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PREFACE

This Faculty publication is produced in parallel with the Braybrooke Press publication of the same name. Accordingly, references in the text to issues of *Manager Update* prior to April 1997 relate to the Braybrooke edition.

Manager Update helps the general manager keep abreast of the latest articles in specialist management journals. The most useful ideas in the fields of Strategy and Organisation, Marketing, Accounting and Finance and Human Resources Management are carefully selected from a wide range of publications with the busy general manager in mind. Experts in each field explain and discuss the relevance, practicality and usefulness of the key new concepts and ideas, thus enabling the senior executive to keep really up-to-date.

The articles represent the personal views of the authors and not necessarily those of their organisations or of the Faculty. The nature of some subjects will preclude the articles from being definitive or mandatory. Being general in nature, the points made in *Manager Update* may or may not be relevant to specific circumstances.

The Faculty committee intends that *Manager Update* will act as an aide-memoire for members, provide new ideas, and encourage good practice, but cannot accept responsibility for their accuracy or completeness. Responses from the membership will be a very important part of the successful development of the series. Comments please, to Chris Jackson on 020 7920 8486 (or by e-mail to CDJackson@icaew.co.uk).

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ARTICLE SUMMARIES

MARKETING

Rivals, Smart Markets and High-Tech Branding

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A key element in developing marketing strategy, and an integral part of the marketing planning process, is the identification and assessment of competitors. In the current uncertain and fast moving environments, competitor analysis, according to Clark and Montgomery[1] and Geroski[2], is crucial not only for large organisations, but also for small and medium-sized enterprises. However, as Geroski states, 'firms have always had difficulty spotting new competitors, and business history is full of stories about incumbent market leaders being displaced by a smart new entrant'.

Key to competitor analysis are

- information;
- intelligence;
- knowledge management.

These are also important elements in managing competitors, customers and products in 'smart markets'. As Glazer[3] has noted, these are fluid, fast moving and interactive environments, where the marketing approach of organisations is focused on 'capitalising on their chief corporate asset : information'. However, Ward, Light and Goldstine[4] have noted that, in some high-tech markets, the marketing approach is less developed, and 'specialists and technologists' are still sceptical about the role that marketing and, in particular, branding can play in developing relationships with customers.

Competition

The task of assessing competitors is becoming increasingly difficult with

- changing consumer trends;
- technological transformation;
- the growth of international markets;
- the 'death of distance' (as Cairncross[5] has forecast);
- indistinct competitive borders.

Firms feel less restricted and are more able and willing to compete across industries. For example, building societies and supermarkets have turned towards banking, electricity suppliers and retailers now sell gas, and Virgin, as a case in point, has diversified from the music business to (amongst other sectors) planes and trains. Geroski has identified the key lesson for 'displaced incumbents' in these markets. He says that they should learn to think like the new competitors; they are not superhuman. 'They are not aliens from Mars operating in bizarre and unpredictable ways.' However, incumbent firms are so absorbed in their own markets and the actions of existing competitors that they do not see beyond the obvious and are 'unable to view their market from other perspectives'.

Identifying and assessing the competition

Clark and Montgomery suggest that managers should have a mental picture of their markets and should be able to do the following :

- identify key competitors;
- analyse these competitors;
- use information to identify the 'structure and the boundaries' of the markets in which they operate.

Surprisingly, very little research has been done in this area, and a relatively small amount is known about the practical steps that managers take every day to judge the other companies in their marketplace. The following are examples of key questions :

- What factors do they use to identify their competitors ?
- How many are selected as key competitors ?
- Which companies are included and which are excluded ?

According to these writers, managers should evaluate the methods that they use for identifying competitors, and their assessment should include a number of supply-based factors and demand-based factors. The supply-based factors, which managers often find easier to use, concentrate on the makeup and composition of competitors, and they include

- product features;
- firm size;
- performance;
- finance;
- management style;
- ownership.

Demand-based factors include

- customer needs;
- perceived benefits;
- attitudes;
- purchase behaviour.

They are often considered to be more difficult to use as they require time-consuming and costly marketing research. Unfortunately, as Clark and Montgomery explain, the 'lack of classification based on customer needs may mean that marketing myopia remains alive and well', especially when 'the most accessible data are called on to make a judgement, not necessarily the most diagnostic' !

Geroski believes that there is a need to use a balanced approach. He stresses the use of customer-based factors when assessing the competition, for example

- understanding of the marketplace;
- the nature and consequences of innovation;
- the changing patterns of demand.

He believes that new competition comes from three key sources :

- from complementary products and related markets;
- along the value chain from vertically related markets, from the supply side or in downstream distribution to the customer;
- from those who both understand the market and possess the necessary supply-based internal skills to compete in the marketplace, the combination of which makes them potent rivals.

Identifying too few competitors

Some managers, according to Clark and Montgomery, seem to have 'have a restricted mental set', and are only able to identify a small number of competitors. In some industries this does not matter, as they operate with a small number of competitors. However, if the industry is turbulent with intense rivalry, and the manager's list of competitors is too small, competitors go unnoticed, and are not taken into account in the marketing strategy. Managers should also think about the short and the long term; for example, if they are concerned about strategic issues, then the list of competitors may need to be longer. In the short term, a smaller group may be sufficient. Interestingly, Clark and Montgomery's research shows that more experienced managers use a smaller number of attributes and factors to assess competitors than do their more junior counterparts.

Being aware and assessing the threat

Clark and Montgomery have also found that there is often 'asymmetry' in the marketplace, where 'large successful firms may have loud voices' and smaller firms 'quiet voices'. In their research, managers did not show that they were conscious of asymmetry; however, this is an important part of interpreting the statements, actions and signals of competitors in a meaningful way. Geroski argues that companies should try to put themselves into the shoes of the potential or new rivals, and avoid developing an 'egocentric view of the market'. He makes four practical suggestions that can help in the development of competitor awareness :

1. Use outsiders to provoke and challenge your presumptions about your company and your market.
2. Take advantage of differences of opinion within your organisation.
3. Accept that the returns from your existing activities are not going to last forever, and actively plan to close them down.
4. Create a separate product division and stimulate internal competition.

Identifying and responding to new rivals

When new rivals enter the market and they can be identified as true competitors, Geroski pinpoints some practical steps that can be taken :

- **Competencies** The first step is to understand the new entrants' competencies, as these will influence their competitive actions.
- **Forward thinking** One method of responding to the competition is to pre-empt their strategy by developing new products. Geroski points to the pharmaceutical companies which have developed generic alternatives to their own branded drugs to pre-empt the entry of generics from their competitors.
- **Blocking strategy** Alternatively, a blocking strategy can be adopted to prevent rivals entering the marketplace. This, however, presumes the possession of a degree of power and influence over the market.

