Summary Chapter 1-5
Exploring Corporate Strategy

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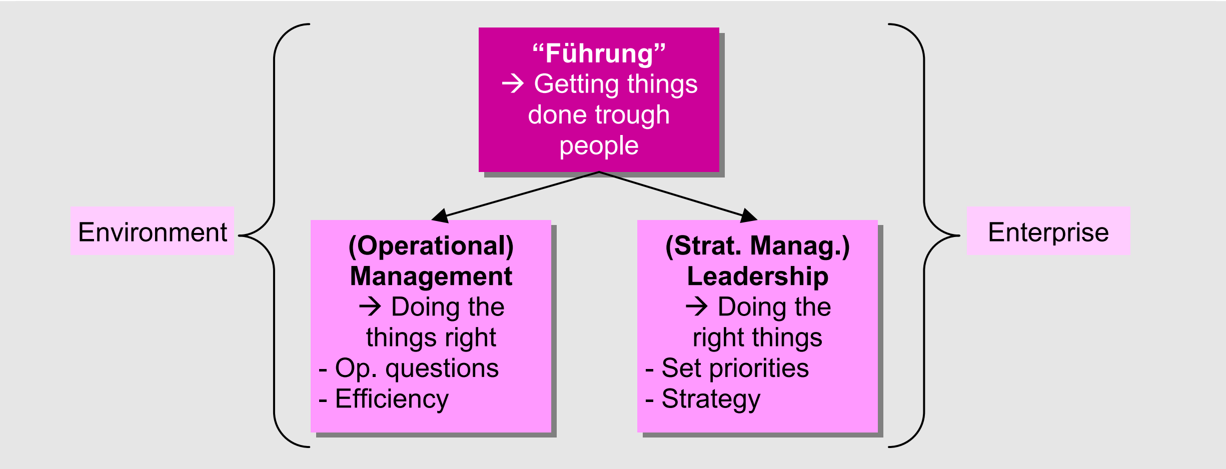
Exploring Corporate Strategy

I.1 Introduction Strategy

Corporate strategy concerns strategy and strategic decisions at all levels in an organization. A key characteristic of strategic decisions is that likely to be concerned with, or affect, the long-term direction of an organization



Source: own design

So strategy is the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources *(know-how of employers, resources of fixed assets)* within a changing environment *(a stable market is difficult to find maybe the sugar market)* and to fulfill stakeholder expectations.

Strategic fit is about developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these. *E.g.: This might take the form of a small business trying to find a particular niche in a market, or a multinational corporation seeking to place most of its investments in businesses which have found successful market positions or have identified attractive markets.*

Strategy development by stretch is the leverage of the resources and competences of an organization to provide competitive advantage and/or yield new opportunities.

Three Levels of Strategy

It is possible to distinguish at least three different levels of organizational strategy.

Corporate-level strategy is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization. *E.g.: issues of geographical coverage, diversity of products/services, how resources are to be allocated between the different parts of the organization.*

Business unit strategy is about how to compete successfully in particular markets. *E.g.: advantage over competitors, new opportunities, which products or services, customer needs.* Whereas corporate-level strategy involves decisions about the organization as a whole, strategic decisions here need to be related to a strategic business unit (SBU).
A strategic business unit is a part of an organization for which there is a distinct external market for goods or services that if different from another SBU.

Operational strategies are concerned with how the component parts of an organization deliver effectively the corporate- and business-level strategies in terms of resources, processes and people. The integration of operational decisions and strategy is important.

The Vocabulary of Strategy (p.13)

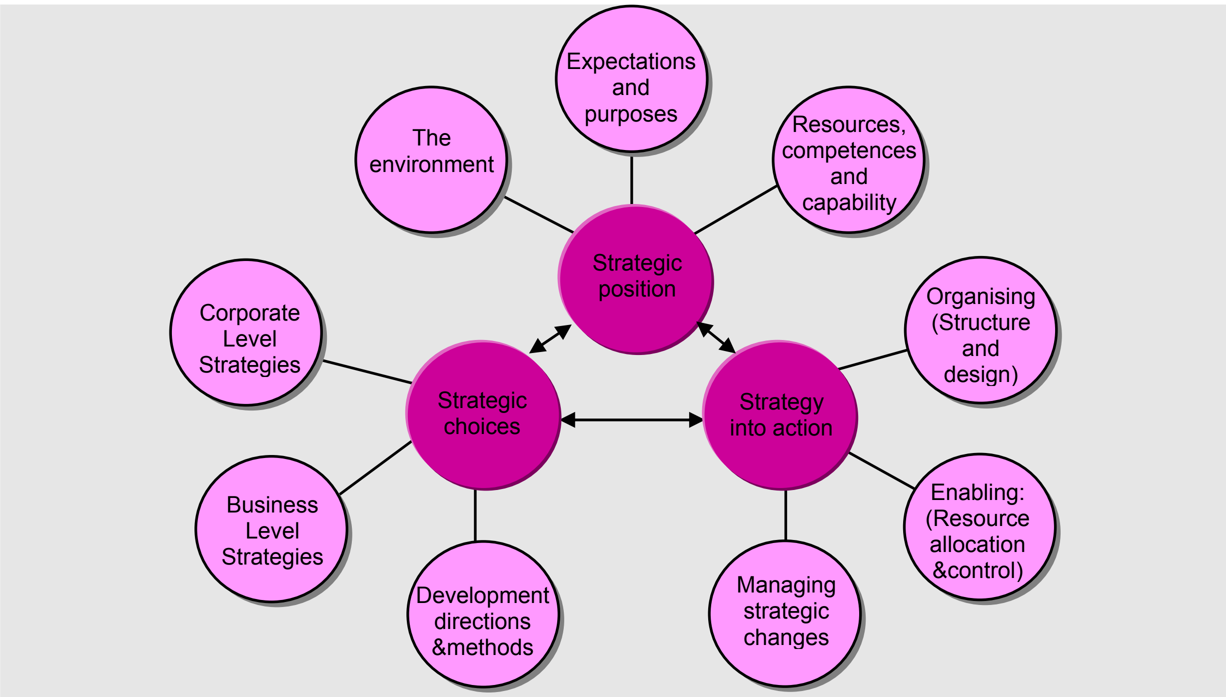
	TERM	DEFINITION	A PERSONAL EXAMPLE
The present in an idealized way	Mission	Overriding purpose in line with the values or expectations of stakeholders	Be healthy and fit
Realistic finale state in the future	Vision or strategic intent	Desired future state: the aspiration of the organisation	To run the London Marathon
Not emotional and not visual-ized, quantitative	Goal	General statement of aim or purpose	Lose weight and strengthen muscles
	Objective	Quantification (if possible) or more precise statement of the goal	Lose 5 kilos by 1 September and run the Marathon next year
	Unique resources and core competences	Resources, processes or skills which provide 'competitive advantage'	Proximity to a fitness centre, supportive family and friends and past experience of successful diet
How to go on to reach the vision	Strategies	Long-term direction	Associate with a collaborative network (e.g. join running club), exercise regularly, compete in marathons locally, stick to appropriate diet
Use a transparent policy statement to communicate your strategy to customers employees	Control	The monitoring of action steps to: • assess effectiveness of strategies and actions • modify strategies and/or actions as necessary	Monitor weight, kilometres run and measure times: if progress satisfactory, do nothing; if not, consider other strategies and actions

Source: scanned from the book on p.13

Developing a strategy means to set priorities! *(E.g. Migros → no alcohol and tobacco)*
There are two management principles:

- **Master costs** → keep costs down, because it's easier to reduce costs than to increase the turnover (Du-Pont sceme)
- **Keep prices high** → Keep prices up as long as you can

A model of the elements of strategic management (p.17)



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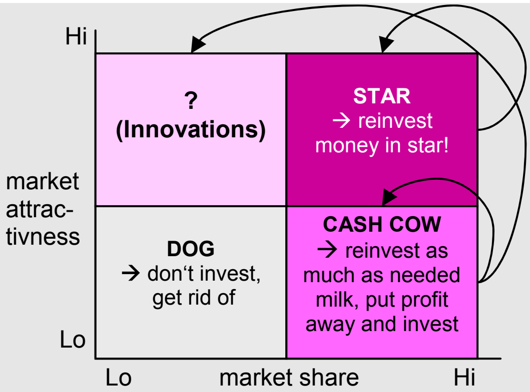
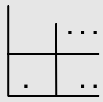
→ Description in detail on p.16 – 21

Portfolio by BCG



Notice:
- The market attractiveness is a given fact, you can't influence it (the y-axis is therefore fix)
- The market share can be influenced trough advertising (the x-axis is therefore influence able, but not for free)
- If the DOG is pushes a STAR → keep him, as well as if he contributes to the variable cost and covers some of the fixed costs!
- Don't invest in this market, because there are no innovations



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The purpose of analyzing an organization's strategic position is to understand the strategic position of the organization in terms of its external environment, internal resources and competences, and the expectations and influence of stakeholders.

Strategic choices are informed by an understanding of environmental influences, competencies of an organization, the influence of stakeholders and culture.

➔ Read trough SUMMARY on p.32/33

I.2 Understanding Strategy Development

3 Basic Models of Strategy-types

Intended strategies which…

1. …are realized
2. …are not realized
3. Strategies which are never intended but realized

➔ However: Ensure the survivability of a system trough setting priorities, using strategies.

