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Marketing *Product Development Performance and Competition*

In new product development, mangers need to balance the enthusiasm for innovation with attention to detail and the use of thorough analysis and systems, in order to reduce the risk of failure. There is a need to look beyond the tactical focus on the product and also emphasise the strategic and organisational issues that create a culture for innovation. Care should also be taken to manage the 'rollover' from old products to new, where timing can be crucial in new product launches in highly competitive markets.

Human Resources Management *The Changing Role of the Manager*

HRM as a function in organisations is under pressure. Some of the role is being devolved to line managers to cut costs, but in the process some HRM tasks no longer get done as managers focus on short-term performance, and on only measurable results. In the process, HR managers take on more of a consulting role to line managers, to variable effect. At the same time, the nature of business and of organisation is changing. The scarce resource is no longer capital, but knowledge, which lies not so much at the top of the organisation, but at the operating level. Rather than forcing the individual to conform to the organisation, the organisation must capitalise on diversity. Will 'organisation man' give way to the 'individualised organisation'?

Strategy and Organisation *Corporate Survival and Innovation*

It is easy to point to case studies of successful companies and to explain in retrospect why they have been successful. The same is also true of spectacular cases of corporate failure. But when it comes to assessing strategic solutions before the event, it is much more difficult. Really successful strategies are likely to come from outsiders to the industry; from creating diversity within firms; encouraging debate and experimentation; and sharing resources across boundaries.

Accounting and Finance *Developments in Emerging Markets : Financing and Risk Management*

This *Manager Update* comments on recent developments in securitisation and in risk management. Securitisation can best be thought of as the repackaging of receivables or a discrete pool of assets into tradable form, ie into securities, such as debt or equity. Securitisation originated in the US over 20 years ago, but has spread throughout the world and, increasingly, is being used in Asia. Inevitably, it has its disadvantages as well as advantages, which are identified in this issue of *Manager Update*, and is one reason why risk management is becoming much more important in organisations.

MARKETING

Product Development Performance and Competition

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A commitment to customer orientation and innovation is necessary to deliver value to customers — indeed, they are often considered to be the foundations of marketing. In this issue of *Manager Update* we consider the role of new product development and competitive performance in the marketplace.

The literature on product development is abundant. For the last three decades the business book-sellers' shelves have been overflowing with books on the broad issues in the management of innovation, successful product development strategies, organisation, processes, models and frameworks to advise on how to avoid failure in the market place. The range is from in-depth academic research to popular series on the ‘ten top tips’ every self-respecting manager should know.

The research published recently urges mangers to look once again at the critical success factors for product development and the launch of new products, but also considers competitiveness, risk and performance from a more organisational perspective. The first part of this *Manager Update* will look at the strategic and tactical factors associated with product development success, as discussed by Poolton and Barclay1 and Cooper.2 Moving away from the focus on the development process, Billington, Lee and Tang3 state that managers should ‘Innovate or die!’ in their work on product rollovers. They discuss the sequence and timing of activities between the phasing out of existing products with their new product replacements.

The literature in this area is full of practical examples of spectacular new product successes and failures. An interesting picture of competitiveness, product life cycles, product launches and the maximisation of revenue is painted by Krider and Weinberg4 in their investigation of competitiveness in the Hollywood movie business.

New product practice and performance

In his research, Cooper attempts to highlight good practice in new product development (which he feels has been neglected in previous research and avoided by managers in practice), and the measurement of new product performance. He uses a number of measures to assess the product development process including; meeting sales and profit objectives, the percentage of successful launches, the impact of the new product on business sales, the impact of the new product on business profits, profitability versus competition and, finally, overall success.

High quality new product process

Cooper sees that the high quality new product process is the single most important key force behind new product performance because it has a positive and significant impact on all of the performance measures. The significant features in this process and the ‘messages’ Cooper would send to managers include:

- The need for a detailed analysis and investigation stage after the initial idea generation and before development. This is a business and technical assessment to ensure that development is undertaken on the basis of information rather than intuition. Poolton and Barclay support what Cooper calls ‘homework’ and point out that homework should be thorough, as customers are less forgiving of products that do not perform as expected.
- Clear product features, concept definition and an understanding of the market and the positioning is an important prerequisite for success of (and is significantly correlated with) profitability.
- Market orientation and the involvement of the customer from the beginning of the new product

development process to design and development is important as it ensures customer needs and wants are incorporated into the outcome. The most successful products are those that have been developed to meet consumers' perceived needs rather than for reasons of technical wizardry alone. Poolton and Barclay state that technology and inventions developed by those with an attitude of 'we know best' are more likely to be associated with failure than success. Furthermore, the inclusion of after-sales service, support and education help to smooth the path for new products as customers are prepared and know what to expect in the new product.

• New product projects need to be investigated regularly, since Cooper states, 'go or kill' decisions need to be made at the appropriate stage. Projects should be stopped if they don't pass the commercialisation test, so that the resources involved can be redirected to projects that are worthy of investment.

• The process is not a 'straightjacket' and it should be flexible—product development is not rigid and, depending on the nature of the project, stages can be missed or linked.

• Manage, review and monitor the product development process to ensure that each stage in the process is thoroughly 'a quality process'.

Communication of the new product strategy

Here, Cooper identified that clear and visible communication of the product strategies in organisations was associated favourably with five of the key performance criteria; namely, meeting sales and profit objectives, the impact of the new product on business sales, impact of the new product on business profits and, finally, profitability versus competition. This level of performance can be achieved with the help of four components of new product strategies:

• The development of goals and objectives which show the impact of new product development on the business as a whole. Indeed, Poolton and Barclay indicate that developing a solid basis for innovation needs to have a feeling of a common purpose for the new products in the organisation.

• The goals and objectives should be communicated to everyone in the business, and this will help to give direction for the future. Poolton and Barclay emphasise the balance between internal and external communication. The former should be balance of communication with existing and potential customers, suppliers, scientific and technical institutions and professions. They state that, 'this readiness to look outside the firm is a necessary complement to effective internal collaboration.'

• Work in clearly defined areas of competence or opportunity, which are to be the 'strategic arenas' for product development. This gives focus and develops priorities for products, technology and market development.

