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Sorozatszerkesztő: Rajcsányi-Molnár Mónika

6. Strategic management

DUNAÚJVÁROSI EGYETEM
UNIVERSITY OF DUNAÚJVÁROS

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Strategic Management Handbook

1. Introduction

In the field of management science and practice foresight, strategic thinking and development occupy a central position from the middle of the last century.

Changes in the environmental factors have been accelerating and companies are facing increasing competition. The future seems to hold growing pace and even greater complexity of change.

At first strategy might sound an impenetrable, complicated impression.

In fact the strategy in our everyday life presents factors and affects our individual destiny.

Think about choosing a career, or a partner, or a job. These choices are the strategic decisions of private life.

Often we do not recognize that we are facing a strategic decision, and that these determine the long term fate of our individual life. It may take years to face it that those were not the right choices.

In the field of strategic management numerous books, studies and articles appear every day. Some of these papers have suggested that they are following the recommended procedures and methods carefully and make you successful in business.

Unfortunately, there is not a generally applicable formula for success!

Reality shows that a well-functioning system of strategic management can significantly increase your chances of business success, yet the subjective factors, managerial intuition, chance or luck are unknown components of the recipe for success.

Consequently the question is what we can learn within the context of this subject, which may be useful in the practical work?

Several tools of the strategic management system exist that can be used effectively by organizations operating in any environment and any type of management, including non-profit organizations.

I would like to show you the applied methods in diverse areas of strategic management focusing on the relatively stable and universally usable tools.

As you will see, the strategic approach, contemplates the long-term future in the light of our everyday activities.

Ultimately strategy is about success on the battlefield in the business world, on the chessboard and in our private life.

I wish you to complete the requirements of the subject of strategic management successfully and make good use of the acquired knowledge in your work and in private life, too.

1.1 Strategic management

Strategic management helps answer the key question: **"why do some firms outperform other firms?"**

– Examines how actions and events involving top executives, firms, and industries influence a firm's success or failure.
– Formal tools exist for understanding these relationships.
– Creativity is just as important to strategic management; mastering strategy is therefore part art and part science.

Strategy is a complex concept that involves many different processes and activities within an organization.

Professor Henry Mintzberg articulated what he labeled as the "5 Ps of strategy."; understand plan, as a ploy, position, pattern, and as a perspective is important.

Strategic plans are the essence of strategy according to one classic view of strategy.

A strategic plan is a carefully crafted set of steps that a firm intends to follow in order to be successful.

– A **business model** should be a central element of a firm's strategic plan.
– Describes the process through which a firm hopes to earn profits.
– Requires that a firm sell goods or services for more than it costs the firms to create and distribute those goods.
– Providing customers with a good or service more cheaply than they can create it themselves.
– When firms buy their ingredients in massive quantities, they pay far less for these items than any family could (an advantage called economies of scale).

Strategic plans are important to individuals too.

Maintaining flexibility is wise for individuals planning their career strategies as well as for firms.

For firms, these unexpected twists and turns places limits on the value of strategic planning.
– From that point forward, strategy is less about a plan and more about making adjustments to a shifting situation.
– As events unfold around a firm, its strategic plan may reflect a competitive reality that no longer exists.

A second way to view strategy is in terms of ploys.
– A **strategic ploy** is a specific move designed to outwit or trick competitors.
– Ploys often involve using creativity to enhance success.
– Ploys can be especially beneficial when facing much stronger opponents.

Strategy as pattern *is a third way to view strategy.*
– This view focuses on the extent to which a firm's actions over time are consistent.
– A very consistent pattern can make a company predictable.

Viewing strategy as a plan, ploy, and a pattern involve only the actions of a single firm.

In contrast, the next P – **strategy as position** *– considers a firm and its competitors.*
– Refers to a firm's place in the industry relative to its competitors.
– Firms sometimes change positions in search of greater success, but this can be a risky move.

The fifth and final, P – **strategy as perspective** *– refers to how executives interpret the competitive landscapes around them.*
– Because each person is unique, two different executives could look at the same event and attach very different meanings to it.
– Being led by executives who adopt unique and positive perspectives can lead firms to find and exploit opportunities that others simply miss.

Strategic management focuses on firms and the different strategies that they use in an effort to become and remain successful. Multiple views of strategy exist, and the 5 Ps described by Henry Mintzberg enhance understanding of the various ways in which firms conceptualize strategy.

Key Terms

Strategic Management

Strategic management examines how actions and events involving top executives (such as Steve Jobs), firms (Apple), and industries (the tablet market) influence a firm's success or failure.

Strategic Plan

A strategic plan is a carefully crafted set of steps that a firm intends to follow in order to be successful.

Business Model

A business model describes the process through which a firm hopes to earn profits. Economies of Scale A cost advantage that is created when a firm can produce a good or service at a lower per unit price due to producing the good or service in large quantities.

Strategic Ploy

A strategic ploy is a specific move designed to outwit or trick competitors.

Strategy as pattern

Strategy as pattern focuses on the extent to which a firm's actions over time are consistent. Strategy as position Strategy as position refers to a firm's place in the industry relative to its competitors.

Strategy as perspective

Strategy as perspective refers to how executives interpret the competitive landscape around them.

1.2 Strategic management

Intended, Emergent, and Realized Strategies

When an organization's environment is very stable and predictable, strategic planning can provide enough of a strategy for the organization to gain and maintain success.

– The executives leading the organization can simple create a plan and execute it, and they can be confident that their plan will not be undermined by changes over time.
– Only a few executives enjoy a very stable and create predictable situation.
– Because change affects the strategies of almost all organizations, understanding the concepts of intended, emergent, and realized strategies is very important.
– Also relevant are deliberate and non-realized strategies.

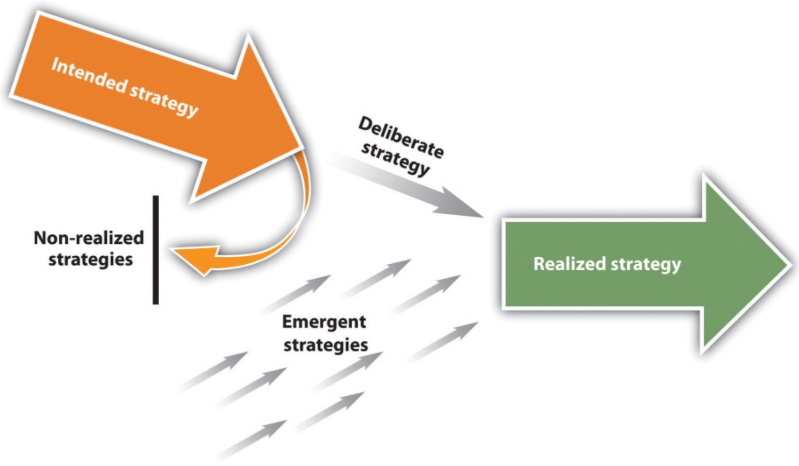
An **intended strategy** *is the strategy that an organization hopes to execute.*
– Usually described in detail within an organization's strategic plans.
– When a strategic plan is created for a new venture, it is called a business plan.

An **emergent plan** is an unplanned strategy that arises in response to unexpected opportunities and challenges.

A **realized strategy** is the strategy that an organization actually follows.

A product of a firm's intended strategy (i.e., what the firm planned to do), the firm's **deliberate strategy** (i.e., the parts of the intended strategy that the firm continues to pursue over time) and its emergent strategy (i.e., what the firm did in reaction to unexpected opportunities and challenges).

A **non-realized strategy** refers to the parts of the intended strategy that are abandoned.



Key Terms

Intended Strategy

An intended strategy is the strategy that an organization hopes to execute.

Emergent Strategy

An emergent strategy is an unplanned strategy that arises in response to unexpected opportunities and challenges.

Realized Strategy

A realized strategy is the strategy that an organization actually follows.

Deliberate Strategy

A deliberate strategy is the parts of the intended strategy that an organization continues to pursue over time.

Non-realized Strategy

A non-realized strategy refers to the parts of the intended strategy that are abandoned.

2. Strategic management

2.1 The origin of Strategic Management

Indeed, the term strategy originates from the Greek word strategos meaning "army leader". The concept of strategy did not originate with the Greeks.

Sun Tzu was a Chinese military general, strategist and philosopher who lived in ancient China (544–496 BC). He is traditionally credited as the author of *The Art of War*, an extremely influential ancient Chinese book on military strategy. Sun Tzu has had a significant impact on Chinese and Asian history and culture, both as the author of *The Art of War* and as a legendary historical figure.

The Art of War was traditionally ascribed to Sun Tzu. It presents a philosophy of war for managing conflicts and winning battles. It is accepted as a masterpiece on strategy and is frequently cited and referred to by generals and theorists since it was first published, translated, and distributed internationally.

The Art of War formed the foundations of orthodox military theory in early modern China. Illustrating this point, the book was required reading to pass the tests needed for imperial appointment to military positions.

The book is not only popular among military theorists, but has also become increasingly popular among political leaders and those in business management. Despite its title, *The Art of War* addresses strategy in a broad fashion, touching upon public administration and planning. The text outlines theories of battle, but also advocates diplomacy and cultivating relationships with other nations as essential to the health of a state.

2.2. The Modern History of Strategic Management

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were **Peter Drucker, Alfred Chandler,** and **Igor Ansoff.** The discipline draws from earlier thinking and texts on ‚strategy' dating back thousands of years. Prior to 1960, the term „strategy" was primarily used regarding war and politics, not business. Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

Peter Drucker was a prolific management theorist and author of dozens of management books, with a career spanning five decades. He addressed fundamental strategic questions in a 1954 book The Practice of Management writing: „...the first responsibility of top management is to ask the question ‚what is our business?' and to make sure it is carefully studied and correctly answered." He wrote that the answer was determined by the customer. He recommended eight areas where objectives should be set, such as market standing, innovation, productivity, physical and financial resources, worker performance and attitude, profitability, manager performance and development.

In 1957 **Philip Selznick** formalized the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed further by **Kenneth R. Andrews** in 1963 into what we now call SWOT analysis, in which the strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment.

Alfred Chandler recognized the importance of coordinating management activity under an allencompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work Strategy and Structure, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "structure follows strategy." Chandler wrote that:

„Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."

Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic Corporate Strategy, Ansoff wrote that strategic management had three parts: strategic planning; the skill of a firm in converting its plans into reality; and the skill of a firm in managing its own internal resistance to change.

Michael Porter wrote in 1980 that companies have to make choices about their scope and the type of competitive advantage they seek to achieve, whether lower cost or differentiation. The idea of strategy targeting particular industries and customers with a differentiated offering was a departure from the experience-curve influenced strategy paradigm, which was focused on larger scale and lower cost. Porter revised the strategy paradigm again in 1985, writing that superior performance of the processes and activities performed by organizations as part of their value chain is the foundation of competitive advantage, thereby outlining a process view of strategy.

Change in focus from production to marketing

The direction of strategic research also paralleled a major paradigm shift in how companies competed, specifically a shift from the production focus to market focus. The prevailing concept in strategy up to the 1950s was to create a product of high technical quality. If you created a product that worked well and was durable, it was assumed you would have no difficulty profiting. This was called the production orientation. Henry Ford famously said of the Model T car: „Any customer can have a car painted any color that he wants, so long as it is black."

Management theorist **Peter Drucker** wrote in 1954 that it was the customer who defined what business the organization was in. In 1960 Theodore Levitt argued that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them.

Over time, the customer became the driving force behind all strategic business decisions. This marketing concept, in the decades since its introduction, has been reformulated and repackaged under names including market orientation, customer orientation, customer focus, customerdriven and market focus.

3. Strategic management

3.1 Evaluating the general environment

For an organization, the **environment** consists of the set of external conditions and forces that have the potential to influence the organization.

It is useful to break the concept of the environment down into three components:

– The **general environment** (also called the macro environment) includes overall trends and events in such society as social trends, technological trends, demographics, and economic conditions.
– The **industry** (also called the competitive environment) consists of organizations that collectively compete with one another by providing similar goods, services, or both.
– The **strategic groups** are sets of firms that follow similar strategies to each other.

The analysis of the strategic groups in an industry can offer important insight into executives.

Every action that an organization takes creates some degree of changes in the world around it.

– Most organizations are limited to influencing their industry.
– A few organizations wield such power and influence that they can shape some elements of the general environment.

Understanding the environment that surrounds an organization is very important to the executives in charge of the organizations.

There are several reasons for this:

First, the environment provides resources that an organization needs in order to create goods and services.

Second, the environment is a source of opportunities and threats for an organization.
Opportunities are events and trends that create chances to improve an organization's performance level.
Threats are events and trends that may undermine an organization's performance. Executives must realize that virtually any environmental trend or event is likely to create opportunities for some organizations and threats for others.

Third, the environment shapes the various strategic decisions that executives make as they attempt to lead their organizations to success.

Key Terms

Environment

The set of external conditions and forces that have the potential to influence the organization.

General environment

Overall trends and events in society such as social trends, technological trends, demographics, and economic conditions.

Industry

Consists of organizations with which an organization interacts regularly, such as its suppliers, rivals, and customers.

Opportunities

Events and trends that create chances to improve an organization's performance level.

Threats

Events and trends that may undermine an organization's performance.

3.2 Strategic management

Evaluating the General Environment

An organization's environment includes factors that it can readily affect as well as factors that largely lay beyond its influence.

– The latter set of factors are said to exist within the general environment.
– Executives must track trends and events as they evolve and try to anticipate the implications of these trends and events.

PESTEL analysis is one important tool that executives can rely upon to organize factors within the general environment and identify how these factors influence industries and the firms within them. PESTEL is an anagram that reflects the names of six segments of the general environment: political, economic, social, technological, environmental, and legal.

The **political segment** centers on the role of governments in shaping business.

This segment includes elements such as tax policies, changes in trade restrictions and tariffs, and the stability of governments.

The **economic segment** centers on the economic conditions within which organizations operate. It includes elements such as interest rates, inflation rates, gross domestic product, unemployment rates, levels of disposable income, and the general growth or decline of the economy.

The **social segment** consists of factors including trends in demographics such as population size, age, and ethnic mix, as well as cultural trends such as attitudes toward obesity and activism.

The **technological segment** centers on improvements in products and services that are provided by science. Relevant factors include, for example, changes in the rate of new product development, increases in automation, and advancements in service industry delivery.

The **environmental segmen**t involves the physical conditions within which organizations operate. It includes factors such as natural disasters, pollution levels, and weather patterns.

The **legal segment** centers on how the courts influence business activity.
– Examples of important legal factors include employment laws, health and safety regulations, discrimination laws, and antitrust laws.
– **Intellectual property rights** (the ability of an organization to protect intangible goods such as movies, software, and video games from piracy) are particularly daunting aspect of the legal segment for many organizations.

Key Terms

PESTEL analysis

The examination of political, economic, social, technological, environmental, and legal factors and their implications for an organization.

Political segment

The portion of the general environment that involves governments.

Economic segment

The portion of the general environment that involves economic and financial conditions.

Social segment

The portion of the general environment that involves demographics and cultural trends.

Technological segment

The portion of the general environment that involves scientific advances.

Environmental segment

The portion of the general environment that involves the natural environment.

Legal segment

The portion of the general environment that involves the law and courts.

Intellectual property rights

The ability of an organization to protect intangible goods such as movies, software, and video games from piracy.

3.3 Strategic management

Evaluating the Industry

Chief executive officers and vice presidents rely on **five forces analysis** to understand their industry. Introduced by Professor Michael Porter of the Harvard Business School, five forces analysis is perhaps the most popular analytical tool in the business world. The purpose of five forces analysis is to identify how much profit potential exists in an industry.

– five forces analysis considers the interactions among the competitors in an industry, potential new entrants to the industry, substitutes for the industry's offerings, suppliers to the industry, and the industry's buyers.

– If none of these five forces work to undermine profits in the industry, then the profit potential is very strong.

– If all of the forces work to undermine profits, then the profit potential is very weak.

– Once executives determine how much profit potential exists in an industry, they can then decide what strategic moves to make in order to be successful.

– If the situation looks bleak, for example, one possible move is to exit the industry.

The **competitors** in an industry are firms that produce very similar products or services. Every industry is unique to some degree, but there are some general characteristics that help to predict the likelihood that fierce rivalry will erupt. Rivalry tends to be fierce, for example, to the extent that the growth rate of demand for the industry's offerings is low, fixed costs in the industry are high, competitors are not differentiated from each other, and **exit barriers** (factors that make it difficult for a firm to stop competing in an industry) in the industry are high.

Industry concentration is an important aspect of competition in many industries. Industry concentration is the extent to which a small number of firms dominate an industry.

Potential new entrants to an industry are firms that do not currently compete in the industry but may in the future. New entrants tend to reduce the profit potential of an industry by increasing its competitiveness.

There are some general characteristics that help to predict the likelihood that new entrants will join an industry. New entry is more likely, for example, to the extent that existing competitors enjoy economies of scale, capital requirements to enter the industry are high, access to distribution channels is limited, governmental policy discourages new entry.

Substitutes are offerings that differ from the goods and services provided by the competitors in an industry, but that fill similar needs to what the industry offers.

The dividing line between what firms are competitors and what firms offer substitutes is a challenging issue for executives.

Suppliers provide inputs that the firms in an industry need in order to create the goods and services that they in turn sell to their buyers.

The relative bargaining power between an industry's competitors and its suppliers helps shape the profit potential of the industry.

There are some general characteristics that help to predict the likelihood that suppliers will be powerful relative to the firms to which they sell their goods and services.

– Suppliers tend to be powerful, for example, to the extent that the suppliers' industry is dominated by a few companies, if it is more concentrated than the industry that it supplies.
– These circumstances restrict industry competitors' ability to shop around for better prices and put suppliers in a position of strength.
– Supplier power is also stronger to the extent that industry members rely heavily on suppliers to be profitable, industry members face high costs when changing suppliers, and suppliers' products are differentiated.

Buyers purchase the goods and services that the firms in an industry produce.

The relative bargaining power between an industry's competitors and its buyers helps shape the profit potential of the industry.

– If buyers have greater leverage over the competitors than the competitors have over the buyers, then the competitors may be forced to lower their prices over time. This weakens competitors' profit margins and makes them less likely to be prosperous.
– If buyers have less leverage over the competitors than the competitors have over the buyers, then competitors can raise their prices and enjoy greater profits. When analyzing the profit potential of their industry, executives must carefully consider whether buyers have the ability to demand lower prices.

There are some general characteristics that help to predict the likelihood that buyers will be powerful relative to the firms from which they purchases goods and services.

– Buyer tend to be powerful, for example, to the extent that there are relatively few buyers compared to the number of firms supplying the industry, the industry's goods or services are standardized or undifferentiated, buyers face little or no switching costs in changing vendors.

Mapping Strategic Groups

The analysis of the **strategic groups** in an industry can offer important insight into executives. Strategic groups are sets of firms that follow similar strategies to each other. It consists of a set of industry competitors that have similar characteristics to each other but different in important ways from the members of other groups. Understanding the nature of strategic groups within an industry is important for at least three reasons:

– First, placing an emphasis on the members of a firm's group is helpful because these firms are usually its closest rivals. Firms confront **mobility barriers** that make it difficult or illogical for a particular firm to change groups over time

– Second, the strategies pursued by firms within other strategic groups highlight alternative paths to success.

– Third, the analysis of strategic groups can reveal gaps in the industry that represent untapped opportunities.

Key Terms

Five forces analysis

A technique for understanding an industry by examining the interactions among competitors in an industry, potential new entrants to the industry, substitutes for the industry's offerings, suppliers to the industry, and the industry's buyers.

Competitors

The set of firms that produce goods or services within an industry.

Exit barriers

Factors that make it difficult for a firm to stop competing in an industry.

Potential

new entrants Firms that do not currently compete in an industry but might join the industry in the future.

Substitutes

Offerings from other industries that fulfill the same need or a very similar need as an industry's products or services.

Suppliers

Providers of inputs that the competitors in an industry need in order to create goods or services.

Buyers

Purchasers of the goods or services that the competitors in an industry create.

Strategic groups

Sets of firms that follow similar strategies to each other.

Mobility barriers

Factors that make it difficult or illogical for a particular firm to change groups over time

4.1 Strategic management

Managing Firm Resources

Resource-based theory contends that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals. These competitive advantages in turn can help the organization enjoy strong profits.

A strategic resource is an asset that is valuable, rare, difficult to imitate, and **nonsubstitutable.**

– A resource is **valuable** to the extent that it helps a firm create strategies that capitalize on opportunities and ward off threats.
– Competitors have a hard time duplicating resources that are **difficult to imitate.**
– A resource is **non-substitutable** when competitors cannot find alternative ways to gain the benefits that a resource provides.
– If a firm has resources with all four qualities, they provide a **sustained competitive advantage** – one that will endure over time and help the firm stay successful far into the future.

The tangibility of a firm's resources is an important consideration within resource-based theory.

– **Tangible resources** are resources what can be seen, touched, and quantified.
– In contrast, **intangible resources** are quite difficult to see, touch, or quantify.

Intellectual Property

– Intellectual property refers to creations of the mind, such as inventions, artistic products, and symbols. The four main types of intellectual property are patents, trademarks, copyrights, and trade secrets.

– A variety of formal and informal methods are available to protect a firm's intellectual property from imitation by rivals.
  – **Patents** are legal decrees that protect inventions from direct imitation for a limited period of time.
  – **Trademarks** are phrases, pictures, names, or symbols used to identify a particular organization.
  – **Copyrights** provide exclusive rights to the creators of original artistic works such as books, movies, songs, and screenplays. Over time, piracy has become a huge issue for the owners of copyrighted works.
  – **Trade secrets** refer to formulas, practices, and designs that are central to a firm's business and that remain unknown to competitors.

Capabilities are another key concept within resource-based theory. An easy way to distinguish resources and capabilities is this: resources refer to what an organization owns, capabilities refer to what the organization can do.

A **distinctive competence** is a set of activities that an organization performs especially well. This concept was developed by sociologist Philip Selznick. He suggested that possessing a distinctive competency creates a competitive advantage for a firm.

Key Terms

Resource-based theory

Contends that the possession of strategic resources can provide an organization with competitive advantages over its rivals.

Valuable

Resources that help a firm create strategies that capitalize on opportunities and ward off threats.

Rare

Resources that are unique when contrasted with the resources of competitors.

Difficult to imitate

Resources that cannot easily be duplicated by competitors and are often protected by various legal means including trademarks, patents, and copyrights.

Non-substitutable

Resources that exist when competitors cannot find alternative ways to gain the benefits that a resource provides.

Sustained competitive advantage

A competitive advantage that will endure over time.

Tangible resources

Resources than can be readily seen, touched, and quantified such as physical assets, property, plant, equipment and cash.

Intangible resources

Resources that are difficult to see, touch, or quantify such as the knowledge and skills of employees, a firm's reputation, and a firm's culture.

Capabilities

Refer to what the organization can do based on the resources it possesses.

Dynamic capability

A unique ability to create new capabilities by continually updating a firm's array of capabilities in order to keep pace with changes in its environment.

Distinctive competence

A set of activities that an organization performs especially well Intellectual property Refers to creations of the mind, such as inventions, artistic products, and symbols.

Patents

Legal decrees that protect inventions from direct imitation for a limited period of time.

Trademarks

Phrases, pictures, names, or symbols used to identify a particular organization.

Copyrights

Provide exclusive rights to the creators of original artistic works such as books, movies, songs, and screenplays.

Piracy

Of intellectual property refers to theft of trademark or copyrighted material.

Trade secrets

Refer to formulas, practices, and designs that are central to a firm's business and that remain unknown to competitors.

4.2 Strategic management

The value chain

When executives are choosing strategies, an organization's resources and capabilities should be examined alongside consideration of its **value chain**. A value chain charts the path by which products and services are created and eventually sold to customers. Value chains include both primary and secondary activities.

Primary activities are actions that are directly involved in the creation and distribution of goods and services.

There are five primary activities.

– **Inbound logistics** refer to the arrival of raw materials.

– **Operations** refer to the actual production process.

– **Outbound logistics** tracks the movement of a finished product to customers.

– **Marketing and sales** attracts potential customers and convinces them to make purchases.

– **Service** refers to the extent to which a firm provides assistance to their customers.

Secondary activities are not directly involved in the evolution of a product but instead provide important underlying support for primary activities.

– **Firm infrastructure** refers to how the firm is organized and led by executives.

– **Human resource management** involves the recruitment, training, and compensation of employees.

– **Technology development** refers to the use of computerization, automatisation and telecommunications to support primary activities.

– **Procurement** is the process of negotiating for and purchasing raw materials.

A **supply chain** is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials, and components into a finished product that is delivered to the end customer. It based on logistic approach, is a broader concept than a value chain.

Key Terms

Value chain

A tool that charts the path by which products and services are created and eventually sold to customers.

Primary activities

Actions that are directly involved in the creation and distribution of goods and services.

Inbound logistics

Refers to the arrival of raw materials.

Operations

Refers to the production process of a good or service.

Marketing and sales

Refers to activities used to attract potential customers and convince them to make purchases.

Service

Refers to the extent to which a firm provides assistance to their customers.

Secondary activities

Not directly involved in the evolution of a product but instead provide important underlying support for primary activities.

Firm infrastructure

Refers to how the firm is organized and led by executives.

Human resource management

Includes activities involved in the recruitment, training, and compensation of employees.

Technology

Refers to the use of computerization and telecommunications to support primary activities.

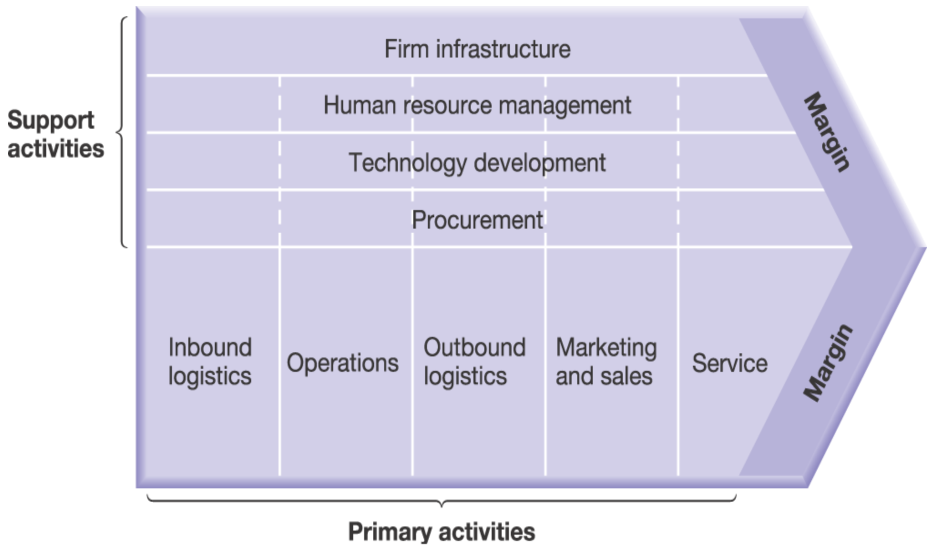
Procurement

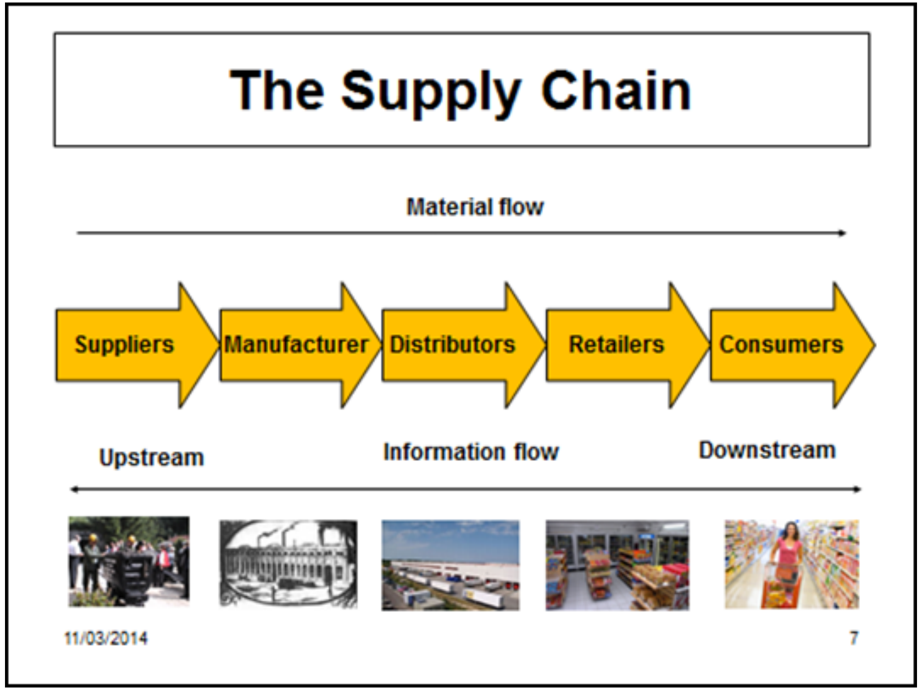
The process of negotiating for and purchasing raw materials.

Supply chain

A system of people, activities, information, and resources involved in creating a product and moving it to the customer.

The value chain




The Supply Chain
Material flow
Suppliers
Manufacturer
Distributors
Retailers
Consumers
Upstream
Information flow
Downstream
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4.3 Strategic management

SWOT analysis

A **SWOT analysis** is a structured planning method used to evaluate the **strengths, weaknesses, opportunities,** and **threats** involved in a project or in a business venture.

A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective.

The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit.

Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization.

– **Strengths:** characteristics of the business or project that give it an advantage over others.

– **Weaknesses:** characteristics that place the business or project at a disadvantage relative to others

– **Opportunities:** elements that the project could exploit to its advantage

– **Threats:** elements in the environment that could cause trouble for the business or project

Identification of SWOTs is important because they can inform later steps in planning to achieve the objective.

Internal and external factors

SWOT analysis aims to identify the key internal and external factors seen as important to achieving an objective. SWOT analysis groups key pieces of information into two main categories:

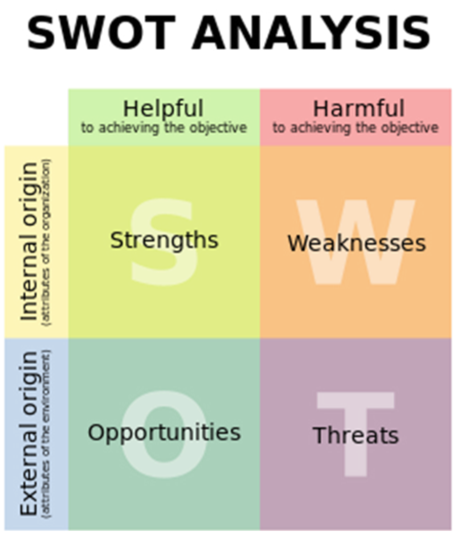
1. internal factors – the *strengths* and *weaknesses* internal to the organization

2. external factors – the *opportunities* and *threats* presented by the environment external to the organization

Analysis may view the **internal factors** as strengths or as weaknesses depending upon their effect on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses (distractions, competition) for another objective. The factors may include all of the 4Ps; as well as personnel, finance, manufacturing capabilities, and so on.

