low level of investment.	Crucial asset.
Technological Networks	Highly networked with clients.	Up-stream sub-contractors network and focused on growing distribution and promotion network.	Connected to MRP of the distributors.	ERP and joint design systems.	None.	ERP and joint design systems.

12.4.4.1.4 Discussion

Information capital makes information and knowledge available to the organisation and is the raw material for creating value in the new economy. Like human capital, it only has value in the context of a given strategy.[3522]

12.4.4.1.4.1 Databases

The application derived from databases is manifold. For example, new capabilities that are embedded within integrated customer relationship management (CRM) systems include customer databases and related analytics which permit better customer selection through cluster analysis from demographic data as well as customer profitability analysis.[3523]

As far as databases are concerned, we can distinguish the following two groups:

- With their modern tools, the level of mobilisation for the companies in group one (the Micro-technologist, Metrologist and Opticer) is high. We can explain this high level of sensitivity by the fact that the product application of both firms is intended to be integrated with complex and sophisticated equipment operated by highly demanding clients. Thus, the criticality of the knowledge and database is a given factor that one cannot reduce.
- The level of mobilisation for the companies in group two (the Watcher, Tooler and Watch Parter) is low. The following approach is much more important for them: artisanal practices (the Watcher), intermediary-centrism (the Tooler) and following the donor of orders (the Watch Parter).

12.4.4.1.4.2 Information Systems

It has been recognised that information systems are indispensable for gaining a strategic advantage.[3524] With the internet growing in influence, it is now at the heart of business processes, goods and services, as well as strategy.[3525] Information systems and information technology are a source of added value.[3526]

In the matter of information systems, we can identify the following two groups:

- For the companies of group one (the Micro-technologist, Metrologist and Opticer), information systems are a crucial asset (the same companies have a high level of mobilisation when it comes to databases). As we have already seen, these companies produce tailored/personalised products. In this context, information systems can be used for a differentiation strategy and allow firms to create customised products which closely respond to customer expectations.[3527] An ERP system also automates the basic repetitive transactions of the company.[3528] In this way, the Micro-technologist, for example, controls and steers its machines and procedures with the help of information systems.

3522 Kaplan and Norton (2004b), p. 249
3523 Kaplan and Norton (2004b), p. 124
3524 Porter and Millar (1985), pp. 149-160
3525 Porter (2001)
3526 Raymond (2003); Jacob and Ouellet (2001)
3527 Opinion, Blili (2010)
3528 Kaplan and Norton (2004a), p. 56

- The companies in the second group (the Watcher, Tooler and Watch Parter) have a low level of investment. Artisanal practices (the Watcher) are more important or information systems are either obsolete (the Tooler) or not very sophisticated (the Watch Parter).

12.4.4.1.4.3 Technological Networks

The rise of networked computers has provided easier and cheaper ways to codify, store and share certain kinds of knowledge.[3529] Moreover, a shared network, for example, presents an opportunity to achieve the greater competitiveness of an entire group of companies.[3530]

With the exception of the Watch Parter (captive strategy), technological networks are important for the investigated companies. The Micro-technologist is highly networked with clients, whereas it has a paranoid attitude vis-à-vis competitors and avoids sub-contractors. The Watcher has an up-stream sub-contractors network and focuses on a growing distribution and promotion network. The Tooler is connected to the MRP of the distributors, and both the Metrologist and Opticer have an ERP and joint design systems.

12.4.4.1.5 Comparing Organisation Capital

In the matter of organisation capital, the following table summarises the results:

3529 Hansen, Nohria and Tierney (1999), p. 62
3530 Jacob and Ouellet (2001)

Figure 59: Comparing Organisation Capital

	COMPANIES					
	MICRO-TECHNOLOGIST B2B	**WATCHER B2C**	**TOOLER B2B**	**METROLOGIST B2B**	**WATCH PARTER B2B**	**OPTICER B2B**
ATTRIBUTES						
	Organisation Capital					
Culture	Family culture. Quite conservative (paranoia).	Creative family culture based on artisans' aptitudes.	Conservative, traditional family culture.	Entrepreneurial family culture.	Low identification of employees with family culture of dutifulness and quality.	Entrepreneurial family culture.
Leadership	Hierarchical structure with managers who decide. Respectful interaction between employees and superiors.	Participative. Main decisions are discussed with founders.	Top-down, yet tries to have an increasingly horizontal structure.	Top-down. Decisions are taken by directors.	Hierarchical and authoritarian. Succession has caused a number of difficulties.	Small power distance. Direct and open communication.
Teamwork	Supportive, constructive and pleasant spirit among employees and departments. Open communication. Client is integral part of teamwork.	Communication and co-ordination are crucial.	Desired but not at the required level, yet.	Mainly among managers but not at employee level.	Not a priority because of sequential production process.	Enhanced. Managers co-operate closely and communicate openly with employees.

12.4.4.1.6 Discussion

According to Kaplan and Norton, a company with a high level of organisational capital has a shared understanding of vision, mission, values, and strategy, is strongly led, has created a performance culture around the strategy, and shares knowledge up, down, and across the organisation so that everyone works together and in the same direction.[3531]

12.4.4.1.6.1 Culture

Johnson, Scholes and Whittington assert that organisational culture is to do with the taken-for-granted in an organisation. This includes the basic assumptions and beliefs which are shared by members of an organisation, as well as the taken-for-granted ways of doing things.[3532] Culture is a powerful integrating mechanism and creates a sense of belonging to a common group with shared objectives and a unified view of the world. Yet, strong cultures are notoriously resistant to change[3533].[3534]

Some of the investigated companies have quite a strong family culture. We can distinguish the following differences:

- Companies in group one (the Micro-technologist and Tooler) have quite a conservative and traditional culture. Such companies often have long-term employees, which can impede input and ideas from outside the organisation. This may be challenging for the Micro-technologist, which, in addition, has a paranoid approach towards collaborative patterns. In the Tooler's culture, which is based on its founding principles, the history, myth and success of its founder are a source of great pride and are passed down from generation to generation. This illustrates the strong influence on a company that emanates from a founder or family.
- The perpetuation of a myth plays an important role for the Watcher, too. This company represents the second group and has a creative culture. It is based on artisans' aptitudes and a concern with innovation. Culture is the key matrix of the business model ("paradigm breaker").
- The culture of the companies in group three (the Metrologist and Opticer) is entrepreneurial and based on a mixture of a conservative winning tradition and an openness to technological jumps.
- The Watch Parter, which is in group four, has employees with weak identification with the family culture of dutifulness and quality. This company follows trends and is trained to stay Swiss ("Swiss-made drunk").

12.4.4.1.6.2 Leadership

Empirical studies support the hypothesis that leaders have a significant influence on the overall performance of their organisations and that more often than not top management succession makes a substantial difference in the performance of organisations.[3535]

3531 Kaplan and Norton (2004b), p. 275
3532 Johnson, Scholes and Whittington (2008), p. 416
3533 In addition, *"strong values of corporate leaders' cultures may prove to be a handicap when the business environment demands change."*, in: Schneider and Barsoux (2003), p. 71
3534 De Holan (2006), pp. 144-145
3535 House and Aditya (1997), pp. 406-474, in: Maier (2002), p. 118

With regard to leadership, we can identify the following two groups:

- In the first group (the Micro-technologist, Tooler, Metrologist and Watch Parter), leadership has a hierarchical structure with decisions that are taken top-down. It needs to be pointed out that, due to its captive strategy, the Watch Parter has no defined strategy. In this company (with its low level of communication and ambiguity), succession (from father to son) has caused some problems. However, transferring leadership and management is one of the most challenging issues in family companies.[3536] Many of them do not survive this process because succession occurs rarely, often unexpectedly and without planning.[3537] Misreading a successor's qualifications and personality ranks among the most frequent causes of failed business successions.[3538]
- In the two companies of the second group (the Watcher and Opticer), leadership is participative and there is a small power distance.

