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# Management Models

## McKinsey's 7s framework

The seven S model was introduced by McKinsey consultants Tom Peters and Robert H Waterman in their 1982 book '*In Search of Excellence*'. Peters and Waterman were keen to find out what makes organisations successful and started by exploring the relationship between strategy and structure. Based on the results of their research carried out during the 1970s, they came to the conclusion that no single factor determines success but that a number of different factors play key roles. Seven interconnected variables were identified:

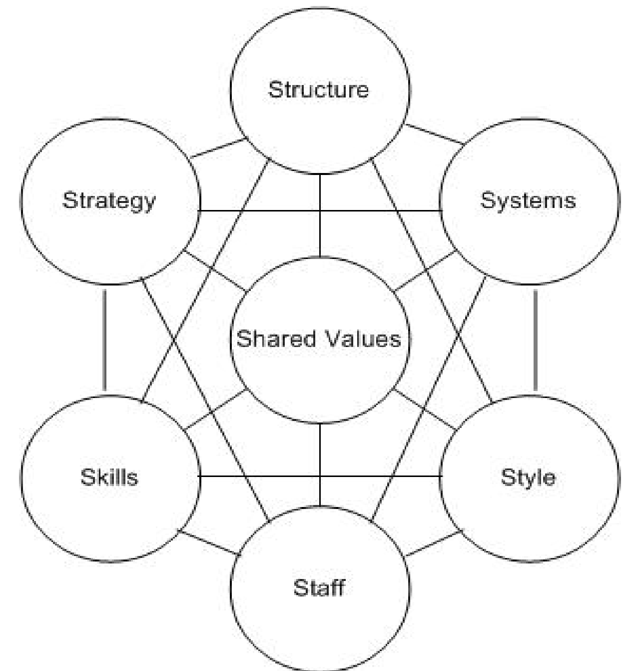
three 'hard' factors:

•**Strategy** – the organisation's response to changes in the business environment
•**Structure** – the organisation of functions, tasks, people and lines of authority
•**Systems** – the formal and informal procedures governing operations

and four 'soft' factors:

•**Staff** – the people or human resources and their competencies
•**Skills** – the distinctive capabilities of the organisation
•**Style** – the management styles of leaders and the overall organisational culture
•**Shared values** – the fundamental values shared across the organisation.

The diagram shows how the factors interact and highlights the need to align all seven factors across an organisation. Shared values are placed in the middle to show how the overarching purpose of the organisation affects all the other elements.




Adapted from "Enduring Ideas: The 7-S Framework" March 2008, www.mckinseyquarterly.com. Reprinted by permission, McKinsey & Company.

**How can this help me?** - Peters and Waterman suggested that many strategies fail because of a failure to pay attention to some of the factors during the implementation process, especially the 'soft' ones. The 7S framework can help organisations to assess how well they are positioned for competitive advantage and growth. It can be used to identify where better alignment and coordination are needed and to anticipate what future adjustments may be needed in the light of change in the external business environment. Situations where the framework may be useful include: restructuring programmes, mergers, changes in leadership and the introduction of new systems.

**Find out more:** Read: **In Search of Excellence** by Tom Peters and Robert H Waterman.

**Mindtools** www.mindtools.com - Information on the McKinsey 7S framework is included under 'Problem Solving'.

# Excising costs from budgets

In executing some hefty tax cuts the UK government is leading where many managers may have to follow, learning to wield that cost cutting axe without killing the business. Report by **Sue Mann**

We're heading for a new age of austerity and belt tightening. In May the Chancellor of the Exchequer and the then Chief Secretary to the Treasury announced a £6.25bn package of public spending cuts as a first swipe at the UK's huge £156bn deficit.

Quango costs, a freeze on civil service recruitment, delays or cuts to government contracts and projects, savings on IT expenditure (including ID cards), and consultancy and travel budgets were all targeted.

The general consensus seems to be that the decisions made by the Chancellor were sensible – and there's more of the same, no doubt, in the June budget – but it leads to the question: How do you make substantial budget cuts without killing the business?

The Government has a massive task on its hands as it tries to whittle away that deficit, and it is a skill managers will increasingly need to master as the impact of all this austerity filters through the public sector to every other sector.

After more than a decade of boom, the last couple of years of bust, i.e. credit crunch followed by recession, may well have provided some managers with their first taste of budget cutting.

Of course, there are many other circumstances that can cause those well laid plans to be ripped up: Loss of a major client or supplier; a change in management; plain and simple over-expenditure; a gaping hole in another department's budget; and unforeseen circumstances, like erupting volcanos.

Chartered accountant Mike Bourne, Professor of business performance at Cranfield University – and co-author with Pippa Bourne of *Instant Manager: Balanced Scorecard** - says budget cuts can often be caused, simply, by poor forecasting.

"A budget crisis may arise as a result of not forecasting the future properly, for whatever reason. Sometimes this is impossible to do because the world changes so rapidly. 9/11 is a classic example. Its impact nearly put the giant Boeing Company out of business. Suddenly this very, very strong and powerful company found itself with a cash flow problem as customers delayed taking delivery of orders."

On the other hand, Pippa Bourne, ICAEW's regional director for the East of England, says: "Budget cuts are not always the result of a crisis. They can be part of a prudent examination of what is being spent and the value of that spending. Sometimes the budget is spent on something - because it has always been - but circumstances change and it needs to be recognised that it is no longer necessary."

## Deep pockets

It is at times like these, when the budget goes awry for whatever reason, that organisations with deep pockets have more room for manoeuvre, which is why the amount of capital and reserves a company has is so important. If a company has deep pockets it can play the long game, running at a loss for a bit and eating into its reserves until the situation improves.

Mike Bourne says: "If you are a quoted company and you have decided to take the hit on profits, there are two things you need to do. Firstly, you have got to keep your people occupied productively. It is no good having them sitting around doing nothing. If your sales force is working very closely with customers, though they are not placing orders, at least they are building relationships and that is an investment in the future. Likewise, if you have got people on an idle production line, you have got to be developing something new to keep them busy and create potential future sales opportunities.

"Secondly, you have got to explain to your shareholders why you are doing what you are doing because they will expect you to cut back and if you are not cutting back you have got to have a very good story to tell them. They need confidence in your management of the business and how your investments now will pay off in the future."

## Making cuts

On the issue of where and what to cut, Mike Bourne says: "The best approach is to ask yourself, 'What do we no longer need to do?' A lot of organisations simply stop parts of the business if the business isn't there. I have seen this in the automotive industry where they operate separate production lines for each customer. Everyone working on the line wants to keep that customer happy because they know that their jobs are on the line if the customer pulls out.

"It is a common mistake to top slice, take a percentage off almost every budget line. It is much better to identify unprofitable activities and target these along with the overheads associated with them. That is a far more effective way because you take out a whole loss-making activity in one fell swoop.

"Also, if you take, say, five per cent off everything you risk penalising some of your most productive and possibly

future profitable activities. Instead, you should be protecting parts of the business and taking money out of the rest.

"This is what the government is trying to do. It is protecting the NHS and one or two other departments and taking money out of elsewhere."

Even if you have banked profits from earlier years, it is a worthwhile exercise to take a metaphorical blank sheet of paper and write a fresh budget based on a realistic assessment of income and expenditure.

As with any budgeting, key objectives need to be identified, in the context of the strategic plans of the organisation. This will enable you to work out what is essential and what is non-essential.

Look at your fixed and variable costs and consider what you can do about them. These could be people and/or premises. For example, are all staff on permanent contracts? Could you share costs of staff or premises with another department, either over the short-term or long-term?

What most companies try to do in a downturn is avoid letting good people go. The reason for this is that it takes time and resources to recruit, develop and invest in staff who represent the organisation's source of future capital growth.

"For example, when Volvo Trucks in Sweden lost a huge percentage of its turnover at the beginning of last year, it had no alternative but to let people go. The company knows that there is a small window of opportunity, about 12 months, when it can still potentially recruit those people back before they move away from the area," says Mike.

Training, and research and development are often viewed by organisations as 'discretionary expenditure' and therefore vulnerable to cost cutting but Mike argues that both can and do provide a return on investment and if they are cut then the organisation won't get that return.

Another pitfall is to look at the biggest number in the budget and cut that. It may work but in doing so you may create other, higher costs or restricted income in the long run.

Everything on the budget should be examined ruthlessly. There is no room for sacred cows when it comes to budget cuts. You may have a pet project but if it is not essential to the business then it may have to go, or be postponed.

Pippa says: "You need to look at the value of any given budget and question what is it adding? When considering cuts, ask 'what is this spending for? What will happen if we cut it?' It is important to focus on outcomes. What are you trying to achieve by spending this money? Make sure you look at the whole process. By cutting in one area are you increasing costs in another?

### Deciding how much

There is always a danger of cutting too much or too little. Cutting small amounts of expenditure - for example, staff benefits - may actually be detrimental in the future, says Pippa. "If you save £5,000 but spend £20,000 recruiting new staff or dealing with low morale and lower productivity you will have incurred more expenditure."

Mike says it depends to a large extent on the size of the business. "Lots of small organisations just don't want to see what's coming and can therefore get really trapped. If they don't take enough cost out of the business they can

## DO

- Before making budget cuts, consider dipping into reserves, if you have deep pockets
- Take a metaphorical blank sheet of paper and write a fresh budget based on a realistic assessment of income and expenditure
- Ask yourself ‘What can we stop doing?' Identify unprofitable activities and target those along with the overheads associated with them
- Question what value any given budget item is adding and consider the consequences and carefully evaluate what will happen if you cut it
- Look at your fixed and variable costs and consider what you can do about them
- Explain to staff exactly why the cuts have got to be made and the criteria to be applied in drawing up a revised budget
- Involve the people who will be directly implementing the cuts

## DON’T

- Top slice, taking a percentage off almost every budget line
- Look at the biggest number in the budget and cut that. It may work but in doing so you may create other, higher costs or restricted income in the long run
- Fall into the trap of making a series of small cuts. It can be totally demoralising for staff
- Allow vested interests to distort targets.
- It is natural for employees to want to settle on the lowest possible target figure if bonus payments are linked to targets

## Further information

*** Professor Mike Bourne and Pippa Bourne are co-authors of *Instant Manager: Balanced Scorecard*, published by CMI and Hodder Education. The book, and other titles in the series are available to readers at £2 off the recommended retail price (RRP is £9.99 for new titles), including free postage and packing. Order online at www.pressoffers.co.uk/HOD194 or telephone 0870 755 2122, quoting offer code HOD194. Lines are open Monday to Friday 9.00am to 5.00pm.**

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get themselves into increasing difficulty.

“However, what you don’t want to do is make a whole series of little salami slices off the budget. It can be totally demoralising for staff as they face round after round of cuts.”

### Involving the team

You have got to engage the people who have direct knowledge of what is happening in the budget cutting exercise, says Mike. “You have to explain exactly why the cuts have got to be made and the criteria to be applied in drawing up a revised budget. To do this you need to involve the people who will be directly implementing those cuts. You have got to pull managers out of their departments and engage them in a conversation that is separate from the day to day running of their operations.”

It can be difficult as people have a natural tendency to start fighting their own corner but the more communicating and planning you do the better, says Mike.

He believes that in the public sector there has been a tendency for departments to hang onto their budgets because they knew swingeing cuts were coming. If they had cut back earlier they would have less choice and flexibility now as the cost-cutting axe falls.

This sort of hedging against the future occurs in the private sector too, particularly when bonuses are linked to targets. Naturally, employees want to settle on the lowest possible target figure in the budget to ensure they achieve their bonus but the person with overall budget responsibility wants the highest possible figure because that way they will get more out of the employee before having to pay a bonus, says Mike.

“This situation is very dangerous because it is at this point that you start to lose the information. The manager whose targets and bonus are being set is hanging onto information because he doesn’t want to over promise and so his line manager doesn’t understand what is the most, the highest target figure, that could be achieved. When this happens budgeting really starts to come apart.”

### Going budget-less

There is a school of thought that you don’t need a budget. A lot of Scandinavian companies operate that way, says Mike, and so too did BP. “The problem in the oil industry is that oil prices can fluctuate wildly, so when Lord Browne was running the show BP divorced planning from the actual oil price.

“At the beginning of the year, he sent round a letter indicating what the company believed the City was expecting, and people would do their bottom up budgets. At the end of that there used to be a big gap, the difference between what senior management said it was going to deliver and the bottom up budget. Instead of negotiating a specific target, this became the stretch. There were then a series of ongoing talks throughout the year about how well management was doing towards closing that budget gap.”

In the current climate most organisations are planning or a one to two per cent growth next year but it would probably be wise to plan for a double dip recession too. That way you are covered, whether things go as planned for better… or if it all goes horribly wrong.

# Developing Strategy Checklist 258

## Introduction

It has been said that in strategy everything is simple but nothing is easy. At times of economic turbulence, environmental uncertainty and growing complexity, the question of how organisations can best set their direction for the future remains an enduring subject of debate and interest.

In the past most organisations took a highly structured approach to strategy development known as strategic planning. This involved an annual process of putting plans in place for the coming year and beyond. However, in today's complex and turbulent business environment, it is impossible to plan for every eventuality and strategy making needs to be a more flexible and dynamic process which reflects a way of thinking strategically about the business and the environment in which it operates. Organisations that fail to think strategically will be vulnerable to threats and ill-prepared to take advantage of fresh opportunities. A flexible but focused approach will put organisations in a better position to deal with setbacks and to respond to new opportunities as they emerge. Nonetheless, organisations still need to gain a clear understanding of the market place and their strategic position within it. Analysis and planning remain important for the majority of organisations.

There are many models of and approaches to strategy and a plethora of tools and techniques which can help strategy makers to assess their current position and evaluate options for the future. Such tools should not be regarded as recipes for success but used with careful thought to help in analysing and understanding the strategic context in which the organisation finds itself.

Failing to think strategically will mean that an organisation will become reactive, vulnerable to threats and closed to opportunities. Organisational strategy needs to be:

- flexible - adaptable to change, but in line with corporate mission and vision
- responsive - taking account of market, economic and environmental conditions
- creative - to inspire commitment and ensure the organisation stands out from the crowd
- challenging - so that it acts as a source of inspiration and motivation
- realistic – so that it can be seen to be achievable and people can get to grips with it
- focused - clear, defined and understandable to all stakeholders, especially employees and customers
- engaging - in line with organisational culture and values.

This checklist provides a framework for thinking about and developing organisational strategy. It is based broadly on established processes of analysis, choice and implementation. Implementation is covered more fully in a related checklist. (See Additional Resources below.)

Strategy development is often seen as predominantly the responsibility of senior management. However, in some cases, senior managers set the strategic direction and divisional heads will then be given responsibility for developing appropriate strategies for their parts of the business. Moreover, all managers have a role to play in implementing and shaping strategy and in getting buy-in from the teams who will be executing the strategy on a day to day basis. It is important for managers to develop their strategic awareness, to be aware of their organisation's current position and open to potential opportunities for change and development.

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## Definition

There are many definitions of strategy. Perhaps the simplest is “The direction an organisation takes with the aim of achieving future business success.” Strategy sets out how an organisation intends to employ its resources, including the skills and knowledge of its people as well as financial and material assets, in order to achieve its mission or overall objectives and its vision.

There is a fine line between mission and vision and the terms are not always used in the same ways. Generally speaking, however, mission focuses primarily on an organisation’s purpose, the reason why it exists, and corporate vision is an image of the future to which an organisation aspires.