• A balanced product development portfolio of projects which considers the impact of the short and long term nature of product development on the organisation.

Resources

New product development needs to be supported, according to Cooper, as short cuts for short-term profits result in adverse long-term conditions. Resources are key to success in all but one of the performance measures. Resources did not correlate significantly with the dimension that looks at profitability versus competition. The four main elements for developing resource commitment are:

- Resource commitment and the goals and objectives for product development in the whole organisation should be closely related.
- The resources and the budgets for research and development need to be sufficient to meet the stated objectives.
- The projects should have top management support and teams dedicated to specific projects. Firms with a reputation for innovation according to Poolton and Barclay, have managers of ‘high quality, flair and ability’.
- The product development projects need champions to support, guide, protect and act as the linchpin throughout the process of development.

Strategic factors associated with development success

In a similar vein, top management support, a long-term strategy for innovation flexibility and a long-term commitment to key projects are also discussed by Poolton and Barclay as key strategic factors which affect the success of product development. They build on the work of Cooper by suggesting that risk, flexibility in production and an entrepreneurial culture can have an impact on success and should be included in the debate.

They suggest that managers are fearful of failure and have difficulty in taking risk, being concerned for their own position and the responsibility they have in the organisation. Developing a culture that accepts, analyses and learns from failure can enable businesses to become learning organisations and reduce the occurrence and effect of product failures. The different structures, the ethos and philosophies at the heart of the organisational culture can underpin and support the product development process.

The product and the production systems are obviously inseparable. Increasingly, new product development needs to be supported by flexible production systems, platforms and modular production as the basis for short production runs and to provide variety and some degree of customisation of products for the customer. Poolton and Barclay state that ‘. . . *manufacturing follows an unavoidable progression that begins with product quality (doing it right) through reliability (always doing it right), and only then on to flexibility- adding variety and speed’*.

Successful product rollovers

Billington, Lee and Tang take us one step further and focus on ‘product rollovers—the displacement of an old product by a new one'. When the process of development is complete and new products are ready for launch, they suggest that companies should devise a rollover plan to bridge the gap between the launch of the new product and the end of the life for an existing product. They quote Apple's transition from the Mac-Plus to the Mac-Classic and Kodak's move from Ektar film to Kodak Gold as successful rollovers.

First, they suggest that organisations need to assess and determine the product risk. Can organisations manufacture, store and deliver the right quantities of both the existing product and the new product demanded by the customers? Is there sufficient information available about the stocks of the old and new product? Organisations need to assess the market risk and ask how the competitors will react—with a new product introduction of their own or with a price cut on the existing range of products?

Second, to manage product rollover the authors suggest that companies should follow either primary or contingency strategies. Primary strategies fall into two categories. They can be 'solo strategies', with the intention completely to sell out the old product in all markets by the launch date of the new product. This is a risky strategy but it can be effective in the right market conditions. However, in the wrong conditions and with delays in new product development any 'gap' between products may result in loss of customers and market share. An overlap may lead to costly inventory costs and unsold products. The safer alternative is a 'dual rollover strategy' where both products are sold simultaneously. This requires dual manufacturing, marketing and distribution. The risk here is one of customer confusion. However, if the market conditions change a company may need to bear in mind its contingency strategies: these may include reducing the price of the existing products or postponing the introduction of the new product until the stock of the existing product is sold.

Third, the company should regularly monitor the rollover strategy selected, review the market conditions, inventory and delivery schedules, competitive movements and consumer behaviour.

Competitiveness and timing of new product launches

The essence of the motion picture industry is continual product (picture) development and launches (an extreme example of product rollover). The timing of new product launches is particularly critical in this industry, since investment is in the tens of millions of dollars per film, and whilst 'blockbusters' can expect returns in the hundreds of millions of dollars, 'seven in ten movies fail to recoup their investment'5. This is an industry characterised by the peaks and troughs of consumer impulses, short product life-cycles and the steep rise and decline of revenues in a seasonal and competitive business.

Previous research on new product development in this area has focused on the diffusion of innovation. The research undertaken by Krider and Weinberg uses game theory to analyse two competing Jack Nicholson films 'A Few Good Men', released by Colombia, and 'Hoffa', released by Fox Films. This article is based on the product lifecycle of motion pictures and uses equilibrium analysis to investigate the launch decisions.

The films were in direct competition for the same audience and released during the same season. The basis of this research and industry practice is on the two key issues of marketability and playability. On one hand, the film studios are aiming to generate interest in the films before the launch; the industry refers to this as marketability. On the other hand, they want the film to maintain interest after the launch and have a long revenue-generating run in the cinema; this they refer to as playability. The research highlights a number of key decisions for the movie moguls in the timing of the launch to avoid the competition whilst capturing peak demand times. Inevitably, all the firms with pictures approaching the launch will need to balance the need for an early release date with the problems associated with a head-to-head confrontation with the competition. However, the more playability the more pressure there is for an early launch date.

- When one picture is stronger than the other in either marketability or playability the stronger picture tends to take the early launch time.
- At the other end of the spectrum, when one is weaker, it would be in the firm’s interests to delay the launch of the weaker film to avoid a head-on battle with the competition.
- Where the competing pictures are of equivalent strength the more simultaneous launches there will be in the market.
- Where the competing pictures have similar and high levels of playability it would be in the interests of both firms to launch the picture early to take advantage of the long, revenue-generating seasons.

In practice, the studios responsible for the pictures ‘A Few Good Men’ and ‘Hoffa’, both thought that ‘A Few Good Men’ was going to be the stronger film. Market research prior to the launch on the marketability of the picture convinced Colombia to opt for the early launch date. Their confidence in the marketability of the picture was rewarded by its long run playability and financial success. ‘A Few Good Men’ earned $141m during a seven month run, whilst ‘Hoffa’ earned $23m.

Even though the research here is industry specific, the authors suggest that others—in organisations where, ‘the product is purchased once only but repeat purchases are made in the same product category’, eg in the leisure, literary, entertainment and fashion businesses—may benefit from this research.