Understanding Strategy Development – the three lenses

A design view of strategy refers to the deliberate positioning of the organization through a rational, analytic structured and directive process.

Understanding strategy development (p.38)

How strategy development can be seen
THREE STRATEGY LENSES
- Strategy as design
- Strategy as experience
- Strategy as ideas

How strategy development processes can be understood
- Strategic planning systems
- Strategic leadership
- Organizational politics
- Logical incrementalism
- The learning organization
- Imposed strategy

Implications for strategy development
- Intended and realized strategy
- Strategic drift
- Strategic management in uncertainty and complexity

Design lens: Strategy development can be a logical process in which economic forces and constraints on the organization are weighed carefully through analytic and evaluative techniques to establish clear strategic direction and in turn carefully planned in its implementation is perhaps the most commonly held view about how strategy is developed and what managing strategy is about. → top management's responsibility

Experience lens: Future strategies of organizations are based on the adaptation of past strategies influenced by the experience of managers and others in the organization; and are taken for granted assumptions and ways of doing things embedded in the cultural processes of organizations. Different views and expectations → processes of bargaining and negotiation

Idea lens: The potential variety and diversity which exists in organizations and which can potentially generate novelty (Neuheit). Strategy is not so much seen as planned from the top but emergent from within and around the organization as people cope with an uncertain and changing environment in their day-to-day activities. New ideas are likely to have to battle for survival against the forces for conformity to past strategies that the experience lens explains.

Three strategy lenses (p.60)

All three lenses help explain different strategy development processes that are observable in organizations.

	STRATEGY AS: DESIGN	EXPERIENCE	IDEAS
Overview/ Summary	Deliberate positioning through rational, analytic, structured and directive processes	Incremental development as the outcome of individual and collective experience and the taken for granted	Emergence of order and innovation through variety and diversity in and around the organisation
Assumptions about organisations	Mechanistic, hierarchical, logical	Cultures based on history, legitimacy and past success	Complex systems of variety and diversity
Role of top management	Strategic decision makers	Enactors of their experience	'Coaches', creators of context and 'champions' of ideas
Implications for change	Change = implementation of planned strategy	Change incremental with resistance to major change	Change incremental but occasionally sudden
Underpinning theories	Economics; decision sciences	Institutional theory; theories of culture; psychology	Complexity and evolutionary theories

Source: own design (top); scanned from the book on p.60 (bottom)

Strategic Planning

Strategic planning systems take the form of highly systematized, step by step, chronological procedures involving many different parts of an organization. This approach to strategic management has several potential benefits:

- It can provide a structured means of analysis and thinking about complex strategic problems, requiring managers to question and challenge the received wisdom (Weisheit) they take for granted
- It can encourage a longer-term view of strategy than might otherwise occur
- It can be used as a means of control by regularly reviewing performance and progress against agreed objectives or previously agreed strategic direction
- It can be a useful means of co-ordination, *e.g. by bringing together the various SBU strategies within an overall corporate strategy, or ensuring that resources within a business are co-ordinated to put strategy into effect*
- Strategic planning may also help to communicate intended strategy; it can be used as a way of involving people in strategy development, therefore perhaps helping to create ownership of the strategy

Strategic Leadership

A strategic leader is an individual upon whom strategy development and change are seen to be dependent. They are individuals personally identified with and central to the strategy of their organization: their personality or reputation may result in others willingly deferring to such an individual and seeing strategy development as his or her province (Gebiet). Or an individual may be central because he or she was its owner or founder. It could also be that an individual chief executive has turned round a business in times of difficulty and, as such, personifies the success of the organization's strategy.

Organizational Politics

The political view of strategy development is, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders)

Logical Incrementalism

Logical incrementalism is the deliberate development of strategy by "learning through doing" or the "crafting" (Handwerk) of strategy.

Learning Organization

The concept of the learning organization sees strategy development as a learning process. The idea that top managers can formulate strategies implemented by others also becomes redundant because top managers are less in touch with such a complex and turbulent world than others within the organization. The learning organization is capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual (gegenseitig) questioning and challenge around a shared purpose or vision.

Intended, Realized and Imposed Strategies

Intended strategy is an expression of desired strategic direction deliberately formulated or planned by managers.

Realized strategy means the strategy actually being followed by an organization in practice.

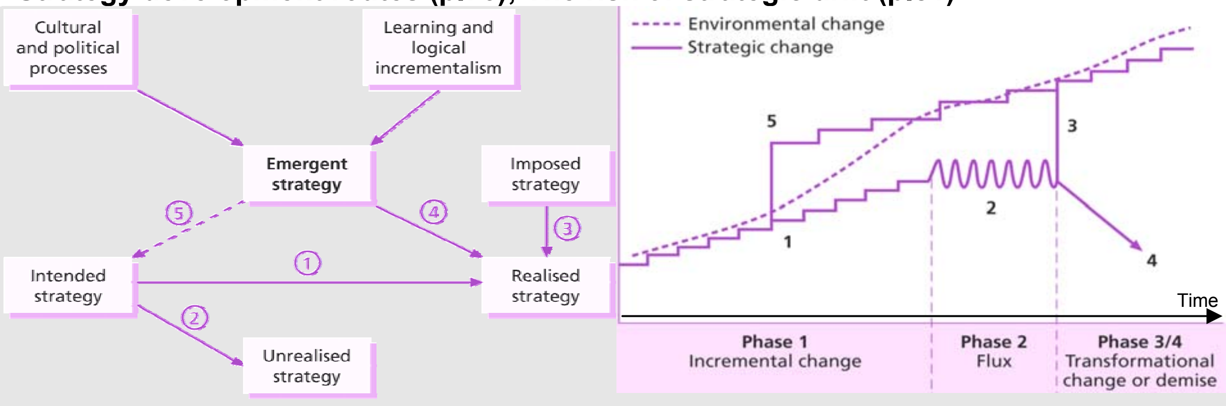
Imposed strategy: There may be situations in which managers face the imposition of strategy by agencies or forces external to the organization. Government may dictate a particular

strategic course or direction – *e.g., in the public sector, or where it exercises extensive regulation over an industry* – or choose to deregulate or privatize an organization previously in the public sector.
The multinational corporation seeking to develop businesses in some parts of the world may be subject to governmental requirements to do this in certain ways, perhaps through joint ventures or local alliances.

Strategic Drift

Strategic drift occurs when the organization's strategy gradually (schrittweise) moves away from relevance to the forces at work in its environment. Even the most successful companies may drift. This pattern of drift is made more difficult to detect and reverse because changes may achieve some short-term improvement in performance, thus tending to legitimize the action taken.

Strategy development routes (p.76); The risk of strategic drift (p.81)

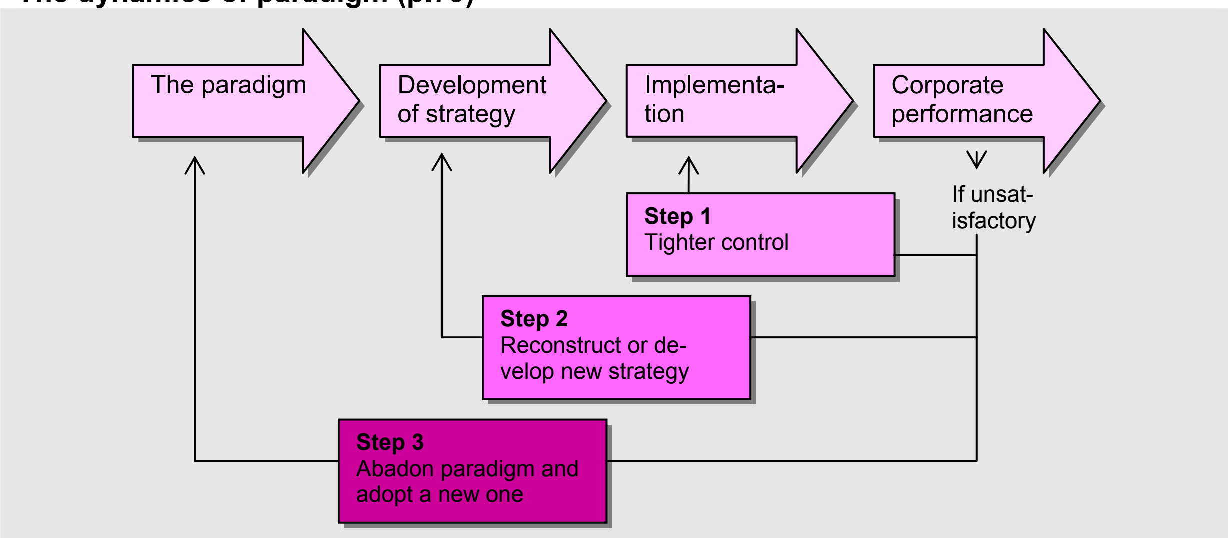


Source: scanned from the book on p.76 and 81

In terms of strategy development punctuated equilibrium refers to a history of strategy development where there are infrequent but fundamental changes in strategic direction.

A paradigm (Denkroutine) is the taken for granted assumptions and beliefs of members of the organization.