Strategy development is the process of researching and identifying strategic options, selecting the most promising and deciding how resources will be allocated across the organisation to achieve objectives. Key questions to be considered include: the key questions an organisation needs to ask in connection with its future, including:

- What business are we in? Or what business should we be in? (Mission)
- Where do we want to be? (Vision)
- How are we doing? What is going well? What is not so successful?
- How did we get to this point? What went well? What went wrong?
- How can we improve our position?
- What options are open to us?
- What might hinder us from getting there?
- What do we need to do to get there?
- What should we not do?

## Action checklist

### 1. Understand the current position

Start with an assessment of the organisation’s current position. This involves looking at recent performance and position in the marketplace. Questions to ask include:

- What is our vision and how well placed are we to deliver it?
- How is the organisation performing?
- What is going well and what is not going so well?
- What is our market share?
- How are we placed in relation to our competitors?
- How do our customers see us?
- Are we on an upward or a downward curve?

Try to form a balanced view of the organisation, not just the rosy side. Don’t make assumptions - seek evidence so that decisions and future plans are based on reality.

### 2. Reflect on how you got there

Based on analysis of the current position consider the reasons behind successes and failures. Are these a result of market forces, for example, or are they the result of internal strengths or weaknesses? Questions to ask included:

- What did you do right (wrong) to get there?
- What have we done well (or badly)?
- Were we in the right place at the right time?
- What was a consequence of market circumstances?
- What was a result of good planning, bad planning, or lack of planning?

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## 3. Be clear about your corporate identity (mission, vision and values)

Revisit any existing statements of the organisation's mission – its purpose and what it exists for, its vision – what it aspires to achieve and its values – the manner in which it believes it should do business. Are these still appropriate and valid? Consider whether your perspective needs to broaden in order to take advantage of fresh opportunities or be narrowed to maintain focus and effectiveness.

Try to gain a clear sense of identity by asking questions such as:

- What kind of organisation are we?
- What does our vision indicate that we need to focus on?
- What kind of values do we have? Are we living them out or have we lost track of them?
- What people strengths (or weaknesses) do we have?
- What kind of leadership do we have?
- What is the level of morale?

## 4. Analyse your strengths and weaknesses

SWOT analysis, which focuses on assessing organisational strengths and weaknesses, as well as threats and opportunities, is a popular tool which can help to focus attention on an organisation's capabilities and identify factors which could limit its achievements. For more information look at our checklist on SWOT analysis (See Additional Resources below).

A review of the strengths and weaknesses of the current portfolio of products and/or services offered by the organisation should also be included. The Boston Matrix , (See Related Models below) provides a framework for assessing the current and potential performance of products or services and can help to guide decisions on which are worth investing in for the future.

## 5. Analyse the business environment

The PEST analysis tool which is used by many organisations to help them get an overview of the current and future business environment in which they are operating, traditionally focused on political, economic, social and technological factors. A number of variants such as PESTLE and PEST-C have evolved to include additional factors such as legal, environmental and cultural. (See Additional Resources below.)

Questions to ask include:

- What are the major trends likely to affect our business?
- What new technologies are available?
- How are customer needs and attitudes changing and evolving?

Pay particular attention to identifying the driving forces in your sector. These are the major underlying causes of changing competitive conditions. The most common of these are:

- changes in long term industry growth rates
- increasing globalisation
- product innovation
- the strength and number of existing and emerging competitors.
- entry or exit of major firms in the sector.

Porter's Five Forces is tool which can help to assess the factors affecting the competitive position of an organisation. (See Related Models below.)

## 6. Identify and evaluate strategic options

A clear understanding of the current position should generate insights which will help the organisation to identify the most promising strategic choices for the organisation. Factors to be considered include:

- how performance can be improved
- what changes or adjustments in direction are needed

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- whether the situation calls for a widening or narrowing of focus
- whether it is feasible to expand into new markets
- which market areas offer the best chances of success
- whether existing products and services can be improved or updated
- when new products and services need to be introduced
- what scope there is for innovation in processes
- how the competition can best be tackled
- what organisation development initiatives may be needed
- whether there are things the organisation needs to stop doing.

When evaluating strategic options, consider the conditions which must be true for the strategy to be successful and identify barriers to success. In some cases it may be possible to conduct tests to gauge the likelihood of specific scenarios, but bear in mind that the future is never certain. In recent years there has been a growing emphasis on the benefits of combining the results of rational analysis with the experience and intuition of strategic leaders.

It is important for organisational strategies to take account of identified weaknesses and to provide a framework for addressing them, as well as capitalising on organisational strengths. For each option, consider the investment and resources which will be required and their availability. This should include:

- people skills which will need to be developed or brought in
- equipment and technology infrastructure
- production and distribution capacity.

Time-frames should also be discussed. These vary hugely from sector to sector. For example, Internet businesses are evolving fast, but companies in the energy sector where exploration, and infrastructure development are involved, need to take a much longer term view. Although it takes time to change thinking and shift resources, in general, tighter time frames are being set for targets than in the past.

### 7. Set objectives

Once the strategic direction has been agreed, it is vital to translate this into specific objectives. These need to be firm without being so rigid that any modifications will result in failure. Objectives should be set by considering how the strategy is to be realised and what, in measurable terms, needs to happen if it is to be successful. (See Related Checklists below for more on setting objectives.)

The following aspects should be covered:

- profitability and return on investment
- market share and market needs
- product/service quality and customer service
- changes needed to organisational processes, activities and culture
- social responsibility
- people participation and commitment.

### 8. Communicate the strategy

Communicate details of the thinking which is emerging throughout the organisation. This will involve clearly documenting strategic decisions and adjustments as they are made. All employees, and especially managers, need to be fully aware of organisational strategy and to understand how their own job roles contribute to the achievement of organisational objectives. Widespread consultation and feedback will help to gain commitment, but will also facilitate the gathering of additional information on threats and opportunities from those who work on the front line.

### 10. Implement the strategy

In recent years there has been a growing awareness that it is one thing to formulate a strategy but another to implement it. Unless the practical implications are worked out and acted on, the strategy will be no more than a statement of hopes and aspirations for the future. A clear route map needs to be outlined with time frames and staging posts. If objectives are to be achieved, everyone in the organisation should have a clear

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understanding of what needs to be done, when, and by whom. Depending on the size of the organisation, the implications of the strategy for business and operational plans, marketing plans, financial plans and budgets, project plans and personal development plans need to be clarified and the steps which need to be taken identified. More information on implementing strategy and executing strategic plans can be found in a related checklist on implementing strategy. (See additional Resources below.)

### 11. Review progress

The end point of strategic action is a combination of products and services, employees, customers and technologies that produce results. The one constant is the need to stay close to the market - that continuing measurement of progress against objectives, continuing assessment of the market and business environment or the needs and requirements of stakeholders, and continuing adjustment to changing circumstances to take advantage of changing technologies and explore new opportunities as they become apparent.

## Managers should avoid

- forgetting to spend time getting to know their industry/market sector
- being unaware of core strengths and critical factors
- assuming that they know what their customers need and want.

## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
Unit BA5: Develop your organisation's vision and strategy
Unit FA1: Implement and evaluate strategic business plans

## Additional resources

### Books

**Key strategy tools: The 80+ tools for every manager to build a winning strategy**, Vaughan Evans
Harlow: Pearson Education, 2013

**The strategy book**, Max McKeown
Harlow: Pearson Education, 2012
This title is also available as an e-book.

**Fundamentals of strategy**, Gerry Johnson, Richard Whittington and Kevan Scholes
Harlow: Pearson Education, 2012

**Good strategy, bad strategy: The difference and why it matters**, Richard Rumelt
London: Profile Books, 2011

**Strategic leadership: how to think and plan strategically and provide direction**, John Adair
London: Kogan Page, 2010
This title is available as an e-book.

**Business strategy: A guide to taking your business forward**, 2nd ed, Jeremy Kourdi
London: The Economist in association with Profile Books, 2009

This is a selection of books available for loan to members from CMI's library. More information at:
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### Journal Articles

**Bringing science to the art of strategy**, A G Lafley and others
Harvard Business Review, Sep vol 90 no 9 2012, pp 57-66

**Simple rules for a complex world,** Donald Sull and Kathleen M Eisenhardt
Harvard Business Review, Sep vol 90 no 9 2012, pp 69-74

**Your strategy needs a strategy**, Martin Reeves, Claire Love and Philipp Tillmans
Harvard Business Review, Sep vol 90 no 9 2012, pp 78-83

This is a selection of journal articles available for members to download from CMI's Library. More information at: www.managers.org.uk/library.

## Related checklists

Strategy implementation (259)
Carrying out a PEST analysis (196)
Performing a SWOT analysis (005)
Producing a corporate mission (067)
Setting objectives (052)
Setting SMART objectives (231)
Gathering competitive intelligence (153)

## Related models

Ansoff Matrix
Boston Matrix
Porter's Five Forces
SMART objectives
PEST analysis
SWOT analysis

## Organisations

**Strategic Planning Society**
New Bond House, 124 New Bond Street, London W1S 1DX
Tel: 0845 056 3663 Web: www.sps.org.uk

**This is one of many checklists available to all CMI members. For more information please contact**

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# Understanding Pricing Strategies
# Checklist 237

## Introduction

Pricing decisions are critical to competitive success as they will determine the volume of business a company will achieve, its position in the market compared with competitors, and its total sales, revenue and profit.

Pricing is a business activity which can cause disagreement and dissension. Pricing is always a difficult task for any business, yet incorrectly pricing a product or service can erode or destroy profitability.

For most businesses, pricing decisions will revolve around having to determine effective policy for pricing and whether the price will be lower, the same as, or higher than their direct competitors. For most customers, the price will be assessed according to the value delivered to them or their business.

Setting a selling price is fundamentally all about determining the best price that can be obtained in a market and knowing the lowest price that is acceptable to the company selling.

This checklist discusses various strategies and approaches to pricing and highlights the key activities in pricing policies and strategies.

## Definition

Price setting is a series of policy or strategic procedures made by companies to determine and set the price customers should pay to acquire a product or service. Pricing policies and strategies identify and define the factors affecting a company's pricing decision, including market share, competition, costs, product identity, customers' perceived value of a product and the company's desire to make a profitable return.

## Action checklist

### 1. Pricing strategy

Strategic pricing is the effective, proactive use of product pricing to drive sales and profits. A pricing strategy will enable you to determine how much money can be spent on development, support, promotion and other costs associated with the product. There are four basic components to a successful pricing strategy:

- **Costs:** Focus on current and future costs as opposed to past costs to determine the cost basis for your pricing strategy. You will need to understand the different types of cost, such as fixed and variable costs which are discussed in further detail in this checklist.
- **Price Sensitivity:** The price sensitivities of buyers shift as a result of a number of factors and your pricing strategy must shift with them.
- **Competition:** Pay attention to but don't simply copy your competitors.
- **Product Life Cycle:** How you price, and what you provide for that price, will change as you move through the product life cycle.

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When deciding on prices for your product consider testing the price against similar products in the market. It could be wise to test at a higher amount first as customers respond well to price reductions, but respond less well if the price is pitched lower at first and raised later.

## 2. Pricing policy

Prices are generally determined by the market forces of supply and demand, not just by cost. However, an understanding of cost is essential in understanding the consequences of price decisions.

A company should have a pricing policy to guide those responsible for pricing decisions (either explicitly recorded or implicitly understood). A pricing policy includes the general principles a company proposes to follow in its pricing activities. The three factors that businesses must understand and take into account in determining pricing policy are:

- **Costs:** In order to make a profit, a business should ensure that its products are priced above their total average cost. In the short-term, it may be acceptable to price below total cost if this price exceeds the marginal cost of production – so that the sale still produces a positive contribution to fixed costs.
- **Competitors:** If the business is a monopolist, it can set any price. At the other extreme, if a business operates under conditions of perfect competition, it has no choice other then accepting the market price. The reality is usually somewhere in between. In such cases the chosen price needs to be very carefully considered relative to those of close competitors.
- **Customers:** Consideration of customer expectations about price must be addressed. Ideally, a business should attempt to quantify its demand curve to estimate what volume of sales will be achieved at given prices.

Ethical considerations are also important when deciding on a pricing policy. Bearing ethical considerations in mind when making decisions can have an impact on customer perceptions and contribute to industry profitability and business sustainability.

## 3. Establish your value factors

Before beginning to arrive at a price, make sure that you have taken into account all the factors that need to be included in your price. For companies that sell goods, these might include:

- the performance and quality of the finished goods
- the distribution capabilities
- service and installation.

If the company sells a service, value factors might include:

- the bottom-line impact of the deliverable
- the company's ability to meet tight timelines
- the experience level of staff.

## 4. Pricing financially

After taking stock of all the value factors, add up all the direct costs incurred as a result of delivering the product, including labour and raw materials. Then add up all your indirect costs, like rent, insurance and utilities.

Identify the profit the company needs to attain in order to fund new investment and reward employees. Forecast what the annual unit volumes will be. Dividing the total of the costs and profit by the number of annual units sold will provide you with a unit price. This kind of analysis will help ascertain where your prices should be set at.

## 5. Pricing competitively

Studying the competition is of course crucial, but don't simply copy them. Let them guide you in terms of where you set your boundaries. Examine the demand in the market by looking at three factors:

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- **Competitive Analysis:** Look at the whole package offered by competitors. Are they serving price-conscious or affluent consumers? Are there any value-added services?
- **Ceiling Price:** This is the highest price the market will bear. Survey experts and customers to determine pricing limits. The highest price in the market may not be the ceiling price.
- **Price Elasticity:** This is the responsiveness of the demand for a good or service to the increase or decrease in its price. If the demand for your product is less elastic, you can then have a higher ceiling on prices. Low elastic demand depends on limited competitors, buyer's perception of quality, and consumers not familiar with looking for the lowest price in your industry.

Once the demand structure in your industry is understood, review your costs and profit goals as set out in your business or financial plans. Continue to gather competitive pricing information from sources such as intermediaries (distributors or brokers), previous customers and prospective customers.
Gathering this information will allow you to generate the price range of your competitors. Together with your financial prices, you will now have two reference points.

## 6. Pricing by position

The final step is to examine how you want to be perceived in your market. From the many pricing strategies available consider these three:

- Premium Price - the most expensive third of your market
- Middle Market Prices - the middle third
- Budget Price - the least expensive third

Based on the value factors identified decide which of these 3 price levels best matches your product. The lesson is that price may position product perception.

| | **High price** | **Medium price** | **Low price** |
|---|---|---|---|
| **High quality** | Premium | High value | Excellent value |
| **Medium quality** | Overpriced | Middle value | Good value |
| **Low quality** | Very overpriced | Overpriced | Economy |

## 7. Parity pricing

Parity pricing is where businesses examine the competition and set their own prices according to the market rate. When consumers see two seemingly-equal products priced the same, they equate them as equal, meaning the products are now competitors and profits will move down. Similarly, a lower price implies an inferior product while a higher price typically signals a superior product.

## 8. Cost-plus pricing

Cost-plus pricing is the determination of price by adding up costs and then adding a profit margin. This strategy is especially prevalent with companies that are concerned with gross profit margins. Cost-plus pricing is easy to calculate, requires little information and is easy to administer. To arrive at a price, first calculate the cost of the product, then include an additional amount to represent profit. Though cost-plus pricing is a common method used by companies to determine prices, it does have its disadvantages, such as not taking into account market prices or demand. It also provides few incentives for efficiency and tends to ignore the role of both consumers and competitors.