12.4.4.1.6.3 Teamwork

For successful companies, the promotion of teamwork, especially the sharing of strategic knowledge throughout the organisation, is important.[3539] Teamwork and knowledge-sharing are crucial for every company.

As far as teamwork is concerned, we can distinguish the following two groups:

- Companies in the first group (the Micro-technologist, Watcher and Opticer) have supportive, open and enhanced teamwork. Due to their high level of concern for market-responsiveness-centrism, offer-diversification-centrism and client-closeness-centrism, the Micro-technologist and Opticer must be flexible, and thus need to have open and intensive communication and teamwork internally. As a trendsetter, the Watcher must behave in a similar fashion.
- The companies in the second group (the Tooler, Metrologist and Watch Parter) do not have very developed teamwork. For the Watch Parter, this is mainly due to the circumstance that the production process is sequential and hence predefined.

12.4.5 ORGANISATIONAL LEARNING

As already shown, we hold that the learning capability is a discriminant variable of competitiveness which occurs transversally all over the strategy map. Thus, each company's approach to this issue is different, as we can see below.

- **The Watcher**: The learning concern focuses on understanding the trends as well as customer tests.
- **Tooler**: For this rather conservative and not very innovative company (in spite of its declarations that innovation has always been a credo) which focuses mainly on geographic expansion, the learning capability is of little concern. Both the Watcher and Tooler apply single-loop learning.

3536 Fox, Nilakant and Hamilton (1997), pp. 15-25, in: Moog, Mirabella and Schlepphorst (2009), p. 3
3537 Gersick, Davis, Hampton and Lansberg (1997), in: Moog, Mirabella and Schlepphorst (2009), p. 3
3538 Bennedsen, Nielsen, Pérez-González (2006), in: Moog, Mirabella and Schlepphorst (2009), p. 3
3539 Kaplan and Norton (2004a), p. 61

- **The Micro-technologist, Metrologist, Watch Parter and Opticer**: These companies are committed to be mobilised through their learning skills at a very high level. Several dimensions of their strategy maps show that they have a very sophisticated learning pattern, including learning with others (partners) through the value chain. Their co-operation partnering activities show that they adopt double-loop learning[3540] (i.e. learning collectively with others) throughout their value chains (single value chain at the micro design level) in terms of R&D, marketing, production, after sales and human resources.

3540 See Argyris and Schön (1978)

CHAPTER XIII SUMMARY, CONCLUSIONS AND LIMITATIONS

Two main interrelated characteristics of twenty-first century business may be observed. First, there is globalisation, which is pulling previously distinct national economies closer together and is a catalyst for radical economic, political and social change.[3541] Second, as part of it, there is the impact of technology, particularly information and communication technology,[3542] i.e. the immaterial age.

Even though there are, and are still going to be, setbacks (e.g. protectionism, etc.), the development of both globalisation and the immaterial age is accelerating and their intensifying combination leads to previously unknown phenomena. This results in uncertainty and ambiguity, which then form complexity,[3543] i.e. another characteristic of today's business landscape[3544].

In such an environment and with the geopolitical axis shifting towards emerging markets[3545] and new prospects,[3546] Europe and the Western world in general are experiencing a certain fatigue. They are still entrenched in the old ways of conducting business.[3547]

Hence, today's hostile post-industrial business environment is characterised by previously unknown phenomena, and a company's success is more dependent on intellectual, knowledge, innovation and systems capabilities than on physical assets. In order to face these challenges, strategy is important. However, since strategy is not a very organised field, not least because traditional recipes have failed to provide successful answers, business actors do not focus very much on it. In order to reactivate the importance of strategy, small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand, must first appreciate the paradigm changes that have occurred. These changes are characterised as the movement