The advice given by the authors here is not radically new, but it does reinforce what we already know in principle but do not always follow in practice. It is in many respects a cautious reminder that, in new product development, managers need to balance enthusiasm for innovation with thorough processes in order to reduce the potential for product failure. Indeed, they suggest that organisations should look beyond the tactical focus on the product, and emphasise the strategic and organisational issues that help to create a culture for innovation. After the launch, where the timing is crucial as we have seen in the competitive motion picture business, comes the transition from existing to new products with renewed marketing emphasis on the future of the new product.

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HUMAN RESOURCES MANAGEMENT

The changing role of the manager

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As organisations change and develop, so too does the role of the manager. This issue of *Manager Update* will review four recent perspectives on the changing managerial role. Two of the articles examine the extent to which responsibility for human resource issues has been devolved to the line, and the issues arising for an organisation wanting to promote this devolution further. The other two articles consider the role and competencies of the future manager more broadly, and raise the question of how best managers should be prepared for their changing role, or roles.

Human resource management and the line manager

A maxim of modern human resource management (HRM) theory is that line managers should play a pivotal role as drivers and deliverers of HR policy in the organisation, whether strategically or operationally. Not only should the HR dimension be a part of business strategy, but line managers, supported by HR specialists, should 'own' personnel responsibilities. This model of HRM has been contrasted to the classic personnel management model in which personnel activities are undertaken by personnel specialists, and HR strategy is seen as separate from business strategy. But, we may ask, to what extent has this devolution actually taken place? For line managers to own personnel activities they must be both willing and able to take on those responsibilities, and personnel managers must voluntarily devolve some of their activities. The article by McGovern1 et al considers the first of these key requirements, and that by Hall and Torrington2 examines the second.

The practice of appraisal

The research of McGovern et al is based on an ongoing case study of seven successful organisations in the UK, and focuses on the practice of managers with regard to performance appraisal. Within all the organisations studied, line managers are expected to be directly involved in HR activities, such as those of selection, appraisal, and development, and to be supported by a specialist HR function. However, the authors found significant variation across and within organisations in the consistency of implementation of HR policy and the quality of HR practice between managers. In addition to discovering differences between 'espoused theory' and 'the theory in use', they argue that line managers may actually undermine or even distort HR policies.

All the organisations except one claimed to have formal performance appraisals. However, there were considerable variations across departments and between managers in the frequency of appraisal, and differences with regard to the actual conduct of appraisals, as well as in the definition of what constituted an appraisal. Issues highlighted included the subjectivity of appraisal, lack of training for appraisers, a feeling that gradings had been decided before the interview and were more influenced by what salaries could be afforded rather than actual performance, and the view that appraisal is merely a paper exercise. These issues, and the variations in practice, led to dissatisfaction about the fairness of ratings assigned to individual employees, and an undermining of the credibility of the process.

Organisational constraints

McGovern et al also identified three important organisational constraints on line managers practice:

- The level of institutional reinforcement of HR practices.
- Managerial short-termism.
- Delayering.

If organisations are committed to having line managers involved in HR practices, this role should be formally institutionalised and reinforced through the organisations' policies - for example, through managers performance objectives, job descriptions, and by training. Whilst training on appraisal was provided by all the organisations in the case study, the main issue was that of line manager commitment. Fewer than half of the managers surveyed considered the successful implementation of personnel policies to be an important or very important factor in their own performance appraisal. Many managers do not feel a strong institutional pressure to give serious consideration to those aspects of their job which encompass HRM. Institutional involvement, particularly through business targets, is required if managers are to implement HR activities.

Short-term pressures had two distinct effects on the practice of HRM. Managers felt their main priority to be 'hard' numbers' rather than softer people management issues and, second, managers had little incentive to invest time in policies such as career development, particularly in an environment of downsizing when these have little short-term pay-off or are not quantifiable in the long term.

Organisational restructuring, especially where there have been redundancies at the managerial level, can lead to larger workloads for the managers who remain within the organisation. This, in turn, leads to a lower commitment to finding time for activities that will not produce an immediate return, activities which now have a higher opportunity cost.

The practice of human resources professionals

Hall and Torrington provide another perspective on the issue of the devolution of HR activities in their study of HR professionals in 214 organisations. They distinguish between 'devolution' and 'decentralisation': the former gives operational personnel activities to non-specialists, while the latter is about decentralising the central personnel function to personnel professionals at a lower level. In addition to pointing to conflicting evidence regarding the extent to which this devolution has been achieved in practice, they also raise the question of the desirability of this devolution. Criticisms of devolution have included the possible short-term focus of managers which may not promote a strategic approach to HRM, and inconsistencies in quality and practice.

The majority of respondents in the study indicated a clear and unambiguous policy to devolve on the part of the organisation, and some also noted a change in the role of the personnel specialist from that of a 'doer' to a consultant. Typically however, the rationale for this policy did not flow from a philosophy of HRM, and often owed more to pragmatic reasons such as the decline in the number of HR personnel, and the desire to allow HR personnel to focus more on strategic issues.

Actual practice was found to differ from the theory. The overall picture is patchy and suggests a movement towards rather than the achievement of devolution. The most predominant role of the HR practitioner is one of joint involvement in decisions, followed by that of acting as consultant adviser or information giver. Direct involvement is common in recruitment and selection, employee relations, discipline, training, redundancy and dismissal, but is low in appraisal and quality. A key reason given for not taking over these tasks is that of a lack of line manager skills. In those organisations where devolution is more successful, there seems to be long tradition of the importance of people at line level, with plenty of training and coaching, as well as some devolution of personnel and training budgets.

The changing role of personnel specialists also requires them to develop different skills, with an emphasis on consulting, coaching, and counselling and the skills of monitoring and benchmarking also become more important. They discovered some reluctance to hand over budgets and some concern over loss of power and control. Overall, there seems to be a favourable attitude to devolving activities, but also a wish on the part of personnel specialists to retain some control by holding on to budgets.

Implications for the organisation

Leaving aside the question of whether the effectiveness of people management is improved by devolution, and this question has not yet been answered, the implications of these articles are not encouraging for organisations.

