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Management Quarterly

A new way to keep ahead

Management Quarterly aims to deliver the basic building blocks in core management disciplines. It is produced in association with Cranfield School of Management. Each issue will usually contain articles on Strategy, Human Resources, Marketing and Finance, with other occasional subjects such as Project Management and Knowledge Management. Over a three-year period this will build up to a comprehensive overview of practical business knowledge, and modern management ideas.

Management Quarterly will :

- Provide a comprehensive grounding in the knowledge needed to operate a successful business.
- Enable the reader to understand current issues and debates in these areas, and distinguish core ideas from current fads.
- Provide a wide ranging programme of CPE suitable for members both in business and advising businesses.

Key points

- Each part will be self-standing and include recommended further reading.
- Writers are selected from Cranfield School of Management and other leading business schools.
- Experts in each field explain and discuss the relevance, practicality and usefulness of key new concepts and ideas, thus enabling the senior executive to keep really up to date.
- A message board is available on the faculty internet site.
- Chartered accountants often have limited reading time. *Management Quarterly* is succinct and the writers will direct the reader to other, and often fuller, expositions on the subject. The programme is no substitute for an MBA but it will follow some of the major threads on an MBA.

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STRATEGY

INNOVATE OR DIE : ASSESSING INTERNAL STRATEGIC RESOURCES

Steven Sonsino, Cranfield School of Management

The topic of strategic resources has been widely discussed in recent management literature. This article explains, with examples, what strategic resources are. It then goes on to explore core competencies, and discusses how a company can use these assets to make the most of its competitive position.

Introduction

> *'To succeed I believe an organisation has to change and adjust before it is forced to do so by external forces. It must reinvent itself and become the very company that could put it out of business before someone else does.'* (Harvey Golub, CEO, American Express, quoted in *Fortune*, 1995)

Before US management guru Tom Peters started wearing shorts on the covers of his books to show how innovative he was, he did something far more profound. He wrote the phrase 'stick to the knitting'. However trivial this soundbite appears to be, there was and is more than a grain of truth in the sentiment. His intention, based on research by McKinsey & Company, was to persuade corporate America, and the book-buying millions who made *In Search of Excellence* (1982) the first management bestseller, to play to their strengths.

Reflect for a moment on the idea of playing to your strengths, and it begins to make sense. How else can a business compete and outperform the competition other than by doing what it is best at ? It is obvious.

However, what are the theoretical underpinnings of the idea of playing to one's strengths ? These are, strangely enough, only now becoming clear, almost 20 years after Peters' exhortation to stick to the knitting. It is really just a question of competency.

Turning the microscope inwards : the resource-based view

Any strategy textbook or marketing manual is full of tools and techniques for analysing markets and for solving the twin problems of acquiring and maintaining market share. While the tools of segmentation analysis or the cash cows and rising stars of the Boston Box, or BCG matrix, can be very useful in the context of a defined, mature or stable market, they may be of little use for ill defined, immature and highly dynamic markets. This converts the task of strategic choice for the long term into a complex guessing game. What is the meaning of market share in a market that barely exists ?

Instead of a market-based view, then, managers must adopt a resource-based perspective. The question to answer here is 'given our current resources or assets, combined with our current skills, capabilities, or competencies, what share of tomorrow's *opportunities* can we take ?'. This question about a company's strategic 'fit' with its market leads in turn to other questions that are equally significant, for example ‘what new competencies do we have to build and how would we define our market to capture a greater share of future opportunities ?’. Another way to express this might be as a revised version of the now-classic ‘what business are we in ?’ question. For a change, try asking ‘what business *should* we be in ?’. There is probably a better question still for all top managers, which was posed in *Competing for the Future* (1994), Hamel and Prahalad’s important work summarising the latest thinking around the so-called resource-based view of the firm : ‘how do we orchestrate *all* the resources of the firm to create the future ?’. Answering this question is strategic decision making in action.

What are core competencies ?

When you answer the question ‘how do we use the resources of the firm to generate value for our customers ?’, your answer is a definition of your core competencies, the often taken-for-granted way your firm operates, and how you deliver value to your customers (see *Table* 1).

Japanese firms, for instance, seem very comfortable with western executives visiting and exploring what takes place on the factory floor. The Japanese know full well that the West learning *what* to do is only half the story. Knowing how to do it, and what its core competencies are, is the other, crucial, half.

Table 1 Definitions of key terms and examples that illustrate the resource-based view of the firm

Resource-based view	Definitions and examples
Resources or strategic assets	These are the tangible and intangible assets that make up the firm (the term ‘assets’ is not used here in the accounting sense). Some of these assets, such as a global brand or a specific product licence, may well be a critical success factor for competitive advantage, but they do not in themselves deliver sustainable competitive advantage. (Many brands have ‘fallen by the wayside’.)
Key competencies	When a company surveys a market in which it would like to compete, it can identify what resources it needs to compete there and how it needs to marshal these resources to compete. These competencies are described as key competencies, and they can be used to help to establish gaps in a firm’s abilities to attack a market.
Core competencies	These are the ways in which an organisation uses a collection of skills, technologies or resources. (For example, the way in which Canon uses laser technology which it incorporates into printers and photocopiers could be described as a core competency.) A core competency is unlikely to reside in a single individual or a small team. An organisation may have around 10–15 core competencies, each of which makes a significant contribution to customer-perceived value.
Non-core competencies	If you produced an exhaustive list of the many capabilities of your organisation, most of them would not really contribute to long-term corporate prosperity. These are the non-core competencies, which may well be necessary in order for the organisation to compete (as hygiene factors or order-qualifying criteria for customers), but they do not help to differentiate a firm from its competitors.
Differentiation	To qualify as a core competency, a capability must be rare, valuable and difficult for competitors to copy. These competencies help to differentiate one firm from another, which in turn leads to differentiation of product or service offerings in the marketplace.