The dynamics of paradigm (p.79)



Source: own design

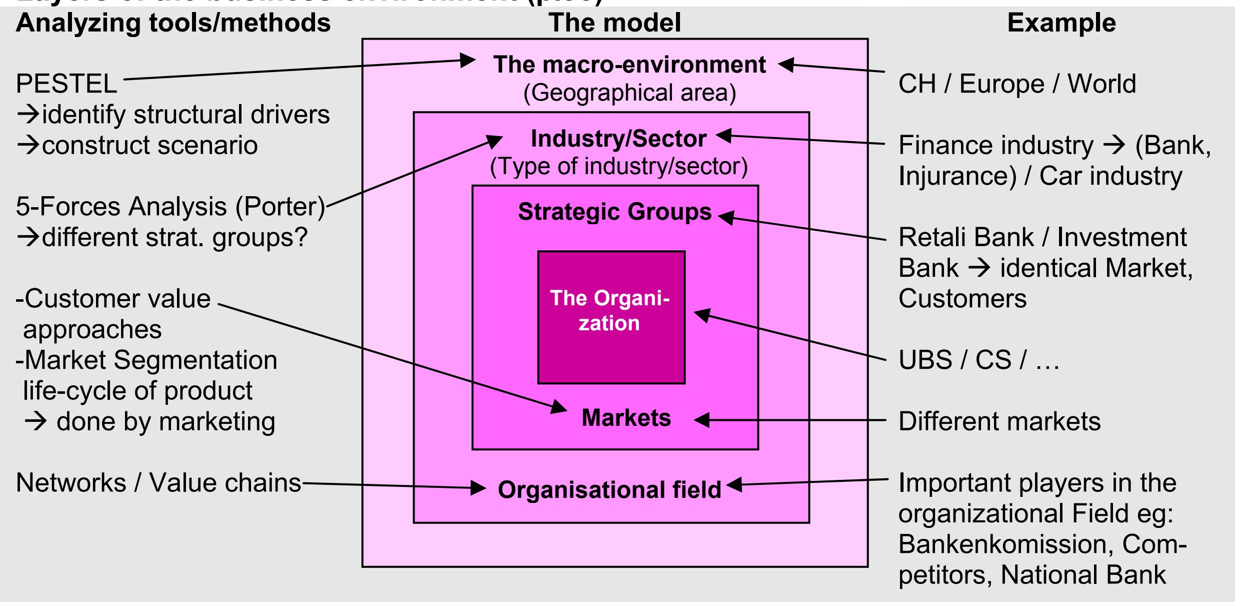
➔ Read trough SUMMARY on p.84 – 86

II.3 The Environment → outside the Organization

Layers of the Business Environment

Understanding the environment of an organization is very important because of the diversity, speed of change and complexity.

Layers of the business environment (p.98)



Source: own design

Environmental scanning assists in auditing macro environmental influences, identifying key competitive forces, identifying competitive position, identify key opportunities and threats.

→ Example of environmental influences on p.100/101

PESTEL

The PESTEL framework can be used as a checklist to understand the different environmental influences in the macro environment. There are six main types:

- **Political** *(Government stability, Taxation policy, Foreign trade regulations, …)*
- **Economic** *(Business cycles, GNP trends, Interest rates, Inflation, …)*
- **Social** *(Population demographics, Income distribution, Lifestyle changes, …)*
- **Technological** *(Govt. spending on research, New discoveries/development, …)*
- **Environmental** *(Environm. protection laws, Waste disposal, Energy consumption, …)*
- **Legal** *(Monopolies legislation, Employment law, Health & safety, Product safety, …)*

→ Macro-environmental influences – the PESTEL framework on p.102

So it is particularly important that PESTEL is used to look at the future impact of environmental factors which may be different from their past impact. Also environmental forces that will be especially important for one organization may not be so important for another. Usually it will be the combined effect of some of these separate factors that will be so important rather than the factors separately.

Structural Drivers of Change

These are forces likely to affect the structure of an industry, sector or market.
(E.g. Globalization is driven by: market convergence, global competition, government influence and cost advantages)

→ Drivers of globalization on p.104

The differential impact of environmental driver's means: The same environmental changes will be an opportunity (Chance) for some strategies and a threat to other strategies.

Scenarios

Scenarios are useful to develop a view of an environment which has a high degree of uncertainty, also to develop a long term view (~5 years) of strategy, build plausible views of different possible futures and develop a long term view of strategy. It is a detailed and plausible view!

Building a Scenario in three steps: *(E.g. Aldi / Lidl in Switzerland)*

1. The building of the scenarios around the key drivers influencing the success *(Customer, Competitors, Suppliers, NGO's)*
2. The development of strategies (or contingency plans) for each scenario *(Customers.: Don't accept discount strategy, Competitors: Price cuts; Suppl: No willing to supply; NGO's: Oppositions)*
3. The monitoring of the environment to see how it is actually unfolding and adjusting strategies and plans accordingly *(Developing strategy and being prepared for almost any situation)*

→ Example on p.108/109

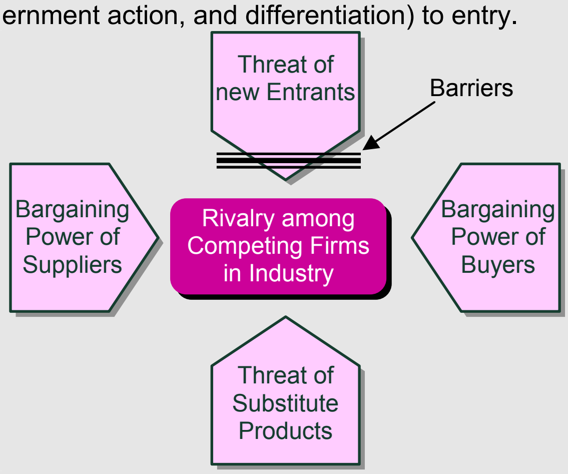
It is not inconceivable (unvorhersehbar) that several scenarios could unfold over time requiring significant adjustments to the strategy.

Five Forces (Sources of Competition)

The framework is a means of identifying the forces which affect the level of direct competition between organizations with similar products & services aimed at the same customer group.

The five forces framework (p.113)

The **Threat of Entry** depends on the extent to which there are barriers (economies of scale, capital requirements, access to distribution channels, experience, expected retaliation, legislation or government action, and differentiation) to entry.



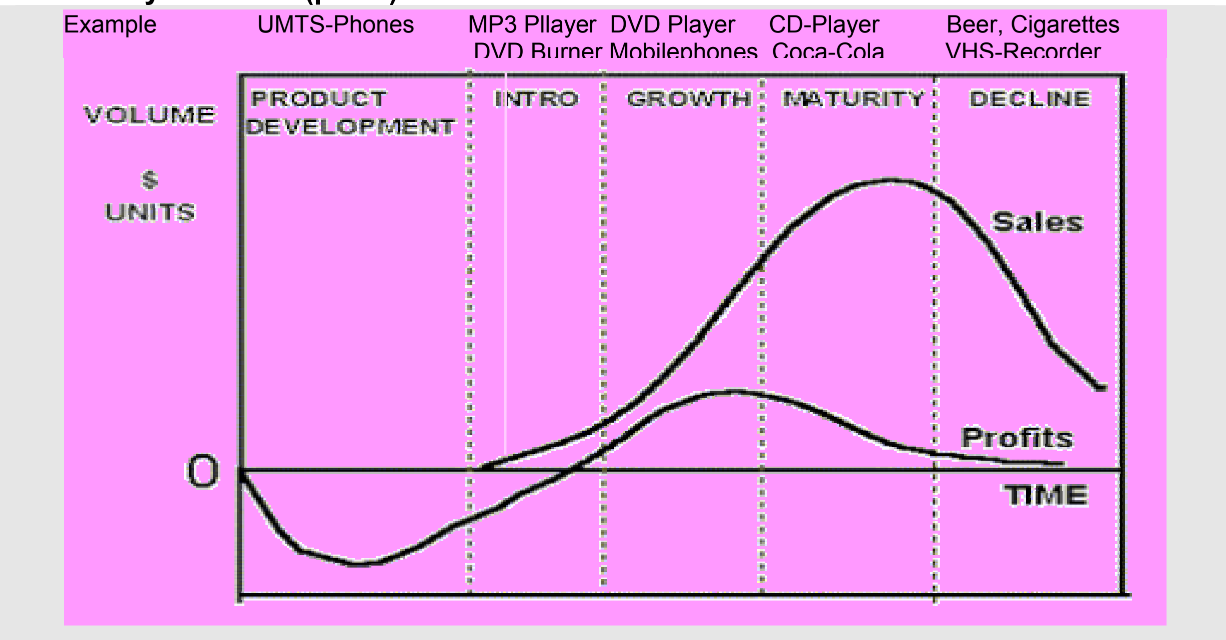
The **Power of Buyers and Suppliers**. These two forces are linked. The relationship with buyers and sellers can have similar effects in constraining the strategic freedom of an organization and in influencing the margins of that organization.

The threat of substitutes may be high if Customers can get a better deal with new products

The **Threat of Substitutes** reduces demand for a particular "class" of products as customers switch to the alternatives. Substitution can be of three types: product-for-product substitution, substitution of need and generic substitution.

Source: own design

The life-cycle model (p.119)



Source: http://www.otterbein.edu/home/fac/brccbly/courses/images/plc.gif

→ Impacts more precisely explained on p.113 – 119 including life-cycle model

Hypercompetition

Hypercompetition occurs where the frequency, boldness (Kühnheit) and aggressiveness of dynamic movements by competitors accelerates to create a condition of constant disequilibrium and change. Longer-term competitive advantage is gained through a sequence of short-lived moves.