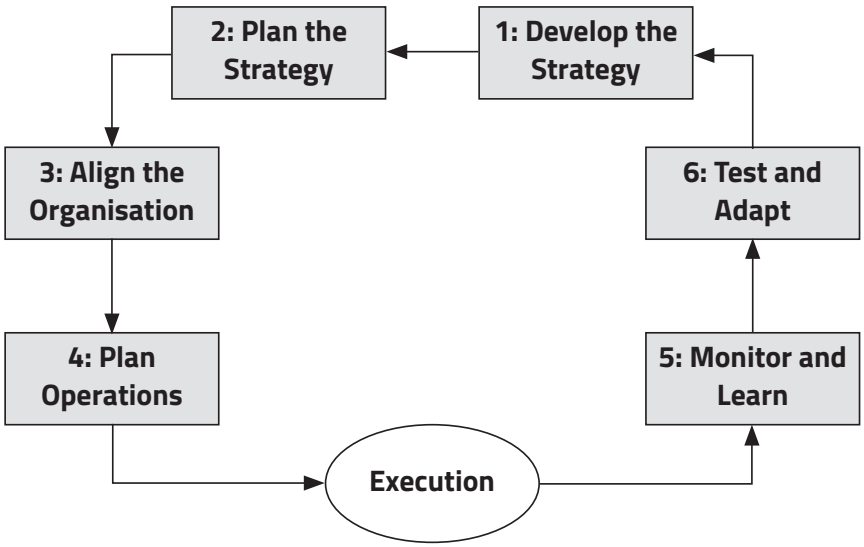
- from atoms to bytes, and
- from recipes to agility.

However, Kaplan and Norton are convinced that because companies lack an overarching management system, they generally fail to integrate and align the two vital processes of strategy implementation and management of operations.[3548] They are convinced that strategy development and the links between strategy and operations remain ad hoc, varied and fragmented, and that companies can benefit from taking a systems approach to link strategy with operations. A comprehensive and integrated management system can help them overcome the difficulties and frustration that most companies experience when attempting to implement their strategies.[3549]

Therefore, Kaplan and Norton have formulated the architecture, shown below, for a comprehensive and integrated management system that links strategy formulation and planning with operational execution. Their integrated management and closed-loop system has the following six major stages:[3550]

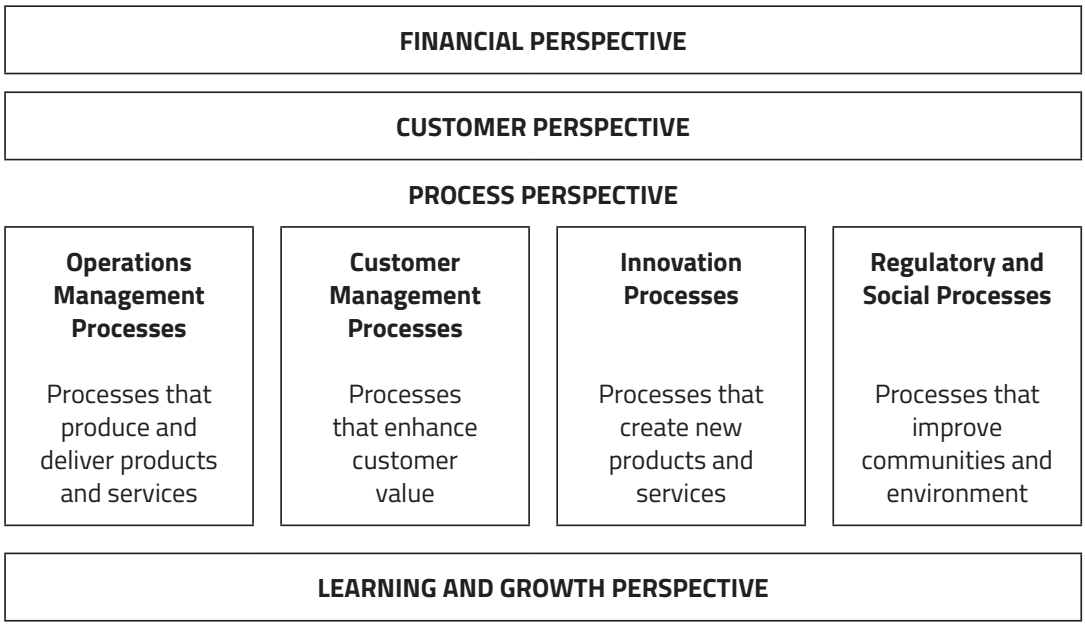
3541 McDonald and Burton (2002), p. 10
3542 Tallman (2009), p. 3
3543 Opinion, Blili (2010). Interestingly, the new advertising slogan of KPMG, a worldwide audit and consultancy company, is: "Cutting through complexity".
3544 Osterwalder (2004), p. 13
3545 *"A market is a group of customers for specific products or services that are essentially the same (for example, a particular geographical market)."*, in: Johnson, Whittington and Scholes (2011), p. 54
3546 Cambié and Ooi (2009), p. 79
3547 Cambié and Ooi (2009), p. 77
3548 Kaplan and Norton (2008), p. 1
3549 Kaplan and Norton (2008), p. 7
3550 See Kaplan and Norton (2008), p. 8