## 9. Variable cost pricing

With variable cost pricing (also known as marginal cost pricing), prices are set in relation to the variable costs of production (i.e. ignoring fixed costs and overheads). This is done to achieve a contribution towards fixed costs and profit. Prices are set using variable costing by determining a target contribution per unit which reflects:

- variable costs per unit
- total fixed costs
- the desired level of target profit (i.e. contribution less fixed costs).

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The advantages of using a variable/marginal costing method for pricing include:

- enabling short-term decision-making
- avoiding having to make an arbitrary allocation of fixed costs and overheads
- focusing the business on what is required to achieve break-even.

However, there are some potential disadvantages of using this method:

- there is a risk that the price set will not recover total fixed costs in the long term. Ultimately, businesses must price their products to reflect the total costs of the business
- it may be difficult to raise prices if the contribution per unit is set too low.

### 10. Align price with the product life cycle

How high or low you set your price is going to be driven by where the product is in its life cycle. In general, the farther the product is along the life cycle towards the decline phase, the lower the price should be, since your market will be saturated with product and have increased price sensitivity as knowledge of the product increases. One technique to consider is removing the costs of support, training and services from the product, allowing you to lower price without discounting.

### 11. Avoiding a price war

A price war can wreak havoc as margins are cut leaving businesses struggling to make a profit. To avoid a price war, consider these steps:

- **Enhance Exclusivity:** Products that are exclusive to your business provide protection from falling prices.
- **Drop High Maintenance Goods:** There may be products or services in your business that have high customer service and maintenance costs. Drop the unprofitable lines by finding out what customers don't want.
- **Value-added:** Find the value your business can add to stand out in the marketplace. Be the most unique business in the category.
- **Branding:** Develop your brand name in the market. Brand name businesses can stand strong in a price war.

## Managers should avoid:

- not having in place a pricing policy to guide pricing decisions
- copying the competition rather than simply taking it into account
- not taking steps to evade a price war that can damage both you and your competitor’s product and devalue the marketplace.

## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
B: Providing direction, units 1 and 2
F: Achieving results, units 3 and 9

## Additional resources

### Books

**Beating the commodity trap: how to maximise your competitive position and increase your pitching power,** Richard A. D’Aveni
Boston Mass.: Harvard Business Press, 2010

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**Mastering financial management,** Clive Marsh (Chapter 8, Pricing and costs)
Harlow: Financial Times Prentice Hall, 2009

**Practical pricing for results.** Ian Ruskin-Brown
London: Thorogood, 2008

**Smarter pricing: how to capture more value in your market,** Tony Cram
Harlow: Pearson Education, 2006

**Price advantage,** Michael V. Marn, Eric V. Roegner and Craig C. Zawada
Hoboken NJ: John Wiley, 2004

**Winning the profit game: smarter pricing and smarter branding,** Robert G. Docters and others
New York NY: McGraw Hill, 2004

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# Taking a Strategic Approach to Marketing Checklist 265

## Introduction

Like many other disciplines, marketing has moved from being seen as a discrete specialism, to being integrated more closely with business strategy and development.

In strategic marketing, there have been significant moves in recent decades away from concentrating predominantly on advertising spend, towards much more focused attention to, and communication with, customers. The rise of ‘Big Data’ in recent years accelerates that trend, as companies are able to gather much more information, both quantitative and qualitative, about customer preferences and purchasing habits, and to gain a clearer understanding of the costs of acquiring and retaining customers, and the profitability of different groups of customers. This has been accompanied by a significant shift of retail activity away from traditional shops to online stores, with radical changes in consumer purchasing habits and behaviour and significant impacts on the business models of many retailers and manufacturers.

Although recent changes are dramatic, some marketing principles are timeless. Some companies with leading brands, such as Mars and Procter & Gamble, have successfully practised an integrated approach to marketing and business development, for decades – with a rigorous focus on the customer.

The availability of Big Data and other technological developments have increased the importance of marketing as well as changing its nature. The advent of social media has greatly improved customer access to information about products, brands and companies, and facilitated communication between customers. In this competitive environment companies need to be ultra-responsive. The impact of Big Data is even more profound; it is not just about more information; it enables companies to build a fuller picture of the behaviour, lifestyle and even personal health of individual consumers. This is transforming the approach businesses need to take to marketing and strategy.

Some observers have even suggested that as marketing becomes integrated with business strategy and software development it will cease to exist as a separate specialism. This may be taking things too far. While marketing has to be very closely tied to business and technological developments, particularly in the case of consumer brands, there are some ‘pure’ marketing principles and practices that need to be retained as core specialisms in their own right. There is an established understanding of the concept of brand equity, for example, and more recent learning about how marketing specialists can understand how consumers identify with brands, and how they behave in social circles.

This checklist outlines ways in which managers can adopt a more strategic approach to organisational marketing strategy.

## Definition

A strategic approach to marketing involves continual learning about and interaction with customers and potential customers, to inform strategy and enable companies to tailor and improve their services, products and pricing strategies.

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## Action checklist

### 1. Start with the customer

This is an essential discipline that the best brand-led companies adhere to. While the company needs to innovate, it must tailor innovations based on a real understanding of what customers want, how they behave, and how price-sensitive they are. The mobile phone industry is a good example of how technologists and customer preferences have worked together to co-create in a cycle of innovations, including, for example, the move to lighter phones, then to clamshell designs, and subsequently to smartphones.

### 2. Understand your brand

A valuable approach is to understand the brand which identifies and differentiates you as an organisation and your products and services, the personality, or distinctive character of the brand, and the value of the brand or 'brand equity', which defines the practical and emotional benefits which customers derive from your products or services. This needs to be understood throughout the organisation.

### 3. Target the right markets, and research new ones

In a well-run business, strategic choices will have been made and clearly communicated. Marketing and sales activities must be based on and support the objectives of organisational strategy. The market or markets to be targeted will have been identified in the organisational strategy and will form the basis for sales and marketing efforts. This normally involves a degree of choice, so that brands are not trying to be all things to all people. Understanding market segments can be powerful, although it is important to realise that they are always dynamic. New markets can appear, for example in emerging economies. Further information on researching new markets is provided in our checklist on market analysis (See Additional Resources below).

### 4. Use different 'thinking strategies' for market research

Analysing different market segments is valuable, but it is important to remember that the categories used are simplifications, and are in a constant state of flux. It can be helpful to deploy different 'thinking styles' for different contexts. For example, 'vertical', or logical thinking can work well in a mature, competitive market; while lateral thinking may be more effective in a turbulent situation affected by a disruptive technology, where new channels to market may have to be devised.

### 5. Engage people at all levels including the Board

Brand development is a key issue for many companies. Social media facilitate the sharing of information on brands between customers and make it easier for companies to learn about customer preferences and to take steps to improve customer experience. It can be helpful to involve the Board in this process, for example by getting them to contribute their understanding of new markets, or participate in customer-engagement days. Bear in mind, though, that board involvement should be kept to a strategic level.

### 6. Encourage data analytics at all levels

Technological developments have made it possible to base decision making and marketing investments on solid information and to tailor marketing activities to specific groups and even individuals, in contrast with traditional mass advertising campaigns. This means that marketers need analytical capabilities. The Net Promoter Score, for example, is a valuable indicator of customer experience which can be used to identify the products, services and personnel that attract and retain customers. Intelligence is not only data, however; customer stories can be equally valuable. The most advanced approaches have linked human capital and customer relationship analytics – to identify, for example where tenure and training initiatives have a measurable impact on customer experience and customer retention. Customer-retention is typically more cost effective than gaining new customers.

### 7. Get software engineers to understand marketing and marketers to understand software

With more customer information based on the analysis of social media and related components of Big Data, a company's software will have to be tailored to its evolving marketing needs. Marketers and software engineers need to understand each other's worlds, so that they can cooperate to ensure that systems can

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provide the type of information and the level of detail needed in order to target marketing activities effectively. For example, it is important to understand how social media are used by different demographic groups.

### 9. Monitor your competitors

This has to be a continual discipline and should be carried out in a structured and consistent manner. Identify your principal competitors and monitor their activities on a regular basis, using published information sources as well as informal contacts. But don't stop there - be aware that new competitors can appear unexpectedly, often introducing disruptive new technologies which can fundamentally change the marketplace in which you are operating. Take a broad overview of your sector or industry and developments which will have an impact on it. For further information see our checklist on Competitive Intelligence. (Listed under Additional Resources below.)

### 10. Monitor and amend continually, at all levels

Marketing strategy is always a 'work in progress', and has to be based on market realities, which can change rapidly. Commit to adapt and respond to market conditions. The 'brand equity' may be well understood within the company, but starting to lose favour in key markets, owing to demographic shifts or a disruptive new competitor. Such external developments must be continually fed back into strategic marketing decision-making. Monitoring should be carried out at all levels of the business, from the Board down.

## Managers should avoid

- assuming that anything is permanent; markets are in a continual state of flux
- treating marketing as a one-way form of communication with customers; it also involves listening, monitoring and analysing
- thinking that there is just one way to do marketing, irrespective of context
- relying entirely upon anecdote and hunches
- relying entirely upon data without analysis and understanding
- divorcing marketing strategy from software development and people management practices.

## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
Unit FB1 Develop understanding of your markets and customer
Unit FB5 Manage the marketing of products and services.

## Additional resources

### Books

**Big data analytics: turning big data into big money**, Frank Ohlhurst
Hoboken NJ, John Wiley, 2013

**Marketing for managers: a practical approach**, 3rd ed, L F Pitt and C Boshoff
Claremont, South Africa: Juta Publishing, 2010

**Foundations of marketing**, Jonathan Groucutt
London: Palgrave Macmillan 2005

**Market-led strategic change: transforming the process of going to market**, 4th ed, Nigel Piercy
Oxfored: Butterworth Heinemann, 2009

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## Journal Articles

**Rethinking strategic marketing: achieving breakthrough results**, Dale Fodness
Journal of Business Strategy, Vol 26, No. 3, 2005, pp 20-34

**Engaging boards on the future of marketing**, Coumau J-B and others
McKinsey Quarterly, 2013 Issue 1: p 104-107
**Target the right market**, Jill Avery and others
Harvard Business Review, October, vol 90 no 10, 2010, pp119-123

**Consumer warfare: implications for marketing strategy**, David J Burns and Homer B Warren
Journal of Business Strategy, Vol 29, No. 6, 2008, pp44-52

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## Related checklists

Marketing for the small business (117)
Preparing a marketing plan (020)
Carrying out marketing research (111)
Understanding market segmentation (239)
Market analysis: researching new markets (257)
Gathering competitive intelligence (153)

## Related models

The 7 P's of marketing
Market segmentation

## Organisations

**Chartered Institute of Marketing**
Moor Hall, Cookham, Maidenhead, Berkshire SL6 9QH
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# Strategic Risk Management Checklist 264

## Introduction

High-profile failures of risk management in recent years have made the subject the topic of every-day conversations and political discussions. The collapses of Bear Stearns and Lehman Brothers investment banks in 2008, and the fatal fire and consequent ecological disaster at BP's Deepwater Horizon oil platform in the Gulf of Mexico in 2010, made headline news around the world and prompted calls for regulatory responses.

Intellectually, there has been a rapid popularisation of some relatively new concepts. A better understanding of how human cognitive biases can skew priorities and distract people from emerging risks, even among the most highly qualified and rationally minded senior teams, has deepened our collective awareness. Also influential has been the 'Black Swan' concept, popularised by Nassim Nicholas Taleb – a former financial markets trader and one of the few individuals who warned of the inherent risk in investment banks' market-modelling before the 2008 crash. He emphasizes that major external threats can arise suddenly without warning, and that, as with many activities which involve human behaviour, it is impossible to create reliable models of markets.

These factors have prompted much rethinking around strategic risk management. There is a movement away from treating risk management as a single specialism, and a realisation that it is unwise to rely exclusively on checklists, regulations or quantitative information to manage organisational risks. Risk must be understood and considered across the management team. Risk management must involve multi-disciplinary, in-depth discussions and scenario planning, and be closely linked to strategy development. Some business leaders adopt a still more radical approach, reconceptualising strategic risk management as a source of competitive advantage, rather than a necessary evil.

Although checklists and procedures should not be the only tools for risk management, they can be useful resources, especially at an operational level. Important examples include procedures for handling hazardous substances, preventing occupational illnesses or minimising the risk of fraud.

It is wise for managers at all levels to have a good level of risk awareness, as this can inform career choices as well as operational and strategic decisions.

This checklist is designed to help managers think about the broader strategic elements of managing risk.

## Definition

Risk management is the discipline of continuously analysing and assessing the internal and external risks, to which an organisation is exposed, both actual and potential, with a view to strengthening strategic decision-making capabilities and planning contingencies.

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## Action checklist

### 1. Develop a behavioural understanding of the business

It is now well understood that excellent recruitment and people management practice provides the best mitigation against internal risks, especially where high-risk posts are concerned. High standards of leadership and communication throughout the business underpin good risk management. Reliance on checklists and regulations is at best limited and at worst counter-productive, partly because rules cannot anticipate every scenario, and also because a climate of fear and unthinking adherence to rules can itself be risky.

### 2. Distinguish between different types of risk

It is helpful to distinguish between three different categories of risk

- internal, preventable risks relating to performance and conduct
- calculated strategic risks such as investment in new markets
- external risks, including unexpected events, such as the Fukushima earthquake and tsunami in 2011, which had a huge impact on Japanese businesses.

Linked to this analysis, many managers find the four T's: 'Tolerate, Treat, Transfer, or Terminate' useful in deciding how to handle risk.

- A decision to **tolerate** risk might be made with regard to an uncertain political situation in a target market, for example.
- In the case of a clear internally generated risk, measures to **treat** the risk would be more appropriate.
- In some cases risk can be **transferred** by outsourcing a function to a specialist external provider with better back-up and specialist skills.
- In other cases, it would be deemed wise to **terminate** risk by, for example, exiting a market where the risks have begun to outweigh the anticipated gains.

### 3. Assess impact as well as likelihood

The collapse of Lehman Brothers, and the explosion of the Deepwater Horizon oil platform, could be categorised as 'low probability/high impact' events. In the case of collateralised debt obligation trading by investment banks, however, it could be argued that the risk was much higher than analysts believed – a case of 'over-confidence' and 'confirmation' biases. Some useful approaches have been developed to help management teams analyse and understand risks according to both their impact and their likelihood. Companies are advised to take a strategic view of their own approach to risk, or 'risk appetite' as it is often called. This should cover matters such as tolerance for debt, strategic approach to acquisitions.

### 4. Develop a behavioural understanding of markets

Market models based on the probabilities of games of chance where there is a known and finite number of variables have been challenged by Nassim Nicholas Taleb, who has argued that real markets are different in nature. Much of this behavioural understanding has already been used to inform investments on the financial markets, but the same principles apply to other types of markets. They are made up of human beings making economic decisions, sometimes individually, sometimes as a group, and can be influenced by unpredictable social or meteorological events.