Strategic Groups

Strategic groups are organizations within an industry with similar strategic characteristics, following similar strategies or competing on similar bases. (E.g., size, breadth of product range, geographical coverage, quality or service levels or marketing spend, Size of org.)

→ Details on p.123

This concept helps understand who are the most direct competitors of any given organization, on what basis competitive rivalry is likely to take place within each strategic group and how this is different from one group to another. It can also help identify mobility barriers between groups, which may be substantial. The concept is also useful in identifying potential opportunities and threats to organizations – particularly the exploitation of strategic "spaces" that are unfilled but become viable as a result of changes in the macro-environment, such as technological change or de-regulation.

Markets – Market segments, Strategic gaps

Market Segmentation identifies similarities and differences between groups of customers or users in terms of their needs and what they value in a product or service.

Since customer needs may vary for a whole variety of reasons it is important to consider which bases of segmentation are most important in any particular market such as: demographic characteristics; industrial classification of buyers; direct buying versus those purchase through intermediaries; purchase value and so on.

→ Some bases of market segmentation on p.128

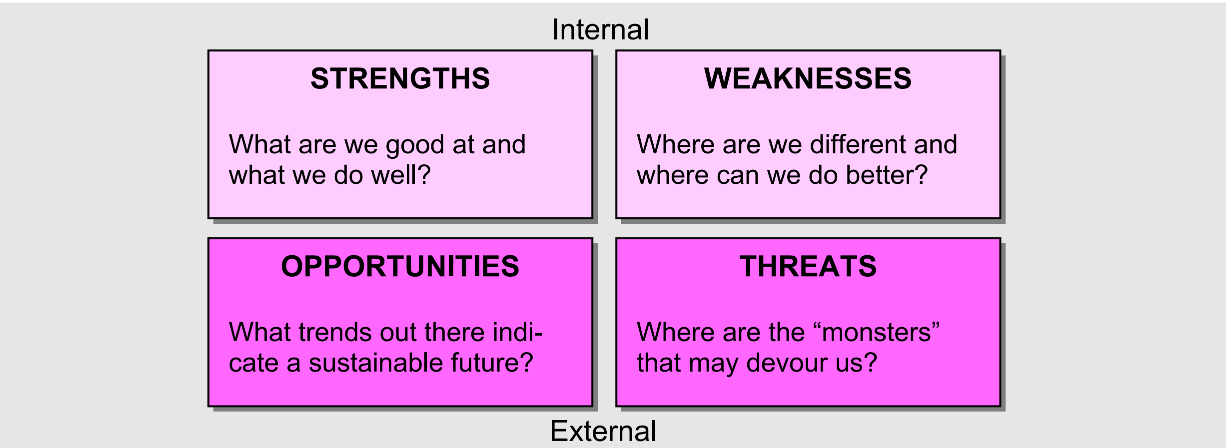
In order to undertake Market Segmentation the following ought to be considered:

- What are our unique competences?
- Should we focus on a specific segment - is it attractive?
- How will we segment, what is our relative market share compared to our competitors?

Strategic gaps are market space or new opportunities.

SWOT-Analysis

A SWOT analysis summarizes the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development. This can also be useful as a basis against which to judge future courses of action. The aim is to identify the extent to which the current strengths and weaknesses are relevant to, and capable of, dealing with the changes taking place in the business environment. It can also be used to assess whether there are opportunities to exploit (ausbeuten) further the unique resources or core competences of the organization. Overall a SWOT analysis should help focus discussion on future choices and the extent to which an organization is capable of supporting these strategies.



Source: own design

SWOT summarizes the business environment in which an organization operates (light colored fields) and the strategic capability of an organization (dark colored fields).

➔ Read trough SUMMARY on p.134/135

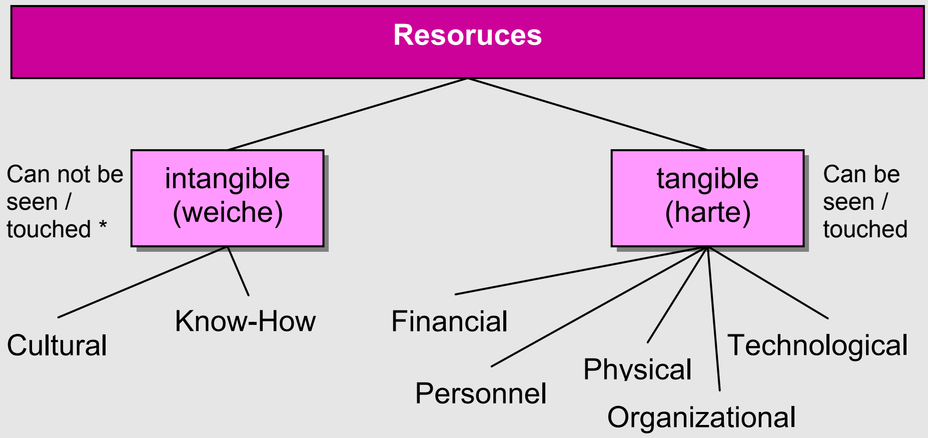
II.4 Strategic Capability → in the Organization

→ Introduction scheme: The roots of strategic capability on p.146

Resource-oriented Strategy

In the center of this approach are:

- The SWOT-analysis of the organization
- The optimization of the intra-corporate (unternehmensinternen) resources



** E.g. Company 3M → they are in lots of markets and very innovative, but you can not touch it, its part of the companies culture.*

Source: own design

Critical Success Factors (CSFs)

Critical success factors (CSFs) are those product features that are particularly valued by a group of customers and, therefore, where the organization must excel to outperform competition. They will differ from one market segment to another since different customer groups value different product features. Therefore organizations will need to compete on different bases and through different resources and competences. In some industries these resources and competences may be relatively easy to imitate by competitors in the medium-term. Consequently, competitive advantage needs to be secured by continually shifting the ground of competition. So a core competence could be the processes of innovation – which requires the knowledge to link together many separate areas of knowledge. Sometimes the requirements of both customers and founders matter but they may value different things and these may be difficult pressures to reconcile (abgleichen).
Critical Success Factors in the public sector usually relate to more than one stakeholder.
→ Resources, competences and competitive advantage p.154

Core Competences

Core competences are activities or processes that critically underpin (untermauern) an organization's competitive advantage. They create and sustain the ability to meet the critical success factors of particular customer groups better than other providers in ways that are difficult to imitate. In order to achieve this advantage, core competences must be in an activity or process that fundamentally underpins the value in the product or service features – as seen through the eyes of the customer (or other powerful stakeholder) → performed better than competitors and robust *e.g. difficult for competitors to imitate.*
Core competences are more likely to be related to the whole process by which continuous change and improvement occurs. Robustness will be greater where competences are em-

bedded in culture – to the extent that managers themselves have difficulties in fully explaining what underpins success.

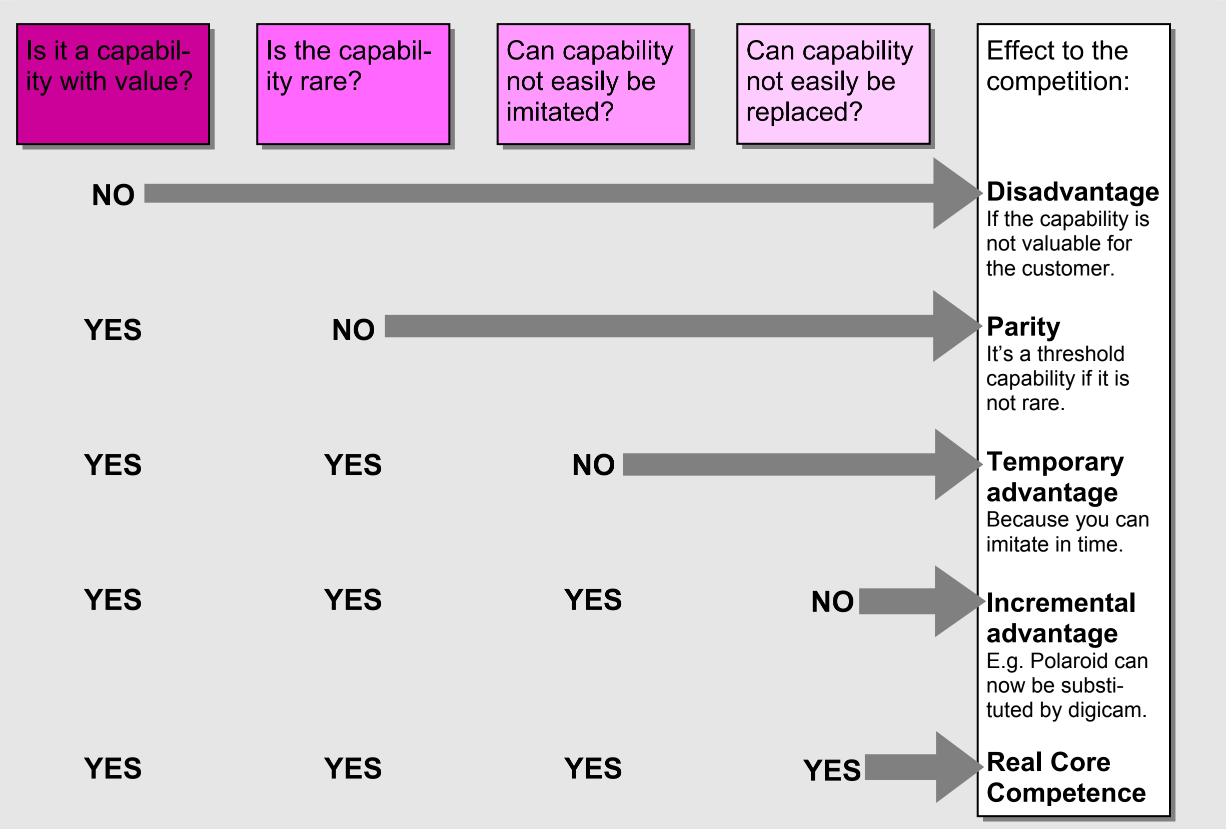
Core competences are:
"A **set** of differentiated skills, complementary assets, and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business."