To understand core competencies (that is, the way you manage resources for competitive advantage) in more detail, you can divide them roughly into operational competencies and systems competencies.

Operational competencies

Operational competencies are, specifically, the 'technical' competencies that are relevant to operating in a particular market. Key operational competencies for a firm in the printing business, for instance, might be how it uses the latest fluid technology, how it tackles logistics and distribution, and how it integrates information technology. The competitiveness of a firm, as opposed to its cost efficiency, may be strongly influenced by these operational competencies. In other words, in terms of competitive strategy, it is the operational competencies that underpin the dimensions of perceived use value that deliver competitive advantage (see Sonsino (1999)).

Systems competencies

Systems competencies typically span the range of core activities performed by the firm. They are often as great a source of competitive advantage as the somewhat more easily defined operational competencies, although they are generic in nature. Systems competencies can be divided into those that underpin efficiency and those that underpin effectiveness.

Efficiency competencies

Systems competencies that support efficiency include *continual cost reduction* competencies: processes that help the firm develop a mindset that strives for design simplicity and organisational simplification. Nissan, for example, expects to cut its production costs by 10% each year. Competencies underpinning *economies of scale* also support efficiency, for obvious reasons, although competencies that support the development of efficient *factor costs* (the costs of labour, land and capital) are more difficult to explain. The easiest way to understand competencies that support efficient factor costs is to consider a specific business such as a call centre. Locating a centre in a developing country enables it to operate at low cost, although other systems competencies such as continual cost reduction may be relatively weak. Finally, competencies that underpin *control and co-ordination* also add to systems efficiencies. It is often the nature of a firm's control and co-ordination functions, such as centralised procurement or just-in-time manufacturing, that creates levels of efficiency that are difficult to imitate.

Effectiveness competencies

Systems competencies that support effectiveness include *value assurance*, a process that ensures that constant cost reduction, for instance, does not lead to a concomitant loss in value for the customer. Value assurance takes as a standpoint the fact that it is cheaper in the long run to get a product right first time rather than to have to reprocess it to correct faults. A zero defect policy would be considered critically important for a firm aiming to maximise its competency in value assurance.

Competencies that support *value enhancement*, on the other hand, are processes that constantly review products or services with the aim of constantly upgrading or enhancing them.

A cluster of competencies that occur extensively in some companies and are absent from others support *strategic innovation*. One way to assess a firm's ability to innovate is to calculate what proportion of its sales turnover derives from products developed in the last three years, say. While some firms, such as IBM, rely on the regular upgrading of existing products, other firms, such as 3M and Sony, seem able to develop revolutionary new products regularly. Indeed, Sony's philosophy appears to be 'let's make our products obsolete before someone else does'.

Differentiation : resourcing the competencies to differentiate from the competition

Having identified core competencies that drive or influence your competitive strategy, you may want to unpack the three elements that differentiate your firm from the competition. In other words, you need to deliver the following elements : resources, systems and know-how.

- *Resources* : Resources are the basics (materials, machinery, location, brand and reputation) that may all be necessary before a product or service can be manufactured or delivered.
- *Systems* : Systems are the 'how' – the methods by which resources are brought to life. These are usually explicit and well understood, and are often written down as procedures or processes to be followed.
- *Know-how* : 'Know-how' is the term used to represent the individual or group capability to manage and drive the systems. It is most often present in individuals, who have no need to write down the procedure or competency. In this way, the competency is embedded in the organisation and the know-how is tacit and implicit. As soon as the know-how becomes codified or written down, though, it becomes, in effect, a system, and is able to be replicated by others. Generally, as time passes, know-how migrates into systems and then often into basic resources. Consider how the know-how of an expert captured by an analyst is turned into a system, which may then become a resource encapsulated in machinery or software, and therefore no longer unique.

In undertaking a detailed analysis of the resources, systems and know-how at your disposal, you may identify gaps in your portfolio that need to be plugged (see Sonsino (1999) for more details).

Strategic analysis : drilling for competencies

There are a number of techniques for tapping into or unpacking the core competencies of a firm.

An effective but simple technique is cause mapping (see Tampoe (1998)), as shown in *Figure* 1 for a fictitious high-street food retailer. Place your firm in the centre circle, and ask what drives the success of the firm. Write the things that make you successful round the centre circle in the rectangular boxes. When you have exhausted this brainstorming, ask what makes each of these successful, and so on. Cause mapping can be used as a technique in a workshop or meeting to drill into your competencies. Step back and reflect on what insights you gain from the map, what you appear to be good at, and what, on reflection, appears to be missing. Notice the crosslinks between competencies in *Figure* 1, which often represent the firm's system competencies.