### 5. Distinguish between 'risk' and 'uncertainty'

The difference between 'risk' which is identifiable; and 'uncertainty' which is unforeseen and unpredictable in scale, was usefully defined by the early 20th century economist Frank Knight. Traditional assessment tools such as 'SWOT' (Strengths, Weaknesses, Opportunities, Threats), and 'PESTLE' (Political, Economic, Social, Technological, Legal, Environmental) can also be used. Some managers also define peripheral risk that may grow in likelihood or potential impact as a 'Weak Signal' which should be taken into account. Our checklist on business continuity gives more information on handling uncertainty (See Additional Resources below.)

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### 6. Understand cognitive biases

It is well understood that humans as individuals and groups can be prone to major errors of judgement explained by ingrained cognitive biases. One example is 'over-confidence bias', which probably explains why so many corporate mergers fail to achieve their expected gains. Another is 'confirmation bias', in which people tend to pay more attention to evidence that supports their view than to that which contradicts it.

### 7. Build meetings structures that interrogate ideas

Given the nature of cognitive biases, it is generally risky to allow an individual or a small group to make major decisions without their ideas being tested. Many companies have established effective approaches to discuss and assess risks and to debate these thoroughly, with inquirers given licence to play 'Devil's advocate'. The principle of individual accountability is important here.

### 8. Integrate analysis and decision-making, without risk managers 'going native'

Experience shows that while the principles of risk management can be set out quite clearly, it is very difficult to maintain operational discipline. Risk assessment needs to be sufficiently close to the business to ensure a good understanding, but not so close that individual risk managers are 'captured' by a local team that is too risk-hungry or, conversely, too risk-averse.

The best organisational approach may depend on the business context. The three major approaches involve the use of: independent experts, facilitators, or embedded experts

### 9. Build capacity in scenario planning

Scenario planning was developed by the Shell oil company in the 1960s. It was one of the few major companies to have envisaged a transition from the old Soviet Union to a more democratic group of countries and freer markets. Prior to 1989, this was seen by many as less likely than either nuclear war or an expansion of the Soviet empire. As a result, Shell was better placed than many companies for the opening of markets in Eastern Europe in the 1990s. Scenario planning has been used to great effect by many strategic teams, often in conjunction with models to assess likelihood and impact of likely or potential events.

### 10. Use good risk management as a source of competitive advantage

Businesses have varying levels of risk appetite with regard to strategic decisions, but all organisations can improve their adaptability and resilience by following the principles outlined above. This can lead to risk management becoming a source of competitive advantage, as it helps organisations to respond to emerging threats and opportunities at a strategic level. Being a resilient organisation can result in enhanced brand image, stronger negotiating positions, and multiple other business advantages.

## Managers should avoid

- **Over-reliance on procedures or checklists to prevent accidents**: strong leadership and clear communication are typically the best preventative measures, particularly for internal, avoidable risks such as fraud and operational errors. However, procedures based on proven methods can play a supporting role
- **Reliance on legislation relating to risk management**: Regulation cannot cover every scenario. Many practices that are tolerated by regulators carry significant operational or strategic risk
- **Striving to control everything**: Managers cannot control external events. Hence the importance of distinguishing clearly between internal and external risks
- **Neglecting low probability/high impact events**: a particular type of event may be considered unlikely, but scenario planning for a major impact event can still be useful
- **Managing for the most easily envisaged risk, rather than the most likely.** Experience and the dominant narratives can strongly influence our perception of likely events. It is helpful to consider different or unlikely scenarios.

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## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
Unit BB1 Manage risks to your organisation

## Additional resources

### Books

**Managing business risk: a practical guide to protecting your business**, 8th ed, Jonathan Reuvid
London: Kogan Page, 2012

**A short guide to operational risk**, David Tattam
Farnham: Gower, 2011

**Fundamentals of risk management: understanding, evaluating and implementing effective risk management**, Paul Hopkin
London: Kogan Page, 2010
This book is also available as an e-book.

**Risk strategies: dialling up optimum firm risk**, Les Coleman
Farnham: Gower, 2009

**The black swan: the impact of the highly improbable**, Nassim Nicholas Taleb
London: Penguin Books, 2007

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### Journal Articles

**Managing change and building a positive risk culture**, Philip Atkinson
Management Services, Summer vol 57 no 2, 2013, pp 9-13

**Managing risks: a new framework**, Robert Kaplan and Anette Mikes
Harvard Business Review, June vol 90 no 6, 2012, pp 48-58, 60

**Making better risk management decisions**, Julian Birkinshaw and Huw Jenkins,
Business Strategy Review, Winter vol 20 no 4, 2010, pp 41-45

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## Related checklists

Business continuity: planning for major disruptions (255)
Carrying out a PEST analysis (196)
Internal audit (049)
Performing a SWOT analysis (005)
Spotting fraud (050)
Using scenarios (230)

## Internet resources

**IRM Publications** http://www.theirm.org/publications/PUpublications.html
A range of guidance papers is available.

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## Organisations

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# Choosing a Growth Strategy
# Checklist 261

## Introduction

Most companies have to grow in order to stay in business; and for this, they need a strategy. Even those that do not plan to grow significantly in size still need to make carefully thought-through strategic choices. Change is inevitable and companies have to adapt, whether they wish to stay local or conquer the globe.

A company has big decisions to make as it grows. It needs to create space at the Board level to have genuinely strategic discussions. Questions which need to be considered include:

- How big do we intend to go?
- In which regions of the world should we operate?
- Which technologies do we need to develop or acquire?
- How do we ensure that expansion is adequately resourced?
- What is our appetite for risk, and our approach to debt?

As well as addressing the scale and geography of growth, companies have to make big decisions on the way in which they grow. For example, will it be by building a large central organisation or through strategic partnerships or franchising?

The extent to which a company specialises in its core competence, or diversifies, is also another big decision. Both involve significant risks, but there is considerable research and literature to guide managers.

Companies can be understood as going through stages or cycles of growth and different markets and sectors have their own cycles. There is much more dynamism, instability and change in younger areas like social media than in an established, mature market like automobiles. In the field of social media, a start-up can grow to become one of the largest companies in the world in just three-four years; whereas in a business, such as aerospace, which involves large capital investments and lengthy product development times, this would not be possible. No sector is static, however; some markets can be relatively stable for decades and then be transformed within a few years through a disruptive technology.

Business schools and consultancies have developed many different models that have helped businesses understand what stage they are at in these cycles. These models can be followed too slavishly. It would be a mistake to assume that your business will follow a textbook model predictably – internal and external events will complicate the picture. A further important complication is that different parts of a business may be at different stages of a certain cycle.

However, it is probably more risky to ignore such cycles or phases of development completely. Many businesses struggle because they fail to adapt their style or depth of management through the growth phases, or as the business becomes larger. For example, entrepreneurs are often not the best people to manage routine business processes like finance or procurement, as the company becomes grows. Successful business pioneers such as Richard Branson and Stelios Haji-Ioannou hire teams of professional managers and delegate day-to-day operations to them.

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Any start-up that grows and begins to hire more people reaches a stage where no single individual can know every employee and personally manage the business. The firm needs to hire professional specialists and managers, not only for product development, customer service and marketing, but also in the essential support services such as finance and personnel. A company can go out of business if the tax returns are frequently late or employment law is not adhered to, even if the business and services are otherwise excellent. If a business becomes very large, specialist departments become entire divisions. These developments need to be carefully planned. There are choices to be made regarding the levels of integration and centralisation within large international companies, and the extent of to which they are committed to working with external partners.

Growth is not necessarily about scale – it might be a matter of a greater emphasis on quality or profit margins, or a commitment to avoid acquisitions or high levels of debt – but these are also strategic decisions that require serious thought and discussion.

## Definition

A growth strategy is a strategy by which an organisation aims to develop and expand its business and improve its profitability. Traditional growth strategies include: market penetration, product development, market development and diversification.

## Action checklist

This Checklist is divided into two sections:

- understanding the major growth strategy options,
- selecting a practical course of action to follow.

## Understanding the major growth strategy options

### 1. Be clear about the type of growth you want

This may not simply be a matter of scale. Growth is not necessarily about becoming large or international, but a company does have to adapt and be dynamic in order to thrive. Growth in at least some dimensions will be necessary. A company may choose to stay local, like an independent store; or be global but niche, like an elite sports car manufacturer, but this still involves a strategic choice. To be effective, such a strategy typically involves growth in some dimensions other than size – for example quality, profit margins, prestige. If ambitious growth is planned, major decisions on which geographical regions and which product ranges to focus on have to be made.

### 2. Focus versus diversification

Companies typically have a core specialism at which they truly excel. The discipline of core competence has been much discussed and researched. It suits many companies to concentrate on their main areas of expertise, and work with suppliers and partners, rather than attempt to be expert in a wider range, but this approach can include some diversification into closely related areas. Working with specialist partners means that the company can remain more focused and not too bureaucratic or large; however, managing such external relationships still requires considerable attention and expertise in strategic relationship management. Bear in mind also, that new competitors and disruptive technologies can wreck an established business model in an area of core expertise, so some degree of diversification or adaptation may be unavoidable.

### 3. Centralisation versus decentralisation

If a company aims to become very large, internationally, it has to make a decision about whether it will operate as a single institution or as a network of semi-independent entities. For example, will you seek economies of scale by introducing shared service centres for geographic regions, or will each business have its own back office? Consider whether centralising a function would have implications for the company's

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brand promise. For example, Pret a Manger, the sandwich chain, has sandwiches prepared locally, because the promise of fresh preparation is more important than economies of scale which might be achieved by centralisation. A related option is franchising, in which the owner of a brand hires individual local companies to operate as franchisees, running businesses following the brand owner's established operational approach.

#### 4. Take technological developments into account

All companies need to be aware of technological developments in fields such as social media and Big Data, which may affect their business as they grow, whether or not the service they offer is technology-related. Business strategy and IT strategy cannot be considered in isolation – they must be looked at together to produce an integrated strategy for the business. Technological considerations will also be important in resourcing of the growth strategy (See below.)

#### 5. Understand the cycles of development

Several models are used by companies to understand the phases of organisational development. Some have been criticised for being too simple or formulaic, but the hazards are often in the implementation, rather than the design. Any model straightforward enough to be presented on a chart will be a simplification. As long as this is recognised the model may still be useful. The point is to use it to generate deep discussions within the organisation which will give managers a clearer understanding of the phase that a company is entering and the strategic choices it faces. A brief overview is presented in the section Growth Models.

## Selecting a growth strategy

#### 1. Remember that change is inevitable and adaptation is always necessary

While growth in terms of scale is not inevitable, change is. The emergence of an unexpected competitor or a new disruptive technology may affect the core business. A business typically needs to be responsive to actual or potential threats and to constantly reinvent itself.

### 2. Analyse internal and external dynamics

An honest inquiry into a company's profile and context is a good first discipline. The standard SWOT analysis of Strengths, Weaknesses, Opportunities and Threats is often helpful. Some management teams go beyond a simple list under each heading, and engage in debate about how well, for example, a strength matches an opportunity, mapping these out on a grid. A similar tool, more focused at external matters, is the PEST or PEST analysis which focuses on the Political, Economic, Social, Technological, Legal and Environmental factors affecting an organisation. See Related Checklists below for more on these techniques.

### 3. Create regular, deep discussions about growth strategy

The board and the senior team need to set aside time for deep discussions about the major strategic decisions on growth, and hold these at regular intervals. There needs to be honest feedback on the extent to which strategy is being implemented, and, if there are failures and setbacks, discussion of how initiatives can be renewed or alternative strategies adopted. Continual monitoring is needed. For further information see our Checklist on the role of the board in strategy.

### 4. Nurture the established business as well as the innovations

An inappropriate use of the popular Boston Matrix (see Growth Models below) is to devote too much investment to the 'Stars' – the potential future profit centres, and to neglect established 'Cash Cows', or profit centres. Some brands, especially in fashion and food and drink, have long life-spans that are measured in centuries, with an appeal to tradition. An example is the premium whisky firm Jack Daniels which has boasted in advertisements that it is not planning any improvements. Such brands may nonetheless require ongoing marketing investment. While the product doesn't change, there may be a need for innovation and the use of new technology in promotions and customer relationships.

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### 5. Allocate adequate resourcing for the growth strategy

Resourcing a growth strategy adequately is essential. Going global is not just a question of scaling up. Different countries vary enormously in cultural attitudes, ways of working, education levels, tax and employment law, and so on. Consumer tastes can vary considerably and so can the role of trade unions. Some countries may have skills shortages in disciplines that will be needed for your growth strategy. The information technology architecture also has to be planned at a strategic level, and must be adequate to support a growing business.

### 6. Pay attention to communication, engagement and teamwork

Successful growth strategies depend at least as much on the how as on the what. Communication, engagement and sense of direction are as important as skill levels and getting the big decisions right. Managers should communicate clearly and frequently to ensure that everyone involved is aware of the strategic objectives and their role in making them happen and are actively engaged with the process. Employee opinion surveys are useful in picking up indicators both of achievement and of problems in this area. In the case of an acquisition, cultural fit is at least as important as strategic fit, and can be particularly challenging when entering in a new geographical region.

### 7. Maintain culture and values as you grow

Many successful companies have clearly defined founding principles – relating, for example to honest conduct, customer service or teamwork. As the organisation grows, it is vital to make sure that these continue to be at the heart of the way the organisation does business. Make sure that that values are clearly articulated and written down, and that induction and training programmes are in place to instil them across the organisation. With a growing start-up firm, it is especially important to introduce these initiatives as the company becomes too large for the founder to know every employee.

### 8. Plan for continuity and succession

One challenge for the ambitious, growth-orientated business is the recruitment and development of professional managers, including the CEO. Firms that intend to stay small or medium sized, including many family firms or partnerships, have challenging decisions to make on succession: what happens when the founding partners, or siblings, die or retire? Such firms need to make long-term plans, and prepare for contingencies.

## Growth models

**Boston Matrix** A simple 2 x 2 matrix that categorises products or businesses as 'Stars' (high potential); 'Cash Cows' (mature profitable businesses); 'Dogs' (Small market share in mature market); and Question Marks (Uncertainty with regards to viability).

**Ansoff Matrix** – Used to help understand the difference between new products with an existing market, such as brand extensions; new markets with an existing product, such as new geographies; and genuine diversification – a new product and new market.

**Greiner's Five Stages** – First developed in the early 1970s by Larry Greiner, and revised in the late 1990s, this model describes the phases of company growth and development, and identifies the managerial challenge at each stage. The five stages are: Creativity, Direction, Delegation, Co-ordination, Collaboration. Greiner later suggested a sixth stage, relating to extra-organisational relationships.

**Churchill's Five Phases** – First produced in 1983 by Neil Churchill of INSEAD. The five phases are: Existence, Survival, Success, Take-off, Resource-maturity.

**Adizes Model** – A living organism metaphor, developed by Ichak Adizes. This describes the company as going through birth, adolescence, maturity, prime and so on.

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**The DIAMOND model** – developed by BDO Stoy Hayward, this stands for: Dreaming up the idea; Initiating the business plan; Attacking problems of growth; Maturing; Overhauling the business; Networking; and Diversifying.

**Three Horizons** – Developed by McKinsey consultants. Horizon one is the business core; Horizon two is a newer line of business activity; Horizon three is experimentation.

## Managers should avoid

- assuming they don't need a growth strategy because you don't plan to become very large or international
- thinking that styles of management or company structure don't need to change as the company grows
- neglecting cultural differences when working in new regions
- expanding sales too far without sufficient support and resourcing
- treating communication and engagement as 'the soft stuff' or an optional extra.

## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
Unit FC3: sell products and services

## Additional resources

### Books

**Grow the core: how to focus on your core business for brand success**, David Taylor
Chichester: John Wiley, 2013

**Growth champions: the battle for sustained innovation leadership**, Tim Jones, Dave McCormick and Caroline Dewing
Chichester: John Wiley, 2012
This book is available as an e-book.

**Repeatability: building enduring businesses for a world of constant change**, Chris Zook and James Allen,
Boston Mass.: Harvard Business Press, 2012

**Guide to managing growth: turning success into even bigger success**, Rupert Merson
London: The Economist in association with Profile Books, 2011

**Profit from the Core: a return to growth in turbulent times**, Chris Zook and James Allen
Boston Mass.: Harvard Business Press, rev ed, 2010

This is a selection of books available for loan to members from CMI's library. More information at: www.managers.org.uk/library

### Journal Articles

**Defining strategy for growth**
Director, March vol 66 no 6, 2013 pp 65-71

**6 ways to sink a growth initiative**, Donald L Laurie and J Bruce Harreld
Harvard Business Review, Jul/Aug, vol 91 nos 7/8, 2013, pp 82-90

**Better growth decisions: early mover, fast follower or late follower?**, Stephen Wunker
Strategy and Leadership, vol 40 no 2, 2012, pp 43-48

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**The core competence of the corporation**, CK Prahalad and Gary Hamel
Harvard Business Review, May/June, vol 68 no 3, 1990, pp 78-91

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## Related checklists

The role of the board in strategy (260)
Carrying out a PEST analysis (196)
Performing a SWOT analysis (005)

## Related models

Ansoff matrix
Boston matrix
PEST (PESTLE, STEEPLE) analysis
SWOT analysis (organisational)

**This is one of many checklists available to all CMI members. For more information please contact**

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# The Role of the Board in Strategy
# Checklist 260

## Introduction

It is increasingly recognised that the role of the Board in strategic management is of fundamental importance, and there is an emerging consensus about its proper role within many businesses, in the pages of Harvard Business Review, in the textbooks of leading governance advisers such as Ram Charan and Bob Garratt, and in the view of many successful Board directors.

Nonetheless, both research and anecdote indicate that the strategic Board is far from being a universal practice. Much of the difficulty lies in achieving the balance of ensuring that the Board is engaged and informed about the company's operations, but stays to its strategic brief and doesn't dive in to the day-to-day minutiae. In addition, the amount of legislation that companies have to comply with – not just corporate governance guidance, but the Sarbanes-Oxley law on financial compliance – mean that it is easy for Board meetings to become long exchanges of detailed information, rather than strategic discussions about market changes, product development, identifying necessary resources, emerging risks and scenario planning.

The role of the Board has become particularly high-profile given spectacular failures of strategic risk management in past decades, especially in financial services, and earlier in the accountancy scandals. There has been much criticism that reaction to scandals has focused too much on regulation and not enough on developing genuine strategic capability. Some aspects of corporate governance codes prescribe structural factors such as the proportion of 'independent' directors, (those without executive responsibility), separation of the roles of chief executive and chairman, and so on. Many critics point out that compliance with these arrangements has little or no bearing on actual performance. The Board's over-riding priority should be the strategic direction of the company, good judgement and sound risk management.

The few research studies to have sought to identify the characteristics of a highly effective Board strongly indicate that they are those that are strongly engaged with the company, but keep their intervention at the strategic level. It is possible now to talk in terms of a consensus on the characteristics of the strategic Board, which this Checklist sets out to summarise.

This is a simplification, but attitudes towards the role of the Board have evolved over the decades. In the mid-late 20th century, the idea of the powerful chief executive became popular, with the Board's role seen as being somewhat 'arm's length', even passive. Since the 1970s, powerful influences have encouraged a more engaged role. Many commentators, however, say that this has involved engagement in an over-zealous way (too much intervention in day-to-day operational matters; too much discussion of the financial accounts); or in too narrow a way – concentrating only on stock price and viewing the Board's role as solely one of policing the executives. A consensus has evolved that the Board should be engaged, but at a strategic level, considering the health and success of the company in the round.

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## Definition

The Board has a legal and commercial duty to promote the long-term health and stewardship of the company, to the benefit of all stakeholders. Its role is a strategic one: ensuring full discussion and sound decisions on the major issues confronting a company, such as regions and markets, technologies, appetite for risk, acceptable debt levels, and so on.

## Action checklist

### 1. Keep discussion strategic

This can be quite easy to conceptualise, but is still a hard discipline to maintain. A strategic discussion concerns, for example, the opportunities and risks of expanding into new markets, rather than the logistic details of a supply chain down to the smallest minutiae. It is a difficult discipline, however, because on occasion Board directors will need some level of detail, if they have genuine concerns over an operation and want to be reassured on key aspects.

It helps to keep discussions at a strategic level if presentations by the executive team are succinct and focused on the big picture. CEOs can invite too much discussion of day-to-day detail by giving a presentation of over 100 slides, heavy in financial and operational information.

### 2. Create a workable information architecture

Papers for Board members should provide a clear summary, giving a strategic overview, but also include relevant detail, and indicate where more information can be sourced.

Information should be qualitative as well as quantitative, including current information and future prospects as well as historic data. There should be information on employee engagement, and where possible more detailed analytics linking people-related investments to performance; on the customer experience, on competitors and on technological and market developments. These should all be of equal prominence and detail to the traditional financial reports.

Executives should commit to keeping the Board informed with regards to the implementation of strategy and the achievement of performance objectives.

### 3. Promote the concept of a ‘learning Board’

Companies continue to thrive if their rate of learning at equals or exceeds the rate of change in their markets. Although a Board role is part-time, it is nonetheless a professional task in its own right. Non-executive directors should commit to learning about the sector, its technology and market dynamics; while executive directors should see their Board role as stewardship of the whole company, not as a means of representing their department’s interests.

### 4. Encourage Board members to commit to the company, not an interest group

The commercial and legal duty of the Board is to the future health of the company. This is enshrined under company law in most jurisdictions, and reiterated in the UK in the Companies Act 2006. The Board is not a representative of the shareholders or any particular interest group, although it does have a duty to promote the company’s commercial success.

### 5. Directors have considerable responsibilities, and equal status

Company law does not distinguish between ‘independent’ or non-executive directors and others – all have equal status. Bob Garratt recommends that executive directors have two employment contracts: one for their executive responsibilities, and one for their Board responsibilities. All Board members are equally responsible for the long-term stewardship of the company. They have considerable and specific legal responsibilities as Board directors. It is advisable, therefore, that managers within the company who are not on the Board do not have the term ‘director’ in their title, to avoid ambiguity.

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Board members should commit to the company, and set aside time commensurate to their responsibilities, not just show up for the meetings.

### 6. Facilitate and encourage communication between meetings

While Board members should refrain from 'peering over the shoulders' of executives on a day-to-day basis, the most effective Boards have communication between the executive team and other members in between meetings. One means of facilitating this is a monthly letter – but again, it must stick to strategic matters.

### 7. Create space for deep strategic discussion

Meaningful strategy development involves an in-depth and informed discussion, that may be structured around the traditional 'SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis'. A common mistake, especially when there are many external or non-executive directors, is to focus too much on the externals – Opportunities and Threats – and not enough on internal matters. There need to be sufficient skills and resources to support bold strategic initiatives.

### 8. Discuss alternatives

Strategic discussion also involves choice. If a major strategic departure is considered, the merits not only of this, but also of alternative courses of action, should be discussed in depth. The danger of failing to do so is to fall victim to the latest business fad: 'Everyone's doing it; we should join in'.

### 9. Be prepared to challenge the 'difficult' Board member

One of the most difficult practical matters to address in Boardroom dynamics is to challenge the wasteful and time-consuming distractions of those members who see Board meetings as an opportunity to demonstrate their knowledge, or create gratuitous conflicts. A strong Chair should be capable of keeping the discussion to the principal strategic agenda, and instil a shared commitment to the well-being of the company. Other discussions and debates can take place over lunch or evening drinks.

### 10. Create multiple objectives for CEO performance targets and pay

It is widely accepted that tying the chief executive's pay solely to movements in the stock price has created too much of a short-term focus, and probably also contributed to damaging and unethical practices such as mis-selling and, in financial services, to excessive speculation. Multiple performance objectives, including some relating to qualitative matters such as the integrity of the company and the brand, help to encourage all-round leadership, and also to ensure that the Board honours its over-riding duty towards the company.

## Board members should avoid:

- too much detail in presentations
- overly long papers, without a clear summary
- lobbying for a particular department or other interest
- seeking to dominate the discussion, pursuing an issue that doesn't affect strategy
- promoting ambitious plans while neglecting the development of internal resources.

## National Occupational Standards for Management and Leadership

This checklist has relevance for the following standards:
Unit BA6 Develop strategic business plans
Unit BA5 Develop your organisation's vision and strategy

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## Additional resources

### Books

**The fish rots from the head: The crisis in our boardrooms: developing the crucial skills of the competent director**, 3rd ed, Bob Garratt
London: Profile Books 2010
A copy of the end edition, 2003 is available as an e-book.

**Owning up: The 14 questions every board member needs to ask**, Ram Charan
San Francisco Calif.: Jossey Bass, 2009

**Boards that deliver: advancing corporate governance from compliance to competitive advantage**, Ram Charan
San Francisco Calif.: Jossey Bass, 2005

**Thin on top: why corporate governance matters and how to measure and improve board performance**, Bob Garratt
London: Nicholas Brealey 2003

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### Journal Articles

**Board involvement in strategy and organisational performance**, Julie I Siciliano
Journal of General Management, Summer, vol 30, no. 4, 2005, pp 1-10.

**Four modes of board of directors' participation in corporate strategy**, Shaker A Zahra and William D Schulte,
American Business Review, Jan vol 10 no 1, 1992, pp78-87

**What you can learn from family business**, Nicholas Kachaner, George Stalk and Alain Bloch
Harvard Business Review, November vol 90 no 11, 2012, pp 103-106

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## Related checklists and models

Directors' duties (187)


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# Implementing Strategy
# Checklist 259

## Introduction

The development of organisational strategy is a complex and demanding process, and leaders who have devoted time, effort and resources to the selection of a strategy they believe will secure the ongoing success of their company may feel they have reason to be confident about the future. Nonetheless, their chosen strategy stands little chance of success unless it is acted on. Effective implementation is critical to the success of organisational strategy.

If strategy is to be more than an expression of hopes and aspirations for the future, the practical implications for organisational operations and activities must be thought through and put into practice. Strategy implementation requires organisations to put initiatives in place which are focussed and realisable. A strategic focus should encourage an organisation to develop disciplined processes for feeding strategic initiatives across the organisation in a meaningful, realistic and achievable way.

The implementation or execution of strategy, however, is often neglected and its results are frequently unpredictable. Problems encountered with the implementation of strategy often lie not with any flaws in the strategy itself, but rather in a failure to implement it effectively. Such failures can mean that strategic initiatives are only partially successful and lead to frustration as the hoped for strategic benefits are not realised. Ultimately, they can result in the decline or even, failure of the business as a whole.

Translating strategy aims into actionable processes in an ordered fashion is, however, not easy. The setting of priorities and the development of plans may present organisations with formidable management challenges. The effective execution of strategy can be impeded by many and varied difficulties including; weak or inconsistent senior-level commitment, a lack of support from managers and employees, cross-departmental conflicts, ambiguity in roles and responsibilities or a lack of accountability.

This checklist, therefore, aims to help managers to understand the complexities of strategy implementation and to provide guidance on the factors which will help organisations to achieve optimal, rather than maximal implementation of strategy.

## Definition

Strategy implementation is the process by which an organisation translates its chosen strategy into action plans and activities, which will steer the organisation in the direction set out in the strategy and enable the organisation to achieve its strategic objectives.

## Action checklist

### 1. Ensure that plans are aligned with organisational mission, vision and values

Strategic development is an important business activity which involves defining the strategic direction an organisation will take and the objectives it aims to achieve. Obvious as this may seem, it is vital to ensure that implementation plans are based on the stated organisational strategy and objectives. Just as strategy must be derived from the organisation's mission and vision and in line with organisational values, so implementation must follow the direction which has been set out in the organisation's strategic documents

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and prioritise those things which are seen to be most important for the future success of the organisation. Bear in mind, however, that organisational mission and vision, or even values may need to change in response to changing circumstances and should be reviewed regularly.

### 2. Build an effective leadership team

The optimal implementation of strategy is highly dependent on the professional people management and leadership capabilities of both strategic and operational managers. New strategies may create new requirements for leaders and the organisations that they lead. Strategic change may require new personnel with fresh perspectives, or differing skills and experience. Strategic shifts may well entail a change in emphasis involving new customers or markets, technologies or business processes. Leaders may need to adjust their leadership styles, or learn new management techniques and approaches. The implementation of a new strategy may alter priorities, change resource allocations, and involve a shift in relationships. This can sometimes pose a threat to the power and status of some significant and influential people within the organisation.

Processes for assessing and developing leadership, should be seen as a normal part of strategic implementation. Leaders will have to take an objective view of the existing management team, including themselves, and assess whether the team is capable of implementing the strategy. Ideally, coaching or development should be offered to help individuals to improve their performance or develop new skills, if necessary, so that they are better able to achieve the goals and objectives required of them. Our checklists on managing plateaued or passive people may be helpful here. (See Additional Resources below.) However, some people may be incapable of adapting, resistant to change or unwilling to accept a revised role and prefer to move on to another organisation. These are sensitive issues and must be handled carefully, and with due regard for legislation relating to issues such as redundancy and constructive dismissal.

Building the right team is crucial to the success of strategy execution. Organisations need to have human resource personnel and processes in place to recruit new people as required. The selection of team members should not, however, lie solely with the human resources department but must involve senior management. This will reinforce the importance of the initiative and can also be a means of identifying talent within an organisation. Involvement in implementation teams should be seen as a positive career move.

### 3. Create an implementation plan

A full implementation plan with milestones needs to be created for all levels of the organisation. The plan should lay out the steps necessary to achieve the objectives and include schedules for key activities. The resources needed to achieve the objectives must also be detailed. The plan should quantify the financial, personnel, operational, time, and technological resources which will be required, as well as identifying those responsible for individual initiatives.

The implementation plan sets priorities and accountabilities, including short-term and long-term objectives. Strategic objectives should: be broken down into manageable pieces; establish a chain of command; and may also outline additional organisational structures which will need to be aligned with the strategy initiative – the creation of cross-functional teams for example. Accountability is an important factor in successfully delivering strategy and acts as a motivator which concentrates people's minds on following through on the responsibilities allocated to them. It is important that personal accountabilities are clearly defined so that individuals understand what they are responsible for.

A fundamental task when drawing up a strategic implementation plan is to draft it in such a way that it can be articulated into separate action plans for each project and initiative. Ensure that good project management practices are followed and that training in project management methods is given as appropriate. The plan also needs to be visible so that it does not become disconnected from the decision-making process, and accessible to all, not restricted to the strategy department or senior executives and managers.

Strategy implementation is a dynamic process which has to take account of changing conditions impacting upon the strategy and its implementation. The plan therefore must be capable of change and amendment as circumstances dictate and the latest version should incorporate the results of ongoing learning.