E.g. Mc Donald's → same quality all over the world (standardized production, ingredients, quality control)

A core competence may also be the basis on which new strategies are built – for example by extending into new markets.

Core Competences should:
- Add value to the buyer of the product or service
- Be developed from scratch (von Grund auf) → protection from imitation
- Be performed better than competitors
- Be rare in the market and complex
- Be fixed in the culture of the organization → long time of development
- Be based on a multiple knowledge-basis → not a "single star"
-

From the capability to a real core competence – "Never forget the market!"

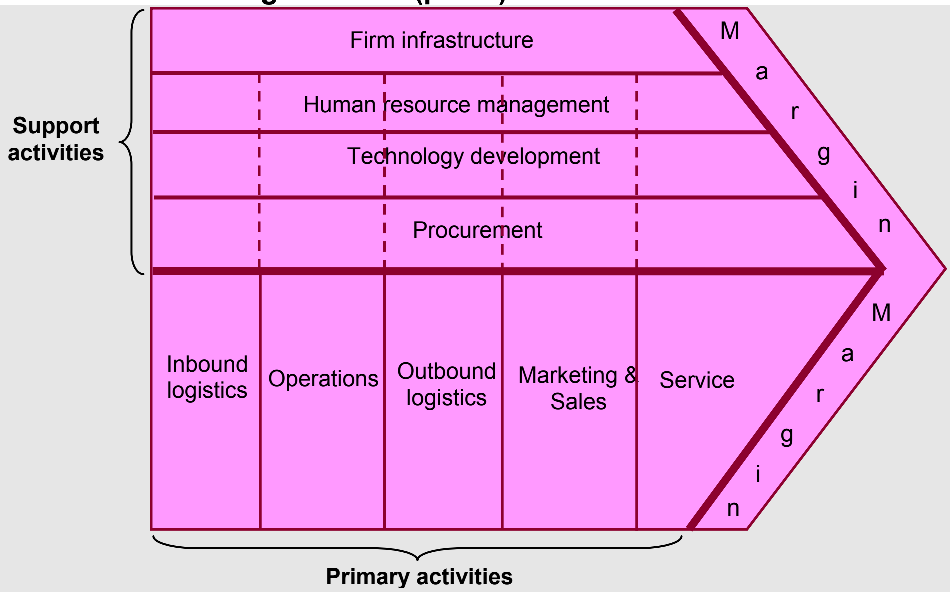


Source: own design; taken from the script (von Krogh 1991)

Value Chain and Cost Efficiency

The **value chain** concept can be helpful in understanding how value is created or lost. It describes the activities within and around an organization which together create a product or service. It is the cost of these value activities and the value that they deliver that determines whether or not best value products or services are developed.

The value chain within an organization (p.161)



What is important in the value chain:

- How much value added in the whole
- Costs / Value for each step → financial consideration
- Lead time
- Quality / Customer satisfaction / Differentiation

Note: Procurement (Einkauf) is a support activity, while Inbound logistics is a primary activity

Source: own design

In most industries it is rare for a single organization to undertake in-house all of the value activities from the product design through to the delivery of the final product or service to the final consumer. There is usually specialization of role and any one organization is part of the wider value system. The value system is the set of inter-organizational links and relationships which are necessary to create a product or service. → Much of the cost and value creation will occur in the supply and distribution chains.

Competitive advantage through linkages between the organization and its value system can be achieved by examining supplier specifications, common merchandising, and applying quality management principles or by collaborating with other organizations in the form of strategic alliances or joint ventures.

Cost efficiency is a measure of the level of resources needed to create a given level of value and is determined by Supply Costs, Experience, Product/Process Design and Economies of Scale.

Benchmarking

Benchmarking compares an organization's performance against "best in class" performance, wherever that is found. Not "best in class" organizations face threats from other organizations that achieve dramatic improvements in performance on particular value activities or through how activities are linked together. So benchmarking these issues could "break the frame" within organizations about the performance standards to be achieved.
Of course organizations can view this in a positive rather than a threatening light. Benchmarking can be used to spot opportunities to dramatically outperform the incumbent providers (amtsinhabende Verantwortliche) by organizations who are particularly competent at certain activities or business processes. But benchmarking will only provide the "shock" that should encourage managers to understand better how to improve their competences.

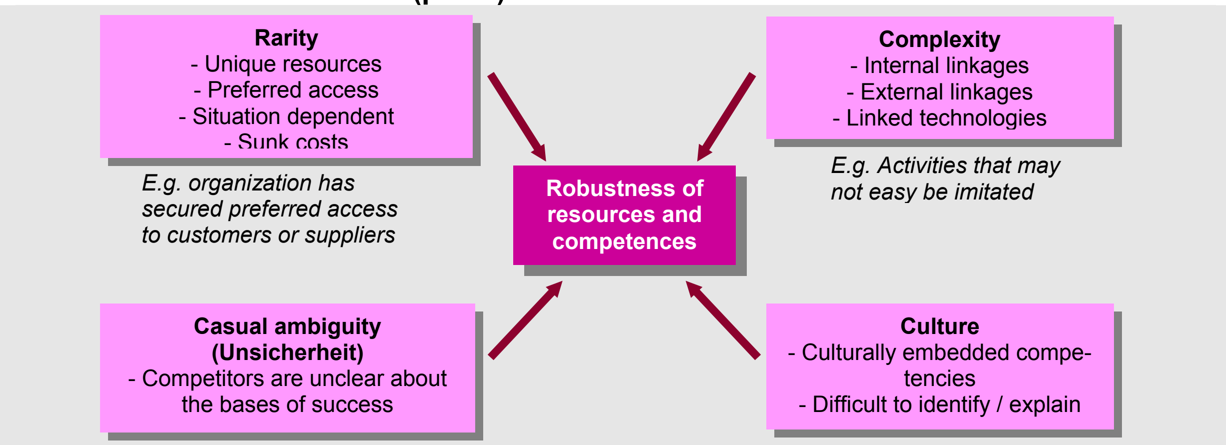
Historical comparison examines organizational performance against:
- The organization's competitors
- The last six months of organizational trading
- The organization's previous five years' trading

Industry norms compare:
- Organizational performance between firms/public sector organizations in different industries or sectors
- Organizational performance between firms/public sector organizations in the same industry or sector
- Organizational performance between organizations in different countries

Robustness

Robustness concerns the extent to which unique resources or core competences are difficult for competitors to imitate. There are four main Reasons:

Four sources of robustness (p.175)



Robustness of competences is more likely when linkages in the value system are exploited

Source: own design

Knowledge

Knowledge is defined as awareness, consciousness or familiarity gained by experience or learning and is central to many issues in strategic management. Knowledge may also be an organizational core competence in that it provides competitive advantage. But for this to occur it must be difficult to imitate and embedded in an organization's culture.

Knowledge creation process (p.180)

FROM \ TO	Tacit (still) knowledge	Explicit knowledge
Tacit (still) knowledge	**Socialization** (sympathized knowledge) *E.g. you know much about something → you know all tricks about the tax system*	**Externalization** (conceptual knowledge) *E.g. tax expert tells you about the secrets / hints in the tax system (writes book)*
Explicit knowledge	**Internalization** (operational knowledge) *E.g. you get knowledge about the tax system by working as tax advisor*	**Combination** (systematic knowledge) *E.g. you explain someone a new introduced tax law*

Source: own design

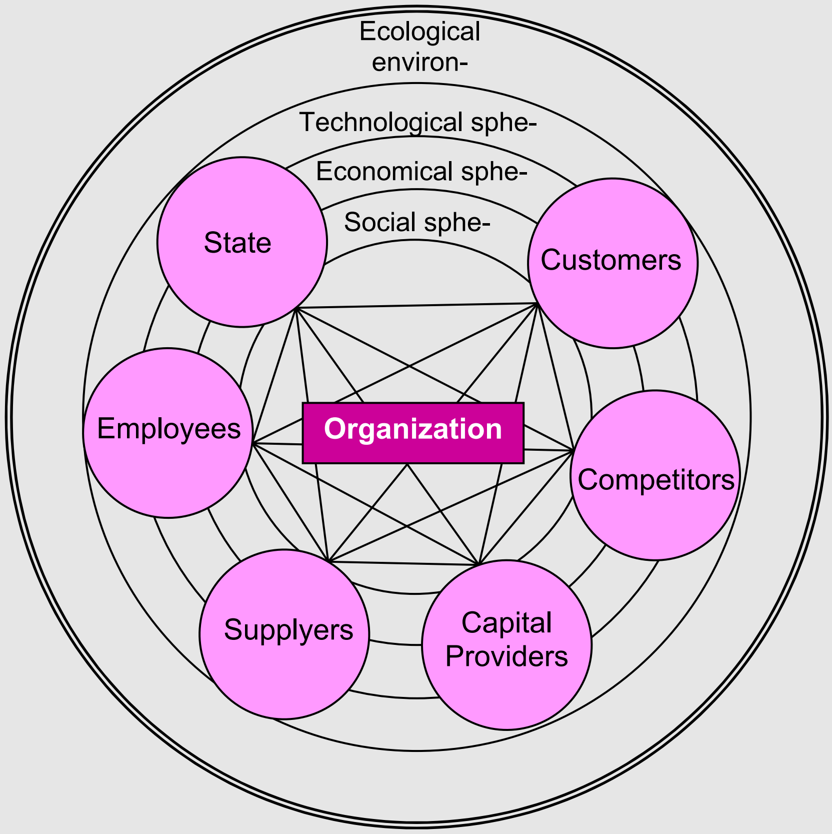
➔ Read trough SUMMARY on p.183/184

II.5 Expectations and Purposes

→ Expectations and Purposes – the exhibit for the introduction on p.194

Shareholder vs. Stakeholder value

Company Model



Is the duty of the management: to increase wealth of shareholder (**shareholder value** approach) or agreements with different groups (**stakeholder value** approach → note shareholders are one group among the stakeholders)?