Another method for drilling into competencies, shown in *Figure* 2, is value chain analysis (see Porter (1985) and Shepherd (1998)). This useful framework does not seem to offer as rich a stream of insights, however, because the freedom to create links between competencies simply does not exist within the constraints of the value chain structure.

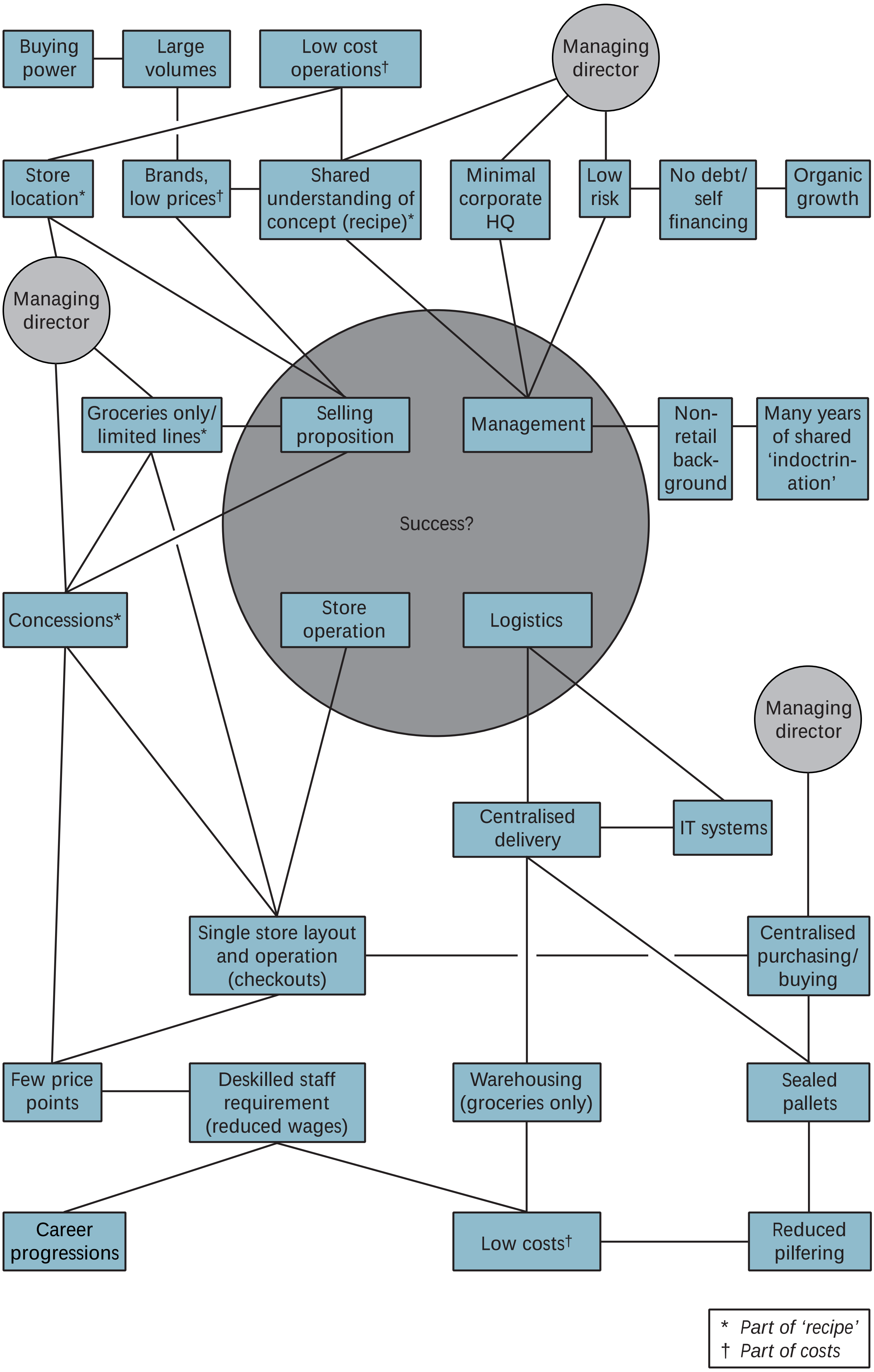

Figure 1 Cause map for a fictitious high street food retailer

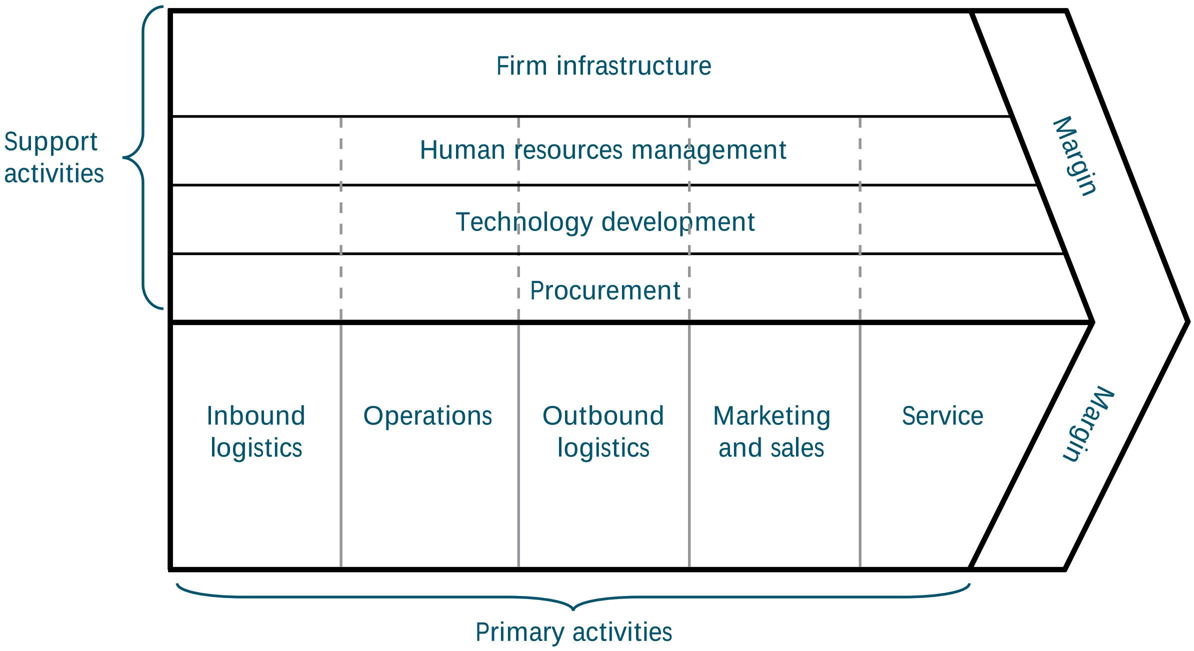

Figure 2 Value chain analysis
[Source : Porter (1985)]

The paradox of tacit knowledge

While resources (typically land, labour and capital) are tangible and visible, at the other extreme, know-how is intangible and invisible. Provided that know-how competencies remain invisible, or tacit, they offer an enduring advantage : 'the way we do things round here' is the most difficult component of a competency for another firm to imitate and benefit from.

This inimitability of competencies is a critical success factor in the competitive strategy of firms. Leave them tacit and unexplored, and you may be missing a trick. To leverage a firm's tacit knowledge, therefore, you must explore and analyse what your tacit core competencies are. On the other hand, you may argue that if you make competencies explicit, they can be copied. This is the paradox of tacit knowledge, and it is something with which every manager must wrestle. Depending on the environment in which you operate, you may choose to unpack the tacit know-how underpinning your core competencies, or you may choose to leave well alone. 'We don't know how we do it so well', you might say, 'but neither does anyone else'.

There are special implications here for managers joining a firm, or for managers promoted within a business. Often, new brooms sweep clean. Worse still, new managers may slash and burn, cutting out entire layers or divisions of an organisation in order to make a name for themselves. Doing this without taking the time to analyse exactly what the organisation's core competencies are can be fatal. Any re-engineering, delayering, outsourcing or downsizing process that is undertaken without due care and attention may lead to commercial suicide.

In search of sustainable competitive advantage

> '*The only sustainable competitive advantage is out-innovating the competition.*' (James Morse, *Harvard Business Review*, 1993)

One of the most important advantages of analysing internal competencies is that a firm can then identify which of its competencies result in competitive advantage. However, the next question is then 'can that advantage be sustained ?'.

To be truly valuable to an organisation, a competency must be the following :

