

# Manager Update

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A quarterly summary of topical management ideas, focusing on four key issues.

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## Manager Update

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**Challenges in value and risk management**

*Roger Mills, professor of accounting and finance at Henley Management College.*

Recent research shows that many companies have experienced sharp declines in share prices, prompting queries over how one identifies the sources of value in a business and how to minimise risk. This article looks at:

- the causes of value shifts;
- how to implement enterprise-wide risk management; and
- the contribution made by corporate reputation, governance and responsibility.

It is essential to safeguard against the unpredictable, too, so a comprehensive and integrated system of risk management will help to protect the company from dramatic changes in value.

## MARKETING

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**Power conflict and control in distribution channels**

*Susan Foreman, professor of marketing at Henley Management College.*

It is vital to ensure an effective flow of information and materials in an organisation, but this is very complex. New research suggests that:

- distribution channels are best controlled through focusing on relationships between members and companies; and
- firms need to act in their own interests and those of their partners.

The author deals with the issues of channel communication, opportunism, power, and conflicting relationships, and examines the issues that are most important when considering this subject.

## HUMAN RESOURCES MANAGEMENT

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**Why do change efforts so often fail?**

*Richard McBain, director of distance learning programmes at Henley Management College.*

Change is increasingly prevalent and managing it needs to be a core competence. So why is it that so few change programmes succeed? The article examines:

- how to sustain an organisational change;
- the theory behind complexity and change; and
- the role of emotion, mergers and acquisitions, and leadership.

No single factor is solely responsible, and all organisations and leaders need to look closely at the issues to decide what they can do to ensure their own change strategies are successful.

## STRATEGY AND ORGANISATION

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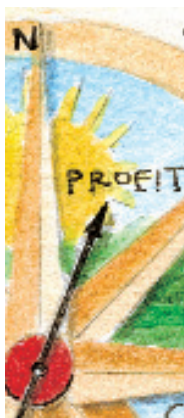
**New perspectives on strategy**

*Ian Turner, professor of management studies and director of graduate business studies at Henley Management College.*

Strategy changes constantly, but is it necessarily the case that old models are defunct? Do new approaches have much to offer the globalised business world? These theories include hypercompetition and sustained competitive advantage. The author suggests ways to execute strategy most effectively:

- adopting a distinct business model; and
- creating an 'office of strategy management'.

This will all help strategy, old and new, to be implemented smoothly and be most effective for the company.



# Challenges in value and risk management

How does one identify the sources of value in a business? How, indeed, can value be measured? **Roger Mills**, professor of accounting and finance at Henley Management College, thinks that the answer may lie in an approach linking traditional financial measures with measures of reputation and relationships. Accepting this new approach clearly influences existing theory on maximising value and reducing risk.

Over a five-year period, every CEO can expect to experience a sudden jump or decline in stock value

Much of the literature on managing for value, or value-based management (VBM) has traditionally focused upon growth and the improvement of performance. More recently though, the subject has attracted negative attention. A recent study by Deloitte revealed that over the last decade almost half of the 1000 largest global companies suffered declines in share prices of more than 20% in a one-month period, relative to the Morgan Stanley Capital International (MSCI) World Index.<sup>1</sup> By the end of 2003, about one quarter of these had still not recovered their lost market value. Another quarter took more than a year for their share price to recover.

Such stock price declines can, of course, have a disastrous impact on a company. Two major questions on the minds of all chief executive officers (CEOs) and boards of companies are:

- what are the most important risks to focus upon? (That is, what factors could bring about such stock price deterioration?) and
- what can be done to manage and mitigate such risks and can any particular framework really help?

## Causes of value shifts

Ernst & Young and Oxford Metrica<sup>2</sup> have examined the significant positive and negative shifts in shareholder value across the largest 1000 global companies over a five-year period, regardless of the root cause of the shift. They identified the events behind the changes in value and classified them into a conceptual framework that provides a taxonomy of the drivers of value and risk. Broadly

speaking, their research indicated that within a five-year period every CEO is likely to face a sudden jump, or decline, in value of the company's stock. Moreover, the impact on value tends to be sustained. Most importantly, CEOs need a detailed understanding of the particular value drivers for their individual businesses and how these may change over time.

They state that most chief executives during their tenure will have:

- a 75% chance of experiencing a positive shareholder value shift of over 30% (relative to the market) in a five-year period; and
- a 40% chance of experiencing a negative shareholder value shift of over 30% (relative to the market) in a five-year period.

Interestingly, there is no pattern for the timing of these shifts; for example, during the reporting of annual or quarterly results and (as mentioned above), these shifts in shareholder value tended to be sustained. Management of the events causing these shifts tends to be 'destiny determining' as they usually defined the likely future shareholder value performance of the company and also had a significant – and usually negative – impact on the reputation of the CEO.

According to the research, strategic alliances, mergers and acquisitions, confidence in management's ability to execute core business processes and investment in research and innovation drove the sudden positive shifts in value. By contrast, the failure to adapt to changes in the business environment, customer mismanagement and poor investor

CEOs need to understand what causes these value shifts

relations were responsible for the majority of sudden negative value shifts.

Since there is no financial or other instrument to 'hedge' these critical value events, the authors argue that it is up to senior management (and the CEO in particular), to take responsibility for and actively manage the risks and opportunities. The Deloitte study also found several common underlying risk factors that resulted in a negative effect on value. Their key findings were that companies must:

- manage critical risk interdependencies;
- proactively address low-frequency, high-impact risks;
- foster a strong ethics and control culture; and
- provide timely information on control factors.

#### *Manage critical risk interdependencies*

The authors found that 80% of the companies that suffered the greatest losses in value were exposed to more than one type of risk. Companies, though, may fail to recognise and manage the relationships among different types of risks. Actions taken to address one type of risk, such as strategic risk, may actually increase exposure to operational or financial risks. Companies, they argue, should thus implement an integrated risk management function to identify and manage these risk 'interdependencies'.

Unfortunately, they say, most firms manage risk in 'silos', often leaving them blind to the relationships between different types of risk. In a 2003 survey of financial services executives by the Global Association of Risk Professionals, more than half said their firm used different systems for operational risk and credit risk. Just 10% said that they had integrated technology covering both sets of risks.<sup>3</sup>

How, though, can managers gain a comprehensive view of such risk interdependencies? The first step is to build an integrated risk management function, positioned above all divisions and departments, that is championed by senior management. This function must identify the key risks across the corporation, understand the connection between them and develop a risk management strategy in accordance with the organisation's risk tolerance.<sup>4</sup>

The authors cite the example of Bank of America, which integrates risk management at

the time business strategies are developed, rather than once these strategies are in place. It looks at risk in a holistic way, the authors say. For instance, when considering risks in the underwriting process, the bank assesses how its business strategy, sales practices and business development practices affect the risk profile of what is underwritten.<sup>5</sup> The authors state that this comprehensive approach not only helps the organisation reduce overall risk but can also lower the costs of risk management.