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## 4. Allocate budgetary resources

Securing a satisfactory budget is one of the main requirements when implementing strategy. A new strategy may entail the development of new processes, the purchase of new equipment, the recruitment of additional employees, staff training or development activities, or the upgrading of information technology. The budgeting process needs to ensure that strategic initiatives are properly resourced and can be implemented in the agreed timescales.
Organisations use budgets to make sure that what is important gets done, but it is all too easy to focus on tactical challenges and short-term financial targets and allow this to take up a large amount of time and resources. Strategic initiatives can become the victim of this process, so it's vital for the budgetary process to be aligned with strategy. Each aspect of the strategy must be linked to operating and capital budgets.

Budgetary processes can also be used to track whether activities are behind schedule or not achieving the anticipated results. Financial forecasts, key performance indicators and actual expenditure can be compared to assess progress and to decide whether the costs involved are worth the results being produced. In some cases, it may become necessary to adjust the budget in order to reallocate or redistribute resources and get the strategy back on track.

## 5. Assign objectives and responsibilities

A formal planning and measurement structure is needed to implement strategy effectively. Strategic responsibilities and objectives need to be clearly assigned so that individuals understand their roles within the strategy and are able to take responsibility for or ownership of specific strategic tasks and outcomes. All those who have a role to play in the implementation of the strategy need to be clear about intended outcomes and their responsibilities for the achievement of these outcomes. The task of ensuring that employees know and understand their roles and how these contribute to organisational objectives rests with those who have drawn up the strategy and those who are responsible for ensuring that it is being implemented effectively.

Objectives and responsibilities should be made explicit and where possible they should be assigned to individuals rather than teams as this makes for clear personal accountability. Employees at all levels also need to know how their performance will be measured and evaluated. Metrics should be created for each task and documented so that everybody knows what the intended outcomes and the expected timeframes are. Organisations will be unable to hold individuals to account if strategic objectives or outcomes are not measured.

It is important to break strategic goals down into smaller specific objectives which can be measured and tracked. As specific objectives are met, step by step, this will give individuals and teams a sense of achievement, generate a sense of momentum and help to maintain enthusiasm. Be aware that while some outcomes, such as a growth in profits are relatively easy to record and measure, other matters such as staff morale and engagement will require softer metrics.

## 6. Align structures and processes

All organisations have existing business processes, plans and structures in place to manage their operations. Often these operate in isolation from one another and can bear little relationship to each other or to organisational strategy. If separate business units set their objectives independently, the contribution they make to organisational success could well turn out to be less than expected.

For an organisation to be capable of effectively implementing strategy, structures and processes need to be aligned with the strategic objectives. The strategy may be set out in a plan but organisational structures will determine how it is defined and executed. The activities of business units need to be coordinated and the skills and capabilities of each unit made available for the benefit of the organisation as a whole. Think about how this can be achieved, perhaps by individual directors championing a particular strand of the business across the organisation. Alignment assists in clarifying the strategy and in coordinating the activities of those who put it into action. It will also ensure consistency of purpose from the top of the organisation down to operating level as strategy is embedded throughout the organisation.

Ongoing and proposed projects also need to be aligned with strategic objectives. To achieve this, each project must be evaluated to determine whether and to what extent it will contribute to the achievement of

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strategic objectives. This will inform decisions as to which projects should be resourced and carried through to completion. Review points should be built into implementation plans.

## 7. Align people

Effective people management is a critical issue in the successful implementation of strategy. The work of employees needs to be aligned with the strategy, so that their efforts contribute to the achievement of organisational objectives. Organisations should define the behaviours required throughout the organisation. It may be necessary to ask employees to change the way that they work. Cultural issues will need to be considered here. For example, in organisations where internal collaboration has traditionally been weak, employees may need to start working cross-functionally.

Organisations need to create a cohesive strategy which employees can understand and get engaged with. Employees need to know that they are making a meaningful contribution to the success of the organisation and senior leaders must ensure that employees at all levels can articulate and evaluate how their personal job roles help to achieve specific strategic objectives.

Organisations need to consider what skills and capabilities they need to meet their strategic aims, both now and in the future. For this reason, leaders should attempt to anticipate how the organisation and the strategy are likely to evolve in the foreseeable future and identify those skills which will be of greater or lesser importance.

## 8. Communicate the strategy

All employees will need to have a clear understanding of the core elements of the strategy and how it is to be executed, so the strategy must be effectively communicated to everyone. This will encourage employee buy-in, commitment and engagement and should have a positive impact on productivity. Develop a communication strategy that will promote the overall vision and strategy of the organisation and articulate and define a set of well-defined goals. Avoid vague statements and ensure that objectives are expressed in concrete and measurable terms with tangible results and expected time frames.

Issues to be considered include: messages to be communicated; audience to be reached; behavioural changes needed; communication channels to be used; and measures to evaluate the level of success or failure. Simply giving employees a copy of the strategy plan is rarely effective. Instead, prepare a separate document, summarising the most important and significant points and providing a clear, concise summary. Remember to include information on why this particular strategy has been adopted and explain the rationale for the priorities which have been established. Avoid jargon and aim to make the messaging clear, concise, consistent and as convincing and compelling as possible. To ensure that the message becomes embedded, be prepared to repeat messages often, possibly using different channels, media and formats. Aligning your communications with organisational objectives will make them more relevant and effective, and help you to make a convincing case for the resourcing of communications activity within the organisation. In the case of a long-term strategy, identify some quick wins which will demonstrate the success of the new strategy and increase the visibility of the changes at regular intervals.

## 9. Review and report on progress

Progress should be reviewed regularly to check that the strategy is being implemented as envisioned. Strategy reviews allow managers to track progress, reflect on priorities and identify any issues that may need to be tackled. Remember, though, that strategy reviews have more to do with whether the strategy is producing results than with controlling performance.

Review meetings must be held often enough to keep the implementation process on course and to enable leaders to take decisions about any strategic adjustments which are needed to be made. Initially, this may be weekly, bi-weekly, monthly or quarterly. Frequency can be scaled back later when it is clear that the implementation process has been established and is working well. More frequent meetings may be necessary if the strategy is introducing major organisational change or if the business environment is evolving rapidly. There must be sufficient time for meaningful discussion to take place. Meetings may be time consuming at first but the need for frequent meetings will decrease as time goes on. Time spent productively in the early states will save time later on.

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The regular reporting and reviewing process should be supported by an effective tracking system which can describe and measure performance. Such measures, or key performance indicators (KPIs), can be developed using a framework such as Kaplan and Norton's balanced scorecard. This uses financial and non-financial perspectives to describe progress in consistent, insightful, operational terms and to translate strategic objectives into measurable performance. The use of such a framework can facilitate improvements as the effectiveness of the strategy is tested in the real world.

### 10. Make strategic adjustments as necessary

Strategy implementation is a dynamic process which takes place against the background of changing economic, social and competitive circumstances. This is where the leadership skills, capabilities and judgement of managers will be called upon to steer the organisation, underlining what was said in section 2 about the importance of building a good leadership team. This will involve decisions on the allocation of resources for optimal benefits as the competitive context evolves and judgements as to when changes are warranted. A balance between frequent changes of direction which may result in loss of organisational momentum and coordination and rigid adherence to plans when these are manifestly not achieving results needs to be found. Just as important, is the need for managers to align people, communicating changes, explaining how individual and team contributions contribute to outcomes and how engagement with the strategy will help them to achieve personal goals and aspirations, and effectively motivating and energising employees across the organisation.

### 11. Develop an organisational culture that supports the strategy

Organisational culture plays a significant role in successfully translating strategic plans and initiatives into action. No matter how good an organisation's strategy may be, implementation will be hindered if the organisational culture does not support it.

Culture is to the organisation what personality and character are to individuals. It consists of the assumptions, values and beliefs that employees share and which influence their activities, opinions and behaviour at work. A culture which is aligned with organisational strategy will help organisations to implement strategy successfully as a shared belief in organisational aims and objectives will promote commitment. Conversely, an organisational culture which is not aligned may stand in the way of adjustments to changing business needs and weaken the ability of an organisation to achieve its strategic aims.

## Managers should avoid

- thinking that strategy implementation is a simple process
- being caught unawares by unanticipated market changes which necessitate adjustments
- committing insufficient resources to execute the strategy
- failing to align organisational design and capabilities with the strategy
- failing to communicate the strategy consistently and persistently throughout the organisation
- making the strategy implementation and reporting process overly bureaucratic and time-consuming, leaving little time to put real changes into action.

## National Occupational Standards for Management and Leadership

This checklist has relevance to the following standards:
Unit BA5: Develop your organisation's vision and strategy
Unit FA1: Implement and evaluate strategic business plans

## Additional resources

### Books

**Exploring strategy**, 9th ed, Gerry Johnson, Richard Whittington and Kevan Scholes,
Harlow: Pearson Education, 2011

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**Good strategy bad strategy: the difference and why it matters**, Richard P Rumelt,
London: Profile Books, 2011

**Strategy safari: the complete guide through the wilds of strategic management**, 2nd ed, Henry Mintzberg, Bruce Ahlstrand, Joseph Lampel,
Harlow: Financial Times Prentice Hall, 2009

**The execution premium: linking strategies to operations for competitive advantage,** Robert S. Kaplan, and David. P. Norton,
Boston Mass.: Harvard Business Press, 2008

**Smarter execution: seven steps to getting results**, Xavier Gilbert, Bettina Buchel, Rhoda Davidson,
Harlow: Pearson Education, 2007

**Execution the discipline of getting things done**, Larry Bossidy, and Ram Charan,
London: Random House, 2002

This is a selection of books available for loan to members from CMI's library. More information at:
www.managers.org.uk/library

## Related checklists

Setting objectives (052)
Development for passive people (086)
Managing plateaued performers (140)

## Related models

Johnson and Scholes cultural web
McKinsey's 7s framework

## Internet resources

**W.K. Kellogg Foundation - Template for Strategic Communications Plan**
http://www.wkkf.org/knowledge-center/resources/2006/01/template-for-strategic-communications-plan.aspx

**Advanced Institute of Management Research - (AIM) - Building a strategy toolkit**
http://www.aimresearch.org/uploads/File/Publications/Executive%20Briefings%202/Building_a_strategy_toolkit.pdf

**This is one of many checklists available to all CMI members. For more information please contact**

**t**: 01536 204222 **e**: enquiries@managers.org.uk **w**: www.managers.org.uk

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**January 2014**

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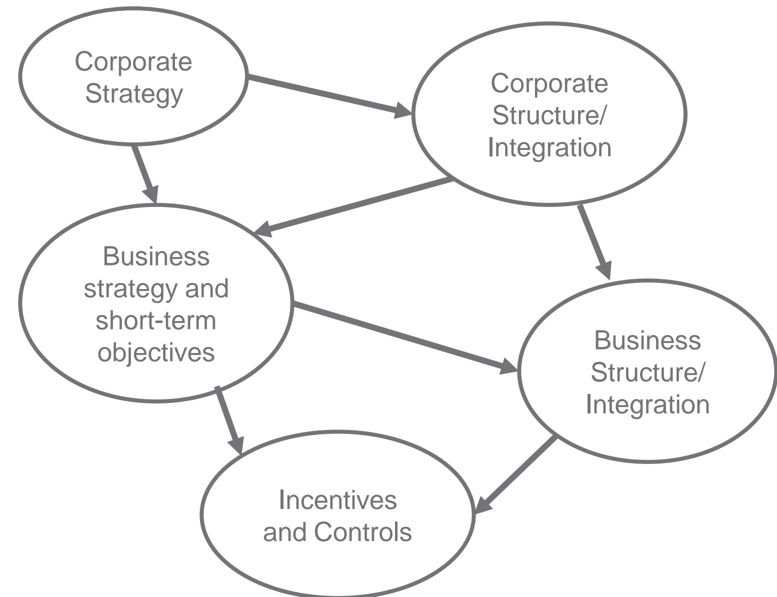
# Hrebiniak's Model of Strategy Execution

Dr. Lawrence G. Hrebiniak is an Emeritus Professor in the Department of Management at the Wharton School of the University of Pennsylvania and a member of the Strategy Group. He has written widely on the subject of strategy and in particular on the implementation of strategy. Based on his own research, this model provides an overview of the interdependent organisational components which need to interact with each other in order to successfully implement corporate strategy.

These are:

**Corporate Strategy:**
Which is concerned with the whole organisation and the business units within it.
**Business Strategy:**
Which focuses on products, services and short-term operating objectives.
**Corporate Structure:**
Across the whole organisation.
**Business Structure:**
In the individual business units.
**Incentives and Controls:**
To ensure that individuals put organisational strategy into practice.




**How can this help me?** While it is difficult to formulate strategy, it is even harder to put strategy into practice across an organisation. This model provides a logical approach to implementing strategy. It draws attention to the parts of the organisation which need to be coordinated in order to implement or execute strategy and is designed to help managers to focus on how strategic goals are to be translated into decisions and actions across the organisation.

**Find out more** – Read: ***Making strategy work: overcoming the obstacles to effective execution*** by Lawrence Hrebiniak (2008).

# *Management Models*

## Hammer and Champy's Business Process Redesign Model

Business Process Reengineering (BPR) is a business management strategy, originally pioneered in the early 1990s, focusing on the analysis and design of organisational workflows and processes. Business process re-engineering is also known as business process redesign, business transformation, or business process change management.

**Reengineering initiatives lead to an organisation having these characteristics:**

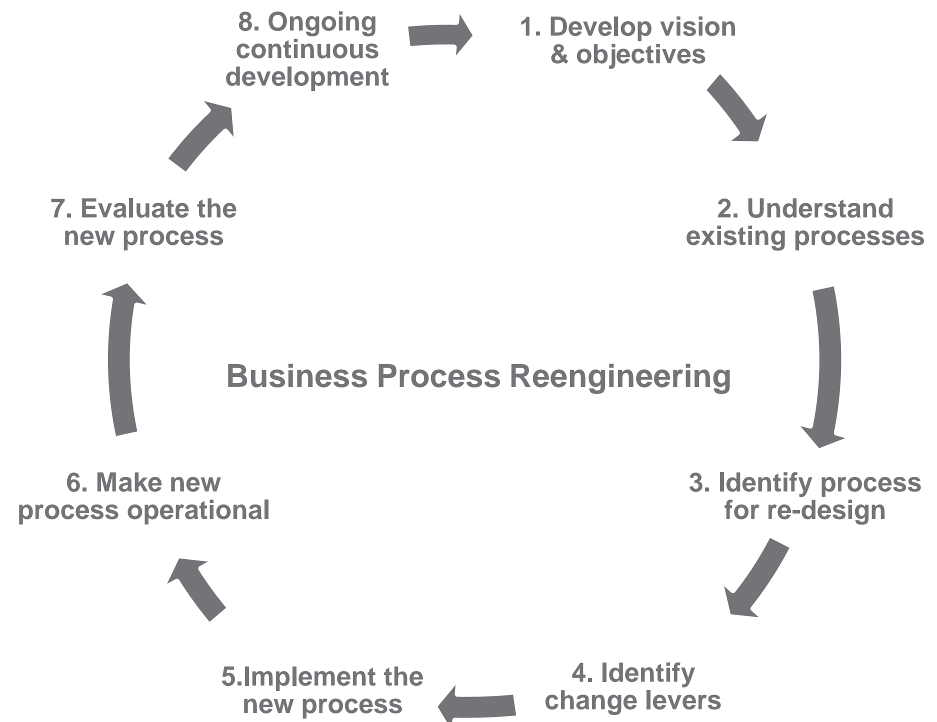
Business processes are simplified
Job descriptions expand – employees perform a broader range of tasks
The emphasis moves away from the individual and towards team achievements
The organisation structure changes from a hierarchy to a flatter arrangement
The focus of the organisation becomes professionals, not the managers
The organisation becomes aligned with end-to-end process rather than departments
Performance measurement moves away from activity towards results
Employee focus changes from pleasing their manager to pleasing the customer
The organisation value system changes from being protective to being productive

**Successful reengineering programs have these common themes:**

The focus is on processes rather than organisational boundaries
The ambition to create performance gains
A willingness to break with old traditions and rules

**To succeed at reengineering, follow these principles:**

Start with the customer and work backwards
Tolerate risk and accept flaws along the way
Design work processes in light of organisational goals
Restructure to support front-line performance
Remember that reengineering is the opposite of business as usual




**How can this help me?** BPR can help organisations to rethink how they organised themselves in order to dramatically improve customer service and cut operational costs. BPR seeks to help organisations restructure by focusing on the bottom-up design of their business processes.