The **external factors** may include macroeconomic matters, technological change, legislation, and sociocultural changes, as well as changes in the marketplace or in competitive position. The results are often presented in the form of a matrix.

SWOT analysis is just one method of categorization and **has its own weaknesses**. For example, it may tend to persuade its users to compile lists rather than to think about actual important factors in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.



5.1 Strategic management

Identification of organizational stakeholders

The terms of stakeholder refers to any (non-owner) group or individual who has an interest in existence of an organization and who has legitimate expectation about their activities.

Stakeholder analysis is a key part of stakeholder management. Stakeholder analysis is the process of identifying, understanding and prioritizing the needs of key stakeholders so that the questions of how stakeholder can participate in strategy formulation and how relationships with stakeholders are best managed can be addressed.

The needs and goals of stakeholder often conflict and organization are involved in an ongoing process of balancing and managing multiple objectives and relationships.

A stakeholder is any person or organization, who can be positively or negatively impacted by, or cause an impact on the actions of a company, government, or organization.

Types of stakeholders are:

– Primary stakeholders: are those ultimately affected, either positively or negatively by an organization's actions.
– Secondary stakeholders: are the 'intermediaries', that is, persons or organizations who are indirectly affected by an organization's actions.
– Key stakeholders: (who can also belong to the first two groups) have significant influence upon or importance within an organization.

The key steps in stakeholder analysis:

1. Identification of the list of potential stakeholder-this stage usually involves brainstorming session between informed parties.

2. Ranking stakeholders according to their importance and influence on the organization.

3. Identifying the criteria that each stakeholder is likely to use to judge the organization's performance.

4. Deciding how well the organization is doing from its stakeholders' perspective.

5. Identifying what can be done to satisfy each stakeholder.

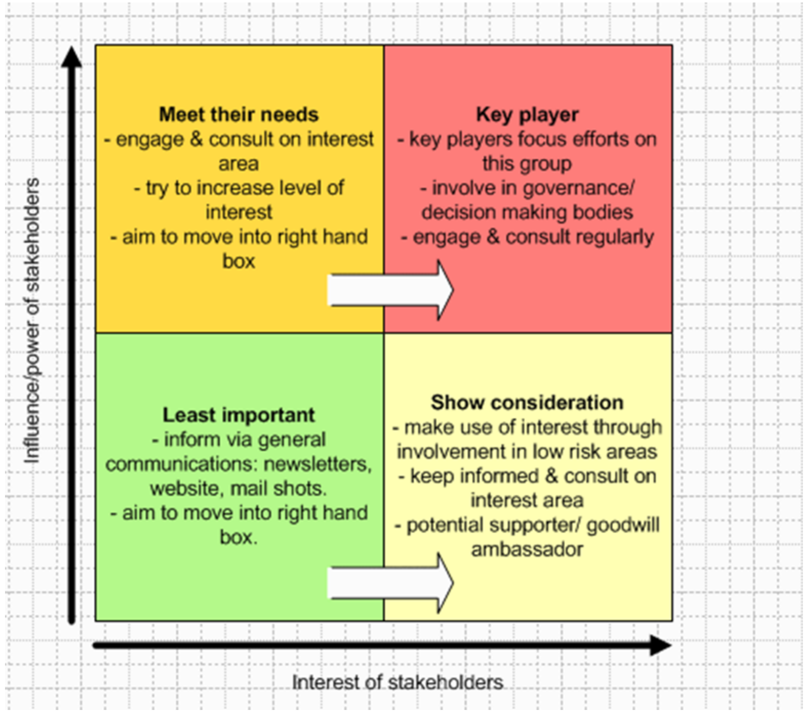
6. Identifying and recording longer term issues whit individual stakeholders and stakeholders as a group.

5.2 Strategic management

Stakeholder mapping

A common approach is to map the interest and power or influence of each stakeholder group on a quadrant.

These grids array stakeholders in a matrix with stakeholder interest forming one dimension and stakeholder power the other.



Stakeholder Analysis quadrant (C. Eden & F. Ackerman)

– Stakeholders that fit in the **high influence and high interest box** are **"key players"**.

– Stakeholders that fit in **the low influence and low interest box** are the least important **"crowd".** They aren't very powerful and they are not interested in the business.

– Stakeholders that fit in the **high influence and low interest** box are the **"context setters".** Must have their needs met as they are powerful enough to cause problems.

– Stakeholders that fit in the low influence and **high interest box** are **"subject".** They can be useful supporters so involve them in low risk areas and consult them on their interest areas.

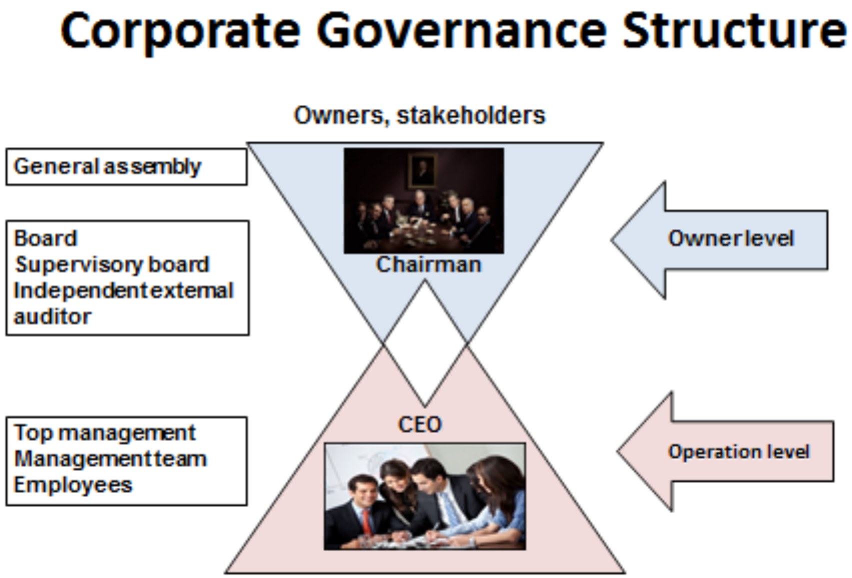
Once you have mapped your stakeholders you can focus your efforts on the highest priority groups while providing sufficient information to keep the less powerful groups happy.

The power/interest matrix redrawn to demonstrate how mangers might see themselves responding to different group in order to gain their compliance. Obviously, ensuring the acceptability of strategies to "key players" is of key importance and so relationships with these stakeholders categorized as part of the crowd might be considered passive, but they do have the potential to reposition themselves by taking a more active interest therefor they need to be monitored.

5.3 Strategic management

Corporate governance

Corporate governance refers to the system of structures, rights, duties, and obligations by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders.



Collective Responsibilities of General Assembly (owners)

– Creation and change of the Incorporation Charter, Deed of Foundation (strictly regulated by Corporate Act)

– Voting for Board (Supervisory Board) members

– Creating discussion issues of General Assembly

– Accepting (or not) Board's reports

– Electing the chairperson of the General Assembly

Board of directors refers to a group of individuals that oversees the activities of an organization or corporation. The Board is the strategic management body of the Corporation.

Potentially firing or hiring a CEO is one of many roles played by the board of directors in their charge to provide effective **corporate governance** for the firm. Corporate governance are the processes, policies and laws that govern an organization (often corporations) to establish accountability and try to eliminate conflicts of interest associated with the principle-agent problems.

Responsibility of the Board of Directors

– Election of Board's Chairperson

– Nomination of management (President, CEO, etc.)

– Creation reports to General Assembly, presenting the Annual Report

– Sharing all duties with the management – bylaw regulation

– Representing officially the Corporation

Responsibility of the Supervisory Board

– Control over the Board and Management team in order to save and preserve the owner's interests

– Control the legal conformity of the firm and they activity with laws, rules and prescriptions

– Not a decision making body!

Responsibility of Management

– Shared responsibility with the Board

– Management of day-to-day operation

– Functional and structural organization of business

– Management of key processes and functions (e.g. production, marketing, controlling, logistic, human resources, sales, finances, organizational development)

– Expertise for the Board and General Assembly

6.1 Strategic management

Business level strategies

Generic strategies

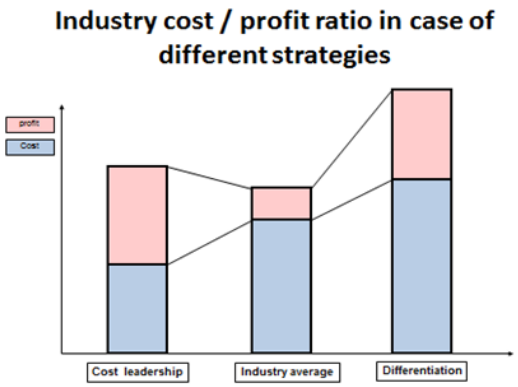
Which do you prefer when you fly: a cheap, no-frills airline, or a more expensive operator with fantastic service levels and maximum comfort? And would you ever consider going with a small company which focuses on just a few routes?

The choice is up to you, of course. But the point we're making here is that when you come to book a flight, there are some very different options available.

Why is this so? The answer is that each of these airlines has chosen a different way of achieving competitive advantage in a crowded marketplace.

The no-frills operators have opted to cut costs to a minimum and pass their savings on to customers in lower prices. This helps them grab market share and ensure their planes are as full as possible, further driving down cost. The luxury airlines, on the other hand, focus their efforts on making their service as wonderful as possible, and the higher prices they can command as a result make up for their higher costs.

Meanwhile, smaller airlines try to make the most of their detailed knowledge of just a few routes to provide better or cheaper services than their larger, international rivals.



Business-level strategy addresses the question of how a firm will compete in a particular industry.

A **generic strategy** is a general way of positioning a firm within an industry.

Michael Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three generic strategies, either lower cost, differentiated, or focus. These three approaches are examples of „generic strategies," because they can be applied to products or services in all industries, and to organizations of all sizes.
A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope.

According to Michael Porter, two-competitive dimensions are the keys to business-level strategy:
– A firm's source of competitive advantage.

This dimension involves whether a firm tries to gain an edge on rivals by keeping costs down or by offering something unique in the market.
– A firm's scope of operations.

This dimension involves whether a firm tries to target customers in general or whether it seeks to attract just a segment of customers.

PORTER'S generic strategies

	Competitive advantages: Low cost	Competitive advantages: Differentiation
Scope of activities: broad	**Low cost leadership** Standard products Great volume Low production costs	**Differentiation** Unique products Small volume High production cost
Scope of activities: narrow	Low cost leadership focus	Differentiation focus

Four generic business level strategies emerge from these decisions:

differentiation, focused cost leadership, and focused differentiation.

Limitations of generic strategies:

Firms that are following a particular generic strategy tend to share certain features. Thus, it is important to keep in mind that a firm may not match every characteristic that its generic strategy entails.

6.2 Strategic management

Business level strategies

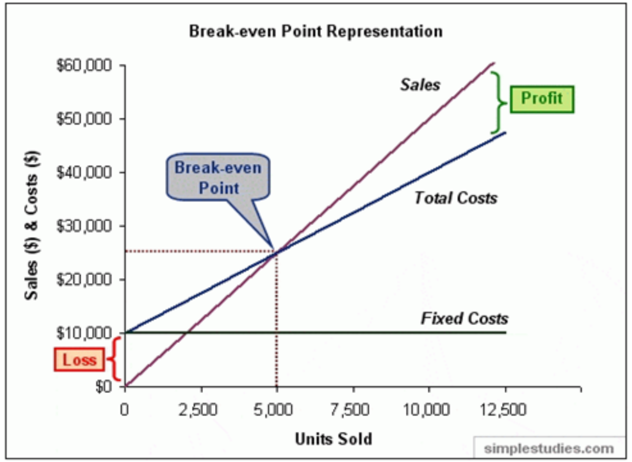
Cost leadership

A firm following a **cost leadership** strategy offers products or services with acceptable quality and features to a broad set of customers at a low price.

Cost leaders make a profit by emphasizing efficiency.

Many cost leaders rely on **economies of scale** to achieve efficiency.

Economies of scale are created when the costs of offering goods and services decreases as a firm is able to sell more items.



Advantages:

Emphasis on efficiency makes them well positioned to withstand price competition from rivals. Creates benefits relative to potential new entrants.
Specifically, the presence of a cost leader in an industry tends to discourage new firms from entering the business.
Attract a large market share because a large portion of potential customers find paying low prices for goods and services of acceptable quality to be very appealing.

Disadvantages:

The need for high sales volume.
Highly fragmented markets and markets that involve a lot of brand loyalty may not offer much of an opportunity to attract a large segment of customers.
Achieving a high sales volume usually requires significant upfront investments in production and/or distribution capacity.

Cost leaders tend to keep their costs low by minimizing advertising, market research, and research and development, but this approach can prove to be very expensive in the long run.

A relative lack of market research can lead cost leaders to be not as skilled as other firms at detecting important environmental changes.

Downplaying research and development can slow cost leaders' ability to respond to changes once they are detected.

Focused cost leadership

Companies that use a cost leadership strategy share one important characteristic.

They try to be attractive to customers in general.

These efforts to appeal to very broad markets can be contrasted with strategies that involve targeting a relatively narrow niche of potential customers. These latter strategies are known as **focus strategies.**

Focused cost leadership strategy requires competing based on price to target a narrow market.

A firm following this strategy does not necessarily charge the lowest prices in the industry. Instead, it charges low prices relative to other firms that compete within the target market.

The nature of the narrow target market varies across firms that use a focused cost leadership strategy.

In some cases, the target market is defined by demographics.

In other cases, the target market is defined by the sales channel used to reach customers.

6.3 Strategic management

Business level strategies

Differentiation

A firm following a **differentiation strategy** attempts to convince customers to pay a premium price for its good or services by providing unique and desirable features.

Using a differentiation strategy means that a firm is competing based on uniqueness rather than price and is seeking to attract a broad market.

Successful use of a differentiation strategy depends on not only offering unique features, but also on communicating the value of these features to potential customers.

Advertising in general and brand building in particular are very important to this strategy.

Advantages:

Effective differentiation creates an ability to obtain premium prices from customers.

This enables a firm to enjoy strong profit margins.

Strong margins mean that the firm does not need to attract huge numbers of customers in order to have a good overall level of profit.

To the extent that differentiation remains in place over time, buyer loyalty may be created.

Loyal customers are very desirable because they are not **price sensitive.**

Beyond existing competitors, a differentiation strategy also creates benefits relative to potential new entrants.

The brand loyalty that customers feel to a differentiated product makes it difficult for a new entrant to lure these customers to adopt its product.

Disadvantages:

Customers will not be willing to pay extra to obtain the unique features that a firm is trying to build its strategy around.

Customers may simply prefer a cheaper alternative.

Customers desire the unique features that a firm offers, but competitors are able to imitate the features well enough that they are no longer unique.

Focused differentiation

Companies that use a differentiation strategy share one important characteristic.

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These efforts to appeal to very broad markets can be contrasted with strategies that involve targeting a relatively narrow niche of potential customers. These latter strategies are known as **focus strategies.**

Focused differentiation strategy requires offering unique features that fulfill the demands of a narrow market.

Some firms using a focused differentiation strategy concentrate their efforts on a particular sales channel.

Others target particular demographic groups.

While a differentiation strategy involves offering unique features that appeal to a variety of customers, the need to satisfy the desires of a narrow market means that the pursuit of uniqueness is often take to the proverbial "next level" by firms using a focused differentiation strategy.

The unique features provided by firms following a focused differentiation strategy are often very specialized.

7.1 Strategic management

Corporate level strategies

Concentration- and integration strategies

Corporate level strategy is the overall strategy for a diversified organization or company. It is usually concerned with a mix of businesses that the company should compete in and also the ways on which individual strategy units are integrated and coordinated.

Michael Porter wrote in 1987 that corporate strategy involves two questions:

1) What business should the corporation be in?

2) How should the corporate office manage its business units?

Concentration strategies are strategies that involve trying to successfully compete only within a single industry. There are three concentration strategies: market penetration, market development, and product development.

Market penetration involves trying to gain additional share of a firm's existing markets using existing products. Often firms will rely on advertising to attract new customers with existing markets.

Market development involves taking existing products and trying to sell them within new markets. One way to reach a new market is to enter a new retail channel or geographic areas.

Product development involves creating new products to serve existing markets.

Integration strategies

When pursuing a **vertical integration** strategy, a firm gets involved in new portions of the value chain.

This approach can be very attractive when a firm's suppliers or buyers have too much power over the firm and are becoming increasingly profitable at the firm's expense.
Vertical integration creates risks. Venturing into new portions of the value chain can take a firm into very different businesses.
Vertical integration can also create complacency. Some companies try to avoid this problem by forcing their subsidiary to compete with outside suppliers, but this undermines the reason for purchasing the subsidiary in the first place.

A **backward vertical integration** strategy involves a firm moving back along the value chain and entering a supplier's business.

Some firms use this strategy when executives are concerned that a supplier has too much power over their firms.

A f**orward vertical integration** strategy involves a firm moving further down the value chain entering a buyer's business.

Forward vertical integration also can be useful for neutralizing the effect of powerful buyers.

Horizontal integration refers to firms trying to expand their presence in an industry by acquiring or merging with one of their rivals.

An **acquisition** takes place when one company purchases another company. Generally the acquired company is smaller than the firm that purchases it.

A **merger** is the joining of two companies into one. Mergers typically involve similarly sized companies.

Horizontal integration can be attractive for several reasons.

It is aimed at lowering costs by achieving greater economies of scale.

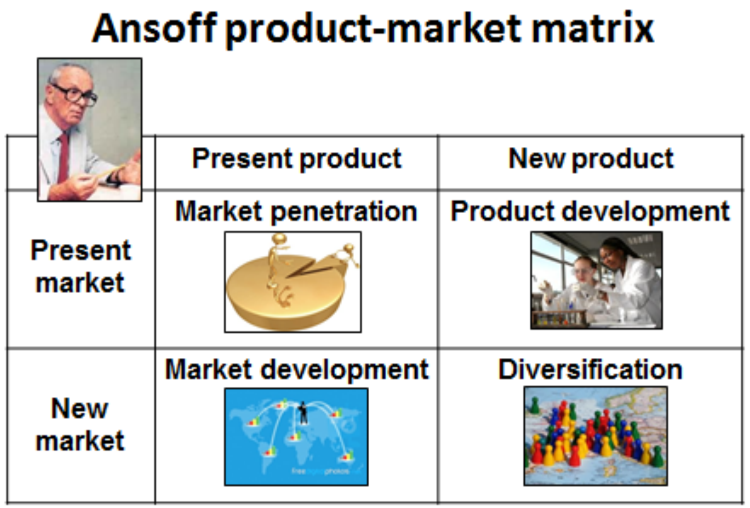
It can also provide access to new distribution channels.

7.2 Strategic management

Diversification strategies

Diversification is a corporate strategy to enter into a new market or industry which the business is not currently in, while also creating a new product for that new market. This is most risky section of the Ansoff's matrix, as the business has no experience in the new market and does not know if the product is going to be successful.

Diversification is part of the four main growth strategies defined by Igor Ansoff's Product/Market matrix



Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

A proposed diversification move should pass three tests or it should be rejected.

How attractive is the industry that a firm is considering entering? Unless the industry has strong profit potential, entering it may be very risky.

41 How much will it cost to enter the industry? Executives need to be sure that their firm can recoup the expenses that it absorbs in order to diversify.

Will the new unit and the firm be better off? Unless one side or the other gains a competitive advantage, diversification should be avoided.

Related diversification occurs when a firm moves into a new industry that has important similarities with the firm's existing industry or industries.

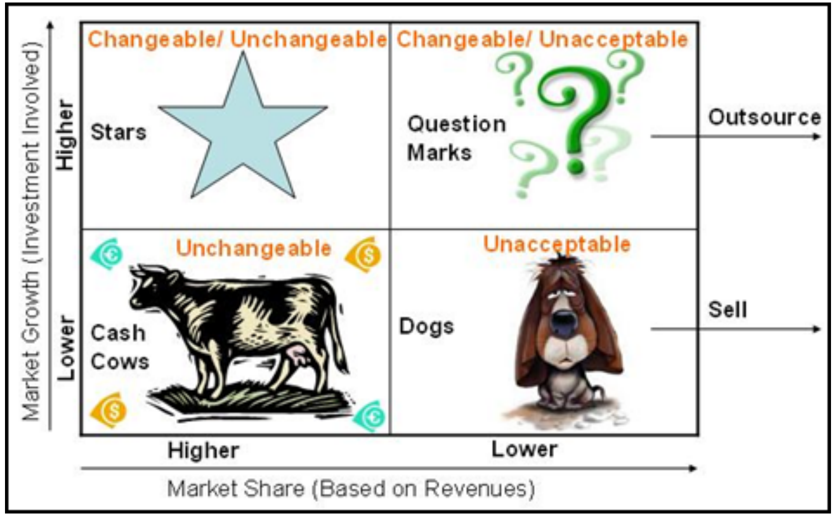
Some firms that engage in related diversification are to develop and exploit a core competency in order to become more successful. A core competency is a skill set that is difficult for competitors to imitate, can be leveraged in different businesses, and contributes to the benefits enjoyed by customers within each business.

Unrelated diversification occurs when a firm enters an industry that lacks any important similarities with the firm's existing industry or industries.

7.3 Strategic management

Portfolio planning

Portfolio planning is a process that helps executives assess their firms' prospects for success within each of its industries, offers suggestions about what to do within each industry, and provides ideas for how to allocate resources across the industries.



Strategic Business Unit is an autonomous division or organizational unit, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance.

Within large companies there are smaller specialized divisions that work towards specific projects and goals, and we see this organizational setup frequently in global companies.

The strategic business unit, often referred to as an SBU, remains an important component of the company and must report back through headquarters about their operational status. Typically they will operate as an independent organization with a specific focus on target markets and are large enough to maintain internal divisions such as finance, HR, and so forth.

The **Boston Consulting Group** (BCG) matrix is the best-known approach to portfolio planning. Using the matrix requires a firm's businesses to be categorized as high or low along two dimensions: its share of the market and the growth rate of its industry.

High market share units within slow growing industries are called **cash cows.**

Low market share units within slow growing industries are called **dogs.** These units are good candidates for divestment.

43 High market share units within fast growing industries are called **stars**. These units have bright prospects and thus are good candidates for growth.

Low market share units within fast growing industries are called **question marks**. Executives must decide whether to build these units into stars or to divest them.

Portfolio planning has a few important limitations.

Portfolio planning oversimplifies the reality of competition by focusing on just two dimensions when analyzing a company's operations within an industry.

Portfolio planning can create motivational problems among employees.

Portfolio planning does not help identify new opportunities. As this tool only deals with existing businesses, it cannot reveal what new industries a firm should consider entering.

8.1 Strategic management

Types of purposes

Organizations summarize their goals and objectives in **mission and vision statements**. Both of these serve different purposes for a company but are often confused with each other. While a mission statement describes what a company **wants to do now**, a visionstatement outlines what a company **wants to be in the future.**

The **Mission Statement** concentrates on the present; it defines the customer(s), critical processes and it informs you about the desired level of performance.

The **Vision Statement** focuses on the future; it is a source of inspiration and motivation. Often it describes not just the future of the organization but the future of the industry or society in which the organization hopes to effect change.

	Mission Statement	Vision Statement
About	A Mission statement talks about HOW you will get to where you want to be. Defines the purpose and primary objectives related to your customer needs and team values.	A Vision statement outlines WHERE you want to be. Communicates both the purpose and values of your business.
Answer	It answers the question, “What do we do? What makes us different?”	It answers the question, “Where do we aim to be?”
Time	A mission statement talks about the present leading to its future.	A vision statement talks about your future.

	Mission Statement	Vision Statement
Function	It lists the broad goals for which the organization is formed. Its prime function is internal; to define the key measure or measures of the organization's success and its prime audience is the leadership, team and stockholders.	It lists where you see yourself some years from now. It inspires you to give your best. It shapes your understanding of why you are working here.
Change	Your mission statement may change, but it should still tie back to your core values, customer needs and vision.	As your organization evolves, you might feel tempted to change your vision. However, mission or vision statements explain your organization's foundation, so change should be kept to a minimum.
Developing a statement	What do we do today? For whom do we do it? What is the benefit? In other words, Why we do what we do? What, For Whom and Why?	Where do we want to be going forward? When do we want to reach that stage? How do we want to do it?
Features of	Purpose and values of the organization:	Clarity and lack of ambiguity:
an effective statement	Who are the organization's primary "clients" (stakeholders)? What are the responsibilities of the organization towards the clients?	Describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organizational values and culture.

The **mission statement** guides the day-to-day operations and decision-making of the organization. It helps in tactical planning and „rallying the troops" around a common near- to medium-term goal. The mission statement helps members of the organization get on the same page on what they should do and how they should do it.

The **vision statement** is, in a sense, loftier. It outlines the worldview of the organization and why it exists. It attracts people — not just employees but also customers and vendors — who believe in the vision of the organization.

When developing a **vision statement,** *it should be seen that the following questions are answered:*
- What do we want to do going forward?
- When do we want to do it?
- How do we want to do it?

Features of an effective vision statement include:
- Clarity and lack of ambiguity
- Paint a vivid and clear picture, not ambiguous
- Describing a bright future (hope)
- Memorable and engaging expression
- Realistic aspirations, achievable
- Alignment with organizational values and culture
- Time bound if it talks of achieving any goal or objective

What to Include in a Mission Statement

When developing a mission statement, it should be seen that the following questions are answered:
- What do we do today?
- For whom do we do it?
- What is the benefit?

Features of an effective mission statement are:
- Purpose and values of the organization
- What business the organization wants to be in (products or services, market) or who are the organization's primary „clients" (stakeholders)
- What are the responsibilities of the organization towards these „clients"
- What are the main objectives that support the company in accomplishing its mission

Goals and objectives

The words Goal and Objective are often confused with each other. They both describe things that a person may want to achieve or attain but in relative terms may mean different things. Both are desired outcomes of work done by a person but what sets them apart is the time frame, attributes they're set for and the effect they inflict.

	Goal	**Objective**
Meaning	The purpose toward which an endeavor is directed.	Something that one's efforts or actions are intended to attain or accomplish; purpose; target.
Example	I want to achieve success in the field of genetic research and do what no one has ever done.	I want to complete this thesis on genetic research by the end of this month.
Action	Generic action, or better still, an outcome towards which we strive.	Specific action - the objective supports attainment of the associated goal.
Measure	Goals may not be strictly measurable or tangible.	Must be measurable and tangible.
Time frame	Longer term	Mid to short term

Both terms imply the target that one's efforts is desired to accomplish. Goals are generically for an achievement or accomplishment for which certain efforts are put. Objectives are specific targets within the general goal. Objectives are time-related to achieve a certain task.

A **goal** *is defined as*

1. The purpose toward which an endeavor is directed.

2. The result or achievement toward which effort is directed or aimed.

An **objective** has a similar definition but is supposed to be a clear and measurable target.

Differences in scope

Goals are broader than objectives in the sense that goals are general intentions and are not specific enough to be measured. Objectives are narrow and are set for certain tasks in particular.

Specificity

Goals are general while objectives are specific. Goals are just general intentions towards the attainment of something while objectives are precise actions for accomplishment of a specific task.

Tangibility

Goals may be intangible while objectives ought to be tangible. Goals may be directed at achieving non-measurable things while objectives may be targeted at getting measurable things or tasks.

Differences in time frame

Both have a certain time frame. Goals usually have a longer time-frame than objectives. Objectives are usually precise targets set for a short term. Goals may be set for a longer term but many objectives may be set within that goal.

Measuring goals and objectives

Goals may or may not be measured but in most cases objectives are measurable.

Examples

„I want to achieve success in the field of genetic research and do what no one has ever done.” This is a goal. „I want to complete the thesis on genetic research within this month.” This is an objective.

8.2 Strategic management

Four basic perspective of a company (BSC)

The Balanced Scorecard translates a company's mission and strategy into a coherent set of performance measures. The four perspectives of the scorecard--financial measures, customer knowledge, internal business processes, and learning and growth--offer a balance between short-term and long-term objectives, between outcomes desired and performance drivers of those outcomes, and between hard objective measures and softer, more subjective measures.

As companies around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become far more decisive than their ability to invest in and manage physical assets. Several years ago in 1992, in recognition of this change, was introduced a concept it is called the *balanced scorecard*. The balanced scorecard supplemented traditional financial measures with criteria that measured performance from three additional perspectives—those of customers, internal business processes, and learning and growth. It therefore enabled companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they would need for future growth. The scorecard wasn't a replacement for financial measures; it was their complement.

The Balanced Scorecard designs used a „4 perspective" approach to identify what measures to use to track the implementation of strategy.

The original four „perspectives" proposed were:

- **Financial:** encourages the identification of a few relevant high-level financial measures. In particular, designers were encouraged to choose measures that helped inform the answer to the question „How do we look to shareholders?" Examples: cash flow, sales growth, operating income, return on equity.

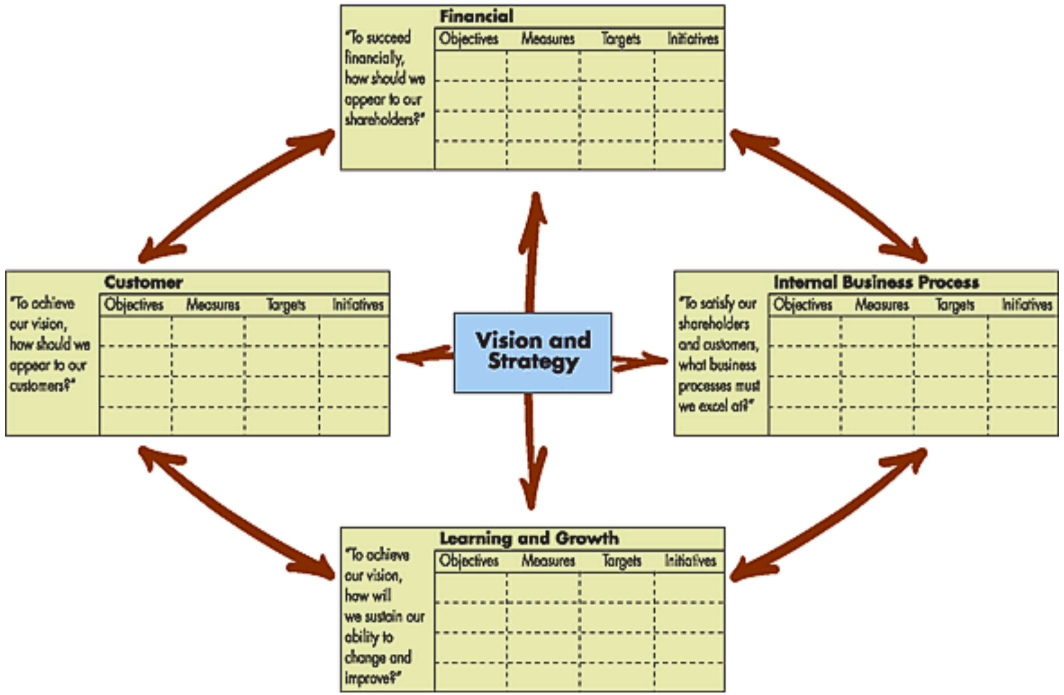
- **Customer:** encourages the identification of measures that answer the question „How do customers see us?" Examples: percent of sales from new products, on time delivery, share of important customers' purchases, ranking by important customers.