McGovern et al argue that the 'prospects for full-blown devolvement to the line are not promising'. They argue that one option for organisations is to establish or to reinforce institutional measures to encourage managers to place more emphasis on HR activities, and to increase monitoring by HR specialists. However, this not only runs counter to the spirit of HRM, but it would also impose greater bureaucracy.

They argue that the wider problems of management training, managerial short-termism, and the tendency to treat employees as resources need to be addressed if there is to be a genuine impact on managerial practice.

Hall and Torrington argue that ‘unless line managers gain the incentive of budget responsibility, it appears that achieving devolution will continue to be an uphill struggle in most organisations’. But at the same time they note that ‘if managers do gain such controls, there is the concern that line managers will manage human resources in line with short-term priorities rather than a long-term strategic vision’. They point to the paradox ‘that devolution has been seen as part of a move to enable personnel practitioners to play a greater role in HR strategy, and yet the logical consequence of devolution is to make the implementation of strategy extremely difficult’.

To overcome this dilemma the authors suggest a number of possible actions:

- Line managers to be explicitly involved in HR strategy.
- Changing attitudes and behaviours through skill training.
- Senior managers acting as role models.
- People management issues being incorporated into performance targets.
- Defining tight procedure and manuals (retaining the reality of control and appearance of devolution).

The organisation will also need to address the issue of the changing role and skills of personnel specialists, and the question of how they will keep up-to-date without operational responsibility. One possibility raised by Hall and Torrington is that of the increasing outsourcing of the personnel function.

The future manager and the future organisation

If the two articles already considered suggest that in some respects the role of the manager is not changing as quickly as some may wish, the next two articles suggest that future managers will be different in their role, activities and competencies from managers of today. The approaches differ primarily in their perspective on the question of whether there is a generic manager role, although they agree that a key driver of the changing role lies in the changes in organisational structures and work.

For Hiltrop,3 in the organisation of the future, the rules governing organisational success will be different:

- Organisations will become more complex and ambiguous places in which to work.
- Transactional contracts of employment will become the norm in industry and a ‘self- reliance’ orientation will pervade the employment relationship.

- The role of the manager will become more lateral with much more focus on people, customers and processes.

Bartlett and Ghoshal4 see a new organisational framework emerging, that of the ‘post-transformational organisation’, distinguished by three characteristic features:

- A ‘radical decentralisation’ built from the bottom upwards on the foundation of small front-line operating units.
- A portfolio of cross-integrative processes to break down vertically oriented relationships.
- A strong commitment to empowerment.

The competencies of the future manager—are managers all the same?

As a consequence of the changes he identifies, Hiltrop argues that managers will face more stress, require more dynamic career perspectives, and also need new, more extensive, skills and competencies. The future manager will need to demonstrate wide ranging mastery and will have to be:

- **An expert**—demonstrating enthusiasm, professionalism, up-to-date knowledge, intellectual curiosity, and life-long learning skills.
- **A networker**—with skills in communication, negotiation, problem-solving, project management, and open-mindedness.
- **Self-reliant**—with initiative, vision, creativity, risk-taking, and self-motivation.
- **Resilient**—demonstrating stress-tolerance, flexibility, team-working, adaptability, and determination.

Bartlett and Ghoshal take a different approach. They also see profound changes in the future role of the manager but attack the ‘Russian doll’ model of management, rooted in a hierarchical view of organisations, according to which all managers at every level have similar roles and similar responsibilities, differentiated only by the size and scope of their activities. In the hierarchical model, top-level managers set direction by formulating strategy and controlling resources, middle level managers mediate the vertical information processing and resource allocation processes by assuming the role of administrative controllers, and the front-line managers are operational implementers.

In place of the old hierarchy of ‘nested’ management roles operating level managers, senior managers and top level managers play different roles: as innovative entrepreneurs, developmental coaches, and organisational leaders, respectively. These changes bring with them new means of adding value, new roles and activities, and new personal competencies at differing levels.

Entrepreneurs, coaches, and leaders

For the operating level manager the key activities are: creating and pursuing new growth opportunities; attracting and developing resources and competencies; and managing continuous performance improvement. The operating level entrepreneur must be a results-oriented competitor, with detailed operating knowledge focusing energy on opportunities. Key competencies include creativity, technical knowledge and the ability to motivate people.

For the senior-level manager the key activities are: developing individuals and supporting their activities; linking dispersed knowledge, skills and best practices across units; and managing the tension between short-term performance and long-term ambition. The senior-management developer must be a people-oriented integrator with broad organisational experience able to develop people and relationships. Key competencies include supportiveness, understanding inter-personal dynamics and the ability to delegate, develop and empower.

For the top-level manager the key activities are: challenging embedded assumptions while establishing a stretching opportunity horizon and performance standards; institutionalising a set of norms and values to support co-operation and trust; and creating an overarching corporate purpose and ambition. The top-level leaders must be institution-minded visionaries, understanding the company in context, balancing alignment and challenge. Key competencies include challenging, understanding the organisation as a system, and the ability to inspire confidence and belief in the institution and its management.

Implications of changing managerial roles for the organisation

Hiltrop argues that ‘in most industries only those career systems emphasising continuous development will survive the dawn of the flexible, process-oriented organisation’. He suggests a number of methods for accelerating some of the changes needed in organisations:

- They should build new skills through innovative ‘practice fields’, which involve the creation of a learning environment, providing opportunities to gain experience under realistic but risk-free conditions.
- Organisations should prepare people for the frustration of career stagnation, and career entrenchment.
- They should facilitate career mobility and change, encouraging people to take more responsibility for their self-development and career planning through counselling, mentoring, the portability of benefits, and the encouragement to develop new skills.
- Individual growth and development should be encouraged through real teamwork, including team-oriented career development systems.

- HRM managers should be given a pivotal role in implementing the new agenda, by making HR departments true partners with line managers in running the business.

Bartlett and Ghoshal argue that a number of implications follow for the organisation from their analysis:

- Selection for jobs should be on the basis of their embedded personal characteristics rather than acquired experience.
- Training and development activities are rarely effective in changing deeply embedded traits, but can develop knowledge.
- On-the-job training should be the primary emphasis for knowledge development, and on- the-job experience is the main way of allowing people to develop their skills.
- The most effective role that management can play 'is to coach and support those that they have selected and prepared for the job by providing the resources, reinforcement, and guidance to encourage the self-development process.