Figure 60: The Management System: Linking Strategy to Operations; (Summary)[3551]



Its core and summarising tool, the strategy map, is part of the second step. It provides the visual framework for integrating the organisation's objectives in the following four perspectives:[3552]

Figure 61: The Strategy Map (Summary)[3553]



The strategy map is based on the four perspectives of the balanced scorecard (BSC), which was also developed by Kaplan and Norton and which measures a company's

3551 Based on Kaplan and Norton (2008), p. 8
3552 Kaplan and Norton (2004b), pp. 55, 11
3553 Based on the Strategy Map of Kaplan and Norton (2008), p. 99; Kaplan and Norton (2000a), pp. 76-77, pp. 82-83; Kaplan and Norton (2004b), pp. 11, 37, 39, 51, 67, 137, 204, 226, 327, 337, 353

performance from four major perspectives: financial, customers, internal processes, and learning and growth.[3554] They briefly summarise it as follows: *"balanced scorecards tell you the knowledge, skills, and systems that your employees will need (their learning and growth) to innovate and build the right strategic capabilities and efficiencies (the internal processes) that deliver specific value to the market (the customers), which will eventually lead to higher shareholder value (the financials)."*[3555]

By combining the four sources of competitive advantage[3556] (an approach mentioned by Blili and generally acknowledged in the literature) with the X-factor universe (introduced by Andersen, Froholdt and Poulfelt), companies have to become mentally agile and concentrate on a few important aspects. Particularly for small and medium companies (SMEs) from established economies with tradable goods that have a low likelihood of imitation and (the potential for) a global brand, an agile strategy is vital.

We have visualised and mapped these aspects on an Initial Strategy Map. For the process perspective this led to the following summarising results:

- **Operations management:** collaborate; integrate management of the value chain and the logistics chain; virtualise by using information systems; network, including the particular cases of outsourcing, alliances and virtuality;[3557] control key business processes; shift from product-based differentiation towards a service-based one; guarantee high quality, reduce costs and assure quick availability.
- **Customer management:** excel at international marketing, in particular global branding and the internationalisation of organisations; build on customer attitudes; understand customers' unique preferences; strengthen customer relationships; look for customer tailored offers; expand product offerings and services; watch for customer retention; develop customer/market orientation; learn from customers but also educate them; use social media; anticipate and respond to customers' evolving needs and wants, and respect and manage cultural diversity.
- **Innovation:** watch for networked innovation; develop new products, services and processes; apply new business models; bring superior products and services to the market faster than competitors; leverage product excellence along a given functionality dimension into many other applications and market segments; exploit information and communication technologies.
- **Regulatory and social:** systematically and deliberately seek to influence the regulatory powers; earn the right to operate; develop a good reputation; act in a sustainable way by using high standards in corporate social responsibility, corporate governance, and environmental protection.