Honeywell, for example, formerly bought product liability, property and foreign exchange insurance policies separately. By understanding the risk interdependencies of these products, it developed a comprehensive insurance contract with American International Group that 'bundled' several different kinds of policies. This has enabled the company to cut its overall risk abatement cost by more than 15%.<sup>6</sup>

#### *Proactively address low-frequency, high-impact risks*

Some of the greatest value losses at companies were caused by events beyond the control of any CEO, such as the Asian financial crisis, the bursting of the technology bubble and the September 11th terrorist attacks. Companies, though, do need to employ 'stress testing' to plan for such things and ensure that their internal controls and business continuity plans can withstand the shock of such high-impact events. Companies should proactively plan and acquire the strategic flexibility to respond to specific scenarios.

#### *Foster a strong ethics and control culture*

A corporate culture and rewards system that sets a premium on returns without placing an emphasis on control can lead to major value and brand losses. Senior management needs to create a culture emphasising the central importance of ethical behaviour, quality control and risk management. Compensation incentives should be aligned with long-term value creation and brand protection.

#### *Provide timely information on control factors*

A number of organisations in the studies lacked access to current information required for senior management to respond quickly to emerging problems. Companies need to improve their internal information systems and communication mechanisms to ensure that senior management and boards of directors receive accurate, near real-time

Multiple types of risk cause the biggest losses in value

External events may be unpredictable but companies should be flexibly prepared



information on the causes, financial impact and possible solutions of control problems.

Given the frequency of sudden and dramatic share price declines, even the largest companies need to take a serious look at current risk management practices. Companies that take a more integrated and comprehensive approach to risk management are, clearly, less likely to suffer such major losses in value.

### Enterprise-wide risk management (ERM)

Can these challenges and threats to a loss of value be met via the measurement and co-ordination of the management of all of a company's major risks in a manner consistent with the fundamental business objectives of the firm? Enterprise-wide risk management, (ERM), aims to consolidate and integrate both the process by which a firm manages its risks and the risks that are targeted in that process. As a recent study by Deloitte shows, ERM has many different interpretations.<sup>7</sup> However, they tend to have common themes that include the concept of a standard risk management process, an integrated view of all risks and a focus on relating risks to business objectives, for example:

‘a structured and disciplined approach [that] aligns strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value...It is a truly holistic, integrated, forward-looking and process-oriented approach, managing all key business risks and opportunities – not just financial ones – with the intent of maximising shareholder value for the enterprise as a whole.’<sup>8</sup>

While ERM definitions vary, there seem to be fewer disputes about its goals, which as expressed by Deloitte should be to:

- enable the board and senior management to understand how the risks for which they are ultimately responsible are being managed on a day-to-day basis;
- aggregate and integrate/correlate significant risk information up through the firm to create an enterprise-wide view of the firm's risk profile and its ‘in control’ status; and
- equip business and corporate areas with the capabilities to proactively identify, assess and report on the control of their significant financial and non-financial risks at

any time within the context of the firm's business objectives.

With broad objectives defined, an organisation can then move towards a more detailed description of ERM that enables definition of current and target risk-management capabilities. At this stage, discrete projects and initiatives can be defined to close the gaps and move the company toward its goals.

Culp has identified four basic differences between ERM and other less formal, more ad hoc approaches.<sup>9</sup> First, ERM seeks to consolidate exposure types not just across financial risks but also across non-financial perils and hazards. In so doing, ERM seeks to differentiate between core risks and non-core risks and, as part of that process, between those risks in which the firm has some perceived comparative informational advantage and those where it views itself as no better informed than other market participants.

ERM also involves viewing all risks facing a company through some form of common lens. At a more general level, ERM implies the ability of management to transform the chaotic variety of financial instruments into an orderly array of related and in some respects interchangeable tools for accomplishing the firm's overarching risk management goals.

Here, what matters is not whether a risk is best managed through ‘swaps’, ‘insurance’, or ‘trading limits’, but whether the company's resulting enterprise-wide risk exposure conforms to the risk tolerances of its security holders and, in the process, enables the firm to minimise its cost of capital. A third characteristic of ERM is its attempt to consolidate the risk management process across the company's systems, processes, and people. Thus, the ‘enterprise-wide’ in ERM refers not just to a company's view of the risks it is facing, but also the degree of co-ordination and consolidation with which it manages those risks.

Finally, ERM managers are constantly looking for more integrated risk management products and solutions. Capital and insurance markets have been converging over the last decade on both the demand and supply sides. For example, on the supply side, an investment banker might solicit a once unheard-of meeting with the head of a corporation's captive insurance company, instead of its chief financial officer (CFO). Similarly, several reinsurance companies now boast of relation-

An integrated approach to risk management means fewer major losses

ERM integrates risk management processes, the risks themselves, and business objectives

ships with corporate CFOs that are deeper than most of those CFOs now have with their derivatives dealers.

On the demand side, corporations with a growing ERM focus are increasingly seeking one-stop shopping for their risk management solutions, prompting insurance and reinsurance companies like AIG and Swiss Ré to offer earnings per share insurance, and derivatives participants like Goldman Sachs and Lehman to set up licensed reinsurance subsidiaries.

ERM, to its supporters, represents the aspiration to co-ordinate and concentrate the raw materials of strategic risk management, to distinguish 'core' (ie strategic) from non-core risks, and make it an imperative for the highest levels of management to engage systematically in these efforts. ERM, they say, makes exacting and stringent demands for the co-ordinated comparison of risks and their means of mitigation beyond those of previous approaches.

To detractors, though, it prescribes an approach or a framework rather than a checklist of key elements in strategic risk that must be studied. For a more penetrating and potentially practical approach into the realities of strategic risk, we might derive great benefit from examining other aspects of the relationship between strategic risk and value.

### Corporate reputation, governance and responsibility

Looking beyond the financial literature reveals that the issue of value can have much broader boundaries.<sup>10</sup> For example, recent research released by Factiva shows that a good corporate reputation can directly contribute to the value of the business. Investors who base their asset purchases on companies with strong corporate reputations reap on average 1% per month excess risk-adjusted return, according to the study. The results of the research, conducted by MBA graduate students at the London Business School, Investor Dynamics and Factiva, demonstrate that companies that build and sustain a good corporate reputation can gain significant advantages in stock market performance.

How well, though, do companies actually understand their reputation? There is, for example, often a 'communications gap' between how a company perceives its repu-

tation and what its stakeholders believe and experience. For MacMillan et al,<sup>11</sup> the issues of reputation, governance and responsibility have an important part to play in the overall schema of value management. Their work is designed to help directors think their way through the links between corporate governance, corporate reputation and corporate responsibility and suggests that trust is central to competently managing them all.

What, the authors ask, makes for a really successful set of relationships between the company as a whole and its core stakeholders? They argue that the process must contain those elements that are likely to drive the enhancement of intangible assets that constitute the future shareholder value of the firm, and the information necessary to support this needs to be collected in a demonstrably credible way.