Smart markets

Many organisations now find that they are competing in 'smart markets', which, according to Glazer, have 'frequent turnover in the general stock of knowledge or information embodied in products and possessed by competitors and consumers'. 'In contrast to "dumb" markets, which are static, fixed and information-poor, smart markets are dynamic, turbulent and information-rich.' Glazer suggests that smart markets are composed of 'new kinds of competitors, products, and customers' :

- **Smart competitors** In this environment, organisations need to update their information about direct competitors continually. They also need to be aware of 'convergence' as new competitors arrive from outside the traditional industry boundaries.
- **Smart products** Smart products and services are 'interactive' when in contact with customers, and they have 'intelligence or computational ability built into them'.
- **Smart customers** Customers in this classification are constantly changing, knowledgeable and willing to work closely with the organisation and take part in the development of the product or service through 'technology'. Customers expect smart organisations to know their needs and anticipate their requirements. In essence, they are more demanding and expect to be treated as individuals.

Essentially, the challenges faced by organisations operating in smart markets are based on intelligence, knowledge and information infrastructure. Smart organisations that have been successful so far are ones that have adapted to the changing needs of customers in 'information intensive environments'.

Managing customers in smart markets

Successful 'smart marketers' deliver value to customers by moving beyond lifetime value, customer retention and data mining, and focusing on the management of the customer information file (CIF), 'a single virtual database that captures all relevant information about a firm's customers'. Glazer suggests that this should be considered as a corporate asset, where the organisation's objective is to maximise communication with customers and to maximise returns to the CIF.

Glazer indicates that the CIF has three dimensions, which he simply calls 'rows', 'columns' and 'time'. In the rows are the records of current and future customers. The columns are divided into three core categories :

- customer characteristics;
- responses to company decisions;
- purchase history.

All entries should be logged by time.

Accordingly, the CIF can be used as a basis for the development of strategies to meet the customers' needs. These are divided into column, row and whole file strategies.

There are two column strategies, customisation and yield management, which focus on the customer as an individual :

- Mass customisation is possible, and with support from flexible production systems, managers can tailor products and services to individual customers' needs.
- In yield management, the focus is on pricing. As customers have various levels of price sensitivity, managers can maximise the return by adopting discriminatory or flexible pricing approaches.

Row strategies focus on the nature of the transactions with the customers, and include 'capturing the customer' and 'event oriented prospecting' :

- Capturing the customer strategies build on relationship and affinity marketing. The objective is to get the highest possible share of a customer's lifetime of purchases by using interactive means such as the Internet.

- Event-oriented prospecting concentrates on the idea of the lifecycle in an attempt to be one step ahead of the customer and identify 'magic moments'. By anticipating the customer's lifecycle, the company appears with a solution when a customer's need surfaces.

Whole file strategies use the whole database and include extended organisation strategies and 'managing by wire' strategies :

- The extended organisation strategies include close interaction between the customer and the supplier organisation, to the extent that the customer uses the supplier's systems and their information is shared or 'jointly owned' to some degree.
- Fly-by-wire strategies have not yet been used, according to Glazer, who sees this type of strategy as one which combines the CIF with expert systems to combine information processing and decision making.

According to Glazer, 'the last two or three years will likely be remembered as the time when the long heralded but often postponed "information age" finally became a reality'.

Branding in high-tech markets

Ward, Light and Goldstine suggest that some managers in high-tech companies neither fully understand the role of marketing nor appreciate the impact that brand management can have on their business. Managers in this sector still focus on a traditional, fast-moving consumer goods view of marketing. They find it difficult to appreciate the benefits offered by branding in creating value for the customer, as a basis for developing relationships and as a vehicle for communicating with customers. There are two key misconceptions :

- Some managers believe that high-tech products are developed for 'sophisticated and knowledgeable customers'. They see branding as 'emotional' and 'irrational', and as having no relevance.
- Some managers consider that a brand is largely a slogan and a logo, and that its management is the responsibility of a separate marketing department.

Successful high-tech brands can be developed by following five important steps :

1. Be clear about the nature of the product. What are the key features and attributes ? What are the core characteristics and components ?
2. Move away from thinking about what the brand offers to the market, and rather think of the features of the product, identifying the benefits and solutions from the customer's perspective.
3. Consider the customer's emotional requirements and intangible needs.
4. Focus on value and loyalty and consider the promises that the company makes to develop customer retention and long-term commitment.
5. These steps are encompassed in the final stage, which is the development of the 'brand personality'.

Delivering the brand to the customer

Customers are able to process a multitude of messages about brands and about high profile brands in particular. One of the difficulties, however, is that of maintaining this high profile in the customer's mind. This is particularly troublesome in high-tech markets, where the products can be made up of components from hundreds of suppliers and distributed through numerous retailers. Ward, Light and Goldstine ask 'can IBM make, deliver, and control a relevant, distinctive and enduring promise of value to the end user through so many filters ?'. It is important to keep in mind that the statements of value, the solutions and the promises are ultimately made to the end user. This is the part of the marketing strategy which attracts customers and 'pulls' them through the marketing channels. It should be accompanied by a 'push' strategy through the retailers, which have had (at least until recently) a closer and more direct relationship with the customers. For example, however, Dell's use of the World Wide Web in the design and development of its products online, combined with a strong brand presence and value proposition, has reduced the impact of the resellers in this channel.

Ward, Light and Goldstine suggest that high-tech companies have difficulty in adjusting to the brand concept in its entirety, and that, until they do, they will not benefit from the ensuing financial and organisational rewards. The companies that manage their products successfully and invest in brand management are able to see the payback in their profit levels. Indeed, Ward, Light and Goldstine suggest that, because of the more efficient nature of the marketing approach in the consumer goods sector, the actual marketing expenditure there tends to be less. Furthermore, in addition to the financial reward, there are further opportunities for organisational learning, as there tends to be a greater degree of involvement and co-operation between departments when the brand proposition is formulated and implemented. Thus 'brand management provides the common denominator and a common language to bridge these different thought worlds' in the technical departments and the commercial and marketing departments.

