

Strategic Management Course

Oct. 2004 - June 2005

Summary slides of lessons 1 to 26

+ Selected presentations

+ Zipped SM

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Summary of Lessons 1 & 2

Strategic management is the decisive and administrative contextualisation of company actions so as to guarantee company performance.

SM is a framework in which a company encompasses its overall approach to its business.

A vision is a mental image of what the company will be or is striving to be.

The primary role of business strategy is to ensure that the internal context of a company matches the external context so as to guarantee (sustainable) performance.

Business Strategy is the framework of a company in which it intends to compete and obtain revenues.

Summary of Lessons 1 & 2

The internal context is defined as the companies internal assets, while the external context is the environment in which the company is competing.

Strategic planning is about what we have to do today so as to be ready for (an uncertain) tomorrow.

From Vision to Actions



Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

Summary of Lessons 1 & 2

Performance measures can also be non-monetary (both in profit and non-profit organisations)

Without goals and objectives it is impossible to establish if you have arrived!

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

Business strategy = Objectives, Products & Markets, Competitive advantage, Internal Context

Vision and Strategic thinking have a Top-Down approach

Keywords of Lessons 1 & 2

- Strategy
- Sun Tzu
- Business Model-Proposition
- Mission
- Vision
- Planning
- Thinking
- Catch Phrases
- Impact
- Performance
- Context (Internal and External)
- Objectives
- Operational
- Leadership
- Sun Tzu
- Evolution
- Features
- Commonalities
- Assets
- Logic and Why
- SWOT
- Levels of Strategy
- Functional
- Business-Corporate Strategy
- Management
- Actions

Summary of Lessons 3 & 4

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

BS Objectives are intended to provide direction and guidance for what actions will be taken by the company.

But they also provide motivation and a sense of competition.

BS Scoping the BS involves defining the products, markets, locations, technologies, processes when the company will compete.

Summary of Lessons 3 & 4

Definitions of Strategy

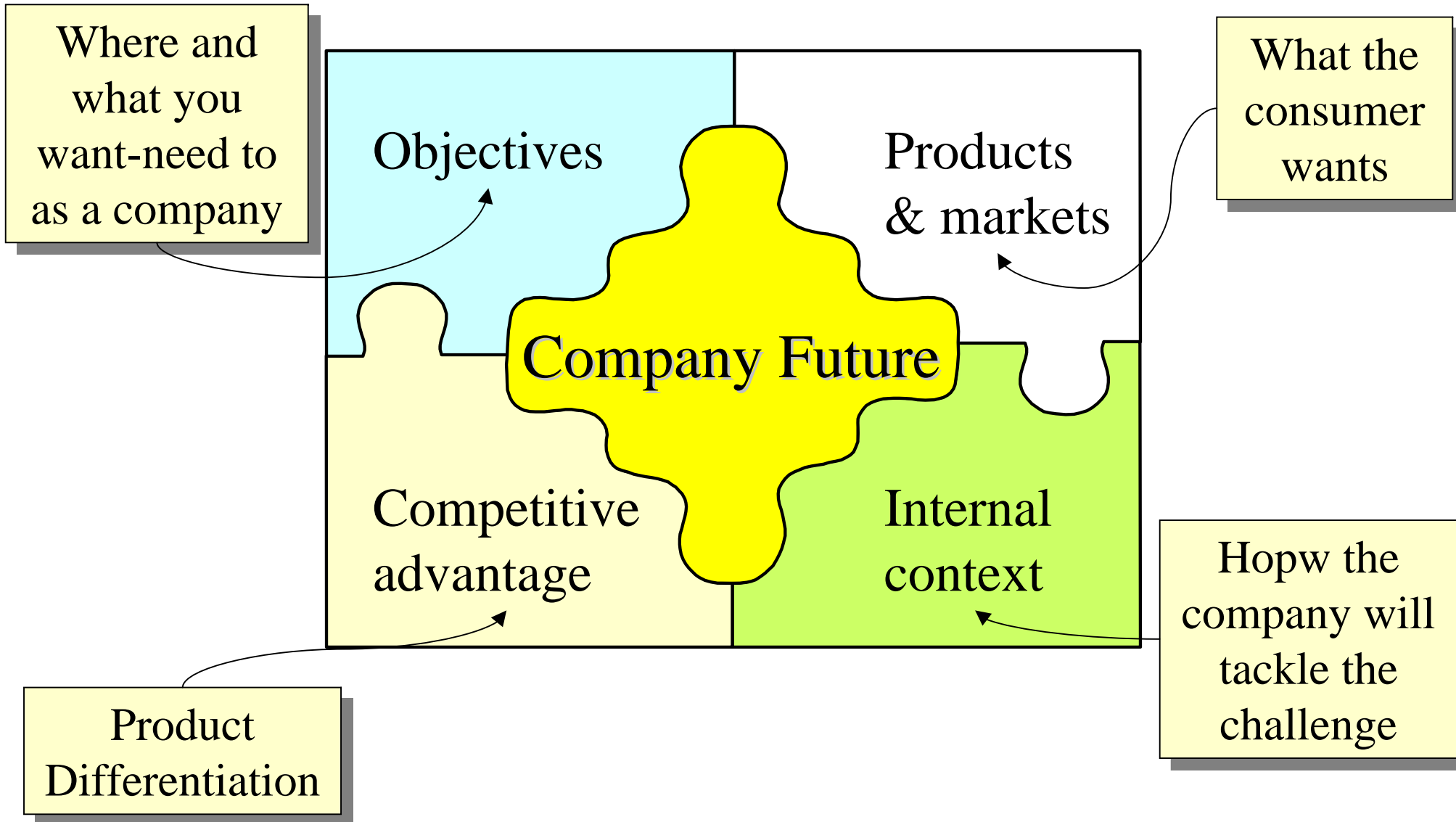
- The art of war, especially the planning of movements of troops, ships, planes etc., into favourable positions;
 - Plan of action or policy in business or politics etc.
- *Oxford Dictionary*

In essence the “WHY” of strategy is its underlying LOGIC, i.e. the explanation of WHY the strategy will work.

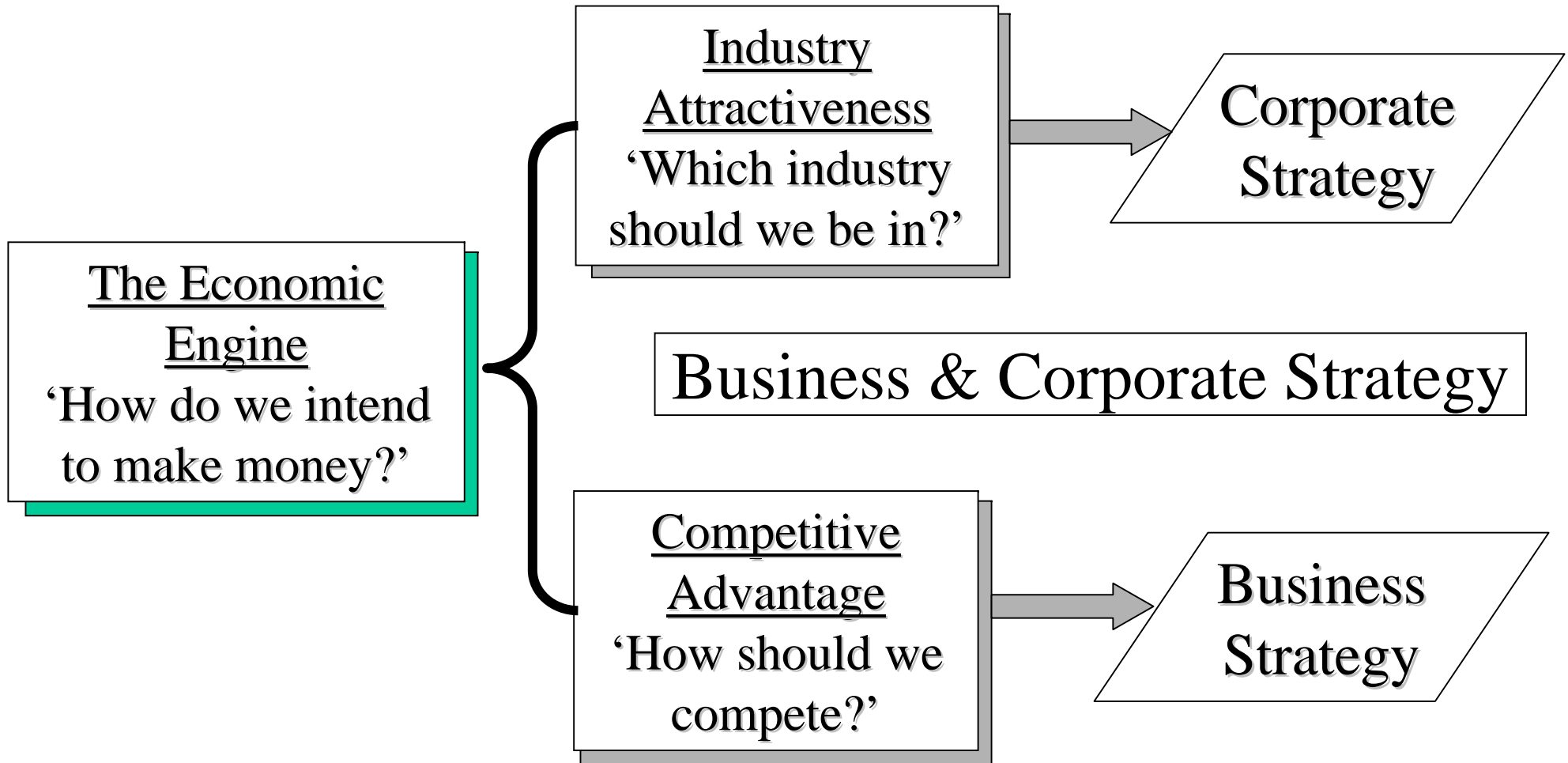
Business strategy refers to the single entity like a, business unit, division or indeed a collection of product divisions.

Corporate strategy refers to a much greater company set-up i.e. companies that have a multitude and variety of business interests e.g. from finance to products.

Summary of Lessons 3 & 4



Summary of Lessons 3 & 4

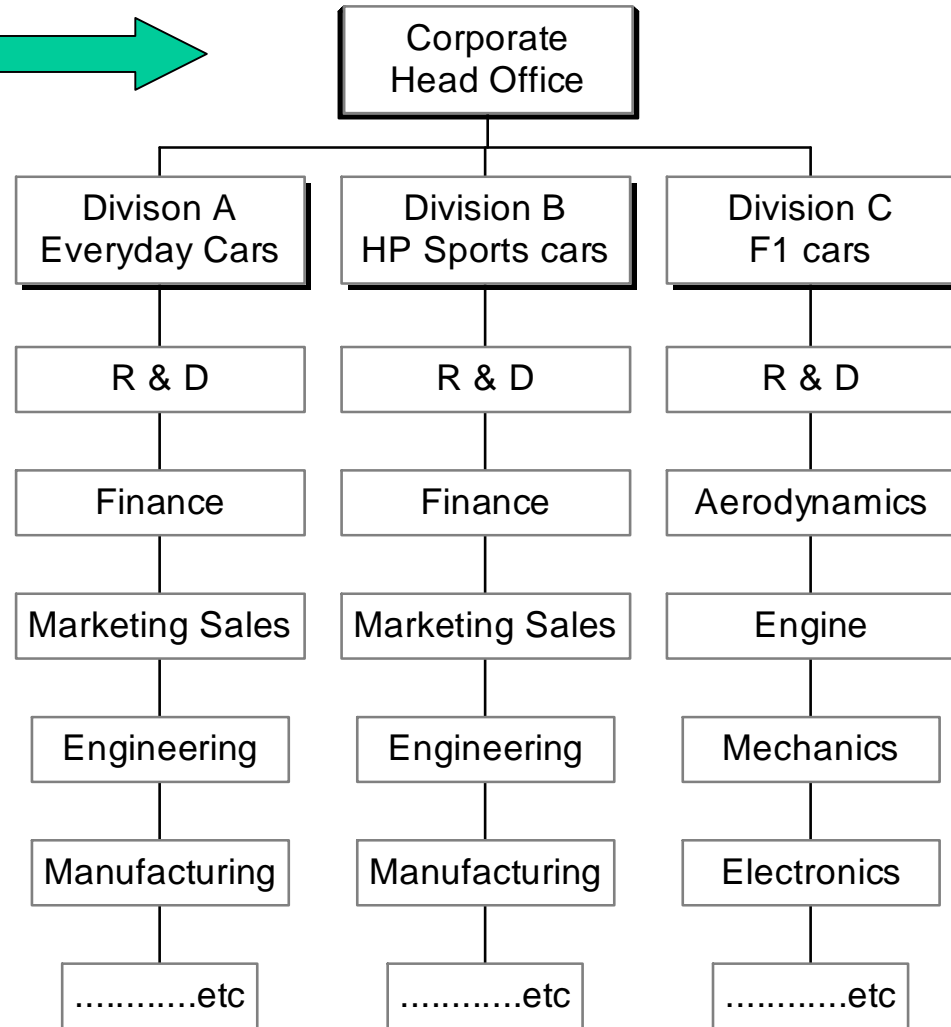


Summary of Lessons 3 & 4

1. Corporate Strategy →

2. Business Strategy →

3. Functional or Unit Strategy →



Levels of Strategy

Summary of Lessons 3 & 4

Strategy Process



Keywords of Lessons 3 & 4

- Business Strategy
- Corporate Strategy
- Scope
- Logic
- How and Why
- Values
- Purpose
- Competitive advantage
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation
- Economic engine
- Attractiveness
- Assets and Acquisitions
- Performance
- Levels
- Mission
- Statement
- Crafting
- Long-term goals
- Strategy process
- Explicit
- Evaluation
- Implementation

Summary of Lessons 5 and 6

Values and Competitive Advantage

- Getting close to the consumer e.g. consumer services, inviting and involving the consumer during product development, caring for the consumer etc.
- Empowering the worker (at all levels): not just rewards and incentives but recognition, training, investing in people.
- Innovation: providing innovation solutions to real consumer needs.
- Protecting your ideas not just through patents but through awareness, presence, knowing your customer etc.

Food for Thought

Lessons 5 & 6

What is sustainable competitive advantage?

How can one sustain competitive advantage?

How do you exploit position to get the best competitive advantage?

What is the next Strategic Management trend going to be?

What does the Cost-Quality Frontier technique not tell you?

Suppose you intend/need to radically change the company how do think this will change the organisation?

What advantages and disadvantages do you think this type (functional) of organisation has?

Paths to Competitive Advantage

Competitive advantage is generally considered to fall under two categories that provide paths to success:

Positional

*The position of the company
in the market place*

Capabilities

*The capabilities of the
company to respond and
satisfy the market place*

Positional Advantages

- Brand (Aspirin from Bayer)
- Consumer relationships (IKEA)
- Status (think of the Federal Bank)
- Distribution channels (think of supermarkets and petrol stations)
- Geographic location (North sea oil reserves).....

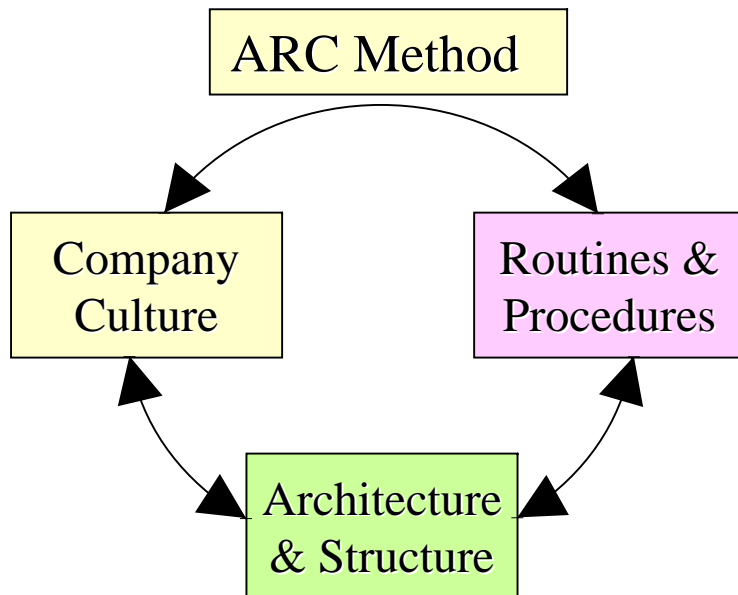
Capabilities

- Sales and Marketing knowledge (knowing the market and what the consumer wants and is willing to pay for)
- Close to the community (many American companies have strong ties with the local community)
- Creativity (certain companies and countries seem to be especially innovative)

Summary of Lessons 5 & 6

Sustainable competitive advantage is the ability of a company (or individuals) to maintain (or grow) its market position, presence or dominance (in a specific area).

The cost-quality frontier technique maps the position of a company's competitive advantage.



Architecture: is the 'relationship' structure of a company.

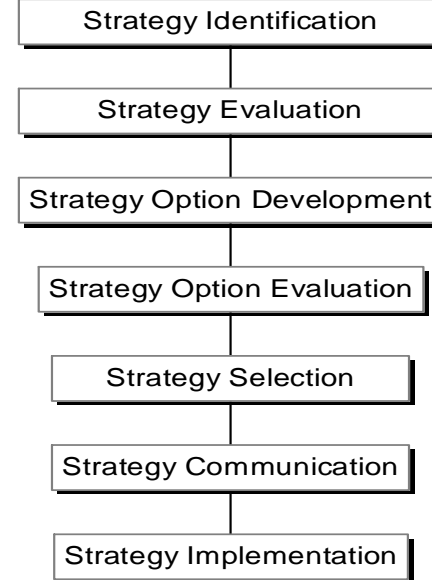
Routine: is the procedural (both formal and informal) part of a company.

Culture: is the creed or beliefs of a company.

The Strategy Process

Different Strategies can be applied across the organisation although the ultimate goal is same i.e. better company performance.

Steps for setting Strategy



Examples:

Procurement Strategy : Less Suppliers

R & D strategy : Co-development

H & R strategy : Lower personnel turnover

Keywords of Lessons 5 and 6

- Architecture
- Routine
- Culture
- ARC
- Organisation
- Design
- Quality-Cost Frontier
- Cost-Quality
- Change
- Competitive Advantage
- Sustainability
- Value
- Best-in-class
- Vulnerability
- Capability
- Process
- Identification
- Options
- First mover
- Position
- Functional
- Frontier
- Perceived
- Value
- Implementation
- Pros and Cons

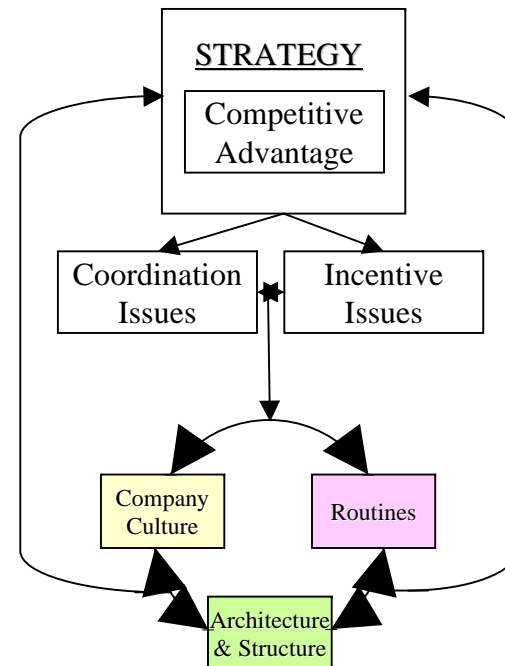
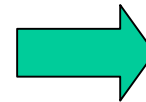
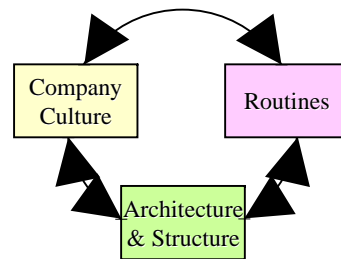
Summary of Lessons 7 & 8

Types of Organisation: Divisional, Functional, Mixed

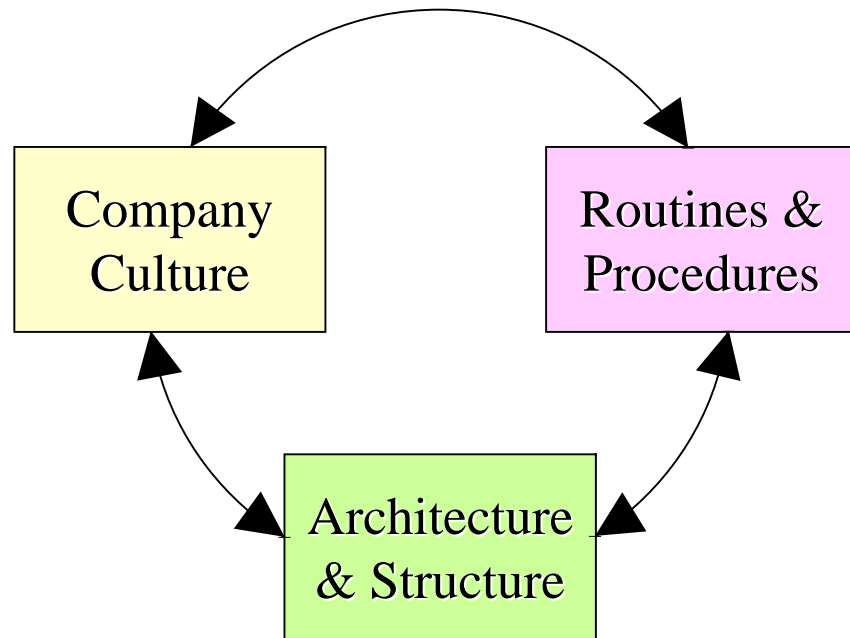
Linkages: Personal Networks, Liaison, Project Teams, Integrators

A strategy may be aligned by combining the ARC levers that encompass the internal context with the competitive advantage of the organisation.

Building and Creating
Competitive Advantage



The ARC Model



Architecture: is the ‘relationship’ structure of a company.

Routine: is the procedural (both formal and informal) part of a company.

Culture: is the creed or beliefs of a company.

Applying ARC analysis to Assess Strategic Alignment

First assess the key coordination and incentive issues of your strategy or the strategy under examination.

Coordination is the acquisition and allocation of assets i.e. facilities, machinery, inventory etc. or non-physical e.g. knowledge, experience etc. Ensure that these are available at the right time, format and amount.

Incentives are objectives that may be tangible (e.g. financial) or non-tangible (e.g. winning awards) and may differ greatly across an organisation. Performance measurements may also differ greatly from profit maximisation (Sales) to recognition (R & D).

Next use the ARC method to see just how key coordination and incentive issues are tackled

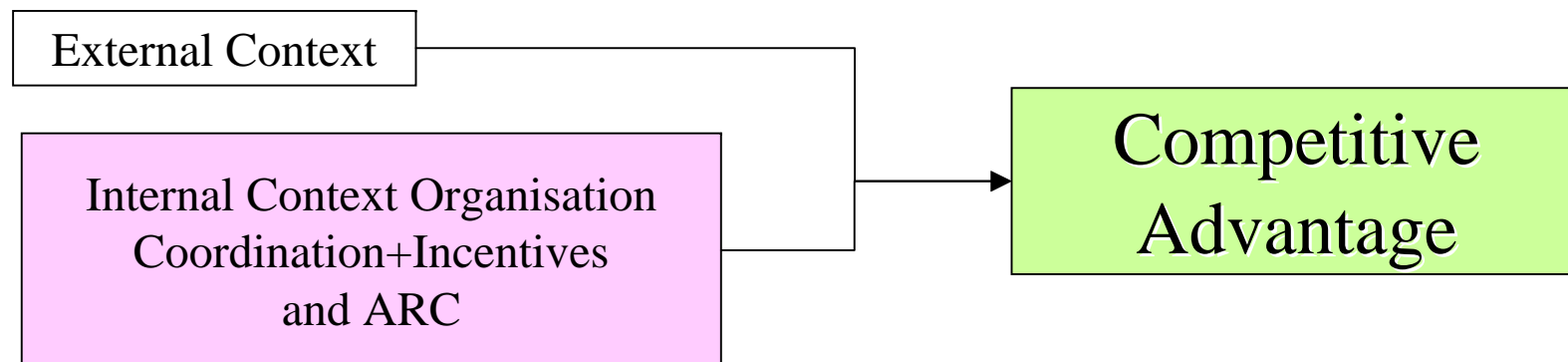
Aligning Strategy and Organisation

A strategy may be aligned by combining the ARC levers that encompass the internal context with the competitive advantage of the organisation.

In more simple terms this means Combing ARC with C.A.:

Aligning Strategy = ARC + Competitive Advantage

Since (in general) very little can be done in terms of organising the external context what is important is that the internal context organisation is maximised.



Summary of Lessons 7 & 8

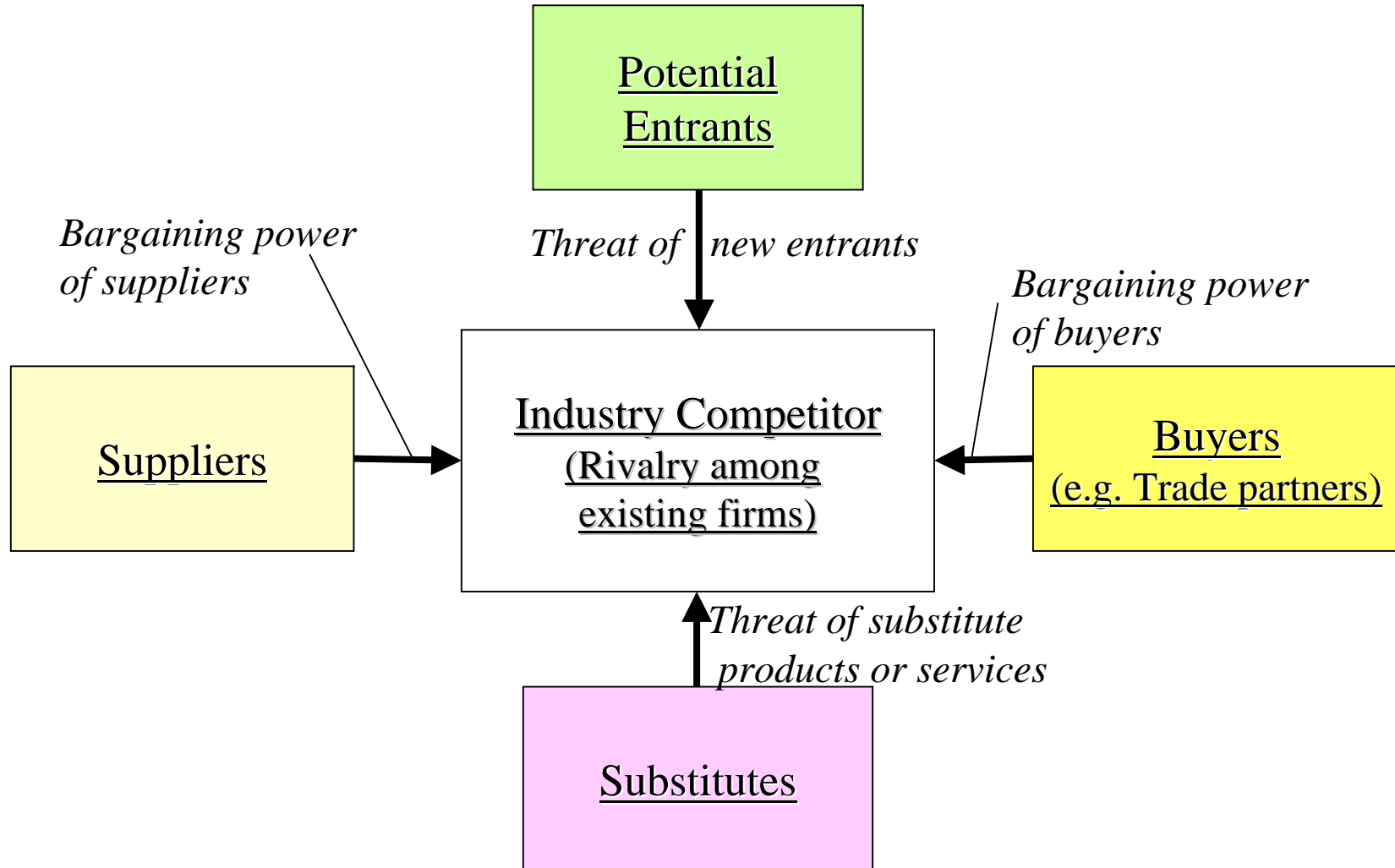
Industry analysis is essentially a framework for identifying, understanding and anticipating industrial change. It focuses on the long-run performance.

The SCP is essentially a framework which was developed by governments to highlight areas where intervention may lead to improved social welfare. In an industrial analysis it is therefore intended to analyse behaviour (e.g. product pricing and strategy) and not monetary performance such as profitability.

The value to the final buyers of the goods or services produced less the value of the resources that are used to produce them is the Potential Industry Earnings (PIE).

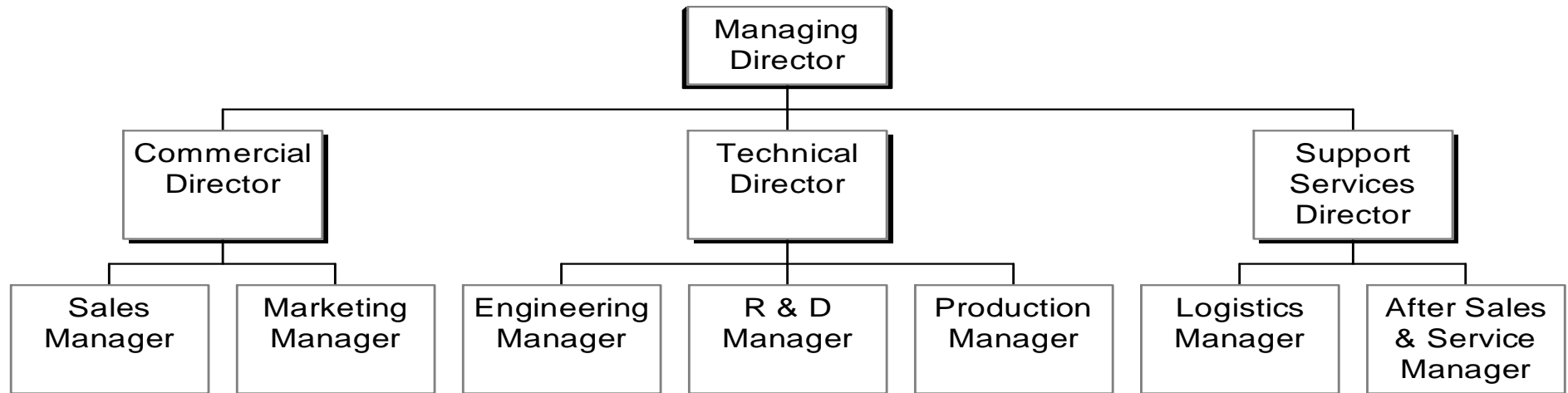
Potential Industry Earnings (PIE) = Value - Resources

Porter's 'Five Forces' Framework



Examples of Organisations

Functional Organisation

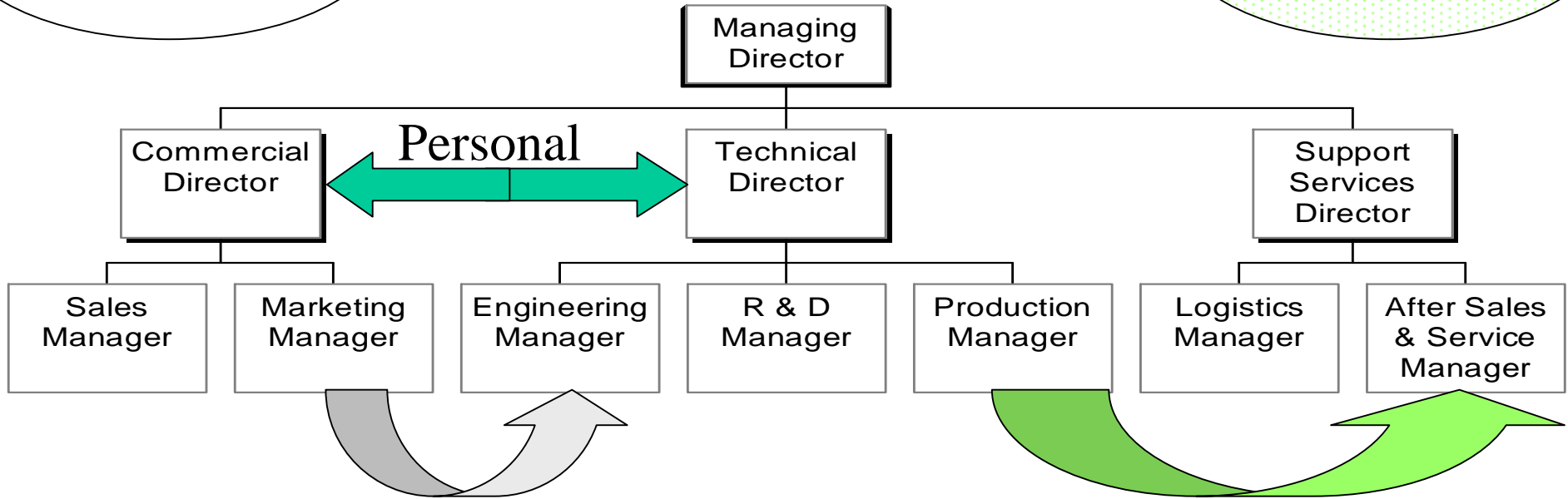


Divisional Organisation

Examples of Linkages

Personal Networks

Liaisons



Project Team

Liaison

Project Teams or Task Forces

Integrators

Integrators are usually within a group/dept. or function



A Framework for Industry Analysis

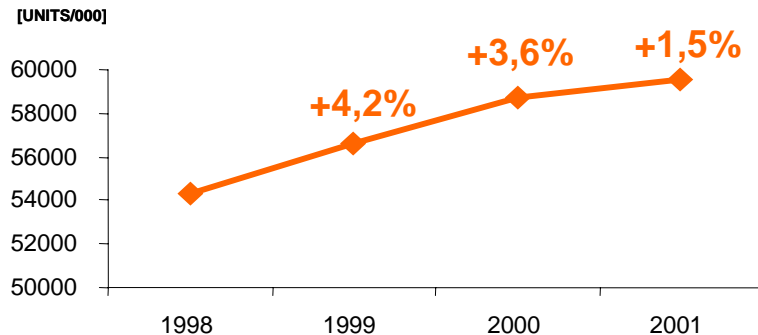
According to Porter there are five forces involved in the framework of Industry^o Analysis:

- * Suppliers (Strategic and Non)
- * Buyers (Consumers and Trade Partners)
- * Substitutes (Threat of substitute products)
- * Potential Entrants (threat from new entrants)
- * Industry Competitor (Rivalry among existing firms)

^o (well-defined industry)

Examples of Industry Analysis

WESTERN EUROPE

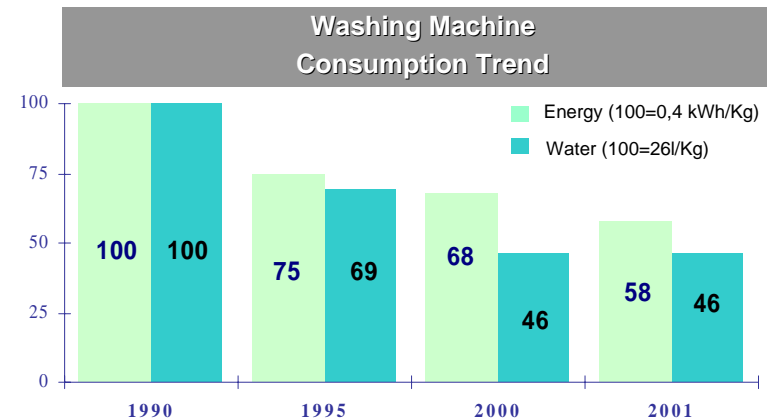


I, F, UK, D, BE, NL, E, P, GR, NORD EU, CENTR. EU

Years	% market	Producers
1970	70%	400
1980	75%	150
1990	80%	15
2000	84%	9

The market is 60.000.000 units on a population of 320 m

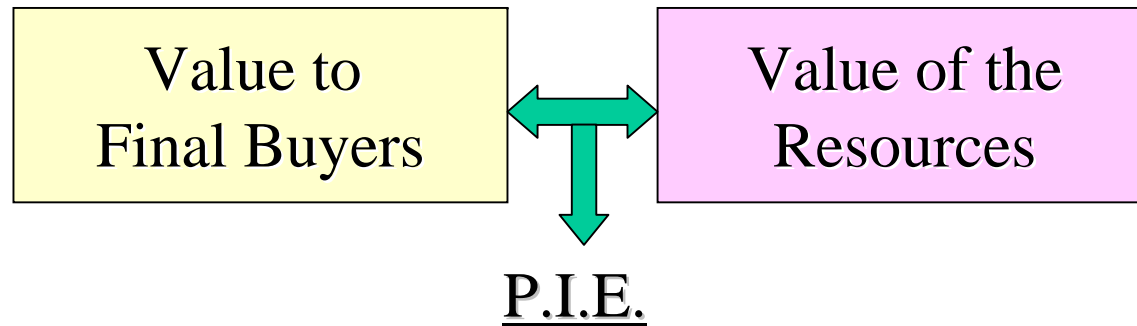
	1998	1999	2000*
Total fixed assets	359	419	646
Trade receivables	379	376	389
Stocks	152	145	183
Trade accounts payable	(403)	(443)	(500)
Net Working capital	128	78	72
% on net sales	9%	6%	4%
Provisions, funds and other liabilities	(147)	(157)	(190)
NET INVESTED CAPITAL	340	340	528
Net financial position	107	91	227
Total net worth	224	244	287
Minority interest	0	5	14
TOTAL SOURCES	340	340	528



Energy consumption of a washing machine decreased by 40% in 10 years, water consumption decreased by 55%

Value Creation - PIE

The value to the final buyers of the goods or services produced less the value of the resources that are used to produce them is the Potential Industry Earnings (PIE).