MacMillan et al propose and outline the 'stakeholder performance indicator relationship improvement tool' (SPIRIT). This tool provides an analysis, both in positive and negative terms, of the experiences of stakeholders and the outcomes of those experiences with the objective of demonstrating a business's responsibility and reputation to others. The RIT uses data in the SPI and subjects it to regression analysis to understand which of the drivers are most critical in bringing about positive or negative outcomes for a business.

The article by MacMillan et al provides some very significant insights into which issues are essential for value management but which can so easily fall outside the radar scope of management. Conventional VBM frameworks are invaluable in managing for value, but this quest for value management has to develop a broader perspective. The challenge now has to be to try to marry the frameworks that we recognise as being important.

### Conclusion

Several of the world's largest companies have suffered tremendous losses in market value over the last decade. Many failed to correctly anticipate, hedge against, and manage diverse risks. Good risk management has long been recognised as a critical issue for the board and has also attracted more attention in recent times because of new disclosure and listing requirements requiring more explicit information on risks and risk

A good corporate reputation can directly contribute to the value of the business

management practices. Risk management in 'silos' is inadequate.

Creating an integrated, organisation-wide risk management response is essential for avoiding declines in value. Firms adopting a comprehensive approach to risk management in the form of an ERM system need to define their overall risk appetite and model critical interdependencies among different types of risks. They will also need to 'stress test' and invest in new capabilities to increase the organisation's ability to withstand low-probability but high-impact risks. Achieving this is, of course, much easier said than done, but there are many incentives.

For example, Sarbanes-Oxley legislation has been a strong stimulus to improvements in control and information systems. Firms,

though, must move beyond simple compliance to invest in creating a culture that leads employees to act as stewards of corporate value. Business processes and information systems that will apprise senior management and the board of directors in near real time of key risks, anticipated problems, and the firm's response are therefore key.

Risk can never be eliminated, but companies moving beyond traditional risk management to implement a more comprehensive approach to their control environment should be better placed to prevent, minimise, or recover from losses in shareholder value. Furthermore, the effective management of stakeholder relationships is identified as critical. The key challenge now is to develop a framework that includes these and which can be applied by the general manager. **MU**

Firms must move beyond compliance to create a culture where employees are stewards of economic value

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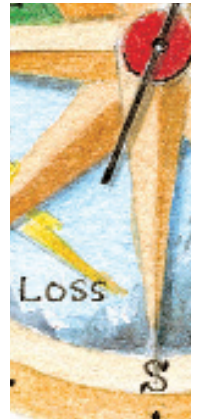
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# Power conflict and control in distribution channels

Ensuring an effective flow of information and raw materials within an organisation is clearly essential. But how can organisations manage the complexity of the various processes this involves? Some of the latest research suggests that distribution channels can best be controlled through a focus on building good relationships, rather than a narrower focus on more technical issues. **Susan Foreman**, professor of marketing at Henley Management College, examines the issues.



Channel management decisions basically concern the effective flows of information, communications, money and goods from raw material to finished product and, ultimately, to the customer. Yet, despite this apparent simplicity, they are often considered complex and difficult to manage. As Sahadev<sup>1</sup> notes '...the optimum integration of a diverse group of independent organisational entities – which is what a typical distribution channel is – is a stupendous task.'

For, hidden in this seemingly straightforward process are technical decisions about channel selection and design, architecture, functions, flows and systems, all of which, of course, must be managed alongside a range of 'softer' issues such as managing partnerships, social bonds, co-operation and power conflict.

Ultimately, a key component in channel management is the management of relationships, since sophisticated well-constructed channel systems and structures can become unproductive and eventually fragment if the relational aspects are not managed appropriately. This Manager Update deals with these particular issues of channel communication, opportunism, power and conflict in relationships.

## Power and channel management

The different members in a distribution channel vary in their skill, capability and motivation, with each requiring inspiration to deliver value to the customer. For some, this can be achieved through education, training and support. For others, though, power and influence are the most important drivers of chan-

nel performance. Students of these relationships identify several different power types. Kotler and Keller<sup>2</sup> call them coercive power (pressure), reward power (financial incentives), legitimate power (contractual), referent power (from being a respected market leader) and expert power (technical or market expertise).

Sahadev, for example, is most concerned with expert power, where one partner has the specialist skill, knowledge or resources that other channel members need or depend on for success. Expert power, he argues, is a longer-lasting form of power than the alternatives, as it is both a positive and sustainable force in the channel. He examines expert power in relation to key aspects of relationship management: co-operation, trust, conflict resolution and co-ordination strategies and states that:

- co-operation tends to exist when the goals of the different firms in the channel are compatible. In this situation, high levels of expert power will lead to co-operation because the partners will appreciate the benefits of the knowledge and skills that the expert partner brings;
- trust, according to Moorman, Zaltman and Deshpande,<sup>3</sup> is the belief that you can rely on another partner in the relationship. Sahadev argues that higher levels of trust develop where experts share their knowledge, information or skills;
- conflict resolution is a necessary component of any relationship, since there will always be disagreements. Here, Sahadev suggests high levels of expertise in a channel lead to a positive problem-solving

Channel management is not easy: it requires both technical decisions and 'soft' skills

Marketing a single, simple channel is now a thing of the past for many

approach which encourages partners to work together and develop positive working relationships; and

- the co-ordination strategies often used by expert partners in a channel have a tendency to be behavioural, rather than output-based. In other words, the experts are inclined to motivate and shape channel behaviour through education and training rather than a more limited focus on sales targets or revenue targets, for example.

Surprisingly, in this research, the link between expert power and trust did not emerge as an important dimension in managing channel relationships. Indeed, intuitively, one would expect this to feature in these relationships. Sahadev's study of distributors in the computer hardware industry did, however, show that there was a link between high levels of expertise, co-operation and collaboration. He suggests, therefore, that channel managers should actively build and develop expertise and become recognised as experts.

The expertise could be a technical or market-based proficiency, but most importantly, must be perceived as of value to intermediaries. The expertise would be enticing to others and increase the levels of communication and co-operation between channel members seeking advice and support. The interaction, therefore, creates a more meaningful exchange than those created by reward and coercion.

### Channel conflict

The concept of a simple, single channel to market is, for many, a thing of the past. In today's markets, multi-channel strategies to reach customers are the norm; in fact, in many instances, customers insist on it. However, Vinhas and Anderson<sup>4</sup> and Myers, Pickersgill and Van Metre<sup>5</sup> show that a multi-channel strategy may not be without its problems. For example, multi-channel strategies can increase costs. As Myers, Pickersgill and Van Metre show, in the banking sector, the introduction of ATMs decreased the cost of individual customer transactions. Yet, by making them easier to access, they were used more often and hence the overall cost of serving a customer actually increased!

In addition to the cost implications, marketing and sales managers working in multi-

channel systems often feel that they have lost control or contact with customers as they are now more widely spread between channels, so power struggles can develop. This can lead to conflict, which in turn has a significant influence on the performance of a channel.