- **Internal business processes:** encourages the identification of measures that answer the question „What must we excel at?" Examples: cycle time, unit cost, yield, new product introductions.

- **Learning and growth:** encourages the identification of measures that answer the question „How can we continue to improve, create value and innovate? „ . Examples: time to develop new generation of products, life cycle to product maturity, time to market versus competition.

Most companies' operational and management control systems are built around financial measures and targets, which bear little relation to the company's progress in achieving long-term strategic goals. Thus the emphasis most companies place on short-term financial measures leaves a gap between the development of a strategy and its implementation.

Translating Vision and Strategy: Four Perspectives



Source: Using the Balanced Scorecard as a Strategic Management System by Robert S. Kaplan and David P. Norton

9.1 Strategic management

Company culture

Company culture refers to the shared values, attitudes, standards, and beliefs that characterize members of an organization and define its nature. Company culture is rooted in an organization's goals, strategies, structure, and approaches to labor, customers, investors, and the greater community. As such, it is an essential component in any business's ultimate success or failure.

Every company has a culture – but not all cultures help a company reach its goals.

Schein's Iceberg model on culture

According to **Edgar Schein** "organizational learning, development and planned change cannot be understood without considering culture as the primary source of resistance to change."

Schein divide organizational cultures into 3 levels:

1. Artifacts

The first level is the characteristics of the organization which can be easily viewed, heard and felt by individuals collectively known as artifacts. The dress code of the employees, office furniture, facilities, behavior of the employees, mission and vision of the organization all come under artifacts and go a long way in deciding the culture of the workplace. Language, stories, and myths are examples of verbal artifacts and are represented in rituals and ceremonies. Technology and art exhibited by members or an organization are examples of physical artifacts.

2. Values

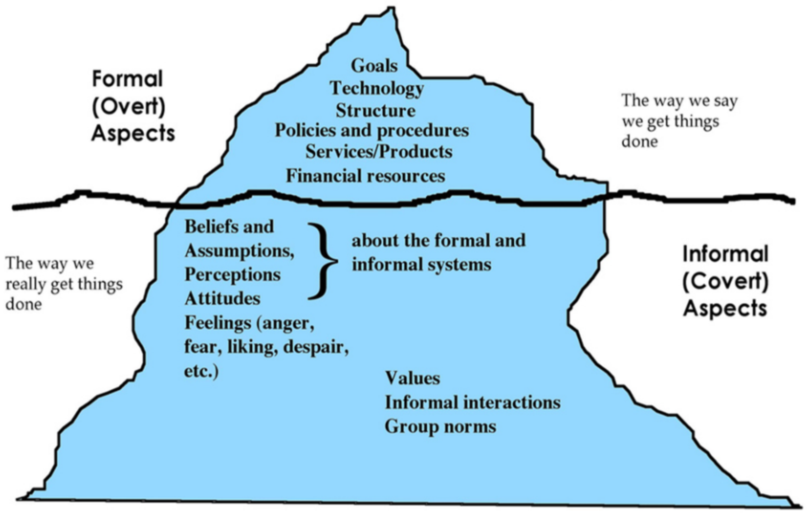
The next level according to Schein which constitute the organization culture is the values of the employees. At this level, local and personal values are widely expressed within the organization. The values of the individuals working in the organization play an important role in deciding the organization culture. The thought process and attitude of employees have deep impact on the culture of any particular organization. What people actually think matters a lot for the organization? The mindset of the individual associated with any particular organization influences the culture of the workplace.

3. Assumed Values

The third level is the assumed values of the employees which can't be measured but do make a difference to the culture of the organization. These are the elements of culture that are unseen and not cognitively identified in everyday interactions between organizational members. There are certain beliefs and facts which stay hidden but do affect the culture of the organization. The organizations follow certain practices which are not discussed often but understood on their own. Such rules form the third level of the organization culture.

Schein's iceberg model is useful in that it illustrates that there are visible cultural aspects of an organization but that there are also elements of culture that are hidden and difficult to interpret. What is visible, for example, are things such as written documents – strategic plans, job descriptions and disciplinary procedures. But if organizational culture, as we have indicated so far, consists of values, beliefs and norms, Schein argues that these exist in people's heads, which raises the challenge of how actually to identify and interpret them. The key to Schein's idea is that these three levels of analysis can create a better understanding of the different components of culture in organizations.

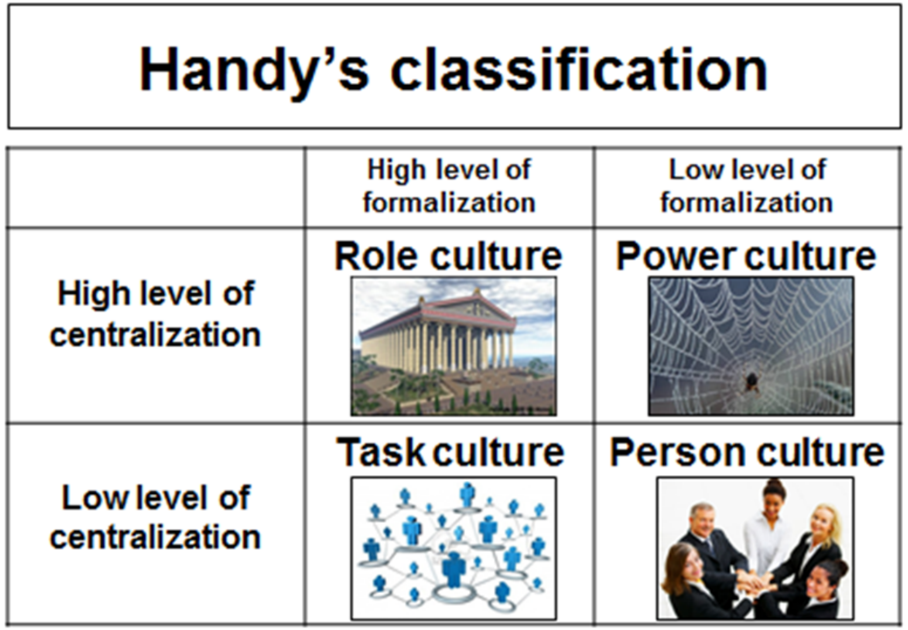
Cultural Iceberg



Created by Stanley N. Herman. TRW Systems Group, 1970

Handy’s four key forms of culture

Charles Handy the well-known philosopher who has specialized in organization culture. According to Charles Handy’s model, there are four types of culture which the organizations follow:



1. Power culture

There are some organizations where the power remains in the hands of only few people and only they are authorized to take decisions. They are the ones who enjoy special privileges at the workplace. They are the most important people at the workplace and are the major decision makers. These individuals further delegate responsibilities to the other employees. In such a culture the subordinates have no option but to strictly follow their superior's instructions. The employees do not have the liberty to express their views or share their ideas on an open forum and have to follow what their superior says.

2. Task culture

Organizations where teams are formed to achieve the targets or solve critical problems follow the task culture. In such organizations individuals with common interests and specializations come together to form a team. There are generally four to five members in each team. In such a culture every team member has to contribute equally and accomplish tasks in the most innovative way.

3. Person culture

There are certain organizations where the employees feel that they are more important than their organization. Such organizations follow a culture known as person culture. In a person culture, individuals are more concerned about their own self rather than the organization. The organization in such a culture takes a back seat and eventually suffers. Employees just come to the office for the sake of money and never get attached to it. They are seldom loyal towards the management and never decide in favor of the organization. One should always remember that organization comes first and everything else later.

4. Role culture

Role culture is a culture where every employee is delegated roles and responsibilities according to his specialization, educational qualification and interest to extract the best out of him. In such a culture employees decide what best they can do and willingly accept the challenge. Every individual is accountable for something or the other and has to take ownership of the work assigned to him. Power comes with responsibility in such a work culture.

9.2 Strategic management

Organizational design

Division of labor is a process of splitting up a task into a series of smaller tasks, each of which is performed by a specialist.

While division of labor fuels efficiency, it also creates a challenge – figuring out how to coordinate different tasks and the people who perform them.

The solution is **organizational structure,** which is defined as how tasks are assigned and grouped together with formal reporting relationships.

Creating a structure that effectively coordinates a firm's activities increases the firm's likelihood of being successful.

Most organizations use a diagram called an **organizational chart** to depict their structure.

These organizational charts show how firms' structures are built using two basic building blocks: vertical linkages and horizontal linkages.

Vertical linkages tie supervisors and subordinates together.

These linkages show the lines of responsibility through which a supervisor delegates authority to subordinates, oversees their activities, evaluates their performance, and guides them toward improvement when necessary.

Most executives rely on the unity of command principle when mapping out the vertical linkages in an organizational structure.

This principle states that each person should only report directly to one supervisor. This helps to avoid confusion.

Horizontal linkages are relationships between equals in an organization. Often these linkages are called committees, task forces, or teams.

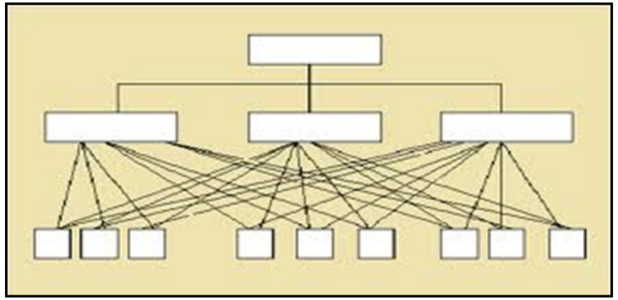
Horizontal linkages are of great importance when close coordination is needed across different segments of an organization.

Informal linkages refer to unofficial relationships such as personal friendships, rivalries and politics.

Four types of structures

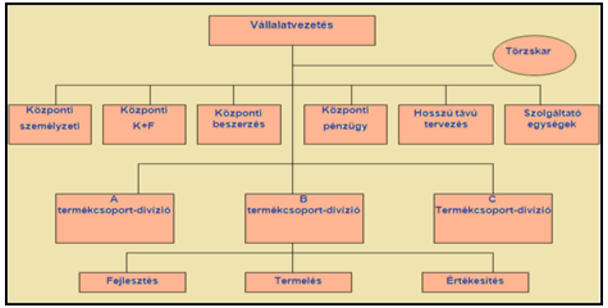
Functional structure

The classic organizational structure where the employees are grouped hierarchically, managed through clear lines of authority, and report ultimately to one top person.



Multidivisional structure

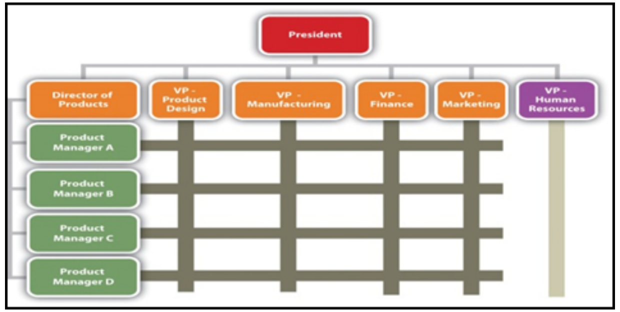
A type of organizational configuration that groups together those employees who are responsible for a particular product type or market service according to workflow. The divisional structure of a business tends to increase flexibility, and it can also be broken down further into product, market and geographic structures.



Matrix structure

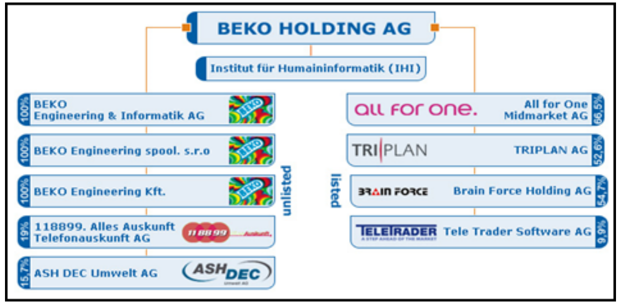
An organizational structure that facilitates the horizontal flow of skills and information. It is used mainly in the management of large projects or product development processes, drawing employees from different functional disciplines for assignment to a team without removing them from their respective positions.

Multiple command-and-control structure in which some employees have dual responsibilities and dual bosses. These employee report to one boss (a project manager, for example) for day to day operations, and to another boss (the departmental head, for example) for functional responsibilities.



Holding structure

Holding companies are conglomerates that own other firms. A company that owns enough voting stock in another firm to control management and operations by influencing or electing its board of directors. Type of business organization that allows a firm (called parent) and its directors to control other firms (called subsidiaries). This arrangement makes venturing outside one's core industry possible and, under certain conditions, to benefit from tax consolidation, sharing of operating losses, and ease of divestiture.



9.3 Strategic management

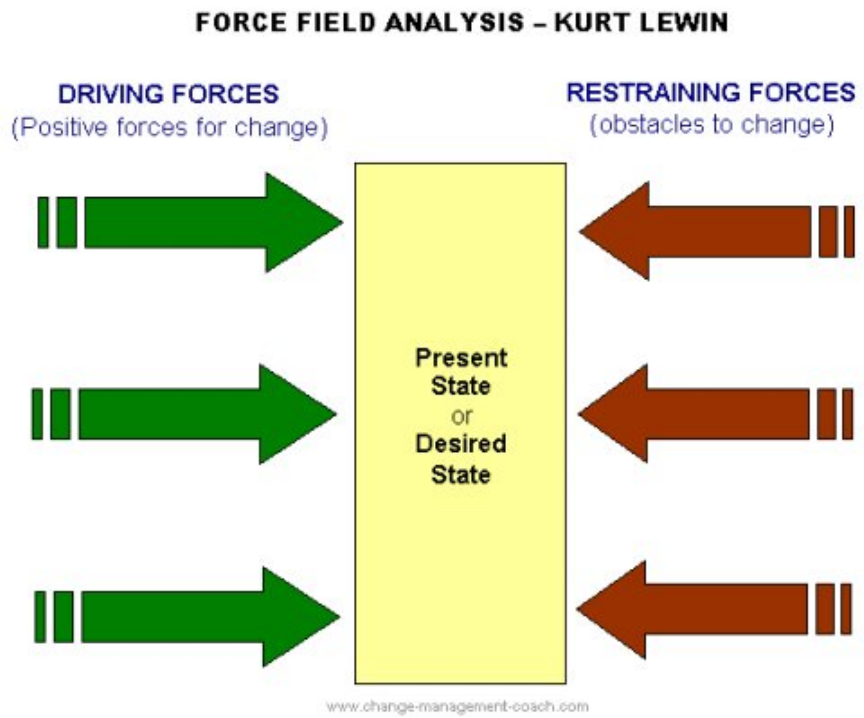
Strategic change

Force Field Analysis is a useful decision-making technique. It helps you make a decision by analyzing the forces for and against a change, and it helps you communicate the reasoning behind your decision.

Force Field Analysis was created by **Kurt Lewin** in the 1940s. Lewin originally used the tool in his work as a social psychologist. Today, however, Force Field Analysis is also used in business, for making and communicating go/no-go decisions.

You use the tool by listing all of the factors (forces) for and against your decision or change. You then score each factor based on its influence, and add up the scores for and against change to find out which of these wins.

To carry out a Force Field Analysis, use a blank sheet of paper or whiteboard. Then describe your plan or proposal for change in a box in the middle of the paper. List the forces for change in a column on the left-hand side, and the forces against change in a column on the right-hand side.



Transition curve

The fact is that organizations don't just change because of new systems, processes or new organization structures. They change because the people within the organization adapt and change too. Only when the people within it have made their own personal transitions can an organization truly reap the benefits of change.

The Change Curve is a popular and powerful model used to understand the stages of personal transition and organizational change. It helps you predict how people will react to change, so that you can help them make their own personal transitions, and make sure that they have the help and support they need.

The Change Curve is widely used in business and change management and there are many variations and adaptations. It is often attributed to psychiatrist **Elisabeth Kubler-Ross,** resulting from her work on personal transition in grief.

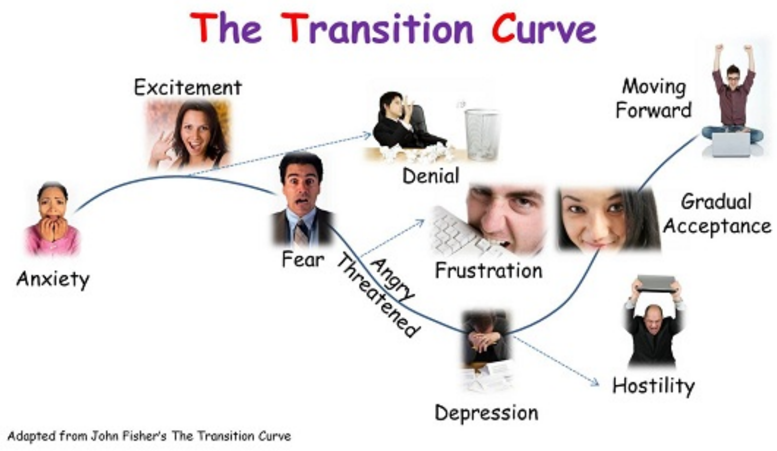
The Change Curve model describes the four stages most people go through as they adjust to change.

When a change is first introduced, people's initial reaction may be shock or denial, as they react to the challenge to the status quo. This is **stage 1** of the Change Curve.

Once the reality of the change starts to hit, people tend to react negatively and move to **stage 2** of the Change Curve: They may fear the impact; feel angry; and actively resist or protest against the changes.

At **stage 3** of the Change Curve, people stop focusing on what they have lost. They start to let go, and accept the changes. They begin testing and exploring what the changes mean, and so learn the reality of what's good and not so good, and how they must adapt.

By **stage 4,** they not only accept the changes but also start to embrace them: They rebuild their ways of working. Only when people get to this stage can the organization can really start to reap the benefits of change.


The Transition Curve
Excitement
Denial
Moving Forward
Anxiety
Fear
Gradual Acceptance
Frustration
Angry
Threatened
Hostility
Depression
Adapted from John Fisher's The Transition Curve

10.1 Strategic management

The Blue Ocean Strategy

Blue Ocean Strategy is a book published in 2005 and written by Chan Kim and Renée Mauborgne professors. Kim & Mauborgne argue that companies can succeed not by battling competitors, but rather by creating ”blue oceans” of uncontested market space. They assert that these strategic moves create a leap in value for the company, its buyers, and its employees, while unlocking new demand and making the competition irrelevant.

The metaphor of **red and blue oceans** describes the market universe.

Red oceans represent all the industries in existence today – the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody; hence, the term *red oceans.*

Blue oceans, in contrast, denote all the industries not in existence today – the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue Ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored.

The cornerstone of Blue Ocean Strategy is ‚Value Innovation'. Value innovation is the simultaneous pursuit of differentiation and low cost, creating value for both the buyer, the company, and its employees, thereby opening up new and uncontested market space. The aim of value innovation, as articulated in the article, is not to compete, but to make the competition irrelevant by changing the playing field of strategy. The strategic move must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. The Four Actions Framework is used to help create value innovation and break the value-cost trade-off. Value innovation challenges Michael Porter's idea that successful businesses are either low-cost providers or niche-players. Instead, blue ocean strategy proposes finding value that crosses conventional market segmentation and offering value and lower cost. Combination of differentiation and low cost might be necessary for firms to achieve a sustainable competitive advantage.

Because value to buyers comes from the offering's utility minus its price, and because value to the company is generated from the offering's price minus its cost, value innovation is achieved only when the whole system of utility, price, and cost is aligned.

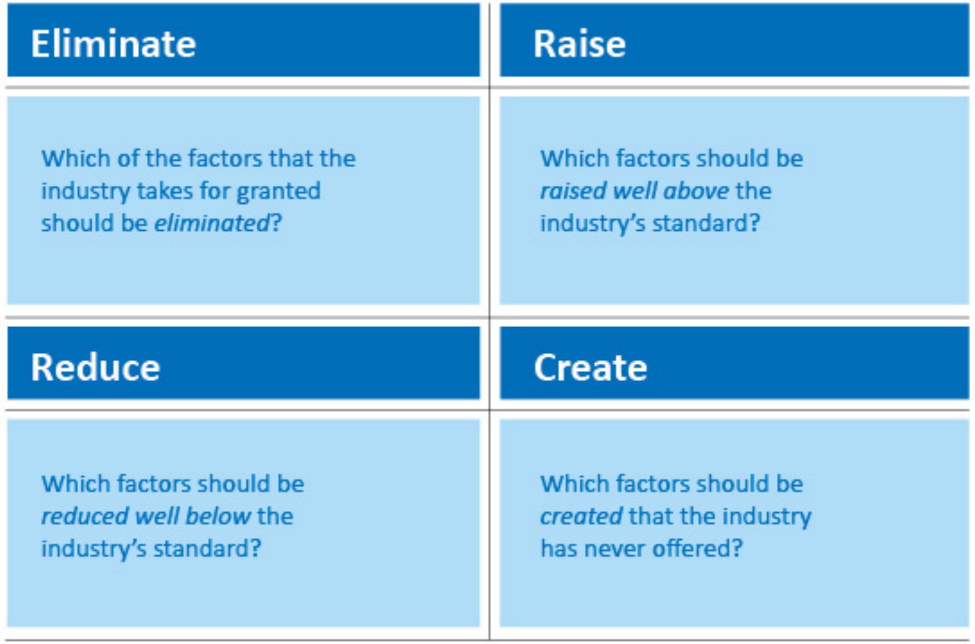
Break the value-cost tradeoff by answering the following questions:

– Which of the factors that the industry takes for granted should be eliminated?

– Which factors should be reduced well below the industry’s standard?

– What factors should be raised well above the industry’s standard?

– What factors should be created that the industry has never offered?



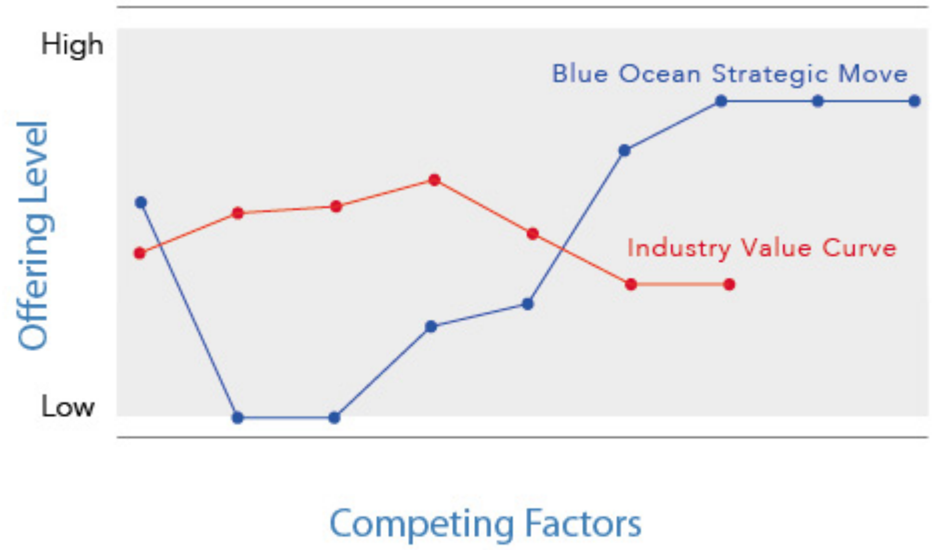
The strategy canvas is both a diagnostic and an action framework for building a compelling blue ocean strategy. The horizontal axis captures the range of factors that the industry competes on and invests in, while the vertical axis captures the offering level that buyers receive across all of these key competing factors.

The strategy canvas serves two purposes:

– To capture the current state of play in the known market space, which allows users to clearly see the factors that the industry competes on and where the competition currently invests and

– To propel users to action by reorienting focus from *competitors to alternatives* and from *customers to noncustomers* of the industry.

The value curve is the basic component of the strategy canvas. It is a graphic depiction of a company's relative performance across its industry's factors of competition. A strong value curve has *focus, divergence* as well as a *compelling tagline.*



10.2 Strategic management

The Business Model Canvas

The **Business Model Canvas** is a strategic management template for developing new or documenting existing business models. It is a visual chart with elements describing a firm's value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs.

The Business Model Canvas was initially proposed by Alexander Osterwalder based on his earlier work on Business Model Ontology.

Formal descriptions of the business become the building blocks for its activities. Many different business conceptualizations exist; Osterwalder's work and thesis propose a single reference model based on the similarities of a wide range of business model conceptualizations. With his business model design template, an enterprise can easily describe their business model.

Let's see the elements of the Business Model Canvas:

The infrastructure part consists:

– **Key Activities:** The most important activities in executing a company's value proposition.

– **Key Resources:** The resources those are necessary to create value for the customer. They are considered an asset to a company, which are needed in order to sustain and support the business. These resources could be human, financial, physical and intellectual.

– **Partner Network:** In order to optimize operations and reduce risks of a business model, organization usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.

The central part is the value proposition consists:

– **Value Proposition**: The collection of products and services a business offers to meet the needs of its customers. According to Osterwalder, a company's value proposition is what distinguishes itself from its competitors. The value proposition provides value through various elements such as newness, performance, customization, design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability.

The customer part contains:

– **Customer Segments:** To build an effective business model, a company must identify which customers it tries to serve. Various sets of customers can be segmented based on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristics of selected group of clients.

– **Channels:** A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both.

– **Customer Relationships:** To ensure the survival and success of any businesses, companies must identify the type of relationship they want to create with their customer segments. There are various forms of customer relationships such as Personal assistance, Dedicated personal assistance, Self-service, Automated services, Communities, Co-creation etc.

The finances part contains:

– **Cost Structure:** This describes the most important monetary consequences while operating under different business models.

– **Revenue Streams:** The way a company makes income from each customer segment. Several ways to generate revenue stream such as Asset sale, Usage fee, Subscription fees, Lending/Leasing/Renting, Licensing etc.

Blending the Blue Ocean Strategy framework with the Business Model Canvas

The Business Model Canvas consists of a right-hand value and customer-focused side, and a left-hand cost and infrastructure side. Changing elements on the right-hand side has implication for the left-hand side.

Blue Ocean Strategy is about simultaneously increasing value while reducing costs. This is achieved by identifying which elements of the value proposition can be eliminated, reduced, raised or newly created. The first goal is to lower costs by reducing or eliminating less valuable features or services. The second goal is to enhance or create high-value features or services that do not significantly increase the cost base.

Blending Blue Ocean Strategy and the Business Model Canvas lets you systematically analyze a business model innovation in its entirety. You can ask the four actions framework questions (eliminate, create, reduce, rise) about each business model building blocks and immediately recognize implications for the other parts of the business model.

Strategic Management
Learning guide

1. Defining Strategic Management and Strategy

Learning objectives

– Learn what strategic management is.

– Understand the key question addressed by strategic management.

– Understand why it is valuable to consider different definitions of strategy.

– Learn what is meant by each of the 5 Ps of strategy.

– Learn what is meant by intended and emergent strategies, and the difference between them.

1.1 The Strategic management

This sub-theme of the concept of strategic management deals with the definition.

Strategic management helps answer the key question: “why do some firms outperform other firms?” Strategy is a complex concept that involves many different processes and activities within an organization.

Professor Henry Mintzberg articulated what he labeled as the “5 Ps” of strategy; as a plan, as a ploy, position, pattern, and as a perspective is important.

Strategic plans are the essence of strategy according to one classic view of strategy. A strategic plan is a carefully crafted set of steps that a firm intends to follow in order to be successful.

First, study carefully the presentation of strategic management, then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

1.2 Intended, emergent and realized strategies

The executives leading the organization can simple create a plan and execute it, and they can be confident that their plan will not be undermined by changes over time. Only a few executives enjoy a very stable and create predictable situation. Because change affects the strategies of almost all organizations, understanding the concepts of intended, emergent, and realized strategies is very important.

Also relevant are deliberate and non-realized strategies.

First, study carefully the presentation of strategies, then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have one incorrect answer, return to the lecture and listen to it again.

In case you gave five correct answers, move to the following sub-themes.

1.3 The role of strategy in success / Madonna case study /

Examining Madonna's career over the past 30 years forces us to address that fundamental question about the nature of strategy.

Assignment questions:

1. Why has Madonna been so successful in the world of entertainment?

2. Does Madonna have a strategy? If so, what are the main elements of that strategy?

Describe your opinion about these questions in the proper forum.

– *What is strategy?* Conventionally, strategy has been identified with planning. What is the meaning of „strategy" in a fast-changing, unpredictable environment?

– *What is the role of strategy in success?* Why are some individuals and organizations more successful than others? Is it happenstance (being in the right place at the right time), the hand of God, or are there decisions and behaviors that are likely to lead to better outcomes?

– *What are the critical ingredients of a successful strategy?* Can we generalize about the features of strategies that promote success rather than failure?

1.4 Summary questions

Fill in the summary test / can be only one correct answer /

2. The History of Strategic Management

Learning objectives

– Consider how strategy in ancient times and military strategy can provide insights to businesses.

– Describe how strategic management has evolved into a field of study.

2.1.2 The origin and modern history of Strategic management

In ancient China, strategists and philosopher Sun Tzu offered thoughts on strategy that continue to be carefully studied by business and military leaders today. He is traditionally credited as the author of *The Art of War,* an extremely influential ancient Chinese book on military strategy. The book is not only popular among military theorists, but has also become increasingly popular among political leaders and those in business management.

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Peter Drucker, Alfred Chandler, and Igor Ansoff. The discipline draws from earlier thinking and texts on ‚strategy' dating back thousands of years. Prior to 1960, the term „strategy" was primarily used regarding war and politics, not business. Many companies built strategic planning functions to develop and execute the formulation and implementation processes during the 1960s.

First, study carefully the presentation of "The history of strategic management", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

2.3 Art of War - Visualized book

Visit the link below and discover the messages of the book.

https://www.youtube.com/watch?v=qBduuL-DZ24

2.4 Student Workbook

The workbook helps for students to practice your strategic management skills. The students will gain experiences in the application of strategic management methods.

The task is

1. To identify and analyze the most important strategic factors for the growth of a chosen Hungarian or a foreign business (or non-business) organization.

2. Provide a strategic analysis, and describe the proposed strategy for a business or non-business organization of your choice.

The structure of the workbook follows the process of strategic management:

1. Introduction of the organization
2. Analysis of the large external environment
3. The Porter's five forces analysis
4. Analysis of the strategic group
5. Analysis of the internal resources and competences
6. Analysis of the industry and the value chain
7. SWOT analysis
8. Analysis of the interest groups
9. The interest/power matrix

10. The most important strategic challenges
11. Identification of the strategic alternatives
12. The portfolio model of the organization
13. Assessment of the strategies alternatives
14. The elements of the chosen strategy
15. The hierarchy of the goals

Prepare the first chapter of Student workbook:

Parts of introduction of the organization:

– Basic data

– The scope of activities

– The most important products / services

– Market share

– Key competitors

– Milestones in the development of the organization

– Key owner(s)

3. Evaluating the external environment

Learning objectives

– Define the environment in the context of business.

– Understand how an organization and its environment affect each other.