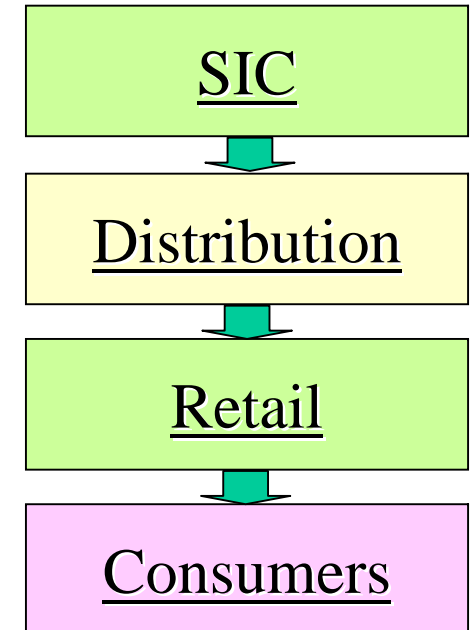
1. Factors that affect the value created
2. Factors that affect the sharing of the value

together these show the attractiveness of the industry

Can you give examples of factors that positively affect the PIE?

Examples of forces that affect PIE

- ✍ Population growth
- ✍ Social-demographic trends
- ✍ Income growth or spread
- ✍ Technology advance or breakthrough
- ✍ Reduction in raw materials costs
- ✍ More suppliers coming on the market
- ✍ Currency fluctuations
- ✍ Work contracts
- ✍ Labour costs
- ✍ Legislation
- ✍ etc.



Keywords of Lessons 7 and 8

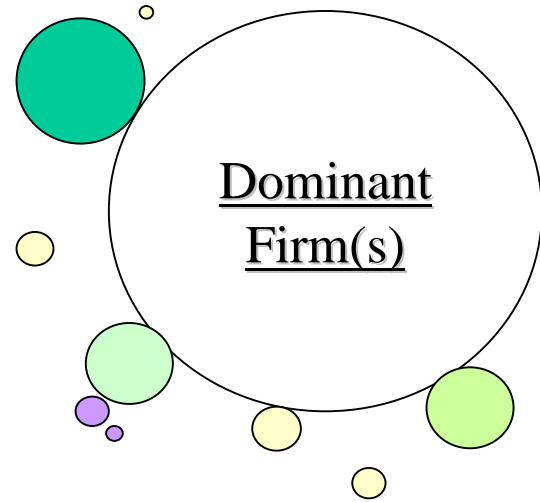
- Creating and Building
- Functional and Divisional
- Organisation slack
- Organisation cost
- Industry analysis
- Framework
- Value creation
- Capturing Value
- Supplier
- Buyer
- Alignment
- Entry barriers
- Linkages
- Personal networks
- Liaisons
- Task forces
- Integrators
- PIE
- Value creation
- Exploiters
- Explorers
- Vertical Power
- Substitutes
- Potential Entrants
- Threats
- New entrants
- Industry Competitor
- Rivalry
- Organisation change
- Performance

Spectrum of Competition



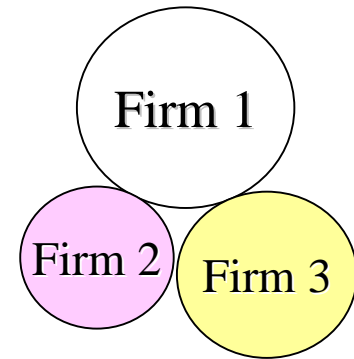
One Company

Monopoly



Dominant Firm(s)

Dominant Firm

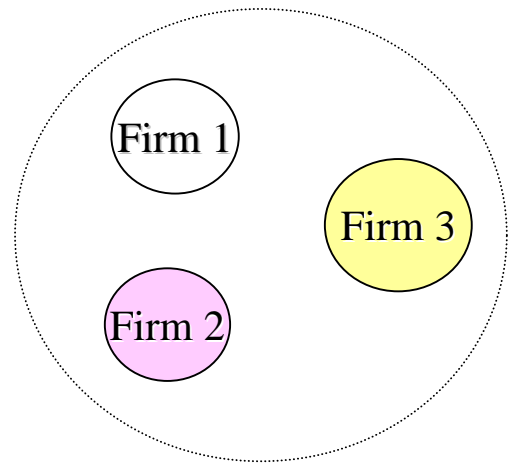


Firm 1

Firm 2

Firm 3

Oligopoly

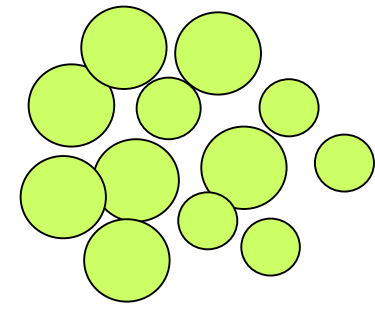


Firm 1

Firm 2

Firm 3

Niche



Perfect Competition

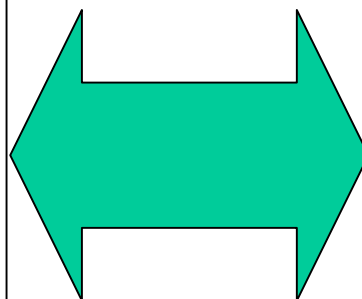
From Monopolies to Perfect Competition

Monopolies are found in industries where a single company dominates and there is no competition. In the **dominant firm** there is 1 firm (or a few firms) surrounded by a cluster of firms. **Oligopoly** competition is typical of industries where the number of companies is limited and there is a strategic interdependence. **Niche markets** imply localised competition and very strong product differentiation. **Perfect competition** can be viewed as the other extreme of the competition spectrum i.e. the direct opposite to monopoly competition.

Product Differentiation

Lessons 9 & 10

Competitive Intensity
decreases as products
become less
undifferentiated and the
number of the players
reduces.



Competitive Intensity
increases as products
become more
undifferentiated and the
size of the players is
relatively small.

Monopoly

Perfect
competition

Behaviour

When product differentiation is low and competition is high this effectively acts as a profit-destroyer. This is especially true if market growth is low or stagnant. Consumer preferences are about the main characteristics that existing (or potential) products possess. In other words what consumers care about or prefer (other than price of course).

The Categorisation of Differentiation

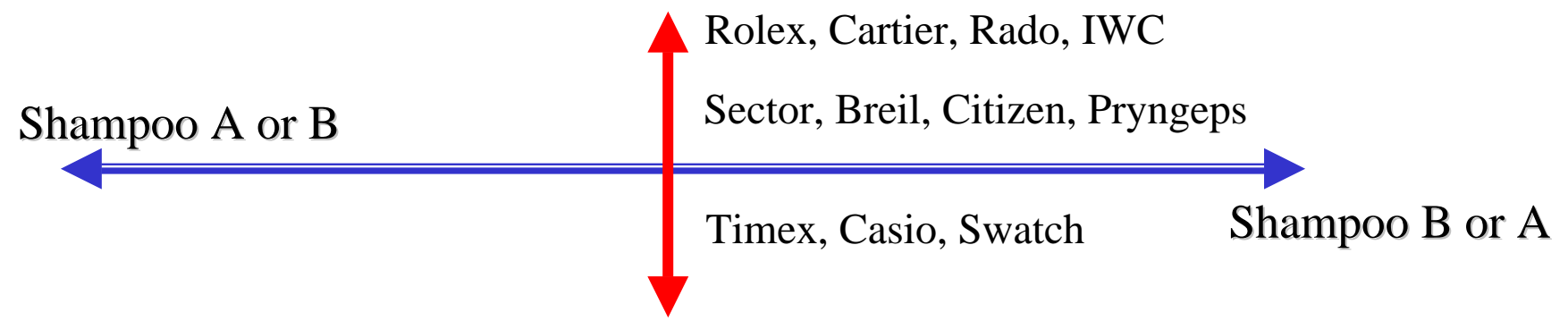
- **Horizontal differentiation:** concern those products where the consumers disagree about which product is better. Examples: Soft drinks, food, beer, shampoos
- **Vertical differentiation:** concern those products where the consumers perceive quality in a vertical manner and *agree* on how the products are ranked. Examples: cars, hotels, holiday retreats

How would you differentiate a service such as water, gas, electricity?

Hor. and Vertical Differentiation

Horizontal differentiation: concern those products where the consumers disagree about which product is better.
Examples: Soft drinks, food, beer, shampoos

Vertical differentiation: concern those products where the consumers perceive quality in a vertical manner and *agree* on how the products are ranked.
Examples: cars, hotels, holiday retreats,



Differentiation

When product differentiation is low and competition is high this effectively acts as a profit-destroyer. This is especially true if market growth is low or stagnant.

Benetton

- Colourful knitwear (maximising manufacturing efficiency and effectiveness)
- Young age groups (e.g. 0-12)
- Branding strategies (United colours of Benetton, 0-12)
- Product positioning (focused)
- Promotional strategies (e.g. shops, F1, advertising)

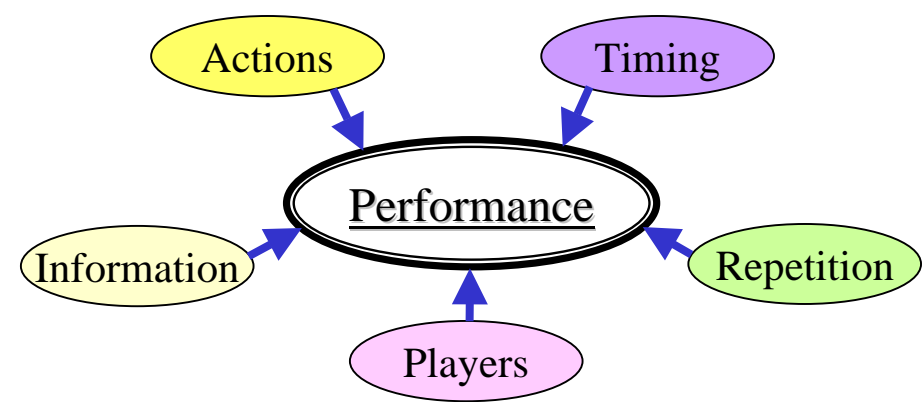
What allows companies to differentiate their products?

Strategic Interaction...

Differentiation, Competition and Interaction:

Where product appeal tends to overlap so competition tends to be more fierce. Consequently where differentiation is strong, competition tends to be slack and soft. In an extreme differentiated market or niche segment the predominance turns (can turn) into a monopoly. The conclusion is that products compete more intensely the closer they are in terms of characterisation (less differentiation) although a lot can depend on the strategic interaction.

Elements of Strategic Interaction



.....Strategic interaction

Players: These are the companies whose actions affect each other. Actions: The choices available to incumbent companies can condition competition especially when it concerns investments, time-to-market, production output etc. Timing: Timing may be critical not just for first movers but also for those who want to follow. Information: There is also the exploitation of information within and between companies. This exploitation of information allows managers to make the right decisions. Repetition: Often in oligopolistic firms there is a long competitive history and interaction leads to a more cooperative behaviour and the opportunity to leverage reputation repeatedly.

Companies (entities) can also agree on cooperative behaviour so as to reduce competition – a good example is price/policy fixing

The Case of Pirelli Real Estate Lessons 9 & 10

In the coming years one of the biggest waves of public administration innovation will be the out-sourcing of non-core activities e.g. cleaning, road maintenance, maintenance etc.

This sector is now known as the Facility Management business which includes General Services activities.

This business in Italy alone is estimated to be worth 33Billion euros (2 Italian government budgets).

- The Pirelli real estate case is an example of a strategy that was developed perhaps by chance but nevertheless to meet specific company (running) objectives and market needs.
- The company has grown from 10 people to over 1200 people in 10 years! It has purchased the knowledge it needed!!!

What is the Product/Who are the Customers?

- Hospitals
- Universities
- Town and City Councils
- Private companies

Core (Business)

Care

Education

Services to the public

Products/Services

- Hospitals
- Universities
- Town and City Councils
- Private companies

Non-Core examples

Boiler maintenance

Cleaning

Catering, Call-centre

Products/Services

The Why (LOGIC) behind this Business

Quality

Services/Activities that are outsourced because of quality assurance, transparency, need for more customer focus etc. and that are considered essential for the success of the business

Cost

Services/Activities that are Outsourced because of Cost and/or Not considered as a driver by the company and/or consumer for the success of the business

Important
Often these two areas overlap!

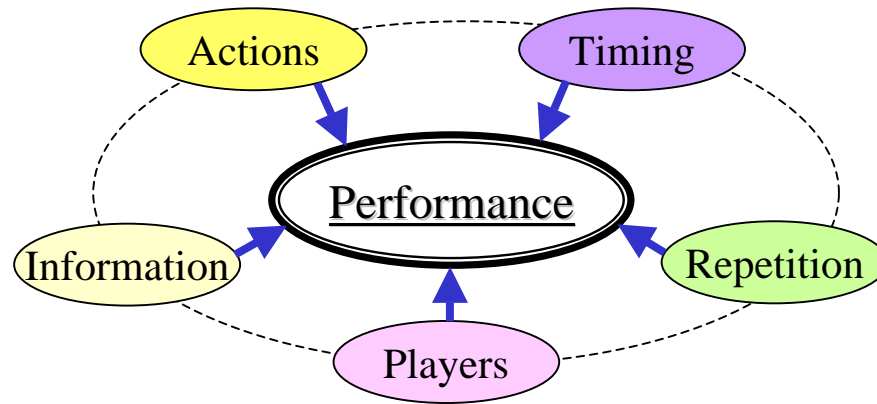
What could happen?

- New legislation (European or national)
- More (or less) bureaucracy.
- Market remains very fragmented.
- Big (bigger) companies (incl. The Mafia) move in and take over.
- Change of government or social-political perspective.
- Government focus becomes cost and not quality.
- Government cutbacks or irregular payments
- Irregular government tenders (timing and planning)
- Competition remains national or moves to a Dominant scenario.
- Etc.....

Keywords of Lessons 9 & 10

- Monopoly
- Oligopoly
- Dominant
- Niche
- Perfect competition
- Customer Satisfaction
- Preferences
- Differentiation
- Positioning
- Players
- Actions
- Timing
- Information-knowledge
- Concentrated
- Customers
- Needs
- Repetition
- Knowledge management
- Services
- Quality
- Cost
- Facility Management
- General services
- Core
- Non-core
- Running objectives

Elements of Strategic Interaction



More recently large companies have begun to realise the competitive potential of archiving, accessing, assessing and communicating (internal or external) knowledge, this activity is known as Knowledge Management.

ANTI-TRUST: Opposing business monopolies in the context of unfair competition with the deliberate (an act of conspiracy) scope of reducing competition and pushing a monopolistic strategy.

two types of antitrust issues:

1. **Aggressiveness:** Large companies bully their smaller counterparts and push competition out of the market.
2. **Collusion:** Where companies decide not to compete i.e. price fixing.

5 Elements of Strategic Interaction

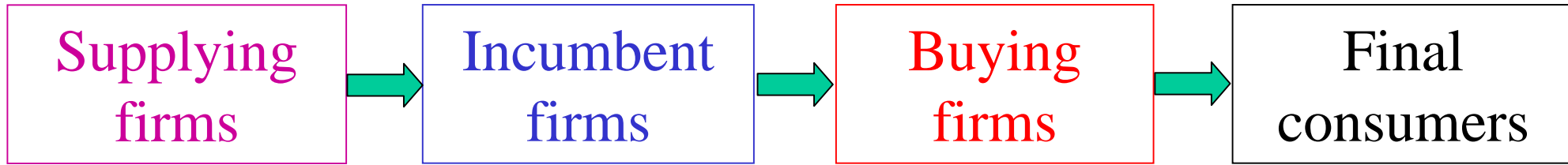
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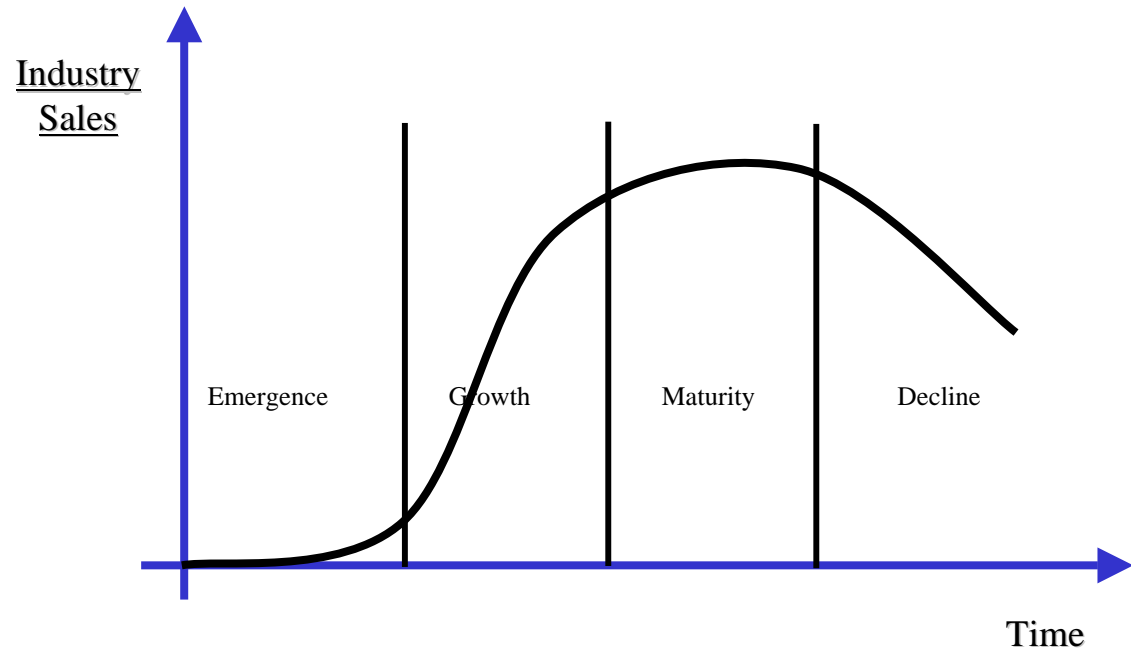
Information: There is also the exploitation of information within and between companies. This exploitation of information allows managers to make the right decisions.

Repetition: Often in oligopolistic firms there is a long competitive history and interaction leads to a more cooperative behaviour and the opportunity to leverage reputation repeatedly.



The above is the traditional upstream to downstream model. But there many examples where supplying firms deal directly with the consumer e.g. factory outlet shops, corner shops like farms etc.

Often trends help us to understand the birth of a new life cycle, the direction a company should take or even the birth of new or a cluster of industries.



Sun Tzu's 5 Elements

- The way (tau): incite the people so they (follow) believe the ideas of the leader(s).
- Atmospheric condition (t'ien): Cold and hot (yin and yang), seasons (cycles)
- The terrain (ti): Risky or easy, close or far,
- The Leader (Chiang): his qualities; sincerity, intelligence, audacity etc.
- The Tactics (fa): Flexibility, Military hierarchy

Innovation Advantage

The innovation or product development process is split into steps so in order to make a breakthrough and/or produce a next generation of product implies building on a series of skills, learnings, inventions etc. Often this series of elements provides companies with an “innovation advantage”.

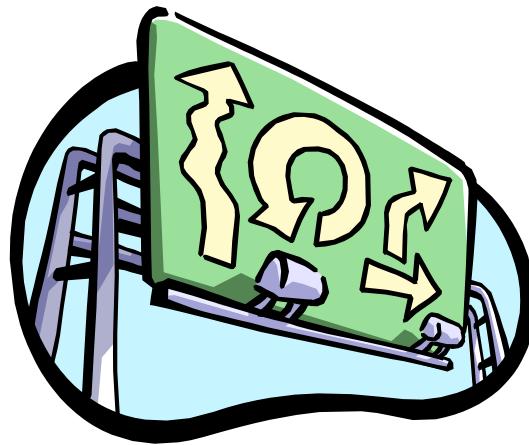
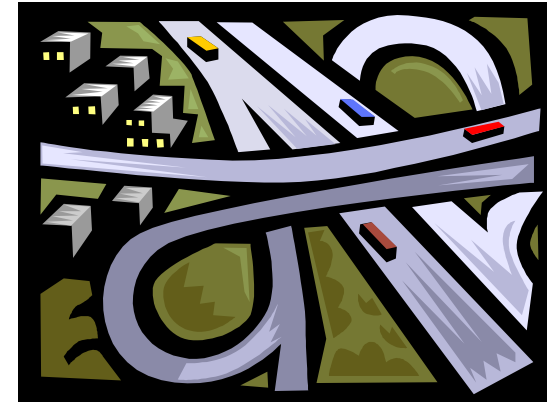
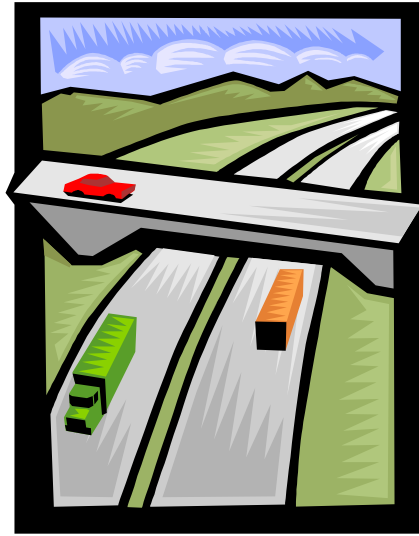
Innovation=
Invention+...+Exploitation

Exploitation



Invention

The road to Exploitation is long



Creating Value

The creation of value depends on the “investments” made by the firm in the value chain e.g. investments in cost reduction or product development, training and deployment, promotion, coordination, incentives, resource creation etc. can all increase value.

Creating value may also be achieved by simply working better (coordination) or providing incentives with/for buyers and suppliers.

Good examples of coordination are the Japanese car and Indian bicycle industries or incentives are franchising shops, strategic alliances etc.

Examples of Trends

Lessons 11-12

- Markets and Globalisation
- Further education (eLearning and continuous education)
- Social Demographics (immigration, ageing population etc.)
- Human rights (European law court)
- Consumer protection (extension of DOC, birth of associations etc.)
- Technology (process, product, manufacturing etc.)
- Transport and infrastructures (car pooling, HS trains, cheap air travel)
- Legislation (EU)
- Standards (ISO9000, ISO14000 etc.)
- Food safety (BSE, e-Coli etc.)
- Health (from good health to fitness to well being)
- The environment (e.g. Kyoto agreement)
- Nationalisation and Privatisation
- Political (e.g. more or less democracy, enlargement of Europe)
- Private-public sponsorships

Can you think of any more trends, may next waves?

General Comments (2)

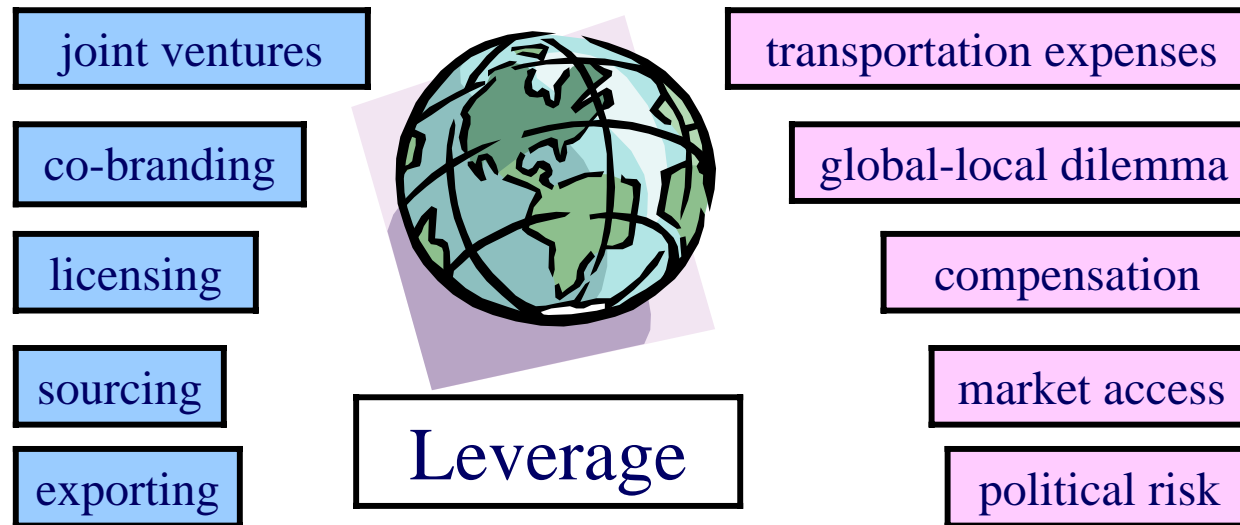
Volumes Evolution 98-2001
(Tsd units)

Average price evolution 98-01
(Euros)

Ovens	70.1 → 74.6	613 → 593
Hobs	164.8 → 167.9	440 → 449
Hoods (2000)	151.6 → 151	295 → 301
BI Cooling	110.9 → 106.7	553 → 554
BI Dishwashing	70.7 → 69.8	758 → 757
MWO (FS & BI)	243.6 → 234.6	278 → 238
TOTAL (excl. MWO)	568.1 → 570	484 → 486

DaimlerChrysler's US Automotive Advertising Spending in Magazines (MUS%)

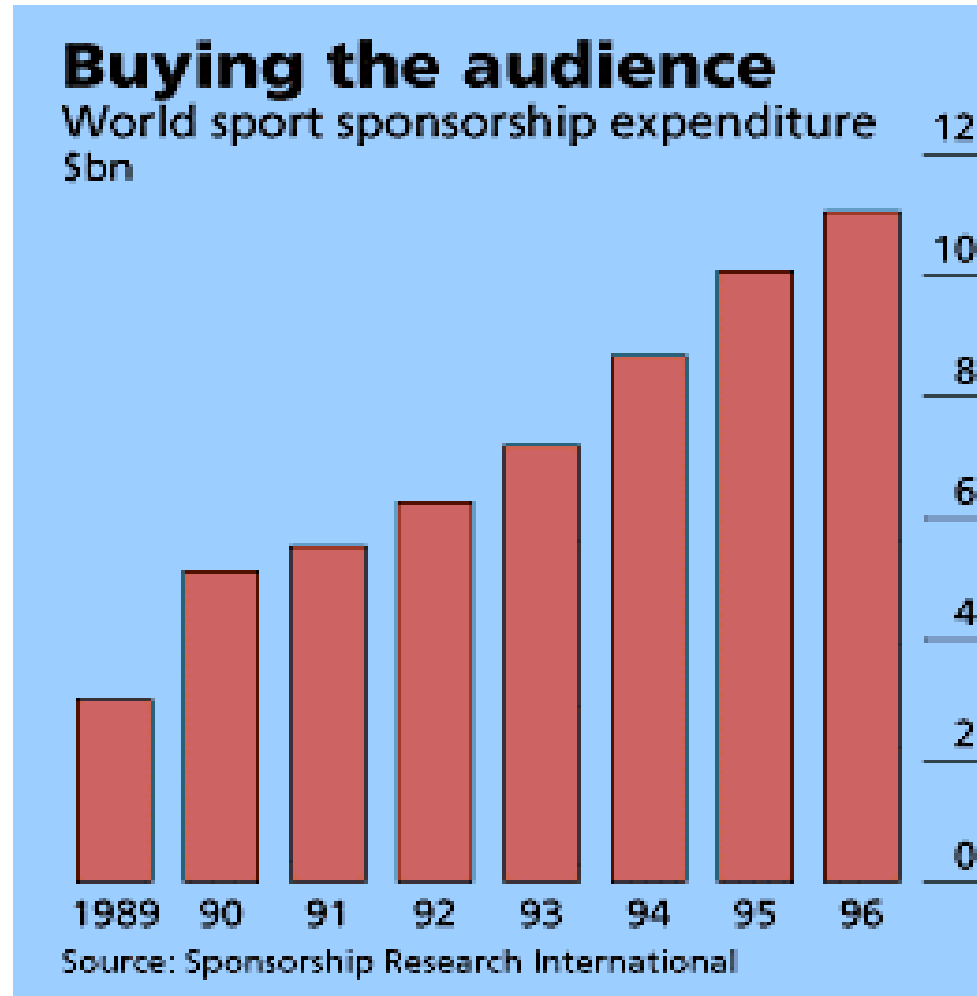
Brand	2002	2001
Dodge	65.9	85.0
Chrysler	108.3	82.7
Jeep	53.3	51.3
Mercedes-Benz	28.5	36.0



MERCEDES-BENZ: THE GLOBAL EXPANSION

Sponsorship of sporting events continues to quickly increase

Lessons 11-12



CONSUMER & LIFESTYLE

Source: "The Paymasters," *The Economist*, June 6, 1998.