On some occasions, conflict can be a source of creativity and innovation. Yet it can also be destructive and harm relationships, as it generates frustration and unhappiness between channel members. Conflict can develop between individual channel members and between entire channels that compete against each other. For example:

- when customers are similar and there is a lack of differentiation, segments become confused. Here, channels compete (sometimes unwittingly) for the same territory and conflict can occur. In essence, if the same customer groups are targeted, it is almost impossible to avoid conflict between channels;
- conflict can occur when a channel competes with their supplier's direct sales force. This can be problematic if the independent channel feels that they are not competing on an equal footing;
- multi-channel strategies are attractive when customers' purchasing patterns are routine, ie they make similar orders on a routine basis. They become less attractive if they vary the purchasing pattern. If a customer buys a customised product on one occasion, a standard version on another and requires additional service on another, in effect they belong to different segments, thus leading to conflict.
- customers who buy in co-operative groups are also problematic, as the power they can wield leads to a bidding competition between channels and once again, more conflict. This also makes multi-channel strategies less appealing.

While minimising conflict between the channels is possible, it needs insight, management and control. According to Vinhas and Anderson, it is expensive in terms of time, resources, accounting and opportunity costs. Their research showed that reducing the level of conflict firstly means ensuring that the product offering can be differentiated, or that different 'bundles' are offered to customers. Secondly, they must ensure that 'contracts' or 'rules of engagement' are in place from the time channels are established. This helps to avoid the need for expensive conflict resolution at a later stage.

Channel conflict can be a source of creativity but can also generate frustration

Finally, the supplier could put compensation agreements in place to ensure that sales revenue is allocated fairly, regardless of which channel member 'made the sale'. Nevertheless, with or without these strategies, conflict can occur. Vinhas and Anderson found that whilst suppliers do have strategies in place to deal with it, they have a tendency to avoid conflict and collision in channels by reducing the number of channels to market and developing a single channel strategy. Thus, conflict has an important role in shaping and influencing a firm's channel strategy.

### How to guard against opportunism?

Conflict also occurs when channel members act in their own self-interest rather than for the good of the channel as a whole. Some firms try to moderate the effect of self-interest by developing close relationships. Others prefer to protect themselves by developing strong contractual ties. Wuyts and Geyskens<sup>6</sup> specifically compare the nature of contractual relationships with partnerships based on close relational ties. They assess whether these different types of relationship give rise to, or indeed limit, opportunistic behaviour ie self interest with guile. They ask what kind of firm would prefer more detailed, contractual arrangements where the roles, responsibilities, end product and management processes are closely defined? They also ask what kind of firm will select a partner because of their experience in a prior relationship?

Essentially, they are interested to find out which strategy is most effective in minimising opportunism and promoting harmonious and financially rewarding relationships. Opportunism is a barrier to effective relationships and inhibits collaboration. It is, for example, difficult to be focused on meeting the customer's needs when the channel is inwardly focused.

One view, which is intuitively appealing and (according to Wuyts and Geyskens), is supported by research, shows that contractual relationships will reduce opportunism. It may seem like common sense to say that specifying contractual terms will limit opportunities to break promises and agreements. However, contracts cannot cover every eventuality and, inevitably, there are loopholes and opportunities for short term deception. Furthermore, contracts can be costly to create, send signals to a partner that you don't trust them, and be expensive to defend if broken.

Working with close partners is, by contrast, often thought of as promoting an atmosphere of mutual value in the relationship and a closeness that reduces the risk of partners acting opportunistically. Long-term relationships provide mutual benefits, shared resources, capabilities, information and social ties. Clearly, this can lead to business success, an understanding of the 'right' way to behave and awareness of the unwritten 'self-enforcement mechanism' which makes cheating unlikely and monitoring unnecessary.

The authors highlight, however, the countervailing view that relationships that are too close become too comfortable and the desire to innovate diminishes as the partners get locked into a certain way of working and doing business. Furthermore, opportunities to cheat and act opportunistically could increase as firms take advantage to hide behind the appearance of closeness.

Surely, then, the most sensible approach is to combine the two perspectives? Wuyts and Geyskens argue that continuing to work with a close trustworthy partner protects against any omissions or loopholes in the contract. The contract, though, also acts as a counterbalance that ensures that everyone understands their roles and responsibilities.

Yet to some, if you have a contract you do not need the close relationship, as the two could undermine each other. The authors' research, for example, concentrated on small and medium-sized enterprises in a business-to-business context (machinery, electronics and computer equipment) and showed that the combination of the two strategies was indeed more likely to create opportunism than reduce it. If a detailed contract is introduced into a pre-existing relationship, then the partners will question the reasons why contracts are needed. This can create uncertainty and suspicion where it didn't exist before.

Interestingly, these problems seem more prevalent where contracts are introduced into a close two-way relationship, with strong social norms and customs, because the interaction is very personal in nature. The two can be combined if there is a network of relationships. For example, the relationship may be close, but here it is less personal than a simple two-way relationship.

Thus, contracts appear more acceptable and reasonable in a larger network. Ultimately, if there is a dyadic relationship and no network,

Channel members who act for themselves, not for the good of the channel, cause conflict

Introducing a contract into an established relationship is not always easy and may create tension

The interests of firms and of their partners are interdependent

then Wuyts and Geyskens suggest that a relational approach is preferred to a contractual one, to reduce the chances of one partner working independently and in self-interest, rather than for the good of the channel.

Firms in multi-channel networks need to act both in their own interests and with the needs of their partners. They are, as Sahadev

said, all interdependent, and the performance of each depends on the strength of the whole channel. As in any network, there is potential for misunderstanding, miscommunication and conflict. Clearly, though, the channel's ability to meet customers' needs and to create greater value than that of the competition needs co-operation, mutual understanding, commitment and teamwork. **MU**

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# Why do change efforts so often fail?



Most change programmes fail, says **Richard McBain**, director of distance learning programmes at Henley Management College. But why? Which factors lead to the successful implementation of change and which lead to failure? Embracing an emergent approach to change and avoiding directive leadership could hold the key.

Organisations today, it seems, face unprecedented levels of change, and managing such change needs to be a core personal and organisational competence. Successful and sustained change, whether in terms of new goals or improvements in working methods, can be challenging and elusive, though. Surprisingly, given much organisational and individual ability, only one in four or five change programmes actually succeed, according to some estimates (Higgs and Rowland<sup>1</sup> and Burnes<sup>2</sup>). This may be because the models used to understand and manage change are limited.

Change approaches may take a variety of forms: planned or emergent, transformational or incremental, linear versus complex, top-down or bottom-up, and continuous or episodic. This Manager Update reviews recent research into the nature of change and models of successful change. It also examines factors that contribute to the success and durability of change or, indeed, its failure. Failure can stem from a variety of causes, such as a failure to embrace continuous and/or emergent approaches to change, a reliance on top-down planned approaches, and directive leadership styles.