In the post-transformational organisation the scarce resource is not capital but knowledge, and this brings with it a new relationship between the organisation and its employees. Knowledge is not at the top of the organisation but at the operating level, and in a knowledge-based environment diversity of employee perspectives, experience and capabilities can be an organisational asset. Rather than forcing the individual to conform to the organisation, the organisation must capitalise on diversity - 'organisation man' will give way to the 'individualised organisation'.

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STRATEGY AND ORGANISATION

Corporate survival and innovation

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In this issue of *Manager Update* we start with a striking quotation from Gary Hamel who is perhaps best known as co-originator of the concept of core competencies:

> *'The strategy industry ... has a dirty little secret. Everyone knows a strategy when they see one ... We all recognise a great strategy after the fact ... We are great at pinning down butterflies. Simply put, we all know strategy is a 'thing' – once someone else has bagged it and tagged it. Anyone who claims to be a strategist should be intensely embarrassed by the fact that the strategy industry doesn't have a theory of strategy creation . There is a gaping hole in the middle of the strategy discipline. There is no foundation to the strategy discipline.'* 1

Hamel's remarks make painful reading, not least because they surface the fears and suspicions we all harbour, about strategy specifically, but more broadly also about management as a discipline. It is relatively easy to point to case studies of successful companies and to explain in retrospect why they have been successful. The same is also true of spectacular cases of corporate failure. Both types of company are, of course, the staple fodder of business school classes and MBA programmes. The truth is, however, that when it comes to assessing strategic solutions before the event, we are largely at sea.

Despite the vast output of research from business schools, consultancies and universities over many years, our ability to predict the success or failure of a strategy is severely limited. Thus, we know from the research based literature that acquisitions, on average, have a 50% chance of success, and we know that unrelated diversification has a higher probability of failure than related diversification. These general statements may be true but they are only of limited use in assessing the suitability of specific strategies. Of course, as strategists we don't help ourselves very much. Our definitions are often slippery and value laden. Thus, examples of successful new business ventures are often described as 'strategic innovation' whilst failed new ventures are condemned as egregious examples of 'unrelated diversification'. Companies that react quickly and successfully to unfolding events are praised as being 'responsive'. Respond unsuccessfully, however, and the strategy is likely to be derided as 'reactive'. If an organisation has successfully built a web of new businesses from a small centre, it will likely be hailed as a 'virtual organisation' or a 'business incubator'. Fail, on the other hand, and it will join the ranks of that discredited species 'the conglomerate'.

Indeed, so limited is our ability to predict the outcomes of strategies, that we fall back on arguments based on logic and coherence. 'Does a strategy represent a good fit?' and 'Does it build on the organisation's core competencies?' 'Is there a logical thread running through from the analysis of the company situation to the choice of the strategy?' The poverty of strategy as a serious discipline probably also accounts for the popularity of socio-cultural or dramaturgical explanations of strategy. From this perspective the content of a strategic plan is less important than the way that it is structured, presented and communicated. Concepts like competitive advantage and core competencies are significant, not in themselves, but because they represent common vocabulary in a shared mode of discourse between top management and its peers and between the organisation and its other stakeholders.

Making strategy relevant

Hamel starts from the position that companies that wish to perform well must focus, not on margin improvement which will result in diminishing returns to managerial investment, but on revenue growth and he cites evidence from the Fortune 1000 to support this assertion. Hamel, however, does not believe in growth for growth's sake—rather he believes that high, sustained rates of growth are only likely to be achieved by companies that succeed in radically changing the basis of competition within their industries. He maintains that such strategies are more likely to emerge in a relatively messy fashion over time than to be created in some formal strategic planning process. To this extent he goes along with Mintzberg's well known critique of strategic planning. He does, however, maintain that emergence is far from random and by creating the right set of pre-conditions, the emergence of better strategies can be provoked. Hamel's prescription, therefore, is to focus not so much on analysis, the use of matrices etc, as on the organisational properties which will give rise to mould breaking strategies. For readers of previous issues of *Manager Update* and close followers of Hamel's previous articles, eg 'Strategy as Revolution', the precise prescriptions will come as no surprise. They include:

- Recruiting outsiders that do not yet share the organisation's mental models.
- Promoting the opportunities for conversations across formal organisational barriers.
- Involving employees emotionally in inventing the future of their companies.
- Seeking out new perspectives on markets, processes, etc and constant experimentation with new ways of doing things.

Strategic innovation in established companies

As Constantinos Markides maintains,2 the evidence suggests that, for most industries, true strategic innovations which revolutionise the basis of competition in industry tend to come not from established incumbents but from new entrants. Markides defines strategic innovation as a process in which a company identifies a gap in the market, manoeuvres to fill that gap and subsequently the gap itself grows to become the new mass market. Thus defined, Markides believes that very few true innovators are actually also industry leaders and, as is well known, success in one era can usually breed organisational inertia which, in the absence of crisis, can become very difficult to overcome.

Markides believes that urging companies to question the existing recipe in order to come up with new ways of doing things is usually fruitless. Even when companies can accept the intellectual case for doing so, for most companies in a stable situation it proves almost impossible to question the way that they do business in this fashion. Those that do, Markides maintains, like Intel, Hewlett Packard, Motorola, Johnson & Johnson and the like, seem able to revolutionise the organisation at a point on the 'S' curve before the business moves into decline. This is a common concept and one familiar to readers, for example, of the work of Charles Handy. However, it shares the same problem as most life cycle models in that they work best in retrospect. When the S curve has peaked and you are a couple of years down the other side, it is easy to identify the inflection point at which the organisation should have made the shift to a new recipe. Unfortunately, it is usually very difficult at the time to discern whether the business is about to fall into terminal decline or whether, for a whole host of reasons, the performance represents a momentary blip. Markides maintains that the key to this is that the company must find indicators which act as an early warning system which, when detected, require the company to reinvent itself. In this context Markides cites the well known case of the Boddington's Brewery which, in the late 1980s, was still profitable, moved out of brewing and reinvented itself as a hospitality company in response to indications that the long-term future consumption of traditional English beer was in decline.