- *Rare* : Rare competencies or capabilities are those that are possessed by only a few, if any, organisations. Competencies possessed by you and by many of your rivals are unlikely to be a source of competitive advantage to any one of the players.
- *Costly to imitate* : An organisation sometimes develops competencies simply because of its *unique history*, of what it is. As firms evolve, they acquire skills, brands and patents, for instance. In addition, a firm's competencies may be *causally ambiguous*. In other words, its competitors cannot understand clearly how the firm uses its resources and systems to deliver competitive advantage. A good example of this is Dell, which uses its direct distribution competencies to great effect in driving its PCs into the marketplace. Japanese firms such as Toyota constantly invite guests to visit their factories, because they know that even when their competitors see what goes on there, it will not help them to duplicate the processes.
- *Non-substitutable* : If competencies can be replaced with strategically equivalent capabilities, then it is unlikely that they will deliver competitive advantage in the long term. Any advantage that they deliver will be unsustainable.

It is important, then, that firms screen their competencies against the four defining dimensions of sustainability :

- *Appropriability* : Can the profits generated by the competency be appropriated by someone other than the firm ? This problem arises because firms own assets, not the tacit skills of individuals. A football player or movie star can take his or her competencies to another employer, or ask for a bigger slice of the profits.
- *Transferability* : Some resources that underpin a competency (raw materials, or employees with standard skills, for instance) are easily transferred.
- *Replicability* : By purchasing similar assets or resources, can a rival construct an identical competency ? If so, the competency offers no significant, durable competitive advantage.
- *Durability* : Durability (not physical durability, but durability as a source of power) is also a source of profit. The more intangible forms of competency are therefore the most important in delivering a sustainable competitive advantage.

The essential character of a strategic asset, then, is the degree to which it is firm-specific. How embedded is it in the fabric of what the firm does ?

Summary : innovate or die

Proponents of the resource-based view of the firm argue that competitive advantage can only be sustained if the firm has competencies that deliver value to the customer *and* the resources, systems and know-how underpinning those resources are difficult for other firms to imitate. The issue for managers therefore shifts away from preventing imitation and protecting resources 'towards the continual development of new sources of advantage, a continuous process that firms neglect at their peril' (Bowman and Faulkner (1997)).