## Sustaining organisational change

In a review of the emerging literature on sustaining organisational change, Buchanan and colleagues<sup>3</sup> have sought to develop a model of the processes affecting change, sustainability and decay. Sustaining change is both context-dependent and a process. This process 'appears to be highly vulnerable, leading to the conclusion that stability is fragile, that decay is more likely', (p201). The authors

identify 10 sets of factors that affect the sustainability of change:

- substantial: perceived centrality, scale, fit with organisation;
- individual: commitment, competencies, emotions, expectations;
- managerial: style, approach, preferences and behaviours;
- financial: contribution, balance of costs and benefits;
- leadership: setting vision, values, purpose, goals and challenges;
- organisational: policies, mechanisms, procedures, systems and structures;
- cultural: shared beliefs, perceptions, norms, values and priorities;
- procedural: implementation methods, project management structures;
- contextual: external conditions, stability, threats and wider social norms; and
- temporal: timing, pacing, flow of events.

In general, a high 'yes' count on all factors will predict sustained change, while a high 'no' count implies delay. The relative importance of each factor depends upon the context. The outcomes of change will depend on their configuration as well as on the interplay of these factors with other internal and external contextual properties over time. However, the literature suggests that three issues are of particular significance: the substance of change, the implementation process and the temporal dimensions (timing, sequencing, pacing) of that process.

## Complexity theory and change

In another recent review of the literature, Burnes<sup>4</sup> considers the explosion of interest

Managing change needs to be a core personal and organisational competence



To survive, an organisation has to transform itself continuously

among management academics and practitioners in the so-called complexity-based continuous transformation model of change to explain the failure of many change projects. The origins of complexity theory lie in mathematical models of weather systems and the theory is also influenced by chaos theory, disruptive structures theory and complex adaptive systems theory. What distinguishes them is the notion that dynamic systems are both non-linear and self-organising. Such systems in the natural world are constantly changing and comprise large numbers of independent yet interacting factors. They seem to operate on the edge of chaos where the laws of cause and effect appear not to apply.

However, order emerges unpredictably from irregular but similar patterns of behaviour through a process of self-organisation, governed by a small number of simple order-generating rules – such rules, for example, govern the appearance of snowflakes or the formation of flocks of birds. Creativity, growth and useful self-organisation are at their optimum when a complex system operates at the edge of chaos. Under certain conditions, self-organising systems may even generate new, more appropriate, order-generating rules when the old ones can no longer cope with changes in the system's environment.

'By reducing the workings of the natural world to mathematical models and simple order-generating rules, complexity theories have an attractive elegance, especially for those of us who seek to understand the complexity of the organisational world' (p. 80).

Thus, the argument is that organisations are like complex systems in nature: dynamic, non-linear systems whose members can shape their present and future behaviour through spontaneous self-organising, underpinned by a set of simple order-generating rules. For organisations, as natural systems, the key to survival is to develop rules that are capable of keeping an organisation operating on the edge of chaos. We can draw a number of conclusions from these arguments:

- organisations, to survive, should transform themselves continuously, or keep themselves at the edge of chaos, through relentless pursuit of continuous innovation;
- organisations based on self-organising principles should explicitly reject cause-and-effect, linear, top-down, hierarchical,

command-and-control styles of management and recognise that large-scale company-wide changes may not be able either to predict or to effect real change; and

- organisations should encourage flexible basic organisational units that permit new organisational structures. To achieve this, they need to allow for the democracy and power equalisation which creates the conditions for self-organisation.

Complexity theory argues that change efforts fail because they often seek to impose top-down, transformational change. Instead, change should be based on a spontaneous self-organising approach, which allows the constituent parts of an organisation to respond in a timely and appropriate manner to environmental changes through continuous innovation. The focus should not be on organisation-wide transformation, whether incremental or radical, but on more local, continuous, forms of change.

Complexity approaches, while offering a telling metaphor for understanding organisations, do not yet provide either a rigorous body of theory or hard evidence to demonstrate their validity. Indeed, questions remain as to whether notions of complexity derived from mathematical studies of the natural world can be applied to dynamic and complex human processes in organisations.

### Negative emotions and ongoing change

Humans may also provide a different type of complexity to the objects of study in the natural world, because of their cognitive and emotional capabilities. While continuous change at the edge of chaos may provide innovation in natural systems, the subjective responses to change of individual members of the organisation must also be taken into account. Unsurprisingly, people's emotional reactions are an important contributor to the success or failure of change attempts.

Ongoing organisational change is an increasingly common experience in the contemporary workplace. It can lead to greater opportunities for growth and development, as well as the increased personal costs involved with negotiating new relationships and skills. Indeed, greater amounts of ongoing change can mean more negative emotional experiences arising from issues relating to workload, personal uncertainty and job insecurity and management behaviour.

Complexity theory argues that change should be spontaneous, not imposed from the top down

In a study of ongoing, rather than episodic change, Kiefer<sup>5</sup> found that:

- the greater the amount of change a person experiences at work, the more negative the emotions that are reported on a daily basis;
- greater levels of ongoing change led to less favourable assessments by people of their working conditions, their personal status and future, and their treatment by the organisation. All of these assessments led to negative emotions;
- negative emotions explain approximately 40% of the variance in withdrawal behaviours, such as intention to quit and neglect of one's work, and 46% of the variance in trust in top management, the company and line management; and
- decreased levels of trust also led to increased withdrawal behaviours.

Management, therefore, must take emotional expressions seriously and not just see them as an unwillingness or inability to change. In addition, the underlying causes of negative emotions need to be understood and addressed and this study identifies a number of everyday causes of negative emotions.

### Continuity and change in mergers and acquisitions

A further issue relating to the perception of change relates to our experience of continuity, whether in individual or social terms. Ullrich, Wieske and Van Dick<sup>6</sup> use a social identity approach to examine employees' reactions to change following a merger. According to this approach, groups develop through a process of comparison when members see themselves similar to other group members and different from individuals outside the group. Members' need for self-esteem extends to the group as a whole, so that group members want to see their group as positively distinct from others. Organisations provide employees with many opportunities for group membership and the creation of social identities.

Organisational identification refers to the way in which strong organisational identity becomes self-defining for a member. The existing research suggests that strong identification with the organisation is generally desirable for the organisation and its members. In other words, employees have more job satisfaction and are more motivated if they identify with the company's goals.

However, the role and value of organisational identification in change has been little studied. Does it energise behaviour towards the goal of organisational change or does high identification lead to resistance to change? Furthermore, by threatening organisational identification and continuity, does the planned transformation of fundamental organisational attributes in episodic change, such as a merger, threaten the very basis by which it could be turned into a success?