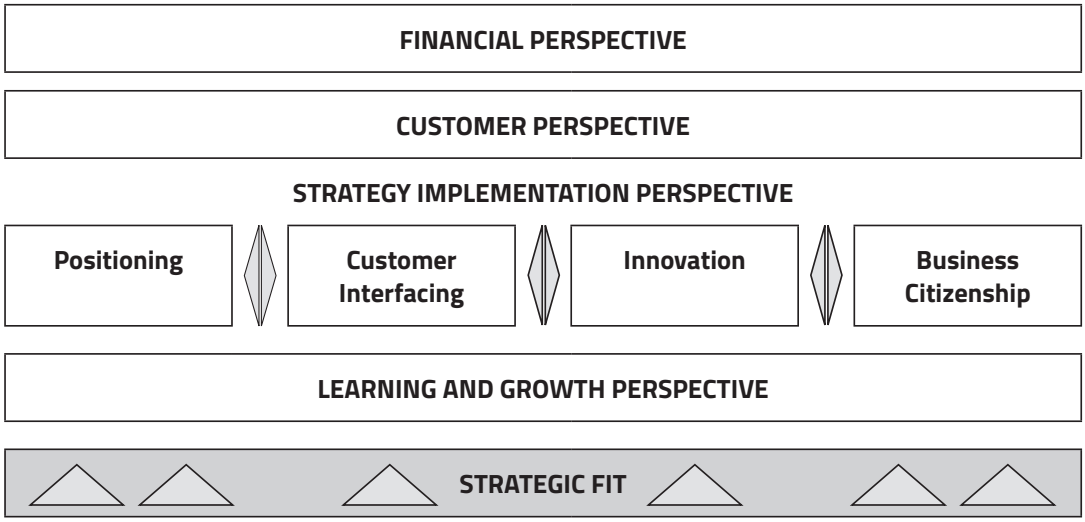
These are the critical few processes out of literally hundreds of sub-processes in each of these clusters that create and deliver the differentiating customer value proposition. They are referred to as strategic themes[3558] and link the learning and growth

3554 Kaplan and Norton (2000a), pp. 74-75
3555 Kaplan and Norton (2000a), p. 75
3556 *"..competitive advantage is about how an SBU creates value for its users both greater than the costs of supplying them and superior to that of rival SBUs."*, in Johnson, Whittington and Scholes (2011), p. 199. Thus, *"A strategic business unit (SBU) supplies goods or services for a distinct domain of activity."*, in: Johnson, Whittington and Scholes (2011), p. 198
3557 Hence, an individual firm's competitiveness is giving way to the concept of competitiveness of the entire production chain. Opinion, Blili (2010)
3558 Kaplan and Norton (2004b), p. 12

perspective with the **customer perspective** (customer value proposition). This latter has to include the following aspects: brand; reputation; competitive prices; low total cost of supply; quality and high-performance products; speedy, timely purchase; excellent selection, and intimate customer relationships. The strategy map shows that if the company satisfies the customer value proposition, it will be able to realise a long-term shareholder value in the financial perspective.

Based on the data collection of the empirical research, we have adopted, synthesised, and specified this Initial Strategy Map as the following Proposed Dynamic Strategy Map:

Figure 62: Proposed Dynamic Strategy Map (Summary)



The Proposed Dynamic Strategy Map better summarises and reflects our own ideas. It comprises the following perspectives, clusters, objectives and components:

- **Financial Perspective**: Cost-structure-centrism; Asset-utilisation-centrism; Revenue-opportunity-centrism; Customer-value-centrism.
- **Customer Perspective**: Brand-centrism; Reputation-centrism; Price-centrism; Supply-cost-centrism; Quality-centrism; Market-responsiveness-centrism; Offer-diversification-centrism; Customer-closeness centrism.
- **Strategy Implementation Perspective**:
    - **Positioning**: Collaboration; Meta-value chain; Virtualisation; Focus on core competencies; Increase servuction; Lean model.
    - **Customer interfacing**: Focus on adaptive internationalisation; Client life-time value; Focus on customer unique preferences; CRM-model; Added value; Maximise retention; Endogenous multi-culturalism.
    - **Innovation**: Collaborative innovation networks; Market readiness of R&D and innovation; Innovation relies on core competencies.
    - **Business citizenship**: Business advocacy; Legitimate; Social image.
- **Learning and Growth Perspective**:
    - **Human Capital**: Skills; Corporate Ethics; Knowledge; Educate Permanently.