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HUMAN RESOURCES MANAGEMENT

Attracting, Retaining and Motivating Capable People

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A key to competitive advantage

The ability of organisations to attract and retain good people is set to become even more important. Changes in the environment in which organisations operate will make the supply of good people more problematic at precisely the time when the demand is increasing. Hiltrop[1] has put it as follows :

> *'The ability to attract and retain talent is rapidly becoming one of the core competencies of high performance organisations in both developed and emerging countries. Improving this competence will be vitally important in the coming decades as demographic, social and economic developments strengthen the connection between human talent and sustainable profitability.'*

New ways of working linked to rapidly advancing technology, and the growth of smaller companies competing for the same talent as larger organisations require, are examples of trends that will increase the demand for capable people. At the same time, changing expectations of the workforce, expressed in the form of a changing 'psychological contract', will increase job mobility and the demands upon employers. The loss of important employees may have a damaging impact upon the 'social capital' of the organisation.

The organisation that is able to attract and retain talented employees will be in a better position to secure competitive advantage. However, organisations will not be able to rely upon what has worked well for them in the past. New strategies are required, and simply paying more is not the answer; this is not only likely to be costly, but also probably will not work. Research shows that money is not the only, or even the prime, motivator. Some recent research into the questions of how to attract and retain good people, and also on what leads to people leaving an organisation, and the processes they follow, is considered below.

Marketing the organisation

One question is that of whether particular human resources (HR) practices may support an organisation's ability to attract and retain talent. This question is both about the attractiveness of a particular organisation to potential recruits, and also the organisation's effectiveness in attracting and retaining the people it wants. Hiltrop recognised that there are other factors at work, but argued that 'there is a link between organisational capability and the way an organisation manages its human resources'. His study found that the most effective practices are the ones that

- create opportunities for training and development;
- enhance the level of teamwork and participation;
- provide autonomy and decentralisation in decision making.

Next in terms of importance were the level of openness and HR planning. Job security, internal promotion, and equality of benefits had little or no impact. Industry sector and organisation size had some influence, albeit a smaller amount. High-tech sectors, for example, were more successful than textile and engineering sectors, and large firms were more successful than small or medium-sized firms.

What does this mean for management ? Hiltrop's results tend to support the evidence for a changing 'psychological contract' and the need to create opportunities for people to develop and to manage their own careers. Furthermore, in addition to pointing to particular HR practices that are attractive to potential recruits, his work illustrates the importance of both expectations and perceptions. Organisations must recognise the growing importance of the workplace climate and other job attributes for potential recruits. They must also tailor their recruitment and retention practices to the needs and expectations of the specific groups of employees that they wish to target.

Recruiting the right people

It is one thing to create a 'value proposition' that is attractive to potential employees. It is another to ensure that the right people are employed. Fernandez-Araoz[2] has stated the following :

> *'More and more, success depends on competencies that are intangible and rarely found on a person's resume, such as flexibility and cross-cultural literacy. Previous experience, once the "sacred cow" of successful hiring, can be meaningless in an era when organisational forms are continually being invented and re-invented and job responsibilities sometimes change overnight.'*

He identified a number of potential pitfalls in the hiring process, including

- looking backwards to the personality rather than forward to the job;
- creating unrealistic specifications;
- ignoring emotional intelligence;
- responding to political pressures;
- holding unstructured interviews.

He argued for a systematic process in hiring, the first step of which should be a 'problem definition' involving

- the definition of current and future requirements for the position;
- the identification of key priorities for the position and critical incidents to be mastered;
- the generation of a list of competencies described in behavioural terms;
- the identification of the personal and interpersonal factors required for success;
- the achievement of consensus with all those involved in the hiring decision that the short list of competencies, and no others, will guide the search and evaluation process.

Only after this step has been completed should the second phase commence. This is about generating and evaluating candidates, and finally recruiting the right person. He recommended keeping the evaluation and 'selling' processes separate, and using carefully prepared structured interviews, preferably conducted by more than one person in the organisation. Questions should focus on behaviours, and the interviewers should seek to understand the main motives and the primary fears of the candidate.

Managing retention : expectations and offerings

Morrell and Simonetto[3] carried out a case study on managing retention at Deloitte Consulting, which saw annual turnover reduced to 17%, as against the industry average of 25%. For them, 'retention may well be the most critical issue facing professional services firms today', and they argued that there are two broad areas of focus in managing turnover :

1. the setting and managing of the expectations of both the individual and the firm;
2. the determination of what the firm can and should offer the individual in a variety of areas.

Managing expectations commences with recruitment. It requires continuing ongoing communication, and an explicit and formal process for setting expectations and evaluating performance. Morrell and Simonetto argued that there is a need to foster an environment of openness, honesty and trust, and to recognise that expectations will change over time and as an individual's career progresses.

The firm needs to offer a 'well reasoned value proposition' that meets the needs of both the firm and the individual employees. For the firm, individuals must constantly contribute and grow. For the individual, the firm must create an environment that provides him or her with

- involvement and fulfilment;
- the opportunity to learn and to take on challenging assignments;
- the opportunity to grow, both personally and professionally.

The firm must also put in place programmes that support the individual's attempts to balance work and life, for example through flexible work arrangements, and it should recognise that personal and professional fulfilment require a long-term focus.

A firm's culture has a significant impact on retention. This can be managed, but it is a long-term process. During recruitment, it is important to look for individuals whose core values are consistent with those of the firm. The 'consistent application of a firm's core values from everyone in a leadership position' is key to managing retention. What happens when people are faced with irresistible opportunities to go elsewhere ? In these circumstances, it is best, realistically, to offer them help in evaluating new opportunities and their long-term potential. Assisting them to leave with a positive impression may help future business. There are also the potential advantages of using mentors, who form the first and best line of defence in managing retention.

Job sculpting : matching jobs and life interests

Butler and Waldroop[4] have posed the question of why people stay in jobs. Their answer was that it depends on whether the job matches the employee's deeply embedded life interests, or 'long-held, emotionally driven passions, intricately entwined with personality and thus born of an indeterminate mix of nature and nurture'. They did not determine people's skills, but rather the kinds of activities that made them happy, and this often translates into commitment; being good at a job does not necessarily lead to job satisfaction.

They identified eight deeply embedded life interests for people drawn to business careers, and recognised that an employee may have more than one of these :

1. application of technology;
2. quantitative analysis;
3. theory development and conceptual thinking;
4. creative production;
5. counselling and mentoring;
6. managing people and relationships;
7. enterprise control;
8. influence through language and ideas.