The authors studied the subjective experience of continuity in middle managers following a merger that was, in retrospect, considered a failure. It involved two large, similarly-sized organisations in the same industry that became a global organisation with 60,000 employees. The merger led to a new structure that attempted to take advantage of synergies, and involved new business divisions for the core business, non-core businesses co-ordinated by the corporate centre, and new service units structured as profit centres separate from the business units to which they belonged prior to the merger. The key findings focused on two main issues – uncertainty and the symbolic aspects of the merger:

- while the structural changes were seen as modern and sound, the implementation was too rapid, did not involve the middle managers, and resulted in widespread uncertainty. This eroded managers' sense of organisational identification and confidence in the future. In general, while organisational identification was reduced, there was greater identification with business and service units; and
- the symbolic aspects of the merger, such as board representation, the name of the merged company and the design of the logo, as well as symbolic actions from the top, especially by the new CEO recruited from outside the organisation, were all important in terms of their impact on identification.

Thus, a sense of continuity seems key to post-merger identification. Uncertainty can damage this sense of continuity. It leads to lower organisational identification by making personal identity more important, and by frustrating the needs for affiliation and the sense of belonging. The creation of a sense of continuity requires not only the continuation of important characteristics of pre-merger companies after the merger but also the creation of 'projected continuity', which provides a link from the present to the future, in terms

It is desirable if members identify themselves strongly with an organisation

There are four approaches to change that a leader might take, based on the level of complexity

of the subjective belief that the relationship between path and goal is clear and controllable.

The authors challenge the premise that mergers necessarily produce instability, uncertainty and lower organisational identification and that therefore integration has to proceed quickly. Re-organisation and innovation may not be perceived as 'bad' if people can expect some stability after the change and are enabled to see exactly what is going to happen, the authors say.

The development of a sense of collective vision and participative goal-setting can help this process. The role of the leader is, of course, critical. Leaders promote change more effectively when they are also seen as members of the group and their effectiveness may be reduced if their behaviour is seen as significantly different from that of followers.

### Approaches to change and leadership

Higgs and Rowland's<sup>7</sup> research into leadership and change is valuable in the context of considering the factors that lead to change initiatives failing. The authors, in a study of 40 managers in seven different organisations, examined the effectiveness of different approaches to change management and the relationship between leadership, approaches to change and effective change management. They identified four approaches to change, based on the level of complexity and control involved:

- *master* – recognises complexity and seeks a planned and uniform implementation across the organisation;
- *emergent* – adopting low levels of central control, a recognition of complexity and characterised by the use of networks, often informal, innovation and experimentation, and the involvement of groups that may lie outside the mainstream of an organisation;
- *DIY* – involving localised and opportunistic initiatives and a simplistic approach; and
- *directive* – seeking high control and adopting a simplistic top-down approach.

Key findings from this research emerged relating both to the type and scope of change and to the style of the leader:

- an emergent approach is the most effective in high-magnitude changes that have an

impact on a large number of people and multiple parts of the organisation;

- the most effective leadership style both for high-magnitude change and for short-term change is that of 'framing', where the leader is a sense-giver and sense-maker who establishes starting points for change, designs and manages the change journey and communicates guiding principles;
- in long-term change initiatives within organisations facing continuing change, the most effective combination is a master approach to change combined with leadership behaviours that create capacity, by creating an overall framework for change, and by creating individual and organisational capabilities, through coaching and by communication and creating connections;
- approaches to change based on a simplistic model (the DIY and directive approaches) are less effective in most scenarios than more complex models (the master and emergent approaches). An emergent approach is the most successful in most contexts, while the simplistic DIY approach appears to be unsuccessful in any context; and
- the shaping behaviour approach to leadership, involving directive behaviours and a leader-centric focus, can impair the success of an intervention.

This study supports the view that top-down programmatic change based on assumptions of linearity does not work. Recognising the complexity of change is important for the formulation of effective change strategies: change approaches that are linear and simplistic can lead to unintended consequences that are often negative. An emergent approach is strongly related to success in most contexts, although it often arises in the context of a more structured and planned approach to change that is going off-course. In place of the top-down leader-centric model of leadership a more supportive model within a transformational approach seems more appropriate.

### The hard side of change management

Sirkin, Keenan and Jackson<sup>8</sup> argue that soft issues such as culture, leadership and motivation (the focus of much attention in recent years) are not sufficient to explain the success or failure of transformation initiatives. They argue there must also be a focus on hard factors which can be measured, communicated and influenced by organisations. Their

Leaders promote change more effectively if they are seen as members of the group

research with the Boston Consulting Group, involving more than 1000 change management initiatives worldwide, identified four key factors that determine a project or initiative's success:

- duration: the time until the change programme is completed if it has a short life span; if not short, the amount of time between reviews of milestones;
- integrity: the project team's performance integrity; that is, its ability to complete the initiative on time, which depends on members' skills and traits relative to the project's requirements;
- commitment: the commitment to change displayed by top management and the employees affected by the change; and
- effort: the effort over and above the usual work that the change initiative demands of employees.

Executives can use these four factors in a variety of ways: to provide a common language for discussing change, as a quantitative tool to manage it; as a method of assessing the likely success of a change initiative at the outset; as a framework to review the progress of individual projects; and as a means of assessing portfolios of projects and deploying resources between them. The key points from their experience of using this tool are that:

- the integrity of the project team and top-level management commitment to the project are the most important factors;

- project teams need to be well motivated, include the right portfolio of skills, knowledge and social networks, and be led effectively;
- the commitment of people who must deal with the new systems, processes, or ways of working can be built by consistent and timely communication that explains the reasons for, and importance of, the innovation and by the provision of sufficient resources;
- ideally, no-one's workload should increase by more than 10% or the initiative will probably run into trouble as morale falls and conflicts between teams and line staff increase;
- companies should review transformation projects regularly and at least bi-monthly – complex projects should be reviewed more frequently; and
- projects are best reviewed by scheduling milestones that describe major actions or achievements and by assessing their impact.

The four factors that determine an initiative's success can be used in a variety of ways

## Conclusion

This article sets the challenge of identifying why change efforts are often unsuccessful. The current research is addressing this issue in ways that reveal the multi-dimensional complexity of the answer and demonstrates that no single factor is generally responsible. Relevant factors include the nature of change, the context in which it occurs, the way it is managed and the way it is perceived. **MU**

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## New perspectives on strategy

How relevant are old strategy models in a rapidly changing world? Are their assumptions out of date, or do they still have much to offer? And what can new strategy theories offer businesses in a globalised world? This article, by **Ian Turner**, professor of management studies and director of graduate business studies at Henley Management College, reviews established and new strategy theory in order to answer these questions, and suggests that a focus on strategy execution could provide some of the answers.

This article examines the state of strategy today, reviewing the validity of earlier models and assumptions and testing new approaches.

The Austrian economist Joseph Schumpeter is best known for his depiction of capitalism as a dynamic system subject to periodic gales of 'creative destruction' which wipe away established players. These forces are unleashed by innovation and promoted by entrepreneurs, for whom the rewards are high profits. According to Schumpeter, however, competition and imitation limit successful entrepreneurs' ability to exploit their innovations and maintain superior returns over time. Schumpeter's work became especially relevant in the 1990s with the growth of interest in so-called hypercompetition, a concept popularised by the American academic, Richard D'Aveni.<sup>1</sup>

In his view, the business environment would increasingly be characterised by intense competitive pressures, and the assumption that companies could maintain a single enduring source of competitive advantage was no longer appropriate. Instead, firms would need to adapt quickly and build successively smaller and shorter-lived sources of advantage.