However, none of this should be undertaken at the expense of the market-based view. The market-based view of the firm, after all, suggests that all major possibilities of profit emerge from the *market*, and identifying where to compete is therefore critical. The resource-based theory, by comparison, hands the power to win above-average profits to the *firm*. It is surely an innovative combination of the two approaches, though, that will enable management to compete effectively for the future market share of future markets. In essence, then, for the quality of sustainability to be added to a firm's competitive advantage, the firm's core competencies need to be as close to inimitable as possible. A classification of those internal competencies into resources, systems and know-how will show where the quality of inimitability is likely to reside. Perhaps the only truly sustainable advantage, therefore, is the ability to learn and innovate faster than one's rivals.

> '*We realise that we are in a race without a finish line. As we improve, so does our competition.*'
> (David Kearns, Chairman, Xerox, 1989)

The moral ? – innovate or die.

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  A classic guide to resource-based theory and core competencies that propelled its authors to guru status in the strategy sphere; an easy to read and thought-provoking account of this powerful branch of strategic thinking.

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HRM

DEVELOPING PEOPLE IN ORGANISATIONS

Lyn Stansfield, Cranfield School of Management

This article reviews the scope and the key features of the emerging field of people development in organisations. It explains the many terms in use in the area, and considers how the development of people is linked to organisational strategy.

Developing people : the growing strategic priority

In her article on people management in MQ1, Veronica Hope Hailey (1998) describes human resources management as a strategic activity that is increasing in prominence in contemporary organisations. A parallel development has been taking place in the area of developing people in the organisation. This emerging discipline is popularly known as 'human resources development' (HRD), and in much the same way as the term 'human resources management' (HRM) has increasingly replaced the term 'personnel', 'human resources development' is becoming the term that replaces 'training' in many organisations. However, as we shall see, it soon becomes apparent that the concept and philosophy of HRD go far beyond mere training.

Stewart and McGoldrick (1996) describe HRD as 'a new field of studies and scholarship as well as a field of practice'. In common with many areas of management, HRD is difficult to define, but writers in the field suggest that it constitutes those processes and systems that are designed to affect learning at the organisational, group and individual level.

In her article, Hope Hailey classified HRM into the following areas :

- strategy;
- systems;
- processes.

It is possible to talk about HRD in similar terms. In this article, the key tenets of HRD are summarised at each of these levels, reflecting current issues and debates in this emerging field. It has to be borne in mind, however, that HRD is a large and complex area that has attracted a great deal of academic and practitioner attention in the literature. For the sake of brevity, the concepts have been greatly simplified. For those who wish to follow up some of these ideas, a short further reading list is provided at the end of the article.

HRD as strategy

One of the ways in which HRD can be said to be distinguished from training and development is by the manner in which it aims to impact on organisations at a strategic level. To achieve this impact, it must be integrated with overall strategic intent, and be business-led. HRD focuses on the organisation's 'strategic capability', recognising that this capability relies on the collective learning and abilities of the individuals and groups that make up the organisation. Its aim is to enable the organisation to survive and grow. In line with modern HRM thinking, the emphasis in HRD is to encourage line managers to become the key people-developers in the organisation, in partnership with professional HRD specialists. Key areas of concern at the strategic level include the following :

- organisational learning;
- knowledge management;
- organisational development.

Organisational learning

Organisational learning is a term that is usually applied to the learning processes in an organisation achieved through the bringing together of the learning of individuals into collective learning. Two popular notions have arisen with respect to organisational learning :

- single-loop and double-loop learning (see Argyris and Schon (1978));
- the learning organisation (see, for example, Pedler and Aspinwall (1998)).

In order to understand the concept of single-loop and double-loop learning, we need to think about organisational processes as systems. In *single-loop learning*, faults in any 'system' are detected and corrected (see *Figure* 1), whereas in *double-loop learning*, not only are faults detected and corrected, but the process involves questioning the original objectives, that is, asking 'is this the thing we should be doing in the first place ?' (see *Figure* 2).

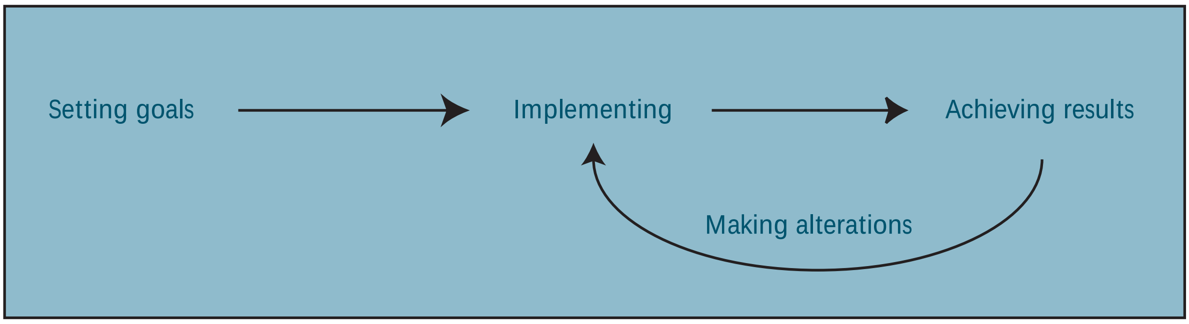

Figure 1 Single-loop learning
[Source : Adapted from Argyris and Schon (1978)]