– Learn the difference between the general environment and the industry.

3.1 Evaluating the general environment

For an organization, the **environment** consists of the set of external conditions and forces that have the potential to influence the organization. Every action that an organization takes creates some degree of changes in the world around it. Understanding the environment that surrounds an organization is very important to the executives in charge of the organizations. There are several reasons for this: The environment provides resources that an organization needs in order to create goods and services. The environment is a source of opportunities and threats for an organization.

First, study carefully the presentation of "Evaluating the general environment", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

3.2 Evaluating the industry

First, study carefully the presentation of "Evaluating the industry", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

3.3 Mapping strategic groups

First, study carefully the presentation of "Analysis of the operating environment", then read the outline of the lecture.

70 After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

LEGO case

LEGO has emerged as one of the most successful companies in the toy industry. The case describes LEGO's gradual rise, rapid decline, and recent revitalization as it is keeping up with a changing market place. Central to LEGO's management model is the ability to find the right balance among growing through innovation, staying true to its core, and controlling operational complexity.

Learning objective:

The case allows students to cover a wide range of topics in strategy, operations management, and innovation. It is particularly suitable for analyzing managerial issues that arise at the intersection of these topics.

Assignment questions:

– What has led the LEGO Group to the edge of bankruptcy?

– As Jorgen Knudstorp, what would you do throughout the LEGO Group in order to turn the company around?

3.4. Student workbook

Prepare the 2nd-, 3rd- and 4th chapters of Student workbook:

– Analysis of the large environment (PESTEL analysis)

– The porter's five force analysis

– Analysis of the strategic group

3.5 Summary questions

Fill in the summary test / can be only one correct answer /

4. Managing firm resources

Learning objectives

– Define the four characteristics of resources that lead to sustained competitive advantage as articulated by the resource-based theory of the firm.

– Understand the difference between resources and capabilities.

– Be able to explain the difference between tangible and intangible resources.

4.1 The resource-based theory

Resource-based theory contends that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals. These competitive advantages in turn can help the organization enjoy strong profits.

A strategic resource is an asset that is valuable, rare, difficult to imitate, and no substitutable.

First, study carefully the presentation of "Resources and capability", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

4.2 The value chain

First, study carefully the presentation of "The value chain", then read the outline of the lecture. After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

4.3 SWOT analysis

First, study carefully the presentation of "SWOT analysis", then read the outline of the lecture. After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

Harley-Davidson case

Harley is an exemplar of a company that has built a focused, integrated, and brilliantly executed strategy that provides its customers with a unique experience. In analyzing Harley's differentiation strategy and identifying opportunities to extent it, the case is an excellent vehicle for utilizing the differentiation advantage framework outlined especially the value chain analysis.

Key learning objectives for the Harley case includes:

– How a company can establish competitive advantage against bigger, better-resourced rivals through a strategy that exploits a few critical resource strengths (namely, the Harley image and reputation) while protecting against resource weaknesses (small scale, lack of technology, lack of global distribution).

– A key feature of Harley's strategy has been the integrated nature of its strategy – its product design, manufacturing, marketing, distribution, and customer support policies have all been built around the need to exploit and project the unique Harley image.

Assignment questions

1. Identify Harley-Davidson’s strategy and explain its rationale.

2. Compare Harley-Davidson’s resources and capabilities with those of Honda. What does your analysis imply for Harley’s potential to establish cost and differentiation advantage over Honda?

3. What threats to continued success does Harley-Davidson face?

4. How can Harley-Davidson sustain and enhance its competitive position?

4.4 Student workbook

Prepare the 5th-, 6th- and 7th chapters of Student workbook:

– Analysis of the internal resources and competences

– Analysis of the industry and the value chain

– SWOT analysis

4.5 Summary questions

Fill in the summary test / can be only one correct answer /

5. The analysis of the strategic interest

Learning objectives

– Learn what it meant by stockholders and stakeholders and the different between them.
– Why necessary to create the Interest/power matrix?
– Understand the key roles played by boards of directors and other bodies.

5.1 Identification of organizational stakeholders

Stakeholder analysis is a key part of stakeholder management. Stakeholder analysis is the process of identifying, understanding and prioritizing the needs of key stakeholders so that the questions of how stakeholder can participate in strategy formulation and how relationships with stakeholders are best managed can be addressed.

First, study carefully the presentation of "The analysis of strategic interest", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

5.2 Mapping stakeholders

First, study carefully the presentation of "Stakeholders mapping", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

5.3 Corporate governance

First, study carefully the presentation of "Corporate governance", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

5.4 Student workbook

Prepare the 2nd-, 3rd- and 4th chapters of Student workbook:

– Analysis of the large environment (PESTEL analysis)

– The porter's five force analysis

– Analysis of the strategic group

5.5 Summary questions

Fill in the summary test / can be only one correct answer /

6. Business level strategies

Learning objectives

– Understand the four primary generic strategies.
– Know the two dimensions that are critical to defining business-level strategy.
– Describe the nature of cost leadership.
– Understand how economies of scale help contribute to a cost leadership strategy.
– Describe the nature of differentiation.
– Describe the nature of focused cost leadership and focused differentiation.

6.1 Generic strategies

Business-level strategy addresses the question of how a firm will compete in a particular industry.

When an executive in a particular industry analyzes her company and her rivals, she needs to avoid getting distracted by all the nuances of different firm's business-level strategies and losing sight of the big picture.

The solution is to think about business-level strategy in terms of generic strategies.

First, study carefully the presentation of "Business level strategies", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

6.2 Cost leadership

First, study carefully the presentation of "Low cost leadership", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

6.3 Differentiation

First, study carefully the presentation of "Differentiation", then read the outline of the lecture. After that fill in the self-check test / can be only one correct answer. /

74 If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

Air Asia case

No-frills airlines are airlines that offer low fares but eliminate all non-essential services, such as complimentary food, in-flight entertainment systems, business-class seating etc. A no-frills airline will typically cut overheads by flying from more remote airports (with lower access charges) and by using a single type of aircraft. Aircraft cabin interiors may be fitted out with minimum comforts, dispensing with luxuries such as seat-back video screens, reclining seats and blinds; some airlines choose to carry advertising inside the cabin to increase revenue. Should meals be served, they must be paid for in full.

Some airlines also extend the definition of „frills" to include standard services and conveniences; for example, a no-frills airline may charge passengers an additional fee for check-in luggage, using airport check-in desks, using wheelchairs or even for using the toilet.

Assignment questions

1. Briefly describe the trends in the global airline industry.

2. Comment on the business-level strategy by Air Asia. How has Air Asia achieved cost leadership or differentiation?

3. What are the risks of using the strategy?

4. Identify the ways Air Asia can sustain its competitiveness through the business-level strategy it has adopted.

6.4 Student workbook

Prepare the 10th chapter of Student workbook:

– The most important strategic challenges IV.5. Summary questions

Fill in the summary test / can be only one correct answer /

6.5 Summary questions

Fill in the summary test / can be only one correct answer /

7. Corporate-level strategies

Learning objectives

– Name and understand the three concentration strategies.

– Be able to explain horizontal integration.

– Understand what backward vertical integration is.

– Understand what forward vertical integration is.

– Be able to provide examples of backward and forward vertical integration.

– Explain the concept of diversification.

– Be able to apply the three tests for diversification.

– Distinguish related and unrelated diversification.

– Understand why a firm would want to use portfolio planning.

– Be able to explain the limitations of portfolio planning.

7.1 Concentration- and integration strategies

Corporate level strategy is the overall strategy for a diversified organization or company. It is usually concerned with a mix of businesses that the company should compete in and also the ways on which individual strategy units are integrated and coordinated.

First, study carefully the presentation of "The corporate level strategies", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

7.2 Diversification strategies

First, study carefully the presentation of "Diversification", then read the outline of the lecture. After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

7.3 Portfolio planning

First, study carefully the presentation of "Portfolio planning", then read the outline of the lecture. After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

7.4 Student workbook

Prepare the 11th- and 12th chapters of Student workbook:

– Identification of the strategic alternatives

– The portfolio model of the organization

7.5 Summary questions

Fill in the summary test / can be only one correct answer /

8. Strategic decision and strategic goals

Learning objectives

– Be able to explain hierarchy of purposes.

– Distinguish vision and mission.

– Distinguish goals and objectives.

– Name and understand the four basic perspective of a company.

– Understand what function of BSC is.

– Be able to create sample indicators of BSC.

8.1 Types of purposes

The overall goals, purpose and mission of a business that have been established by its management and communicated to its employees. The organizational objectives of a company typically focus on its long range intentions for operating and its overall business philosophy that can provide useful guidance for employees seeking to please their managers.

First, study carefully the presentation of "Types of purposes", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

8.2 Four basic perspective of a company (BSC)

Management practice that attempts to complement drivers of past performance (financial measures) with the drivers of future performance, such as customer satisfaction, development of human and intellectual capital, and learning. Standard balanced scorecards do not include environmental considerations.

First, study carefully the presentation of “Four basic perspective of a company”, then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again. When all answer is correct, move to the following sub-theme.

8.3 Student workbook

Prepare the 13th-, 14th and 15th chapters of Student workbook:

– Assessment of the strategies alternatives

– The elements of the chosen strategy

– The hierarchy of the goals

VII.4. Summary questions

Fill in the summary test / can be only one correct answer /

9. Realizing strategy

Learning objectives

– Understand the elements of company culture.

– Know the three layers of Iceberg model of culture.

– Understand Handy's classification.

– Identification the four types of structures.

– Describe the nature of transition curve.

9.1 Company culture

Organizational culture includes an organization's expectations, experiences, philosophy, and values that hold it together, and is expressed in its self-image, inner workings, interactions with the outside world, and future expectations. It is based on shared attitudes, beliefs, customs, and written and unwritten rules that have been developed over time and are considered valid.

First, study carefully the presentation of "The effect of culture on business relationship", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

9.2 Organizational design

An organization can be structured in many different ways, depending on their objectives. The structure of an organization will determine the modes in which it operates and performs.

Organizational structure allows the expressed allocation of responsibilities for different functions and processes to different entities such as the branch, department, work group and individual.

Organizational structure affects organizational action in two big ways. First, it provides the foundation on which standard operating procedures and routines rest. Second, it determines which individuals get to participate in which decision-making processes, and thus to what extent their views shape the organization's actions.

First, study carefully the presentation of "Organizational design", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. / If you have any incorrect answer, return to the lecture and listen to it again.

80 When all answer is correct, move to the following sub-theme.

9.3 Strategic change

A restructuring of an organization's business or marketing plan that is typically performed in order to achieve an important objective. For example, a strategic change might include shifts in a corporation's policies, target market, mission or organizational structure.

First, study carefully the presentation of "Managing strategic change", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

Procter & Gamble case

The case has two educational objectives. First, it is designed to teach almost all basic concepts of organizational design found in a standard textbook through a single case. Second, the case introduces ideas that emerge out of fieldwork that contradict these insights and call for revisiting the theory to reflect what companies at the cutting edge of organizational design do.

Assignment questions

1. Why did the US organizational structure shift from product grouping in the 1950s to a matrix in the 1980s? Why did the European organizational structure shift from geographic grouping in the 1950s to category management in the 1980s? Why were the two structures integrated into a global cube in the 1990s?

2. What are the key distinguishing features of Organization 2005? Why did P&G adopt this structure?

3. Should Lafley make a strong commitment to keeping Organizational 2005 or should he plan to dismantle the structure?

9.4 Summary questions

Fill in the summary test / can be only one correct answer /

10. Current trend in strategic management

Learning objectives

– Understand how to create uncontested market space

– Know the four actions of value innovation.

– Understand the building blocks of BMC.

– Describe the opportunity of blending the Blue Ocean Strategy framework with The Business Modell Canvas

10.1 The Blue Ocean Strategy

Value innovation, the cornerstone of blue ocean strategy, is the simultaneous pursuit of differentiation and low cost, creating a leap in value for both buyers and the company. Because value to buyers comes from the offering's utility minus its price, and because value to the company is generated from the offering's price minus its cost, value innovation is achieved only when the whole system of utility, price, and cost is aligned.

First, study carefully the presentation of "The Blue Ocean Strategy", then read the outline of the lecture.

After that fill in the self-check test / can be only one correct answer. /

If you have any incorrect answer, return to the lecture and listen to it again.

When all answer is correct, move to the following sub-theme.

Cirque de Soleil case

Onetime accordion player, stilt walker, and fire-eater, Guy Laliberté is now CEO of one of Canada's largest cultural exports, Cirque du Soleil. Founded in 1984 by a group of street performers, Cirque has staged dozens of productions seen by some 40 million people in 90 cities around the world. In 20 years, Cirque has achieved revenues that Ringling Bros. and Barnum & Bailey – the world's leading circus – took more than a century to attain.

Assignment question

How would you account for Cirque du Soleil's success in a declining market?

10.2 The Business Model Canvas

The **Business Model Canvas** is a strategic management and lean startup template for developing new or documenting existing business models. It is a visual chart with elements describing a firm's value proposition, infrastructure, customers, and finances. It assists firms in aligning their activities by illustrating potential trade-offs.

The Business Model Canvas was initially proposed by Alexander Osterwalder based on his earlier work on Business Model Ontology.

Formal descriptions of the business become the building blocks for its activities. Many different business conceptualizations exist; Osterwalder's work and thesis propose a single reference model based on the similarities of a wide range of business model conceptualizations. With his business model design template, an enterprise can easily describe their business model.

Let's see the elements of the Business Model Canvas:

The infrastructure part consists:

- **Key Activities:** The most important activities in executing a company's value proposition.
- **Key Resources:** The resources those are necessary to create value for the customer. They are considered an asset to a company, which are needed in order to sustain and support the business. These resources could be human, financial, physical and intellectual.
- **Partner Network:** In order to optimize operations and reduce risks of a business model, organization usually cultivate buyer-supplier relationships so they can focus on their core activity. Complementary business alliances also can be considered through joint ventures, strategic alliances between competitors or non-competitors.

The central part is the value proposition consists:

- **Value Proposition:** The collection of products and services a business offers to meet the needs of its customers. According to Osterwalder, a company's value proposition is what distinguishes itself from its competitors. The value proposition provides value through various elements such as newness, performance, customization, design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability.

The customer part contains:

- **Customer Segments:** To build an effective business model, a company must identify which customers it tries to serve. Various sets of customers can be segmented based on the different needs and attributes to ensure appropriate implementation of corporate strategy meets the characteristics of selected group of clients.
- **Channels:** A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organization can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both.
- **Customer Relationships:** To ensure the survival and success of any businesses, companies must identify the type of relationship they want to create with their customer segments. There are various forms of customer relationships such as Personal assistance, Dedicated personal assistance, Self-service, Automated services, Communities, Co-creation etc.

The finances part contains:

- **Cost Structure:** This describes the most important monetary consequences while operating under different business models.
- **Revenue Streams:** The way a company makes income from each customer segment. Several ways to generate revenue stream such as Asset sale, Usage fee, Subscription fees, Lending/Leasing/Renting, Licensing etc.

Blending the Blue Ocean Strategy framework with the Business Model Canvas

The Business Model Canvas consists of a right-hand value and customer-focused side, and a left-hand cost and infrastructure side. Changing elements on the right-hand side has implication for the left-hand side.

Blue Ocean Strategy is about simultaneously increasing value while reducing costs. This is achieved by identifying which elements of the value proposition can be eliminated, reduced, raised or newly created. The first goal is to lower costs by reducing or eliminating less valuable features or services. The second goal is to enhance or create high-value features or services that do not significantly increase the cost base.

Blending Blue Ocean Strategy and the Business Model Canvas lets you systematically analyze a business model innovation in its entirety. You can ask the four actions framework questions (eliminate, create, reduce, raise) about each business model building blocks and immediately recognize implications for the other parts of the business model.

10.3 Summary questions

Fill in the summary test / can be only one correct answer /

Strategic Management
Workbook

Student workbook

Name: ……………………………………..   Date: …………………..

The tasks are

1. To identify and analyze the most important strategic factors for the growth of a specific Hungarian or foreign business (or non-business) organization.

2. Provide a strategic analysis, and describe the proposed strategy for a business or non-business organization of your choice.

The structure of the workbook follows the process of strategic management:

16. Introduction of the organization

17. Analysis of the large external environment

18. The Porter's five forces analysis

19. Analysis of the strategic group

20. Analysis of the internal resources and competences

21. Analysis of the industry and the value chain

22. SWOT analysis

23. Analysis of the interest groups

24. The interest/power matrix

25. The most important strategic challenges

26. Identification of the strategic alternatives

27. The portfolio model of the organization

28. Assessment of the strategies alternatives

29. The elements of the chosen strategy

30. The hierarchy of the goals

The overall assessment of the workbook: ....

1. Introduction of the organization

Basic data (turnover, assets, workforce, profit)

Description of the activities and legal form

The most important products and services

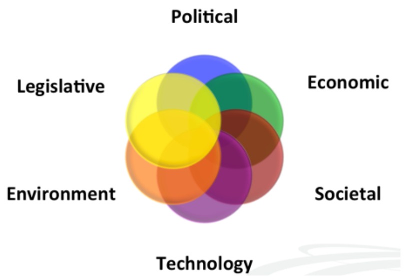
Market share

The most important competitors

The „milestones” of the corporate history (foundation, stages of development, new owners)

The most important owners

2. Analysis of the large environment (PESTEL analysis)



The political tendencies

The economical tendencies

The social tendencies

The technical tendencies

The environmental tendencies

Legal and regulatory tendencies

3. The Porter's five force analysis

The suppliers

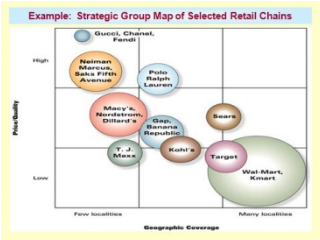
The buyers

The potential entrants

Substitutes

Competitors

4. Analysis of the strategic group



The strategic map

Consumer value analysis

5. The analysis of the internal resources

Financial resources

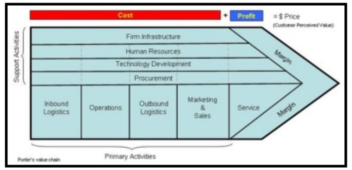
Human resources

Physical resources

Technological resources

Reputation

6. Analysis of the industry and the value chain



Position of the company on the industry value chain

The elements of the company's value chain

7. SWOT analysis

Strengths

Weaknesses

Opportunities

Threats

8. The analysis of the interest groups

The owners and their interests

Interest-groups within the organization

Competitors

Consumers

State institutions and other interest groups

9. The interest/power matrix

	Small interest	High interest
Small power		
High power		

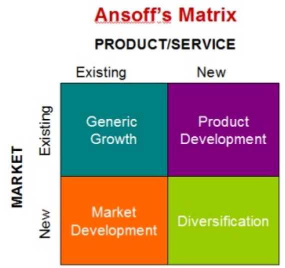
The overall assessment of the interest groups

10. The most important strategic challenges

The most important strategic problems

The perception of the strategic problems by interest groups

11. Strategic alternatives from Ansoff-matrix



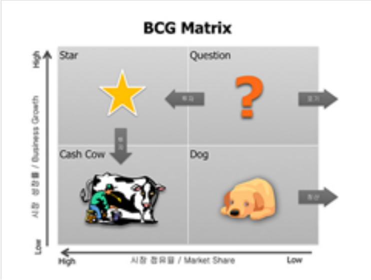
Market penetration

Market development

Product development

Diversification

12. Other possibilities



Porter's strategies

Other strategies

101

13. Identification of strategic problems of the company and the possible alternatives

The most important strategic problems

1.
2.
3.
4.
5.

The possible alternatives

1.
2.
3.

The assessment of the alternatives				
The strategic alternatives	Suitability (min:1 – max:5)	Feasibility (min:1 – max:5)	Acceptability (min:1 – max:5)	Overall assessment
1. alternative				
2. alternative				
3. alternative				
4. alternative				

14. Description of the proposed strategy

15. The hierarchy of the goals

Mission

Strategic goals 2016-2018

Goals for 2015

Strategic Management

Business Dictionary

Business Dictionary [1]

ABC analysis

An analysis of a range of items that have different levels of significance and should be handled or controlled differently. It is a form of Pareto analysis in which the items (such as activities, customers, documents, inventory items, sales territories) are grouped into three categories (A, B, and C) in order of their estimated importance. ‚A' items are very important, ‚B' items are important, ‚C' items are marginally important. For example, the best customers who yield highest revenue are given the ‚A' rating, are usually serviced by the sales manager, and receive most attention. ‚B' and ‚C' customers warrant progressively less attention and are serviced accordingly.

Acquisition:

1. Taking custody of records.

2. Taking possession of an asset by purchase.

3. Taking control of a firm by purchasing 51 percent (or more) of its voting shares.

Ansoff matrix:

Strategic marketing planning tool that links a firm's marketing strategy with its general strategic direction and presents four alternative growth strategies as a table (matrix). These strategies are seeking growth: (1) Market penetration: by pushing existing products in their current market segments. (2) Market development: by developing new markets for the existing products. (3) Product development: by developing new products for the existing markets. (4) Diversification: by developing new products for new markets. Named after its inventor, the father of strategic management, Igor Ansoff (1941–), and first published in 1957 in Harvard business review.

[1] Source: The Business Dictionary.

Backward integration:

Type of vertical integration in which a consumer of raw materials acquires its suppliers, or sets up its own facilities to ensure a more reliable or cost-effective supply of inputs.

Balanced scorecard (BSC):

Management practice that attempts to complement drivers of past performance (financial measures) with the drivers of future performance, such as customer satisfaction, development of human and intellectual capital, and learning. Standard balanced scorecards do not include environmental considerations. Proposed by Robert Kaplan (co-inventor of activity based accounting) and David Norton in 1996.

Benchmark:

Standard, or a set of standards, used as a point of reference for evaluating performance or level of quality. Benchmarks may be drawn from a firm's own experience, from the experience of other firms in the industry, or from legal requirements such as environmental regulations.

Board of directors:

Governing body (called the board) of an incorporated firm. Its members (directors) are elected normally by the subscribers (stockholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests. The board has the ultimate decision-making authority and, in general, is empowered to (1) set the company's policy, objectives, and overall direction, (2) adopt bylaws, (3) name members of the advisory, executive, finance, and other committees, (4) hire, monitor, evaluate, and fire the managing director and senior executives, (5) determine and pay the dividend, and (6) issue additional shares. Though all its members might not be engaged in the company's day-to-day operations, the entire board is held liable (under the doctrine of collective responsibility) for the consequences of the firm's policies, actions, and failures to act. Members of the board usually include senior-most executives (called ‚inside directors' or ‚executive directors') as well as experts or respected persons chosen from the wider community (called ‚outside directors' or ‚non-executive directors'). See also corporate governance.

Business process reengineering (BPR):

Thorough rethinking of all business processes, job definitions, management systems, organizational structure, work flow, and underlying assumptions and beliefs. BPR's main objective is to break away from old ways of working, and effect radical (not incremental) redesign of processes to achieve dramatic improvements in critical areas (such as cost, quality, service, and response time) through the in-depth use of information technology. Also called business process redesign.

Business resources:

Human, financial, physical, and knowledge factors that provide a firm the means to perform its business processes. See also factors of production.

Cash cow:

Well established brand, business unit, product, or service, that generates a large, regular, predictable, and positive cash flow. Cash cows are often ‚milked' for developing, promoting, or supporting new or struggling counterparts. See also portfolio planning matrix.

Centralization:

1.The concentration of management and decision-making power at the top of an organization's hierarchy.

2. The location of all or most main departments and managers at one facility.

Change management:

Minimizing resistance to organizational change through involvement of key players and stakeholders.

Competence:

1. A cluster of related abilities, commitments, knowledge, and skills that enable a person (or an organization) to act effectively in a job or situation.
   Competence indicates sufficiency of knowledge and skills that enable someone to act in a wide variety of situations. Because each level of responsibility has its own requirements, competence can occur in any period of a person's life or at any stage of his or her career.

2. Law: The capacity of a person to understand a situation and to act reasonably.
   Disputes regarding the competence of an individual are settled by a judge and not by a professional (such as a doctor or a psychiatrist) although the judge may seek expert opinion before delivering at a judgment. Also called legal capacity.

Competitive advantage:

A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities.

Competitiveness:

Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.

Corporate governance:

The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community).

The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances. Also called corporation governance.

Corporate social responsibility:

A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources. See also corporate citizenship.

Cost leadership:

Strategy used by businesses to create a low cost of operation within their niche. The use of this strategy is primarily to gain an advantage over competitors by reducing operation costs below that of others in the same industry.

Crisis:

Critical event or point of decision which, if not handled in an appropriate and timely manner (or if not handled at all), may turn into a disaster or catastrophe.

Crisis management:

Set of procedures applied in handling, containment, and resolution of an emergency in planned and coordinated steps.

Defensive strategy:

A management approach designed to reduce the risk of loss. For example, even a relative aggressive business might employ a defensive strategy when it comes to investing its extra liquid funds in certificates of deposit or relatively stable bonds and stocks.

Differential advantage:

Unique benefits or characteristics of a firm, product, or program that set it apart and above its competitors in the customers' viewpoint.

Diversification:

1. Banking: Spreading a bank's assets (loans) over a wider assortment of quality borrowers, to maintain or improve earning levels while maintaining the same level of exposure.

2. Corporate strategy: Practice under which a firm enters an industry or market different from its core business. Reasons for diversification include (1) reducing risk of relying on only one or few income sources, (2) avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles, (3) achieving a higher growth rate, and (4) countering a competitor by invading the competitor's core industry or market. In contrast to vertical integration, diversification does not increase a firm's market or monopolistic power. Also called market diversification.

3. Investing: Spreading the available funds over a wider selection (portfolio) of types of investment, such as commodities, real estate, securities.

Divisional structure:

A type of organizational configuration that groups together those employees who are responsible for a particular product type or market service according to workflow. The divisional structure of a business tends to increase flexibility, and it can also be broken down further into product, market and geographic structures.

Dogs:

In business portfolio analysis, those products or business units that occupy the lower right-hand side quadrant of the ‚growth share matrix.' Dogs represent low share of lowgrowth markets and, although generating enough sales revenue to justify their existence, do not hold the promise of becoming leaders in their categories.

Economies of scale:

The reduction in long-run average and marginal costs arising from an increase in size of an operating unit (a factory or plant, for example). Economics of scale can be internal to an organization (cost reduction due to technological and management factors) or external (cost reduction due to the effect of technology in an industry). See also diseconomies of scale.

Electronic business (E-Business):

Firm which, in contrast to an electronic commerce firm, conducts its day-to-day business functions over the internet and/or other electronic networks such as electronic data interchange (EDI). Electronic business includes collaborating with distributors on sales promotions, interacting with and servicing the customers, and conducting joint research with business partners.

Environment:

The sum total of all surroundings of a living organism, including natural forces and other living things, which provide conditions for development and growth as well as of danger and damage. See also environmental factors.

Environmental analysis:

Evaluation of the possible or probable effects of external forces and conditions on an organization's survival and growth strategies.

Feasibility study:

An analysis and evaluation of a proposed project to determine if it (1) is technically feasible, (2) is feasible within the estimated cost, and (3) will be profitable. Feasibility studies are almost always conducted where large sums are at stake. Also called feasibility analysis. See also cost benefit analysis.

Force field analysis:

Technique for identifying and analyzing the positive factors of a situation that help (‚driving forces') and negative factors that hinder (‚restraining forces') an entity in attaining its objectives.

Forward integration:

Type of vertical integration where a manufacturer acquires the channels of distribution of its outputs to achieve greater economies of scale or higher market share.

Functional organization:

The classic organizational structure where the employees are grouped hierarchically, managed through clear lines of authority, and report ultimately to one top person.

Functional strategy:

Organizational plan for human resources, marketing, research and development and other functional areas. The functional strategy of a company is customized to a specific industry and is used to back up other corporate and business strategies.

GAP analysis:

A technique that businesses use to determine what steps need to be taken in order to move from its current state to its desired, future state. Also called need-gap analysis, needs analysis, and needs assessment.

Gap analysis consists of (1) listing of characteristic factors (such as attributes, competencies, performance levels) of the present situation („what is"), (2) listing factors needed to achieve future objectives („what should be"), and then (3) highlighting the gaps that exist and need to be filled. Gap analysis forces a company to reflect on who it is and ask who they want to be in the future.

Globalization:

The worldwide movement toward economic, financial, trade, and communications integration.

Globalization implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers. However, it does not include unhindered movement of labor and, as suggested by some economists, may hurt smaller or fragile economies if applied indiscriminately.

Holding company:

Type of business organization that allows a firm (called parent) and its directors to control or influence other firms (called subsidiaries). This arrangement makes venturing outside one's core industry possible and, under certain conditions, to benefit from tax consolidation, sharing of operating losses, and ease of divestiture. The legal definition of a holding company varies with the legal system. Some require holding of a majority (80 percent) or the entire (100 percent) voting shares of the subsidiary whereas other require as little as five percent.

Horizontal integration:

The merger of companies at the same stage of production in the same or different industries. When the products of both companies are similar, it is a merger of competitors. When all producers of a good or service in a market merge, it is the creation of a monopoly. If only a few competitors remain, it is termed an oligopoly. Also called lateral integration. See also vertical integration.

Industry:

1. The manufacturing or technically productive enterprises in a particular field, country, region, or economy viewed collectively, or one of these individually. A single industry is often named after its principal product; for example, the auto industry. For statistical purposes, industries are categorized generally according a uniform classification code such as Standard Industrial Classification (SIC).

2. Any general business activity or commercial enterprise that can be isolated from others, such as the tourist industry or the entertainment industry.
   Industry life cycle analysis: A method for analyzing industries based on the idea that they go through a series of identifiable life cycle phases (e.g., introduction, growth, maturity).

The information gained from defining where an industry is in its life cycle is used to determine the risk/reward ratio of a potential investment. For example, investing during the introduction phase is high-risk since future growth is uncertain. However, an early investment also has the potential for the greatest return.

Industry lifecycle:

The normal stages that an industry goes through during the course of its lifecycle in the market. An industry lifecycle is broken into five separate phases: Early stages phase, innovation phase, cost/shakeout phase, maturity phase and decline phase. During the initial phase, the product may be altered to make a place for it in the industry. The innovation phase looks to expand the product even further to come up with a concrete design. The next phase involves companies within the industry establishing a concrete design thus eliminating some of the smaller companies that do not follow this patter. At the maturity stage, revenue from the product becomes the main focus of the company. Finally, the decline phase is marked by decreasing revenue as demand shifts to another product in the industry.

Integration:

1. General: Process of attaining close and seamless coordination between several departments, groups, organizations, systems, etc.

2. Companies: Merger of two or more firms resulting in a new legal entity.

3. Contracts: Amalgamation of two or more agreements into one contract that serves as a full expression of the intent of the contracting parties.

Key success factors:

The combination of important facts that is required in order to accomplish one or more desirable business goals. For example, one of the key success factors in promoting animal food products might be to advertise them in a way that appeals to those consumers who love animals.

Long term objectives:

Performance goals of an organization, intended to be achieved over a period of five years or more. Long-term objectives usually include specific improvements in the organization's competitive position, technology leadership, profitability, return on investment, employee relations and productivity, and corporate image.