Lifestyles and Mindstyles

Lessons 11-12

From

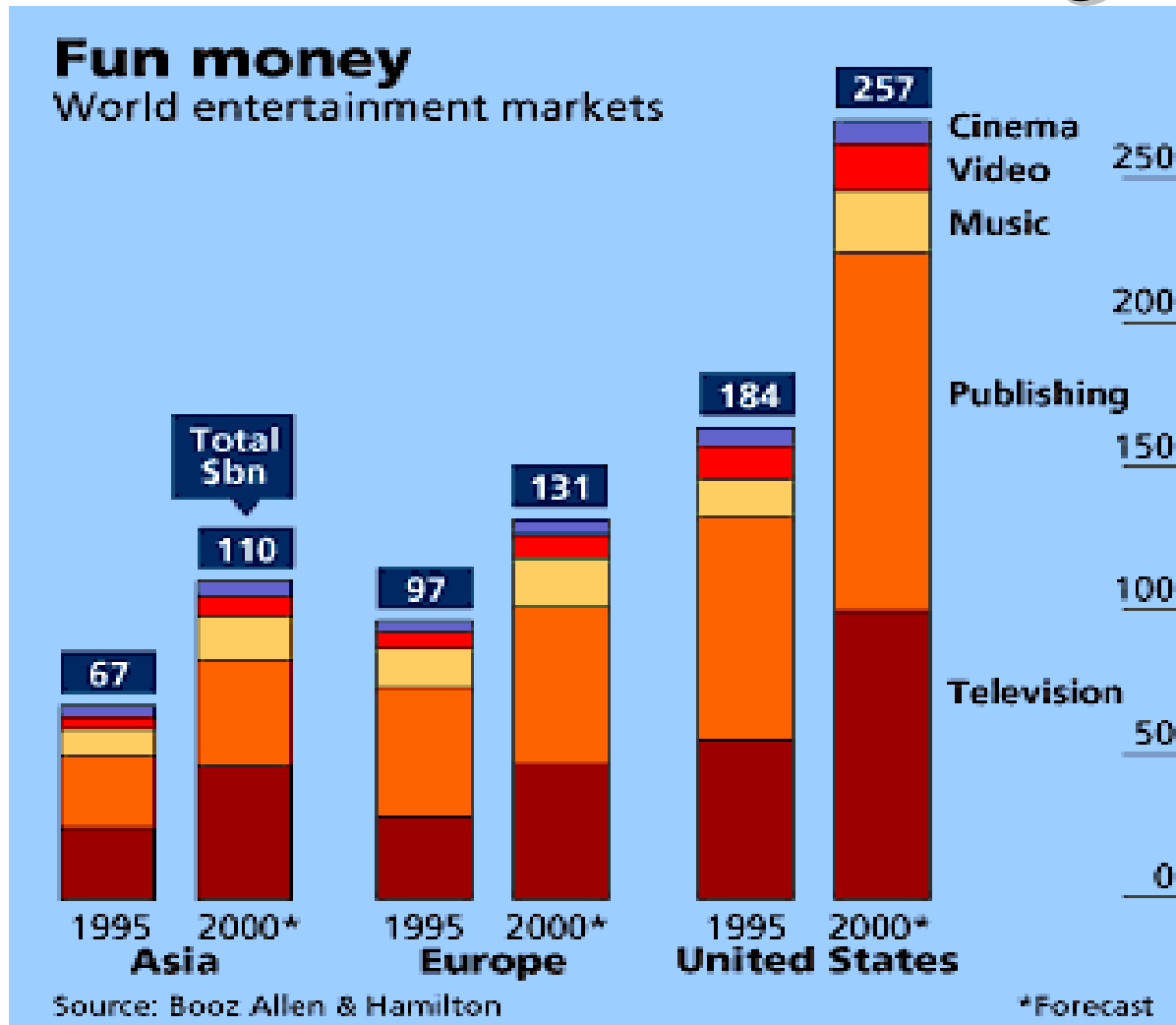
- How old are you?
- Standalone, dedicated rooms
- Product to service
- Alignment
- Drugs are bad
- Environmentally friendly
- Old
- Matter
- Linear relationship
- Two mutually exclusive poles of attraction
- 9 to 5 office work
- Ownership
- Being subjected to nature
- Time = money
- Average
- Stand alone dumb objects

To

- How old do you feel?
- Networked home
- Experience economy
- Creativity
- Drugs are cool
- Environmentally zero tolerance
- New beliefs
- Software
- Borderless relationship

- Complementary multipolarity
- Flexible time, work from home
- Just use it!
- Playing God
- Time = life
- High end/ low end - polarisation
- Connected intelligence

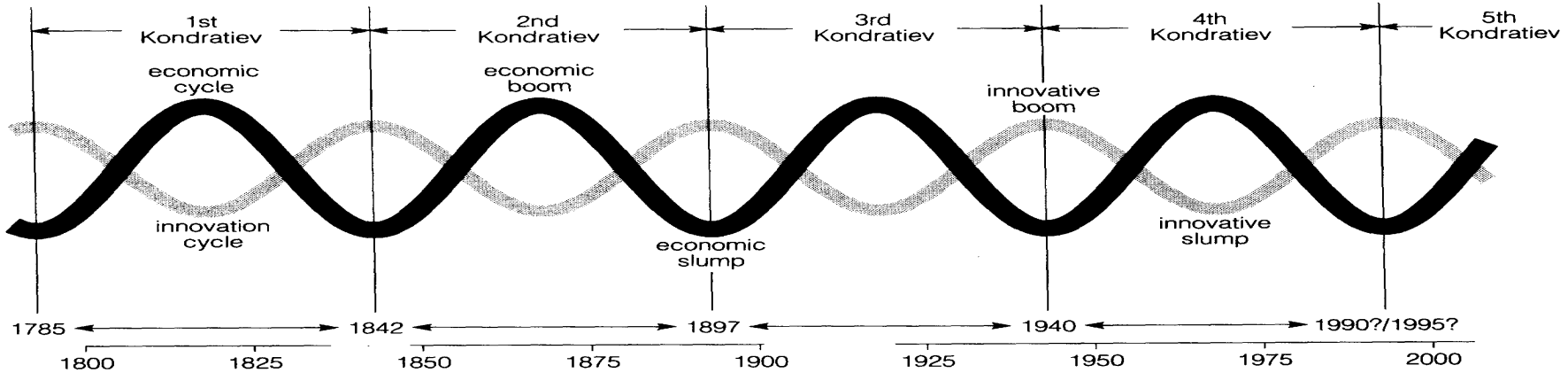
Worldwide expenditures on entertainment are rising



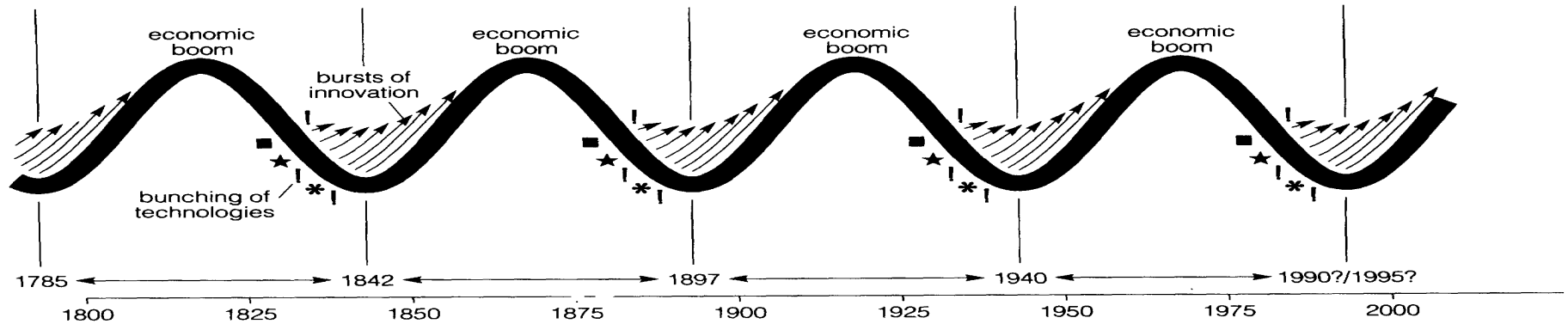
CONSUMER & LIFESTYLE

Source: "Wheel of Fortune," *The Economist*, Nov. 21, 1999.

Kondratiev Cycles



(a)



(b)

Can you see any cycles in your company/work place?

Examples of (Incredible) Innovation

Chips

Saratoga Springs, New York, 1853 (Inventor: George Crum, Redskin and chef).

Hamburger

Medieval times in Asia, later from Germany to the USA, 1880

Hot dog

1500 a.C., Babilonia
Frankfurt (1850's)
Wurstel sausage was created, it was then exported to USA and called the "dachshund" sausage.

Ketchup

500 a.C., Rome invention of a very spicy sauce, that was adapted by the Chinese and later by the English in the 18th century (who added tomatoes) and called it 'ketchup'.

FAST FOOD - e.g. McDonalds

Keywords of Lessons 11 & 12

Players

Actions

Timing

Information

Repetition

Knowledge management

Antitrust

Innovation advantage

Value chain

Value capture

Trends and Discontinuities

Prediction

Innovation

Clustering (of innovation)

Man power

Entrants

Coordination

Creating value

Life cycles

Kondratiev (cycles)

Brand awareness

Leverage (of suppliers)

Exploitation

Suppliers and buyers

Incumbency

Cumulative investment

Scale advantage

Antitrust

Learning (economies)

Intellectual power

Summary of Lessons 13 & 14

Trends: are directions that have been taken or are taking place within a specific context. For example, more and more commuters are preferring personal transport rather than public transport to reach their workplace and this 'trend' is expected to continue.

Discontinuity: a collection of trends and/or circumstances where the general context has changed e.g. digital photography has generated dedicated printers, memory chips (smart cards), cameras, short videos etc. but also *discontinued* traditional film photography.

Data Mining: is a suite of sophisticated statistical techniques aimed at mining numerical data to reveal hidden *treasure* in data.

Vision: Sit back and just capture the feelings and sensations, even better climb a mountain and watch the scenery. Think about opportunities and then build on them.

Data and Business Analysis can take many forms



Compound	Type	Indication
Respiratory & Inflammation		
GW328267	adenosine A2 agonist	asthma & COPD
fluticasone/salmeterol	beta2 agonist/inhaled corticosteroid	rhinitis – intranasal combination product
SB 223412	tachykinin (NK3) receptor antagonist	COPD (also urinary incontinence)
SB 683698 (TR14035)	dual alpha4 integrin antagonist (VLA4)	asthma & rheumatoid arthritis
SB 273005	osteoclast vitronectin receptor antagonist	rheumatoid arthritis (also osteoporosis)
Ariflo	PDE IV inhibitor	asthma
Ariflo	PDE IV inhibitor	COPD
mepolizurnab (SB240563)	anti-IL 5 monoclonal antibody	asthma – steroid sparing
Flovent	inhaled corticosteroid	asthma – once daily dosing
Flixotide/Flovent	inhaled corticosteroid	COPD

Phase	Estimated filing dates	
	MAA	NDA
I		
I	2003	2003
I		
II		
I		
II		
III	TBD	2002
II		
III	N/A	2001
Approved	A:Sep99	2001
III	2003	2003
Approved	A:Apr97	2001
Approved	A:Jun97	AL:Jan01
Approved	A:Jun00	S:Dec00
III	2001	2001
Approved	A:Sep98	2002
III	2001	2001
III	2001	2001
Approved	A:Dec95	AL:Jul00

Non-CFC Metered Dose In
Serevent
Flixotide/Flovent
Ventolin
Seretide/Advair
Diskus/Accuhaler (dry pow
Seretide/Advair
Seretide/Advair
Seretide/Advair
Serevent
Ventolin

MEDIA ROOM



November 18, 2002
 GlaxoSmithKline announces \$1.5 million in community development grants to combat malaria in Africa

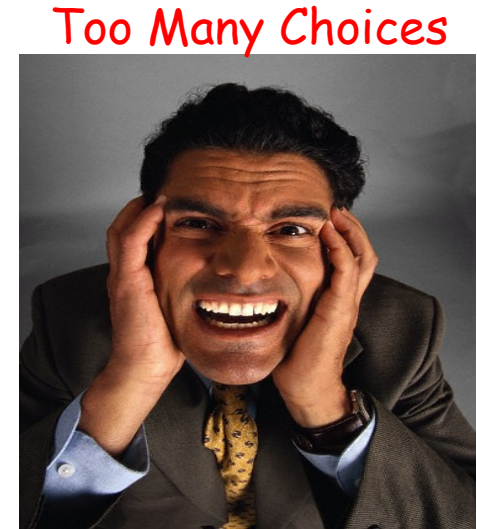
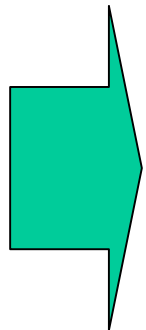
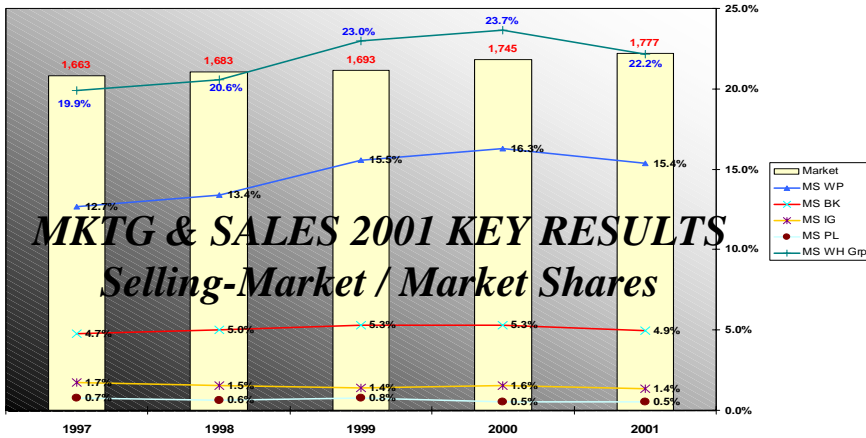
November 18, 2002
 Win copies of *HIV and AIDS: facts that could change your life*

November 15, 2002
 Phase II Study of Navelbine Plus Gemcitabine Suggests Similar Efficacy to Standard Platinum-based Combination in Non-Small Cell Lung Cancer

November 15, 2002
 Magic Johnson brings message of hope to African Americans with HIV

Summary of Lessons 13 & 14

Not just Number Crunching.....



	Actual	Actual	Actual	Aprfcst	Strategic Plan			
	1999	2000	2001	2002	2003	2004	2005	2006
Industry Growth			0,3%	-0,7%	1,9%	1,6%	1,5%	1,6%
Units Western Region	2.144,5	2.186,4	2.193,5	2.210,9	2.338,4	2.480,6	2.598,1	2.720,6
Units Italy	455,4	419,3	377,1	372,5	399,3	418,5	437,4	456,2
Units West + Italy	2.600,0	2.605,6	2.570,6	2.583,4	2.737,7	2.899,1	3.035,5	3.176,8
Units Central Europe	226,2	227,2	296,0	497,1	632,9	696,9	760,0	820,6
Units (Eur excl Serv & Em)	2.826,2	2.832,8	2.866,6	3.080,5	3.370,6	3.596,0	3.795,5	3.997,3
Growth	0,2%	1,2%	7,5%	9,4%	6,7%	5,5%	5,3%	
Units Em Markets (excl Italy)	382,7	421,0	495,0	558,8	566,1	588,4	608,4	629,5
Units (Europe excl Service)	3.208,9	3.253,8	3.361,6	3.639,4	3.936,7	4.184,5	4.403,9	4.626,9
Growth	1,4%	3,3%	8,3%	8,2%	6,3%	5,2%	5,1%	
Market Share (Eur excl Serv & Em)	13,4%	13,5%	13,6%	14,7%	15,8%	16,6%	17,2%	17,9%
Sales (Europe excl Service)	698,0	701,7	707,2	770,9	844,4	905,7	959,5	1.014,1
Growth	0,5%	0,8%	3,7%	9,5%	7,3%	5,9%	5,7%	
Average Price	217,5	215,6	210,4	211,8	214,5	216,4	217,9	219,2
Total Change		-0,9%	-2,4%	-0,4%	1,3%	0,9%	0,7%	0,6%
GMIl excl. M&T Productivity	183,4	174,6	164,3	193,4	209,2	224,3	238,6	253,0
%	26,3%	24,9%	23,2%	25,1%	24,8%	24,8%	24,9%	24,9%



....but also the insights

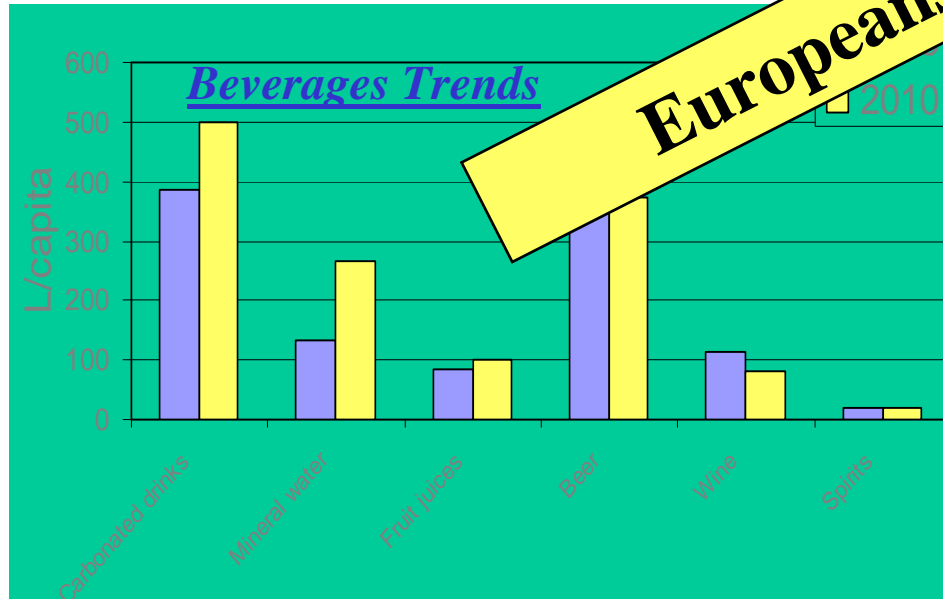
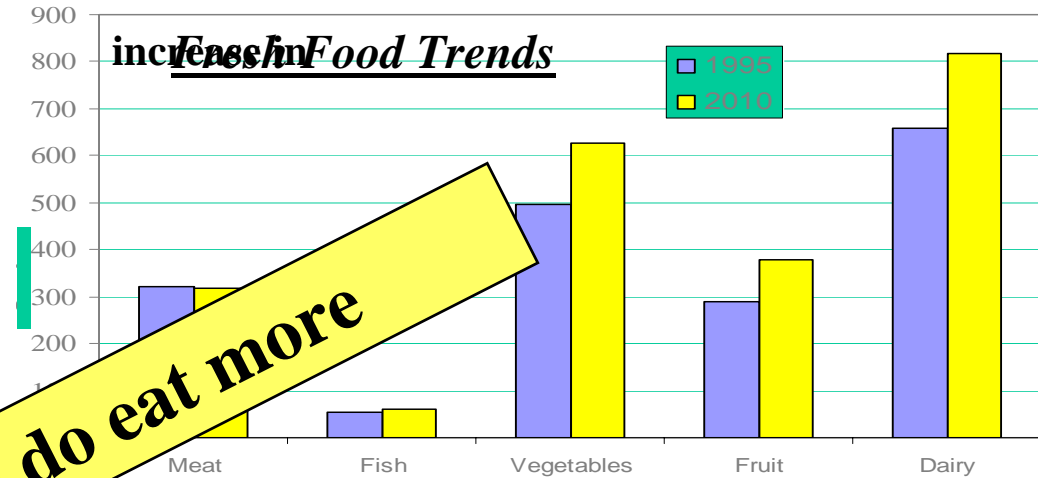
Summary of Lessons 13 & 14

Customer Insights and Trends

- Dairy products , Fruits and vegetables show consumption all countries

- Frozen Foods consumption increase, specifically vegetables, poultry & bakery products

- Increasing trend in use of soft drinks and bottles water



Europeans do eat more

Summary of Lessons 13 & 14

Number Crunching and Planning from the Past

Million of Euros	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Aprfcst</i>	<i>Strategic Plan</i>			
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Industry Growth			0,3%	-0,7%	1,9%	1,6%	1,5%	1,6%
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%	26,3%	24,9%	23,2%	25,1%	24,8%	24,8%	24,9%	24,9%

Summary of Lessons 13 & 14

Some Principles of the Strategy Process

- In SM Strategic thinking is more important than strategic planning.
- The essence of a strategy is a statement of objectives, scope, competitive advantage and logic.
- Strategy is an inherently creative process.
- Strategy is not just the responsibility or domain of the firm's most senior management.
- The firm's organisation and its strategy are intimately interrelated.
- No matter how much planning the firm does, the strategy will still evolve in unintended ways.
- Corporate strategy must add value to the business-level strategies.

Keywords of Lessons 13 & 14

Trends

Discontinuities

Subjective

Objective

Data mining

Capture

Opportunities

Visionary

Consumers

Industry

Globalisation

Strategy process

Strategy identification

Strategy evaluation

Strategic option development

Ethnic

Luxury

On-line learning (eLearning)

Renewable energy

Life styles

Mind styles

B2B

Emerging

Customer experience

Platforms

Technologies

The future (yours and mine)

The Italian Dilemma

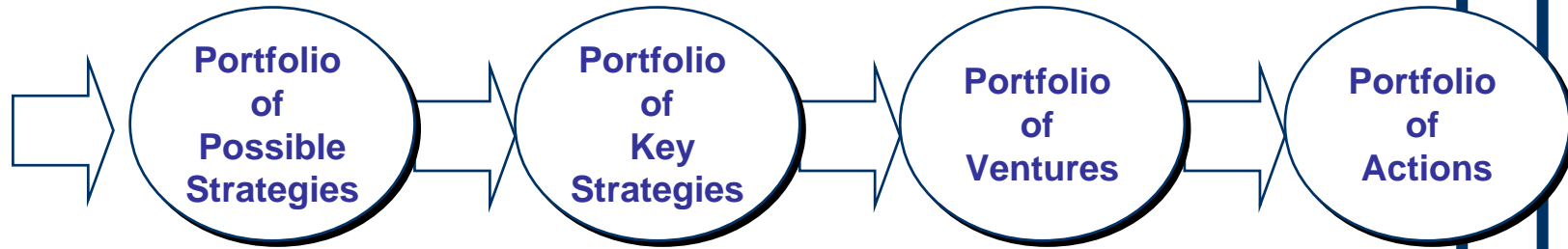
Global entrepreneurs

Global entrepreneurship

Strategy Pipeline

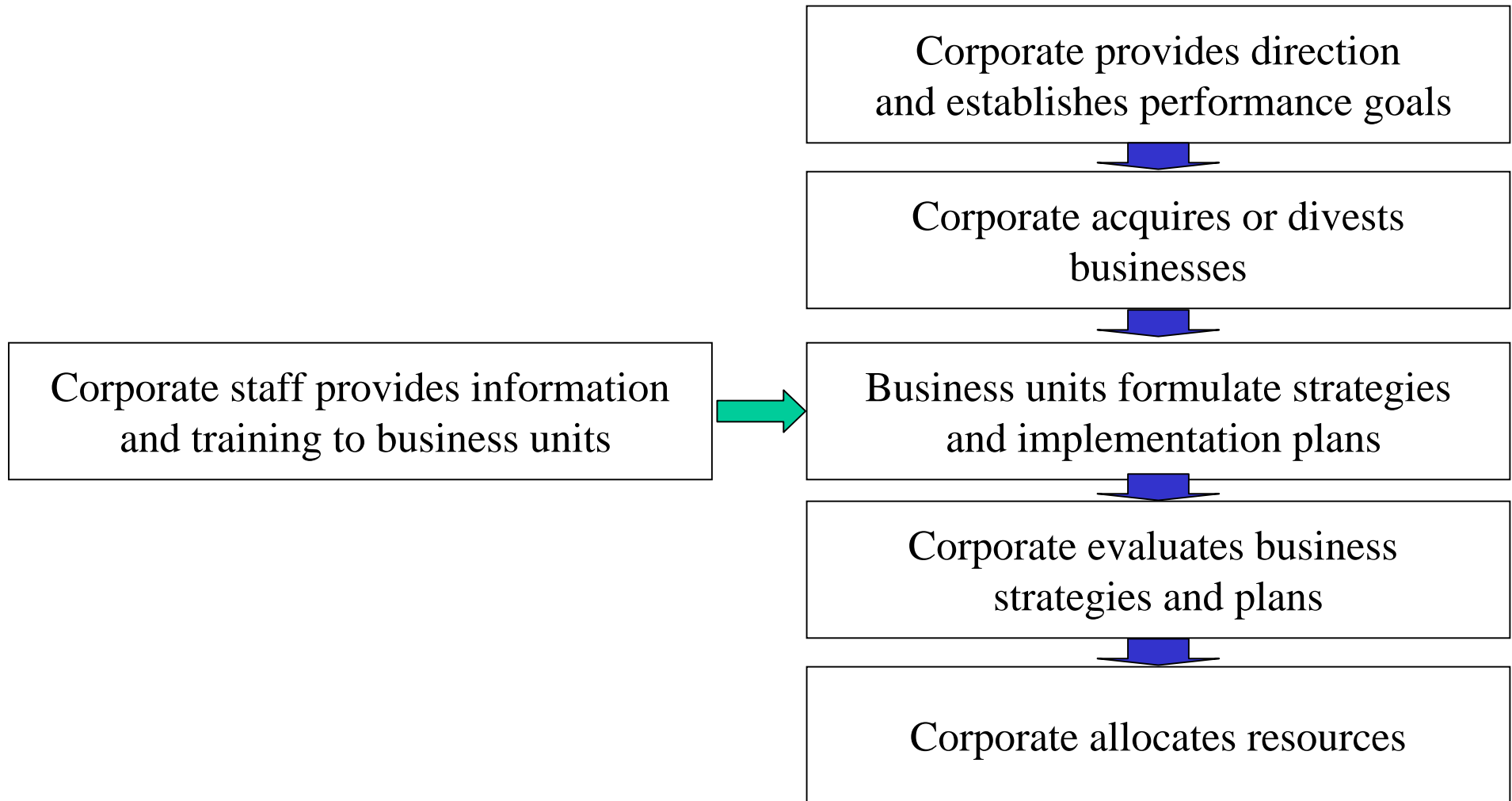
Many strategies

The New Vision

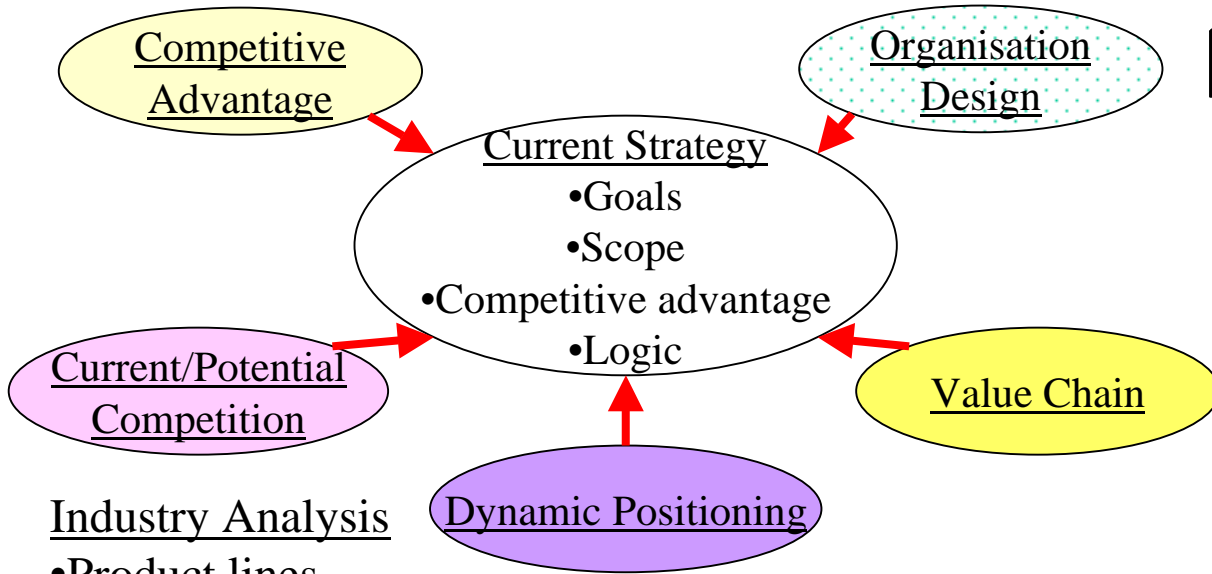


You'll need the right Resources (skilled people and Cash)!

Strategically Independent Business Units



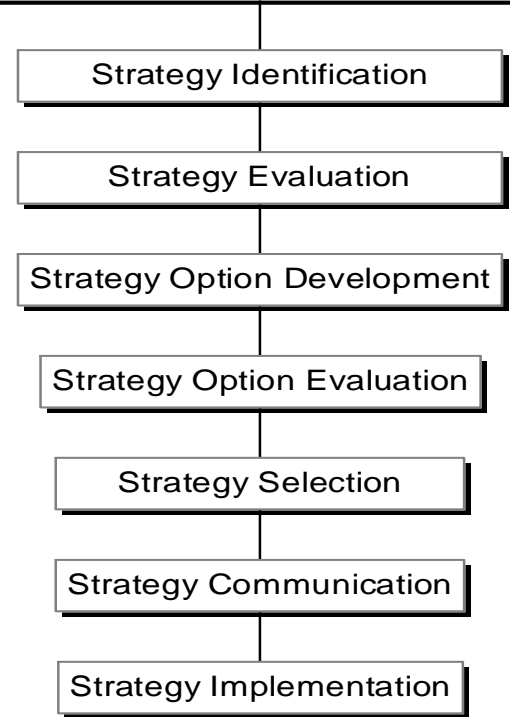
Decisions about Developing and Evaluating Strategic Options



Industry Analysis

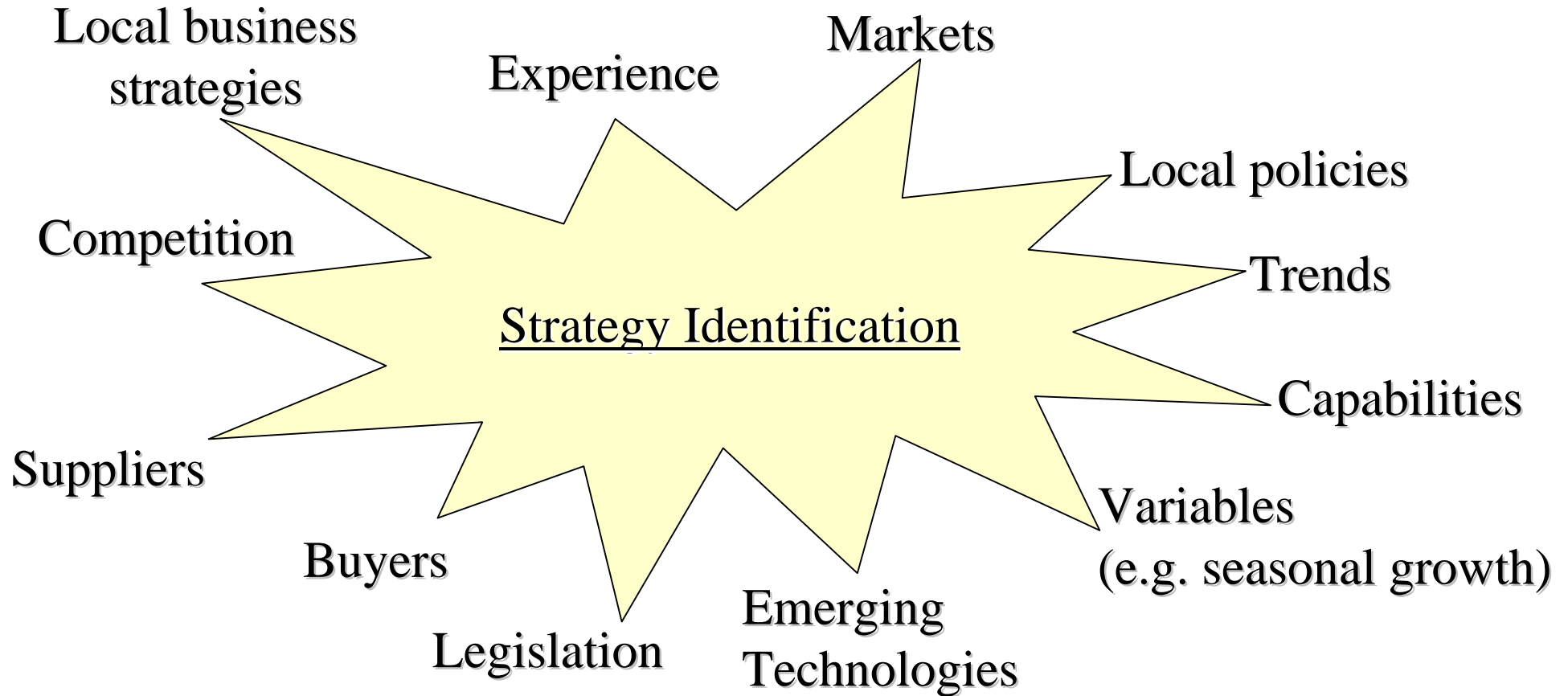
- Product lines
- Buyers and their behaviours
- Growth
- Marketing and Sales
- Suppliers
- Distribution channels (if indirect)
- Innovation
- Competitors
- Social, political, legal environment
- Macroeconomic environment

Steps for setting Strategy



Make Decisions

The Strategy Process



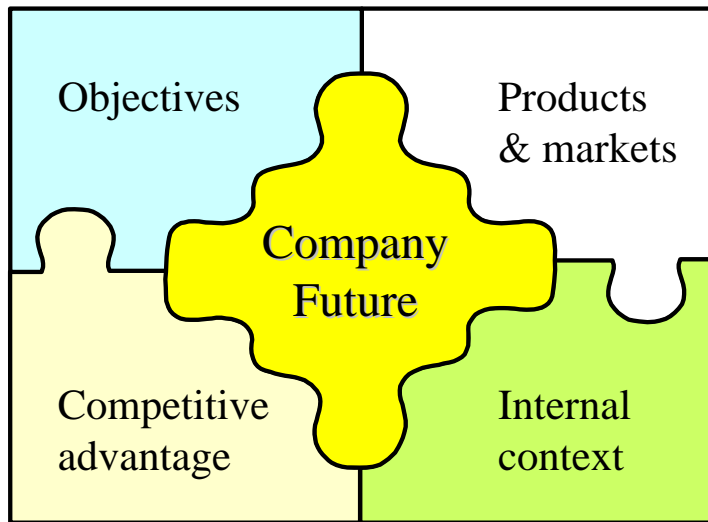
Possible Inputs for Identifying a possible Strategy

Inputs to Strategic Evaluation

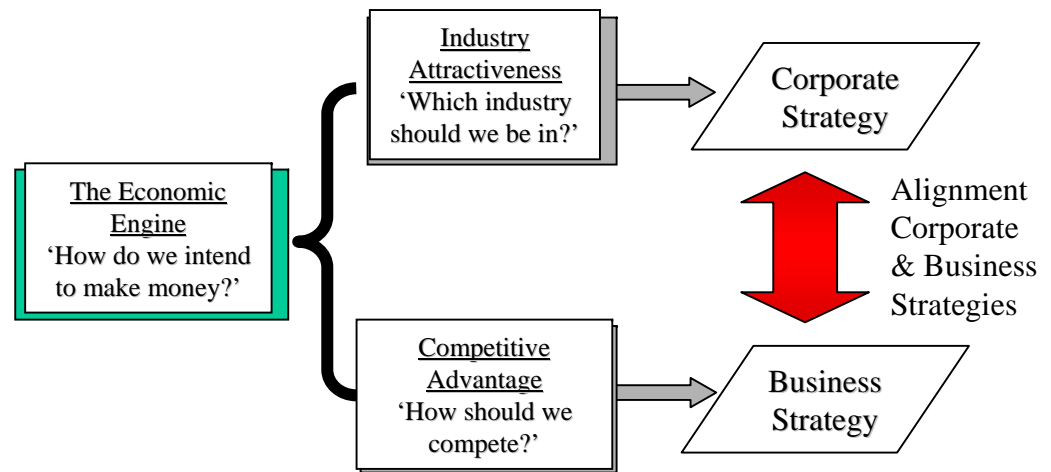
<u>Competitive Advantage</u>	<u>Organisation Design</u>	<u>Value Chain</u>	<u>Dynamic Positioning</u>	<u>Current-Potential Competition</u>
Position	ARC Analysis	Value Creation & Capture	Explorer and Exploiter	Industry Structure
Capabilities	Coordination	PIE	Learning (KM)	Competitive behaviour
Cost/Quality Frontier	Incentives	Vertical Architect	Industry Life Cycle	Differentiation
Sustainability	Strategic Alignment		Scenario analysis	Barriers to Entry

Typical Planning Ingredients

- Vision and/or mission statement (both corporate, business, dept.)
- Strategy statement with long-term goals
- Overall picture of firm's internal and external contexts
- Trend monitoring
- Benchmarking
- Identification of areas of intervention and interest
- Outline or schematic of major objectives and targets
- Actions and approach
- Financial Measurements



Business Strategy Blocks



Corporate and Business Strategies

Keywords of Lessons 15 & 16

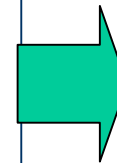
- Identification
- Markets
- Insights
- Evolution
- Analysing
- Strategic plans
- Independent business unit
- Evaluation
- Ingredients
- Business
- Corporate
- Evaluation
- Strategy process
- Executive Summary and Abstract
- Minor and Major command words

Definitions of Incumbency and Incumbent

- Incumbency : The period during which an official position is held.
- Incumbent: The holder of an official position
- Incumbent firm: An officially recognised company

Entry-Advantage of Incumbency

Strong Performance
draws attention
and inevitably competition.