- **Information Capital**: Databases; Information Systems; Technological Networks.
- **Organisational Capital**: Culture; Leadership; Teamwork.

The learning and growth perspective is the fourth perspective of the strategy map. Maximum value can only be created when a company's intangible assets are aligned with each other, with the company's tangible assets and with its strategy.[3559] However, we have added a new perspective, "STRATEGIC FIT", at the bottom of the Proposed Dynamic Strategy Map, replacing Kaplan and Norton's "alignment concept". In contrast to this latter, the "STRATEGIC FIT" relies on the meta-level fit between the upstream and downstream perspectives.

In addition to the Proposed Dynamic Strategy Map, we have summarised and identified the following critical success factors[3560] for the implementation and mapping of a successful strategy:

- More agility, creativity, rapidity and efficiency;
- Simultaneous formulation and implementation;
- Appliance of the Strategy Map;
- Caring about values;
- Building on "wetware" and intangible skills;
- Functioning within networks;
- Putting the human factor at the centre.

Together, these elements play an important role in the new metaphor of the modern company which we have sketched towards the end of this thesis.

Thus, mental agility plays a key role in many aspects. If a company does not want to be sidelined by the competition, it must put even more effort into the development of its key competencies, as well as improving its agility, flexibility, and rapidity.[3561]

Hence, traditional views of strategy are no longer the answer to all questions. Consequently, success should not be viewed as the result of cook books and "one size fits all" recipes but in the context of the X-factor universe.[3562]

Finally, we have validated and clarified our Proposed Dynamic Strategy Map by performing an in-depth analysis which included six Swiss SMEs in the manufacturing industry.

A key difference of case studies from other research methods is that they seek to study phenomena in their contexts rather than independently of them.[3563] Qualitative empirical research shows that our Proposed Dynamic Strategy Map framework is applicable to companies, and helps to quickly and easily understand in a dynamic way the Strategy Map and the strategic concerns of exporting SMEs. However, any study

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3559 Kaplan and Norton (2004b), p. 30

3560 According to Vernette, a Critical Success Factor (CSF) is the term for competencies which are necessary to successfully fight on a market, in: Vernette (1998), p. 375. Johnson,Whittington and Scholes define it as follows: *"Critical success factors (CSFs) are those factors that are either particularly valued by customers or which provide a significant advantage in terms of cost."*, in: Johnson, Whittington and Scholes (2011), p. 73

3561 Jacob and Ouellet (2001)

3562 Andersen, Froholdt and Poulfelt (2010), p. 4

3563 E.g. Pettigrew (1973), in: Gibbert, Ruigrok and Wicki (2008), p. 1466

has its limitations,[3564] and our results also have to be interpreted with some caution, as they are limited in a number of ways.

First, the comparative business case study relies on a limited sample. Manifestly, the total of only six SME companies which, with a single exception, all operate in a B2B configuration, is not a representative sample and does not allow any generalisation of our results. Moreover, the empirical research was merely based on a series of focused interviews with key respondents. As a matter of course, the results of such a study will always be subjective and therefore the validity and reliability of our results do not allow a strong external validity. After all, interviews, which were the primary source for the data, only allow one to find out what is going on from the respondent's point of view. Furthermore, since all the companies were drawn from Switzerland, country-specific effects cannot be ruled out. Finally, the fact that no longitudinal data have been collected limits our conclusions, too.

Some of these limitations might be overcome by further research into the subject. Obviously, its external validity might be improved by replication on a larger scale in other industries (especially service companies) with smaller, larger, as well as multinational firms, and also in more countries, including emerging markets as well as additional B2C companies. Moreover, it would be revealing to also interview staff members, which would provide a richer view and allow insights into any inconsistencies between top executives and employees. Hence, one should adopt different angles from which to look at the same phenomenon, by using different data collection strategies and different data sources.[3565] Furthermore, our qualitative approach has evident strengths and weaknesses that could be challenged or solved by quantitative research into the same issues. Finally, long-term surveys with longitudinal data for analysis would provide even greater depth and should therefore be considered, too. Such an approach is important, since the dimension of time has been emphasised as being fundamental in isolating key developments in studies of internationalisation[3566] and also studies of entrepreneurial behaviour and other processes[3567].