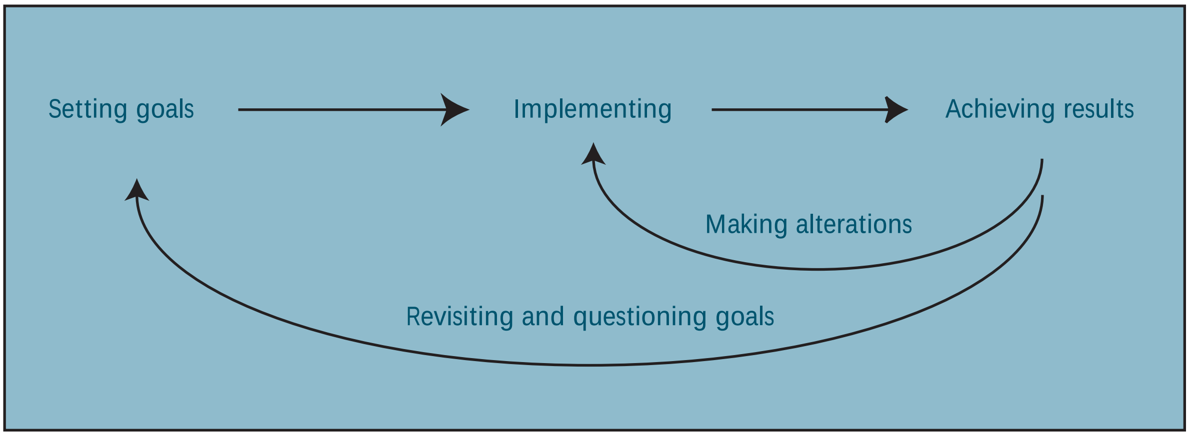

Figure 2 Double-loop learning
[Source : Adapted from Argyris and Schon (1978)]

The learning organisation has become a much debated topic in recent years. There is a growing amount of literature in this area, but there does not appear to be a consensus about the meaning of the term. However, the following list (adapted from Pedler and Aspinwall (1998), and reproduced with permission) gives the views of one group of writers about what the characteristics of a *learning organisation* might be :

1. Strategy is used as part of the learning process.
2. People are asked to contribute to policy formulation.
3. Information technology is used to empower people.
4. Financial systems are used to inform and educate people.
5. There is a free flow of ideas and information in the organisation.
6. Rewards are used flexibly.
7. The organisation is structured flexibly.
8. Employees are used who interface with the outside world as the 'eyes and ears' of the organisation.
9. The organisation learns from other organisations.
10. A conducive climate for learning is promoted.
11. Opportunities for self-development are offered to everyone.

Knowledge management

Another recent development is a concern in organisations about the strategic role and value of knowledge. Knowledge management has therefore become an important item on the strategic agendas of many organisations. This raises an important distinction between *explicit knowledge* in the organisation, that is, knowledge that is articulated and therefore able to be codified, for example documents, procedures and patents, and *tacit knowledge*, that is, knowledge that remains personal to individuals and is therefore uncodified. It is beyond the scope of this article to give a detailed exposition of *knowledge management*, but it is interesting to note that many organisations are now actively engaged in projects that are designed to capture not just explicit knowledge, but also tacit knowledge, and record it in various ways, including by electronic means. However, it is not the recording of knowledge that is of strategic importance, but rather the understanding of the human elements involved in knowledge creation in organisations.

Organisational development

Organisational development (OD) is a rather specialised area. Strictly speaking, it lies outside HRD, but it has a great deal to do with people development. Rosemary Harrison (1997) defines *organisational development* as follows :

> *'a process to improve organisational health and effectiveness, distinguished by its planned and system-wide application of behavioural science and practices to improve the organisation's ability to assess and solve its problems'*.

OD targets organisational strategy, structures and processes, but, in doing so, it tends to focus on intergroup and interpersonal relationships and dynamics. Therefore, when organisations embark upon OD initiatives, they need to integrate them with other HRD and HRM activities in order for them to be successful.

HRD as a system

Many HRD 'systems' can be found in contemporary organisations. The following are brief overviews of some of the more typical ones :

- *Training* : The term that is usually applied to structured learning focused upon the needs of the job is *training*. Training in organisations usually involves a four-stage process known as the *training cycle* (see *Figure* 3). Training 'systems' in organisations tend to echo these four steps, with systems being used to do the following :
  - identify needs (for example through a performance appraisal system (see below));
  - design structured learning events (for example in terms of preferred lengths of programmes, venues, and content);
  - deliver events (for example through the use of booking procedures and preferred training methods);
  - evaluate the effectiveness of events (for example through the 'happy sheets' that we have all had to fill in from time to time to record our satisfaction or otherwise with a course, and other mechanisms designed to assess the impact of training).