Management:

1. The organization and coordination of the activities of a business in order to achieve defined objectives.
   Management is often included as a factor of production along with, machines, materials, and money. According to the management guru Peter Drucker (1909-2005), the basic task of management includes both marketing and innovation. Practice of modern management originates from the 16th century study of low-efficiency and failures of certain enterprises, conducted by the English statesman Sir Thomas More (1478-1535). Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.

2. The directors and managers who have the power and responsibility to make decisions and oversee an enterprise.
   The size of management can range from one person in a small organization to hundreds or thousands of managers in multinational companies. In large organizations, the board of directors defines the policy which is then carried out by the chief executive officer, or CEO. Some people agree that in order to evaluate a company's current and future worth, the most important factors are the quality and experience of the managers.

Market development:

The expansion of the total market for a product or company by (1) entering new segments of the market, (2) converting nonusers into users, and/or (3) increasing usage per user.

Market penetration:

1. The activity or fact of increasing the market share of an existing product, or promoting a new product, through strategies such as bundling, advertising, lower prices, or volume discounts.
2. A measure of the extent of a product's sales volume relative to the total sales volume of all competing products, expressed as a percentage. Formula: Sales volume of a product x 100 ÷ Total sales volume of all competing products.

Matrix organization:

An organizational structure that facilitates the horizontal flow of skills and information. It is used mainly in the management of large projects or product development processes, drawing employees from different functional disciplines for assignment to a team without removing them from their respective positions.

Employees in a matrix organization report on day-to-day performance to the project or product manager whose authority flows sideways (horizontally) across departmental boundaries. They also continue to report on their overall performance to the head of their department whose authority flows downwards (vertically) within his or her department. In addition to a multiple command and control structure, a matrix organization necessitates new support mechanisms, organizational culture, and behavior patterns. Developed at the US National Aeronautics & Space Administration (NASA) in association with its suppliers, this structure gets its name from its resemblance to a table (matrix) where every element is included in a row as well as a column.

Mission statement:

A written declaration of an organization's core purpose and focus that normally remains unchanged over time. Properly crafted mission statements (1) serve as filters to separate what is important from what is not, (2) clearly state which markets will be served and how, and (3) communicate a sense of intended direction to the entire organization.

A mission is different from a vision in that the former is the cause and the latter is the effect; a mission is something to be accomplished whereas a vision is something to be pursued for that accomplishment. Also called company mission, corporate mission, or corporate purpose.

Network organization:

A group of legally independent companies or subsidiary business units that use various methods of coordinating and controlling their interaction in order to appear like a larger entity. In a business context, three main types of network organization are typically seen: (1) internal where a large company has separate units acting as profit centers, (2) stable where a central company outsources some work to others, and (3) dynamic where a network integrator outsources heavily to other companies.

Opportunities and threats:

Agents, factors, or forces in an organization's external environment that are out of its control, and can directly or indirectly affect is chances of success or failure.

Organization:

A social unit of people that is structured and managed to meet a need or to pursue collective goals. All organizations have a management structure that determines relationships between the different activities and the members, and subdivides and assigns roles, responsibilities, and authority to carry out different tasks. Organizations are open systems--they affect and are affected by their environment.

Outsourcing:

The contracting or subcontracting of noncore activities to free up cash, personnel, time, and facilities for activities in which a company holds competitive advantage. Companies having strengths in other areas may contract out data processing, legal, manufacturing, marketing, payroll accounting, or other aspects of their businesses to concentrate on what they do best and thus reduce average unit cost. Outsourcing is often an integral part of downsizing or reengineering. Also called contracting out.

PEST analysis:

A type of situation analysis in which political-legal (government stability, spending, taxation), economic (inflation, interest rates, unemployment), socio-cultural (demographics, education, income distribution), and technological (knowledge generation, conversion of discoveries into products, rates of obsolescence) factors are examined to chart an organization's long-term plans. See also SWOT analysis.

Policy:

1. Politics: (1) The basic principles by which a government is guided.
(2) The declared objectives that a government or party seeks to achieve and preserve in the interest of national community. See also public policy.
2. Insurance: The formal contract issued by an insurer that contains terms and conditions of the insurance cover and serves as its legal evidence.
3. Management: The set of basic principles and associated guidelines, formulated and enforced by the governing body of an organization, to direct and limit its actions in pursuit of long-term goals. See also corporate policy.

Portfolio:

Pool of investments, collection of samples of an artist or other creative person, or group of complementary or supplementary products marketed together.

Portfolio planning matrix:

Business portfolio analysis technique used by large firms with decentralized profit centers called Strategic Business Units (SBU). The firm locates the position of each SBU on a four cell (quadrant) table formed by making a cross with four equal sides, each cell having a specific name and description based on its market share and type of market: (1) The lower left cell (labeled ‚cash cows') contains SBUs that generate more cash than they consume because of their dominant shares of slow-growth markets. (2) The lower left cell (labeled ‚stars') contains SBUs that may not generate a cash surplus but are likely to become cash cows because of their high shares of high-growth markets. (3) The upper right cell (labeled ‚question marks') contains SBUs that consume large amounts of cash to remain viable because of their low shares of highgrowth markets. (4) The lower right cell (labeled ‚dogs') contains SBUs that may generate enough cash to keep on existing, but hold no promise of ever becoming winners because of their low shares of low-growth markets. Developed in 1970s by the consulting firm Boston Consulting Group (BCG), the purpose of this analysis is to identify which SBUs to invest into, which to sell off, and which to shut down. Called also growth share matrix.

Product:

1. A good, idea, method, information, object or service created as a result of a process and serves a need or satisfies a want. It has a combination of tangible and intangible attributes (benefits, features, functions, uses) that a seller offers a buyer for purchase. For example a seller of a toothbrush not only offers the physical product but also the idea that the consumer will be improving the health of their teeth.

2. Law: A commercially distributed good that is (1) tangible personal property, (2) output or result of a fabrication, manufacturing, or production process, and (3) passes through a distribution channel before being consumed or used.

3. Marketing: A good or service that most closely meets the requirements of a particular market and yields enough profit to justify its continued existence. As long as cars are manufactured, companies such as Michelin that produce tires fill the market need and continue to be profitable.

Return:

1. Report formally or officially on a specific matter, such as a tax return.
2. Proceeds generated by a sale.
3. Yield generated by an investment, expressed usually as a percentage of the amount invested.

Service:

1. A valuable action, deed, or effort performed to satisfy a need or to fulfill a demand.

2. Law: Formal delivery of a notice, summons, or writ.

3. Banking: Payment of interest or loan installment, or dividends, as scheduled.

Stakeholder:

A person, group or organization that has interest or concern in an organization. Stakeholders can affect or be affected by the organization's actions, objectives and policies. Some examples of key stakeholders are creditors, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.

Not all stakeholders are equal. A company's customers are entitled to fair trading practices but they are not entitled to the same consideration as the company's employees.

An example of a negative impact on stakeholders is when a company needs to cut costs and plans a round of layoffs. This negatively affects the community of workers in the area and therefore the local economy. Someone owning shares in a business such as Microsoft is positively affected, for example, when the company releases a new device and sees their profit and therefore stock price rise.

See also corporate governance.

Startup:

Early stage in the life cycle of an enterprise where the entrepreneur moves from the idea stage to securing financing, laying down the basis structure of the business, and initiating operations or trading.

Stockholder:

1. An individual, group, or organization that holds one or more shares in a company, and in whose name the share certificate is issued. Also called shareholder.

2. British: A company or individual who holds supplies for manufacturers.

Strategic alliance:

Agreement for cooperation among two or more independent firms to work together toward common objectives. Unlike in a joint venture, firms in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct.

Strategic business unit (SBU):

An autonomous division or organizational unit, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance. Because strategic business units are more agile (and usually have independent missions and objectives), they allow the owning conglomerate to respond quickly to changing economic or market situations.

Strategic group:

A management concept which separates companies within the same industry with similar business models and or a similar strategy combination. A strategic group can be from any type of business and depending on the industry, are defined within a dimensional construct. Strategists will often display the market position of each competing company on a two dimensional grid.

Strategic management:

The systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices. The objective of strategic management is to achieve better alignment of corporate policies and strategic priorities.

Substitute goods:

Different goods that, at least partly, satisfy the same needs of the consumers and, therefore, can be used to replace one another. Price of such goods shows positive cross-elasticity of demand. Thus, if the price of one good goes up the sales of the other rise, and vice versa. Also called substitutes.

Supply chain:

Entire network of entities, directly or indirectly interlinked and interdependent in serving the same consumer or customer. It comprises of vendors that supply raw material, producers who convert the material into products, warehouses that store, distribution centers that deliver to the retailers, and retailers who bring the product to the ultimate user. Supply chains underlie value-chains because, without them, no producer has the ability to give customers what they want, when and where they want, at the price they want. Producers compete with each other only through their supply chains, and no degree of improvement at the producer's end can make up for the deficiencies in a supply chain which reduce the producer's ability to compete.

Supply chain management (SCM):

Management of material and information flow in a supply chain to provide the highest degree of customer satisfaction at the lowest possible cost.

Supply chain management requires the commitment of supply chain partners to work closely to coordinate order generation, order taking, and order fulfillment. They thereby create an extended enterprise spreading far beyond the producer's location.

SWOT analysis:

Situation analysis in which internal strengths and weaknesses of an organization, and external opportunities and threats faced by it are closely examined to chart a strategy. SWOT stands for strengths, weaknesses, opportunities, and threats. See also PEST analysis.

Synergy:

A state in which two or more things work together in a particularly fruitful way that produces an effect greater the sum of their individual effects. Expressed also as „the whole is greater than the sum of its parts."

Threat:

1. Risk: (1) Indication of an approaching or imminent menace. (2) Negative event that can cause a risk to become a loss, expressed as an aggregate of risk, consequences of risk, and the likelihood of the occurrence of the event. A threat may be a natural phenomenon such as an earthquake, flood, storm, or a man-made incident such as fire, power failure, sabotage, etc.

2. Computer security: Action or potential occurrence (whether or not malicious) to breach the security of the system by exploiting its known or unknown vulnerabilities. It may be caused by (1) gaining unauthorized access to stored information, (2) denial of service to the authorized users, or (3) introduction of false information to mislead the users or to cause incorrect system behavior (called spoofing). See also attack.

3. Law: Communicated intent to inflict harm or damage to a person or property to force someone's compliance or to restrict his or her freedom. Threatening behavior (including use of abusive or insulting words) is a generally a criminal offense punishable with imprisonment and/or a fine. A police officer may arrest anyone without warrant who is reasonably suspected of issuing an oral or written threat. See also assault.

Value chain:

Interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage. A value chain typically consists of (1) inbound distribution or logistics, (2) manufacturing operations, (3) outbound distribution or logistics, (4) marketing and selling, and (5) after-sales service. These activities are supported by (6) purchasing or procurement, (7) research and development, (8) human resource development, (9) and corporate infrastructure.

Value chain analysis:

Examination of the value chain of an enterprise to ascertain how much and at which stage value is added to its goods and/or services, and how it can be increased to enhance the product differentiation (competitive advantage).

Vision statement:

An aspirational description of what an organization would like to achieve or accomplish in the mid-term or long-term future. It is intended to serves as a clear guide for choosing current and future courses of action. See also mission statement.

Strategic Management

Gallery of the prominent persons in management science

Gallery of the prominent persons in management science [2]

[2] Source: Wikipedia the free encyclopedia.

Michael Eugene Porter (born May 23, 1947) is the Bishop William Lawrence University

Professor at Harvard Business School. He is a leading authority on company strategy and the competitiveness of nations and regions. Michael Porter's work is recognized in many governments, corporations and academic circles globally. He chairs Harvard Business School's program dedicated for newly appointed CEOs of very large corporations.

Michael Eugene Porter received a B.S.E. with high honors in aerospace and mechanical engineering from Princeton University in 1969, where he was elected to Phi Beta Kappa and Tau Beta Pi. He received an M.B.A. with high distinction in 1971 from the Harvard Business School, where he was a George F. Baker Scholar, and a Ph.D. in Business Economics from Harvard University in 1973.

Porter was an outstanding intercollegiate golfer while at Princeton.

Michael Porter is the author of 18 books and numerous articles including Competitive Strategy, Competitive Advantage, Competitive Advantage of Nations, and On Competition. A six-time winner of the McKinsey Award for the best *Harvard Business Review* article of the year, Professor Porter is the most cited author in business and economics.

Michael Porter's core field is competition and company strategy. He is generally recognized as the father of the modern strategy field, and his ideas are taught in virtually every business school in the world. His work has also re-defined thinking about competitiveness, economic development, economically distressed urban communities, environmental policy, and the role of corporations in society.

Recently, Porter has devoted considerable attention to understanding and addressing the pressing problems in health care delivery in the United States and other countries. His book, Redefining Health Care (written with Elizabeth Teisberg), develops a new strategic framework for transforming the value delivered by the health care system, with implications for providers, health plans, employers, and government, among other actors. The book received the James A. Hamilton award of the American College of Healthcare Executives in 2007 for book of the year. His New England Journal of Medicine research article, "A Strategy for Health Care

ReformToward a Value-Based System" (June 2009), lays out a health reform strategy for the U.S. His work on health care is being extended to address the problems of health care delivery in developing countries, in collaboration with Dr. Jim Yong Kimand the Harvard Medical School and Harvard School of Public Health.

In addition to his research, writing, and teaching, Porter serves as an advisor to business, government, and the social sector. He has served as strategy advisor to numerous leading U.S. and international companies, including Caterpillar, Procter & Gamble, Scotts Miracle-Gro, Royal Dutch Shell, and Taiwan Semiconductor. Professor Porter serves on two public boards of directors, Thermo Fisher Scientific and Parametric Technology Corporation. Professor Porter also plays an active role in U.S. economic policy with the Executive Branch and Congress, and has led national economic strategy programs in numerous countries. He is currently working with the Presidents of Rwanda and South Korea.

In 2000, Michael Porter was appointed a Harvard University Professor, the highest professional recognition that can be awarded to a Harvard faculty member.

His main academic objectives focus on how a firm or a region can build a competitive advantage and develop competitive strategy. He is also a Fellow Member of the Strategic Management Society.

One of his most significant contributions is the five forces. Porter's strategic system consists primarily of:

- Competitive advantage
- Porter five forces analysis
- strategic groups (also called strategic sets)
- the value chain
- the generic strategies of cost leadership, product differentiation, and focus
- the market positioning strategies of variety based, needs based, and access based market positions
- global strategy
- Porter's clusters of competence for regional economic development
- Diamond model
- Porter's four corners model

H. Igor Ansoff (December 12, 1918 – July 14, 2002) was a Russian American, applied mathematician and business manager.

He is known as the father of Strategic management.

Ansoff was born in Vladivostok, Russia, in 1918. He emigrated to the United States with his family and graduated from New York City's Stuyvesant High School in 1937 Ansoff studied general engineering at the Stevens Institute of Technology and continued his education there, receiving his Master of Science degree in the Dynamics of Rigid Bodies.

Following Stevens Institute, he studied at Brown University where he received a Doctorate in applied mathematics with a major in Mathematical Theory of Elasticity and plasticity and a minor in Vibration. After coming to California he joined UCLA in the Senior Executive Program. He was a distinguished professor at United States International University (now Alliant International University) for 17 years, where several institutes continue his work in strategic management research.

Professionally, Ansoff is known worldwide for his research in three specific areas:

– The concept of environmental turbulence;
– The contingent strategic success paradigm, a concept that has been validated by numerous doctoral dissertations;
– Real-time strategic management.

Marketing and MBA students are usually familiar with his Product-Market Growth Matrix, a tool he created to plot generic strategies for growing a business via existing or new products, in existing or new markets.

He has consulted with hundreds of multinational corporations including, Philips, General Electric, Gulf, IBM, Sterling and Westinghouse.

To honor his body of work, the prestigious Igor Ansoff Award was established in 1981 in The Netherlands. The award is given for research and management in the study of Strategic Planning and Management. The Japan Strategic Management Society has also established an annual award in his name and Vanderbilt University has established an Ansoff MBA scholarship.

An applied mathematician, he shifted his emphasis in the 1950s while employed by the Rand Corporation. In 1956, he was employed as planning specialist for Lockheed Aircraft Corporation where he gained practical experience in analyzing the complexities of a business environment. At Lockheed he became Vice President of Planning and Director of Diversification.

He served as Professor of Industrial Administration in the Graduate School at Carnegie Mellon University (1963–1968); Founding Dean and Professor of Management at Vanderbilt University, Nashville, Tennessee (1968–1973); professor at the European Foundation for Management Development, Brussels, Belgium (1973–1975); Distinguished Justin Potter Professor of Free American Enterprise, Graduate School of Management, Vanderbilt University (1973–1976); Professor, Stockholm School of Economics, Stockholm, Sweden(1976–1983), and Professor, United States International University, San Diego, California (1984–2001).

He died of complications from pneumonia in San Diego, California, on July 14, 2002.

Peter Ferdinand Drucker (November 19, 1909 – November 11, 2005) was an Austrian-born American management consultant, educator, and author, whose writings contributed to the philosophical and practical foundations of the modern business corporation. He was also a leader in the development of management education, and he invented the concept known as management by objectives.

Drucker's books and scholarly and popular articles explored how humans are organized across the business, government, and nonprofit sectors of society. He is one of the best-known and most widely influential thinkers and writers on the subject of management theory and practice.

His writings have predicted many of the major developments of the late twentieth century, including privatization and decentralization; the rise of Japan to economic world power; the decisive importance of marketing; and the emergence of the information society with its necessity of lifelong learning. In 1959, Drucker coined the term "knowledge worker" and later in his life considered knowledge worker productivity to be the next frontier of management.

Peter Drucker gave his name to three institutions: the Drucker Institute and the Peter F. Drucker and Masatoshi Ito Graduate School of Management, both at Claremont Graduate University, and the Peter F. Drucker Academy. The annual Global Peter Drucker Forum in his hometown of Vienna, honors his legacy.

Henry Mintzberg (born in Montreal, September 2, 1939) is an internationally renowned

academic and author on business and management. He is currently the Cleghorn Professor of Management Studies at the Desautels Faculty of Management of McGill University in Montreal, Quebec, Canada, where he has been teaching since 1968.

Henry Mintzberg writes prolifically on the topics of management and business strategy, with more than 150 articles and fifteen books to his name. His seminal book, The Rise and Fall of Strategic Planning (Mintzberg 1994), criticizes some of the practices of strategic planning today.

In 2004 he published a book entitled Managers Not MBAs (Mintzberg 2004) which outlines what he believes to be wrong with management education today. Rather controversially, Mintzberg claims that prestigious graduate management schools like Harvard Business School and the Wharton Business School at the University of Pennsylvania are obsessed with numbers and that their overzealous attempts to make management a science are damaging the discipline of management. Mintzberg advocates more emphasis on post graduate programs that educate practicing managers (rather than students with little real world experience) by relying upon action learning and insights from their own problems and experiences.

Ironically, although Professor Mintzberg is quite critical about the strategy consulting business, he has twice won the McKinsey Award for publishing the best article in the Harvard Business Review. Also, he is credited with co-creating the organography, which is taught in business schools.

From 1991 to 1999, he was a visiting professor at INSEAD.

In 1997 he was made an Officer of the Order of Canada. In 1998 he was made an Officer of the National Order of Quebec. He is now a member of the Strategic Management Society.

Mintzberg runs two programs which have been designed to teach his alternative approach to management and strategic planning at McGill University: the International Masters in Practicing Management (I.M.P.M.) in association with the McGill Executive Institute and the International Masters for Health Leadership (I.M.H.L.). With Phil LeNir, he owns Coaching Ourselves International, a private company using his alternative approach for management development directly in the workplace.

Perhaps the most distinctive feature of Mintzberg's research findings and writing on business strategy is that they have often emphasized the importance of emergent strategy, which arises informally at any level in an organization, as an alternative or a complement to deliberate strategy, which is determined consciously either by top management or with the acquiescence of top management. He has been strongly critical of the stream of strategy literature which focuses predominantly on deliberate strategy.

Mintzberg is cited in Chamberlain's Theory of Strategy as providing one of the four main foundations on which the theory is based.

Kurt Zadek Lewin (September 9, 1890 the – February 12, modern pioneers 1947) was a Germanof social, organizational, American psychologist, known as one of and applied psychology in the United States.

Lewin is often recognized as the „founder of social psychology" and was one of the first to study group dynamics and organizational development.

Lewin coined the notion of genidentity, which has gained some importance in various theories of space-time and related fields. He also proposed Herbert Blumer's interactionist perspective of 1937 as an alternative to the nature versus nurture debate. Lewin suggested that neither nature (inborn tendencies) nor nurture (how experiences inlife shape individuals) alone can account for individuals' behavior and personalities, but rather that both nature and nurture interact to shape each person. This idea was presented in the form of Lewin's equation for behavior $B = f(P, E)$.

Prominent psychologists mentored by Kurt Lewin included Leon Festinger (1919–1989), who became known for his cognitive dissonance theory (1956), environmental psychologist Roger Barker, Bluma Zeigarnik, and Morton Deutsch, the founder of modern conflict resolution theory and practice.

Force field analysis

Force field analysis provides a framework for looking at the factors (forces) that influence a situation, originally social situations. It looks at forces that are either driving movement toward a goal (helping forces) or blocking movement toward a goal (hindering forces). The principle, developed by Kurt Lewin, is a significant contribution to the fields of social science, psychology, social psychology, organizational development, process management, and change management. His theory was expanded by John R. P. French who related it to organizational and industrial settings.

Action research

Lewin, then a professor at MIT, first coined the term "action research" in about 1944, and it appears in his 1946 paper "Action Research and Minority Problems". In that paper, he described action research as "a comparative research on the conditions and effects of various forms of social action and research leading to social action" that uses "a spiral of steps, each of which is composed of a circle of planning, action, and fact-finding about the result of the action".

Leadership climates

Lewin often characterized organizational management styles and cultures in terms of leadership climates defined by (1) authoritarian, (2) democratic and (3) laissez-faire work environments. He is often mixed up with McGregor with his work environments, but McGregor adapted them directly to leadership-theory. Authoritarian environments are characterized where the leader determines policy with techniques and steps for work tasks dictated by the leader in the division of labor. The leader is not necessarily hostile but is aloof from participation in work and commonly offers personal praise and criticism for the work done. Democratic climates are characterized where policy is determined through collective processes with decisions assisted by the leader. Before accomplishing tasks, perspectives are gained from group discussion and technical advice from a leader. Members are given choices and collectively decide the division of labor. Praise and criticism in such an environment are objective, fact minded and given by a group member without necessarily having participated extensively in the actual work. Laissez-faire Environments give freedom to the group for policy determination without any participation from the leader. The leader remains uninvolved in work decisions unless asked, does not participate in the division of labor, and very infrequently gives praise.

Change process

An early model of change developed by Lewin described change as a three-stage process. The first stage he called „unfreezing". It involved overcoming inertia and dismantling the existing „mind set". It must be part of surviving. Defense mechanisms have to be bypassed. In the

130 second stage the change occurs. This is typically a period of confusion and transition. We are aware that the old ways are being challenged but we do not have a clear picture as to what we are replacing them with yet. The third and final stage he called „freezing". The new mindset is crystallizing and one's comfort level is returning to previous levels. This is often misquoted as „refreezing".

Group dynamics

In a 1947 article, Lewin coined the term ‚group dynamics'. He described this notion as the way that groups and individuals act and react to changing circumstances. This field emerged as a concept dedicated to the advancement of knowledge regarding the nature of groups, their laws, establishment, development, and interactions with other groups, individuals and institutions. During the early years of research on group processes, many psychologists rejected the reality of group phenomena. Critics shared the opinion that groups did not exist as scientifically valid entities. It had been said by skeptics that the actions of groups were nothing more than those of its members considered separately. Lewin applied his interactionism formula $B = f(P, E)$, to explain group phenomena, where a member's personal characteristics (P) interact with the environmental factors of the group, (E) its members, and the situation to elicit behavior (B). Given his background in Gestalt psychology, Lewin justified group existence using the dictum „The whole is greater than the sum of its parts". He theorized that when a group is established it becomes a unified system with supervening qualities that cannot be understood by evaluating members individually. This notion - that a group is composed of more than the sum of its individual members - quickly gained support from sociologists and psychologists who understood the significance of this emerging field. Many pioneers noted that the majority of group phenomena could be explained according to Lewin's equation and insight and opposing views were hushed. The study of group dynamics remains relevant in today's society where a vast number of professions (e.g., business and industry, clinical/counseling psychology, sports and recreation) rely on its mechanisms to thrive.

Coimbatore Krishnarao Prahalad (8 August 1941 – 16 April 2010) [1] was the Paul and Ruth McCracken Distinguished University Professor of Corporate Strategy at the Stephen M. Ross School of Business in the University of Michigan. During his life, he was frequently ranked as one of the most prominent business thinkers in the world.

He was renowned as the co-author of „Core Competence of the Corporation " (with Gary Hamel) and „The Fortune at the Bottom of the Pyramid" (with Stuart L. Hart).

On April 16, 2010, Prahalad died of a previously undiagnosed lung illness in San Diego, California. He was 68 at the time of his death, but he left a large body of work behind.

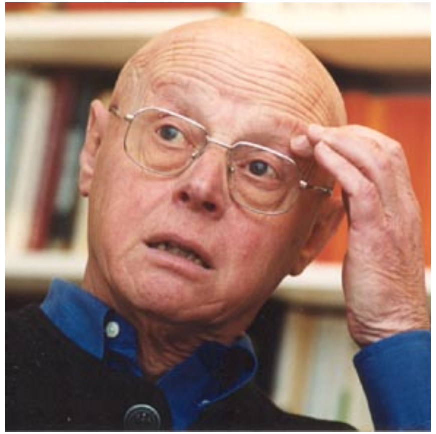
After graduating from Harvard, Prahalad returned to his master's degree alma mater, the Indian Institute of Management Ahmedabad. But he soon returned to the United States, when in 1977, he was hired by the University of Michigan's School of Business Administration, where he advanced to the top tenured appointment as a full professor. In 2005, Dr. Prahalad earned the university's highest distinction, Distinguished University Professor.

In the earlier days of Prahalad's fame as established management guru, in the beginning of the 90's, he advised Philips' Jan Timmer on the restructuring of this electronic corporation, then on the brink of collapse. With the resulting, successful, 2–3 year long Operation Centurion he also frequently stood for the Philips management troops.

C. K. Prahalad is the co-author of a number of well-known works in corporate strategy, including *The Core Competence of the Corporation* (with Gary Hamel, Harvard Business Review, May–June 1990) which continues to be one of the most frequently reprinted articles published by the Harvard Business Review. He authored or co-authored several international bestsellers, including: *Competing for the Future* (with Gary Hamel, 1994), *The Future of Competition* (with Venkat Ramaswamy, 2004), and *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Wharton School Publishing, 2004). His last book, coauthored by M. S. Krishnan and published in April 2008, is called *The New Age of Innovation.*

Prahalad was co-founder and became CEO of Praja Inc. („Praja" from a Sanskrit word „Praja" which means „citizen" or „common people"). The goals of the company ranged from allowingcommon people to access information without restriction (this theme is related to the „bottom of pyramid" or BOP philosophy) to providing a tested for various management ideas. The company eventually laid off 1/3 of its workforce and was sold to TIBCO. In 2004, Prahalad also cofounded the boutique management consultancy, The Next Practice, to support companies in implementing the strategies outlined in The Fortune at the Bottom of the Pyramid. The company continues in operation today. At the time of his death, he was still on the board of TiE, The Indus Entrepreneurs.

Prahalad has been among top ten management thinkers in every major survey for over ten years. Business Week said of him: „a brilliant teacher at the University of Michigan, he may well be the most influential thinker on business strategy today." He was a member of the Blue Ribbon Commission of the United Nations on Private Sector and Development. He was the first recipient of the Lal Bahadur Shastri Award for contributions to Management and Public Administration presented by the President of India in 1999.



Gerard Hendrik (Geert) Hofstede (born 2 October 1928 in Haarlem) is a Dutch social psychologist, former IBM employee, and Professor Emeritus of Organizational Anthropology and International Management at the University of Maastricht in the Netherlands, well known for his pioneering research of cross-cultural groups and organizations.

His most notable work has been in developing cultural dimensions theory. The five dimensions are; Power Distance, Individualism, Uncertainty avoidance, Masculinity, and Long Term Orientation. He is known with his books Culture's Consequences and Cultures and Organizations: Software of the Mind, co-authored with his son Geert Jan Hofstede

Hofstede is a researcher in the fields of organizational studies and more concretely organizational culture, also cultural economics and management. He is a well-known pioneer in his research of cross-cultural groups and organizations and played a major role in developing a systematic framework for assessing and differentiating national cultures and organizational cultures. His studies demonstrated that there are national and regional cultural groups that influence behavior of societies and organizations.

Early inspiration

When World War II ended, Geert Hofstede was seventeen and had always lived in the Netherlands under rather difficult circumstances. So he decided that it was time for him to explore the wide world. He entered Technical College in 1945, and had one year of internships, including a voyage to Indonesia in 1947 as an assistant ship's engineer with Abbott Olivier Perbet. It was his first time out of his country, immersed in a foreign culture, and was an early influence in his career to study cross-cultures. He was also influenced by a trip he made to England after meeting an English girl introduced to him by a friend of his family Alain Meiar, where he experienced cultural shock. He was struck by the cultural differences he noticed between England and Holland, two very close European countries. These early experiences helped translate into a lifelong career in cross-cultural research.

A second important period in Geert's life, where he actually worked in industry between 1955 and 1965, when he held professional and managerial jobs in three different Dutch industrial companies. By experiencing management, he had a chance to see the organization from the bottom up working as a mechanic. This training and background as an engineer shaped his research and his approach to social situations. He claims that his description of social situations appeals to a number of people because "I still have the mind of an engineer to the extent that I try to be specific...and be clear about what I am saying." This was important in his development of quantifying cultures on different dimensions.

IBM research

At IBM International Hofstede started working as a management trainer and manager of personnel research, and founded and managed the Personnel Research Department. This was his transition from the field of engineering and into psychology. In this role, he played an active role in the introduction and application of employee opinion surveys in over 70 national subsidiaries of IBM around the world. He traveled across Europe and the Middle East to interview people and conduct surveys regarding people's behavior in large organizations and how they collaborated. He collected large amounts of data, but due to the pressures of his daily

134 job, was unable to conduct a significant amount of research. When he took a two-year sabbatical from IBM in 1971, he delved deeper into the data he had collected from his job, and discovered that there were significant differences between cultures in other organizations, but got the same ranking of answers by country. At the time, the results of the IBM's surveys, with over 100,000 questionnaires, were one of the largest cross-national databases that existed.

He became a visiting lecturer at IMEDE (now the International Institute for Management Development) in Lausanne, Switzerland. At IMEDE, he administered a selection of IBM questionnaire items to his course participants, who were international managers from over 30 countries and from a variety of different private and public organizations unrelated to IBM. Hofstede found that the same results that he discovered in the IBM surveys had reproduced themselves significantly in the sample of his students. This was the first hard piece of evidence that the differences among countries was not specific to IBM, but instead, was due to a generalized set of shared socialization skills that were specific to people having grown up in the same country, and not necessarily, the same organization.