Translates into...
“I want my share
of the cake”

....Keeping my Share of the Cake

- Legislation (Writing the rules of the game)
- Technology and Innovation (R & D & D)
- Knowing, and working with, the consumer (CRM)
- Strategic Alliances-Mergers
- Economies of scale
- Localisation
- Building the brand(s)
- Product ranges and range–extension
- Outsourcing and core business
-

Types of Competitive Strategies

Offensive Strategies

Defensive Strategies

Direct Attacks: price cutting etc
End-run offensives: searching for unoccupied or ignored markets.
First-to-market: gaining a particular advantageous position.
Acquisitions: acquisition of rivals

Multinational Diversification Strategy

Related Diversification

- Sharing e.g. sales forces

Unrelated Diversification

- Short term investments

Strategy Option Development

The scope of developing strategy options is to adapt the strategy in the event that external conditions change. This is especially true for emerging industries that have essentially two uncertainties:

1. Technological uncertainty. Good examples are the evolution of electronic money, internet and communication devices (WIFI), human genome project etc.

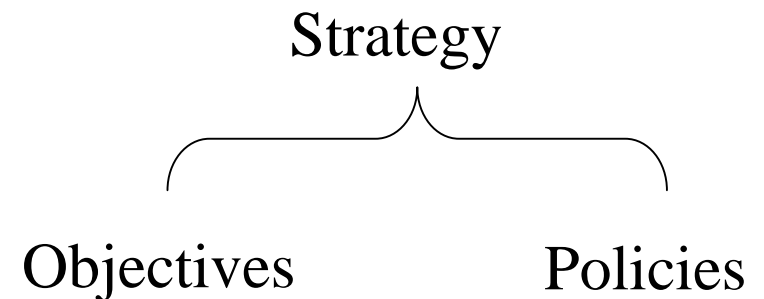
2. Market uncertainty relating to the size and growth rates of the market thus making demand forecasting very difficult. Good examples are: Sony walkman, 3M's Post-its, BIC pens, iPod, Apple PCs etc.

Wheel of Competitive Strategy

Porter defines the wheel of Competitive Strategy as follows:



In this wheel the rim of stands for the strategy boundary, the hub represents the objectives, the spokes are the policies and the slices the context.



Whitehouse communication

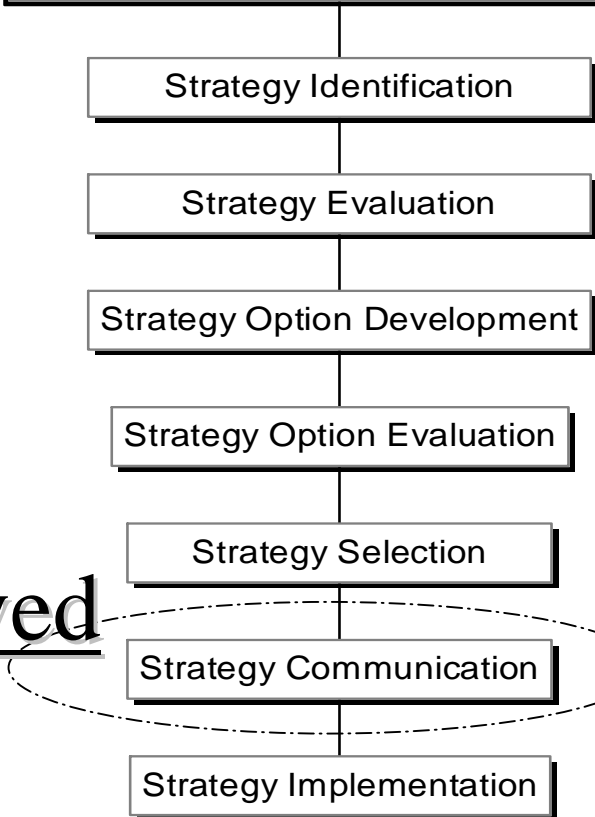
Strategic Objectives

The strategic objectives of homeland security in order of priority are to:

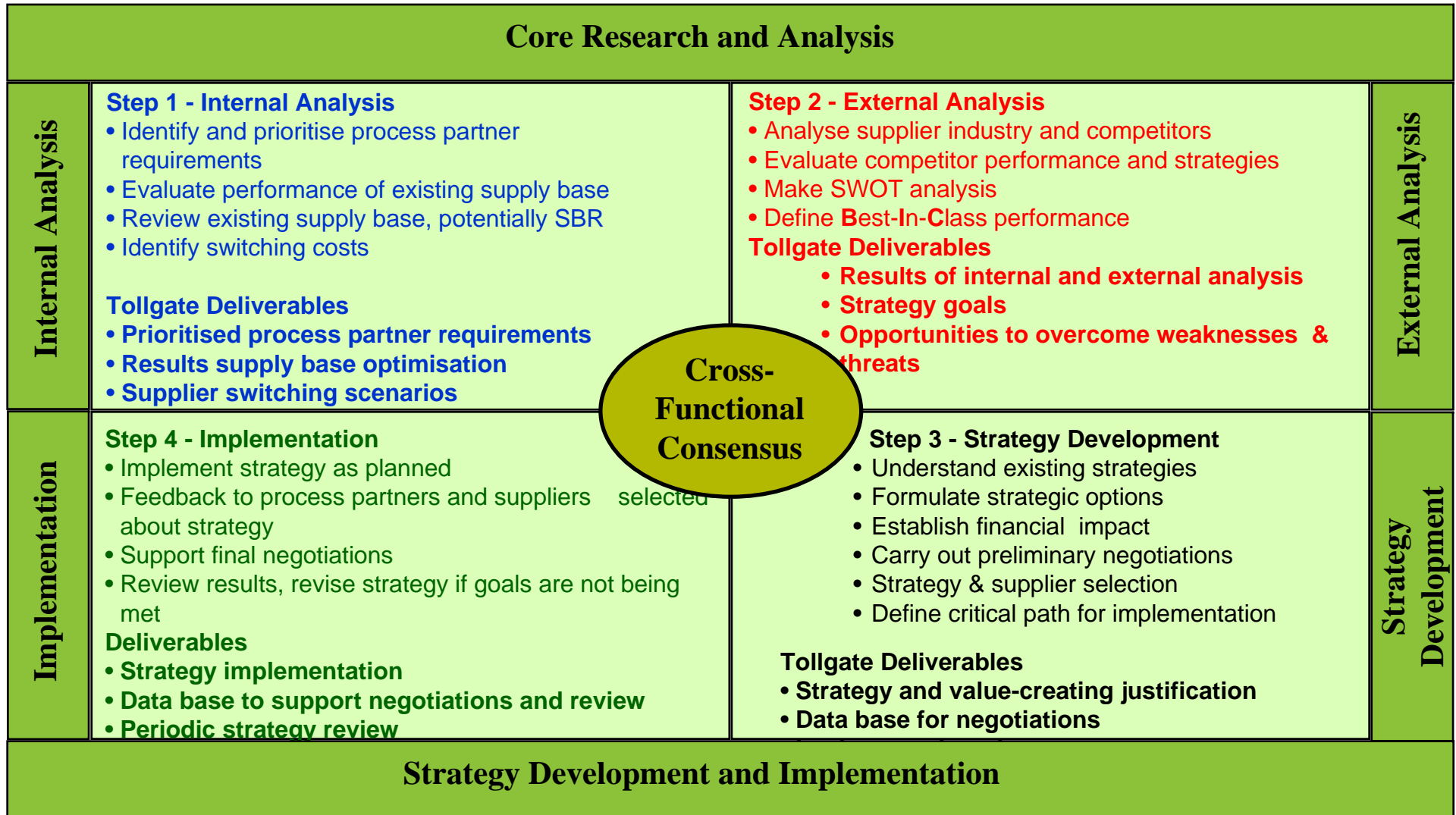
- Prevent terrorist attacks within the United States;
- Reduce America's vulnerability to terrorism; and
- Minimize the damage and recover from attacks that do occur.

Strategy is worthless if isn't believed
and understood by the troops:
 Sun Tzu's TAU! (La Via)

Steps for setting Strategy



Supplier Strategy Development Process



Lessons 17 & 18

Examples of Option Development

A strategic option implies capturing the vision of a firm's future role. Many companies tend to focus on restrictive options meaning that the strategy as a whole remains intact while the development concerns a facet (or facets) of the strategy, for example:

- More than 1 supplier for a specific component
- Multiple trade partners (e.g. Mediaworld, Expert, Trony)
- Project, product and patent portfolio (e.g. Drugs at Glaxo)
- Resource allocation (e.g. outsourcing engineering/design)
- Organisation design (e.g. as for joint ventures)
- Make vs. buy (for part or all of a machine/product)

Some Fundamental Questions

Lessons 17 & 18

(for option development and evaluation)

THE BIG QUESTION: DOES IT FIT WITH THE FIRM?

A true strategic option is usually radical in nature e.g. in product development it might be technology-push instead of market-pull, or outsource everything instead doing everything in-house or produce in Poland instead of Italy. What are the implications and does it fit?

Option Development Criteria

Internal
Consistency

Environmental
Fit

Resource
Fit

Communication
& Implementation

Keywords of Lessons 17 & 18

- Corporate Strategy Processes
- Interdependent Businesses
- Strategy selection
- Communication
- Implementation
- Wheel of Competitive Strategy
- Option
- Development
- Consistency
- Risk
- Diversification
- Local
- Global
- Internationalisation
- Incumbent
- Incumbency
- Entry
- Counteractions
- Defensive
- Offensive
- Assessment
- Resource fit
- Environmental fit
- Corporate Performance Management
- Value capture
- Learning economies
- Experience curve
- Competencies

Some Fundamental Questions

Lessons 19 & 20

(for option development and evaluation)

THE BIG QUESTION: DOES IT FIT WITH THE FIRM?

A true strategic option is usually radical in nature e.g. in product development it might be technology-push instead of market-pull, or outsource everything instead doing everything in-house or produce in Poland instead of Italy. What are the implications and does it fit?

Option Development Criteria

Internal
Consistency

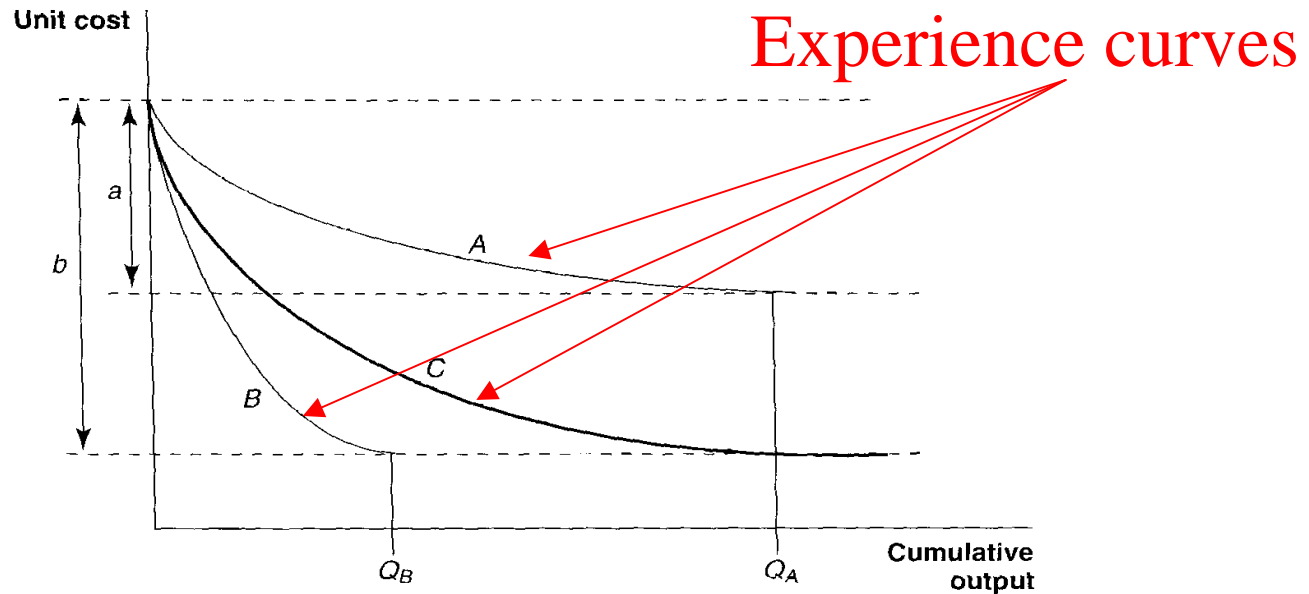
Environmental
Fit

Resource
Fit

Communication
& Implementation

Learning Economies

- Learning economies are cost savings that come from experience (e.g. learning-by-doing) and more often than not, at individual level.
- This means that as an individual learns how to complete a certain task so the cycle time decreases, error falls, and precision increases. This translates into a cost advantage.



The Law of Experience

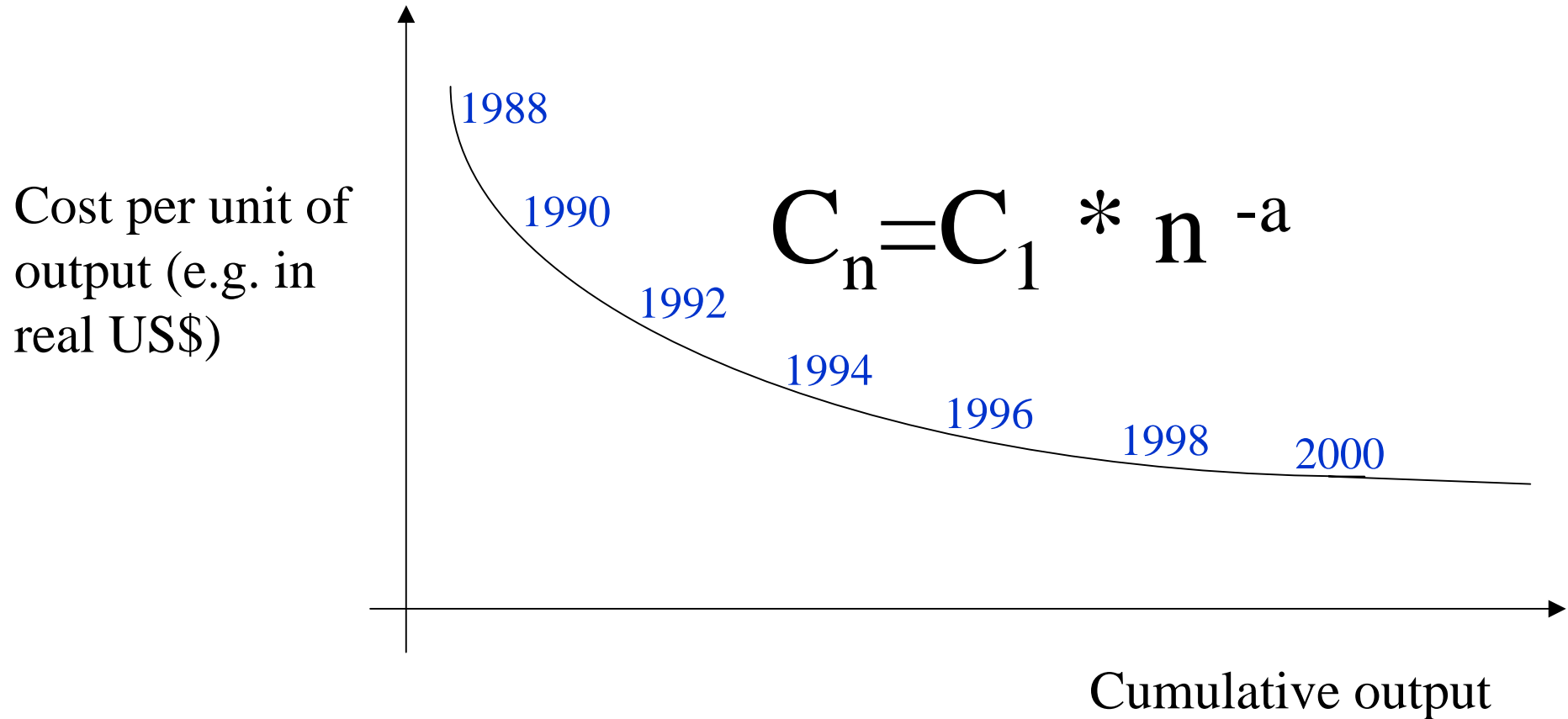
The law of experience is based on a generalised observation that, irrespective of product, as production output increases unit cost will fall more or less at a fixed rate. To be more precise:

The unit cost of value added to a standard product declines by a constant percentage (typ. 20-30%) each time cumulative output doubles.

The law has been applied to a very wide range of products, from bottle caps to refrigerators, from long-distance calls to insurance policies.

The Experience Curve

The experience curve can be drawn for either industry or company, for cost or price data (clearly with constant margins).

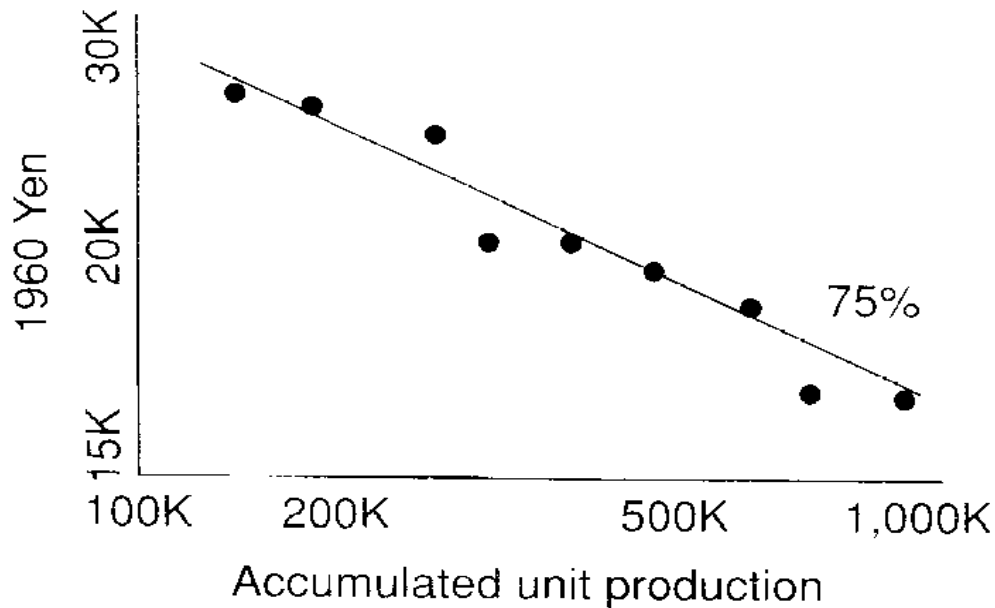


Examples of Experience Curves

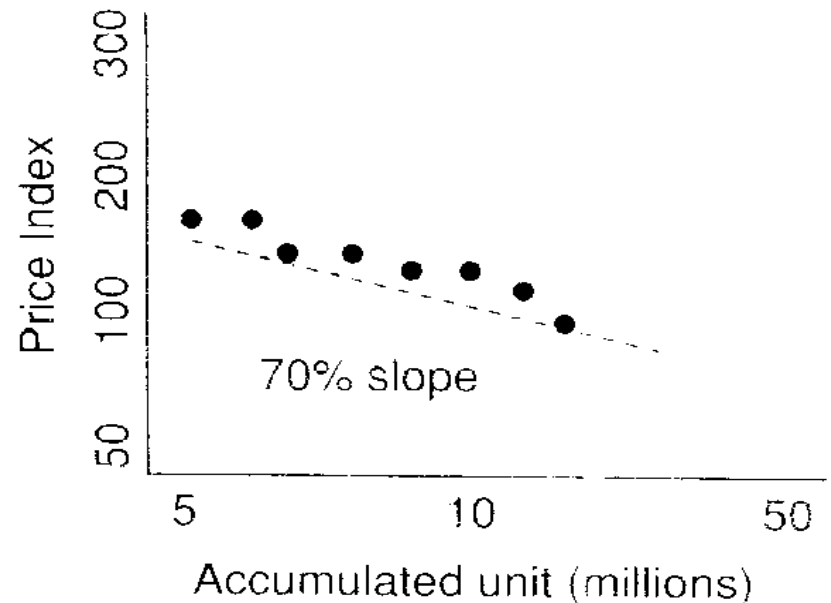
With all other factors equal, if Boeing holds 60% of the world market for commercial jet aircraft and Airbus 40%, Boeing will reduce costs at one-and-a-half times the rate of Airbus.

Here are other examples of the experience curve.

Japanese clocks & watches, 1962–72



UK refrigerators, 1957–71



Industry Attractiveness

In general determining industry attractiveness on the basis of profitability relies on three factors, these being:

1. The value of the product or service to customers
2. The intensity of competition
3. The relative bargaining power at different levels in the production chain.

Companies rely on four economic parameters when analysing an industry:

EVA : Economic Value Added

CE : Capital Employed

MV : Market Value

ROA : Return On Assets

Industry Classification

Sources of Advantage

Many	<p><u>Fragmented</u> e.g. apparel, housebuilding, jewelry, retailings</p>	<p><u>Specialisation</u> e.g. special drugs, luxury cars, confectionery</p>
Few	<p><u>Stalemate</u> e.g. basic chemicals, oil companies, banking</p>	<p><u>Volume</u> e.g. appliances, motorcycles supermarkets, cars, std. microprocessors</p>

Small

Size of Advantage

Big

Types of Industry

Volume

Stalemate

Fragmented

Specialised

Data Categories

Spectrum of Industry Structures

*Perfect
Competition*

Oligopoly

Duopoly

Monopoly

Concentration

Many firms	Few firms	Two firms	One firm
No barriers	Significant barriers		High barriers
Homogeneous product	Potential for product differentiation		
Perfect Info. flow	Imperfect availability of information		

*Entry & Exit
barriers*

*Product
Diff.*

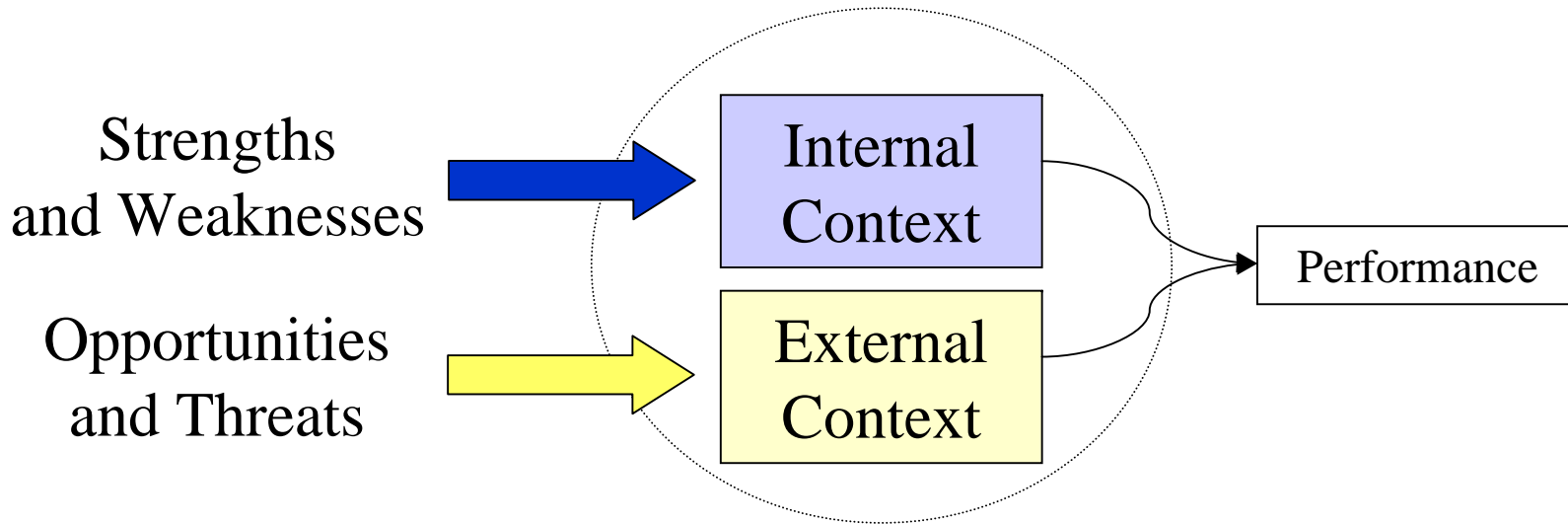
Information

Most manufacturing industries and many service industries tend to be oligopolies.

SWOT Analysis

What is SWOT: It is an acronym for Strengths Weaknesses Opportunities and Threats. It is often considered and applied as a management tool to evaluate the strengths and weaknesses of a company.

Scope of SWOT: Is to build a framework of an organised inventory of factors that are potentially relevant to the firm's strategic position.



PEST (and PESTEL)

In essence PEST attempts to capture, coordinate and categorise information from the industry environment. In recent years two other dimensions have been added: Legislation and Environmental. This forms the PESTEL framework.

Political
Aspects

Economical
Aspects

Environmental
Aspects

+

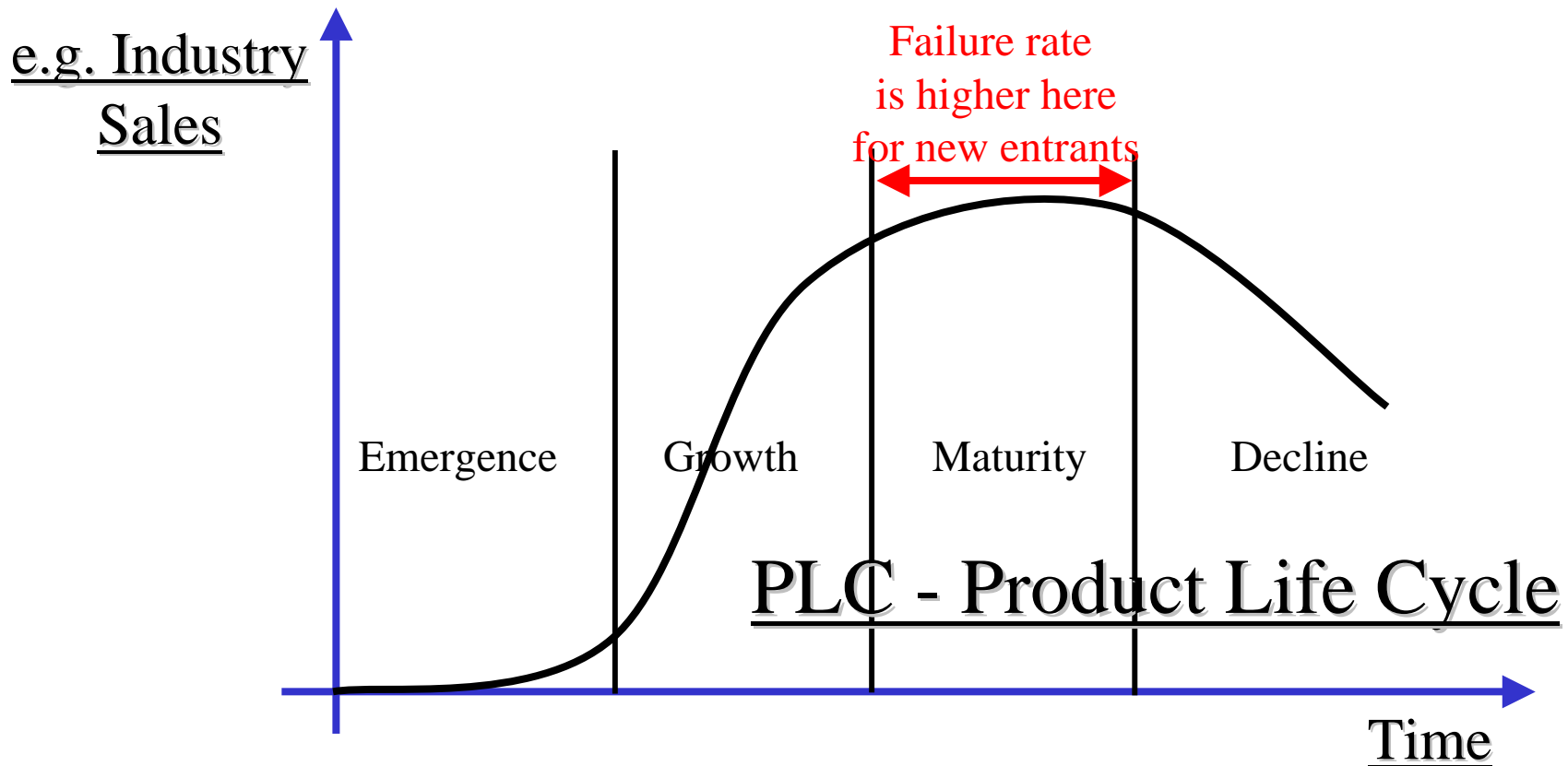
Social
Aspects

Technological
Aspects

Legislative
Aspects

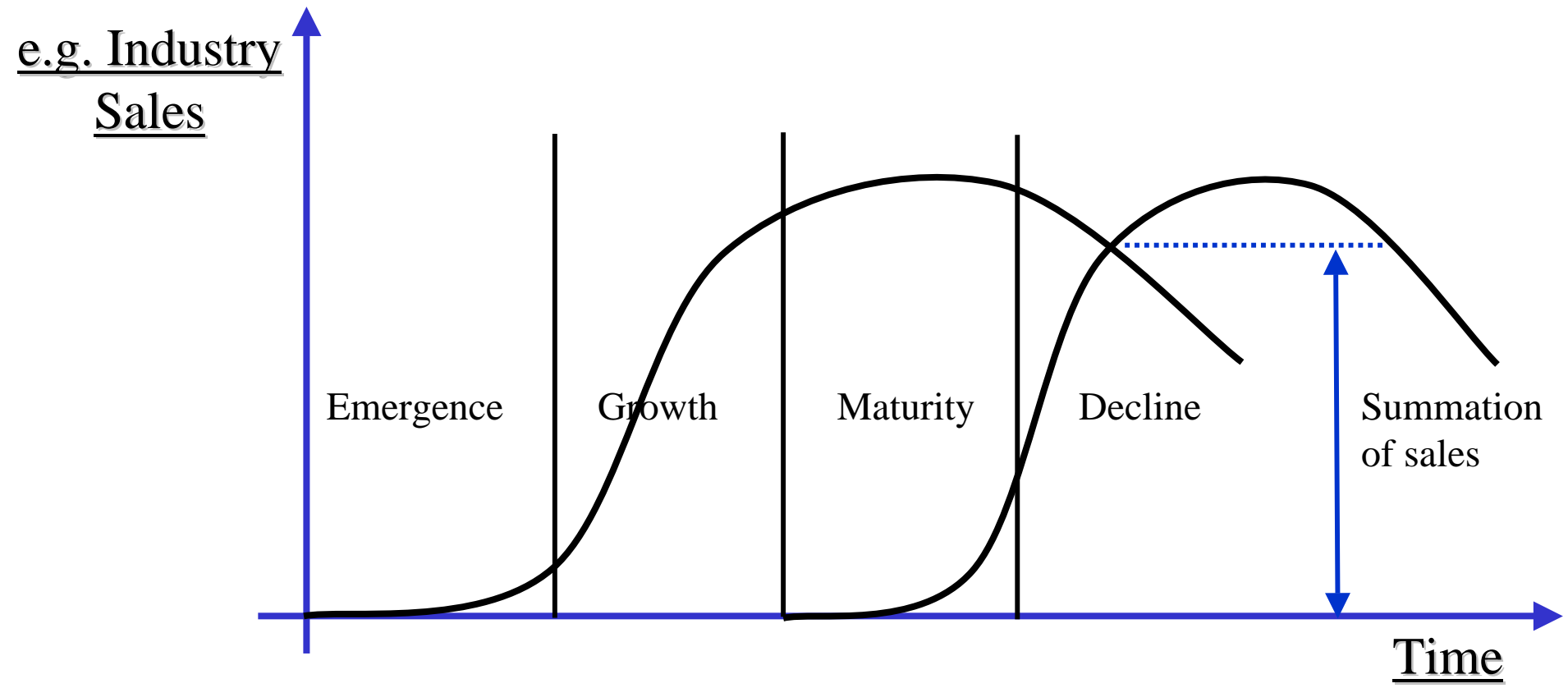
Trends and Life Cycles

Often trends help us to understand the birth of a new life cycle, the direction a company should take or even the birth of new or a cluster of industries.

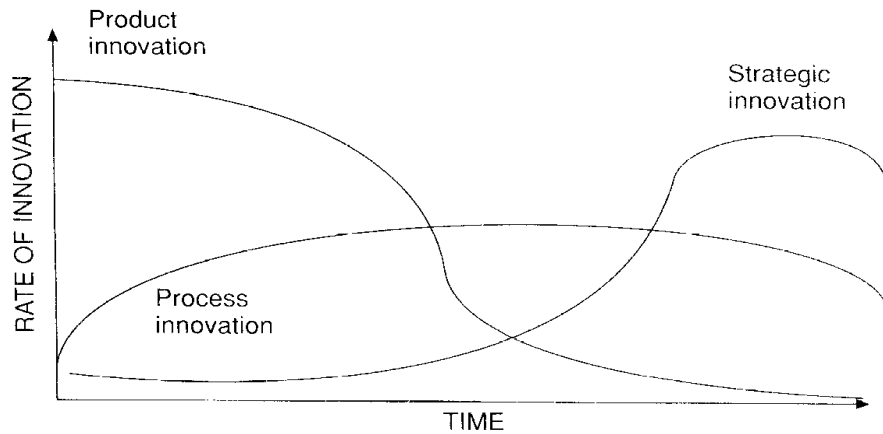


Phasing In and Phasing Out

New products or services are very rarely able to immediately take over from previous products or services. There are many reasons for this lag and essentially there is always a certain phase-IN and phase-OUT situation.