'Job sculpting' is the art of matching people to jobs that allow their deeply embedded life interests to be expressed, to increase the chance of retaining talented people. It requires managers to 'play both detective and psychologist', as people may not know, or only be dimly aware of, their life interests.

The key implications of Butler and Waldroop's view are that standardised career development processes, with regular moves and stretch assignments, may miss the mark. Also, the line manager, rather than the HR department, really should know best; job sculpting requires ongoing dialogue between employee and boss, and is best linked to regular performance reviews.

Involvement and organisation effectiveness

Vandenberg, Richardson and Eastman[5] have studied the impact of high-involvement work processes (HIWP) upon organisational effectiveness. The HIWP perspective does not prescribe a particular programme or practice, but identifies four mutually reinforcing attributes which must be broadly focused at all levels of the organisation for involvement to be high :

- the power to act and make decisions about work in all its aspects;
- information about processes, quality, customer feedback, event and business results;
- rewards tied to business results and growth capability and contribution;
- knowledge of the work, the business, and the total work system.

Five clusters of work practices may lead to involvement :

- work design (for example the use of teams);
- incentive practices (for example balancing the individual and the team);
- flexibility;
- training opportunities;
- direction sharing (mechanisms to communicate goals).

The authors found that HIWPs positively influence organisational effectiveness directly through their impact on financial performance (return on equity) by facilitating the direct application of employee knowledge, skills, and abilities to organisational issues. Their influence may also be indirect through the promotion of organisational commitment, job satisfaction and lower turnover.

A key implication of this work is that organisational effectiveness is neither a simple issue, nor about a single practice. It is important to have the right combination of practices, linked together and driven from a common philosophy or overarching strategy.

Telecommuting and turnover

The changing demands of employees, organisations and society and, in particular, the need to enhance employee retention has led to the rapid growth of telecommuting. Guimaraes[6] explored whether there were any differences between telecommuters and non-telecommuters with respect to role ambiguity (lack of clarity on role expectations) and role conflict (incompatibility of expectations), and whether these led to differences in relation to job satisfaction, organisational commitment and staff turnover.

He found that telecommuting arrangements may reduce both role conflict and ambiguity, and that telecommuters may be more satisfied with their jobs, and are less likely to be thinking of leaving their company. They also tend to be happier with their supervisors and more committed to their organisations. However, telecommuting is associated with lower levels of satisfaction with peers and with promotion.

While telecommuting may be seen as a reward in the short run, in order to gain long-term benefits, an organisation needs to carry out a detailed analysis of the business tasks appropriate for teleworking, and select people with the right skills and personalities carefully. Alternatives to telecommuting, such as childcare provision, flexible working and other personnel motivation programmes, need to be considered. Telecommuters should be encouraged to be present at visibility events, such as department meetings. The possible impact on promotion of being away from the office also needs to be made clear at the point of selection.

How people leave an organisation

Lee *et al.*[7] considered the process by which people may voluntarily leave an organisation, and they identified four main paths. They argued that people use 'different, distinct, and systematic psychological processes, or paths, when leaving the organisation'. The key elements in their model (although not every element will be involved on each occasion) are as follows :

1. **shock** a jarring event such as a job offer or merger, which may initiate psychological analyses involved in quitting a job;
2. **script** a pre-existing plan of action, based on past experience, observation, reading or social expectations;
3. **search** a search for alternatives;
4. **image violations** when an individual's values, goals and strategies do not fit with those of the employing organisation, or those implied by the shock;
5. **lower levels of job satisfaction** when people come to feel over time that their jobs no longer provide the intellectual, emotional or financial benefits they desire.

The implications for management of this research are that factors other than job satisfaction can prompt the leaving of a job. More people may leave because of a shock than through job satisfaction, and different paths take different lengths of time; those that are initiated by a shock take less time than those initiated by lower levels of satisfaction. If a manager knows which path an employee is following, he or she may have more time to offer an appropriate response, and knowledge of common scripts may provide information about who will leave quickly. While managers may not be able to control many of the external shocks that may prompt someone to leave, they may be able to develop systems that allow them to respond quickly (for example with an offer of telecommuting). Managers may also be able to focus on anticipated events before they happen.

Why people leave : violating the psychological contract

There has been considerable recent interest in the concept of the 'psychological contract', which Turnley and Feldman[8] have seen as consisting of the 'beliefs employees hold regarding the terms of the informal exchange agreement between themselves and their organisations'. The expectations which inform the psychological contract may be derived from two principal sources :

- interactions with organisational representatives (such as at recruitment and in early socialising experiences in organisations);
- perceptions of the organisation's culture.

Turnley and Feldman's particular focus was on the impact of psychological contract violations which may follow either 'reneging' (knowingly breaking a promise), or 'incongruence' (different understandings of what the employee has been promised). Such violations are more common in a period of change. According to control theory, employees initiate an attitudinal or behavioural response whenever they perceive a discrepancy between what they were promised and what they have in fact received, and they are motivated to eliminate or reduce such imbalances.

The authors considered the following potential responses to such violations :

- **exit** the finding of alternative employment;
- **voice** complaints or appeals to higher authorities;
- **loyalty** willingness to defend the organisation to outsiders;
- **neglect** for example lateness, doing personal business at work, and wasting time.

In addition, they considered the impact of a number of 'situational moderators' on psychological contract violations :

- the availability of attractive employment alternatives;
- the extent to which the violations might be justified;
- the degree of procedural justice in the organisation's decision making practices.

They found that employees with higher levels of psychological contract violation are more likely

- to attempt to exit their current organisation;
- to have voiced their displeasure with organisational practices to upper management;
- to have neglected their in-role job performance.

Also, employees with higher levels of psychological contract violation were less likely to be loyal to the organisation in representing it to outsiders. Psychological contract violations were most strongly related to measures of exit and loyalty, and more weakly related to voice and neglect. In addition, managers in firms which were downsizing and restructuring experienced higher levels of psychological contract violation than did those in international business, or those making the transition from school to work. Restructuring and downsizing also significantly, and negatively, impacted on perceptions of psychological contract violations regarding opportunities for advancement.

The research demonstrated that psychological contract violations may result in behaviours that are damaging to organisations, especially in times of mergers and restructuring, which are precisely those times when flexibility and commitment are most required.

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STRATEGY AND ORGANISATION

Decline and Renewal

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This article reviews a number of recent contributions to the literature on corporate decline and renewal.