Due to the fact that the Organization is not living in a vacuum but surrounded by groups with expectations it is important to ask for the different expectations of these groups surrounding the company!

Source: own design; taken from script (klassisches St. Galler Management Modell von Ulrich)

Shareholder value: (Equity, co owner of company, dividend according company's P/L)
≠ Bondholder (Debt, interest every year → payback after fixed period)
Value for the owner of the company:

Company Value	← How do we define company value?
- Debt / Capital from outside	- Traded on stock: #shares * stock exchange value
Net Company (shareholder-) Value	- Not traded: Future earnings / potential of company: = Net present value + residual value (perpetual CF) + market value of non operational assets (see ACC)

Management has to improve capability of company to improve future earnings:
Earnings↑ → future earnings↑ or interest rate↓ → future earnings↑
➔ Focus on core business to make clear statements about the organizations activity. But this could be critical, because now your existence depends on core business!

The owner of the organization is at the en of the P/L statement. So his earnings are influenced by all other stakeholders. *E.g. customers want low prices, suppliers want high payment, employees want high wages,…* So, he has to optimize the expectations of all others.

Governance Framework

The governance framework describes whom an organization is there to serve and how the purposes and priorities of the organization should be decided. It is concerned with both the functioning of the organization and the distribution of power among different stakeholders. The issue of corporate governance has arisen for two main reasons:

- The practical need to separate ownership and management control of organizations is now the norm (except very small businesses). The result: most organizations operate within a hierarchy or chain of governance. The managers who are driving strategy in the organization may be very remote from the ultimate beneficiaries of the company's performance. It is likely that many beneficiaries are ignorant of or indifferent to the details of companies in which their money is invested. Many beneficiaries look only on their interests.
- There is an increasing tendency to make organizations more visibly not only to owners *(e.g. shareholders)*, but also to other stakeholder groups → Conflicts of interest between different groups and for individual managers or directors as they try to balance the various interests. An important question in large publicly quoted corporations is whether corporate managers should regard themselves as solely responsible to shareholders (which shareholders?). Or should they have a wider responsibility as "trustees of the assets of the corporation" on behalf of a wider range of stakeholders.

If manager = Owner → no Corporate Governance needed

If manager ≠ Owner → conflict in interests (principle-agent problem) → Corp. Gov. needed: Manager has more knowledge than owner → Owner has to give Manager incentive for long term interests.

In turnaround situations:	**People in Boards:**	**Cross relations in Corporate Governance:**
Its good if CEO = Bord of directors → fast acting	Often "nice to be there", but no sense about the business	Difficult to handle *(E.g. from different countries, or Politics and Members of Banks interlinked)*

Source: own design

→ Strengths and weaknesses of governance systems on p.200

Some common conflicts of expectations (p.207)

- In order to grow, short-term profitability, cash flow and pay levels may need to be sacrificed *→ Kodak invested in digital field to catch up*
- "Short-termism" may suit managerial career aspirations but preclude investment in long-term projects *→ failure of "Chainsaw Al" discounted on products*
- When family business grow, the owners may lose control if they need to appoint professional managers
- New developments may require additional funding trough share issues or loans. In either case financial independence may sacrificed *→ Amazon raise new capital (see case)*
- Public ownership of shares will require more openness and accountability from the management
- Cost efficiency trough capital investment can mean job losses *→ Banks, Insurances need less people due to efficient computers*
- Extending into mass markets may require a decline in quality standards *→ Mercedes*
- In public services, a common conflict is between mass provision and specialist services *(e.g. preventive dentistry or heart transplants). → is mass healthcare or special service more important?*
- In public services, savings in one area *(e.g. social security benefits)* may result in increased spending elsewhere *(e.g. school meals, medical care). → new rule in unemployment benefit → shorten length of time → increase in social benefit paying*
- In large multinational organizations, conflict can result because divisions "belong" to two organizational fields – the company an the host country *→ Sabena belonged to 2 organizational fields*

Source: own design

Stakeholders

Stakeholders are those individuals or groups who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends. Few individuals have sufficient power to determine unilaterally the strategy of an organization. Influence is likely to occur only because individuals share expectations with others by being a part of a stakeholder group. Also important are external stakeholders of the organization (financial institutions, customers, suppliers, shareholders and unions). They may seek to influence company strategy through their links with internal stakeholders. For example, customers may pressurize sales managers to represent their interests within the company.
Individuals may belong to more than one stakeholder group and stakeholder groups will “line up” differently depending on the issue or strategy in hand. Often it is specific strategies that trigger off the formation of stakeholder groups. For these reasons, the stakeholder concept is valuable when trying to understand the political context within which specific strategic developments would take place.

Stakeholder mapping: the power / interest matrix (p.208)

		Level of interest	
		Low	High
Power of Stakeholder	Low	**A** Minimal effort	**B** Keep informed *E.g. Suppliers with alternatives (mass market)*
	High	**C** Keep satisfied *E.g. Customer*	**D** Key players *Treat carefully!!!* *E.g. Union → strike*

Source: own design

Power

Power is the ability of individuals or groups to persuade induce or coerce others into following certain courses of action. This is the mechanism by which one set of expectations will dominate strategic development or seek compromise with others.
→ Various sources of power see Exhibit 5.6 on p.213

Also the relative importance of these sources will vary over time. Indeed major changes in the business environment – such as de-regulation or the advent of cheap and powerful IT-can drastically shift the power balance between organizations and their stakeholders.
Since there are a variety of different sources of power, it is often useful to look for indicators of power, which are the visible signs that stakeholders have been able to exploit one or more of the sources of power. There are four useful indicators of power:

- The status of the individual or group (such as job grade or reputation)
- The claim on resources (such as budget size)
- Representation in powerful positions
- Symbols of power (such as office size or use of titles and names)

No single indicator is likely fully to uncover the structure of power within a company. However, by looking at all four indicators, it may be possible to understand which people or groups appear to have power by a number of these measures.

Business Ethics

Business ethics are about the societal expectations of organizations and how these impact on an organization's purposes and exists at three levels.

- **Macro Level:** there are issues about the role of businesses and other organizations in the national and international organization of society - the broad ethical stance of an organization. Expectations range from laissez-faire free enterprise at one extreme and organizations as shapers of society at the other. There are also important issues of international relationships. Managers need to understand the factors which influence these societal expectations of organizations how they are expected to be to the influence of the various stakeholders.
- Within this **macro framework**, corporate social responsibility is concerned with the specific ethical issues facing corporate entities. This concerns the extent to which the organization should move beyond the minimum obligations provided through regulation and corporate governance, and how the conflicting demands of different stakeholders can be reconciled.
- At the **individual level**, it concerns the behavior and actions of individuals within organizations - in particular the role of managers in the strategic management process.

Stakeholder mapping: power / interest matrix (p.241)

	Ethical Stance Legal minimum (we do what's not prohibited)	Ideological (ethical stance)
Drivers of Strategy Internal managers	**Secretive** Most of private companies. *E.g. Banks* → not "mission in live"	**Evangelical** Mission, Ideology → change the world / society. *E.g. Migros, Denner*
Drivers of Strategy External stakeholders	**Regulations and procedures** *E.g. Educational system, Restaurants (← Hygiene)*	**Political** Unions *E.g. Service Public discussion, Train- and Postsystem*

Ethical focusing:

- Immoral organization *"Win at all cost"*
- Legalistic company *"Law abiding, but not more"*
- Morally sensible *"Act ethically could be good"*
- Ethical engaged *"Want to act ethically but it's not deeply fixed in the culture"*
- Ethical Organization *"Ethic is central aspect"*

Sources: own design

Corporate Social Responsibility = Corporate Citizenship (excl. religion)

Corporate social responsibility is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified through regulation and corporate governance. *E.g. how the conflicting demands of different stakeholders can be reconciled*. It is useful to distinguish between **customers, suppliers or employees** (legal relationship with an organization) and **community stakeholders** (local communities, consumers and pressure groups) who do not have the protection of the law to the same extent as the first group. Therefore the corporate social responsibility policies of companies will be particularly important to these community stakeholders and "doing well for community, ecology, and future". *E.g.*

- *"Global Compact" → general values/norms (human rights, labor-norms, protection of the environment) → problem: no sanctions against people who violate and no control mechanism*
- *Migros non food Verhaltenskodex → rule of conduct for non food suppliers. Rules are controlled by Migros*

→ Questions of corporate social responsibility see Exhibit 5.8 on p.221

Organizational Field

An organizational field is a community of organizations that partake (teilhaben) of a common meaning system and whose participants interact more frequently with one another than with those outside the field (cohere around common norms and values). Each organization in the field may exercise a different type of influence: *E.g. exercise regulative authority over the organization (state agency), reflect influence of societal norms (the local community), share common assumptions about acceptable/wise practice (customers, suppliers, competitors)* But the point is that the organizational field is both the organizations comprising it and the assumptions they adhere to. So operating in that field means that organizations typically conform to those assumptions to be legitimate.