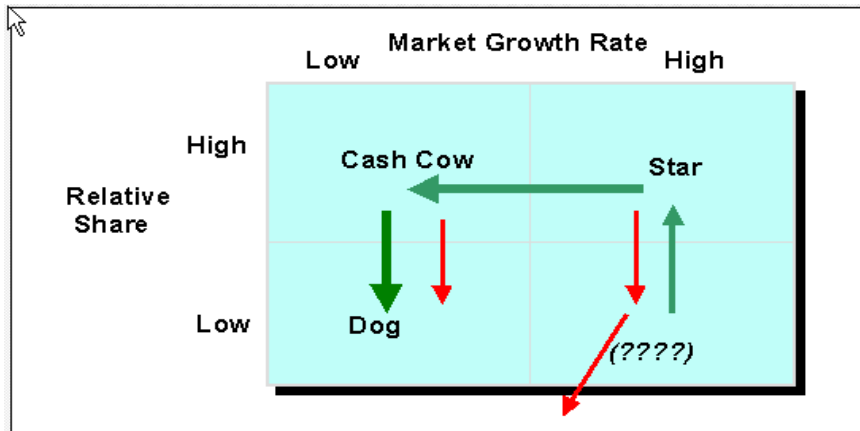
Other types of Life Cycle (based on Innovation Rate)



First or Follower? (Exploiter or Explorer)

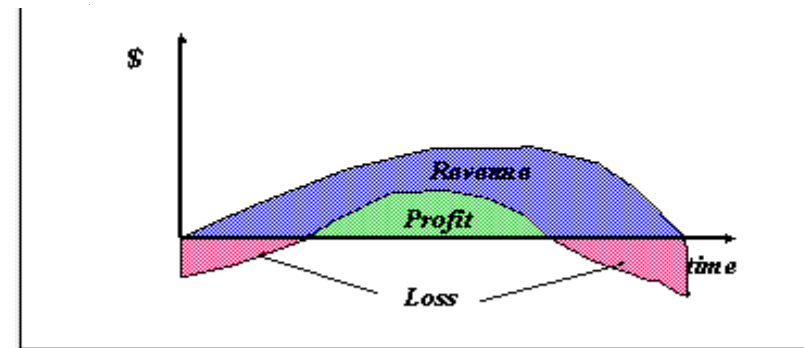
PRODUCT	INNOVATOR	FOLLOWER	THE WINNER
Jet airliner	De Haviland (Comet)	Boeing (707)	Follower
Float glass	Pilkington	Corning	Leader
X-ray scanner	EMI	General Electric	Follower
Office PC	Xerox	IBM	Follower
VCRs	Ampex/Sony	Matsushita	Follower
Diet cola	R. C. Cola	Coca-Cola	Follower
Instant camera	Polaroid	Kodak	Leader
Pocket calculator	Bowmar	Texas Instruments	Follower
Microwave oven	Raytheon	Samsung	Follower
Plain-paper copier	Xerox	Canon	Not clear
Fiber-optic cable	Corning	Many companies	Leader
Video games player	Atari	Nintendo/Sega	Followers
Disposable diaper	Procter and Gamble	Kimberley-Clark	Leader
Web browser	Netscape	Microsoft	Follower
MP3 music players	Diamond Multimedia	Sony (& others)	Followers
Operating systems for hand-held digital devices	Palm and Symbian	Microsoft (CE/Pocket PC)	Leaders

Source: Based in part on David Teece, *The Competitive Challenge: Strategies for Industrial Innovation and Renewal* (Cambridge, Ballinger, 1987): 186-8.



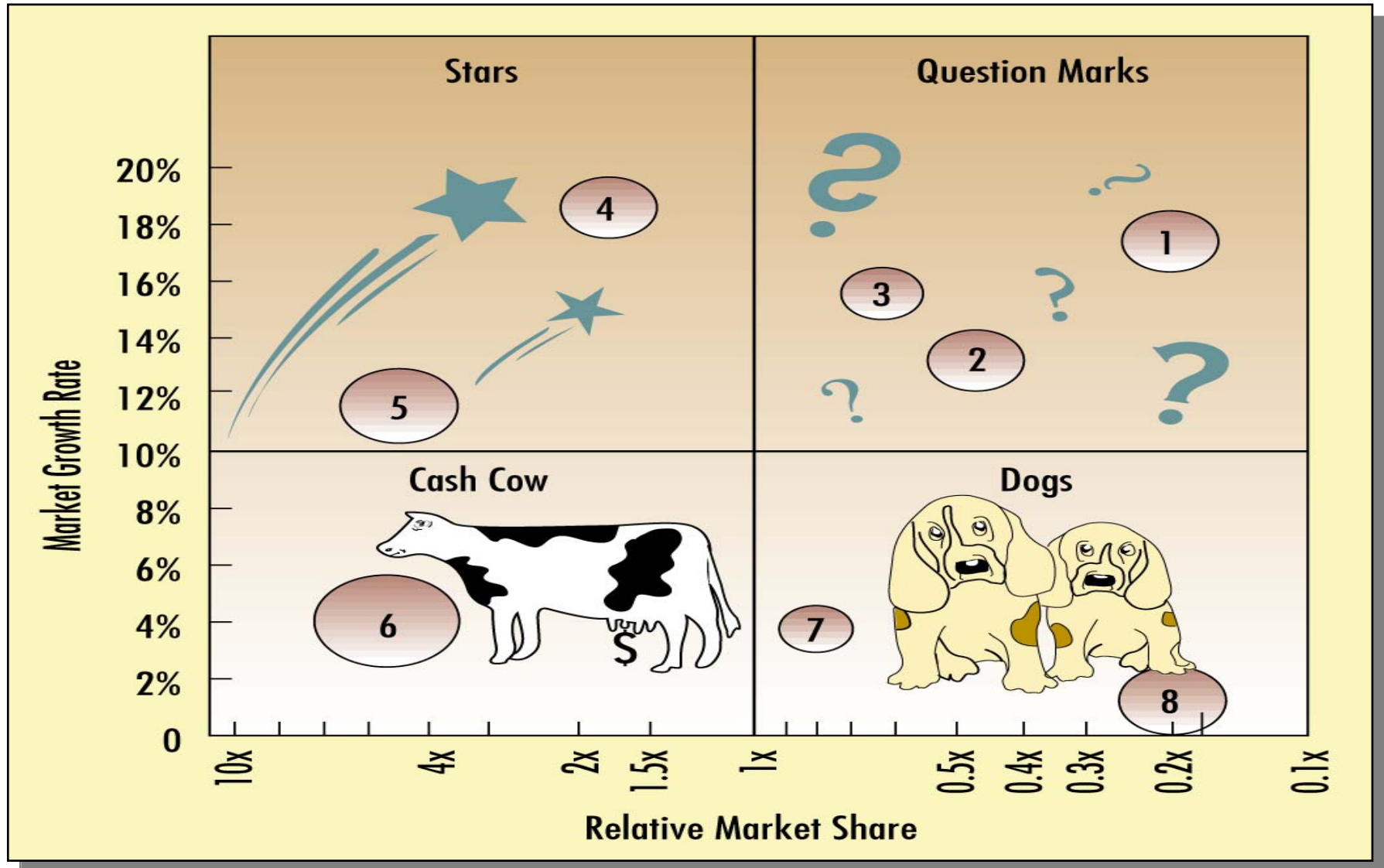
Success sequence
Disaster sequence

Evolution of a Business



From Loss to Profit

The original Model



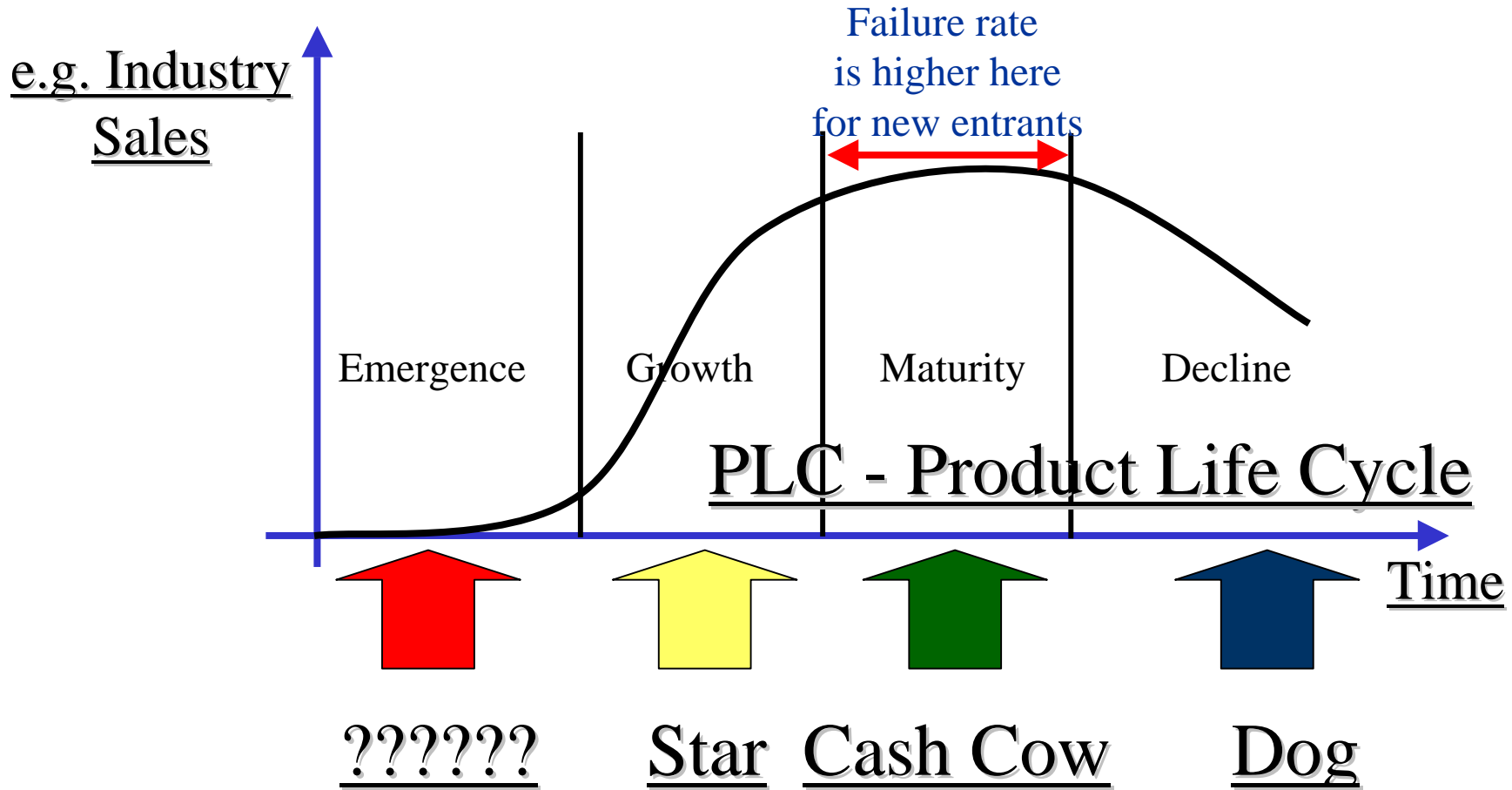
Growth-Share Matrix cont'd

Although the more sophisticated capital markets and competitive landscape of the late 1980s and 1990s make the BCG Matrix less central, it continues to be used as a primer in the principles of portfolio management.

- Stars : High growth rate and market share
- Dogs : Low growth rate and low market share
- Cash cows : Low growth rate but high market share
- Problem child : High growth rate and low market share

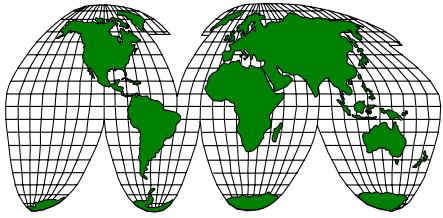
How is the Matrix linked to the PLC?

PLC and the BCG Matrix



Keywords of Lessons 19 & 20

- Learning Economies
- Experience Curve
- Industry Attractiveness
- Business Strength
- Weaknesses
- SWOT analysis
- Life cycle
- Marakon Profitability Matrices
- Growth-Share matrix
- Classification
- Industry structure
- Cash cow
- The Law of Experience
- Star
- Problem child
- Dog
- PEST analysis
- BCG and PLC
- ??? Or problem child
- Star
- First or follower
- Stalemate
- Fragmented
- Volume
- Specialisation
- PESTEL

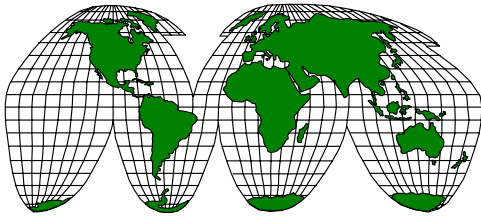


Globalisation & Previous Lessons

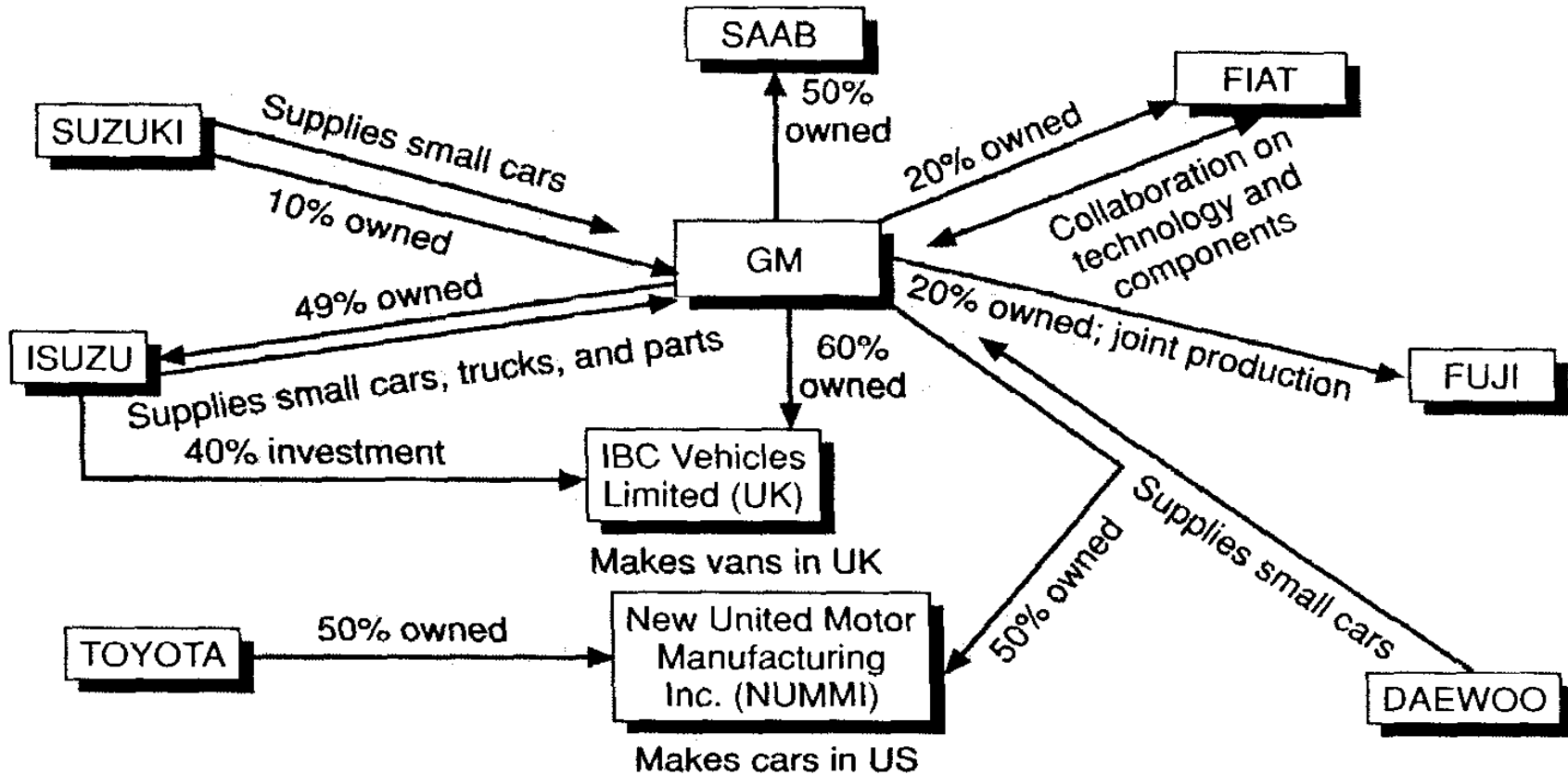
In earlier lessons we saw that company organisation must be aligned with its strategy and that continuous monitoring of strategy is necessary to guarantee sustainable competitive advantage.

Similarly if a company extends its global presence i.e. moves (or extends) into international markets it is necessary to ensure that its strategy sustains this move.

Globalisation forces the company to look at its organisation (architecture), its culture and resources. It pushes companies to monitor the world better and more consistently (the external context).



Examples of Globalisation



The Benefits of a Global Strategy

It has been argued by Levitt that companies that compete on a national basis are much more vulnerable to companies that compete on a global basis than vice versa. This superiority rests on two assumptions:

- Globalisation of customer preferences e.g. coffee shops, clothes etc.
- Scale economies

Strategic Strength from Global Leverage

- Cost reduction e.g. avoiding duplication of facilities
- Improved quality to (more) demanding customers
- Enhanced customer preference through global availability/recognition
- Multiple bases for competitive attack

Globalisation and Society Split

This double definition (dominance and application) is unfortunate and perhaps is an indication why the word *globalisation* seems to split society into two parts:

- those that believe it is or will undermine humanity and society
- and those that see it as natural development of humanity as well as an ideal opportunity to make progress.



Industry and Economics

Markets are opening.

Immigration becomes a vital factor for growth and sustaining the economy.

Environment and Geopolitics

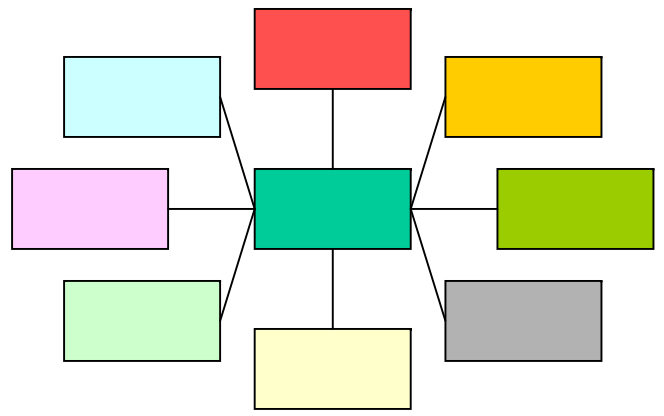
Attacking the unholy trinity: WTO, IMF, World Bank, G8 etc. (FIAT in Italy).



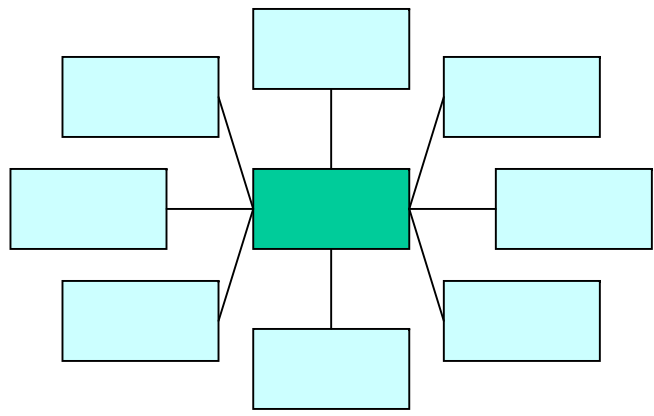
Strategic alliances (G7, G8, Expansion of Europe, AOL, GM-FIAT)

Strategic Strength from Global Leverage

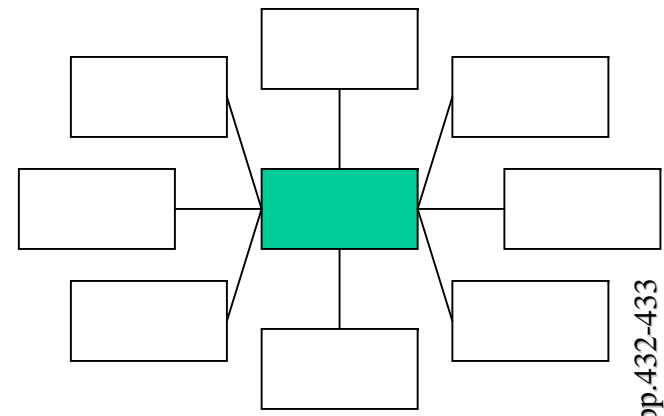
- Cost reduction: from scale economies, avoiding duplication of facilities, exploiting costs and best practises between countries.
- Improved quality through exposure to demanding customers and a wide range of competitors.
- Enhanced customer choice through global availability and recognition
- Competitive leverage through providing multiple bases for competitive attacks and the potential to use global resources in competitive initiatives within individual countries.



Europeans
Decentralised
Federations



Americans
Coordinated
Federations

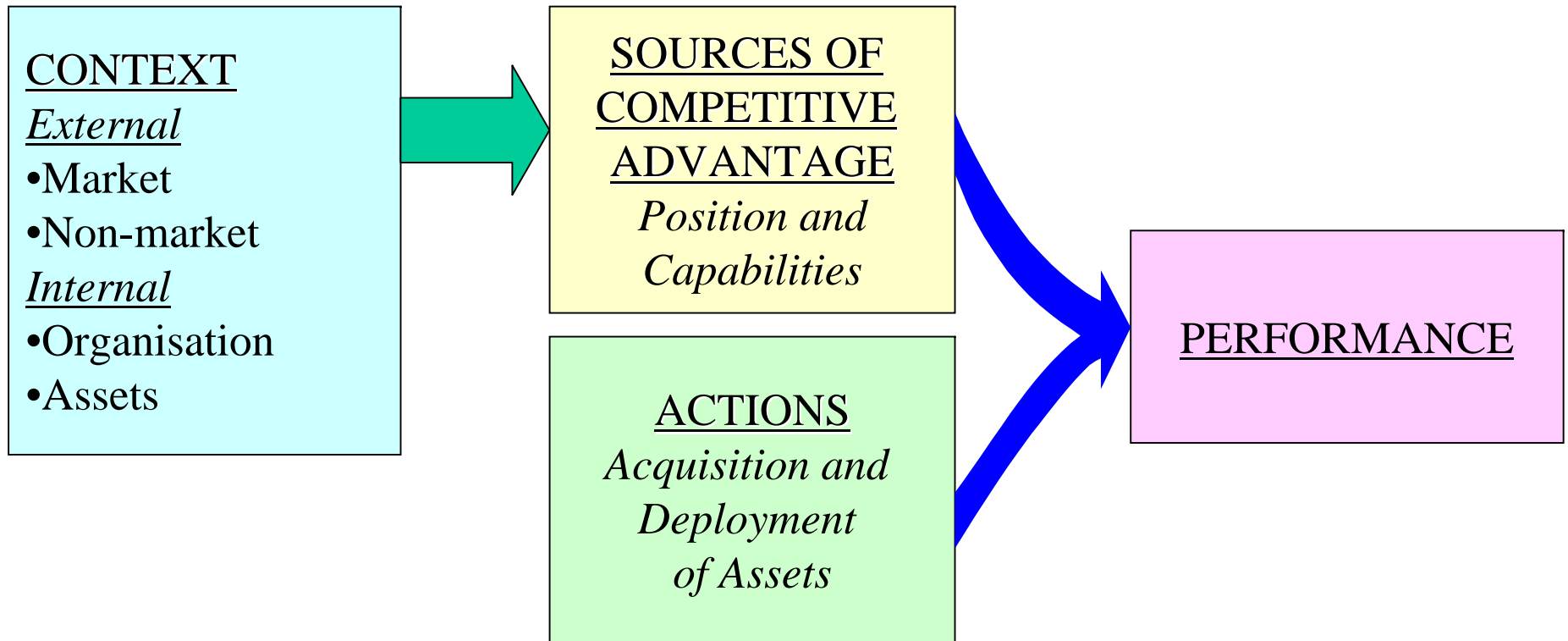


Japanese
Centralised
Hubs

Grant pp.432-433

Implications for Managers

The changes that you will see as a manager will fall under the umbrella of competitive advantage and the need to sustain performance. Remember that this is valid for both profit and non-profit organisations.



Lessons 21-22

Globalisation of Industries & Economies

It could be argued that globalisation favours companies first, then industries and eventually economies.

However, there are many transnational non-profit making initiatives and organisations that seed economies first, then create industries e.g. EU funding, UN, Red Cross etc.

There are a whole series of ethical questions being raised:

- Global legislation vs. local legislation (e.g. human rights) that was once done at bi-country treaty level.
- Exploitation for the few at the expense of many.
- Short term vs. long term strategies (hit and run approach).
- Homogenisation vs. Variation.
- Global tastes vs. Local tastes.

Lessons 21-22

Strategic Challenges

Lessons 21-22

Local Responsiveness

- Formal requirements and local legislation
- Implicit rules
- Services and infrastructure
- Language
- Education
- Ethics e.g. bribes and values
- Culture and attitudes

Global Efficiency

- Ensuring that the firm produces and distributes goods at the lowest cost.
- How should activities be geographically configured
- Where should it locate its facilities
- How many facilities

Learning (globally)

- What should we learn as a company
- Building new competencies
- Dealing with rapid technological change
- Human capital

Local Responsiveness

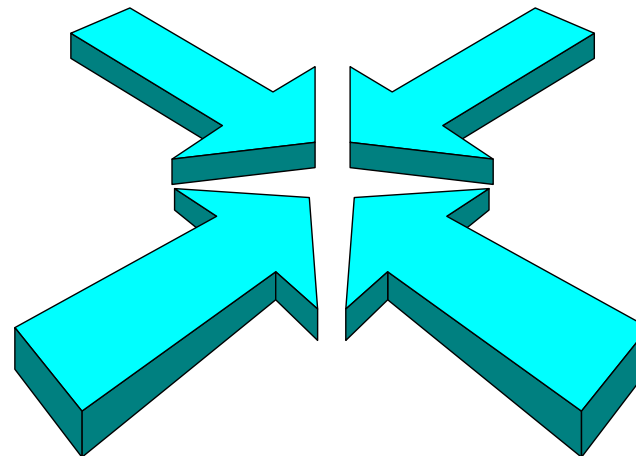
Lessons 21-22

- This becomes an issue when local differences are so important and dissimilar that they are considered to be part of the local identity, too strong to centralise, especially if product and location are close knit. In this case products, services and assets etc. are considered to be part of the local tissue and cannot be expatriated with ease.
- Needs for local responsiveness often derives from historical-tradition-cultural backgrounds, but can also be geographic.

Describing Differences in National Cultures

Collectivist

Individualist



Egalitarian

Hierarchical

In the meantime what can be done?

Regional Organisation

- De-centralise the corporate HQ and make decision processes based on global networking and teams.
- Turnover of leaders at all management levels.

Whirlpool

Locational Advantage

- Localise competencies where the skills-manufacturing competency is the greatest.
- Foster these skills competency and deliver the goods at a global level.

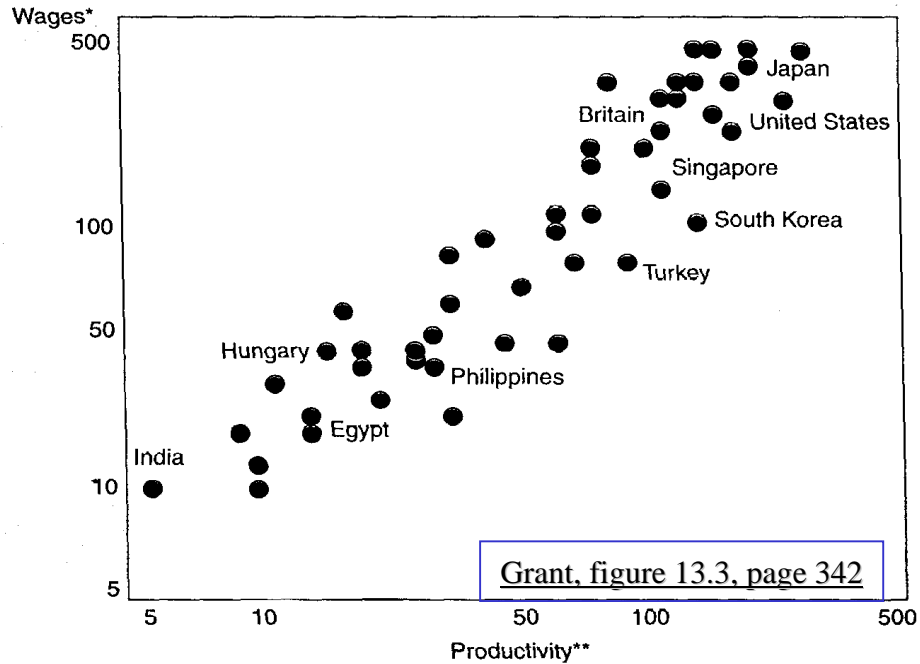
SONY

Transnational Organisation

- Centralise activities/skills/features that have no direct impact on the perceived national level of the product/service/company. That is use the platform approach

VW group

If you pay Peanuts you get Monkeys!



Wages as a Source of Competitiveness

<u>Products</u>	<u>1980</u>	<u>2000</u>
Sweaters	Korea or HK	Mauritius, Indonesia or China
Toys	Taiwan	China
Calculators	Japan or Singapore	Malaysia or Thailand
Printers	US	Singapore
T-shirts	Thailand	Bangladesh

Forbes & Weild, table 4.1, page 65

Hourly compensation rates

	1975	1980	1985	1990	1995	1998	1999
United States	6.36	9.87	13.01	14.91	17.19	18.66	19.20
Mexico	1.47	2.21	1.59	1.58	1.51	1.84	2.12
Australia	5.62	8.47	8.20	13.07	15.27	14.92	15.89
Hong Kong	.76	1.51	1.73	3.20	4.82	5.47	5.44
Israel	2.25	3.79	4.06	8.55	10.54	12.02	11.91
Japan	3.00	5.52	6.34	12.80	23.82	18.29	20.89
Korea	.32	.96	1.23	3.71	7.29	5.39	6.71
Taiwan	.40	1.00	1.50	3.93	5.94	5.27	5.62
Denmark	6.28	10.83	8.13	18.04	24.07	22.69	22.96
France	4.52	8.94	7.52	15.49	20.01	18.28	17.98
Germany (former west)	6.31	12.25	9.53	21.88	31.58	27.52	26.93
Italy	4.67	8.15	7.63	17.45	16.22	17.11	16.60
Spain	2.53	5.89	4.66	11.38	12.88	12.14	12.11
Sweden	7.18	12.51	9.66	20.93	21.44	22.02	21.58
Switzerland	6.09	11.09	9.66	20.86	29.30	24.38	23.56
United Kingdom	3.37	7.56	6.27	12.70	13.67	16.43	16.56

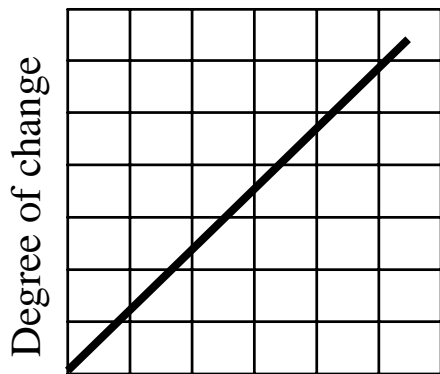
Lessons 21-22

Grant, table 14.2, page 421

Keywords of Lessons 21 & 22

- Globalisation
- Alliances
- Joint Ventures
- Responsiveness
- Strategic gains
- Locational Advantage
- Individualist vs. Collectivist
- Egalitarian vs. Hierarchical
- Learning
- Federated
- Centralised
- Organisational
- Regional
- Transnational
- Tool-kit
- Exploitation
- Homogenisation
- Variation.
- Global tastes
- Local tastes
- Work automation
- Global legislation
- Local legislation
- Short or long-term
- Mass migration
- Leverage

Two Possible Strategies



mths

Kaizen

Gradual
Change



Degree of change

mths

Kaikaku

Radical
Change

- Strategic change is the implementation of new strategies that involve substantive changes beyond the normal routines of the organisation.

Incremental- Transformational change

- Incremental change does not alter underlying organisational cultural beliefs or values because it is about doing things a little differently and the cause of it is easily seen by everybody (e.g. intro. of a new product range and pricing policy).
- Transformational change is associated with strategic leadership, hence it is a top-down process, and is initiated by senior managers.

Strategic change is needed to realign or maintain the link between the organisation and environment.

Styles of Managing Strategic Change

Although strategic change is always a top-down approach firms have various ways of going about managing the change. The principal styles may be classified as follows:

- Communication
- Collaboration
- Intervention
- Direction
- Coercion

Revolutions and the New Economy

1st Industrial Revolution : Britain

- Mechanisation, new technologies (steam), transport etc.

2nd Industrial Revolution: USA

- Telephone, car industry, electrical power etc.

Birth of Corporations

3rd Industrial Revolution: USA, EU, Japan

- Biotech., Digitalisation, Telecomms, New Economy etc.

Microelectronics + Internet = Telecommunications

New Economy - Globalisation

Lessons 23-24

New vs. Old Economies

Lessons 23-24

New Economy

- Digital Tech.
- Media
- Telecomms.

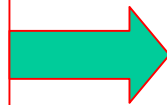
Old Economy

- Mature but essential industries

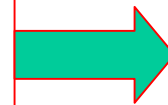
High but profit-less growth

Low but profit growth

Cost cutting mode



Revenue growth mode



Profitability mode

New Directions in Strategic Thinking

80s

- Market share
- Economies of experience
- Portfolio management

90s

- Restructuring
- Refocus of org.
- Core competencies
- Acquisitions

New. Mill.

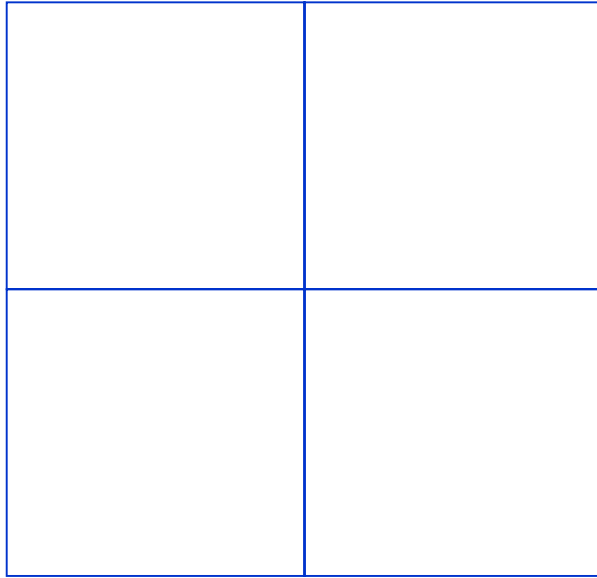
- Innovation
- Human capital
- Transparency
- Mergers
- Consolidation
- Global policies

The start of the new millennium is characterised by greater competition, greater uncertainty and lower profitability.