Ferrier, Smith and Grimm, in a substantial recent piece of research (see reference 1, pp 372–388), have examined why industry leaders lose market share and eventually become dethroned by challengers. Their research approach was based on 'Austrian' economics, which derives from the work of Joseph Schumpeter, who believed that all industries were subject to periodic gales of creative destruction. As a result, market dominance was likely to be impermanent at best and, indeed, as Ferrier, Smith and Grimm then reminded us, studies of market share leadership over the years have tended to support the notion of transitory market dominance. For example, a study in the early 1980s found that in only 39% of the industry segments studied were the market leaders in 1950 still the leaders in 1975 (see reference 1, p 372). In reviewing the literature derived from industrial economics and from Austrian economics, Ferrier, Smith and Grimm derived certain hypotheses about the relative success rates of incumbents and challengers. They subsequently tested these by looking at matched pairs of industry leaders and challengers in 41 industry sectors over a seven-year time period.

The research results were revealing. The authors set out to test the proposition that the level of competitive action, that is, the number of new competitive moves that a company undertook, equated to its competitive aggressiveness, which, in turn, acted either to lower market share erosion or, in cases where challengers exhibited a greater level of competitive aggressiveness, to increase the risk of dethronement. They supposed that industry leaders that had achieved good performances in the past would succumb to competitive inertia and therefore be less aggressive than challengers. Conversely, the more competitive moves a company undertook, the more it would learn about what worked and what did not work. This, in turn, would lead to high levels of activity and increase the likelihood of success. Their research supported this hypothesis, demonstrating that high levels of competitive activity tended to lead to superior company profitability. This finding, we may note, tends to contradict Michael Porter's original portrayal of attractive industries as ones which were often dominated by a few large companies with stable market shares.

It might seem axiomatic that successful companies are likely to be those that are capable of launching initiatives more quickly than their competitors. However, Ferrier, Smith and Grimm also pointed to the dangers of so-called 'action repertoire simplicity'. The notion here is that companies that undertake a broader set of actions covering product quality, price, style, and so on are more likely to be successful. Paradoxically, organisational success can often provoke long-run organisational decline.

> *'A firm that carries out a narrow, simple range of actions may be exploiting a relatively simple resource base. By contrast, a firm that carries out a broader set of actions may have a more complex resource base that confers multiple advantages.'* (reference 1, p 375)

This research stands in contrast to the work carried out by McKinsey and others[2] on successful German Mittelstand companies, which pointed to simplicity not only in their operations but also in their strategy as being one of the key reasons for their superior performance.

Why good companies go bad

An interesting counterpoint to the study by Ferrier, Smith and Grimm was a recent article by Sull (see reference 3, pp 42–52). Sull's contention was that the reason why once great companies were dethroned (to use Ferrier, Smith and Grimm's term) was not that they suffered from paralysis or the inability to perceive the threat. Rather, they succumbed to what he termed 'active inertia'. To put it another way, they did lots of things but not necessarily the right things. To demonstrate his point, Sull discussed examples of well known companies that had fallen from grace, for example Firestone and Laura Ashley.

Firestone was plunged into a crisis following the launch of the radial tyre in the USA by Michelin, a move that was widely forecast and, indeed, anticipated by Firestone. In fact, Firestone was able to respond quickly to the new situation, but, while the response was quick, it was, as Sull pointed out, far from effective. Essentially, Firestone went over to the new radial tyre, but clung to the old ways of production, and failed to take the necessary action to reduce capacity and introduce new working practices. It held to a recipe for doing business which was buttressed by an extremely strong culture and a set of values based on long-term relationships with customers, employees and partners. However, none of these characteristics, staple virtues of successful companies in a myriad of management books, was enough to save Firestone, which was eventually acquired by its Japanese competitor Bridgestone in the late 1980s.

Laura Ashley, the once great producer of women's apparel, also suffered decline after the death of its cofounder in 1985. As Sull has pointed out, there have been no shortages of rescue plans at Laura Ashley. Attempts to inject fresh talent from outside have not been successful, and indeed the organisation has been through seven CEOs in a single decade (see reference 3, p 45).

Sull believed that he had identified four hallmarks of active inertia which explained not only why companies first become successful, but also why they subsequently fail :

1. Essentially, he believed that most successful businesses are based on some fresh competitive insight which leads to a new formula which somehow sets them apart from other players in the industry. This formula then becomes self-reinforcing, and, as the feedback from customers and from the environment is so positive, the system which has produced the formula becomes refined, and this, in turn, acts as a framework or mental model for the people who run the organisation. (This concept is, of course, very similar to the concept of dominant logic discussed in *Manager Update* many times before[4].) The point is that these strategic frameworks, which were the basis for the company's original success, eventually blind it to new impulses and opportunities in the marketplace.
2. Similarly, as the recipe becomes successful, the processes which underpin the success become codified into routines. It becomes 'the way things are done' within the particular company. Thus, even when the particular company tries to respond to change, it is held back by its existing processes.
3. These routines and processes are further strengthened by the so-called 'shackles' of existing ties to employees, customers, suppliers, and so on. The investments which the company makes to build up the system that delivers the success then become the main obstacle to changing in response to the new set of circumstances. Sull discussed several examples of companies that have been constrained in their ability to make necessary changes because of the entrenched position of key employees or commitments made to distributors.
4. Finally, the values which underpinned the companies' original success become fossilised, as dogma and belief in simple, but essentially transient, concepts, for example the importance of decentralisation, prevent the companies from making the necessary changes in time.

Sull cautioned companies in the same situation as Firestone and Laura Ashley not to succumb to mindless activism. In contrast to Ferrier, Smith and Grimm, he did not place his faith in the sheer number of competitive actions as such, and neither did he advocate radical revolutionary change, as a revolutionary shock can sometimes prove fatal to the company as a whole. Goodyear reportedly adopted a more incremental and gradual approach to strategic change which attempted to acknowledge, to a certain degree, its long-standing commitments to workers and communities. This contrasted with the abrupt, but ultimately fruitless, actions of Firestone's new CEO in the 1980s, who, in an effort to save the company from bankruptcy, severed existing ties and disposed of many of the company's more profitable lines of business.