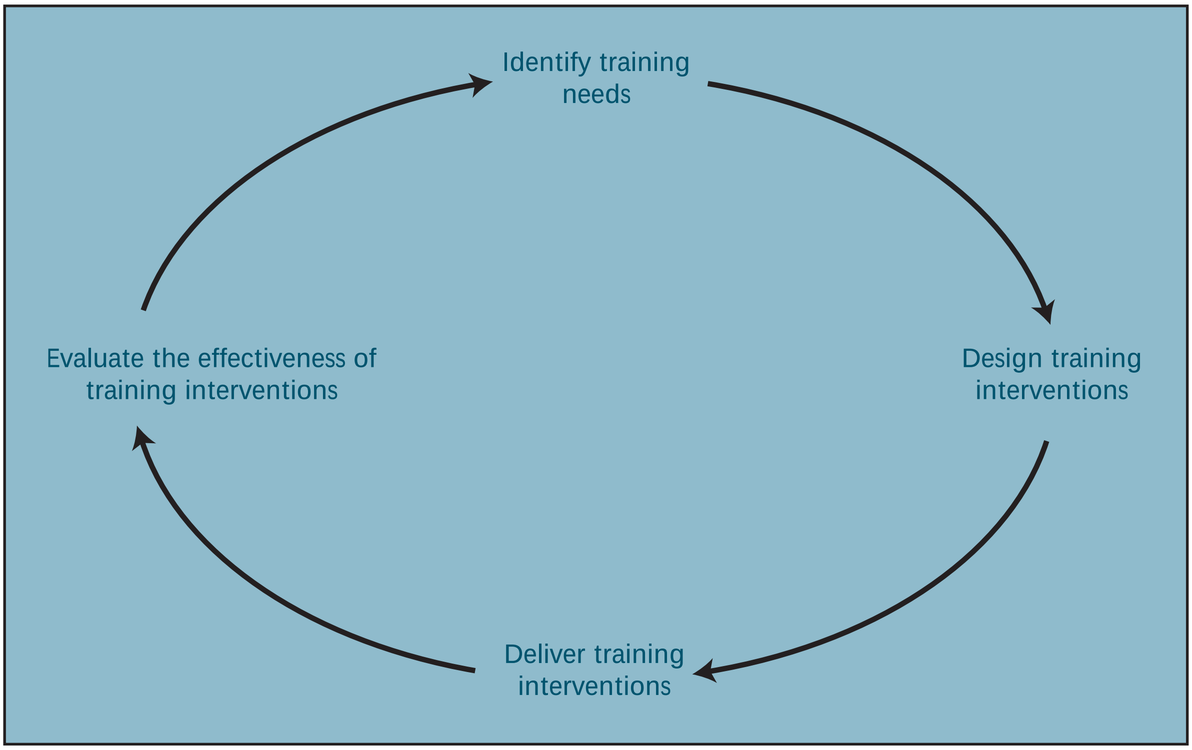

Figure 3 Training cycle

- *Development* : The term *development* usually applies to a wider view of learning with longer-term objectives than those of the immediate job, and it involves a desire to develop individuals beyond job-specific knowledge and skills.
- *Education* : The issue of education has even wider implications. Organisations can invest in development and education in a variety of ways, for example by sponsoring employees on outside courses, or even allowing every employee a sum of money to use in developing himself or herself in whatever way he or she chooses, even in a wholly non-job-related activity, for example by taking evening classes in a recreational subject.
- *Performance management* : Many organisations engage in performance management. *Performance management* 'systems' usually aim to align individual performance in jobs with overall strategic business objectives. This is usually achieved by establishing regular means of setting individual and/or group objectives, measuring performance against those

objectives and then renegotiating new ones. Performance management and development are linked when the system includes the identification of training and development needs and the training cycle (see above) is thereby triggered. Performance management usually involves the appraisal of an individual's performance, although that term may not be used, for a variety of reasons. Some organisations prefer to avoid the word 'appraisal', because it can have negative associations.

- *Succession planning*: Another 'system' that is often found in organisations is succession planning. *Succession planning* is the act of identifying suitable successors to key posts in the organisation. In addition to the numerical issue of ensuring that the right numbers of people with the right attributes exist in the organisation, other integral parts of succession planning are identifying potential and carrying out the planned development of people so that they have the necessary capabilities when key positions need to be filled.
- *Management development*: Most organisations wish to train and develop their managers in recognition of the fact that, as key decision makers, a capable management cadre can make a real difference in the attainment of organisational goals. This is usually referred to as *management development*. There are many ways in which managers can be developed, both informally and formally, from sponsored business school education to planned experience, team building and secondments. In some larger organisations, investment in management development is of such strategic importance that it is seen as a separate function with its own highly trained specialists. Recent interest has focused on the development of 'learning' managers (managers who continuously learn and develop) rather than 'learned' ones (those who just have knowledge).

HRD as a process

There are many people development processes in organisations, and these can take a variety of forms. The following are the main ones:

- *Coaching, mentoring*: Coaching and mentoring are current trends. The analogy of the coach is taken from the sporting world. In *coaching*, the manager, or other capable person, works with individuals or groups to improve aspects of their performance, acting as role model, teacher and encourager, and helping people to achieve their best at their jobs or aspects of them. Mentoring has become a popular concept in recent years. *Mentoring* is very similar to coaching, but tends to be less specific in its focus. It is not unusual, for example, for an employee to be assigned to a 'mentor' when he or she joins the organisation, so that the mentor can 'show the person the ropes', help him or her to find their way around the organisation, and then, sometimes, maintain an interest in that person's progress as he or she moves through his or her career. Mentoring relationships do not, however, have to be confined to new entrants.
- *Personal development*: One of the more recent trends is *personal development*, where there has been a shift in emphasis from the notion that the initiative for training and development should be organisation-led to the idea that individuals should take responsibility for their own development. There are several buzzwords in popular use in this area, for example continuous development, continuous professional development, self development and experiential learning:
    - *Continuous development*: *Continuous development* is the modern notion that a person's development does not end after school, college or university, and that learning is a life-long process. Today's skills and competencies soon become outdated, and so the skills involved in continuous learning itself are now being emphasised as important life skills.