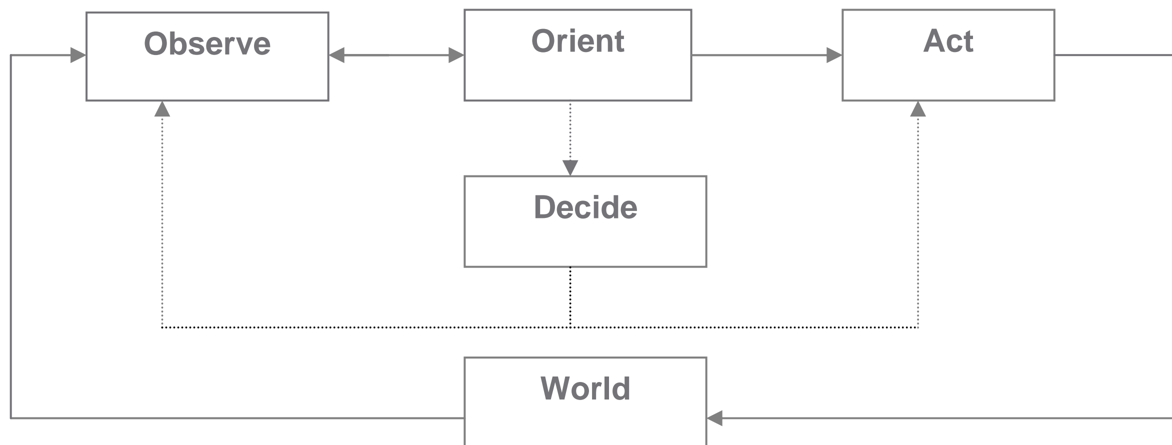
**Find out more –** Read: ***Reengineering the Corporation: A Manifesto for Business Revolution*** by Hammer and Champy (2001) and Implementing Business Process Reengineering (CMI Management Checklist 008).

*Management Models*

# Boyd's OODA Loop

The **OODA loop** (**O**bserve **O**rient **D**ecide **A**ct) is an information strategy concept for information warfare developed by Colonel John Boyd of the United States Air Force (USAF). Though the model was created for military purposes, elements of it can be applied to business strategy.

The OODA loop has relevance in business and strategy as, according to Boyd, decision making occurs in a recurring cycle of observe-orient-decide-act. An individual or an organisation processing this cycle quickly, observes and reacts to unfolding events more rapidly than an opponent, and thus gets 'inside' the opponent's decision cycle to gain advantage. Boyd developed the concept to explain how to direct one's energies to defeat an adversary and survive. Boyd emphasised that the 'loop' is actually a set of interacting loops that are to be kept in continuous operation during combat. He also indicated that the phase of the battle has an important bearing on the ideal allocation of one's energies. Boyd's diagram shows that all decisions are based on observations of the evolving situation tempered with implicit filtering of the problem being addressed. These observations are the raw information on which decisions and actions are based. The observed information must be processed to orient it for further decision making.




**How can this help me?** The OODA Cycle enables one to interfere with, and short-circuit, an opponents thinking processes by getting inside an opponent's OODA loop, and taking control of the situation. This causes an opponent to move in a particular way, producing opportunities for them to react inappropriately. The same cycle operates over a longer timescale in a competitive business landscape. Decision makers gather information (observe), form hypotheses about customer activity and the intentions of competitors (orient), make decisions, and act on them. The cycle is repeated continuously. The aggressive and conscious application of the process gives a business advantage over a competitor who is merely reacting to conditions as they occur, or has poor awareness of the situation.

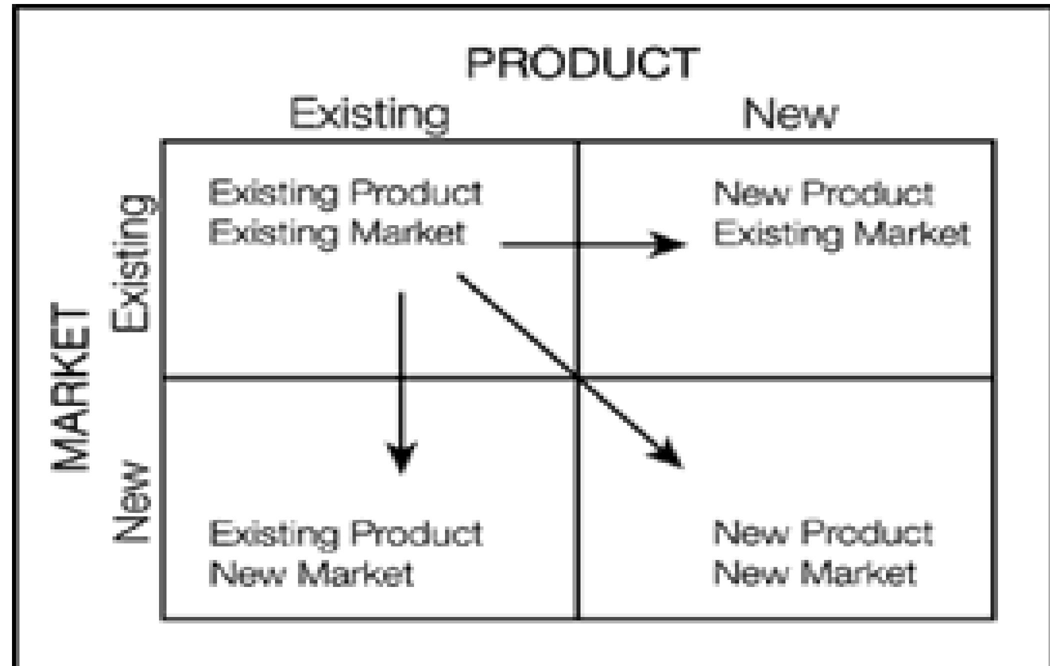
**Find out more:** **The essence of winning and losing** (a five slide set) by John R Boyd at:
www.chetrichards.com/modern_business_strategy/boyd/essence/eowl_frameset.htm

## Ansoff's Matrix

The matrix allows marketers to consider ways to grow the business via existing and/or new products, in existing and/or new markets – there are four possible product/market combinations. This matrix helps companies decide what course of action should be taken given current performance.

The matrix consists of four strategies:

**Market penetration :** Existing products are marketed to existing customers. This means increasing revenue by, promoting the product or repositioning the brand. The product is not altered and we do not seek new customers.
**Market development :** An existing product range is marketed in a new market. The product remains the same but is marketed to a new audience.
**Product development :** The business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.
**Diversification :** The growth strategy where a business markets new products in new markets. This strategy carries more risk as the business is moving into markets in which it may have little or no experience. To adopt a diversification strategy a business needs to have a clear idea about what it expects to gain and an honest assessment of the risks.




**Corporate strategy,** New York: McGraw Hill, 1965

**How can this help me?** The matrix is a framework to explore directions for strategic growth. It is the most commonly used model for analysing the possible strategic direction that a business should take. It identifies and analyses different growth opportunities and encourages planners to consider both unexpected returns and risks.

**Find out more -** Read ***Corporate strategy: an analytical approach to business policy for growth and expansion*** by H Igor Ansoff Mcgraw-Hill 1965 or ***Igor Ansoff: father of corporate strategy*** (CMI Management thinker 52)

# Igor Ansoff
# Father of Corporate Strategy
# Thinker 052

## Introduction

Igor Ansoff (1918-2002) was the originator of the strategic management concept, and was responsible for establishing strategic planning as a management activity in its own right. His landmark book, *Corporate Strategy* (1965), was the first text to concentrate entirely on strategy, and although the ideas outlined are complex, it remains one of the classics of management literature.

## Life and career

H. Igor Ansoff was born in Russia in 1918 and his family emigrated to the United States of America in 1936. His early academic focus was on mathematics, and he obtained a PhD in applied mathematics from Brown University, Rhode Island. He joined the Rand Corporation in 1950, and moved on to Lockheed Aircraft Corporation, where he eventually became Vice-President, Plans and Programmes, and then Vice-President and General Manager of the Industrial Technology Division.

In 1963, Ansoff was appointed Professor of Industrial Administration at the Carnegie Institute of Technology in Pittsburgh. He went on to hold a number of positions in universities in both the United States and Europe. He continued to act as a consultant after retiring from academia in 2000 and, on his retirement, was named Distinguished Professor Emeritus at the United States International University.

## Key theories

Until the publication of *Corporate Strategy*, companies had little guidance on how to plan for, or make decisions about, the future. Traditional methods of planning were based on an extended budgeting system which used the annual budget, projecting it a few years into the future. By its nature, this system paid little or no attention to strategic issues. With the advent of greater competition, higher interest in acquisitions, mergers and diversification, and greater turbulence in the business environment, however, strategic issues could no longer be ignored. Ansoff felt that, in developing strategy, it was essential to systematically anticipate future environmental challenges to an organisation, and draw up appropriate strategic plans for responding to these challenges.

In *Corporate Strategy*, Ansoff explored these issues, and built up a systematic approach to strategy formulation and strategic decision-making through a framework of theories, techniques and models.

### Strategy decisions

Ansoff identified four standard types of organisational decisions as related to strategy, policy, programmes, and standard operating procedures. The last three of these, he argued, are designed to resolve recurring problems or issues and, once formulated, do not require an original decision each time. This means that the

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decision process can easily be delegated. Strategy decisions are different, however, because they always apply to new situations and so need to be made anew every time.

Ansoff developed a new classification of decision-making, partially based on Alfred Chandler's work, *Strategy and Structure* (Cambridge, Mass., MIT Press, 1962). This distinguished decisions as either: strategic (focused on the areas of products and markets); administrative (organisational and resource allocating), or operating (budgeting and directly managing). Ansoff's decision classification became known as Strategy-Structure-Systems, or the 3S model. (Sumantra Ghoshal has since proposed a 3Ps model - purpose, process and people - to replace it.)

## Components of strategy

Ansoff argued that within a company's activities there should be an element of core capability, an idea later adopted and expanded by Hamel and Prahalad. To establish a link between past and future corporate activities (the first time such an approach was undertaken) Ansoff identified four key strategy components:

- product-market scope - a clear idea of what business or products a company was responsible for (predating the exhortations of Peters and Waterman to "stick to the knitting")
- growth vector - as explained in the section below on the Ansoff matrix, this offers a way of exploring how growth may be attempted
- competitive advantage - those advantages an organisation possesses that will enable it to compete effectively - a concept later championed by Michael Porter
- synergy - Ansoff explained synergy as "2+2=5", or how the whole is greater than the mere sum of the parts, and it requires an examination of how opportunities fit the core capabilities of the organisation.

## Ansoff Matrix

Variously known as the "product-mission matrix" or the "2 x 2 growth vector component matrix", the Ansoff Matrix remains a popular tool for organisations that wish to understand the risk component of various growth strategies, including product versus market development, and diversification. The matrix was first published in a 1957 article called '*Strategies for diversification*' and the example below illustrates what such a matrix may look like:

| | Present | New |
|---|---|---|
| Present | 1. Market penetration | 2. Market expansion |
| New | 3. Product expansion | 4. Diversification |

Of the four strategies given in the matrix, market penetration requires increasing existing product market share in existing markets; market expansion requires the identification of new customers for existing products; product expansion requires developing new products for existing customers; and diversification requires new products to be produced for new markets.

Ansoff's article focused particularly on diversification as a potentially high-growth but also high-risk strategy requiring careful prior planning and analysis before any decision is taken. Diversification was viewed by Ansoff as a particularly important growth strategy, requiring organisations to " … break with past patterns and traditions" as they enter onto new, " … uncharted paths" where, generally, new skills, techniques and resources will be required. His matrix offered a method of carefully analysing and evaluating the profit potential of diversification strategies.

## Paralysis by analysis

It has sometimes been suggested that the application of the ideas in Corporate Strategy can lead to an over-heavy emphasis on analysis. Ansoff himself recognised this possibility, however, and coined the now famous phrase "paralysis by analysis" to describe the type of procrastination caused by excessive planning.

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### Turbulence

The issue of turbulence underlies all of Ansoff's work on strategy. One of his key aims in establishing a better framework for strategy formulation was to improve the existing planning processes of the stable, post-war economy of the USA, since he realised these would not be sufficient to cope with pressures that rapid and discontinuous change would place on them.

By the 1980s change, and the pace of change, had become a key issue for management in most organisations. Ansoff recognised, however, that if some organisations were faced with conditions of great turbulence, others still operated in relatively stable conditions. Consequently, although strategy formulation had to take environmental turbulence into account, one strategy could certainly not be made to fit every industry. These ideas are discussed in *Implanting Strategic Management*, where five levels of environmental turbulence are outlined as:

- Repetitive - change is at a slow pace, and is predictable
- Expanding - a stable marketplace, growing gradually
- Changing - incremental growth, with customer requirements altering fairly quickly
- Discontinuous - characterised by some predictable change and some more complex change
- Surprising - change which cannot be predicted and which both develops, and develops from, new products or services.

## In perspective

Although Ansoff's work is frequently referred to by other strategists, it has not become more generally recognised in comparison with that of other theorists. The complexity of his work, and its reliance on the disciplines of analysis and planning, are perhaps among the reasons why Ansoff is not popularly viewed as belonging within the top echelons of management thinkers.

Other theorists were working on similar themes to Ansoff at similar times. In the 1960s Ansoff's notion of competence (which was later developed by Hamel and Prahalad) was not unique, and although Ansoff seems to have been the originator of his 2 x 2 growth vector component matrix, a similar matrix had been published earlier. During the 1980s and 1990s, it is likely that much work by other theorists about strategy formation under conditions of uncertainty or chaos owed something to Ansoff's theory of turbulence, though it is difficult to evaluate the extent of the debt.

A debate between Ansoff and Henry Mintzberg over their differing views of strategy was reflected in print over many years, particularly in the Harvard Business Review. Ansoff has often been criticised by Mintzberg, who disliked the idea of strategy being built from planning which is supported by analytical techniques. This criticism was based on the belief that Ansoff's reliance on planning suffered from three fallacies: that events can be predicted, that strategic thinking can be separated from operational management, and that hard data, analysis and techniques can produce novel strategies.

Ansoff was one of the earliest writers on strategy as a management discipline, and laid strong foundations for several later writers to build upon, including Michael Porter, Gary Hamel and C K Prahalad. He invented the modern approach to strategy and his work pulled together various ideas and disparate strands of thought, giving a new coherence and discipline to the concept he described as strategic planning. During the 1970s and 1980s, this concept shaped more ideas about management as other writers took up Ansoff's ideas, such as core competence or 'sticking to the knitting'.