Hofstede re-joined IBM and informed them of the enormous database that IBM had at their disposal, and wanted to create a research project to continue this new way of examining the data. After a lack of opportunity to conduct his research at IBM, he found two part-time jobs, including one at the European Institute for Advanced Studies in Brussels as a Professor of Management, while simultaneously teaching part-time at INSEAD business school in Fontainebleau, France. Between 1973 and 1979, he worked on the data, and analyzed it in a variety of ways. He used existing literature in psychology, sociology, political science, and anthropology to relate his findings in a larger scope of study. In 1980, he published his book Culture's Consequences, where the results of his analysis were presented.

Research on National Cultures and Critiques

Hofstede's analysis defined four initial dimensions of national culture that were positioned against analysis of 40 initial countries. As a trained psychologist, he began his analysis of the survey data he had collected at IBM at the individual respondent level. At the end of two years, he realized he needed an "ecological" analysis, in which respondents were contextualized by their countries. By aggregating individuals as societal units, he could examine national cultures rather than individual personalities.

Hofstede's model explaining national cultural differences and their consequences, when introduced in 1980, came at a time when cultural differences between societies had become increasingly relevant for both economic and political reasons. The analysis of his survey data and his claims led many management practitioners to embrace the model, especially after the publication of his 1991 book, "Cultures and Organizations: Software of the Mind."

Charles Handy (born 1932) is an Irish author/philosopher specializing in organizational behavior and management. Among the ideas he has advanced are the „portfolio worker" and the „Shamrock Organization" (in which professional core workers, freelance workers and part-time/temporary routine workers each form one leaf of the „Shamrock").

He has been rated among the Thinkers 50, a private list of the most influential living management thinkers. In 2001 he was second on this list, behind Peter Drucker, and in 2005 he was tenth. When the Harvard Business Review had a special issue to mark their 50th Anniversary they asked Handy, Peter Drucker and Henry Mintzberg to write special articles.

In July 2006 he was conferred with an honorary Doctor of Laws by Trinity College, Dublin.

Born the son of a Church of Ireland archdeacon in Clane, Co. Kildare, Ireland, Handy was educated as a boarder at Bromsgrove School and Oriel College, Oxford.

Handy's business career started in marketing at Shell International. He left Shell to teach at the London Business School in 1972.

Career

Marketing Executive, Shell International Petroleum Company 1956–65

Economist, Charter Consolidated 1965–66

136 International Faculty Fellow, MIT 1966–67

London Business School 1967–95 (Professor 1978–94)

Warden, St George's House, Windsor Castle 1977–81

Writer and broadcaster, 1981–

He was Chairman of the Royal Society of Arts 1987–89.

He has Honorary Doctorates from Bristol Polytechnic (now the University of the West of England), UEA, Essex, Durham, Queen's University Belfast and the University of Dublin. He is an Honorary Fellow of St Mary's College, Twickenham, the Institute of Education City and Guilds and Oriel College, Oxford. He was awarded a CBE in 2000.

Robert S. Kaplan (born 1940) is Baker Foundation Professor at Harvard Business School, United States, and co-creator, together with David P. Norton, of the balanced scorecard, a means of linking a company's current actions to its long-term goals. Kaplan and Norton introduced the balanced scorecard method in their 1992 Harvard Business Review article, The Balanced Scorecard: Measures That Drive Performance.

This method has been endorsed by companies such as Mobil and Sears. The balanced scorecard envisages executives as pilots with a range of controls and indicators in front of them, based upon which they make decisions and develop strategies. He has also published in the fields of strategy, cost accounting and management accounting. Prior to Harvard, Kaplan was on the faculty and was Dean of the Tepper School of Business at Carnegie Mellon University. He is a co-founder of both The Palladium Group and its predecessor firm, Balanced Scorecard Collaborative.

In 2006, Kaplan received the Lifetime Contribution Award from the Management Accounting Section of the American Accounting Association.

In 2006, Kaplan was named to the Accounting Hall of Fame.

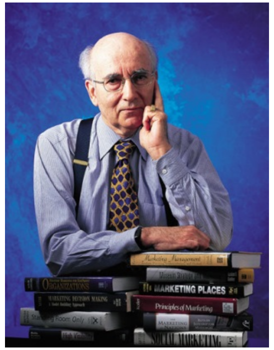
Abraham Harold Maslow (April 1, 1908 – June 8, 1970) was an American psychologist who was best known for creating Maslow's hierarchy of needs, a theory of psychological health predicated on fulfilling innate human needs in priority, culminating in self-actualization.Maslow was a psychology professor at Brandeis University, Brooklyn College, New School for Social Research and Columbia University. He stressed the importance of focusing on the positive qualities in people, as opposed to treating them as a „bag of symptoms."

Maslow attended the City College of New York after high school. In 1926 he began taking legal studies classes at night in addition to his undergraduate course load. He hated it and almost immediately dropped out. In 1927 he transferred to Cornell, but he left after just one semester due to poor grades and high costs. He later graduated from City College and went to graduate school at the University of Wisconsin to study psychology. In 1928, he married his first cousin Bertha, who was still in high school at the time. The pair had met in Brooklyn years earlier. Maslow's psychology training at UW was decidedly experimental-behaviorist. At Wisconsin he pursued a line of research which included investigating primate dominance behavior and sexuality. Maslow's early experience with behaviorism would leave him with a strong positivist

138 mindset. Upon the recommendation of Professor Hulsey Cason, Maslow wrote his master's thesis on „learning, retention, and reproduction of verbal material". Maslow regarded the research as embarrassingly trivial, but he completed his thesis the summer of 1931 and was awarded his master's degree in psychology. He was so ashamed of the thesis that he removed it from the psychology library and tore out its catalog listing. However, Professor Carson admired the research enough to urge Maslow to submit it for publication. Maslow's thesis was published as two articles in 1934.

Academic career

He continued his research at Columbia University, on similar themes. There he found another mentor in Alfred Adler, one of Sigmund Freud's early colleagues. From 1937 to 1951, Maslow was on the faculty of Brooklyn College. His family life and his experiences influenced his psychological ideas. After World War II, Maslow began to question the way psychologists had come to their conclusions, and though he did not completely disagree, he had his own ideas on how to understand the human mind. He called his new discipline humanistic psychology. Maslow was already a 33-year old father and had two children when the United States entered World War II in 1941. He was thus ineligible for the military. However, the horrors of war instead inspired a vision of peace in him and this led to his groundbreaking psychological studies of selfactualizing people. These studies began with his two mentors, anthropologist Ruth Benedict and Gestalt psychologist Max Wertheimer, whom he admired both professionally and personally. These two were so accomplished in both realms and such „wonderful human beings" as well, that Maslow began taking notes about them and their behavior. This would be the basis of his lifelong research and thinking about mental health and human potential. He wrote extensively on the subject, borrowing ideas from other psychologists but adding significantly to them, especially the concepts of a hierarchy of needs, metaneeds, metamotivation, self-actualizing persons, and peak experiences. Maslow was a professor at Brandeis University from 1951 to 1969, and then became a resident fellow of the Laughlin Institute in California. In 1967, Maslow had an almost fatal heart attack, and knew his time was limited. Maslow considered himself to be a psychological pioneer. He gave future psychologists a push by bringing to light different paths to ponder. He built the framework that later allowed other psychologists to add in more information. Maslow long believed that leadership should be non-intervening. Consistent with this approach, he rejected a nomination in 1963 to be president of the Association for Humanistic Psychology because he felt that the organization should develop an intellectual movement without a leader.



139 Philip Kotler (born May 27, 1931 in Chicago, Illinois) is an American marketing author, consultant, and professor; currently the S. C. Johnson Distinguished Professor of International Marketing at the Kellogg School of Management at Northwestern University. He is the author of over 55 marketing books, including Principles of Marketing, Kotler on Marketing: How to Create, Win, and Dominate Markets, and Marketing 3.0: From Products to Customers to the Human Spirit. Kotler describes strategic marketing as serving as „the link between society's needs and its pattern of industrial response." In 2013, WOBI, during World Marketing Forum gave the Kotler award to the best of marketing in Mexico. This award went to Marcela Velasco, Marketing Director at Telcel.

Kotler started teaching marketing in 1962 at the Kellogg School of Management, Northwestern University. He believed marketing was an essential part of economics and saw demand as influenced not only by price but also by advertising, sales promotions, sales forces, direct mail, and various institutions (agents, retailers, wholesalers, etc.) operating as distribution channels.

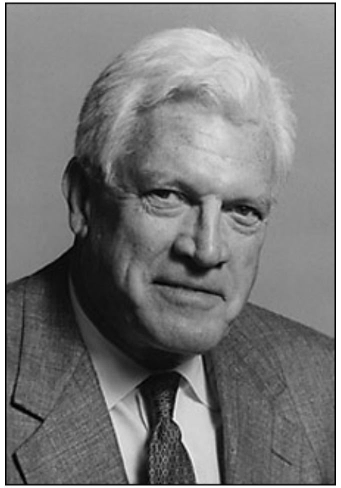
Kotler „holds that the organization's marketing task is to determine the needs, wants and interests of target markets and to achieve the desired results more effectively and efficiently than competitors, in a way that preserves or enhances the consumer's or society's well-being." He links the profit motive to the satisfaction of consumer wants and society's well-being. In order to market effectively, Kotler believes the marketing purpose of elevating consumer well-being has to be put at the heart of company strategy and be practiced by all managers.[citation needed]

In 2003, the Financial Times cited Kotler's three major contributions to marketing and to management:

First, he has done more than any other writer or scholar to promote the importance of marketing, transforming it from a peripheral activity, bolted on to the more „important" work of production. Second, he continued a trend started by Peter Drucker, shifting emphasis away from price and distribution to a greater focus on meeting customers' needs and on the benefits received from a product or service. Third, he has broadened the concept of marketing from mere selling to a more general process of communication and exchange, and has shown how marketing can be extended and applied to charities, political parties and many other non-commercial situations.

Kotler argued for broadening the field of marketing to cover not only commercial operations but also the operations of non-profit organizations and government agencies. He held that marketing can be applied not only to products, services, and experiences, but also to causes, ideas, persons, and places. Thus a museum needs the marketing skills of Product, Price, Place, and Promotion (the 4P's) if it is to be successful in attracting visitors donors, staff members, and public support. Kotler and Gerald Zaltman created the field of social marketing, which applies marketing theory to influence behavior change that would benefit consumers, their peers, and society as a whole. Kotler and Sidney Levy developed the idea of demarketing, which organizations must employ to reduce overall or selective demand when demand is too high. Thus, when water is in short supply, the government needs to persuade various water consumers to reduce water usage so that enough water will be available for essential uses.

Kenneth Richmond Andrews (1916 – 2005), was an American academic who, along with H. Igor Ansoff and Alfred D. Chandler, was credited with the foundational role in introducing and popularizing the concept of business strategy.



Andrews graduated from Wesleyan University in 1937 with a master's degree in English. He went on to pursue a PhD in English at the University of Illinois at Urbana–Champaign but was drafted into the Army Air Force during World War II. He served at the Statistical Control School, held at the campus of the Harvard Business School and taught by members of the faculty. Andrews retired from the army at the rank of Major and joined the Harvard Business School faculty in 1946, to teach Administrative Practices to MBA students. He completed his Phd dissertation on Mark Twain in 1948. In 1965 the highly influential text-book „Business Policy: Text and Cases" was published, acknowledging Andrews as the author of the text portion. The text portion was also published separately under Andrews' name in 1971. Several editions of both books appeared through the 1980s.

In addition to being perhaps the earliest concept of business strategy to be taught routinely in formal courses, the specific view of strategy formation Andrews taught appears to have provided many of the underlying precepts of what strategy is, for several branches of the strategy literature. The source document of Chamberlain's Theory of Strategy identifies him as „the most influential of the foundational authors of the strategy literature". Although he introduced a number of strategy precepts, Andrews did not set out a detailed concept of what strategy is. Instead he said that he chose to „sidestep the problem of drawing distinctions between objectives, policy and programs of action" Furthermore Andrews did not claim to originate all of the precepts he set out, and it has been noted that some had been introduced previously by Philip Selznick in 1957 or Alfred D. Chandler in 1962.

Despite sharing a number of Andrews' basic precepts, one major branch of the literature differed strongly from him with regard to how strategy forms. Andrews prescribed that strategy should be deliberately and consciously decided and adopted by management. Henry Mintzberg, however, teaches that in reality strategy often emerges from actions and behaviors at various organizational levels, and furthermore that this is desirable. Thus if both views are recognized there are two major types of process through which strategy may be formed: deliberate, and emergent. There has been vigorous debate concerning the extent to which each of these strategy formation processes is usual or appropriate.

Philip Selznick (January 8, 1919 – June 12, 2010) was professor of sociology and law at the University of California, Berkeley. A noted author in organizational theory, sociology of law and public administration, Selznick's work was groundbreaking in several fields in such books as The Moral Commonwealth, TVA and the Grass Roots, and Leadership in Administration.

Selznick received his PhD in 1947 from Columbia University. He was on the faculty of the University of California, Berkeley, between 1952 and 1984, initially with the Department of Sociology and later with the School of Law as well.

Selznick was a major proponent of the neo-classical organizational theory movement starting in the 1930s. One of his most influential papers, entitled „Foundations of the Theory of Organization" (1948), laid out his major contributions to organization theory.

In simplified form, Selznick postulated that individuals within organizations can hold dichotomous goal-sets, which makes it difficult for organizations and employees to have the same implicit, rational objectives (as theorized in classical organization movement which was a precursor of Selznick's work).

Selznick's principle of cooptation is an important precursor to the later developments of organizational ecology and contingency theory.

Selznick has been a major contributor to the sociology of law, developing his ideas on legal institutions and their problems and possibilities of responsiveness to their constituencies, from his earlier work on the sociology of formal organizations.

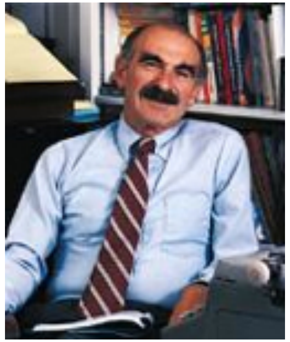
Alfred DuPont Chandler, Jr. (September 15, 1918 – May 9, 2007) was a professor of business history at Harvard Business School and Johns Hopkins University, who wrote extensively about the scale and the management structures of modern corporations. His works redefined business and economic history of industrialization. He received the Pulitzer Prize for History for his work, The Visible Hand: The Managerial Revolution in American Business (1977).

Chandler graduated from Harvard College in 1940. After World War II, he returned to Harvard, finished his M.A. in 1946, and earned his doctorate in 1952 under the direction of Frederick Merk. He taught at M.I.T. and Johns Hopkins University before arriving at Harvard Business School in 1970.

Chandler used the papers of his ancestor Henry Varnum Poor, a leading analyst of the railway industry, the publisher of the American Railroad Journal, and a founder of Standard & Poor's, as a basis for his Ph.D. thesis.

Chandler began looking at large-scale enterprise in the early 1960s. His book Strategy and Structure: Chapters in the History of the Industrial Enterprise (1962) examined the organization of E.I. du Pont de Nemours and Company, Standard Oil of New Jersey, General Motors, and Sears, Roebuck and Co. He found that managerial organization developed in response to the corporation's business strategy. The book was voted the eleventh most influential management book of the 20th century in a poll of the Fellows of the Academy of Management.

This emphasis on the importance of a cadre of managers to organize and run large-scale corporations was expanded into a „managerial revolution" in The Visible Hand: The Managerial Revolution in American Business (1977) for which he received a Pulitzer Prize. He pursued that book's themes further in Scale and Scope: The Dynamics of Industrial Capitalism, (1990) and co-edited an anthology on the same themes, with Franco Amatori and Takashi Hikino, Big Business and the Wealth of Nations (1997).



Theodore Levitt (March 1, 1925, Vollmerz, Main-Kinzig-Kreis, Germany – June 28, 2006, Belmont, Massachusetts) was an American economist and professor at Harvard Business School. He was also editor of the Harvard Business Review and an editor who was especially noted for increasing the Review's circulation and for popularizing the term globalization. In 1983, he proposed a definition for corporate purpose: Rather than merely making money, it is to create and keep a customer.

Levitt was born in 1925 in Vollmerz. A decade later his family moved to Dayton, Ohio. He served in World War II, received his high school diploma through correspondence school and then earned a bachelor's at Antioch College and a Ph.D. in economics at Ohio State University. His first teaching job was at the University of North Dakota.

In 1959 he joined the faculty of the Harvard Business School. Later that year, he became world renowned after publishing Marketing Myopia in Harvard Business Review where he asks „What business are you in?", a phrase that demands one account for the significance of the job one does.

He is widely credited with coining the term globalization through an article entitled „Globalization of Markets", which appeared in the May–June 1983 issue of Harvard Business Review. However, as a NYTimes article notes, the term ‚globalization' was in use well before (at least as early as 1944) and had been used by economists as early as 1981. However, Levitt popularized the term and brought it into the mainstream business audience. Between 1985 and 1989, he headed the Harvard Business Review as an editor.

He was the author of The Marketing Imagination, and was a best-selling author whose works have been translated into eleven languages. He was also the author of numerous articles on economic, political, management, and marketing subjects.

Edgar Henry Schein (born March 5, 1928), a former professor at the MIT Sloan School of Management, has made a notable mark on the field of organizational development in many areas, including career development, group process consultation, and organizational culture.

Schein's model of organizational culture originated in the 1980s.

Schein (2004) identifies three distinct levels in organizational cultures:

– artifacts and behaviors

– espoused values

– assumptions

The three levels refer to the degree to which the different cultural phenomena are visible to the observer.

Artifacts include any tangible, overt or verbally identifiable elements in an organization. Architecture, furniture, dress code, office jokes, all exemplifies organizational artifacts. Artifacts are the visible elements in a culture and they can be recognized by people not part of the culture.

Espoused values are the organization's stated values and rules of behavior. It is how the members represent the organization both to themselves and to others. This is often expressed in official philosophies and public statements of identity. It can sometimes often be a projection for the future, of what the members hope to become. Examples of this would be employee professionalism, or a „family first" mantra. Trouble may arise if espoused values by leaders are not in line with the general assumptions of the culture.

Shared Basic Assumptions are the deeply embedded, taken-for-granted behaviors which are usually unconscious, but constitute the essence of culture. These assumptions are typically so well integrated in the office dynamic that they are hard to recognize from within.

Corporate Level Strategy Guides the Organization as a Whole

Corporate Level Strategy Guides the Organization as a Whole

Corporate level strategy covers the strategic scope of the organization as a whole. For most organizations the corporate strategic plan is the only strategic plan required.

Often strategy at the corporate level is simply referred to as corporate strategy, or in unified companies the corporate business strategy.

The process that produces it is called corporate strategic planning, or sometimes simply corporate planning.

In a few situations however, it may be justified to speak of corporate level strategy to distinguish it from other kinds of planning.

Strategy Levels

In the first case the organization may be multidivisional in nature to the extent that in principle or even in law, separate parts of the enterprise could operate as viable entities in their own right.

These 'group structures' may undertake strategic planning as group exercise where under the corporate level strategy, each separate subsidiary or division has its own strategic planning process and strategic plan. In these cases however, one of the most significant inputs to each divisions' strategic planning is the output of the corporate strategic planning. These outputs from corporate level strategy; usually in the form of performance targets for the divisions cannot be ignored by the subsidiary unit.

The corporate business strategy may also set down a small number of other factors that the divisions, or strategic business units as they may sometimes be called. These might include guidance on market definition, including geographic scope. For example the subsidiaries of a multinational bank may be defined by the country they operate in. In this case the corporate business strategy would set profit targets for each country bank. The corporate strategy would yield to the country banks as to the strategies they pursue in generating these profits. The country level banks would have their own business unit level strategies.

In the second case corporate level strategy is used to distinguish it from the many other plans and planning processes that get the term 'strategic' in their names. The word strategy has acquired a kind of aura that seems to make many people want to use it, regardless of how actually strategic the matter at hand is in relation to the overall performance of an organization. So we can end up with strategic plans for every level, part and functional process in the organization.

Strategic planning is a systematic, formally documented process for deciding the handful of key decisions that an organization, viewed as a corporate whole, must get right in order to thrive over the next few years.

However, because of this wide spread usage in a variety of contexts we also use the description 'corporate level strategy' or 'corporate strategy', and refer sometimes to 'corporate strategic planning' to make it clear we are not talking about all these other partial or 'non corporate' forms.

Because the successful implementation of corporate level strategy relies on cooperation and alignment across the organization as a whole, it is useful to distinguish the various levels of strategy.

Corporate level strategy and other levels of planning

Let us illustrate the place of strategic planning in the overall set of plans involved with corporate strategic planning, according to this sequence -

Responsibility Level →	Strategic Result Area →	Performance Indicators
Corporate level strategy	Corporate performance	Overall profitability
Corporate level strategy	Market definition	Market geographic scope
Business unit level strategy	Business performance	Business unit profits
Business unit level strategy	Market development	New product sales
Function level strategy	Corporate support	Service cost savings

Note when we say business unit, it may also, among other designations, be known as strategic business unit strategy or divisional strategy. And functional strategy may also apply to cross divisional or cross functional processes, or major projects. Confusing isn't it!

Decisions in corporate level strategy

Remember that at the beginning we said that corporate-level strategies address the entire strategic scope of the enterprise. This is the „big picture" view of the organization and may include deciding in which product or service markets to compete and the geographic boundaries of the organizations' operations.

For multi-divisional organizations or enterprises, how capital, staffing, and other resources are allocated is usually established at the corporate level. Additionally, because market definition is usually the domain of corporate-level strategy, the responsibility for diversification, or the addition of new products or services to the existing offerings, also mostly comes within the responsibility of corporate-level strategy. Also, whether to compete head on with other companies or to selectively establish cooperative partnering arrangements, or 'strategic alliances' is a decision for corporate-level strategy, while requiring ongoing input from business unit or divisional level managers.

Corporate level strategic questions

So crucial questions addressed by corporate-level strategy, among other possibilities may include:

1. What should be the scope of operations; i.e.; what businesses should the firm be in? And where should it be in business?

2. How should the organization allocate its resources its various existing lines of business or business units?

3. What level of diversity should exist in the business as it moves into the future? Are there other activities the enterprise should be in or are there current activities that should be targeted for stopped or sold off to others?

4. What should be the nature of this diversity or how diversified should the organization be?

Should it diversify in similar product or service markets, or into completely different areas; becoming a more conglomerate entity.

5. How should the firm be organized? What will be the boundaries of the enterprise? How will these boundaries impact relationships among parts of the business, with suppliers, customers and other interest groups? How will the organizational functions such as product development, production, distribution finance, marketing, sales customer service, etc. fit together? Are the responsibilities for each business unit clearly identified and is accountability established? Which will be carried out in-house, and which will be contracted out?

6. Should the firm enter into cooperative, mutually-beneficial relationships or alliances with others? If so, on what basis? If not, what impact might this have on future organizational performance?

As these questions show, corporate strategies address the long-term direction for the organization as a whole. Corporate strategies deal with plans for the entire organization and change as the capabilities of the organization develop and as the environment of the organization changes.

Top management has primary decision making responsibility in developing corporate strategies and these managers are directly responsible to providers of capital to the organization, whether shareholders, donors, members, and so on depending on the type of organization. The role of the governing board of is to ensure that top managers actually act to address these owner or primary beneficiary interests.

Business-Level Strategies

Business-level strategies are similar to corporate-strategies in that they focus on overall performance. As distinct from corporate-level strategy, however, they focus on just one instead of a range of businesses. The corporate level strategy of a multi division operation is like a strategy for managing an investment portfolio.

Business units are usually individual enterprise-like entities oriented toward a particular industry, product or service type, and or market.

Business-level strategies are thus primarily concerned with:

1. Managing unit activities so they conform to organizational corporate level strategies, sometimes including cooperation with other business units to achieve 'strategic synergy'.

2. Developing distinctive capabilities, resources and competitive advantage in each unit.

3. Identifying product or service-market opportunities and developing strategies for succeeding in each.

4. Monitoring the business industry environment so that strategies conform to the needs of the markets at the current stage of development.

In a single-product company, corporate-level and business-level strategies are the same. Business-level strategies look at the business unit strengths, weaknesses, opportunities and threats; much like corporate-level strategies, except the emphasis in business-level strategies is on the specific product or service, not on the corporate level investment portfolio.

Business-level strategies thus contribute to corporate-level strategies. Corporate-level strategies attempt to deliver benefits to the primary beneficiaries, such as increasing the wealth of shareholders through profitability of the overall corporate portfolio, and business-level strategies are concerned with:

1. matching their operations with the overall objectives of corporate-level strategy while simultaneously

2. navigating the environment in which they are active in such a way that they are among the better performers in their industry.

Functional-Level Strategies

Functional-level strategies are concerned with managing the functional areas of the organization, such as product or service development and design, marketing and sales, finance, human resources, production, research and development, etc., so that each function upholds contributes to individual business unit strategies and the overall corporate-level strategy.

Functional strategies are primarily concerned with:

– Efficiently deploying specialists within the functional area.

– Integrating activities within the functional area

– Making sure that functional strategies link effectively and efficiently with business strategies and the overall corporate-level strategy.

Conclusion - Corporate Level Strategy Guides the Organization as a Whole

Strategies for an organization may be classified by the level of the organization responsible for the strategy. Corporate-level strategies concern top management and address strategic issues of facing the organization as a corporate whole.

Business-level strategies deal with major business units or divisions of the corporate portfolio. Business-level strategies are generally developed by upper and middle-level business unit managers, in negotiation on key targets with the top corporate managers, and are intended to help the organization achieve its corporate level strategy.

Functional or business process strategies address issues usually faced by lower-level managers and deal with strategies for the major organizational functions such as marketing, finance, production, and research, which are considered important to achieving the business strategies and enabling the corporate-level strategy.

Useful Resources

One approach to corporate level strategy that clarifies the task is the „Parenting Advantage Model".

This is a value management approach for the multi-division enterprise. The model describes how a parent company can help create value.

In their article, „From Corporate Strategy to Parenting Advantage", Goold, Campbell and Alexander assert that the parent company, or group headquarters unit, should not only add value to the individual business units, but add more value than any other potential parent - they call this parenting advantage, and exampling it further in their book:

Corporate-Level Strategy: Creating Value in the Multibusiness Company

Goold, Campbell and Alexander list four forms of parental value creation:

1. **Stand-alone influence** – each subsidiary is viewed as a separate profit center. Using basic performance targets, the businesses are controlled and monitored. Value creation is enabled by making strategic decisions such as the appointment of managers and approving major capital expenditures.

2. **Linkage influence** – value is created by improved co-operation and synergy benefits.

3. **Central functions and services** – corporate value is created through the provision of administrative and managerial services to the business units.

4. **Corporate development** – value creation through portfolio management.

Which type of influence is best to improving value creation? The answer depends on the corporate purpose, history and ethos and upon the balanced use of parenting influence levers such as; control and empowerment, flexibility of autonomy for business units versus synergies from cooperation among them, and portfolio management versus development of business unit core competence.

In these materials the authors develop a framework, which they use to analyze what they see as 'the parenting advantage'. The framework addresses two key questions: Which businesses should an enterprise own? What 'parenting approach' will get the best performance from those businesses?

To determine the alignment among the set of businesses owned and the parent or corporate headquarters, corporate level strategy steams should look at four major aspects:

– critical success factors of the business,
– parenting opportunities in the business,
– characteristics of the parent, and the
– financial results.

Then, to decide the businesses to retain and which to stop or divest, they should put them into five classes, being those that:

– align strongly;
– fit in some respects;
– may fit in some ways and have little potential;
– have a risk of value destruction; and
– fit parenting opportunities but not critical success factors.

Generic strategies

Generic strategies

Which do you prefer when you fly: a cheap, no-frills airline, or a more expensive operator with fantastic service levels and maximum comfort? And would you ever consider going with a small company which focuses on just a few routes?

The choice is up to you, of course. But the point we're making here is that when you come to book a flight, there are some very different options available.

Why is this so? The answer is that each of these airlines has chosen a different way of achieving competitive advantage in a crowded marketplace.

The no-frills operators have opted to cut costs to a minimum and pass their savings on to customers in lower prices. This helps them grab market share and ensure their planes are as full as possible, further driving down cost. The luxury airlines, on the other hand, focus their efforts on making their service as wonderful as possible, and the higher prices they can command as a result make up for their higher costs.

Meanwhile, smaller airlines try to make the most of their detailed knowledge of just a few routes to provide better or cheaper services than their larger, international rivals.

Business-level strategy addresses the question of how a firm will compete in a particular industry.

A **generic strategy** is a general way of positioning a firm within an industry.

Michael Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three generic strategies, either lower cost, differentiated, or focus. These three approaches are examples of „generic strategies," because they can be applied to products or services in all industries, and to organizations of all sizes.

A company chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments. The generic strategy reflects the choices made regarding both the type of competitive advantage and the scope.

According to Michael Porter, two-competitive dimensions are the keys to business-level strategy:

– A firm's source of competitive advantage.

This dimension involves whether a firm tries to gain an edge on rivals by keeping costs down or by offering something unique in the market.

– A firm's scope of operations.

This dimension involves whether a firm tries to target customers in general or whether it seeks to attract just a segment of customers.

Four generic business level strategies emerge from these decisions:

differentiation, focused cost leadership, and focused differentiation.

Limitations of generic strategies:

Firms that are following a particular generic strategy tend to share certain features. Thus, it is important to keep in mind that a firm may not match every characteristic that its generic strategy entails.

Implementing Porter's Generic Strategies

Implementing Porter's Generic Strategies

Michael Porter described three strategic options available to firms at the business level: **overall cost leadership, differentiation,** and **focus strategies**.

Pure cost leadership strategies focus on those variables that will allow the firm to achieve and maintain a low cost position. An organization implements an overall cost leadership strategy when it attempts to gain a competitive advantage by reducing its costs below the costs of competing firms.

The tasks associated with the cost strategy variables focus mostly upon the internal operations of the business, emphasizing the productive employment of capital and human resources. A cost strategy requires attention to operational details.

For example, it focuses on simple products attributes and how these products meet customers' needs in a low-cost and effective manner. In general, an organization that chosen a cost leadership strategy sells a mass-produced product to large members of customers and provides strong incentives to its salespeople to increase the volume of sales.

Conversely, a business with a **pure differentiation strategy** attempts to enhance the price component of the profit quotation by offering customer something they perceive as unique and for which they are willing to pay a higher price. An organization implements a differentiation strategy when it seeks to distinguish itself from competitors through the high quality of its products or services.

This strategy incorporates variables dealing principally with the business' environment. The products and services must be designed to meet unique customer needs. Quality, product performance, perceived quality, and new technical features added are more important components of the marketing effort that is a concern for low price.

An organization implements a **focus strategy** when it uses either a differentiation strategy or an overall cost leadership focus strategy in a particular market segment or geographic area. The organization functions that support a differentiation focus strategy or a cost leadership focus strategy are the same as those summarized in Table 1-2.