This was controversial, opposing at the time the prevailing notions of business strategy popularised by writers like Michael Porter and the so-called resource-based school of strategy. Porter argued that a company could sustain its competitive advantage by positioning itself in a market space and making a consistent series of investments built upon

explicit tradeoffs. Hypercompetition, he argued, was likely a rare occurrence, mostly restricted to high-technology industries. The resource-based school, meanwhile, focused on what it perceived to be more enduring sources of advantage, such as those embedded in the culture and structure of the organisation or the society within which the firm operated.

Many researchers have sought to test if competitive advantage is becoming less sustainable and Wiggins and Ruefli<sup>2</sup> have listed no fewer than 27 such studies. Interestingly, all these studies discovered that over time, the profitability of companies in any industry converges towards the mean, though for the highest-performing companies this convergence process generally takes place more slowly. Whilst these studies seem to confirm the persistence of superior performance over time, there is also support for the idea that even the most successful companies will find their competitive positions eroded by new entrants and their positions eventually supplanted. Maintaining a superior market position over more than 10 to 15 years is, it seems, particularly difficult.

Wiggins and Ruefli studied US companies across a range of industries to investigate whether industry is becoming increasingly 'hypercompetitive', through measuring whether the periods of superior performance have declined over time. They measured competitive advantage using two indicators of firm performance: an economic measure – return on assets – and an accounting measure (essentially the ratio of a firm's market value to the replacement cost of its assets).

A vast increase in competitive pressures would mean firms have to build smaller sources of advantage



They surveyed several thousand companies across 40 industries at the firm and business unit level over a 25-year period, from 1972 onward.

Their results support the hypothesis that over time, superior performers seem to be losing their positions and reverting to average performance more quickly. This phenomenon was exhibited not just in 'hi-tech' industries (although it was more pronounced in such sectors), but also amongst more traditional 'low tech' industries. The results also supported the idea that over time, to sustain advantage, companies are looking for sources of advantage with shorter durability. This, in turn, is leading to shorter periods of alternating superior and non-superior performance. Whilst hyper-competition has probably been induced in some industries by deregulation and general turbulence in the overall environment of the business, the authors speculate that this has probably had no more effect on superior performers than on average performers in any industry.

They believe that the presence of hypercompetitive features across industry sectors may be a function of the increased prevalence of technology as a source of advantage, even in traditional industries, as well as the observation effect of managers observing hypercompetitive strategies in more dynamic sectors.

### Strategy in an era of global giants

Bryan and Zanini's<sup>3</sup> article on global giants may well draw its inspiration from another influential European political thinker, Karl Marx. These authors point to the emergence of a number of companies, including Citicorp, GE, IBM, Microsoft, Toyota and Wal-Mart, which each earn at least \$10 billion in profit every year and have posted a three- to six-fold increase in earnings per year since 1984. Furthermore, the authors speculate that this trend looks set to continue. This phenomenon, which is presented without commentary, could be seen as validating Marx's original prediction about the domination of late capitalist economies by large monopolistic firms.

At the very least, it runs counter to Wiggins and Ruefli's argument about the lack of permanency in competitive advantage. Bryan and Zanini argue that these large companies manage to maintain their dominance by

adding the ability to combine tangible and intangible assets across the whole organisation to their already formidable scale and scope advantages.

They recognise that their profitability is inextricably linked to their large and professional talent pools: the scarce individuals who work for such organisations and are responsible for combining the assets to create so-called novel value propositions. These 'mega institutions' have achieved dominance, in the most part, not through expanding the size of their work force but by significantly boosting the earning capacity per employee. This, the article suggests, would indicate that such companies have indeed created unique business models, which provide them with a level of sustainable competitive advantage.

The main challenge facing such companies, as they grow and attempt to maintain their edge, is coping with complexity. Much of the advantage that they possess comes from co-ordinating and integrating activities within the organisation, across organisational boundaries.

Therefore, the larger the organisation becomes, the greater the costs of co-ordination. Communication overload kicks in and information required to make decisions becomes more and more difficult to find in a timely fashion. How do companies deal with such issues?

The successful ones, the authors say, offset increasing complexity through divesting businesses unable to benefit from economies of scale or scope. By using common standards and approaches across the organisation, the cost of duplication and co-ordination is reduced. Part of the success of such large companies is their ability to identify new models or value propositions and commit resources to them, such as GE's move into finance, which now accounts for 46% of revenue.

Bryan and Zanini conclude that large companies thrive by operating as a single integrated entity, rather than a group of separate businesses. In the past, other models have worked successfully, such as Hanson's financial control model and Virgin's venture capital type model, which are based on much more decentralised approaches to business management and greater responsiveness to local market needs.

But hyper-competition may arise only from increased use of technology

### Strategy and your stronger hand

According to Geoffrey Moore,<sup>4</sup> large companies tend to adopt one of two distinct business models. He applies the first model, the 'complex systems model' to companies like IBM, Cisco and Boeing. Typically, these aim for a customer base in thousands with very large transaction values and relatively low transaction frequency. By contrast, the alternative model, termed the 'volume operations model' favoured by companies like Nestlé, Dell, Microsoft and Sony, is associated with business-to-consumer (B2C) companies whose success depends on multiple transactions with millions of consumers, each at a relatively low transaction value. Disentangling these two business models along the value chain shows the underlying difference between the two.

Most large companies use either the 'complex systems model' or the 'volume operations model'

When it comes to sourcing components for products, the 'complex systems' companies focus on securing the scarcest elements of supply rather than the lowest price, because the sensitive aspect of the business is likely to be timing and the greatest impact on costs likely to occur through project overruns. By contrast, 'volume operations' companies focus on minimising the costs of the most commonly purchased elements, through outsourcing, off-shoring or process technology.

Similarly, the 'complex systems' companies are attuned to adaptation, tailored solutions and products, whereas the volume operations approach to production is likely to be much more deterministic, involving a rigorous focus on statistical process control (eg Toyota).

Moore's conclusion is that the successful companies – like the global giants identified by Bryan and Zanini – tend to have strong preferences towards one of these business models rather than the other. Trying to be ambidextrous imposes a whole new set of challenges and trade-offs which most companies are unprepared to make. This can dramatically increase the cost of communication and integration across the company and reduce sustainable competitive advantage. Thus, when it comes to strategy formulation, companies which operate along the complex systems model tend to focus first on how to differentiate the offerings and then, having determined the source of differentiation, seek to offer the lowest possible cost.

Companies need to stick to one model or the other, though: trying to use both increases costs

By contrast, the volume operations strategists tend to operate the other way round, focusing initially on the most cost-effective offerings and then looking to see how they can differentiate the offer. Such differences in approach are likely to manifest themselves at all levels, because an organisation that has a strong preference towards one or the other model is likely to be populated by individuals who are appointed, developed and promoted because they are aligned to a particular way of working.