Lessons 23-24

Trends and Styles of Leadership

Reflexive



- Investment instead of aid
- Show we care
- Balance
- Difference and diversity
- Culture
- Slow food-society

Non-Reflexive

Control

Empower

Social Conscience: To regain credibility in today's climate, business needs to adopt a new-society-oriented philosophy.

Lessons 23-24

Keywords of Lessons 23 & 24

- Revolutions
- New Economy
- Redesign
- Self
- Social
- Uncertainty and competition
- Control/Empower
- Reflexive and Non-reflexive
- Machine
- Organism
- Leadership
- Change
- Incremental
- Transformational
- Direction and Coercion
- Collaboration and Communication
- Intervention
- Tasks and teams
- Processes
- Redesigning organisations
- Mergers and Acquisitions
- Global leaders
- Equilibrium
- Unfreezing and Refreezing

Reading the Competitive Environment

Summary of ch. 6 of the Colin White Text

Dr David Ward

What makes the Environment?

- Otherwise called the industry, the immediate or the transactional environment.
- ‘Industry’ stresses the nature of the product, ‘immediate’ the directness of the interaction and ‘transactional’ the nature of the transaction.
- The environment consists of the rules of the game and those who are playing. As the name implies it is usually a competitive environment.

The Players (1)

- The rule makers directly relevant to the competitive environment may include:
 - various levels of government or government regulatory bodies (e.g. IMQ, CE, EU commissions)
 - foreign governments within whose jurisdiction the relevant enterprise operates (e.g. China)
 - multilateral agencies such as the WTO, EU etc.
- Industry associations (e.g. Confindustria)
- Trade unions and other stakeholders organizations

Players (2)

- Competitor enterprises
 - Foreign
 - Domestic
- Potential competitors
- Complementor enterprises
- Potential complementors
- Suppliers
- Customers: Trade partners and consumers

The Industry

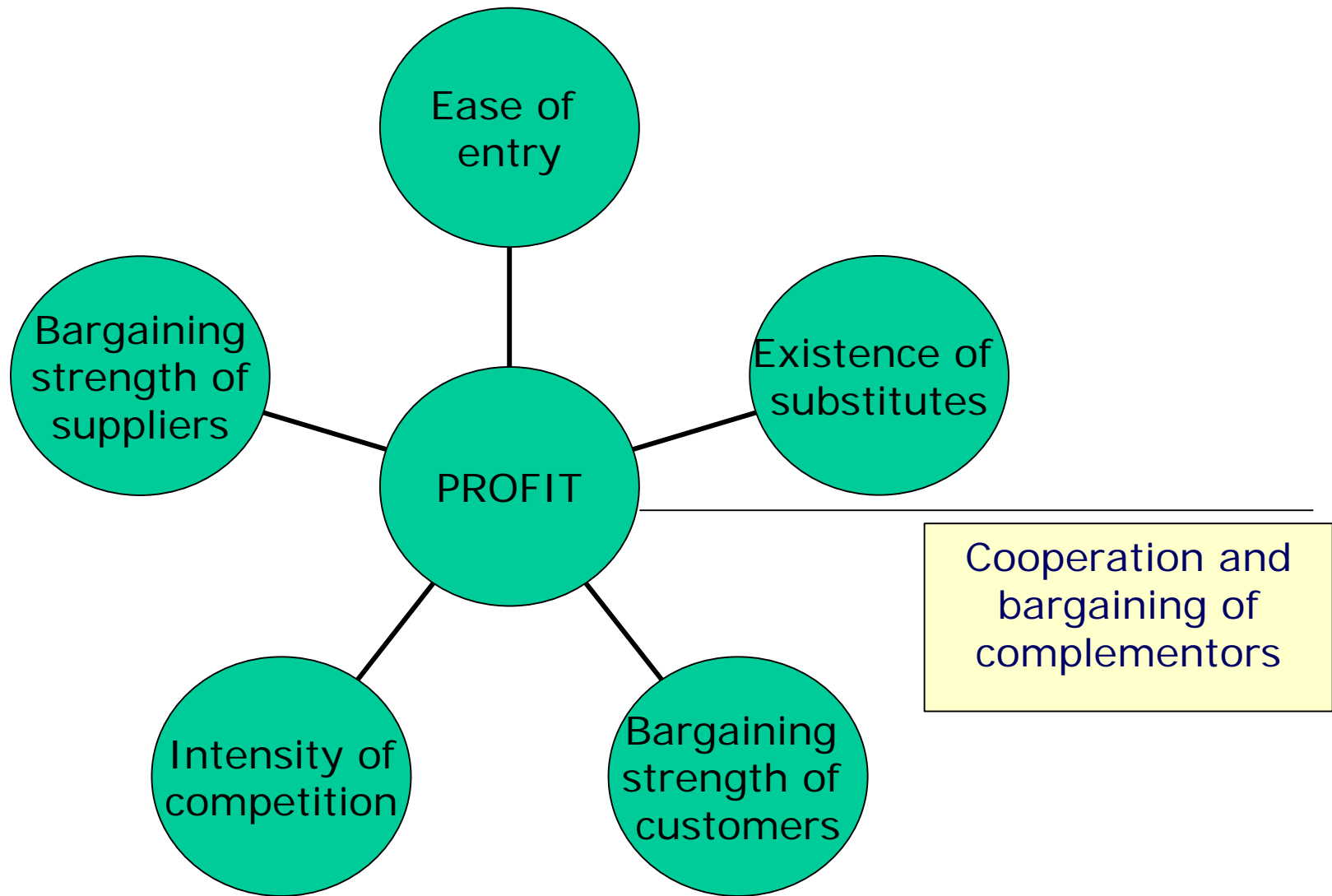
- The standard classification is usually out of date e.g. definition of multinational
- The degree of substitutability between products defines the industry
- The degree of complementarity also helps define the industry
- There are also industry or market segments and associated with them varying desired attributes of the product
- Switching costs, both real and psychological, deter any shift in demand

The Transaction

- Ongoing - action, response and reaction
- Repeated or one-off?
- Transaction costs – search, negotiation and enforcement
- The universality of a direct competitive influence
- Cooperation v. competition

The Forces of Competition

- Porter's five:
 - Barriers to entry
 - Bargaining power of suppliers
 - Bargaining power of customers
 - Existence of substitutes
 - Intensity of competition
- It is possible to add a sixth: the degree of cooperation and bargaining strength of complementors



Porter's 5 forces of competition + 1

Barriers to Entry

- How easy it is to ~~acquire an existing enterprise~~
- Product differentiation
- Cost advantages – economies of scale or scope: movement down the experience curve
- Impact of entry, plus likelihood of retaliation
- Control over inputs
- Market imperfections in general, e.g. patents
- Influence over the rules of the game
- Ignorance and transport costs
- Specificity of assets
- Steepness of learning curve and tortuosity of path

The Bargaining Power of Suppliers

- What is being negotiated – price and quality
- Negotiating ability of players
- Number of suppliers
- Size and globalness of suppliers
- Diversity of interests of suppliers
- The problem of asymmetrical investment
- The problem of asymmetrical information
- Switching costs

The Bargaining Power of Customers

- The same factors are relevant to customers
- Generally in the market for final consumer goods there are more players than for industrial goods = greater weakness of bargaining power
- Switching costs are as much psychological as pecuniary (both for the industry and players)

The Existence of Substitutes

- Does the product have the same (or better) attributes?
- Does it satisfy the same utilities?
- What is the degree of substitutability? And the responsiveness to price change?
- Technical change is always creating new ways of satisfying utilities
- Innovation is always stripping unneeded attributes

The Intensity of Competition

- This is not simply a matter of the number of players or the barriers to the entry of new players.
- How many potential competitors are there?
- The pricing, positioning and promotional strategies of existing players are relevant
- How far has the industry consolidated?

The Bargaining Power of Complementors

- Complementors assist in reducing costs or adding value to what is consumed
- However complementors also seek a reward
- They extract their reward in the price of what they provide
- How far can they use bargaining power to extract a larger reward?

Dynamic Factors

- There are factors which influence the forces of competition now although they relate to future trends:
 - future growth of the market for the relevant product or service
 - innovation which reduces the costs of production and distribution
 - instability in the relevant markets, particularly if it is cyclical

Network Economics

- There is cumulative growth for some products in that they benefit from the growth of networks
- Any PC or the wireless handsets using 3G are only useful to a user in so far as they can link with other users
- The attraction of such products grows with the growth of the relevant networks

Risk and Market Structures

- There is little scope for strategy in a perfectly competitive market
- As the number of players is reduced their impact on each other becomes greater and more obvious
- Oligopoly creates a new kind of risk, which can be labelled strategic risk
- There is little risk in a monopoly, except perhaps from government or from abroad

The Iron law of Oligopoly

- Perfect competition and monopoly are rare
- There is a tendency for a small number of players to dominate any market or any industry whatever the level which is considered – regional, national or global.
- The main inhibiting factor in the operation of this law is government action which promotes a larger number of players than would otherwise be the case

Indeterminateness of Outcomes

- There are multiple possible equilibria
- Which one emerges is the result of particular historical paths taken in the past
- The interaction of the strategies of the main players and also of many smaller players determines the outcome

Path Dependency

- The present is the result of history
- Each present is a unique result of each history
- Apparently small events in the past can have a powerful impact on the present
- In theory to arrive at the same point one enterprise has reached might mean repeating that historical experience i.e. the same learning path

Country Risk

- This is the risk which arises because of the existence of national boundaries and the sovereignties contained within those boundaries
- It has a number of different components – political, economic, financial and cultural

Political Risk

- This has three different sub-components:
 - political instability
 - government policy change
 - social instability
- It often interacts with economic risk

Transfer Risk

- This is part of the market context sub-component of economic risk
- It has two main elements:
 - the effect of exchange rate variation
 - the impact of a change in regulations which prevent transfer, although strictly speaking this is an element of political risk

Strategic Risk

- This is the risk which arises from the existence of other players whose strategy is
 - unknown
 - concealed
 - subject to change
- It consists of:
 - the competitive risk which reflects the indeterminateness of oligopoly
 - + country risk

Videogame Wars

- There are a small number of real players – Nintendo, Sony and Microsoft: this is very much an oligopoly
- The makers of games are complementary to the console makers and vice versa: it depends on your perspective

Characteristics of this Sector

- The market which is already large is growing rapidly
- The market is expanding from that of boys and young men
- Technical change is rapidly changing the sector, improving the quality of what can be done
- Will games be delivered by broadband on PCs, will they be delivered by wireless sets or will the existing situation continue

Strategies

- Different generic strategies: price or cost leadership, product differentiation
- The importance of the quality of the games – much room for creative talent in this area
- Impossible to ignore the strategies of other players
- Timing and TTM a key issue

Schools of thought on Strategy and Strategic Management

Dr David Ward

Aspects of Strategy

According to Macmillan and Tampoer (Oxford University Press 2000) strategy is characterised by:

- Statement of ends, purposes and intent
- High level plan (vision and big picture)
- Elements of leadership
- Positioning for the future
- Building capability
- Fit between capabilities and opportunities
- Result of deep involvement with business
- Pattern of behaviour resulting from embedded culture
- An emerging pattern of successful behaviour

Different Perspectives of Strategy & SM

- Whittington
 - 4 Generic approaches
- Mintzberg, Ahlstrand and Lampel
 - 3 Prescriptive Schools
 - 7 Descriptive Schools

Whittington's 4 Generic Approaches to Strategy

<i>Indicators</i>	<u>Classical</u>	<u>Processual</u>	<u>Evolutionary</u>	<u>Systemic</u>
<i>Deterministic - Emergent</i>	Deterministic	Deterministic	Emergent	Emergent
<i>Single goal or Pluralistic</i>	Single	Plural	Single	Plural
<i>Strategy style</i>	Formal	Crafted	Efficient	Embedded
<i>Influences</i>	Economics	Psychology	Economics/Biology	Sociology
<i>Period (decade of influence)</i>	1960s	1970s	1980s	1990s

Source: Adapted from R. Whittington *What is Strategy - and Does it Matter?* (Routledge 1993)

More on Approachers.....

Classical:

Top-down approach and strongly conditioned by great man leadership

Processual:

As a processing, it is sequential and logical (autocratic leadership)

Evolutionary:

Emphasis on developing, emerging and entrapreneuship

Systemic:

Linking and integrating : seeing the company in a much wider and cob-webbed order

Mintzberg, Ahlstrand and Lampel

Prescriptive Schools

The prescriptive schools look at the way strategy should be

Descriptive Schools

The descriptive schools look at the way strategy is and seen i.e. in a explanatory fashion

The Three Prescriptive Schools

<u>School</u>	<u>Nature of Process</u>	<u>Example</u>
• Design	Conception	Apple
• Planning	Formal Planning	Apollo
• Positioning	Analysis	Pizza hut

Source: Adapted from Mintzberg, Ahlstrand and Lampel *Strategy Safari* Prentice Hall (1998)

The Seven Descriptive schools.....

<u>School</u>	<u>Nature of Process</u>	<u>Example</u>
• Entrepreneurial	Visionary	Edison
• Cognitive	Mental Process	Post-it
• Learning	Emergent	Virgin
• Power	Negotiation	Sky
• Cultural	Collective process	Volvo
• Environmental	Reactive process	Kyoto
• Configuration	Transformational	Post Office

Adopting a Global Perspective

Dr David Ward

Key questions

- Why should an enterprise engage in international transactions?
- Does this engagement mean the nature of strategy must change?

A global world

- A world government
- An effective world law and order framework
- Multilateral institutions for overseeing the implementation of business rules
- A common language
- A common culture
- Fully integrated markets
- No barriers to trade or investment
- No transport or communications costs

Definition

- “Globalization is the movement towards a ‘global world’”
- The concept encapsulates for many the defining features of the modern era
- It is perceived by different people as both good and bad

Benefits of globalization

- Accelerated technical change
- Increased competition = lower costs
- Reduction in home country bias
- Faster growth = more jobs
- Higher standard of living
- Reduction in poverty
- Broader access to consumer goods
- Widespread dissemination of information
- Undermining of traditional hierarchies
- “Democratisation”

Losses from globalization

- Loss of national sovereignty
- More uneven income distribution
- Damage to the environment
- Erosion of health and safety standards
- Erosion of local cultures
- More cultural imperialism
- Loss of independent decision-making
- Increased power of large companies
- Increased power of international organizations

Four different views of globalization

- A change of mental perspective
- A change in behaviour
- Increasingly institutionalized patterns of global interaction
- The imposition of a new discipline on existing behaviour – the notion of ‘hyper-competition’

Five main elements of globalization

- The integration of world markets and the world economy
- Accelerated diffusion of new technology
- The loss of national sovereignty
- The homogenisation of a global culture
- The democratisation of key activities

Is globalisation new?

- Long history of an increase in international interactions – trade and investment
 - 5,000 B.C to the 1600s *incipient* globalization
 - 1600s to 1970s *bridging* globalization
 - 1970s to present: *accelerated* globalization
- Reversals followed by recoveries – for example 1914 – 1945 reversal, 1945 – 1970s recovery.

Integration of markets

- Supra-nationalisation v. Internationalisation
- The capital market leads the way
- Reduction in barriers to trade and investment
- Reduction in transport and communication costs

Accelerated diffusion of new technology

- The communications revolution
- Vastly improved access to information
- Price convergence in various markets
- More rapid spread of technical knowledge

Loss of national sovereignty

- The ‘golden straitjacket’
- Who sets the rules of the game?
- Multilateral and multinational institutions
- Country risk
- Increase in number of nation states
- Cultural conflict (Huntington thesis)

Homogenisation of culture

- The role of language
- Cultural imperialism, from fast food to pop music
- Few global brands
- Local resistance

Democratisation

- Control of fertility
- Decentralisation of energy and transport – electricity and the motor car
- Access to travel
- Access to finance
- Access to information

Cultural clusters (1)

- Latin America
- Western Europe
- Eastern Europe
- The Arab
- Sub-Saharan Africa
- Sinitic or Confucian
- South Asian
- The Anglo

Cultural clusters (2)

- Areas of fragmentation
 - South-east Asia
 - Oceania
- Border areas
 - the Balkans
- Outliers
 - Brazil
 - Israel

Home country bias

- In key economic decisions:
 - Purchase of consumer goods
 - Use of savings
 - Location of investment
 - Employment
- In nature of multinational enterprises

Removal of the bias

- Reduction in transport and communication costs
- More information, less ignorance and uncertainty
- Removal of fluctuations in the level of country risk
 - Floating exchange rates
 - Government action

A convergent world

- What does convergence mean? By choice or by compulsion
- The ‘end of history’
 - Economic – the market system
 - Political – representative democracy
 - Social – global tastes and global brands
- Price convergence - commodities
 - Interest rates converge
 - Systematic economic fluctuations occur
 - Economic structures become similar

Global players

- Multilateral organizations – from the WTO to Greenpeace
- Regional organizations – from the EU to APEC
- The main national players
 - The Triad: North America, the EU and Japan
- Multinational enterprises and organizations from Wal-Mart to the state of California

Multilateral organizations

- The United Nations and its agencies
- The World Bank and its agencies
- World Trade Organization
- International Monetary Fund
- Bank of International Settlements
- Greenpeace
- Red Cross
- Amnesty
- Oxfam

Regional organizations

- Regional development banks, e.g. Asian Development Bank
- European Union and its agencies, e.g. European Central Bank
- Free Trade Areas, such as NAFTA, ASEAN or Mercosur
- Others: APEC or OPEC

National Players

- The Triad – North America, the European Union and Japan
- North America is a little bigger than the European Union
- Both are something like three times the size of Japan
- Together with China, South Korea and Singapore the Confucian countries are a little bit smaller again

United States	9,781
China	5,027
Japan	3,246
India	2,913
Germany	2,078
United Kingdom	1,431
France	1,425
Italy	1,422
Brazil	1,219
Russia	995

Purchasing power parity GNI (2001) – in US\$ billions

Multinationals

- By definition those companies engaged in FDI
- Growing in number
- Still concentrated on the Triad but becoming more diverse
- Different ways of defining size – by use of factors of production such as assets or employment, by capitalization or by revenues

Wal-Mart	220
Exxon Mobil	192
General Motors	177
British Petroleum	174
Ford	162
Enron	139
Daimler Chrysler	137
Royal Dutch /Shell	132
General Electric	126
Toyota	121

Revenues of 10 largest corporations \$bill (2001).

The impact of globalization on strategy

- Think globally and act locally
- Differing operating contexts
- Greater complexity
 - of value creating chain
 - of markets
 - of management team and labour force
 - of legal and political contexts

Globalization drivers

- Lure of markets
- Prospect of reduced costs
- Persistence of government policies which favour some kinds of globalisation
- Forces of competition

Global opportunities and risks

- Nature of the opportunities
- How to exploit the opportunities
- Need for leadership
- Complexity of risk

The Airlines

- Of its nature a global industry
- A strong case of home country bias - protection of the flag carriers
- Deregulation talked about and to some degree pursued
- Fast growth but low profit industry
- Highly vulnerable to shocks
- Consolidation and strategic alliances
- ‘No-frills’ airlines

Swissair

- Limited domestic base
- Ambitious strategy
 - Large route network
 - Minority interests
 - Non-airline business
- New Strategic Course Jan 1 2001
- Debt and bankruptcy late 2001
- Reconstruction as Swiss International Airlines
- Further problems in 2003
- Future? Take-over by Lufthanza

Qantas

- Strong domestic base
- Bankruptcy of Ansett
- Rides the shock well
- Problems
 - Further shocks – Bali and SARS
 - Competition from no frills airlines, Virgin Blue
 - Ageing fleet
 - High costs

British Airways

Starting from their slogan 'One World', the intent of BA is to become a global airline, serving a global market and a global customer.

In the past they had attempted to access the 'low-cost' flight market (with Buzz) but it did not fit with the company culture-customerBuzz was eventually sold.

Over the last 10-15 years they have promoted a less British profile and amplified a different, world-wide, brand image (as the flags on the plane tails testify)

Zipped Strategic Management

The following slides provide an overall view of the SM course and are intended both as a revision tool and refresher. You will need to back-up these slides with your notes, learnings, hand-outs etc. to be ready for the exam.

Review and Flashbacks of Strategic Management

Business Strategy

Competitive Advantage

Internal Context: Organisation Design

Spectrum of Competition

The Strategy Process

External Context: Industrial Design

Trends and Discontinuities

Globalisation and Strategy

Corporate Strategy and the Multibusiness Company

Why Study Multinational Management?

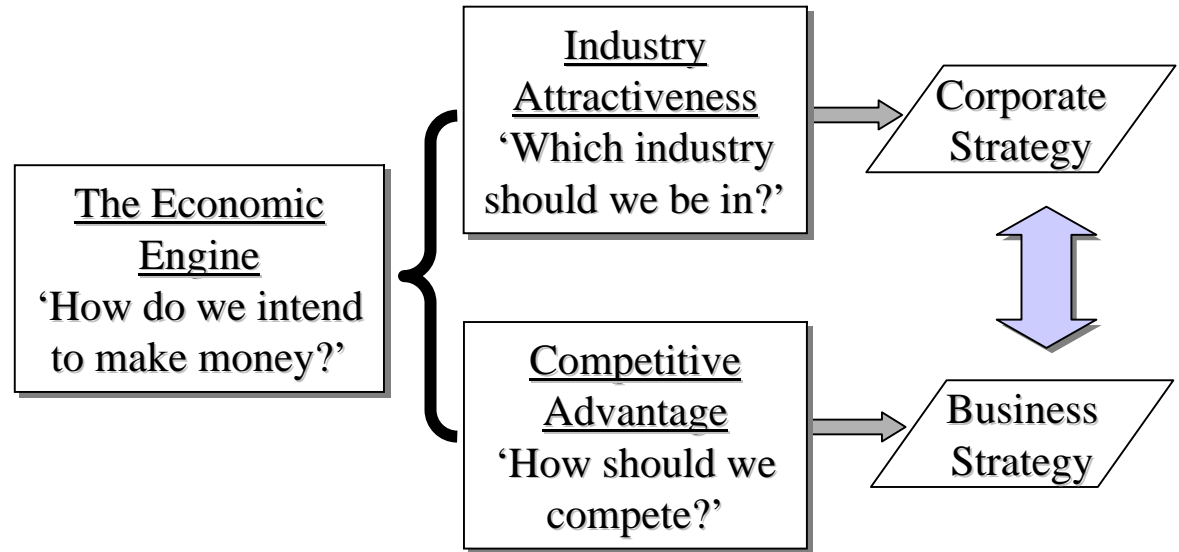
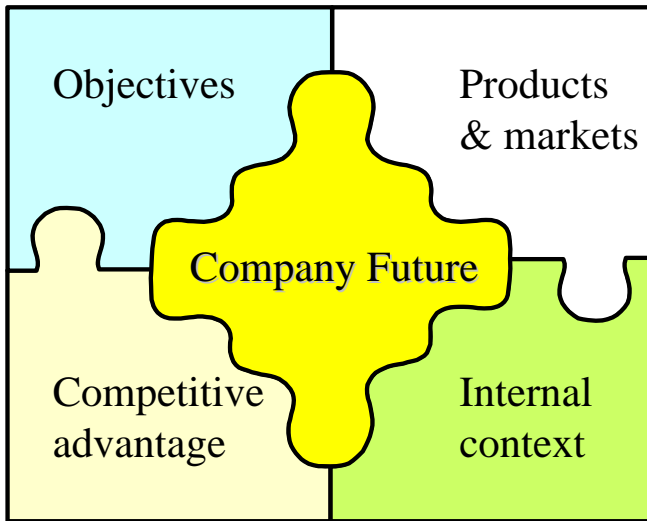
Donald Keough, past president of Coca Cola, once said “...it is fact that the majority of our customers live outside of the United States”.

Globalisation implies that the world is becoming one connected economy in which companies do business and compete anywhere and with anyone, regardless of national boundaries. In the Strategic Management course (see especially lessons 7 and 11) globalisation was seen as the worldwide trend of business expanding beyond their domestic boundaries.

Thus there is a very strong parallel between globalisation and managing multinational companies.

Moreover, and perhaps more important, we now see the entire world as a source of (enormous) business opportunities. Why is this so?...most significantly the fall of trade barriers and also the fact that goods and services are grower faster outside the domestic domain than within it.

Business Strategy



The backbone of Business Strategy

- 'Long term' objectives and intermediate goals.
- What products the company will offer to its consumers.
- The markets in which it intends to compete.
- Area of activity (e.g. beverages, auto, shipping etc.).
- What is the projected outcome (competitive advantage) it will achieve and be able to sustain.
- What is firm's internal context that will make the strategy work.

Business strategy may be defined as a company's planned approach that defines the objectives and direction it will take to achieve them.

Mission, Purpose and Values

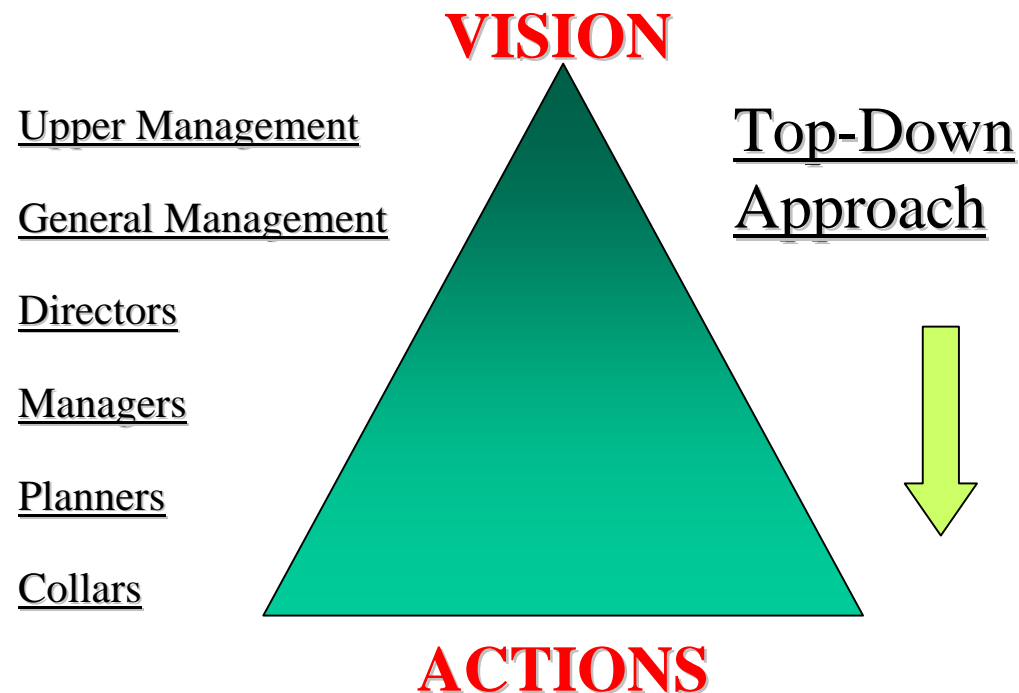


- Mission statements are essentially about purpose and often report the ‘core’ values of the company.
- Values can be considered the main features of a company, the distinguishing features.

Constructing a mission statement is simply a matter of expressing why you do what you do in 50,100,150 words or less.

“All” you have to do is look at the big picture and paint it on the head of a pin.

Implementation of Strategy



Competitive Advantage

Competitive advantage discusses the HOW of strategy.

.....how the Company intends to achieve it's goals based on the products, markets, locations, technologies, processes.

.....competitive advantage provides a company also with a sense of existence.

Potential Sources of Competitive Advantage

-Price (the lowest price, the 'right' price)
-Innovation - at the cutting edge of technology
-Quality
-Design
-Styling
-Reliability ('Zoppas li fa e nessuno li distrugge')
-Consumer loyalty
-Time-to-market
-Manufacturing cost
-Better business location and access to local markets
-Better logistics
-Product mix and flexibility

Competitive Advantage

Positional

*The position of the company
in the market place*

- Brand (Aspirin from Bayer)
- Consumer relationships (IKEA)
- Government support and protection (Italian motorbike industry)
- Status (think of the Federal Bank)
- Distribution channels (think of supermarkets and petrol stations)
- Geographic location (North sea oil reserves)
- Product-service compatibility (std. procedures or tools)
- Trade partners and gatekeepers (car dealerships)

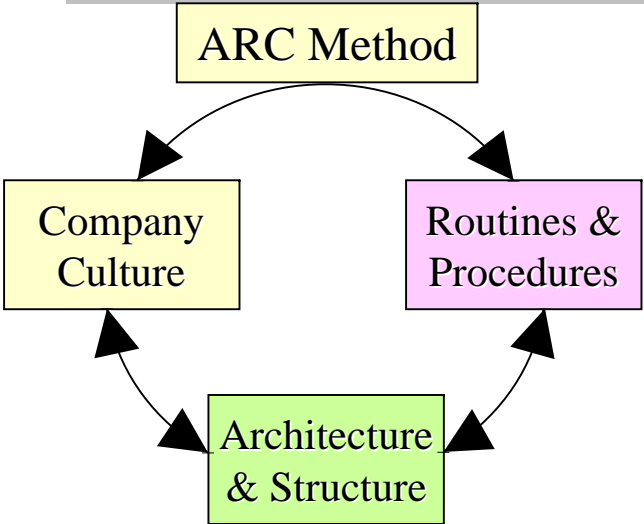
Capabilities

*The capabilities of the company to
respond and satisfy the market place*

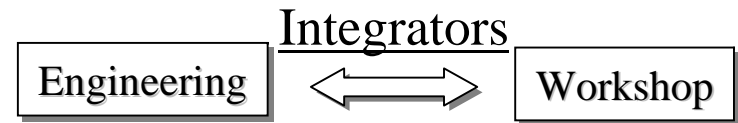
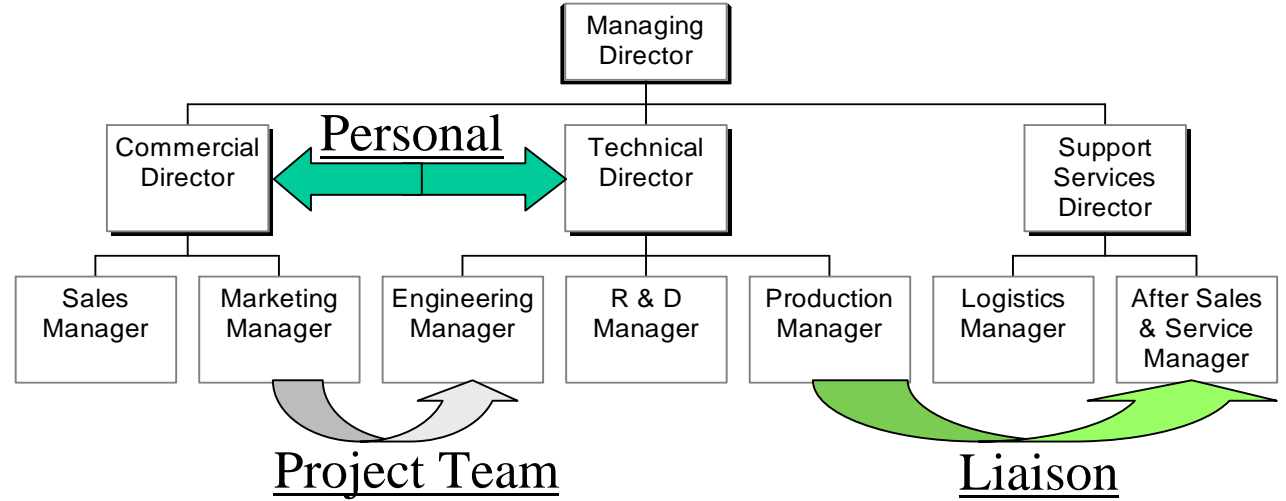
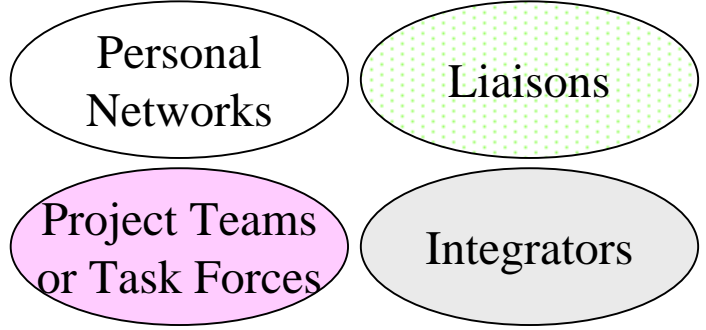
- Capabilities are the core competencies of the company.
- The most valuable competencies are internal assets that cannot be separated from the organisation as they tend to be highly networked.
- Where a competency is localised it can often be out-sourced or developed much quicker/better.
- Where know-how and ability are exploited and spread across an organisation they often translate into not only a recognised competitive advantage but also a sustainable C.A. too.

Internal Context: Organisation Design

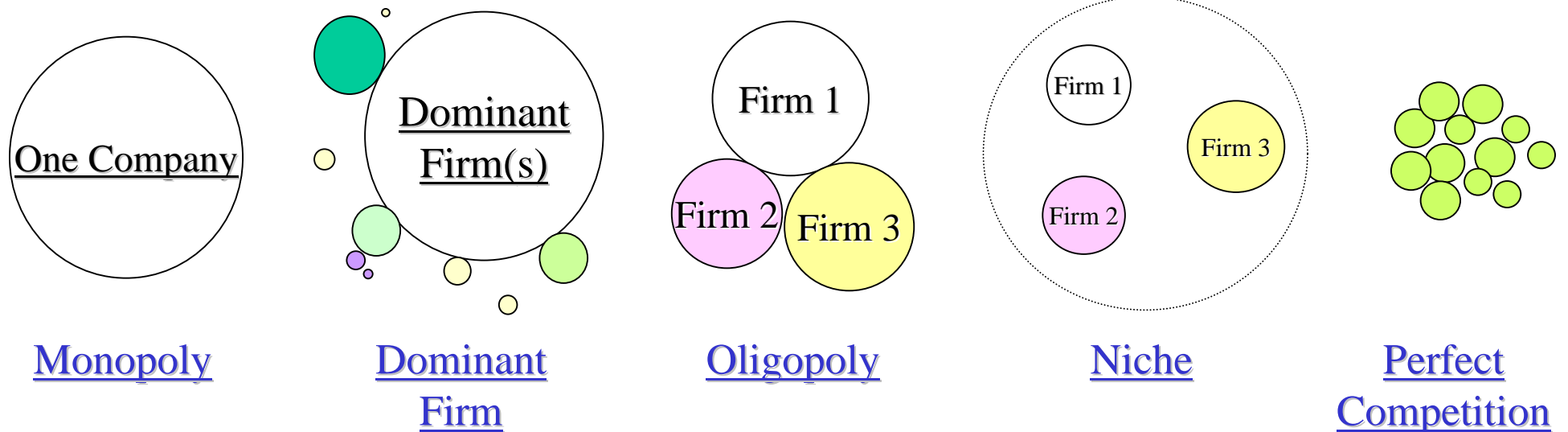
Architecture: is the 'relationship' structure of a company.
Routine: is the procedural (both formal and informal) part of a company.
Culture: is the creed or beliefs of a company.