Sull's hero in all this was clearly Lou Gerstner, the CEO brought in from outside to take the helm at IBM during the most critical period in its history. Sull praised Gerstner's attempt not to 'slash and burn' and split up the company, or ape IBM's more nimble Silicon Valley competitors, but rather to build on IBM's core values and its reputation for stability and responsibility whilst moving the company into a world of networked computers :

> *'Active inertia exists because the pull of the past is so strong. Trying to break that pull through a radical act of organizational revolution leaves people disorientated and disenfranchised, cut off from the past but unprepared to enter the future. It's better for managers to respect the company's heritage and they should build on the foundations of the past even as they teach employees that core strategic frames, processes, relationships and values need to be recast to meet new challenges.'* (reference 3, p 52)

On balance, there may be more sympathy for Sull's approach than for the activist philosophy supported by the work of Ferrier, Smith and Grimm. Nevertheless, in reality, Sull's prescriptions will also not get us very far. It is relatively easy, *in retrospect*, to distinguish successful from failed strategies and change processes. The trick, as Gary Hamel and others have ruefully pointed out, is to provide a theory which will enable us to predict *beforehand* which of these approaches is likely to be successful. We do not know whether Firestone would have been successful if it had adopted Goodyear's more gradualist approach (or, indeed, whether Goodyear would have continued to be successful had it adopted Firestone's more radical approach). It is not altogether clear why the same forces which acted in the case of Firestone to prevent successful change apparently facilitated a more gradual and effective transition in the case of Goodyear. We are also not in a position, even more than ten years after the start of its decline, to be able to diagnose with any great accuracy what the main problems have been with Laura Ashley, and, more importantly, to propose a way of addressing its problems which would be manifestly superior to the attempts made so far.

Marks & Spencer : a case study in corporate crisis

In Graham Beaver's article[5] on the recent crisis at Marks & Spencer, he drew on the work of John Kay, who, in his well known book *The Foundations of Corporate Success*[6], attributed corporate success to the possession of the following so-called 'distinctive capabilities' :

- reputation;
- innovation;
- architecture;
- strategic assets.

Kay's view, as echoed by Beaver, was not that Marks & Spencer was suffering a crisis because its management did not move with the times. Rather, it was the reverse; in gearing up to compete in the more aggressive retail environment of the 1990s, it de-emphasised the things that made Marks & Spencer distinctive in an effort to focus on short-term profitability. This, in turn, had a corrosive effect on Marks & Spencer's relationships with its suppliers on the one hand, and its staff on the other hand. To this could be added the temptation to diversify into areas which were outside Marks & Spencer's core capabilities (for example the sale of furniture in its stores), and the unseemly boardroom wrangles at the top of the company. (By the same token, it is not easy to see why Marks & Spencer should naturally have been successful at diversifying into food while the skills necessary for retailing furniture were beyond them.)

Beaver concluded that, as far as retailers were concerned, the possession of a brand is no longer the basis for a sustainable position. Only when that brand advantage is combined with systems and processes for the superior delivery of products and services will the position be sustainable. He contrasted the different fates of the fashion retailer Next, which had positioning skills but no underlying distinctive capabilities, and Tesco, which, over a period of almost 20 years, built up not just a brand but also a distinctive delivery system.

Beaver maintained that many change programmes failed because of the threat they posed to individuals in the organisation, and that even the threat of imminent disaster was often insufficient to create the conditions necessary for significant change. Meschi and Cremer[7], in their study of a French electrical engineering company going through a major process of corporate renewal, maintained that one of the main problems facing companies in their bid to move from one recipe to another was that corporate renewal was an inherently risky process and, at least in appearance, more risky than preserving the status quo. In their investigation of the French company, they identified significant resistance to the corporate renewal process from individuals who believed that the process was hazardous because it destroyed the company's existing competitive advantage rather than recreating or institutionalising new core competencies. This finding appears to be in line with population ecology in a school of writing on organisations which held that attempts at radical change invariably increase the probability of failure.

Survival in e-commerce

I recently discussed the work of Hagel and Singer in *Manager Update*[8]. Their thesis was that all industries are now in the process of restructuring or, rather, disaggregating. In many industries, they maintained, we shall see three types of company emerging :

- **Companies which provide a customer interface** These will compete through establishing economies of scope, offering the broadest range of goods and services, and capturing a large customer base.
- **Companies which provide essential back office processes and industrial systems** There will be relatively few of these, as economies of scale are likely to be critical.
- **Companies which specialise in the development of new content** It is likely that small companies, start-ups and networks will be prevalent in this area as such organisational entities are likely to be the most creative, and there are fewer economies of scale in this type of organisation.

The implications of this disaggregation, as I noted, are really quite profound. Evans and Wurster have now further developed this approach (see reference 9, pp 85–94). They believe that the first generation of electronic commerce is now rapidly coming to an end. The major land grab to establish a piece of territory in cyberspace is giving way to a different business logic with the emergence of a new type of company which is likely to establish dominance on the Internet. The new giants of the e-commerce world will be specialists in navigation. Just as department stores, in the old 'bricks and mortar' world, simplified the process of a search and in the process allowed businesses the opportunity, through the exploitation of consumer search costs, to build a sustainable competitive position, so these new navigators, by providing consumers with rich information and choice, will quickly seize the high ground. As a result, they will also sequester most of the profit potential in consumer product businesses. Amazon.com for example, which is best known as an online bookseller, has recently transformed itself into a navigation site by broadening its offerings away from its existing books and CDs towards other consumer goods. Evans and Wurster, who work for the Boston Consulting Group, believe that the key to navigation lies in three dimensions :

- **Reach** This is essentially about the number of customers a business can reach and the number of products and services it can offer.
- **Affiliation** This is about the interests which the business represents, and in particular whether the company sees itself as representing the interests of the producers or the customers.
- **Richness** This is the amount and level of detail of information about its customers and products which a business gathers and is able to process and deploy.

Evans and Wurster speculated that a few large portals on the Internet will expand across industry boundaries taking in an ever broader customer base. As they become broader, they will also switch their affiliation towards customers, providing them with the best information about products and services and, in the process, commoditising many of the businesses supplying to them. Customers will reward access to good and objective information about suppliers with their loyalty, which will also enable the navigators to accumulate data about the buying habits of their consumers, which in turn, will create more value.

Evans and Wurster saw the prototype for this process already happening in the airline business, in which Sabre, originally a marketing arm for American Airlines, has now developed as an independent navigation company with a valuation nearly twice as high as that of its parent. Similarly, the value at its public offering of Priceline.com, an internet auction site specialising in perishable goods such as travel bookings, was higher than the combined values of United, North West and Continental Airlines.