3564 Marshall and Rossman (1999), in: Ghanatabadi (2005), p. 299
3565 Denzin and Lincoln (1994); Yin (1994), in: Gibbert, Ruigrok and Wicki (2008), p. 1468
3566 Buckley and Chapman (1996); Andersen (1997), in: Coviello and Jones (2004), p. 487
3567 Chandler and Lyon (2001), in: Coviello and Jones (2004), p. 487

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CHAPTER XV ANNEX: QUESTIONNAIRE
(EMPIRICAL RESEARCH)

The following questionnaire was used during the intervention in the field (empirical research):

FINANCIAL PERSPECTIVE

- Do you follow a "Productivity Strategy" or a "Growth Strategy? Explain.

CUSTOMER PERSPECTIVE

- How important is the "brand" for the customer value proposition?
- Is "reputation" a criterion for your customers?
- How important are "competitive prices" for your customers?
- How important is a "low total cost of supply" for your customers?
- Are "quality and high-performance products" important for your customers?
- Is "speedy, timely purchase" a criterion for your customers?
- How important is an "excellent selection" for your customers?
- What role do "intimate customer relationships" play for your customers?

PROCESS PERSPECTIVE

- Are the following aspects important objectives for your "Operations process" and in what way do they fulfill the "customer value proposition"?
    - "Collaborate";
    - "Integrate management of the value chain and the logistics chain";
    - "Virtualise by using information systems";
    - "Network, including the particular cases of outsourcing, alliances and virtuality";
    - "Control key business processes";
    - "Shift from product-based differentiation towards a service-based one";
    - "Guarantee high quality, reduce costs and assure quick availability".
- Are the following aspects important objectives for your "Customers process" and in what way do they fulfill the "customer value proposition"?
    - "Excel at international marketing, in particular global branding and the internationalisation of organisations";
    - "Build on customer attitudes";
    - "Understand customers' unique preferences";
    - "Strengthen customer relationships";
    - "Look for customer tailored offers";
    - "Expand product offerings and services";
    - "Watch for customer retention";
    - "Develop customer/market orientation";

- "Learn from customers but also educate them. Use social media";
- "Anticipate and respond to customers' evolving needs and wants";
- "Respect and manage cultural diversity".

- Are the following aspects important objectives for your "Innovation process" and in what way do they fulfill the "customer value proposition"?
  - "Watch for networked innovation";
  - "Develop new products, services and processes";
  - "Apply new business models";
  - "Bring superior products and services to the market faster than competitors";
  - "Leverage product excellence along a given functionality dimension into many other applications and market segments";
  - "Exploit information and communication technologies".

- Are the following aspects important objectives for your "Regulations & Social process" and in what way do they fulfill the "customer value proposition"?
  - "Systematically and deliberately seek to influence the regulatory powers";
  - "Earn the right to operate";
  - "Develop a good reputation";
  - "Act in a sustainable way by using high standards in corporate social responsibility, corporate governance, and environmental protection".

LEARNING AND GROWTH PERSPECTIVE

- **Human Capital**: How do you characterise your required
  - "Skills"?
  - "Values"?
  - "Knowledge"?

  In what way do the specific characteristics of these aspects support your strategy?

- **Information Capital**: How do you characterise your required
  - "Databases"?
  - "Systems"?
  - "Technological Networks"?
  - "Libraries"?

  In what way do the specific characteristics of these aspects support your strategy?

- **Organisational Capital**: How do you characterise your required
    - "Culture"?
    - "Leadership"?
    - "Teamwork"?
    - "Alignment"?

  In what way do the specific characteristics of these aspects support your strategy?