In this situation, Markides claims, one of the distinguishing features between successful innovators and non-successful companies is likely to be the strength of leadership and the courage of the organisation in abandoning the existing status quo and adopting a new recipe. In point of fact, however, as strategists we have very little to offer to guide managers in making such choices. How will they know when a new recipe is likely to be effective? Car manufacturers diversifying into the IT industry (eg Volkswagen and Triumph Adler) have not been successful. Car companies diversifying into financial services (eg General Motors, Ford, VW, etc. branching out into credit cards, banking and leasing) have tended by and large to be much more successful. Yet both of these examples of 'strategic innovation' must have seemed equally plausible at the time. Indeed, to the people that ran a manufacturing company like Volkswagen, the notion that in future a higher proportion of the end product would consist of electronic componentry must have seemed a much more compelling argument for diversification than the idea that, in order to sell cars, you also have to provide finance. Nor does the concept of core competence, much vaunted in this context, help us to predict success. It is not obvious that car manufacturers have core competencies in financial services for example, and to justify such a move on tenuous grounds of relatedness is also largely specious. How many times have we seen companies justify what later turned out to be disastrous diversification moves on the grounds that they were 'based on a common engineering thread' (British Aerospace) or 'part of a strategy of creating an integrated technology concern' (Daimler Benz).

Picking winners

To his credit, Markides recognises this in his article and his solution is very close to the Hamel/complexity theorists. It is impossible, he believes, to predict in advance which of these new recipes are going to be successful. Therefore, in order to be successful, organisations need sufficient internal variety and then must allow the market to decide which of the innovations will ultimately be successful. This, of course, then leads to the problem that for the company to be successful, it has to pursue many parallel and even conflicting approaches simultaneously—the problems of resource allocation, conflicting strategy and cultural tensions are bound to arise. Setting up separate organisational units, for example in the way that Midland Bank did with First Direct, is one solution, at least in the short term. But even that is not without its problems - as the success of the new unit will eventually provoke the need to integrate the new activities with the existing operations.

Creating corporate advantage

This brings us to the issue of transferring and sharing resources between units in the same company or, to use the title of Collis and Montgomery's article,3 'Creating Corporate Advantage'. These authors contend that, in many large companies, the centre adds very little value to the businesses within the corporate portfolio and, in some cases, may even subtract value by imposing overhead costs or layers of bureaucracy. They argue for a contingent approach based on how specialised or general the nature of the resources are which sustain the company's competitive advantage, the breadth of scope of the businesses and the nature of the industries concerned, eg high tech versus basic. In this the authors are treading on territory which is already well trod, notably by Goold and Campbell and the Ashridge Group of researchers who, since the late 1980's, have largely set the agenda on research into corporate strategy.4 Despite the familiarity of their approach, the case studies of the three archetypal organisations in their article are interesting. Thus, Tyco which operates what Goold and Campbell would refer to as a financial control type approach to corporate strategy and clearly models itself closely on the Hanson approach to business circa 1980, has only 50 people at corporate headquarters covering a business with an annual turnover of $12 billion. At the other end of the spectrum, the Japanese electronics company, Sharp, with turnover of $14 billion and five divisions all focused on consumer electronics and the componentry which go into them, has some 1500 people at corporate headquarters. Sharp's approach is clearly much more top-down and Tyco is largely bottom up. Interestingly, Sharp is organised not on the basis of product divisions but on more traditional functional lines—the sort of corporate structure which is routinely decried in management articles these days. This all makes sense according to Collis and Montgomery because 'Sharp's technological investments share several characteristics: they tend to be expensive, they often have substantial lead times and the advantages they confer in products may be short lived because of imitation or brief life cycles. To be successful in such an environment Sharp must make good investment choices and to recoup its investment it must leverage new technologies quickly and broadly throughout the company'.5 So the emphasis within Sharp is clearly much more on co-ordinating the resources and on spreading sources of competitive advantage from one part of the organisation to the other.

Built to last

The fact that, as strategists, we have almost no way of predicting the likely outcome of strategies does not, of course, prevent researchers from seeking to identify characteristics of successful companies. There is a long tradition of this in the management literature which includes notable examples like Peters and Waterman's *In Search of Excellence* and more recently John Kay's book *Foundations of Corporate Success.*

One of the better examples of this genre is Collins and Porras and their book *Built to Last – Successful Habits of Visionary Companies*,6 an updated version of which has recently been published. Collins and Porris are interested in what they call 'visionary companies'. These are companies defined as:

• Leading in their industry.

• Widely admired within business.

• Leaving an indelible imprint on society.

• Possessing several generations of top management.

• Succeeding through successive product or service life cycles.

• Surviving for at least 50 years.

In their research they contrasted companies in the same industries. The first category are ‘visionary companies’ which satisfied these criteria and in the other category are so-called ‘comparison companies’ which, although successful by any normal standards, did not match the exceptional standards of the first group. This can work quite well. For example, we have Boeing in the first group versus McDonald Douglas in the second, General Electric versus Westinghouse, Hewlett Packard versus Texas Instruments, IBM versus Burroughs, Proctor and Gamble versus Colgate, Sony versus Kenwood and Walt Disney versus Columbia. Not that inclusion in the list of all time visionary companies offers any certainty of continued success, as Peters and Waterman famously discovered in their group of excellent companies. Thus Motorola, touted by Collins and Porris as a visionary company, seems of late to have lost its way, failing to get new products to the market quickly enough, and suffering from quality problems, high overhead costs and excessive bureaucracy.7 Leaving this aside, however, and we should recognise that Collins and Porras’s work is the outcome of a serious piece of research, the book does generate some interesting and provocative conclusions. Thus, hardly any of the visionary companies studied started off with a breakthrough idea. Many of the companies like Hewlett Packard and Sony stumbled along for some time before hitting on a winning recipe. Similarly, not all of the companies had leaders who could be described as ‘charismatic’. In many of the most successful companies—3M for example—successive chief executives have been low profile if not invisible. Finally, they nail the myth that enduring companies tend to employ outside figures as their chief executives in order to stimulate fundamental change or what Markides would refer to as ‘strategic innovation’. To quote the authors:

> *‘In 1700 years of combined lifespans across these visionary companies, we have found only four individual incidents of going outside for a CEO – and those in only two companies.’*8

Less contentious perhaps, but still significant, they discovered that profit maximisation and shareholder value was rarely the driving force throughout the history of such visionary companies. More frequently the visionary companies were driven by a set of shared core values (not necessarily the same in each case) which were codified and articulated: for example, in the case of Johnson & Johnson through the ‘Credo’ and in Hewlett Packard by the ‘HP Way’. On the other hand, Collins and Porras are inclined to resort to paradox where they find some of the characteristics contradictory. Predictably perhaps such companies maintain a relatively constant vision whilst maintaining a powerful drive for innovation and change at the level of strategic products and markets. While visionary companies eschew formal strategic planning and proceed often through trial and error and experimentation, they are also prone to making bold and audacious commitments to future objectives.

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ACCOUNTING AND FINANCE

Developments in emerging markets—financing and risk management

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One important development in emerging markets, particularly in Asia, has been the growth of securitization. In this issue of *Manager Update*, the development of securitization, its potential application in emerging markets and developments in risk assessment are reviewed.

Securitization

As will be illustrated, securitization may well prove to be very important in helping to alleviate the problems created by the currency crisis in Asia.1 It is recognised that there is no quick fix for markets like Indonesia.2 There, much will be required not least of which is something to help the problem of trade finance. In fact, a trade financing package is viewed as being essential to kick-start this economy in which the maths has become seriously out of balance. For example, Indonesia has a total private sector debt of US$74 billion, of which US$59 billion is due for repayment this year. However, the total of its 1997 exports was US$58 billion in a country with foreign reserves of US$17 billion, of which US$8 billion is committed towards government repayment of debt. Furthermore, the import bill is estimated at US$42 billion. In order to repay, debt maturity will have to be stretched. However, that makes no allowance for kick-starting requirements, for which a workable trade financing plan will have to be put in place. In this respect, securitization could play a key part.

So what is securitization?

It is sometimes referred to as asset-backed financing and can best be thought of as the repackaging of receivables or a discrete pool of assets into tradable form, ie into securities. Such securities can be in the form of either debt or equity, but they must generally be serviced by a discrete pool of assets, or receivables. The ultimate goal of a securitization structure is to sever the risk of originator insolvency from the risk of asset/receivable performance, allowing the investor in the security to rely on asset risk rather than the general corporate credit of an originator.

Securitization originated in the United States around 1970, when the government set up the Government National Mortgage Association or ‘Ginnie Mae’ as a means of promoting the US retail mortgage market. The result was government mortgage-backed securities. It was only some 15 years later that the first non-mortgage backed transaction was completed.

Securitization has developed very quickly to become a global financing technique. Transactions have been completed in North and South America, Europe, Africa, Asia and Australia. It has been particularly successful in the US market where there is a large and homogeneous pool of assets all regulated under the same jurisdiction, by comparison to the more diverse situation in Asia and Europe.

Why is it attracting attention in Asia?3 Many Asian corporates fund long-term needs with short-term debt and commit to a floating rate when a fixed rate might be more prudent. Securitization can be an effective means to better asset/liability matching because of the financing options it makes possible. This is because securities are created with a better profile than that of the issuing corporate.

How does it work?

Securitization structures fall into two separate categories depending on the interest that the investor has in the underlying asset. Structures in which the investor actually has a direct ownership in the underlying asset are known as ‘pass through’ structures. Structures that are set up as debt instruments, which are secured on the payment of the receivables, are known as ‘pay or flow through’ structures. ‘Pay through’ structures dominate the non-US world and are the most common form of securitization to be found in Asian markets. In this form, incoming cash flows from the securitized asset(s) are assigned to a special purpose vehicle (a ‘middle man’), which is a bankruptcy remote entity, confined to activities envisaged under the transaction by its articles and memorandum of association, set up specifically for the purposes of the transaction. The cash flows received by the special purpose vehicle are then used to make the required payments of interest and principal to investors. In the event that incoming cash flows are insufficient to cover the required principal and interest payments, ancillary providers and further credit enhancement may be called upon.

In fact, structures can be enhanced in a number of ways to ensure that the payment of principal and interest on the securities is not hindered by shortfalls in receivables collections or receivable default. One form of enhancement can be effected by assigning more assets than required, or setting up a cash reserve fund which is drawn on in cases of receivable shortfall, or by issuing multiple tranches of securities with each tranche varying in payment maturity and payment hierarchy. 'Triggers' can also be used, such that a deterioration in asset quality beyond a certain level automatically triggers the rapid amortisation of the structure.

In some circumstances, perhaps parts of Asia in the aftermath of the currency crisis, external credit enhancement may be necessary. This takes the form of a third party guaranteeing either receivables performance or the performance of the securities. This can come from a variety of sources including governments, or specialised banks and insurance companies.

For securitization to be viable, the form of the asset backing must be appropriate in terms of nature and quality. Asset classes for securitization typically give rise to periodic cash flows under contract that define instalment or amount due, timing and yield. In fact, this form of financing can be extremely diverse in terms of the potential asset backing, as can seen in *Table 1*.

Agricultural equipment receivables Home improvement loans

Aircraft leases Insurance premium loan receivables

Arrears mortgages Manufactured housing loans

Auto loans, leases and hire purchase
contracts Marine loans

Corporate loans Oil and gas contract receivables

Credit card receivables Property rental and income streams

Computer leases Railcar leases

Computer service contracts First and second residential mortgages

(Unsecured) consumer loans Small business loans

Commercial and office equipment
leases Student loans

Commercial mortgages Timeshare loans

Floor plan loans for auto dealers Toll road receivables

Franchise loans Trade receivables

Future export receivables Utility receivables

Healthcare receivables Home equity loans

Table 1: Assets securitized to date

Advantages and disadvantages of securitization

What are the advantages and disadvantages of securitization?4 The advantages can be seen if we use export receivables as an illustration:

- A company's credit rating may be limited by that of the country in which it operates. Securitization may be able to overcome that limitation and allow the recognition of the company's financial strength to be used in place of that for the country.
- A mechanism is established for collections from export customers to be paid directly into a trustee-held account without first passing through either the company or its country.
- The investors are in the most senior position to receive the company's cash flows. Debt service monies are allocated to the investor before the company receives any cash.
- The receivables are from export customers that, either individually or as a group, have a better credit profile than that of the company.
- The receivables are usually denominated in a hard currency, eliminating exchange rate risk and the risk that hard currency will be scarce under adverse economic conditions in the company's country.
- The receivables are 'bankruptcy-remote' from the company.
- The trust issuing the securities has a protected security interest in the receivables.