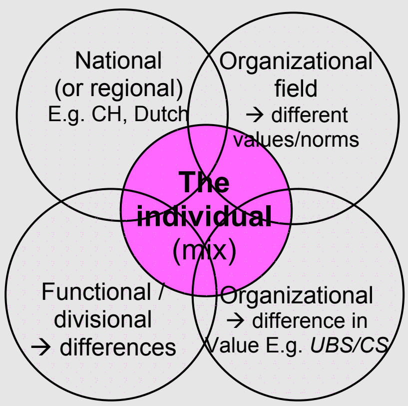
Cultural Web

The cultural web is a representation of the taken-for-granted assumptions, or paradigm, of an organization and the physical manifestations of organizational culture. The elements of the cultural web are:

- The routine ways that members of the organization behave towards each other, and towards those outside the organization, make up ‘the way we do things around here’.
- The rituals of organizational life are the special events through which the organization emphasizes what is particularly important and reinforces ‘the way we do things around here’.
- The stories told by members of the organization to each other, to outsiders, to new recruits and so on, embed the present in its organizational history and also flag up important events and personalities.
- Symbols (logos, offices, cars and titles, or type of language and terminology) commonly used, become a short-hand representation of the nature of the organization.
- Power structures - the most powerful groupings within the organization are likely to be closely associated with this set of core assumptions and beliefs.
- The control systems, measurements and reward systems emphasize what it is important to monitor in the organization, and to focus attention and activity upon.
- Organizational structure is likely to reflect power structures and, again, delineate important relationships and emphasize what is important in the organization.
- The paradigm of the organization encapsulates and reinforces the behaviors observed in the other elements of the cultural web.

The cultural web is, then, a useful concept for understanding the underlying assumptions, linked to political, symbolic and structural aspects, of an organization.

Cultural frames of reference (p.222); Culture in three layers (p.228)

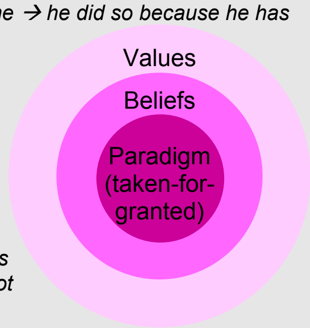


If you compare this with the cultural web (see Exhibit 5.11 on p.230) you see, that the paradigm is **behind** the reasons and influencing areas, whereas in the Cultural frames of references the individual values are a **mix**. A good example of the cultural web is in the book on p.232

→ See also Exhibit 5.13 Characterizing culture p.237

CH:Tax fraud (Betrug) ≠ tax evasion (Hinterziehung)
Core: *CH People are not happy to pay taxes but they are willing to burden their share (everybody is willing to pay his duty)*
Belief: *If CH citizen fills out tax form and does not mention an income → he did so because he has forgotten*
Value:
Tax evasion: not declare ≠ crime (forgotten)
Tax fraud: falsify document (knowingly) = crime

Bank secret saves tax evasion but not tax fraud



Source: own design

➔ Read trough SUMMARY on p.242/243

Nachwort: Ursachen des Erfolgs – Die Macht des Zufalls

Kann man vom Erfolg auf die Gründe des Erfolgs schliessen? Nicht unbedingt. Trotzdem begehen viele diesen Kardinalfehler fast täglich. Ein Beitrag über die menschliche Gier nach Erfolgsprinzipien.

Von Rolf Dobelli, 19.06.2004

Nehmen wir an, eine Million Affen spekulieren an der Börse; nach dem Zufallsprinzip kaufen und verkaufen sie Aktien. Nach einem Jahr wird ungefähr die Hälfte der Affen mit ihren Anlagen einen Gewinn eingefahren haben, die andere Hälfte einen Verlust. Nach zehn Jahren stellt man fest, dass etwa 977 Affen ihre Aktien immer richtig angelegt haben. Nach 20 Jahren wird noch genau ein Affe immer richtig investiert haben - ein Milliardär. Nennen wir ihn den Erfolgs-Affen.
Was passiert? Die Medien werden sich auf dieses Tier stürzen, um seine «Erfolgsprinzipien» zu ergründen. Bücher über seine Börsenstrategien werden geschrieben. In Fernsehsendungen wird sein Erfolg gefeiert und es werden Verbindungen zu seinem Lebensweg, seiner Erziehung, seiner Einstellung, seinem Charakter, seinem Studium hergestellt. Denn wie kann einer, der zwanzig Jahre lang immer richtig gelegen hat, bloss ein unwissender Affe sein?

Der erste Kardinalfehler
Die Moral von der Geschichte: Schliessen Sie nie vom Resultat auf den Prozess, nie vom Erfolg auf die Strategie. Aber das ist genau das, was wir in unseren Köpfen die ganze Zeit tun. Was wir in den Medien sehen oder im Betriebswirtschaftsstudium lernen, entspricht genau diesem Kardinalfehler. Stets wird ein erfolgreiches Unternehmen portraitiert, um im gleichen Zug irgendetwas für den Erfolg verantwortlich zu machen: die Strategie, die Führungsgrundsätze, die Forschungsinvestitionen. Aber fast nie werden die Fälle untersucht, wo mit denselben Strategien, denselben Führungsgrundsätzen, denselben Forschungsinvestitionen keine Erfolge produziert wurden.

Der Zufall spielt mit
Dasselbe gilt für Personen. Wir erfahren von erfolgreichen Leuten, und sogleich werden deren Lebensstrategien (Risikofreude, Optimismus, Ausbildung, Karriereweg) dafür verantwortlich gemacht. Aber niemals untersuchen wir die ganze Population von Menschen mit denselben Lebensstrategien und Talenten - ob erfolgreich oder nicht. Erst dann könnten wir nämlich herausfinden, ob diese Faktoren wirklich relevant sind. Die «Seven Habits of Highly Effective People» (Steven Covey) wird man ebenso häufig bei gescheiterten Existenzen finden wie bei den Erfolgreichen.
Ich behaupte nicht, Strategien hätten keinen Einfluss auf den Erfolg einer Firma oder einer Karriere. Ich behaupte bloss, dass sie viel weniger relevant sind. Mit anderen Worten: Der Zufall spielt eine viel grössere Rolle in unserem Leben, als wir wahrhaben wollen. Wie kann man zum Beispiel guten Gewissens behaupten, der CEO sei hauptsächlich für den Wert eines Konzerns verantwortlich? Was ist mit den tausend anderen Faktoren, die mit hineinspielen und vermutlich viel relevanter sind - Nachfrage, Konkurrenzprodukte, allgemeines Wirtschaftswachstum?

Unser Hirn weist Mängel auf
Wie kommt es, dass wir Verbindungen ziehen, wo keine bestehen? Dies ist das Thema von zwei soeben erschienenen Büchern. In «Warum immer ich?» beschreibt Jochen Wegner das menschliche Hirn als eine riesige Muster-Suchmaschine. Wir versuchen die ganze Zeit, Muster zu erkennen, auch dort wo es keine gibt. Unser Hirn ist hunderttausend Jahre alt - von seiner Struktur her ein ideales Hirn für Jäger und Sammler, aber nicht geeignet für eine

komplexe (Wirtschafts-)Welt wie die unsrige. Einzig und allein das Bewusstsein, dass unser Hirn gravierende Mängel aufweist, kann uns vor kapitalen Denkfehlern schützen - dies ist die zentrale Message von Nassim Talebs Buch «Fooled by Randomness».

Der verheerende Schluss
Wirklich verheerend wird die ganze Sache erst, wenn wir von der Vergangenheit auf die Zukunft schliessen. Kehren wir zu dem Affen-Beispiel zurück: Unser Erfolgs-Affe, bestätigt durch seine ununterbrochenen Errungenschaften am Aktienmarkt und durch die hundert Zeitungsartikel und Fernsehsendungen, die ihn gefeiert haben, verschuldet sich über beide Ohren, um sein ganzes Vermögen an der Börse nach seiner bisherigen Strategie zu investieren. Warum sollte er nicht? Schliesslich hat es zwanzig Jahre lang bestens funktioniert. Wir wissen: Mit einer Wahrscheinlichkeit von 50% wird er im 21. Jahr Schiffbruch erleiden.

Der zweite Kardinalfehler
Während der erste Kardinalfehler darin besteht, unbedacht Resultate und vermeintliche Ursachen zu verknüpfen, besteht der zweite Kardinalfehler darin, die so hergestellten «Erfolgsrezepte» in die Zukunft zu extrapolieren. Wie oft wird einer Firma ihr eigener Erfolg zum Verhängnis. Klassische Beispiele sind Kodak (jahrelanges Optimieren von Filmmaterialien, um plötzlich von der digitalen Revolution überrumpelt zu werden) oder ABB (jahrelanges, erfolgreiches Anhäufen von Tochtergesellschaften).