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## Key works

### Books

**Corporate strategy**
New York: McGraw Hill, 1965

**From strategic planning to strategic management**
(with Roger P DeClerck and Robert L Hayes)
New York: John Wiley/Interscience, 1975

**Strategic management**
London: MacMillan, 1979

**Implanting strategic management**
Englewood Cliffs, NJ: Prentice Hall, 1984
(2nd ed with Edward J McDonnell, 1990)

**The new corporate strategy**
New York: Wiley, 1988
(Revised edition of **Corporate strategy**)

### Journal articles

**Strategies for diversification**
Harvard Business Review, Sep/Oct, vol 35 no 5, 1957, pp.113-124

**The firm of the future**
Harvard Business Review, Sep/Oct, vol 43 no 5, 1965, pp.162-174

**Igor Ansoff's continuing contribution to strategic management**, David Hussey
Strategic Change, Nov, vol 8 no 7, 1999, pp.375-392

### Further reading

**What is strategy**
Centre for Strategic Business Studies
Winchester: CSBS Publications,1998

### Related thinkers

Alfred D Chandler Jr: business history as a management tool (21)
Sumantra Ghoshal: professor of the spring strategy (41)
C K Prahalad: a new view of strategy (20)
Gary Hamel: the search for a new strategic platform (49)
Michael Porter: what is strategy? (28)
Tom Peters: the guru as performer (27)

**This is one of many thinkers available to all CMI members. For more information please contact**

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Key works updated Dec 2011

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# Sumantra Ghoshal
# Professor of the Spring Strategy
# Thinker 041

## Introduction

Pioneering research with collaborator Christopher Bartlett into what makes large organisations tick, and an enquiring mind committed to management as the wealth creator, have contributed to the emergence of Sumantra Ghoshal as one of the most respected management thinkers of his generation.

## Background

Sumantra Ghoshal was born in India in 1948. After taking an undergraduate degree in Physics, he spent 12 years (1969-81) at the Indian Oil Corporation as a management trainee. His appetite for understanding what makes organisations work is underpinned by the fact he obtained two doctorates - one from MIT, a business school which championed rigorous scientific method, the other from Harvard which espoused a more pragmatic approach based on case studies, observation and practice.

Following periods of lecturing at MIT and INSEAD in the late 1980s, Ghoshal became Professor of Business Policy at INSEAD in 1992, and Robert P. Bauman professor of strategic leadership at the London Business School in 1994. He first came to prominence with the publication of the well-received 1989 book co-authored with Christopher Bartlett, *Managing Across Borders*.

## Key theories

### Managing across borders

Ghoshal and Bartletts' thinking began with two fundamental questions:

What does strategy mean?

Why do the time-honoured business models - exemplified by Alfred Sloan's General Motors - no longer work?

Their initial research led them to ask over 250 managers in nine multinational companies how their companies were facing up to the complexities of international competition and the growing global marketplace. Ghoshal and Bartlett identified a pervasive organisational inability to cope, survive and succeed, in the face of problems of growing diversity and accelerating change. They identified organisational models in operation as:

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- **the multinational model** - exemplified by Philips or Unilever - which operated as decentralised federations of local firms held together by posting key people from the centre

- **the global model** – illustrated by Ford and Matsushita - which benefited from large scale economies and conduits into new market opportunities
- a more widespread **international model** - which focused on technology and the transfer of knowledge to less advanced environments.

Ghoshal and Bartletts' research led them to conclude that the old business models were no longer working in the changing global markets of the 1980s. They concluded that a fourth model was necessary - the transnational - which could combine all the elements of a, b and c above, and concentrate on exploiting local know-how as a key weapon in identifying opportunities, rather than just operating sites overseas as outposts of the centre.

## Efficiency vs. economic progress

To understand why the old business models don't work any more, Ghoshal cited the example of Alfred Sloan's General Motors as a pioneer of the three Ss of Strategy - Structure - Systems. The organisation's top people are the ones who craft strategy, then design both the structure to enable the strategy to unfold and the systems which make the strategy operational. General Motors' business divisions became the hallmark of the three Ss, which other companies emulated for decades.

The three Ss were designed to make the management of complex organisations systematic and predictable through reliance on information systems which dealt with facts, reducing the human element to a minimum. Employees on Ford's assembly lines, for example, were viewed as replaceable parts. ITT, under Chief Executive Harold Geneen, abolished the possibility of surprises by constantly rooting out 'unshakeable facts'. For years, this systematic approach worked, starting to break down only in the 1980s. At that time, converging technologies, fluctuating markets, overnight competition and technological innovation all combined to make such control systems cumbersome, unresponsive and ultimately a risk to the very survival of the organisation itself.

Formerly excellent companies started going down. In an article by Ghoshal, Christopher A. Bartlett and Peter Moran in the Sloan Management Review of Spring 1999, ('*A new manifesto for management*', pp 9-20) it was pointed out that criticisms of these companies for stifling initiative, creativity and diversity were valid – but that was their point: "They were designed for an organisation man who has turned out to be an evolutionary dead end" (p 11).

In the same article, the authors make an implicit attack on Michael Porter's work, which influenced strategic thinking for over a decade, by arguing the need for organisations to beat the competition by gaining a stranglehold on value: by either reducing their value - perhaps through competitive incremental cost or quality improvements – or buying them out. Ghoshal et al wrote: "Porter's theory is static in that it focuses strategic thinking on getting the largest possible share of a fixed economic pie" (p 12). For Ghoshal, companies do not exist to appropriate value, but to create it, and they get to a position of creating value by what he called 'changing the smell of the place'.

## Fontainebleau and Calcutta – the 'Springtime theory'

Ghoshal developed his 'springtime' theory whilst teaching business policy at INSEAD, in the forest of Fontainebleau, about 40 miles south of Paris.

During a summer visit to his home city of Calcutta, he found the humidity oppressive and draining, and likened this to the stultifying atmosphere found in control- and system-oriented corporate climates. Later, while walking in the woods at Fontainebleau, Ghoshal realised that the fresh, energising forest reminded him of the cultural atmosphere encountered in more open, vibrant and dynamic organisations. Ghoshal went on to propose his 'Springtime theory' from this, arguing that managers and approaches to management, strongly affect cultures, and can create or change the organisational context: 'the smell of the place'.

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So how do you create a Fontainebleau forest springtime atmosphere in the operating units of a large organisation?

## The three Ps

Ghoshal considered that today's leading companies are built around the 'three Ps' of Purpose, Process and People. In an interview with Bob Little, reported in Management Skills and Development ('*Leadership by Ghoshal!*', Feb/Mar 1999, pp 38-40), Ghoshal claimed that, as shapers of purpose, senior managers need "… to create a shared ambition among their staff, instill organisational values and provide personal meaning for the work their staff do." The creation of that shared ambition has to be an active management process, going beyond a normal business approach in challenging poor performance, establishing a common goal that binds people together in the organisation, demonstrating managers' commitment and self-discipline; and providing "meaning for everyone's efforts" (p 40).

In the same interview, Ghoshal stressed the need for organisations to look at how to:

- start thinking outside the 'strategic planning' box and begin to examine how they actually learn
- complement vertical information flows with horizontal personal relationships
- build a trust-based culture by spreading a message of genuine openness
- share all the information that has traditionally been a source of power.

Ghoshal stated: "You cannot have faith in people unless you take action to improve and develop them. The success of businesses depends now more than ever on the talent of people working for them" (p 39). To develop such a situation, he proposed that organisations need to forge a new moral contract with their people.

## The new moral contract

In the past, the contract between organisations and employees promised relative security in return for conformity. In the 1980s and 1990s, however, this began to change, as job security was undermined by downsizing and re-engineering. At the same time, managerial approaches such as Total Quality Management and Customer Focus demanded more involvement and initiative from employees. The new contract Ghoshal proposed was based on developing people's employability, and providing challenging jobs rather than functional boxes. Personal development is essential both to improve employee performance and to make people more employable in their future working lives. This moral contract should not be viewed either as an act of altruism on the part of a company or as a 'programme' that is inflicted upon employees; it is, rather, a new management philosophy which recognises that employment and market performance stem from the initiative, creativity and skills of all employees, and not just from the wisdom of senior management.

A contract based on employability involves a great leap for both organisations and employees. For employers, it involves creating a working environment that can provide opportunities for personal and professional growth, within a management environment where it is understood that talented, growing people mean talented, growing organisations. For many employees, the new contract would involve movement towards a greater commitment to continuous learning and development, and towards an acceptance that, in a climate of constant change and uncertainty, the will to develop is the only hedge against a changing job market.

This approach is not a completely new one, and is already at work in some organisations, such as Intel, Motorola, ABB and 3M, where the focus is on development for creativity and innovation and where, it seems, both the employee and the organisation win. Ghoshal, however, gave the approach expression, viewing the ethic of value creation as a key step for business in regaining social legitimacy: something that he thought companies lost when they appeared to become increasingly greedy and lacking in social concern during the downsizing, cost-cutting, and value acquisition period of the 1980s and 1990s. For Ghoshal, value creation makes the individual, the organisation and society all winners.

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### Companies as value creators

Ghoshal felt strongly that organisations must stop focusing attention on the incremental squeezing out of every morsel of efficiency, every possible minute improvement, every conceivable waste reduction and every last cost saving. While this concentration upon efficiency may seem the final staging post of TQM and continuous improvement, organisations for which it is a sole focus are not very good at anything other than improving existing activities. They don't push attention towards new or different things – that is, towards value creation. Instead, their emphasis is almost wholly upon conservation which, as Ghoshal pointed out in the interview with Little referred to above, has been described by Jack Welch of GE as a 'ticket to the boneyard'.

For Ghoshal, the key to competitive advantage in a turbulent economy is a company's ability to innovate its way out of relentless market pressures. As companies shift emphasis from acquiring value to creating it, the focus for managers should shift away from obedience, control and conformity to initiative, relationship building and continuous challenge of the status quo. Instead of being cogs in a system, managers should become facilitators and people developers, drawing creativity from others. This is the main message of Ghoshal and Barletts' book, *The Individualized Corporation*, 1998.

In an interview published in the Professional Manager, Ghoshal pointed out that the modern world has brought about an enormous improvement in the quality of our lives and that this improvement - this value – has been created by business. While politicians create the content, they do not, in Ghoshal's view, create value – this has come from companies and managers. Seen from this perspective, management is the most important social profession today, in that the wealth of the nation depends on it: "The quality of BT's management matters, perhaps matters more than a quarter per cent change in interest rates, because it creates value. If BT, ICI or Marks and Spencer are poorly managed … the UK loses because these institutions are the engines of the country's progress. The most important source of a nation's progress is the quality of its management." ('*Professor of the Spring strategy*', Professional Manager, May 2000, pp20-23.)

## In perspective

In the ten or so years since Ghoshal came to international prominence, his focus shifted from international strategy to the importance of putting people, creativity and innovation to the top of the agenda. Ghoshal, especially working in collaboration with his long-time colleague Christopher Bartlett, looked to the potential of the 21st century with an enquiring mind, and imagination, emphasising the importance of high quality management as an important social and moral, value-creating force.

## Key works (all co-written with Christopher A Bartlett)

### Books

**Managing across borders, 2nd ed**
London, Hutchinson Business, 1998

**The Individualized corporation: a fundamentally new approach to management**
London, Heinemann, 1998

### Selected journal articles

**Changing the role of top management: beyond structure to processes**
Harvard Business Review, Jan/Feb, vol 73 no 1, 1995, pp86-96

**Changing the role of top management: beyond systems to people**
Harvard Business Review, May/June, vol 73 no 3, 1995, pp132-142

**Changing the role of top management: beyond strategy to purpose**
Harvard Business Review, Nov/Dec, vol 72 no 6, 1994, pp79-88.

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# SWOT Analysis (Organisational)

CMI

SWOT analysis is a tool for analysing the market position of an organisation. It was developed in the 1960s as a result of research into the failure of corporate planning methods carried out at Stanford Research Institute.

SWOT stands for: **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. The analysis involves asking questions designed to assess the organisation's capabilities, explore opportunities open to it and identify actual and potential threats to its success and gathering the information needed to answer them. Examples of the questions to ask are shown in the following table:

| Strengths | Weaknesses |
|---|---|
| What do we do better than anyone else?<br>What advantages do we have?<br>What unique resources do we have?<br>What do others see as our strong points? | What needs improving?<br>What kind of complaints are we receiving?<br>What factors are negatively affecting the quality of our products and services? |
| **Opportunities** | **Threats** |
| Which technological developments might be useful to us?<br>What new markets are opening up?<br>Which economic, demographic or political trends could help us? | Which new technologies might affect our business?<br>What are our competitors doing better than us?<br>Which economic, demographic or political trends could have a negative impact on our business? |

**How can this help me?** Although, it has been criticised for its lack of strategic depth, SWOT analysis remains a popular tool. It is used in strategy development, planning, and the evaluation of strategic options for a whole business or a single department. It can an effective way of getting people thinking about the current position of the business and the prospects for the future, but it is vital to ensure that the results are carefully integrated into plans and strategy.

SWOT analysis can also be used to identify personal career prospects.

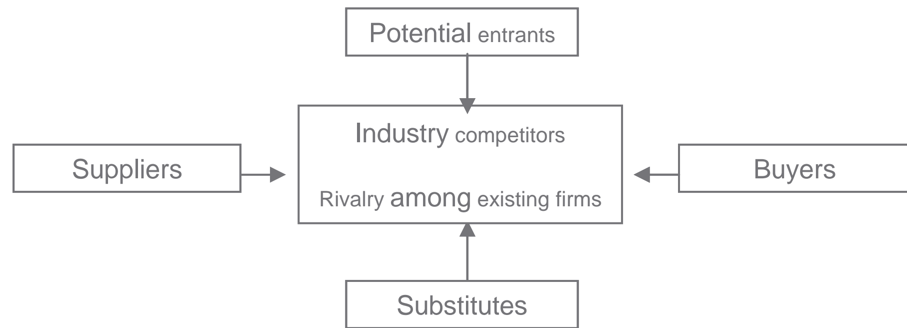
**Find out more -** Read ***Performing a SWOT Analysis*** (CMI management checklist 005)

# Porter's Five Forces

Working in the 1980s, Michael E Porter identified five factors affecting the competitive position of a company. He argued that a company that wishes to improve its performance must take account of these five forces, before it can make a decision as to the best strategy for future success.

The five forces identified by Porter as shown in the diagram on the right are:

- the entry into the market of new competitors
- the threat of substitutes – similar competing products
- the bargaining power of buyers or customers
- the bargaining power of suppliers
- the level of competition from existing competitors.




**How can this help me?** Porter's model is designed to help companies choose the most promising strategy for their business. It does this by focusing attention on the competitive forces at work in the wider industry scene, not just the company's internal resources and operational efficiency. In the 1980s, Porter identified three generic strategies: competing on price; differentiating products and services by offering something not offered by competitors, or focusing on a niche market; later he went on to consider the role of diversification as a strategy and the impact of the Internet. But he stresses that it is not enough just to gather information. Companies need to ask themselves how they can use competitive forces to their advantage and rewrite the rules of the industry.

**Find out more** - Read **Competitive advantage: creating and sustaining superior performance** by Michael E Porter or see ***Michael Porter: what is strategy?*** (CMI management thinker 28)