Moore says that the best way of resolving the situation is to avoid it in the first place, by not getting sucked into an unfamiliar business model or one for which the organisation is unprepared. One lesson might be to reject the acquisition of companies that operate on a different business model, such as Time Warner/AOL, Compaq and Digital. Moore concedes that this may not be so easy to avoid.

He recognises that with any specific technology, new boundaries are likely to be broken by complex systems enterprises, whilst volume operations companies then follow rapidly behind trying to extract the residual value by, for example, reducing the costs of delivery. Once this happens, the complex systems companies have to advance by creating a further level of functionality and complexity to differentiate themselves.

Disputes over the boundaries of what Moore terms the 'de-militarised zone' between complex systems and volume operations companies are likely to be inevitable, because prolonging the offering and resisting the incursion of commoditisation could be a key success factor for successful complex systems businesses. Nevertheless, as with IBM and the recent divestiture of its PC business, or Siemens' exit from mobile phones, there comes a time when complex systems companies realise that it makes more sense to divest and to invest in businesses which share the same dominant logic.

### Strategy execution

In a recent 10-year strategy retrospective, the periodical 'Strategy and Business' produced by the consulting company, Booze, Allen and Hamilton, placed the concept of strategy execution as the number one conceptual breakthrough. To quote Rosabeth Moss

Kanter, in the most recent edition, 'execution is the "unidea"...It means having the mental and organisational flexibility to put new business models into practice, even if they run counter to what you are currently doing. That ability is central to running a company right now.'<sup>5</sup>

If execution is the most powerful concept in strategy, it appears to be sadly lacking in many organisations. According to a new article by Kaplan and Norton (the originators of the balanced scorecard), as many as seven out of eight companies fail to achieve profitable growth and as many as 95% of a company's employees are either unaware of, or do not understand, their own company's strategy.<sup>6</sup> Kaplan and Norton's solution to the gap between strategy formulation and implementation is the creation of what they call the 'office of strategy management' (OSM). Yet doesn't this sound like what was once called the 'corporate planning department?' No, the authors say, as these old-style planning units focused too much on formulation and often failed to become closely enough involved in ensuring strategy was successfully executed.

The old 'strategy calendar' which they describe, typically exhibited a complete disconnect between the corporate strategy process and other key organisational policies and decisions in HR, IT and finance, for example. Kaplan and Norton believe that the creation of an OSM, which often emerges out of an ad hoc project team involved in the implementation of a balanced scorecard project in an organisation, is key to avoiding this disconnect.

The OSM can take responsibility for communicating the strategy and ensuring that the CEO's communication is effective. It can also facilitate the regular monthly discussions required to monitor performance, ensuring on such occasions that good ideas arising from lower levels within the business are taken into account and the strategy is suitably adapted.

Clearly, the OSM should have primary responsibility for the balanced scorecard and its monitoring. But what about other parts of the organisation that have tradi-

tionally been associated with strategy implementation? If there is an existing strategic planning unit and the creation of a new OSM could lead to confusion and duplication, then Kaplan and Norton recommend merging the two units. In most cases, however, the authors argue for retaining responsibility for specific strategic initiatives in their natural organisational home, eg., customer relationship management (CRM) projects, although separate from day-to-day business should probably best be managed by those with the responsibility for customer service.

The OSM does, however, have responsibility for monitoring performance against project milestones and ensuring that these initiatives deliver according to the strategic plan. The OSM should especially have a co-ordinating and integrating role, ensuring that key processes like planning and budgeting, HR policies and knowledge management are aligned with the corporate strategy and the balanced scorecard performance indicators.

For Kaplan and Norton the OSM should, like any other major function, have direct access to the CEO and in effect, operate as the CEO's chief-of-staff. The authors state that this won't create a large central overhead or an autocratic central planning authority. Such an office, they say, would typically need a maximum of six to eight full-time individuals and could, in many cases, be staffed internally with people who already have involvement in planning within their functional areas. 'Several organisations we have studied have reported that the people assigned to their OSMs do not constitute a net increase in the organisation's headcount'.

In many cases, the evolution of a well-functioning OSM actually helps reduce overall headcount, thanks to the OSM's role in streamlining and focusing management processes, and helping managers eliminate layers of staff engaged in data gathering and reporting. The OSM, however, should be assessed by the value it creates through successful strategy execution, not by whether it can reduce headcount.'<sup>7</sup> **MU**

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As many as seven out of eight companies fail to achieve profitable growth

The OSM can communicate strategy and monitor performance

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- |   |   |   |   |
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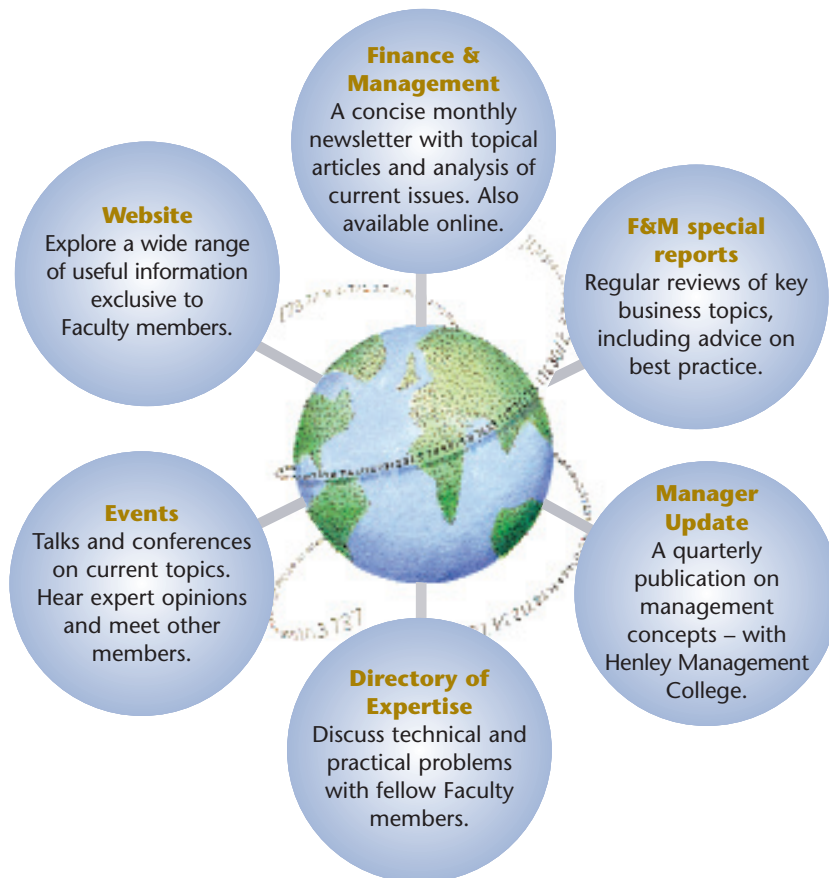
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