Die leidige Betriebswirtschaft
Langsam wird klar: Die Betriebswirtschaft ist keine Wissenschaft, sondern bestenfalls eine Heuristik, eine Pseudo-Wissenschaft. Solange ihre Vertreter die beiden Kardinalfehler weiter begehen, so lange wird uns die BWL keine Erkenntnisse liefern. Um fair zu sein: Keine andere Disziplin hat es mit einem so komplexen Objekt zu tun wie der Wirtschaft. Ausserdem sind wiederholbare Experimente in der Wirtschaft so gut wie unmöglich. Dass aber die Mehrzahl der Wirtschaftswissenschaftler ihre Einsichten nicht hinterfragt - dazu müssten sie sich explizit mit den untergegangenen oder erfolglosen Firmen beschäftigen - beweist, wie selbstgefällig diese Disziplin geworden ist. Dasselbe gilt für das Gebiet der Karriereliteratur. Auch hier werden wir von Vereinfachungen geradezu erschlagen. Leicht verdauliche «Erfolgsrezepte» werden an Erfolgsbeispielen «bewiesen», ohne zu hinterfragen, ob diese «Erfolgsrezepte» nicht auch bei den erfolglosen Personen zu finden sind. Dass Erfolg sehr stark vom Zufall abhängen könnte, wird gar nicht erst vermutet.

Sich von der Illusion lösen
Was tun? Erstens: Schliessen Sie niemals vom Erfolg auf die Strategie. Zweitens: Glauben Sie keinem BWL-Professor, der nicht auch Beispiele gescheiterter Unternehmen untersucht hat. Drittens: Lösen Sie sich von der Illusion, dass, was in der Vergangenheit funktioniert hat, auch in der Zukunft funktionieren wird. Vielleicht war es ja Zufall.

Glossary Chapter 1-5

Key word	Chapter/ Page	Definition
Barriers to entry	3/113	Bte are factors that need to be overcome by new entrants if they are to compete successfully
Best-in-class benchmarking	4/174	B-i-cb compares an organization's performance against "best in class" performance - wherever that is found
Business unit strategy	1/11	Bus is about how to compete successfully in particular markets
Competitive rivals	3/118	Cr are organizations with similar products/services aimed at the same customer group
Convergence	3/110	C is where previously separate industries begin to overlap in terms of activities, technologies, products and customers
Core Competences	4/156	Cc are activities or processes that critically underpin an organization's competitive advantage
Corp. social responsibility	5/220	Csr is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified trough regulation and corporate governance
Corporate-level strategy	1/11	C-ls is concerned with the overall purpose and scope of an organization and how value will be added to the different parts (business units) of the organization
Cost efficiency	4/166	Ce is a measure of the level of resources needed to create a given level of value
Critical success factors	4/151	CSFs are those product features that are particularly valued by a group of customers and, therefore, where the organization must excel to outperform competition
Cultural web	5/230	The Cw is a representation of the taken-for-granted assumptions, or paradigm of an organization and the physical manifestations of organizational culture
Design lens	2/41	The Dl views strategy development as the deliberate positioning of the organization trough a rational, analytic, structured and directive process
Effectiveness	4/168	E is the ability to meet customer requirements on product features at a given cost
Ethical stance	5/216	The Es is the extent to which an organization will exceed its minimum obligations to stakeholders and society at large
Experience lens	2/43	The El views strategy development as the outcome of individual and collective experience of individuals and the taken-for granted assumptions
Five forces framework	3/112	The Fff helps identify the sources of competition in an industry or sector
Governance framework	5/195	The Gf describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided
Historical comparison	4/172	Hc looks at the performance of an organization in relation to previous years in order to identify any significant changes
Hypercompetition	3/122	H occurs where the frequency, boldness and aggressiveness of dynamic movements by competitors accelerate to create a condition of constant disequilibrium and change
Ideas lens	2/50	The Il sees strategy as the emergence of order and innovation from the variety and diversity which exist in and around organizations
Individual experience	2/44	Ie: mental (or cognitive) models people build over time to help make sense of their situation
Industry	3/110	An I is "a group of firms producing the same principal product"
Industry norms	4/172	In compare the performance of organizations in the same industry or sector against a set of agreed performance indicators
Intended strategy	2/75	Is is an expression of desired strategic direction deliberately formulated or planned by managers
Key rigidities	4/179	Kr are activities that are deeply embedded and difficult to change and out of line with the requirements of new strategies
Knowledge	4/150	K is awareness, consciousness or familiarity gained by experience or learning
Learning organization	2/72	The Lo is capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision

Logical incrementalism	2/69	Li is the deliberate development of strategy by "learning trough doing"
Marked segmentation	3/127	Ms identifies similarities and differences between groups of customers of users
Mission statement	5/239	A Ms is a generalized statement of the overriding purpose of an organization
Objectives	5/241	O are statements of specific outcomes that are to be achieved
Operational strategies	1/12	Os are concerned with how the component parts of an organization deliver effectively the corporate- and business-level strategies in terms of resources, processes and people
Organizational culture	2/45	Oc is the "basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic taken-for-granted fashion an organization's view of itself and its environment"
Organizational field	3/126;223	An Of is a community of organizations that partake of a common meaning system and whose participants interact more frequently with one another than with those outside the field
Organizational fields	2/46	Of are networks of related organizations which share common assumptions, values and ways of doing things
Paradigm	2/48	A P is the set of assumptions held relatively in common and taken for granted in an organization
PESTEL framework	3/102	The PESTELf categories environmental influences into six main types: political, economic, social, technological, environmental and legal
Political view	2/66	The Pv of strategy development is, that strategies develop as the outcome of processes of bargaining and negotiation among powerful internal or external interest groups (or stakeholders)
Power	5/212	P is the ability of individuals or groups to persuade, induce or coerce others into following certain courses of action
Primary activities	4/160	Pa are directly concerned with the creation or delivery of a product or service
Punctuated equilibrium	2/78	Pe is the tendency of strategies to develop incrementally with periodic transformational change
Realized strategy	2/75	Rs, the strategy actually being followed by an org. in practice
Recipe	5/225	A R is a set of assumptions held in common within an organizational field about organizational purposes and a "shared wisdom" on how to manage organizations
Scenario	3/107	A S is a detailed and plausible view of how the business environment of an organization might develop in the future based on groupings of key environmental influences and drivers of change about which there is a high level of uncertainty
Stakeholder mapping	5/208	Sm identifies stakeholder expectations and power and helps in understanding political priorities
Stakeholders	5/206	S are those individuals or groups who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends
Strategic business unit	1/11	A SBU is a part of an organization for which there is a distinct external market for goods/services that is different from another SBU
Strategic choices	1/19	Sc involve understanding the underlying bases for the future strategy at both the corporate and business unit levels and the options for developing strategy in terms of both the directions and methods of development
Strategic drift	2/81	Sd occurs when the organization's strategy gradually moves away from relevance to the forces at work in its environment
Strategic fit	1/5	Sf is developing strategy by identifying opportunities in the business environment and adapting resources and competences so as to take advantage of these
Strategic groups	3/122	Sg are organizations within an industry with similar strategic characteristics, following similar strategies or competing on similar bases
Strategic intent	5/239	A Si is the desired future state or aspiration of an organization
Strategic leader	2/65	A Sl is an individual upon whom strategy development and change are seen to be dependent
Strategic management	1/16	Sm includes understanding the strategic position of an organization, strategic choices for the future and turning strategy into action
Strategic position	1/16	The Sp is concerned with the impact on strategy of the external environment, internal resources and competences, and the expectations and influence of stakeholders

Strategy	1/10	S is the direction and scope of an organization over the long term, which achieves advantage for the organization trough its configuration of resources within a changing environment and to fulfill stakeholder expectations
Strategy into action	1/21	Sia is concerned with ensuring that strategies are working in practice
Stretch	1/8	S is the leverage of these resources and competences of an organization to provide competitive advantage and/or yield new opportunities
Structural drivers of change	3/103	Sdoc are forces likely to affect the structure of an industry, sector or market
Substitution	3/115	S reduces demand for a particular "class" of products as customers switch to the alternatives
Support activities	4/161	Sa help to improve the effectiveness or efficiency of primary activities
SWOT	3/134;183	A SWOT analysis summarizes the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development
Unique resources	4/154	Ur are those resources which critically underpin competitive advantage
Value chain	4/160	The Vc describes the activities within and around an organization which together create a product/service
Value network	4/165	A Vn is a value system where the inter-organizational relationships are more fluid
Value system	4/161	The Vs is the set of inter-organizational links and relationships which re necessary to create a product or service

→ Glossary in the book p.1663

→ Index of Companies and Organizations in the book p.1068

→ General index in the book p.1070

Sources

Nearby all contents (text and exhibits) are taken from

- **the homepage:** http://wps.prenhall.com/ema_uk_he_johnson_excorpstrat_6
- **the textbook:** Exploring Corporate Strategy; Gerry Johnson and Kevan Scholes; 6th Edition; Pearson Education
- **the script:** Strategisches Management 1; Wintersemester 2004/2005; H. Wattenhofer; Zürcher Hochschule Wintertur
- **the class:** According instructions and explanations of the teacher

Some exhibits and texts are from online sources (see special source below the exhibit/text)