Horizontal Linkages



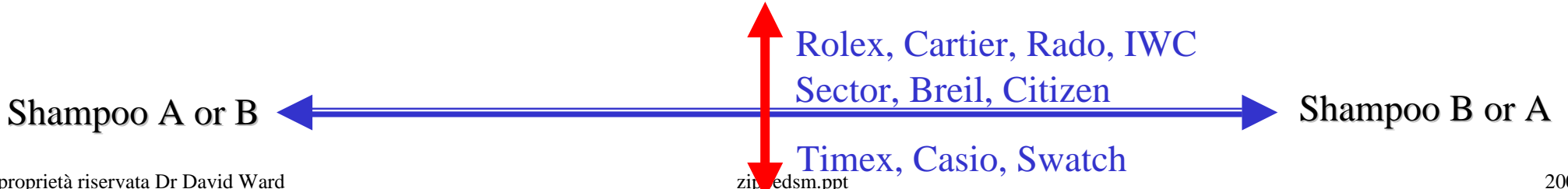
Spectrum of Competition



Product Differentiation

Horizontal differentiation: concern those products where the consumers disagree about which product is better, e.g. soft drinks, food, shampoos etc.

Vertical differentiation: concern those products where the consumers perceive quality in a vertical manner and *agree* on how the products are ranked, e.g. cars, hotels



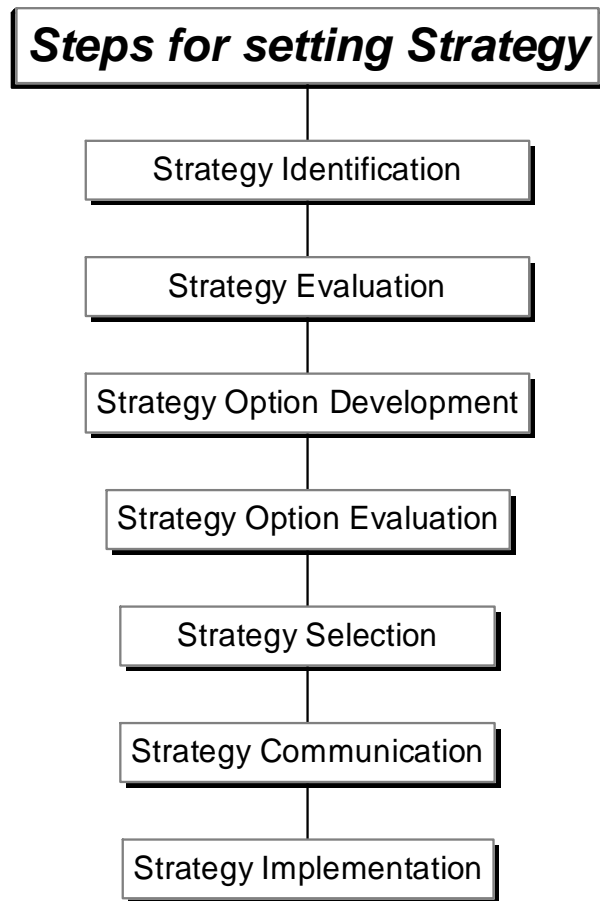
The Strategy Process

- Strategic thinking is more important than strategic planning

Although planning is critical for the success of the strategy if it is carried out too systematically and tactically the firm can become too linear and miss a discontinuity or be too slow to react. In other words the strategy remains (too) static in spite of the fact that the external context is dynamic.

- The essence of a strategy is a statement of objectives, scope, competitive advantage and logic

Although change is part of the evolution of the market and strategy requires regular checking, there is no excuse for not making the strategy clear within the organisation.



Trends and Discontinuities

Trends: are directions that have been taken or are taking place within a specific context. For example, more and more commuters are preferring personal transport rather than public transport to reach their workplace and this ‘trend’ is expected to continue.

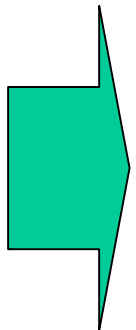
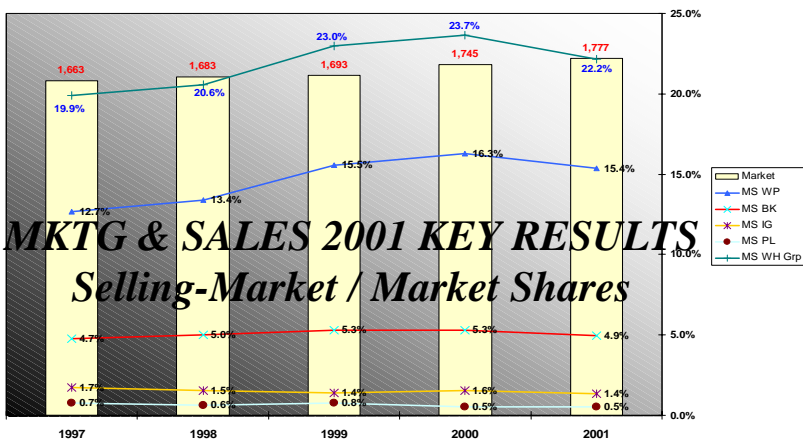
Discontinuity: a collection of trends and/or circumstances where the general context has changed e.g. digital photography has generated dedicated printers, memory chips (smart cards), cameras, short videos etc. but also *discontinued* traditional film photography.

Data Mining: is a suite of sophisticated statistical techniques aimed at mining numerical data to reveal hidden *treasure* in data.

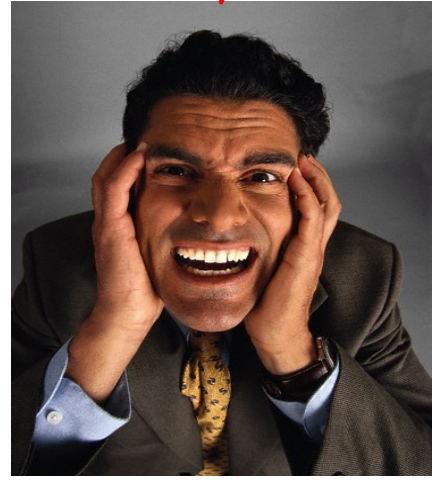
Vision: Sit back and just capture the feelings and sensations, even better climb a mountain and watch the scenery. Think about opportunities and then build on them.

Trends and Discontinuities

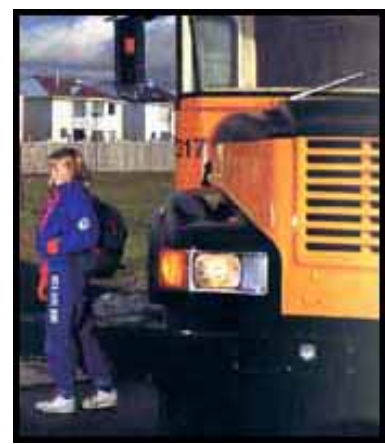
Not just Number Crunching.....



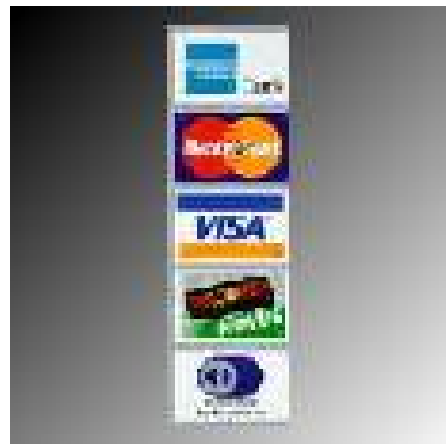
Too Many Choices



	Actual 1999	Actual 2000	Actual 2001	Aprfcst 2002	Strategic Plan			
	1999	2000	2001	2002	2003	2004	2005	2006
Industry Growth			0,3%	-0,7%	1,9%	1,6%	1,5%	1,6%
Units Western Region	2.144,5	2.186,4	2.193,5	2.210,9	2.338,4	2.480,6	2.598,1	2.720,6
Units Italy	455,4	419,3	377,1	372,5	399,3	418,5	437,4	456,2
Units West + Italy	2.600,0	2.605,6	2.570,6	2.583,4	2.737,7	2.899,1	3.035,5	3.176,8
Units Central Europe	226,2	227,2	296,0	497,1	632,9	696,9	760,0	820,6
Units (Eur excl Serv & Em)	2.826,2	2.832,8	2.866,6	3.080,5	3.370,6	3.596,0	3.795,5	3.997,3
Growth	0,2%	1,2%	7,5%	9,4%	6,7%	5,5%	5,3%	
Units Em Markets (excl Italy)	382,7	421,0	495,0	558,8	566,1	588,4	608,4	629,5
Units (Europe excl Service)	3.208,9	3.253,8	3.361,6	3.639,4	3.936,7	4.184,5	4.403,9	4.626,9
Growth	1,4%	3,3%	8,0%	8,2%	6,0%	5,2%	5,1%	
Market Share (Eur excl Serv & Em)	13,4%	13,5%	13,6%	14,7%	15,8%	16,6%	17,2%	17,9%
Sales (Europe excl Service)	698,0	701,7	707,2	770,9	844,4	905,7	959,5	1.014,1
Growth	0,5%	0,8%	3,7%	9,5%	7,3%	5,9%	5,7%	
Average Price	217,5	215,6	210,4	211,8	214,5	216,4	217,9	219,2
Total Change		-0,9%	-2,4%	-0,4%	1,3%	0,9%	0,7%	0,6%
GMIl excl. M&T Productivity	183,4	174,6	164,3	193,4	209,2	224,3	238,6	253,0
%	26,3%	24,9%	23,2%	25,1%	24,6%	24,6%	24,9%	24,9%



Latchkey Households

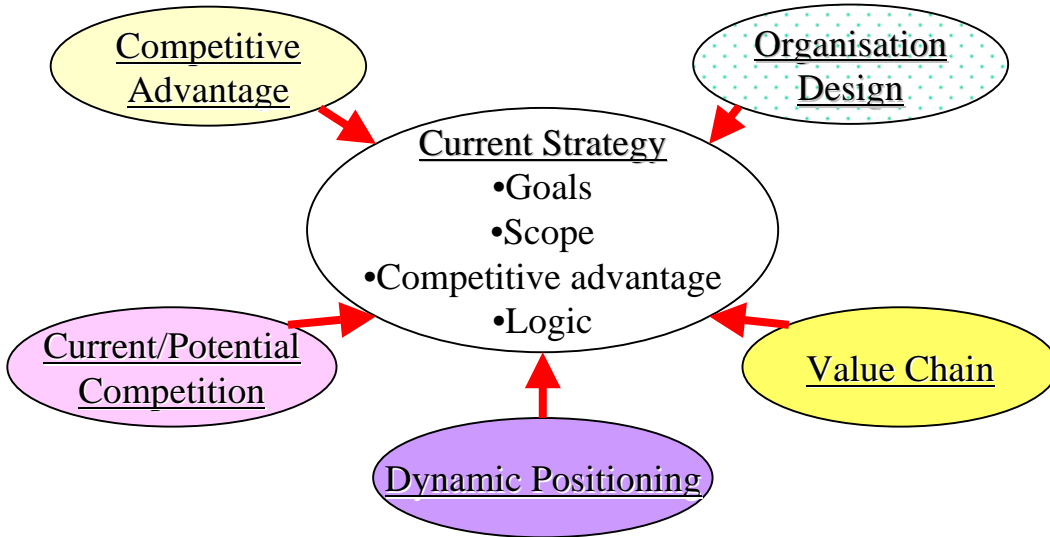


Financial Overload

...but also the insights

External Context: Industrial Design

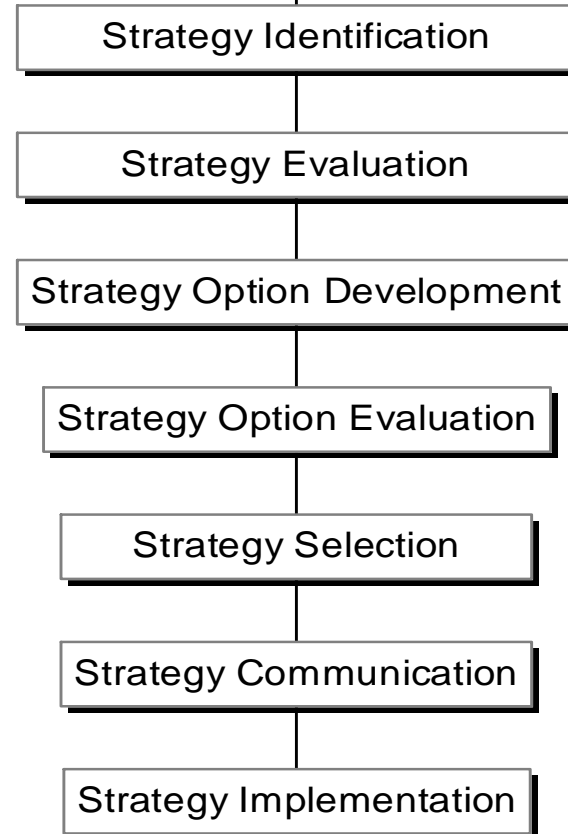
Decisions about Developing and Evaluating Strategic Options



Industry Analysis

- Product lines
- Buyers and their behaviours
- Growth
- Marketing and Sales
- Suppliers
- Distribution channels (if indirect)
- Innovation
- Competitors
- Social, political, legal environment
- Macroeconomic environment

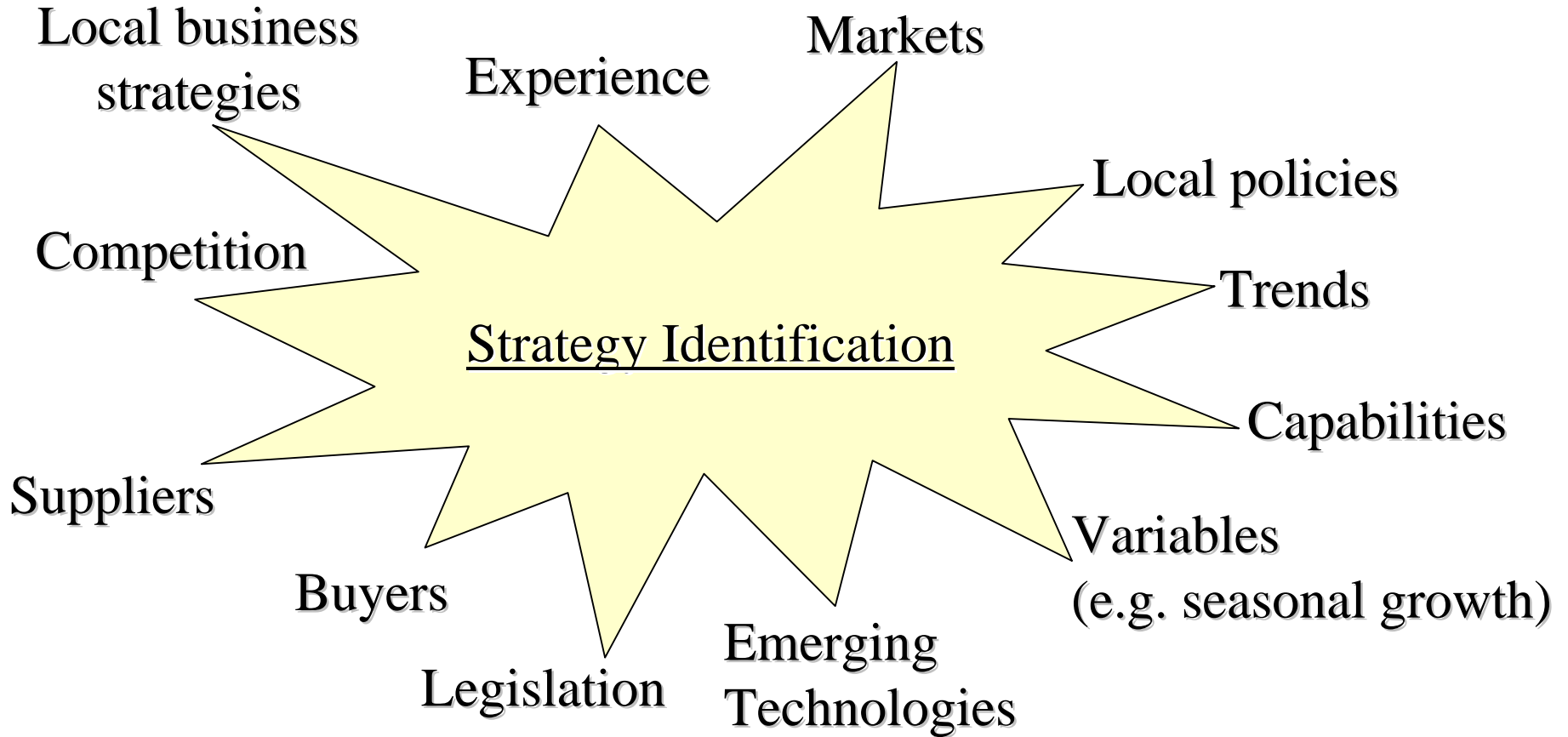
Steps for setting Strategy



Make Decisions

The Strategy Process

Possible Inputs for Identifying a possible Strategy



Internal
Consistency

Environmental
Fit

Resource
Fit

Communication
& Implementation

Inputs to Strategic Evaluation

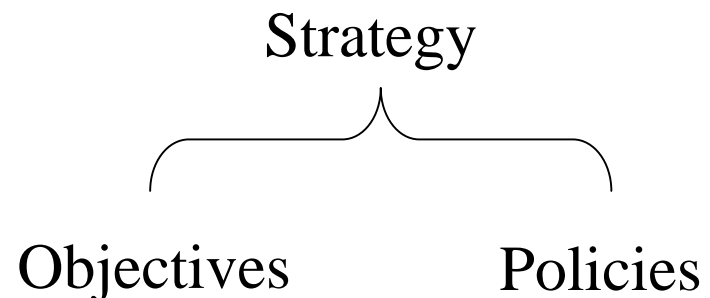
<i>Competitive Advantage</i>	<i>Organisation Design</i>	<i>Value Chain</i>	<i>Dynamic Positioning</i>	<i>Current-Potential Competition</i>
Position	ARC Analysis	Value Creation & Capture	Explorer and Exploiter	Industry Structure
Capabilities	Coordination	PIE	Learning (KM)	Competitive behaviour
Cost/Quality Frontier	Incentives	Vertical Architect	Industry Life Cycle	Differentiation
Sustainability	Strategic Alignment		Scenario analysis	Barriers to Entry

Wheel of Competitive Strategy

Porter defines the wheel of Competitive Strategy as follows:



In this wheel the rim of stands for the strategy boundary, the hub represents the objectives, the spokes are the policies and the slices the context.

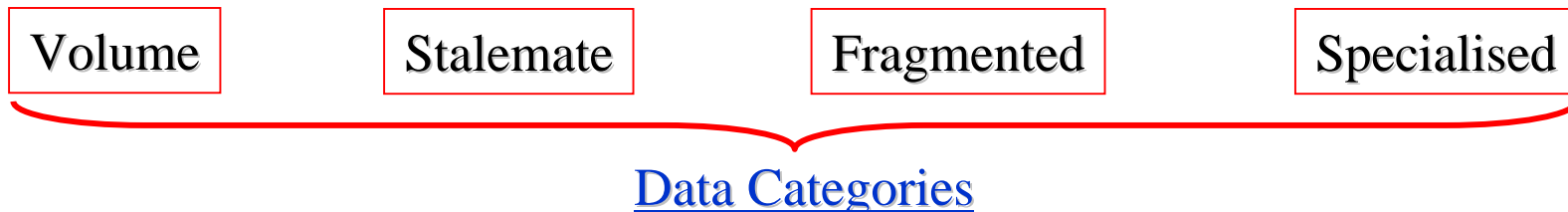


Industry Classification

<u>Sources of Advantage</u>	Many	<u>Fragmented</u> e.g. apparel, housebuilding, jewelry, retailings	<u>Specialisation</u> e.g. special drugs, luxury cars, confectionery
	Few	<u>Stalemate</u> e.g. basic chemicals, oil companies, banking	<u>Volume</u> e.g. appliances, motorcycles supermarkets, cars, std. microprocessors
		Small	Big

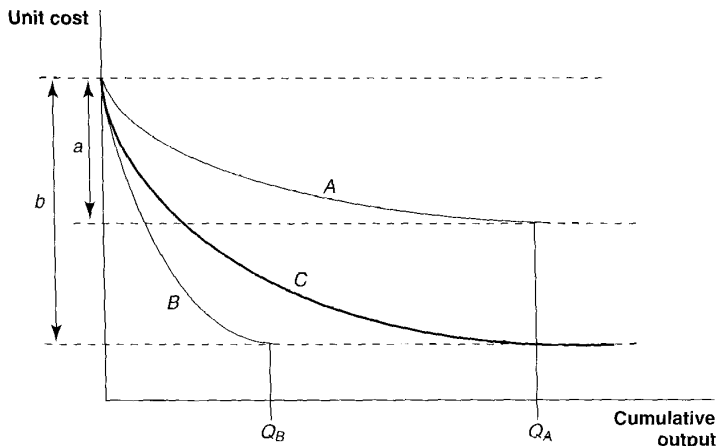
Size of Advantage

Types of Industry



The Law of Experience

The law of experience is based on a generalised observation that, irrespective of product, as production output increases unit cost will fall more or less at a fixed rate. The unit cost of value added to a std. product declines by a constant percentage (typ. 20-30%) each time cumulative output doubles.



*Perfect
Competition*

Oligopoly

Duopoly

Monopoly

Concentration

Many firms

Few firms

Two firms

One firm

*Entry & Exit
barriers*

No barriers

Significant barriers

High barriers

*Product
Diff.*

Homogeneous
product

Potential for product differentiation

Information

Perfect Info.
flow

Imperfect availability of information

Globalisation and Strategy

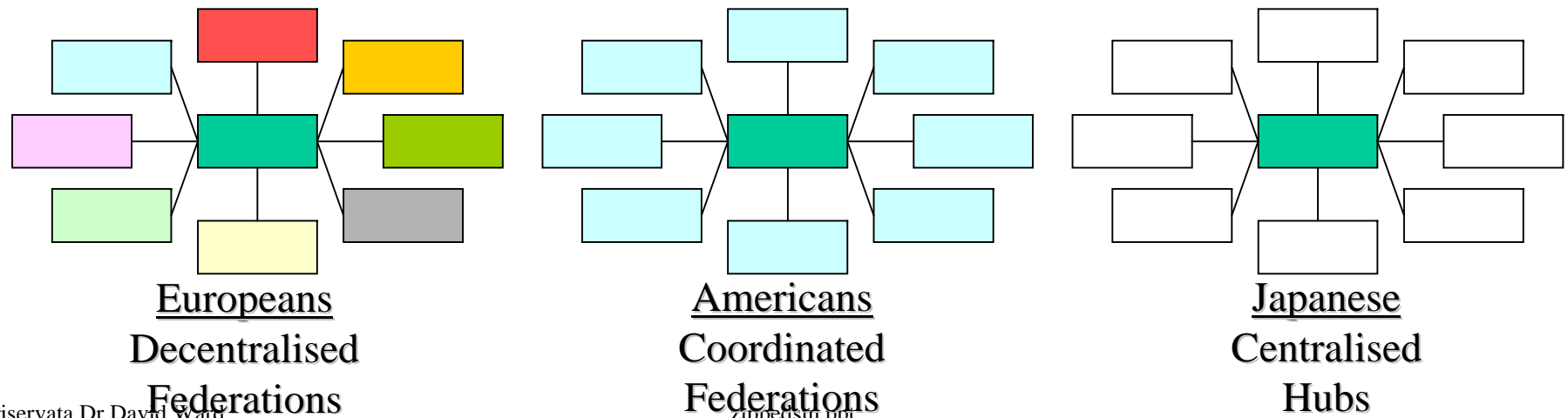
Globalisation (in SM) concerns the participation and competing of companies in multiple national markets.

The Benefits of a Global Strategy rests on two assumptions:

- Globalisation of customer preferences e.g. coffee shops, consumer electronics, fashion, restaurants etc
- Scale economies

Strategic Strength from Global Leverage:

- Cost reduction e.g. avoiding duplication of facilities
- Improved quality to (more) demanding customers
- Enhanced customer preference through global availability/recognition
- Multiple bases for competitive attack



Globalisation is Planned....but also Happens

There are many reasons why firms decide to globalise, for example:

- To reduce manufacturing costs e.g. products are produced in cheaper labour countries.
- To reduce to transport costs, e.g. by locating strategic suppliers close to manufacturing, as was seen for the cardboard strategy.
- To bring in, share, concentrate or transfer knowledge e.g. centres of excellence, centralisation or decentralisation of financial services.
- To provide (more) products to more customers.
- To improve/build common products e.g. sharing sub-assemblies.
- To improve or initiate (build) brand awareness.
- To stabilise or reduce raw material costs.
- To strengthen product and company position.
- To stabilise prices
- To differentiate products, more labour flexibility etc.

Globalisation happens....

- ☑ Internet: that was started by the academic world to share research information.
- ☑ Weather: it impacts many industries e.g. agriculture, oil, tourist, transport etc.
- ☑ Health: as health advances are made in surgical research this experience is passed across borders. Transplants are made possible because hospitals are linked.
- ☑ Travel: allowing people to move easier and more freely.
- ☑ Sports events: the Olympics
- ☑ Migration of wild fowl
- ☑ Military cooperation like NATO, UN etc.
- ☑ Even word-of-mouth and sharing words from different languages is an indication of globalisation (e.g. NO GLOBAL).

Does branding have a future, what will happen to the NO LOGO movement and how are companies approaching e-branding?

Corporate Strategy - The Multibusiness Company

Regional Organisation

- De-centralise the corporate HQ and make decision processes based on global networking and teams.
- Turnover of leaders at all management levels.

Whirlpool

Locational Advantage

- Localise competencies where the skills-manufacturing competency is the greatest.
- Foster these skills competency and deliver the goods at a global level.

SONY

Transnational Organisation

- Centralise activities/skills/features that have no direct impact on the perceived national level of the product/service/company. That is use the platform approach

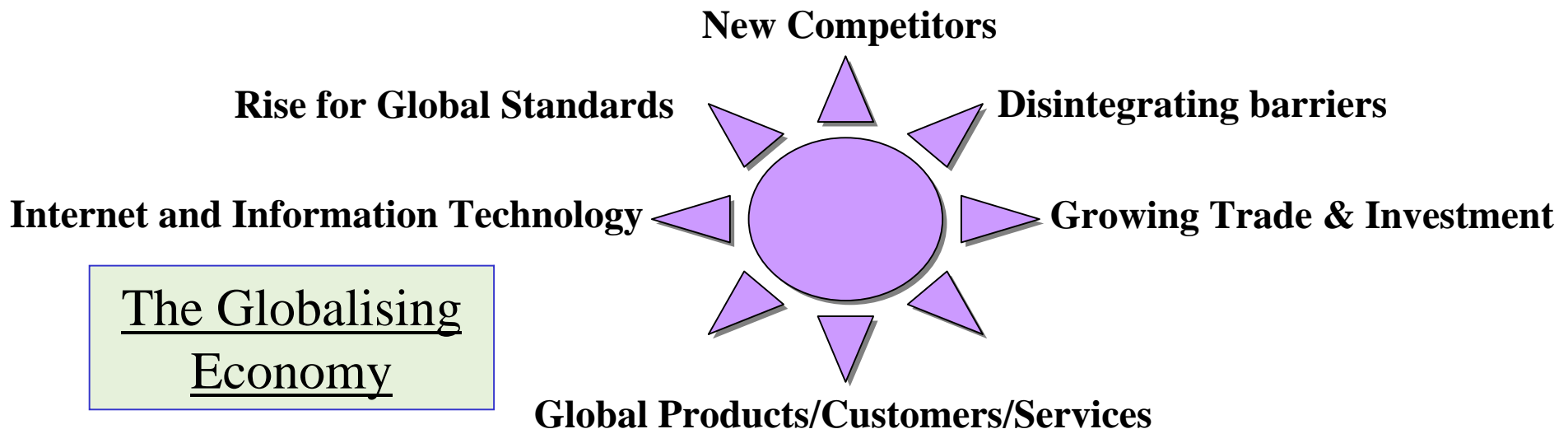
VW group

Multinational Management in a changing world

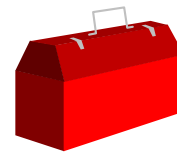


Definitions: In general a company that engages in business functions beyond its domestic border is a multinational company: this is valid for any type of firm, small or large and irrespective of type of industry.

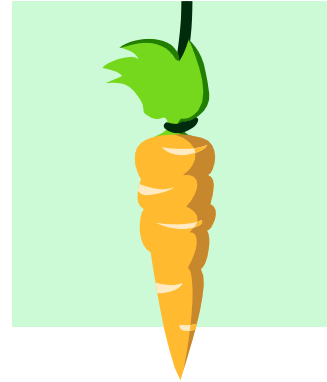
Multinational companies require a specific management approach and the objective of this course is to provide you with the toolbox to tackle the issues that you as manager will have to face.



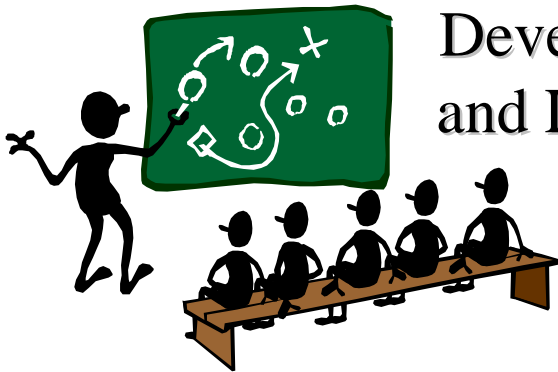
The Toolbox



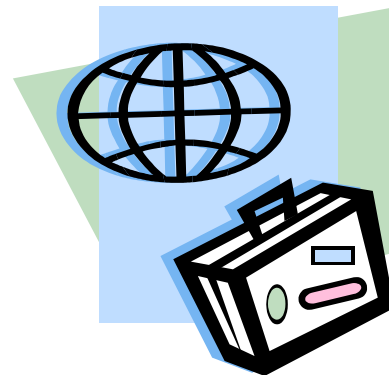
Developing &
Designing
Organisational
Systems



Developing & Designing
Human Resources
Systems



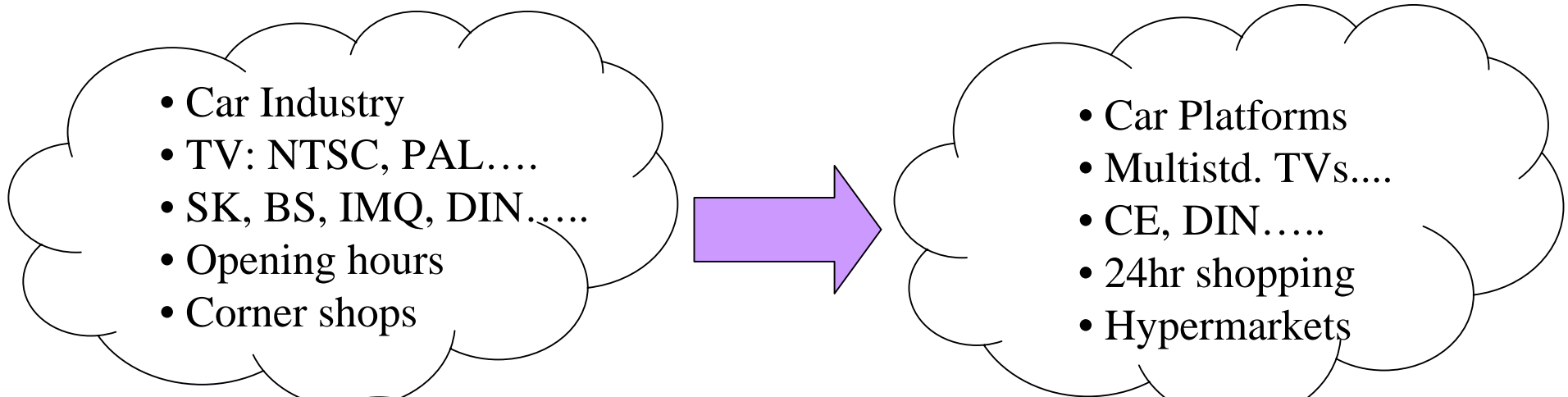
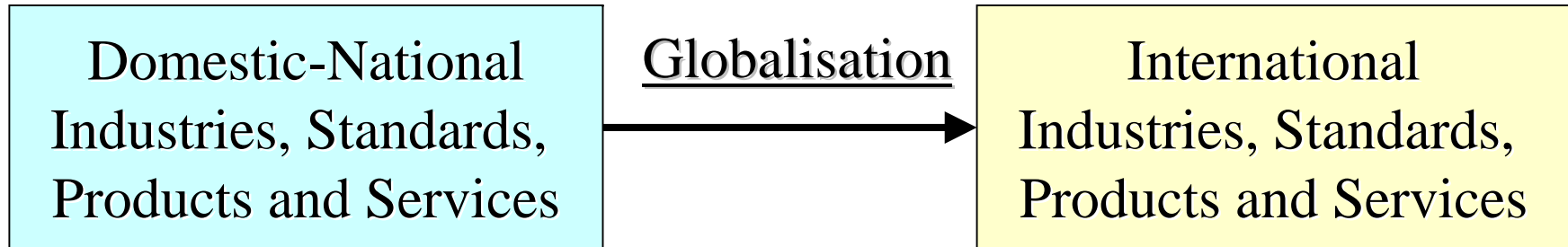
Developing Motivational
and Leadership strategies



Developing a
Global Mindset
and Perspective

The Rise of Global Standards

One of the effects of globalisation is the increasing need and push towards standardisation, particularly in technical industries.



Can you think of examples and implications of the Rise of Global Standards?