Mirroring Beaver's contention that successful retailers will build both a market position and also a set of distinctive processes, Evans and Wurster believe that the winners will be those companies that already have the existing processes in place and simply have to transfer them onto the Internet. Thus mail-order companies such as Lands End have managed the transition to electronic commerce successfully because they already had back-office and fulfilment systems designed for remote delivery.

How can producers and single-category retailers defend their position ? They can respond by turning themselves into a navigator as well, but this will pose all kinds of problems, not least of which will be the obligation to source and distribute competitors' products. Moreover, it is likely that there will be first-mover advantages, which would make this type of response less successful. Similarly, it is unlikely that they will be able to emulate the type of affiliation and customer loyalty which the larger navigator sites will be able to develop. Evans and Wurster recommended competing on richness, but not so much on rich *customer* information, which is likely to be the preserve of the navigators as much as it is of the producers, as on rich *product* information, which is one area where the producers have some advantage over the navigators. Thus, by developing information-rich sites with specialised content, they can hope to counter the breadth (and superficiality) of the navigator sites. Such rich product information strategies will work well, they maintain, where the producers have strong brands, based on experience and values rather than on some objective technical superiority. Thus a navigator such as Microsoft CarPoint, which allows customers to compare and select alternative car models, can attract customer loyalty on the basis of reach and in the process commoditise the car business. However, a company such as Morgan Cars, which sells cars not so much on product specification but on reputation, image and aura, could respond by creating its own Web site that offered, for example, potential buyers the opportunity to customise their products online, go on a virtual factory tour, and even periodically view their new car as it was created in the factory.

The implications of this are quite profound, as Evans and Wurster recognised. Probably the only way in which existing businesses can respond is to separate out the new e-commerce venture. Alternatively, if the incumbent wishes to compete on the basis of the richness of its customer and product information, then this may require a complete corporate transformation of the type mentioned by Meschi and Cremer :

> *'… the kind of re-invention that Schwab undertook when it halved its brokerage fees, committed to navigation as its business definition, and started selling competitor's products; but then Schwab – like Ford, like Sony – has a history of re-inventing itself. For many incumbents, their first attempt to re-invent themselves may also be their last.'* (reference 9, p 94)

Bringing Silicon Valley inside the company

One way to avoid corporate stagnation and circumvent the bureaucratic decision making processes which typically defeat innovation in established companies is to try to establish an internal market within the organisation, as Gary Hamel advocated in a recent article (see reference 10, pp 71–84).

Hamel's point was that, in most large organisations, ideas generally fall foul of a process of resource allocation which owes more to Soviet-style central planning than it does to any form of corporate innovation. He contrasted this with Silicon Valley, which, as we know, is not a company but an area with a concentration of innovative companies. It operates on the principle of resource attraction rather than resource allocation, that is, if an idea is seen as having merit, then it will attract the attention of venture capitalists. To put it another way, in most large companies, you only need one person somewhere in the hierarchy to say 'no', whereas in Silicon Valley you only need one person in one of the range of possible financial institutions to say 'yes'. Large companies, Hamel perceived, are too risk averse; they spend too much time focusing on internal efficiency and not enough time focusing on corporate innovation. Moreover, in most companies, the people who get to the top are usually the least creative and the most committed to the established status quo.

Most companies smother the discovery of new ideas by applying the same hurdle rates to all levels of investment. The eager young entrepreneur who wishes to have access to a few hundred thousand dollars to try out a business idea thus has to make the same case as a senior executive risking tens of millions of dollars. Hamel contrasted this with the attitude of venture capitalists in Silicon Valley. They typically invest small amounts, look for the upside (as opposed to the downside risk which so occupies the minds of the management in large companies), and never subject their business plans to financial calculations because such calculations are based on forecasts which are often 'a delusional view of reality' (see reference 10, p 80).

Moreover, this process does not stop with *capital* allocation, either. As Hamel pointed out, the process of talent allocation in innovative companies is usually much less formalised than capital allocation. Successful companies, he believed, make it easy for key employees, talented workers, to move from established parts of the business to new, developing areas. They tear down the barriers which prevent people from moving to jobs which fire their imagination. Instead of trying to tie key employees in forever, they embrace the principle of talent mobility and learn how to turn it to their advantage.

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ACCOUNTING AND FINANCE

Cost Management

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The focus of attention in this article is upon the implementation of target costing and the evidence that is now coming to the fore on the advantages and disadvantages of adopting activity-based costing.

Both of these are important in the cost management arena. Whereas activity-based costing (ABC) has an important potential contribution to make in the management of product costs that relate to the manufacturing stage, a large number of cost commitment decisions are made during the planning and design stages for new and redesigned products and services. As Innes[1] has identified, some organisations have found that more than 70% of their costs are committed during the design process. Target costing is ideally suited to such purposes.

Implementing target costing

A well documented shortcoming of traditional costing is that it assumes that price is a function of cost. This is one of a number of weaknesses that have been identified since the attack on traditional management accounting mounted by Johnson and Kaplan[2] in 1987. The Japanese approach to management accounting has been well documented, most notably since Hiromoto's article[3] in 1991. In particular, he provided an excellent introduction to the alternative approach of target costing.

Target costing is a comprehensive approach that is designed to reduce costs, and it begins even before there are any plans for new products. It entails the examination of *all possible* ideas for cost reduction at the product planning, research and development, and prototyping phases of production. Furthermore, it is held out to be not just a cost reduction technique, but also part of a comprehensive strategic profit management system.

Target costing involves the following steps :

1. Determine a target market price that is based on marketing factors, at a level that will permit a company to achieve its desired market share and volume.
2. Deduct the desired profit from the market price to determine the maximum allowable, or target, product cost.
3. Make product decisions on the basis of this target cost, which is not the actual cost.

Target costing thus entails working backwards from a target competitive price to a target cost, at a specified demand level, which then becomes the goal to achieve. This target cost then needs to be evaluated in the light of required inputs. In other words, the 'top down' target cost is compared with a 'bottom up' view.

The target cost is simply the difference between the estimated sales price and the target profit :

$$\text{target cost} = \text{estimated sales price} - \text{target profit} .$$

The estimated sales price is viewed as being the starting point in determining the target cost. This entails considering, for each product, the following :

- the characteristics of the expected consumers and target market;
- the product lifecycle;
- the desired and potential sales volumes;
- competitors' strategies.