For the above reasons, securitization has been used successfully in many emerging markets experiencing difficult economic conditions, hence its potential relevance in the aftermath of the Asian currency crisis. For example, in the midst of the Mexican devaluation of 1994, Banco Mexicano issued Remesas, securitizing Mexican worker remittances. Successful non-investment grade securitizations have also been completed. For example, Acominas, a Brazilian steel maker, has raised US$400 million since 1995 through unrated securities.

In Asia, a few future 'flow through' securitizations have now been completed. In 1996, China's Zhuhai highway was securitized, and in 1997 Philippine Airlines securitized its ticket receivables. Also, in 1997, Bank Internasional Indonesia's international credit card settlements were securitized and, currently, the potential for securitizing Indonesian exports is being considered.

Against these advantages, there are some potential pitfalls and caveats:

- Existing funding arrangements can be a potential problem because of pre-arranged non-disposal covenants and the like, such that a lender may not be willing to accommodate a transaction.
- The portfolio may simply be too small, such that up-front costs and on-going administration fees make the proposition prohibitively expensive.

- The portfolio may be of insufficient quality and homogeneity such that the assets are difficult to assess. In such circumstances, the lender may require credit enhancement compensation, thereby making transactions inefficient.
- Inadequate systems and historical information can make it difficult to monitor and provide sufficient performance data on a portfolio.

Risk management

One area that has been attracting considerable attention in recent times is risk management. In a recent historical review of risk and risk management over the last two thousand years, one noteworthy author commented that:

'Discontinuities, irregularities and volatilities seem to be proliferating rather than diminishing'.5

The Association of Corporate Treasurers has for some time been considering new approaches for managing overall corporate risk.6 As a result of a two year study the Association of Corporate Treasurers (ACT) has proposed a framework for companies which want to have an integrated approach to the management of risk, but which are struggling to define precisely what is needed to achieve it. As a starting point, it defines risk as 'a threat that a company will not achieve its corporate objectives' and it argues for the following reasons that a focus upon risk is important:

- Lessons from the past suggest that directors should focus on risk.
- The increasing pace of change creates more uncertainty.
- Corporate governance and regulatory imperatives.
- It provides a tool for improved planning and capital allocation.
- Better risk management delivers all round improvement.
- Boards will make decisions more confidently.

After identifying the need to focus upon risk and its definition, the proposed framework emphasises the following stages:

- Identification.
- Measurement.

- Management/monitoring.
- Assigning accountability.

A review of why a framework is relevant is considered, together with how history has led to demands for improved corporate governance; and how, alongside the control implications of the latter, there should also be consideration of all the risk/reward opportunities.

In fact, drawing upon case study illustrations, the book does provide useful insights as to:

- Why focusing upon risk is important.
- The business case for developing a risk management framework.
- How a framework should be developed.
- The process a company might consider for the identification of risk.
- What measures of risk are appropriate.
- How risks might be managed.
- How risks could be reported.
- The responsibilities for managing risk.

The importance of developing a risk assessment and management framework has also been the focus of attention within the context of emerging markets, particularly in the aftermath of the Asian currency crisis.7 Maslen, group risk manager at Cable and Wireless, argues that a risk management framework is essential in emerging markets in order to:

- Achieve the most cost effective management of risk through a combination of risk control, financing, transfer and avoidance.
- Promote effective business continuity and recovery planning by minimising disruption to customer service and operations.
- Maintain a safe, secure and healthy working environment for staff, visitors or other parties who may be affected by the conduct of the business.
- Protect assets and corporate information.
- Improve environmental performance and integrate environmental management into business processes.
- Minimise potential liabilities.

• Provide a sound decision-making process for identifying business opportunities and accepting risk when it is in the interest of the business to do so.

From this relatively broad perspective of risk, Maslen provides a useful checklist framework involving:

• Risk identification.

• Opportunity identification.

• Due diligence.

• Risk management and audit.

As regards the first of these, risk identification, Maslen identifies the following potential sources of risk:

• Environmental.

• Legal/environmental.

• Financial.

• Taxation.

• Legal.

• Ethical issues.

• Joint-venture agreements.

• Intellectual property rights.

• Security.

• Managerial.

• Other projects.

• Logistics.

• Sub-contractors and key suppliers.

• Property loss control.

• Old technology.

• Human resources.

Second, apart from the downside aspects of risk, Maslen makes explicit the positive features by recognising the need to assess opportunities. This is a feature of risk often sadly overlooked and, as a consequence, significant opportunities may be missed, a point brought out well by Chris Angle of Standard Chartered Bank.8 Maslen makes the case for using SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for identifying opportunities. However, this needs to be supported by due diligence, the third part. As Maslen indicates, an essential part of any new business venture is the due diligence process. Fourth, the contribution made by risk management to the due diligence process is to discover any potential problems, to evaluate them in the light of the venture, and to suggest solutions within a risk audit framework.

What is becoming quite clear from the work of the Association of Corporate Treasurers and the contributions of these two practitioners is the increasing profile of risk management. The trend towards an increasingly important profile for the risk manager is evident from my observation in practice. The form that this profile is taking has been succinctly reviewed by Shirreff.9 As Shirreff says:

> *'First, he sat in the back seat, then he had his foot on the brake, now he's got one hand on the steering wheel! Is there no end to the risk manager's advancement into every aspect of risk taking in a financial firm? Next he'll be right there in the driving seat, with traders, salesmen, corporate financiers and chief financial officers doing his bidding'*.10

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