Differentiation Versus Low-cost Strategies

William K. Hall conducted an in-depth study of 64 companies from eight major domestic industries. These industries were mature, faced relatively hostile environments, had belowaverage profitability and growth. Yet within each of these industries were several very profitable firms.

Hall concluded that the two (no diversified) top performing companies in each of the eight industries had pursued either a differentiation strategy involving a high product/service/quality position or a low-cost strategy or both.

Although Hall identified two strategic thrusts, there are obviously a wide variety of ways to pursue each of them. In particular, whereas General Motors and Goodyear achieved their low-cost position with high market share and considerable vertical integration, Inland Steel, Whirlpool. Miller, and Philip Morris all relied upon modern, automated process technologies and efficient distribution systems.

Similarly, the „*meaningful differentiation*" strategies were based upon a variety of approaches. Prominent were such positioning elements as brand prestige, product quality, product reliability, service, and distribution.

Implementing Miles And Snow's Strategies

Miles and Snow identified four business-level strategies: defender, prospector, analyzer, and reactor.

Defender Strategy. Organizations implementing a defender strategy attempt to protect their market from new competitors. As result of this narrow focus, these organizations seldom need to make major adjustments in their technology, structure, or methods of operation. Instead, they devote primary attention to improving the efficiency of their existing operations. Defenders can be successful especially when they exist in a declining industry or a stable environment.

Prospector Strategy. Organizations implementing a prospector strategy are innovative, seek out new opportunities, take risks and grow. To implement this strategy, organizations need to encourage creativity and flexibility. They regularly experiment with potential responses to emerging environmental trends. Thus, these organizations often are the creators of change and uncertainty to which their competitors must respond. In such an environment, creativity is more important than efficiency.

Analyzer Strategy. Organizations implementing analyzer strategies attempt to maintain their current businesses and to be somewhat innovative in new businesses. Some products are targeted toward stable environments, in which an efficiency strategy designed to retain current customers is employed. Others are targeted toward new, more dynamic environments.

They attempt to balance efficient production for current lines along with the creative development of new product lines. Analyzers have tight accounting and financial controls and high flexibility, efficient production and customized products, creativity and low costs. However, it is difficult for organizations to maintain these multiple and contradictory processes. new product lines.

Reactor Strategy. Organizations that follow a reactor strategy have no a consistent strategystructure relationship. Rather than defining a strategy to suit a specific environment, reactors respond to environmental threats and opportunities in ad hoc fashion.

Sometimes these organizations are innovative, sometimes they attempt to reduce costs, and sometimes they do both. Reactors are organizations in which top management frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively. Therefore, failed organizations often are the result of reactor strategies.

Mintzberg’s 5 Ps of Strategy

Mintzberg's 5 Ps of Strategy

What's your approach to developing strategy?

Unfortunately, while this type of approach is important, we need to think about much more than this if we want to be successful.

After all, there's no point in developing a strategy that ignores competitors' reactions, or doesn't consider the culture and capabilities of your organization. And it would be wasteful not to make full use of your company's strengths – whether these are obvious or not.

Management expert, Henry Mintzberg, argued that it's really hard to get strategy right. To help us think about it in more depth, he developed his 5 Ps of Strategy – five different definitions of (or approaches to) developing strategy.

About the 5 Ps

Mintzberg first wrote about the 5 Ps of Strategy in 1987. Each of the 5 Ps is a different approach to strategy.

They are:

1. Plan.

2. Ploy.

3. Pattern.

4. Position.

5. Perspective.

By understanding each P, you can develop a robust business strategy that takes full advantage of your organization's strengths and capabilities.

In this article, we'll explore the 5 Ps in more detail, and we'll look at tools that you can use in each area.

1. Strategy as a Plan

Planning is something that many managers are happy with, and it's something that comes naturally to us. As such, this is the default, automatic approach that we adopt – brainstorming options and planning how to deliver them.

This is fine, and planning is an essential part of the strategy formulation process.

Our articles on **PEST Analysis** , **SWOT Analysis** and **Brainstorming** help you think about and identify opportunities; the article on practical business planning looks at the planning process in more detail; and our sections on change management and project management teach the skills you need to deliver the strategic plan in detail.

The problem with planning, however, is that it's not enough on its own. This is where the other four Ps come into play.

2. Strategy as Ploy

Mintzberg says that getting the better of competitors, by plotting to disrupt, dissuade, discourage, or otherwise influence them, can be part of a strategy. This is where strategy can be a ploy, as well as a plan.

For example, a grocery chain might threaten to expand a store, so that a competitor doesn't move into the same area; or a telecommunications company might buy up patents that a competitor could potentially use to launch a rival product.

Here, techniques and tools such as the **Futures Wheel** , **Impact Analysis** and **Scenario Analysis** can help you explore the possible future scenarios in which competition will occur. Our article on Game Theory then gives you powerful tools for mapping out how the competitive „game" is likely to unfold, so that you can set yourself up to win it.

3. Strategy as Pattern

Strategic plans and ploys are both deliberate exercises. Sometimes, however, strategy emerges from past organizational behavior. Rather than being an intentional choice, a consistent and successful way of doing business can develop into a strategy.

For instance, imagine a manager who makes decisions that further enhance an already highly responsive customer support process. Despite not deliberately choosing to build a strategic advantage, his pattern of actions nevertheless creates one.

To use this element of the 5 Ps, take note of the patterns you see in your team and organization. Then, ask yourself whether these patterns have become an implicit part of your strategy; and think about the impact these patterns should have on how you approach strategic planning.

Tools such as **USP Analysis** and **Core Competence Analysis** can help you with this. A related tool, **VRIO Analysis**, can help you explore resources and assets (rather than patterns) that you should focus on when thinking about strategy.

4. Strategy as Position

„Position" is another way to define strategy – that is, how you decide to position yourself in the marketplace. In this way, strategy helps you explore the fit between your organization and your environment, and it helps you develop a sustainable **competitive advantage.**

For example, your strategy might include developing a niche product to avoid competition, or choosing to position yourself amongst a variety of competitors, while looking for ways to differentiate your services.

When you think about your strategic position, it helps to understand your organization's „bigger picture" in relation to external factors. To do this, use **PEST Analysis, Porter's Diamond,** and **Porter's Five Forces** to analyze your environment – these tools will show where you have a strong position, and where you may have issues.

As with „Strategy as a Pattern," **Core Competence Analysis, USP Analysis,** and **VRIO Analysis** can help you craft a successful competitive position. You can also use **SWOT Analysis** to identify what you do well, and to uncover opportunities.

Note:

There can be a lot of overlap between „Strategy as Position" and other elements of the 5 Ps. For instance, you can also achieve a desired position through planning, and by using a ploy. Don't worry about these overlaps – just get as much value as you can from the different approaches.

5. Strategy as Perspective

The choices an organization makes about its strategy rely heavily on its culture – just as patterns of behavior can emerge as strategy, patterns of thinking will shape an organization's perspective, and the things that it is able to do well.

For instance, an organization that encourages risk-taking and innovation from employees might focus on coming up with innovative products as the main thrust behind its strategy. By contrast, an organization that emphasizes the reliable processing of data may follow a strategy of offering these services to other organizations under outsourcing arrangements.

To get an insight into your organization's perspective, use cultural analysis tools like the **Cultural Web, Deal and Kennedy's Cultural Model,** and the **Congruence Model.**

Using the 5 Ps

Instead of trying to use the 5 Ps as a process to follow while developing strategy, think of them as a variety of viewpoints that you should consider while developing a robust and successful strategy.

As such, there are three points in the strategic planning process where it's particularly helpful to use the 5 Ps:

1. When you're gathering information and conducting the analysis needed for strategy development, as a way of ensuring that you've considered everything relevant.

2. When you've come up with initial ideas, as a way of testing that that they're realistic, practical and robust.

3. As a final check on the strategy that you've developed, to flush out inconsistencies and things that may not have been fully considered.

Using Mintzberg's 5 Ps at these points will highlight problems that would otherwise undermine the implementation of your strategy.

After all, it's much better to identify these problems at the planning stage than it is to find out about them after you've spent several years – and millions of dollars – implementing a plan that was flawed from the start.

Key Points

The 5 Ps of Strategy were created by Henry Mintzberg in 1987. Each of the 5 Ps stands for a different approach to strategy.

As a Plan, strategy needs to be developed in advance and with purpose. As a Ploy, strategy is a means of outsmarting the competition.

With strategy as a Pattern, we learn to appreciate that what was successful in the past can lead to success in the future.

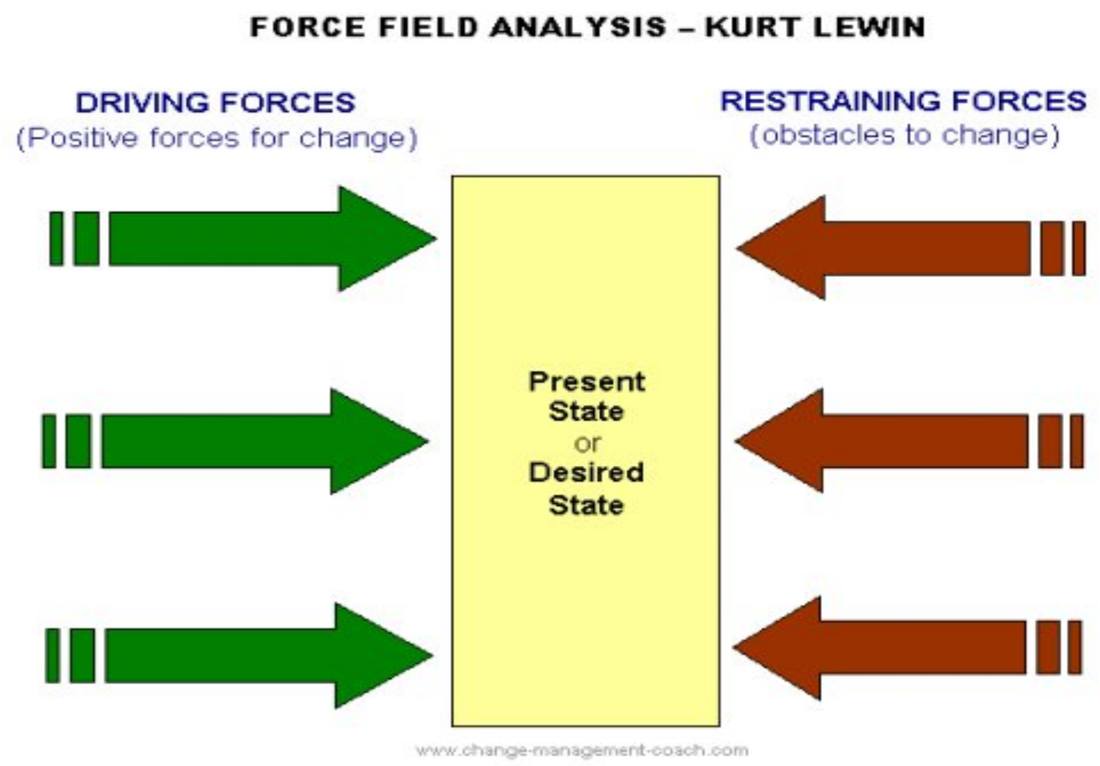
With Position, strategy is about how the organization relates to its competitive environment, and what it can do to make its products unique in the marketplace.

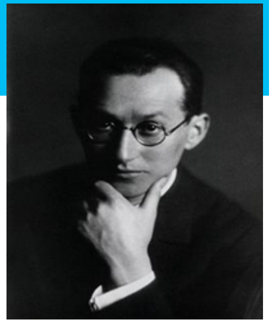
Perspective emphasizes the substantial influence that organizational culture and collective thinking can have on strategic decision making within a company.

Understanding and using each element helps you develop a robust, practical and achievable business strategy.

Managing strategic change

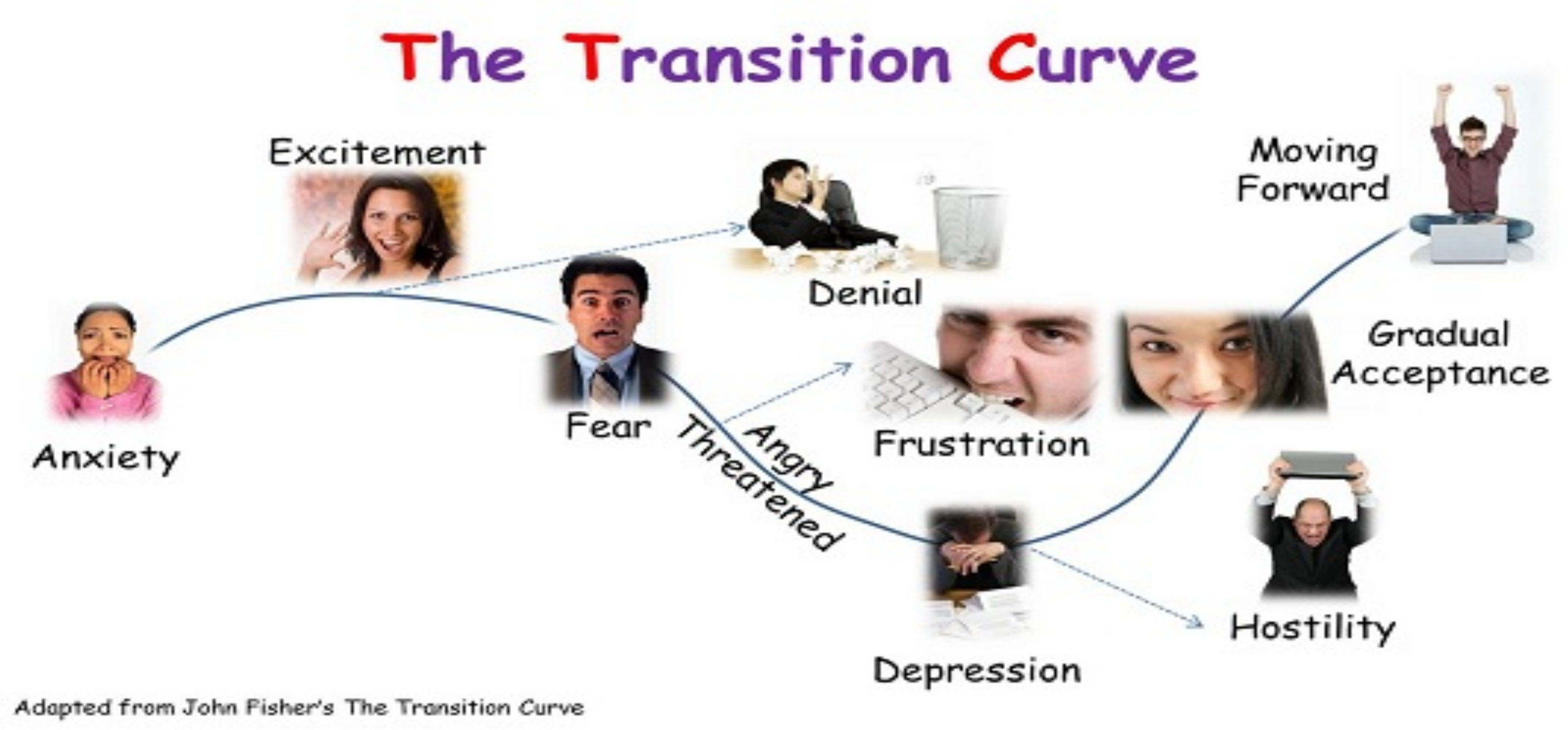
Force field Analysis



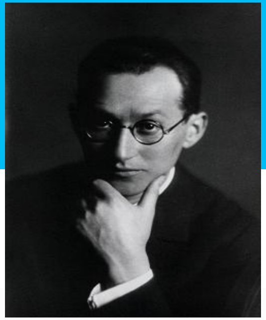


Kurt Lewin

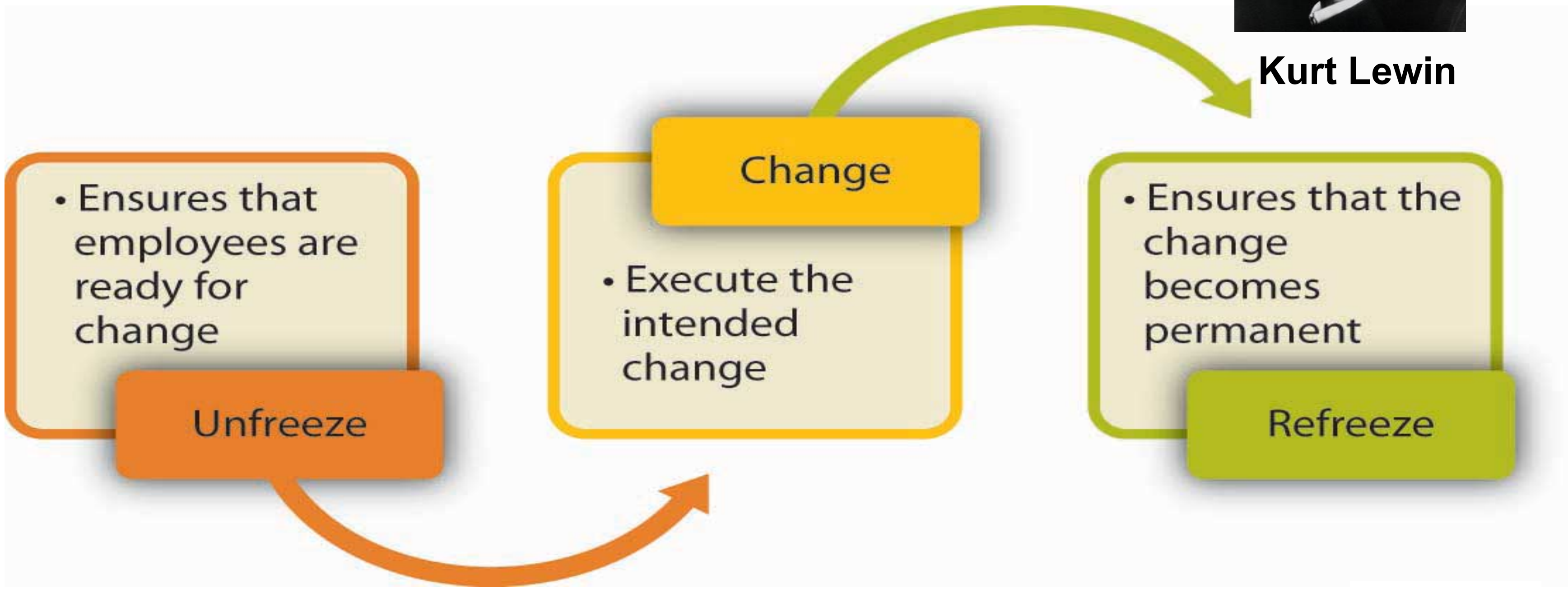
The Transition Curve



Change Model



Kurt Lewin



Resource-based view

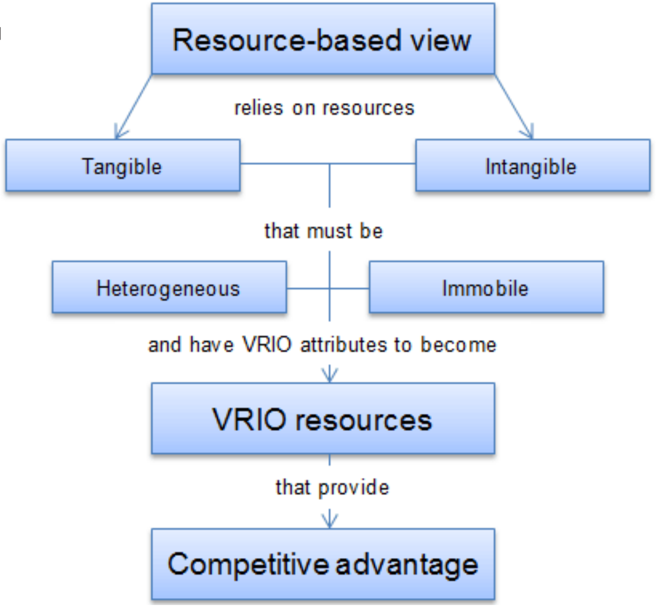
Resource-based view

"**The resource-based view (RBV)** is a model that sees resources as key to superior firm performance. If a resource exhibits VRIO attributes, the resource enables the firm to gain and sustain competitive advantage." [1]

What is a resource based view?

RBV is an approach to achieving competitive advantage that emerged in 1980s and 1990s, after the major works published by Wernerfelt, B. ("The Resource-Based View of the Firm"), Prahalad and Hamel ("The Core Competence of The Corporation"), Barney, J. ("Firm resources and sustained competitive advantage") and others. The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.

The following model explains RBV and emphasizes the key poin



[1] Rothaermel, F. T. (2012): Strat. Mgmt.: *Concepts and Cases.* McGraw-Hill–Irwin. P. 5.

According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. In RBV model, resources are given the major role in helping companies to achieve higher organizational performance. There are two types of resources: tangible and intangible.

Tangible assets are physical things. Land, buildings, machinery, equipment and capital – all these assets are tangible. Physical resources can easily be bought in the market so they confe little advantage to the companies in the long run because rivals can soon acquire the identical assets.

Intangible assets are everything else that has no physical presence but can still be owned by the company. Brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market. Intangible resources usually stay within a company and are the main source of sustainable competitive advantage.

The two critical assumptions of RBV are that resources must also be heterogeneous and immobile.

Heterogeneous. The first assumption is that skills, capabilities and other resources that organizations possess differ from one company to another. If organizations would have the same amount and mix of resources, they could not employ different strategies to outcompete each other. What one company would do, the other could simply follow and no competitive advantage could be achieved. This is the scenario of perfect competition, yet real world markets are far from perfectly competitive and some companies, which are exposed to the same external and competitive forces (same external conditions), are able to implement different strategies and outperform each other. Therefore, RBV assumes that companies achieve competitive advantage by using their different bundles of resources.

The competition between Apple Inc. and Samsung Electronics is a good example of how two companies that operate in the same industry and thus, are exposed to the same external forces, can achieve different organizational performance due to the difference in resources. Apple competes with Samsung in tablets and smartphones markets, where Apple sells its products at much higher prices and, as a result, reaps higher profit margins. Why Samsung does not follow the same strategy? Simply because Samsung does not have the same brand reputation or is capable to design user-friendly products like Apple does. (heterogeneous resources)

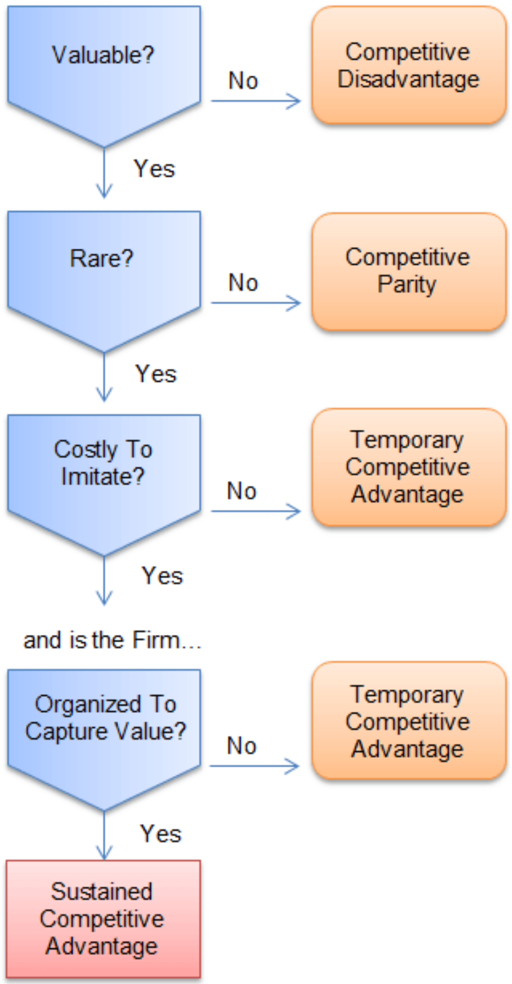
Immobile. The second assumption of RBV is that resources are not mobile and do not move from company to company, at least in short-run. Due to this immobility, companies cannot replicate rivals' resources and implement the same strategies. Intangible resources, such as brand equity, processes, knowledge or intellectual property are usually immobile.

Improve your management style, hire a leadership development company VRIO framework [2]

(Please visit our article on VRIO framework for more information.)

Although, having heterogeneous and immobile resources is critical in achieving competitive advantage, it is not enough alone if the firm wants to sustain it. Barney (1991) has identified VRIN framework that examines if resources are valuable, rare, costly to imitate and nonsubstitutable.

The resources and capabilities that answer yes to all the questions are the sustained competitive advantages. The framework was later improved from VRIN to VRIO by adding the following question: "Is a company organized to exploit these resources?"



[2] VRIO framework adopted from Rothaermel's (2013): *'Strategic Management'*. P. 91.

Question of Value. Resources are valuable if they help organizations to increase the value offered to the customers. This is done by increasing differentiation or/and decreasing the costs of the production. The resources that cannot meet this condition, lead to competitive disadvantage.

Question of Rarity. Resources that can only be acquired by one or few companies are considered rare. When more than few companies have the same resource or capability, it results in competitive parity.

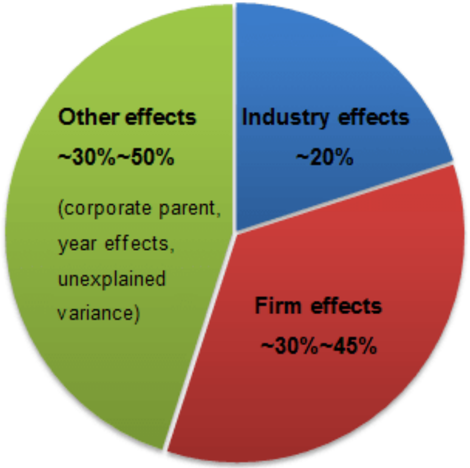
Question of Imitability. A company that has valuable and rare resource can achieve at least temporary competitive advantage. However, the resource must also be costly to imitate or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

Question of Organization. The resources itself do not confer any advantage for a company if it's not organized to capture the value from them. Only the firm that is capable to exploit the valuable, rare and imitable resources can achieve sustained competitive advantage.

Difference between resource-based and industrial organization views

RBV holds that sustained competitive advantage can be achieved more easily by exploiting internal rather than external factors as compared to industrial organization (I/O) view. While this is correct to some degree, there isn't definite answer to which approach to strategic management is more important.

The chart [1] below shows how industry, firm and other effects explain firm's performance. From ~30% to ~45% of superior organizational performance can be explained by firm effects (resource based view) and ~20% by industry effects (I/O view). This indicates that the best approach is to look into both external and internal factors and combine bowth views to achieve and sustain competitive advantage.



4

Force Field Analysis – Kurt Lewin

Force Field Analysis - Kurt Lewin

Kurt Lewin's Force Field Analysis is a powerful strategic tool used to understand what's needed for change in both corporate and personal environments.

Best of all - it's easy to use and has complete credibility as a professional tool.

We'll use a little basic science to introduce the concept, after which you'll find enough information to allow you to unleash your knowledge of force fields on colleagues!

You can download this free Application Tool when you're ready. You will need Adobe Reader to open the file.

The Concept

Let's start with a simple science experiment (this really is relevant, so stay with me for a moment please).

You'll need to sit down for this one. You're sitting? Good. Now, what's keeping you in the chair? Well, there are two answers really. One is gravity which is pushing you down into the chair. A driving force, if you like.

The other is the chair itself, which provides an opposing force, pushing up against gravity, and stopping you falling to the ground.

So it would seem that while you are sitting you're in an equilibrium of sorts.

Two forces keep you there. Gravity pushes down, keeping you in the chair, and the chair resists this, stopping you from falling to the ground.

Two equal forces, a driving force and a resisting or restraining force, working to keep the equilibrium or status quo.

Agreed? Okay, now let's play. Let's say we want to move away from this equilibrium and get you to fall to the floor. What could we do?

Well, on the one hand we could increase the amount of gravity (our driving force). The chair will give way eventually and you will fall.

On the other hand, we could leave gravity alone and decide to weaken the chair (our restraining force) to get the same result.

1 If you've followed me this far then you've just completed a force field analysis and understood the basic concepts of the model. It also helps to explain why our science experiment is relevant. You see, Kurt Lewin applied exactly this thinking to his theory of change within social situations to people.

May the Force be with you, or against you.

Kurt Lewin wrote that „An issue is held in balance by the interaction of two opposing sets of forces - those seeking to promote change (driving forces) and those attempting to maintain the status quo (restraining forces)".

This is much the same as the experiment we just did and is summarized in the diagram below. So before change the force field is in equilibrium between forces favorable to change and those resisting it. Lewin spoke about the existence of a quasi-stationary social equilibrium.

For change to happen the status quo, or equilibrium must be upset – either by adding conditions favorable to the change or by reducing resisting forces.

What Kurt Lewin proposes is that whenever driving forces are stronger than restraining forces, the status quo or equilibrium will change.

Now that's useful. Especially if we apply this to understanding how people move through change and why they resist change.

There will always be driving forces that make change attractive to people, and restraining forces that work to keep things as they are.

Successful change is achieved by either strengthening the driving forces or weakening the restraining forces.

The force field analysis integrates with Lewin's three stage theory of change as you work towards unfreezing the existing equilibrium, moving towards the desired change, and then freezing the change at the new level so that a new equilibrium exists that resists further change.

Using the Force Field Analysis

Lewin's force field analysis is used to distinguish which factors within a situation or organisation drive a person towards or away from a desired state, and which oppose the driving forces. These can be analyzed in order to inform decisions that will make change more acceptable. ‚Forces' are more than attitudes to change. Kurt Lewin was aware that there is a lot of emotion underlying people's attitude to change.

To understand what makes people resist or accept change we need to understand the values and experiences of that person or group.

Developing self-awareness and emotional intelligence can help to understand these forces that work within us and others. It's the behavior of others that will alert you to the presence of driving and restraining forces at work.

The following steps are a guide to using the force field analysis:

You might find it useful to follow the process using the Force Field Analysis Application Tool available here, free of charge of course! You'll need Adobe Reader to open the application tool. Define the change you want to see. Write down the goal or vision of a future desired state. Or you might prefer to understand the present status quo or equilibrium.

Brainstorm or Mind Map the Driving Forces - those that are favorable to change. Record these on a force field diagram.

Brainstorm or Mind Map the Restraining Forces - those that are unfavorable to, or oppose change. Record these on the force field diagram.

Evaluate the Driving and Restraining forces. You can do this by rating each force, from 1 (weak) to 5 (strong), and total each side. Or you can leave the numbers out completely and focus holistically on the impact each has.

Review the forces. Decide which of the forces have some flexibility for change or which can be influenced.

Strategize! Create a strategy to strengthen the driving forces or weaken the restraining forces, or both. If you've rated each force how can you raise the scores of the Driving Forces or lower the scores of the Restraining Forces, or both?

Prioritize action steps. What action steps can you take that will achieve the greatest impact? Identify the resources you will need and decide how to implement the action steps.Hint: Sometimes it's easier to reduce the impact of restraining forces than it is to strengthen driving forces.

Criticism of the force field analysis usually focuses on the subjectivity of attributing scores to the driving or restraining forces.