To date, target costing has attracted considerable attention, but what is noteworthy is its broader emergence as a tool for assessing product profitability. Cooper and Slagmulder[4] proposed a three-step process based on their observations of the following seven companies :

- Isuzu Motors Ltd;
- Komatsu Limited;
- Nissan Motor Corporation;
- Olympus Optical Company Ltd;
- Toyota Motor Corporation;
- Sony Corporation;
- Topcon Corporation.

They found that the target costing practices differed within each company, but they identified a common underlying approach that they proposed as a road map for implementing target costing systems. This road map constitutes a process with the following three parts :

- market-driven costing;
- product-level target costing;
- component-level target costing.

Market-driven costing

Market-driven costing focuses on customer requirements and uses the concept of allowable cost to transmit the competitive pressure of the marketplace to the company's product designers and suppliers. Market analysis is absolutely critical, and Cooper and Slagmulder broke this part into five steps :

1. setting the company's long-term sales and profit objectives, highlighting the primary role of target costing as a technique for profit management;
2. structuring the product lines to achieve maximum profitability;
3. setting the product's target selling price, that is, the price at which the product is expected to sell when launched;
4. establishing the target profit margin that the company must earn on the product to achieve its long-term profit objectives;
5. computing the allowable cost by subtracting the target profit margin from the target selling price.

Product-level target costing

In the product-level part of the target costing process, the focus of attention is upon finding ways to develop products that satisfy the company's customers at the allowable cost. It is not always possible for the product designers to do this, and so attention is paid at this stage to increasing the product's allowable cost to a target cost that the company can reasonably expect to achieve, given its capabilities and its suppliers. Cooper and Slagmulder broke this part of the process down into three steps :

1. setting the achievable product-level target cost;
2. disciplining the target costing process to ensure that the target cost is met where feasible;
3. keeping the product's cost at the target level without sacrificing functionality and quality by using value engineering and other engineering-based cost reduction techniques.

They illustrated in practical terms how the target costing process could be translated down to the product level.

Component-level target costing

The above is a prerequisite for the third part of the overall process, component-level target costing. This is seen as a key element, because its focus of attention is upon transmitting the competitive cost pressures faced by a business to its suppliers. This is critical for those companies that are horizontally rather than vertically integrated, and which therefore purchase a significant proportion of their materials and parts from external suppliers. Cooper and Slagmulder used Toyota, the third party suppliers of which are responsible for approximately 70% of the parts and materials required to produce the company's cars, as an illustration. Such a high level of dependency on externally supplied items makes supplier relations extremely important to such a company's success.

There are three steps in the component-level part of the target costing process :

1. decomposing the product-level target cost to the major function levels (for example, in a vehicle, the major functions would be the engine, transmission, cooling system, and so on; in simple terms, the major functions are the subassemblies that provide the functionality that enables a product to achieve its purpose);
2. setting component-level target costs;
3. managing suppliers through appropriate selection, and rewarding those that find creative ways to reduce the costs of the components that they supply.

For anyone requiring a very pragmatic review of target costing, there is a recent book by Robinson[5] that is intended for both financial and non-financial managers. It explains the techniques involved in target costing, and outlines the key principles of cross-functional co-operation. A chapter is devoted to target costing practices within various industry sectors.

Success and failure of activity-based techniques

A review of the extensive UK activity-based costing research literature (see, for example, references 6–15) shows that many companies have not necessarily obtained the benefits that were expected from their activity-based costing initiatives. Until recently, the reasons for this were the subject of considerable speculation, but the empirical research to substantiate it was lacking. Recent research by Friedman and Lyne[16] has now redressed the balance. They investigated the long-term consequences of implementing activity-based techniques by analysing six UK companies over an eight-year period. Originally, 12 companies were studied, but six of these were excluded because they abandoned their ABC initiatives.

Friedman and Lyne identified many common themes in the experiences of the six companies that they studied. They made it clear that these should not be seen as being general rules for success and failure, but they considered them to be important features that anyone attempting to implement activity-based techniques should keep in mind. The features that had contributed to success were the following :

- There was a compelling business need for adoption, rather than the use of activity-based techniques just being considered good practice in principle.
- Managers could see tangible benefits at an early stage.
- There was support from senior management in both the operating and the parent companies.
- There was broadly based support throughout the company, which normally had to be created by those implementing activity-based techniques.
- Activity-based techniques were embedded within the organisation structure or procedures.

Friedman and Lyne also reported on those features that had been the cause of partial failure or had reduced the success of the activity-based techniques that were being implemented. They argued that the following features, not necessarily exclusively but in conjunction with other contextual factors, led to some degree of failure :

- Key individuals, not necessarily those in senior positions, but those actively involved with implementing activity-based techniques, departed.
- There was a lack of sufficient resources, usually in the form of suitable staff.
- There were delays, which often contributed to failure as well as being a symptom of it.
- There were technical problems, such as difficulties in obtaining data from other systems, and problems in carrying out reliable activity analysis in rapidly changing organisations.
- There was initiative overload, because too many initiatives were undertaken at one time or other very large initiatives took too many of the available resources.
- There was resistance that typically was not direct, but more a case of failure to support initiatives and unwillingness to participate in them fully.
- Implementation was attempted at an unfavourable time.

Gering[17], in the last of a series of four articles on ABC, also identified ten 'lessons learned' in implementing ABC :

1. Capture the attention of top management, who will need to support the substantial change that is likely to be required.
2. Do not 'shoot the customer' by following the immediate temptation to cut unprofitable products or services when the first ABC results come in. Rather, multifunctional teams should be set up with the target of finding ways to make the customer or product successful.
3. Decide on the form that ABC will take, that is, is it to be a one-off project, or part of a major implementation programme ?
4. Supplement the ABC measures creatively where appropriate.
5. Be careful in costing bottlenecks, that is, be aware of the impact of capacity on the results.
6. Challenge managers who believe that their costs are fixed.
7. Calculate costs top-down and bottom-up. The top-down approach takes the accounting costs associated with a process and simply divides the one by the other. The bottom-up approach examines the steps and calculates the time and resources needed on an activity-by-activity basis. In effect, the bottom-up approach makes the parameters transparent and helps in the separation of value-added and non-value-added activities. The top-down approach acts as a crosscheck that links the numbers with the accounting system.
8. Account for the cost of capital (reviewed recently in *Manager Update*[18]).

9. Use multifunctional teams.
10. Do not underestimate the need for managing change.

With the widespread hype and apparent adoption of ABC in the late 1980s and the 1990s, doubtless much more 'evidence' will emerge on its relative advantages and disadvantages. Given the prominence that ABC has received in the literature, this will certainly be welcome.

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