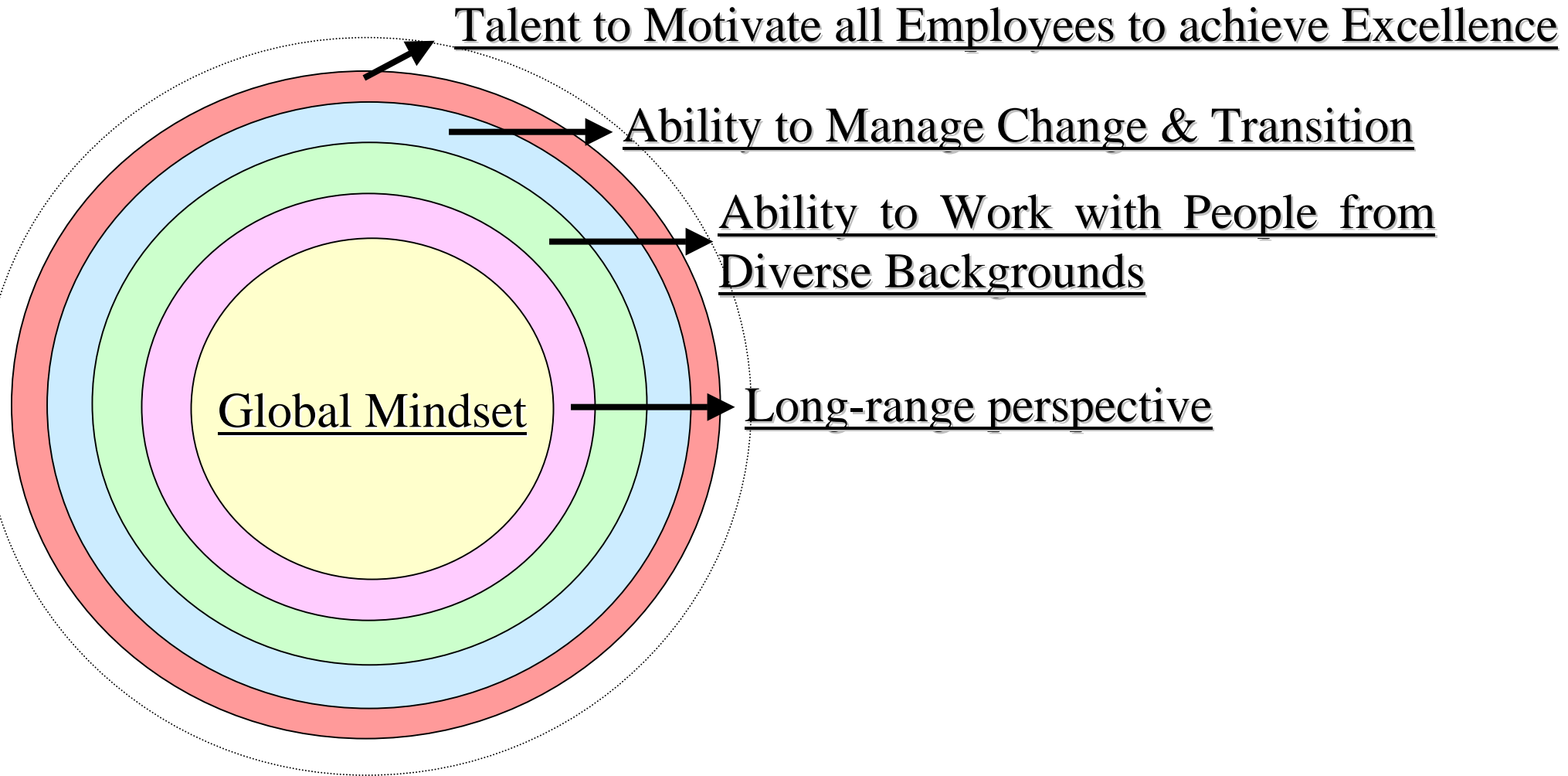
The Next Generation of Multinational Managers

Provocative thought: Do Multinational Managers Exist?

The ingredients of a global manager:

- ⊗ **A global mindset.**
- ⊗ The ability to work with people from diverse backgrounds.
- ⊗ **A long-range perspective.**
- ⊗ The ability to manage change and transition.
- ⊗ **The ability to create systems for learning and changing organisations.**
- ⊗ The talent to motivate all employees to achieve excellence.
- ⊗ **Accomplished negotiating skills.**
- ⊗ The willingness to seek overseas assignments.
- ⊗ **An understanding of national cultures.**

The Next Generation of Multinational Managers: Core Qualities



A Global Mindset

In essence a person, group, company that has a global mindset thinks *globally but acts locally*.

Good examples:

- Vision: *‘One world, one airline’*.
- *Global Strategy and ‘our’ customers*.
- Career opportunities on the net.
- The no global movement.
-

Provocative question:

Is the EU the first step towards a global community?

Long-range Perspective

In early lessons of the SM course (remember the ‘mountain-view’ approach?) it was discussed and shown that strategic thinking is more important than strategic planning, especially for upper management.

A good example of this long-range perspective are those people and countries that were the first to experiment and tackle the issues of privatisation.

Other examples are: countries that are introducing policies to tackle the pensions bomb, ageing population, lowering birthrate, world famine, pollution, immigration etc.

Localisation vs. Globalisation

Public vs. Privatisation

Ability to Work with People from Diverse Backgrounds.

Cross-functional, multidisciplinary, interdepartmental teams are spreading fast in the West, having been established in Japan for many years. The democratic attitudes of many North Americans have helped them to adapt well to this way of working, and in some European companies, managers already spend half their time working in such teams.

However, the real (*next*) challenge will be working with global, multi-ethnic and genderless teams.

Moreover, we are moving from formal teams (where disciplined leadership tends to be the company rule) to informal teams where informal procedures are the norm. However, in both cases leadership and results-orientation is mandatory.

Ability to Manage Change & Transition

Multinational managers must have a global mindset and understand the rapidly changing business and economic environment. These managers realise that this is a lifelong endeavour i.e. it is not a question of doing an intensive training course as this is a hands-on situation that is repeated day after day with different people in a different world.

Managing change and change management have very similar concepts/approaches since the underlying scope is CHANGE in particular

There are at least three basic definitions of change management:

- *The task of managing change* (from a reactive or a proactive posture)
- *An area of professional practice* (with considerable variation among practitioners)
- *A body of knowledge* (consisting of models, methods, techniques, and other tools)

Strategic Management Course

Oct. 2004 – June 2005

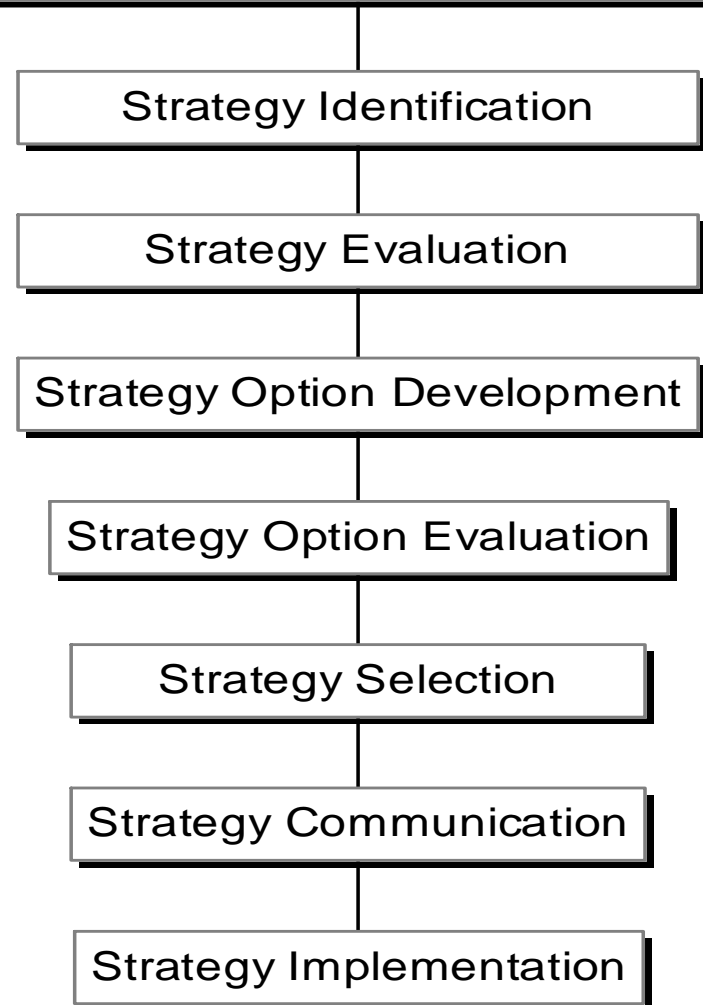
Leadership: the Case of Shackleton and his Crew

Dr David Ward

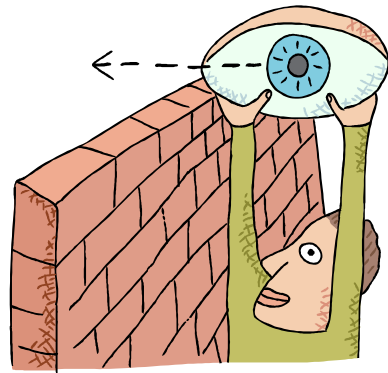
Strategy Process

Clearly before the strategy process can be initialised it is essential that the vision and the necessary leadership are present. Without these two aspects the subsequent strategy will be weak, misaligned and without the necessary belief of the company.

Steps for setting Strategy



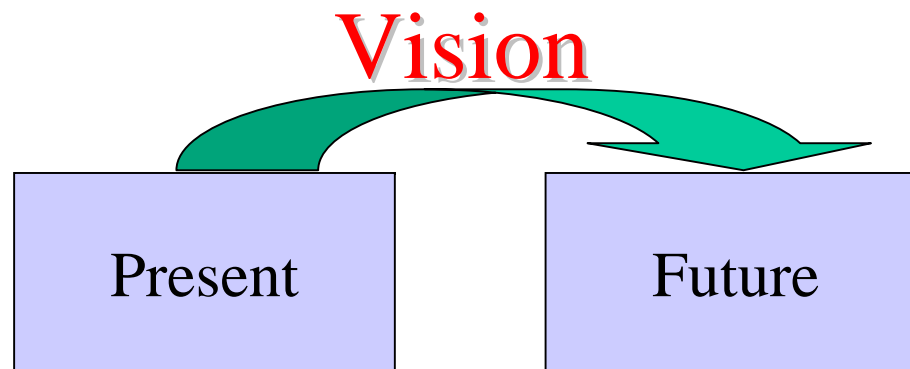
NB Taken from Lessons 3 & 4



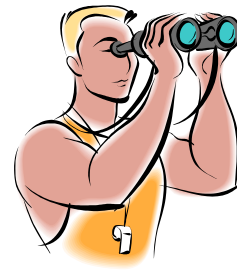
Vision

A vision is a mental image of what the company will be or is striving to be.

It is the platform on which you build the company and links present to future.



Strategic Thinking



To think strategically is to see the big picture, to understand both system-wide effects and long-term consequences of situations, problems, decisions, and actions.

Strategic thinking allows you:

- to handle the changing nature of change
- to grasp the revolution we are living
- to beware of the dark side of.....technology
- to keep the ‘horse in front of the cart’

Leadership

Leadership is the ability to get men to do what they don't like to do and like it. (H. Truman).

Can leadership be demonstrated mathematically?

Leadership

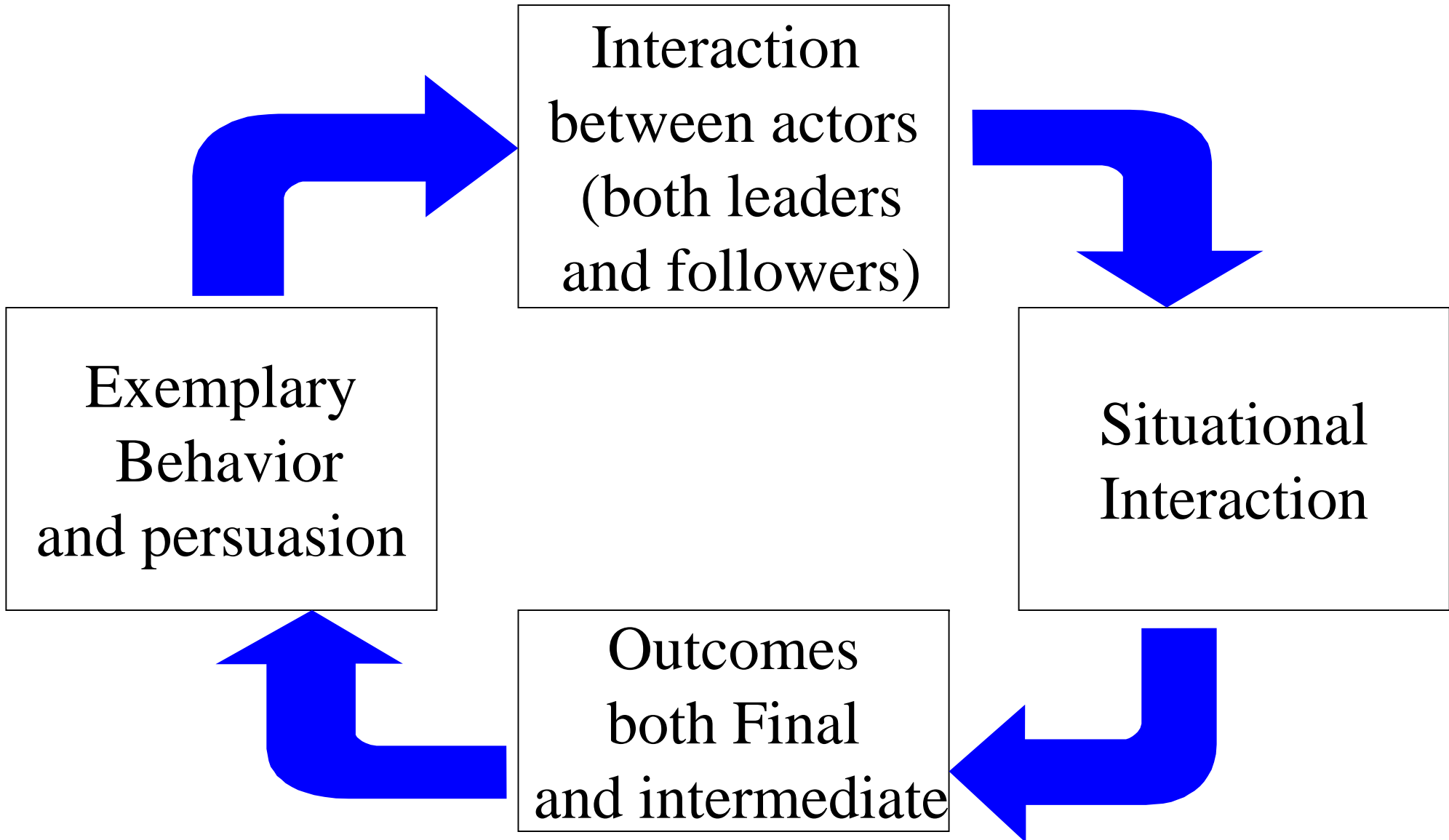
Is this leadership?.....

$$r w g_{(j)} = \frac{\left[1 - \left(\frac{s^2 x_j}{\sigma^2 E U} \right) \right]}{\left[1 - \left(\frac{s^2 x_j}{\sigma^2 E U} \right) \right] + \left(\frac{s^2 x_j}{\sigma^2 E U} \right)}$$

Introduction.....

- Leadership is about *influencing* group members to achieve (common) *goals*.
- Excellent leaders: motivate their employees to achieve more than minimal requirements. They push and chase for excellence.
- Leadership changes across the organization: From interpersonal leadership to institutional leadership (Selznick, 1957).
- Leaders have different attributes and characteristics.

Is Leadership a Process or a Quality?



The Magic Words of Leadership.....

Excellence
Honest
Paternalistic
Perseverance
Authoritative
Authority
Responsible
Patient
Convincing
Visionary
Strong minded
Loner
Action
Challenger
Charismatic
Belief
Representative
Resilient
Achiever
Willing
Dedicated
Diplomat
Open minded
Decisive
Clear-cut
Listener
Understanding

Excellence	Honest
Paternalistic	Perseverance
Authority	Authoritative
Patient	Responsible
Loner	Convincing
Visionary	Strong minded
Action	Representative
Charismatic	Challenger
Belief	Achiever
Resilient	Dedicated
Willing	Diplomat
Decisive	Clear-cut
Carer	Open minded
Listener	Understanding

(Pick a personality e.g. Public figure, parent etc. and select the key qualities)

History of Leadership Studies (Crainer, 1996)

From Great Man Theories (which is still very dominant) to Transformational Theories.

Great Men
Traits

Power and Influence

Behaviourist

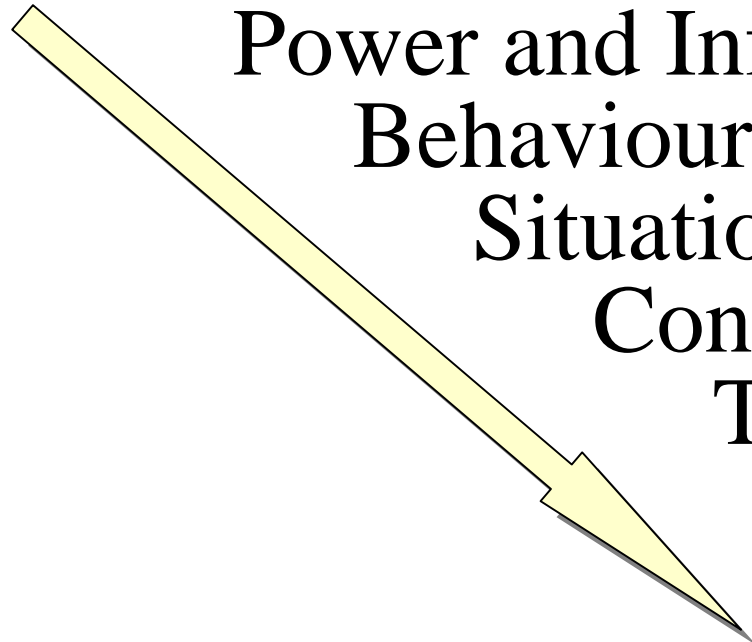
Situational

Contingency

Transactional

Attribution

Transformational



Leadership Categories

Great Men: Assumes leaders are exceptional

Traits: Leader qualities or traits.

Power and Influence: Passive role of subordinates

Behaviourist: What leaders do to lead.

Situational: Exercise of leadership in situations.

Contingency: Similar to situation but more refined

Transactional: Leader and followers relationships.

Attribution: Factors of attribution between followers and leader.

Transformational: The role of leaders and leadership during change.

Leadership and Management

Leadership

Management

Cunningham (1986)

Management

Zaleznik (1992)

Leadership

Management

Leadership

Bennis and Naus (1985)

Two Worlds

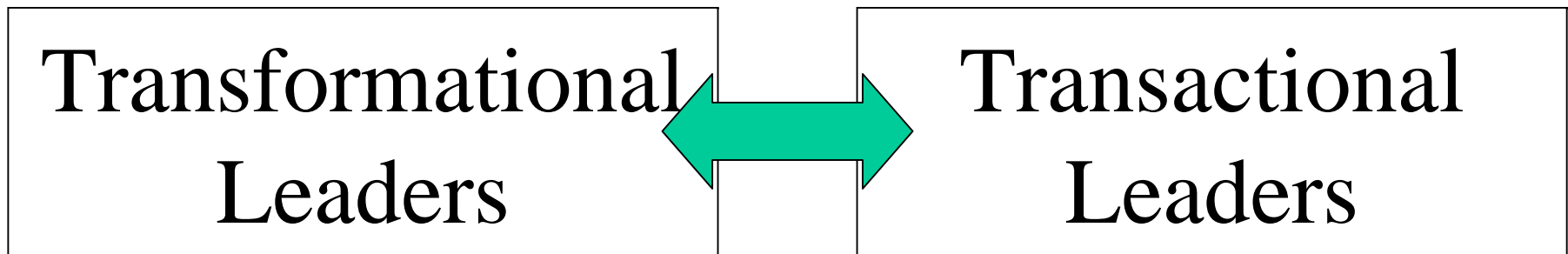
The Manager's World

- Exploits
- Contractual relationships
- Plans, Organises, Directs and Controls
- Legitimacy is conferred by position

The Leader's World

- Empowers
- Mutual trust Relationships
- Defines purpose, creates vision and values
- Legitimacy is conferred by perceived competency

Types of Leader



Transformational Leaders

(Tichy and Devanna, 1986)

- They see themselves as *change agents*.
- They are Courageous.
- They believe in people.
- They are driven by a strong set of values.
- They are life-long learners.
- They can cope with complexity, uncertainty and ambiguity.
- They are visionaries.

Can you think of a transformational leader?

Transactional Leaders

(Burns, 1978)

- They see themselves as bargainers/negotiators.
- They take the initiative in the actions plan.
- They set clear goals and expectations
- They believe in people but with goal setting.
- They are driven by a strong set of company values.
- They can cope with complexity, uncertainty and ambiguity through goal setting and planning.

Can you think of a transactional leader?

Leadership Styles

The AUTOCRATIC

The leader takes the decisions and announces them.

The PERSUASIVE

The leader takes the decisions and announces them but does this by 'selling' and explaining the choices made.

The CONSULTATIVE

The leader confers first with the group, seeks advice and takes into account feelings and makes the decisions.

The DEMOCRATIC

The leader acts as a chairperson and invites subordinates to discuss: decisions emerge from the group.



Cultural context: High Power Distance and Low Uncertainty Avoidance

Leader Type: "The Master"

Recommended Leadership Styles: Directive & Supportive

Example Country: China

Cultural Context: High Power Distance and High Uncertainty Avoidance

Leader Type: "The Boss"

Recommended Leadership Style: Directive

Example Country: France



Cultural Context: Low Power Distance and High Uncertainty Avoidance

Leader Type: "The Professional"

Recommended Leadership Styles: Directive, Supportive, and Participative

Example Country: Germany

Cultural Context: Low Power Distance and Low Uncertainty Avoidance

Leader Type: "The Democrat"

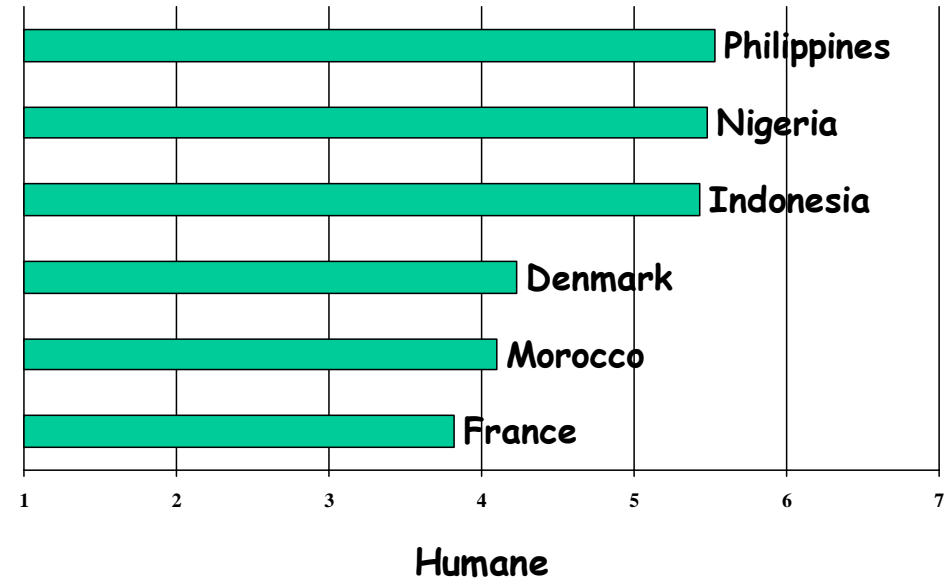
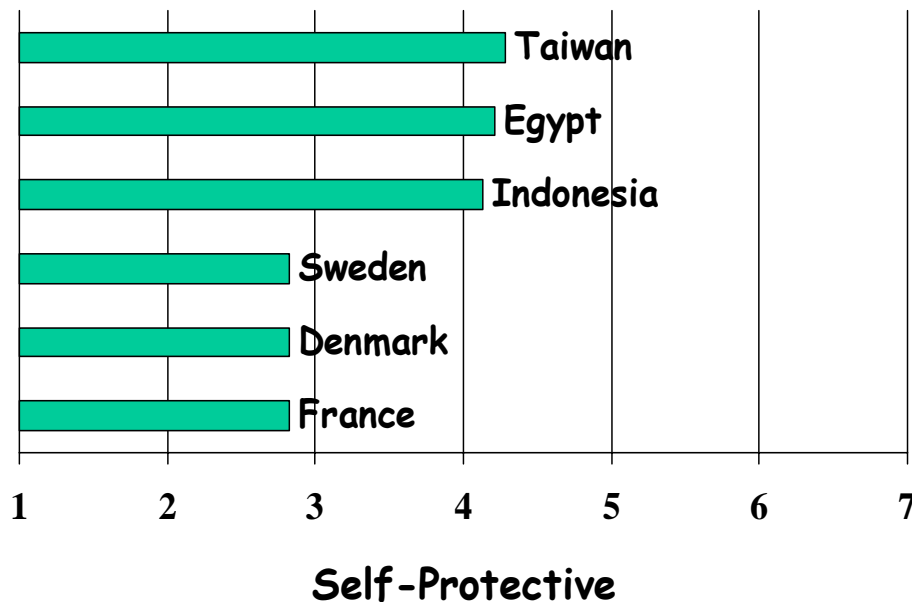
Recommended Leadership Styles: Supportive, Participative, & Achievement

Example Country: Great Britain



Leadership and Culture

- High power distance - autocratic leadership
- Low power-distance - leader be more like them



Higher scores means he/she contributes to outstanding leadership

- Regardless of cultural background, leaders use both person and task-centered behaviors
- Different behaviors communicate leadership style
- Different tactics preferred

Seven Attributes according to Bennis ('99)

- ☺ Technical competence: e.g. business literacy.
- ☺ Conceptual skill: e.g. strategic thinking.
- ☺ Track record: a history of bottom line results.
- ☺ People skills: communicate, motivate and delegate.
- ☺ Taste: ability to spot and cultivate talent.
- ☺ Judgement: difficult decisions in a short time and with imperfect data.
- ☺ Character: Your qualities or attributes

How many of these attributes do you have? ...and which ones do you need improving?

Leadership Myths

- Leadership is a rare skill: Great leaders are rare but everyone has leadership potential.
- Leaders are born: Most leadership competencies can be learned.
- Leaders are charismatic: Some are but MOST are not.
- Leadership is only at the top of the organisation:
- The leader controls and directs: It is not about the exercise of power rather empowerment

Global Leaders

Have the skills and abilities to manage people from diverse backgrounds:

- Cosmopolitan
- Skilled at intercultural communication
- Culturally sensitive
- Rapid acculturators
- Know local cultures/social institutions
- Facilitate subordinates' intercultural performance
- Use cultural synergy
- Promote and use the growing world culture

The Sources of Ideas about Leadership

Academic
Research

e.g. surveys

Popularising
Academics

e.g. prof.
(academic)
opinions

Consultants

e.g. prof.
(non-academic)
opinions

Practitioners

e.g. accounts
by real life
leaders

Biographical
Studies

e.g. real life
accounts by
thirds

Summarisers

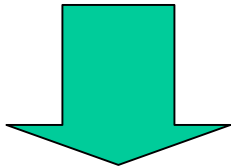
e.g. major
lessons from
all sources

Three Classic Models : *A Vocabulary Of Leadership*

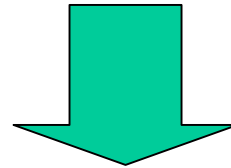
Leadership
Traits

Leader
Behavior

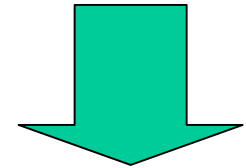
Contingency
Leadership
Models



The Great Person
Theory



The Habits Survey
Approach



The Hands-on
Approach

Are leaders born or made?

Female Leadership

- Communication and cooperation - resolves conflict and reconciles.
- Affiliation and attachment: Relationship over self-advancement.
- Power:At the service of the community.
- Physicality: Women's physical make-up.
- Emotionality:Expression of emotions.
- Intimacy and nursing:Great capacity for empathy and able to get closer to subordinates.

Can a relationship between a male and female do just friendship centred?

Leadership Style and Subordinates Attitudes

	Autocratic (n=320) %	Persuasive (n=352) %	Consultative (n=367) %	Democratic (n=379) %
High Job Satisfaction	72	81	84	81
High Satisfaction with Organisation	86	90	93	87
High confidence in management	76	87	89	70
High rating of manager's efficiency	38	30	35	27

Selection and Assessment

In large companies such as Motorola, AMOCO, Whirlpool etc. the 360° feedback system is used:

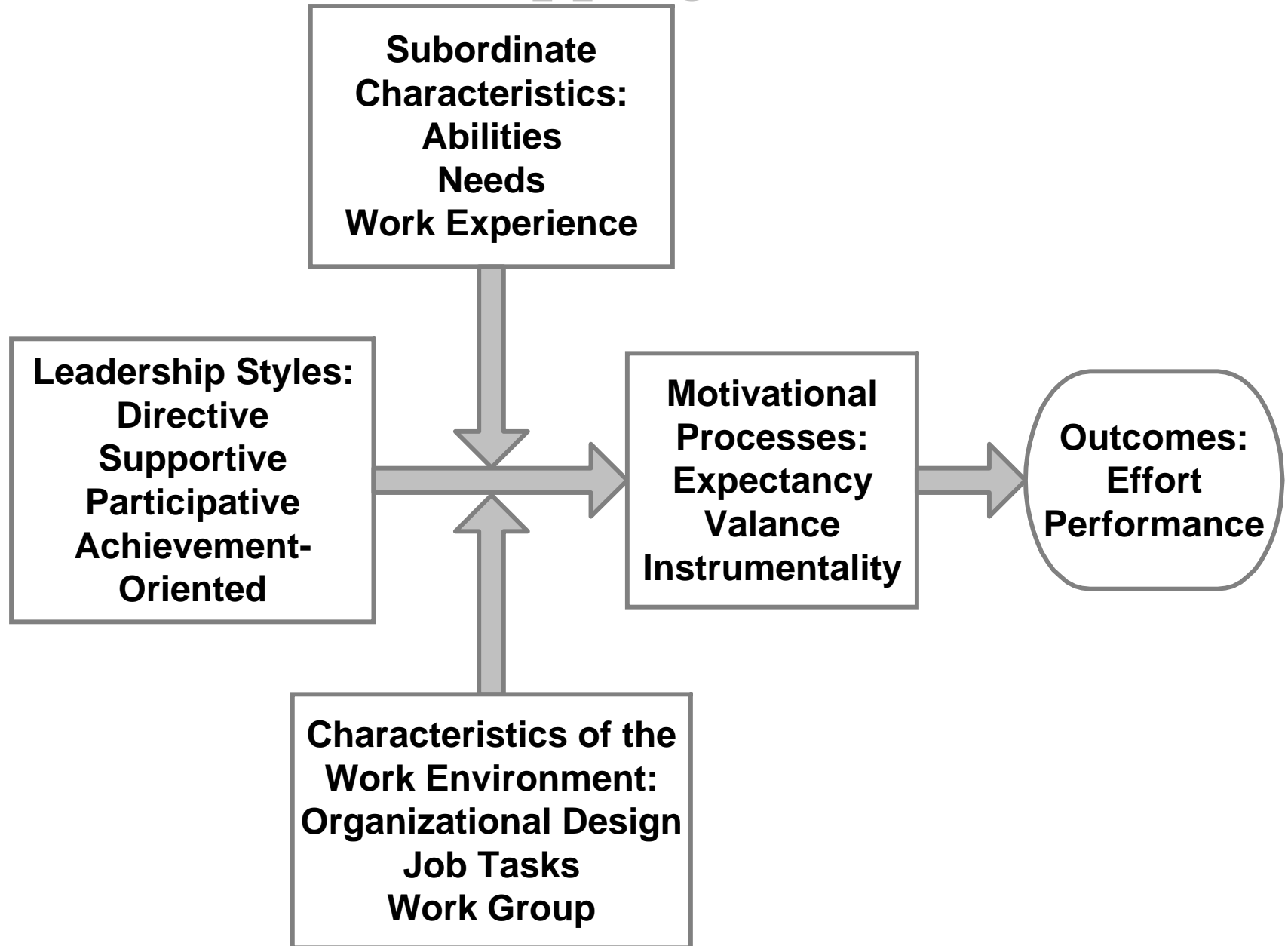
- By superiors
- By peers (rarely)
- By subordinates (even more rarely)
- By all three groups

Marketing-Service Dept. Preferences (n=19383, 55 countries, 1976)

△ 'Tells' (autocratic)	3%
△ 'Sells' (persuasive)	25%
△ 'Consults' (consultative)	56%
△ 'Joins' (democratic)	16%
△ No reply	5%

This scenario will change across the organisation and is situational dependent.

Performance Mapping - A Schematic



Derailment - Demotion

- ⊗ Personal relationship problems
- ⊗ Difficulty in moulding staff
- ⊗ Difficulty in making the transition to a strategic level
- ⊗ Lack of follow through
- ⊗ Over-dependence on a particular boss
- ⊗ Inability to handle difference with higher management

Remember that organisations are becoming flatter and the number of levels of hierarchy is reducing:

HIGH FLYERS LOW CEILINGS!

Dealing with Leadership Stress

- 💣 Take time out to reflect, look at the wider picture, try to see events as a spectator, not a participant.
- 💣 Distinguish from role (it's not you but the job you do).
- 💣 Concentrate on the issues
- 💣 Use allies - leadership also means gain support.
- 💣 Listen to yourself and become self-aware.
- 💣 Find a sanctuary
- 💣 Keep your sense of purpose - stick to your vision.

How do you deal with stress?

The Future Leader

Organisations usually take two different ways to fill leader roles:

Personal Qualities

Skills and Knowledge

According to Ashridge Management College the qualities

- Independence
- Openness to change
- Assertiveness
- Being respected

- Being a good motivator
- Having drive
- Loyalty
- Having tact

What year was this said???

Q1. Define leadership and the term derailment. Describe (in your opinion) the ideal traits of leadership in three different organisations of yr. Choice e.g. functional organisation. How does culture and leadership combine.

Recommended Readings:

- Sadler P. (2002), *Leadership*, MBA Masterclass, Kogan Page, London, UK
- Heller R. and Hindle T. (1998), *The Essential Managers Guide*, DK Publishers, 1st Edition, UK.
- Bodega D. (2002), *Le Forme della Leadership*, ETAS libri, Italy.
- Pagin A., (2004), *Leader...Si Diventa?*, ESE undergraduate thesis.