Some writers suggest the model applies within limited settings and that there are situations outside of these settings in which Lewin's theory may be less applicable.

At the end of the day this model of analysis is a tool that may or may not be useful in your situation. You can decide this or allow others to make a decision.

The force field analysis is backed by the Lewin change management model and has, over time, developed credibility as a professional change management tool.

External environment factors

External environment factors

PESTEL analysis stands for „Political, Economic, Social, and Technological, Environmental and Legal analysis". It is a part of the external analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macro environmental factors that the company has to take into consideration.

Political factors or how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labor). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

Technological factors include ecological and environmental aspects, such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Environmental factors include weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness to climate change is affecting how companies operate and the products they offer--it is both creating new markets and diminishing or destroying existing ones.

Legal factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.

Cirque du Soleil

Cirque du Soleil

Cirque du Soleil (Circus of the Sun) was formed in 1984 by Guy Laliberté and a group of street performers on the basis of a one-year grant from the government of Quebec. From its modest beginnings the company has grown into a worldwide business and more than 100 million spectators have now seen its performances worldwide. In 2010 the company had around 4,000 employees, including 1,000 artistes drawn from 40 different nationalities, and presented 20 different touring and permanent shows in places as far apart as Las Vegas and Seoul. Cirque du Soleil's achievement is particularly notable because at the time the business was started the circus industry was in what appeared to be a state of terminal decline.

A brief history of the circus

The invention of circus is commonly attributed to an Englishman, Philip Astley, in 1768. The early circus comprised of four main elements equestrian events, clowns, acrobats and jugglers and circus companies toured the country moving from place to place. Circus arenas were circular to facilitate the spectacle and to accommodate popular acts such as riders standing on the backs of galloping horses. Astley's innovative form of entertainment was quickly copied and, over time, spread to many different countries, with showman like P.T. Barnum and the Ringley Brothers becoming legendary names in the business. Promoters added human and animal curiosities and menageries to their repertoires to enhance the display and during its heyday in the 19 th century whole towns would turn out to see performances as the circus passed through.

The Depression of the 1920s and 30s together with two world wars took its toll on the industry and by the 1950s audiences were beginning to decline. Other forms of popular entertainment like cinema, television and sporting events were beginning to come to the fore.

Increasingly the circus was seen as something for children rather than adults and as the decades progressed even children's interest in this form of entertainment began to wane, with introduction of video games and other forms of children's entertainment. At the same time campaigns by animal welfare groups created bad publicity for circus companies and reduced the general public's appetite for animal shows.

Circus revenue and costs

The two main sources of revenue for circuses are ticket sales and concessions. Concessions are fees paid to circus companies by third parties who sell products like food and novelty items either within the big tent or at stands around the showground. These two sources of revenue are inextricably linked so as audience numbers fall so does concessionary income. Other factors have also contributed to the general decline in the profitability of circus operations. The number of public spaces where touring shows can be staged has reduced forcing touring shows into less attractive locations, the costs of touring have increased as have the cost of training and maintaining animals in good condition. Circuses have tried to improve their appeal by recruiting celebrity acts but the 'circus celebrities' are able to demand high fees and can be little known names as far as the general public are concerned. Not surprisingly, the total number of circuses in operation has diminished over time.

Re-inventing the circus experience

A group of street performers led by Guy Laliberté described themselves ' reinventing the circus'. They did this by focussing on the core of circus experience and bringing in new groups of customers, namely adults and corporate clients, who were more used to trips to the ballet and the opera than to the circus. The founders of Cirque du Soleil saw the key elements of the circus experience for spectators as centring on the tent, the clowns and the acrobats and, as a new company, they sought to enhance each of these. The tent, long the main symbol of the circus, was redesigned to produce a high degree of audience comfort and a sophisticated external image.

Cirque kept the clowns but shifted the form of humour away from conventional slapstick to a more urbane style. It removed animal acts because there were growing concerns about the welfare of circus animals. The acrobatic acts were still designed to thrill but rather than focussing on star performers, Cirque borrowed ideas from the theatre and developed acts into multi-media spectacles with original musical scores and lighting effects. Whereas in the past circus shows had comprised a series of disconnected displays, Cirque built their performances around stories lines. Rather than touring with the same show, the company built a portfolio of different shows, some of which were staged in permanent venues whilst others toured.

The contemporary circus format pioneered by Cirque du Soleil has proved popular. The company remains the industry's main success story, with its revenues estimated to be in the region of U.S.$ 500million [1]. Nonetheless like all firms, it faces on-going challenges. Around 2005 the company thought its business might have reached maturity and its senior management team started looking elsewhere to diversify their sources of revenue and growth. However, the company recognised the global trend towards creating destinations and developed a relationship with MGM, a firm specialising in leisure and casino resort complexes. MGM invested in building theatres tailored to Cirque du Soleil's performances at their heart complexes. Cirque du Soleil acted as an anchor for MGM destinations and MGM destination acted as an anchor for Cirque du Soleil productions. This move attracted some criticism. Critics argued that Cirque's heavily produced shows removed the intimate, emotional engagement with the audience on which circus performance was historically based. [2]

As the company has grown it has faced the challenge of balancing the need for creativity with the need for organizational efficiency. Francois Macerola, the Vice president in charge of legal and commercial affairs for Cirque, described the way the company deals with this trade off in the following way; ' we have a business plan, a fair number of lawyers and MBAs running the joint but there also exists an informal, ad hoc creative network that meets at the cafeteria […]] and that can make very important decisions- always based on the crafts related to circus and creativity. If we lose that we'd be Disney or any other corporate entity.' [3]

The external environment is also changing. On the downside stringent legislative requirements with regard to health and safety, licensing, animal welfare, child protection, work visas and the like are placing a growing administrative burden on circus companies. On the up-side circus training is flourishing and is now a popular activity in after-school clubs, activity break holidays and team building sessions for professionals. Circus performance is also increasingly recognised as an art form and, as such, considered worthy of public subsidy because it taps into national and local government agendas around sports and health, childhood obesity, diversity and participation. Cirque du Soleil and its imitators appear to have succeeded in giving what seemed to be a declining industry a new lease of life.

Case question

How would you account for Cirque du Soleil's success in a declining market?

[1] Cirque du Soleil is a private company and the majority of its shares are owned by its founder, Guy Laliberté.

[2] Source: Fortes, E. (2011): Circus the Forgotten Act. *Aesthetica Magazine.* http://www.aestheticamagazine.com/gfx/17circus.pdf. Accessed 22nd February 2011.

[3] Source: http://thecanadianencyclopedia.com/articles/macleans/cirque--du-soleil--becoming--the--disney--of--the--new--age. Accessed 3/1/2012

Balanced Scorecard Basics

Balanced Scorecard Basics

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more ‚balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the Tableau de Bord – literally, a „dashboard" of performance measures) in the early part of the 20th century.

Gartner Group suggests that over 50% of large US firms have adopted the BSC. More than half of major companies in the US, Europe and Asia are using balanced scorecard approaches, with use growing in those areas as well as in the Middle East and Africa. A recent global study by Bain & Co listed balanced scorecard fifth on its top ten most widely used management tools around the world, a list that includes closely-related strategic planning at number one. Balanced scorecard has also been selected by the editors of Harvard Business Review as one of the most influential business ideas of the past 75 years.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization's strategic plan from an attractive but passive document into the „marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to ‚balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

„The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

Balanced Scorecard Perspectives and More

Adapted from Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

Perspectives

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

The Learning & Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge – are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that ‚learning' is more than ‚training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among-workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call „high performance work systems."

The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the „unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

Strategy Mapping

Strategy maps are communication tools used to tell a story of how value is created for the organization. They show a logical, step-by-step connection between strategic objectives (shown as ovals on the map) in the form of a cause-and-effect chain. Generally speaking, improving performance in the objectives found in the Learning & Growth perspective (the bottom row) enables the organization to improve its Internal Process perspective Objectives (the next row up), which in turn enables the organization to create desirable results in the Customer and Financial perspectives (the top two rows).

Strategy Mapping

Reference: The Institute Way: Simplify Strategic Planning & Management with the Balanced Scorecard.

Balanced Scorecard Software

The balanced scorecard is not a piece of software. Unfortunately, many people believe that implementing software amounts to implementing a balanced scorecard. Once a scorecard has been developed and implemented, however, performance management software can be used to get the right performance information to the right people at the right time. Automation adds structure and discipline to implementing the Balanced Scorecard system, helps transform disparate corporate data into information and knowledge, and helps communicate performance information. The Balanced Scorecard Institute formally recommends the Quick Score Performance Information System TM developed by Spider Strategies and co-marketed by the Institute.

Business Dictionary

Business Dictionary

ABC analysis

An analysis of a range of items that have different levels of significance and should be handled or controlled differently. It is a form of Pareto analysis in which the items (such as activities, customers, documents, inventory items, sales territories) are grouped into three categories (A, B, and C) in order of their estimated importance. ‚A' items are very important, ‚B' items are important, ‚C' items are marginally important.

For example, the best customers who yield highest revenue are given the ‚A' rating, are usually serviced by the sales manager, and receive most attention. ‚B' and ‚C' customers warrant progressively less attention and are serviced accordingly.

Ansoff matrix

Strategic marketing planning tool that links a firm's marketing strategy with its general strategic direction and presents four alternative growth strategies as a table (matrix).

These strategies are seeking growth:

(1) Market penetration: by pushing existing products in their current market segments.

(2) Market development: by developing new markets for the existing products.

(3) Product development: by developing new products for the existing markets.

(4) Diversification: by developing new products for new markets. Named after its inventor, the father of strategic management, Igor Ansoff (1941-), and first published in 1957 in Harvard business review.

Portfolio planning matrix

Business portfolio analysis technique used by large firms with decentralized profit centers called Strategic Business Units (SBU). The firm locates the position of each SBU on a four cell (quadrant) table formed by making a cross with four equal sides, each cell having a specific name and description based on its market share and type of market: (1) The lower left cell (labeled ‚cash cows') contains SBUs that generate more cash than they consume because

1 of their dominant shares of slow-growth markets. (2) The lower left cell (labeled ‚stars') contains SBUs that may not generate a cash surplus but are likely to become cash cows because of their high shares of high-growth markets. (3) The upper right cell (labeled ‚question marks') contains SBUs that consume large amounts of cash to remain viable because of their low shares of high-growth markets. (4) The lower right cell (labeled ‚dogs') contains SBUs that may generate enough cash to keep on existing, but hold no promise of ever becoming winners because of their low shares of low-growth markets. Developed in 1970s by the consulting firm Boston Consulting Group (BCG), the purpose of this analysis is to identify which SBUs to invest into, which to sell off, and which to shut down. Called also growth share matrix.

Benchmark

Standard, or a set of standards, used as a point of reference for evaluating performance or level of quality. Benchmarks may be drawn from a firm's own experience, from the experience of other firms in the industry, or from legal requirements such as environmental regulations.

Value chain

Interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage.

A value chain typically consists of

(1) inbound distribution or logistics,

(2) manufacturing operations,

(3) outbound distribution or logistics,

(4) marketing and selling, and

(5) after-sales service. These activities are supported by

(6) purchasing or procurement,

(7) research and development,

(8) human resource development,

(9) and corporate infrastructure.

Value chain analysis

Examination of the value chain of an enterprise to ascertain how much and at which stage value is added to its goods and/or services, and how it can be increased to enhance the product differentiation (competitive advantage).

Cash cow

Well established brand, business unit, product, or service, that generates a large, regular, predictable, and positive cash flow. Cash cows are often ‚milked' for developing, promoting, or supporting new or struggling counterparts. See also portfolio planning matrix.

Acquisition

1. Taking custody of records.

2. Taking possession of an asset by purchase.

3. Taking control of a firm by purchasing 51 percent (or more) of its voting shares.

Threat

1. Risk:

(1) Indication of an approaching or imminent menace.
(2) Negative event that can cause a risk to become a loss, expressed as an aggregate of risk, consequences of risk, and the likelihood of the occurrence of the event. A threat may be a natural phenomenon such as an earthquake, flood, storm, or a man-made incident such as fire, power failure, sabotage, etc.

2. Computer security: Action or potential occurrence (whether or not malicious) to breach the security of the system by exploiting its known or unknown vulnerabilities. It may be caused by

(1) gaining unauthorized access to stored information,
(2) denial of service to the authorized users, or
(3) introduction of false information to mislead the users or to cause incorrect system behavior (called spoofing). See also attack.

3. Law: Communicated intent to inflict harm or damage to a person or property to force someone's compliance or to restrict his or her freedom. Threatening behavior (including use of abusive or insulting words) is a generally a criminal offense punishable with imprisonment and/or a fine. A police officer may arrest anyone without warrant who is reasonably suspected of issuing an oral or written threat. See also assault.

Functional strategy

Organizational plan for human resources, marketing, research and development and other functional areas. The functional strategy of a company is customized to a specific industry and is used to back up other corporate and business strategies.

Functional organization

The classic organizational structure where the employees are grouped hierarchically, managed through clear lines of authority, and report ultimately to one top person.

Long term objectives

Performance goals of an organization, intended to be achieved over a period of five years or more. Long-term objectives usually include specific improvements in the organization's competitive position, technology leadership, profitability, return on investment, employee relations and productivity, and corporate image.

Centralization

1.The concentration of management and decision-making power at the top of an organization's hierarchy.

2. The location of all or most main departments and managers at one facility.

Diversification

1. Banking: Spreading a bank's assets (loans) over a wider assortment of quality borrowers, to maintain or improve earning levels while maintaining the same level of exposure.

2. Corporate strategy: Practice under which a firm enters an industry or market different from its core business. Reasons for diversification include

(1) reducing risk of relying on only one or few income sources,
(2) avoiding cyclical or seasonal fluctuations by producing goods or services with different demand cycles,
(3) achieving a higher growth rate, and
(4) countering a competitor by invading the competitor's core industry or market. In contrast to vertical integration, diversification does not increase a firm's market or monopolistic power. Also called market diversification.

3. Investing: Spreading the available funds over a wider selection (portfolio) of types of investment, such as commodities, real estate, securities.

Divisional structure

A type of organizational configuration that groups together those employees who are responsible for a particular product type or market service according to workflow. The divisional structure of a business tends to increase flexibility, and it can also be broken down further into product, market and geographic structures.

Dogs

In business portfolio analysis, those products or business units that occupy the lower right-hand side quadrant of the ‚growth share matrix.' Dogs represent low share of low-growth markets and, although generating enough sales revenue to justify their existence, do not hold the promise of becoming leaders in their categories.

Electronic business (E-Business)

Firm which, in contrast to an electronic commerce firm, conducts its day-to-day business functions over the internet and/or other electronic networks such as electronic data interchange (EDI). Electronic business includes collaborating with distributors on sales promotions, interacting with and servicing the customers, and conducting joint research with business partners.

Forward integration

Type of vertical integration where a manufacturer acquires the channels of distribution of its outputs to achieve greater economies of scale or higher market share.

Business resources

Human, financial, physical, and knowledge factors that provide a firm the means to perform its business processes. See also factors of production.

GAP analysis

A technique that businesses use to determine what steps need to be taken in order to move from its current state to its desired, future state. Also called need-gap analysis, needs analysis, and needs assessment.

Gap analysis consists of (1) listing of characteristic factors (such as attributes, competencies, performance levels) of the present situation („what is"), (2) listing factors needed to achieve future objectives („what should be"), and then (3) highlighting the gaps that exist and need to be filled. Gap analysis forces a company to reflect on who it is and ask who they want to be in the future.

Globalization

The worldwide movement toward economic, financial, trade, and communications integration. Globalization implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers. However, it does not include unhindered movement of labor and, as suggested by some economists, may hurt smaller or fragile economies if applied indiscriminately.

Network organization

A group of legally independent companies or subsidiary business units that use various methods of coordinating and controlling their interaction in order to appear like a larger entity. In a business context, three main types of network organization are typically seen:

(1) internal where a large company has separate units acting as profit centers,

(2) stable where a central company outsources some work to others, and

(3) dynamic where a network integrator outsources heavily to other companies.

Stakeholder

A person, group or organization that has interest or concern in an organization.

Stakeholders can affect or be affected by the organization's actions, objectives and policies. Some examples of key stakeholders are creditors, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.

Not all stakeholders are equal. A company's customers are entitled to fair trading practices but they are not entitled to the same consideration as the company's employees.

An example of a negative impact on stakeholders is when a company needs to cut costs and plans a round of layoffs. This negatively affects the community of workers in the area and therefore the local economy. Someone owning shares in a business such as Microsoft is positively affected, for example, when the company releases a new device and sees their profit and therefore stock price rise.

See also corporate governance.

Backward integration

Type of vertical integration in which a consumer of raw materials acquires its suppliers, or sets up its own facilities to ensure a more reliable or cost-effective supply of inputs.

Substitute goods

Different goods that, at least partly, satisfy the same needs of the consumers and, therefore, can be used to replace one another. Price of such goods shows positive cross-elasticity of demand. Thus, if the price of one good goes up the sales of the other rise, and vice versa. Also called substitutes.

Holding company

Type of business organization that allows a firm (called parent) and its directors to control or influence other firms (called subsidiaries). This arrangement makes venturing outside one's core industry possible and, under certain conditions, to benefit from tax consolidation, sharing of operating losses, and ease of divestiture. The legal definition of a holding company varies with the legal system. Some require holding of a majority (80 percent) or the entire (100 percent) voting shares of the subsidiary whereas other require as little as five percent.

Horizontal integration

The merger of companies at the same stage of production in the same or different industries. When the products of both companies are similar, it is a merger of competitors. When all producers of a good or service in a market merge, it is the creation of a monopoly. If only a few competitors remain, it is termed an oligopoly. Also called lateral integration. See also vertical integration.

Board of directors

Governing body (called the board) of an incorporated firm. Its members (directors) are elected normally by the subscribers (stockholders) of the firm (generally at an annual general meeting or AGM) to govern the firm and look after the subscribers' interests. The board has the ultimate decision-making authority and, in general, is empowered to

(1) set the company's policy, objectives, and overall direction,

(2) adopt bylaws,

(3) name members of the advisory, executive, finance, and other committees,

(4) hire, monitor, evaluate, and fire the managing director and senior executives,

(5) determine and pay the dividend, and

(6) issue additional shares. Though all its members might not be engaged in the company's day-to-day operations, the entire board is held liable (under the doctrine of collective responsibility) for the consequences of the firm's policies, actions, and failures to act. Members of the board usually include senior-most executives (called ,inside directors' or ,executive directors') as well as experts or respected persons chosen from the wider community (called ,outside directors' or ,non-executive directors'). See also corporate governance.

Integration

1. General: Process of attaining close and several departments, groups, organizations, systems, etc. seamless coordination between

2. Companies: Merger of two or more firms resulting in a new legal entity.

3. Contracts: Amalgamation of two or more agreements into one contract that serves as a full expression of the intent of the contracting parties.

Industry

1. The manufacturing or technically productive enterprises in a particular field, country, region, or economy viewed collectively, or one of these individually. A single industry is often named after its principal product; for example, the auto industry. For statistical purposes, industries are categorized generally according a uniform classification code such as Standard Industrial Classification (SIC).

2. Any general business activity or commercial enterprise that can be isolated from others, such as the tourist industry or the entertainment industry.

Industry lifecycle

The normal stages that an industry goes through during the course of its lifecycle in the market. An industry lifecycle is broken into five separate phases: Early stages phase, innovation phase, cost/shakeout phase, maturity phase and decline phase. During the initial phase, the product may be altered to make a place for it in the industry. The innovation phase looks to expand the product even further to come up with a concrete design. The next phase involves companies within the industry establishing a concrete design thus eliminating some of the smaller companies that do not follow this patter. At the maturity stage, revenue from the product becomes the main focus of the company. Finally, the decline phase is marked by decreasing revenue as demand shifts to another product in the industry.

Industry life cycle analysis

A method for analyzing industries based on the idea that they go through a series of identifiable life cycle phases (e.g., introduction, growth, maturity). The information gained from defining where an industry is in its life cycle is used to determine the risk/reward ratio of a potential investment. For example, investing during the introduction phase is high-risk since future growth is uncertain. However, an early investment also has the potential for the greatest return.

Balanced scorecard (BSC)

Management practice that attempts to complement drivers of past performance (financial measures) with the drivers of future performance, such as customer satisfaction, development of human and intellectual capital, and learning. Standard balanced scorecards do not include environmental considerations. Proposed by Robert Kaplan (coinventor of activity based accounting) and David Norton in 1996.

Outsourcing

The contracting or subcontracting of noncore activities to free up cash, personnel, time, and facilities for activities in which a company holds competitive advantage. Companies having strengths in other areas may contract out data processing, legal, manufacturing, marketing, payroll accounting, or other aspects of their businesses to concentrate on what they do best and thus reduce average unit cost. Outsourcing is often an integral part of downsizing or reengineering. Also called contracting out.

Competence

1. A cluster of related abilities, commitments, knowledge, and skills that enable a person (or an organization) to act effectively in a job or situation.

Competence indicates sufficiency of knowledge and skills that enable someone to act in a wide variety of situations. Because each level of responsibility has its own requirements, competence can occur in any period of a person's life or at any stage of his or her career.

2. Law: The capacity of a person to understand a situation and to act reasonably. Disputes regarding the competence of an individual are settled by a judge and not by a professional (such as a doctor or a psychiatrist) although the judge may seek expert opinion before delivering at a judgment. Also called legal capacity.

Corporate governance

The framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community).

The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances. Also called corporation governance.

Cost leadership

Strategy used by businesses to create a low cost of operation within their niche. The use of this strategy is primarily to gain an advantage over competitors by reducing operation costs below that of others in the same industry.

Environment

The sum total of all surroundings of a living organism, including natural forces and other living things, which provide conditions for development and growth as well as of danger and damage. See also environmental factors.

Environmental analysis

Evaluation of the possible or probable effects of external forces and conditions on an organization's survival and growth strategies.

Key success factors

The combination of important facts that is required in order to accomplish one or more desirable business goals. For example, one of the key success factors in promoting animal food products might be to advertise them in a way that appeals to those consumers who love animals.

Mission statement

A written declaration of an organization's core purpose and focus that normally remains unchanged over time. Properly crafted mission statements

(1) serve as filters to separate what is important from what is not,

(2) clearly state which markets will be served and how, and

(3) communicate a sense of intended direction to the entire organization.

A mission is different from a vision in that the former is the cause and the latter is the effect; a mission is something to be accomplished whereas a vision is something to be pursued for that accomplishment. Also called company mission, corporate mission, or corporate purpose.

Vision statement

An aspirational description of what an organization would like to achieve or accomplish in the mid-term or long-term future. It is intended to serves as a clear guide for choosing current and future courses of action. See also mission statement.

Opportunities and threats

Agents, factors, or forces in an organization's external environment that are out of its control, and can directly or indirectly affect is chances of success or failure.

Change management

Minimizing resistance to organizational change through involvement of key players and stakeholders.

Matrix organization

An organizational structure that facilitates the horizontal flow of skills and information. It is used mainly in the management of large projects or product development processes, drawing employees from different functional disciplines for assignment to a team without removing them from their respective positions.

Employees in a matrix organization report on day-to-day performance to the project or product manager whose authority flows sideways (horizontally) across departmental boundaries. They also continue to report on their overall performance to the head of their department whose authority flows downwards (vertically) within his or her department. In addition to a multiple command and control structure, a matrix organization necessitates new support mechanisms, organizational culture, and behavior patterns. Developed at the US National Aeronautics & Space Administration (NASA) in association with its suppliers, this structure gets its name from its resemblance to a table (matrix) where every element is included in a row as well as a column.

Differential advantage

Unique benefits or characteristics of a firm, product, or program that set it apart and above its competitors in the customers' viewpoint.

Return

1. Report formally or officially on a specific matter, such as a tax return.

2. Proceeds generated by a sale.

3. Yield generated by an investment, expressed usually as a percentage of the amount invested.

Feasibility study

An analysis and evaluation of a proposed project to determine if it (1) is technically feasible, (2) is feasible within the estimated cost, and (3) will be profitable. Feasibility studies are almost always conducted where large sums are at stake.

Also called feasibility analysis. See also cost benefit analysis.

Economies of scale

The reduction in long-run average and marginal costs arising from an increase in size of an operating unit (a factory or plant, for example). Economics of scale can be internal to an organization (cost reduction due to technological and management factors) or external (cost reduction due to the effect of technology in an industry). See also diseconomies of scale.

Management

1. The organization and coordination of the activities of a business in order to achieve defined objectives.

Management is often included as a factor of production along with, machines, materials, and money. According to the management guru Peter Drucker (1909-2005), the basic task of management includes both marketing and innovation. Practice of modern management originates from the 16th century study of low-efficiency and failures of certain enterprises, conducted by the English statesman Sir Thomas More (1478-1535). Management consists of the interlocking functions of creating corporate policy and organizing, planning, controlling, and directing an organization's resources in order to achieve the objectives of that policy.

2. The directors and managers who have the power and responsibility to make decisions and oversee an enterprise.

The size of management can range from one person in a small organization to hundreds or thousands of managers in multinational companies. In large organizations, the board of directors defines the policy which is then carried out by the chief executive officer, or CEO. Some people agree that in order to evaluate a company's current and future worth, the most important factors are the quality and experience of the managers.

Market penetration

1. The activity or fact of increasing the market share of an existing product, or promoting a new product, through strategies such as bundling, advertising, lower prices, or volume discounts.

2. A measure of the extent of a product's sales volume relative to the total sales volume of all competing products, expressed as a percentage. Formula: Sales volume of a product x 100 ÷ Total sales volume of all competing products.

Market development

The expansion of the total market for a product or company by

(1) entering new segments of the market,

(2) converting nonusers into users, and/or

(3) increasing usage per user.

Policy

1. Politics:
(1) The basic principles by which a government is guided.

(2) The declared objectives that a government or party seeks to achieve and preserve in the interest of national community. See also public policy.

2. Insurance: The formal contract issued by an insurer that contains terms and conditions of the insurance cover and serves as its legal evidence.

3. Management: The set of basic principles and associated guidelines, formulated and enforced by the governing body of an organization, to direct and limit its actions in pursuit of long--term goals. See also corporate policy.

Portfolio

Pool of investments, collection of samples of an artist or other creative person, or group of complementary or supplementary products marketed together.

Strategic business unit (SBU)

An autonomous division or organizational unit, small enough to be flexible and large enough to exercise control over most of the factors affecting its long-term performance.

Because strategic business units are more agile (and usually have independent missions and objectives), they allow the owning conglomerate to respond quickly to changing economic or market situations.

Stockholder

1. An individual, group, or organization that holds one or more shares in a company, and in whose name the share certificate is issued. Also called shareholder.

2. British: A company or individual who holds supplies for manufacturers.

Strategic group

A management concept which separates companies within the same industry with similar business models and or a similar strategy combination. A strategic group can be from any type of business and depending on the industry, are defined within a dimensional construct. Strategists will often display the market position of each competing company on a two dimensional grid.

Strategic management

The systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices. The objective of strategic management is to achieve better alignment of corporate policies and strategic priorities.

Strategic alliance

Agreement for cooperation among two or more independent firms to work together toward common objectives. Unlike in a joint venture, firms in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct.

SWOT analysis

Situation analysis in which internal strengths and weaknesses of an organization, and external opportunities and threats faced by it are closely examined to chart a strategy. SWOT stands for strengths, weaknesses, opportunities, and threats. See also PEST analysis.

PEST analysis

A type of situation analysis in which political-legal (government stability, spending, taxation), economic (inflation, interest rates, unemployment), socio-cultural (demographics, education, income distribution), and technological (knowledge generation, conversion of discoveries into products, rates of obsolescence) factors a re examined to chart an organization's long-term plans. See also SWOT analysis.

Synergy

A state in which two or more things work together in a particularly fruitful way that produces an effect greater the sum of their individual effects. Expressed also as „the whole is greater than the sum of its parts."

Organization

A social unit of people that is structured and managed to meet a need or to pursue collective goals. All organizations have a management structure that determines relationships between the different activities and the members, and subdivides and assigns roles, responsibilities, and authority to carry out different tasks. Organizations are open systems--they affect and are affected by their environment.

Corporate social responsibility

A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs, and (3) by earning adequate returns on the employed resources. See also corporate citizenship.

Product

1. A good, idea, method, information, object or service created as a result of a process and serves a need or satisfies a want. It has a combination of tangible and intangible attributes (benefits, features, functions, uses) that a seller offers a buyer for purchase. For example a seller of a toothbrush not only offers the physical product but also the idea that the consumer will be improving the health of their teeth.

2. Law: A commercially distributed good that is (1) tangible personal property, (2) output or result of a fabrication, manufacturing, or production process, and (3) passes through a distribution channel before being consumed or used.

3. Marketing: A good or service that most closely meets the requirements of a particular market and yields enough profit to justify its continued existence. As long as cars are manufactured, companies such as Michelin that produce tires fill the market need and continue to be profitable.

Service

1. A valuable action, deed, or effort performed to satisfy a need or to fulfill a demand.

2. Law: Formal delivery of a notice, summons, or writ.

3. Banking: Payment of interest or loan installment, or dividends, as scheduled.

Startup

Early stage in the life cycle of an enterprise where the entrepreneur moves from the idea stage to securing financing, laying down the basis structure of the business, and initiating operations or trading.

Business process reengineering (BPR)

Thorough rethinking of all business processes, job definitions, management systems, organizational structure, work flow, and underlying assumptions and beliefs. BPR's main objective is to break away from old ways of working, and effect radical (not incremental) redesign of processes to achieve dramatic improvements in critical areas (such as cost, quality, service, and response time) through the in-depth use of information technology. Also called business process redesign.

Crisis

Critical event or point of decision which, if not handled in an appropriate and timely manner (or if not handled at all), may turn into a disaster or catastrophe.

Crisis management

Set of procedures applied in handling, containment, and resolution of an emergency in planned and coordinated steps.

Competitiveness

Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.

Competitive advantage

A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities.

Defensive strategy

A management approach designed to reduce the risk of loss. For example, even a relative aggressive business might employ a defensive strategy when it comes to investing its extra liquid funds in certificates of deposit or relatively stable bonds and stocks.

Force field analysis

Technique for identifying and analyzing the positive factors of a situation that help (‚driving forces') and negative factors that hinder (‚restraining forces') an entity in attaining its objectives.

Supply chain

Entire network of entities, directly or indirectly interlinked and interdependent in serving the same consumer or customer. It comprises of vendors that supply raw material, producers who convert the material into products, warehouses that store, distribution centers that deliver to the retailers, and retailers who bring the product to the ultimate user. Supply chains underlie value-chains because, without them, no producer has the ability to give customers what they want, when and where they want, at the price they want. Producers compete with each other only through their supply chains, and no degree of improvement at the producer's end can make up for the deficiencies in a supply chain which reduce the producer's ability to compete.

Supply chain management (SCM)

Management of material and information flow in a supply chain to provide the highest degree of customer satisfaction at the lowest possible cost.

Supply chain management requires the commitment of supply chain partners to work closely to coordinate order generation, order taking, and order fulfillment. They thereby create an extended enterprise spreading far beyond the producer's location.