- *Continuous professional development* : For members of professional bodies, continuous professional development (CPD) has become important. With *continuous professional development*, the professional body usually stipulates the minimum amounts of time that must be spent on development, and some bodies actually dictate to their members exactly what that development should be. Some professional bodies adopt a less directive policy, preferring to let their members decide the nature of their own development for themselves.
- *Self development* : Self development has become very popular with organisations in recent years, and it reinforces the theme of continuous learning. With *self development*, learners diagnose their needs for themselves, plan to fulfil those needs, and assess the effectiveness of their actions. Whilst this is a simple enough concept, driving the process by oneself requires a highly developed grasp of the skills and disciplines involved. Organisations therefore have to invest in up-skilling their people to enable them to engage in self development activity.
- *Experiential learning* : One of the most important concepts of learning to emerge in the last 15 years or so is that of experiential learning (see Kolb, Rubin and MacIntyre (1984)). On the basis that learning is not just a case of attending courses, but that we learn all the time from our experiences of life, learning is thought of as a four-stage cyclical process, as illustrated in *Figure* 4. Briefly, in this *experiential learning* model, the learning process begins with the person experiencing some event or situation. He or she then engages in reflective thinking (about what happened, possible reasons for it, and so on). He or she then draws upon other sources of information to bring an external perspective to bear on the situation, and then uses it to experiment with changes in approach and behaviour in the future. A useful extension to the theory of experiential learning is that of learning styles (see Honey and Mumford (1986)). The *learning styles* theory is that people have a preferred style of learning (activist, reflector, theorist, or pragmatist), which corresponds to the stages of the learning cycle (see *Figure* 5). Self-check questionnaires are available that can help people determine what their learning style is.

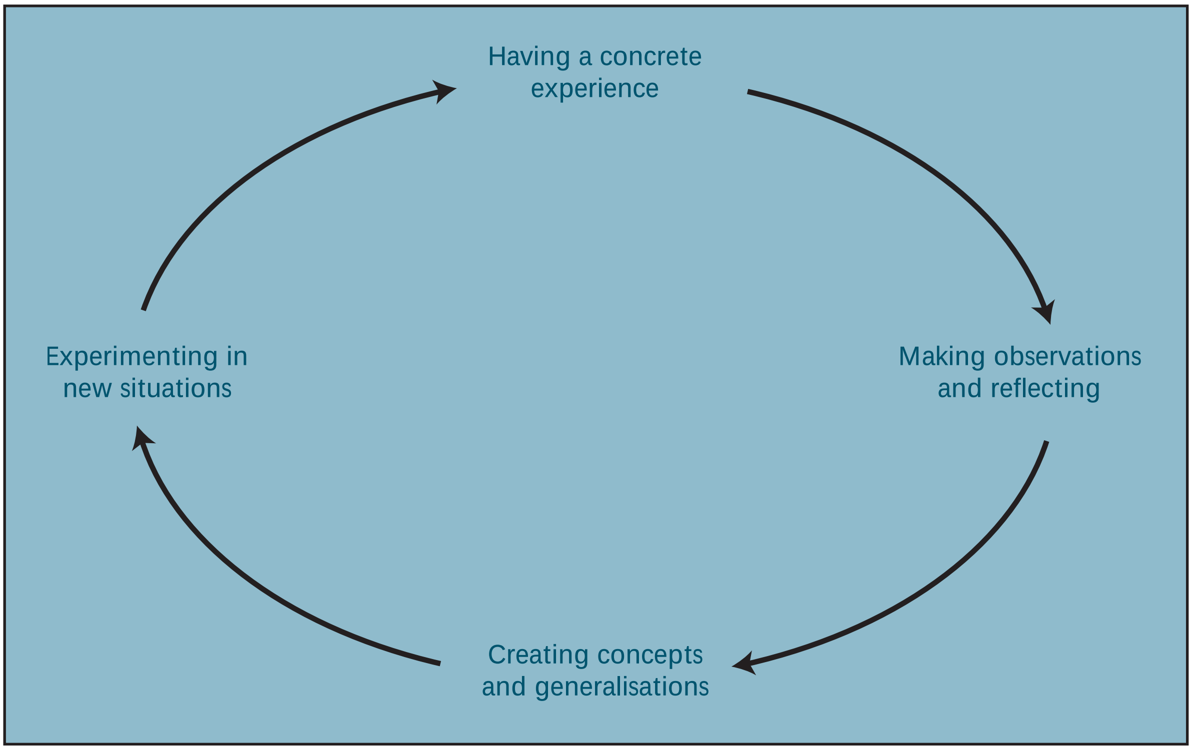

Figure 4 Experiential learning cycle
[Source : Adapted from Kolb, Rubin and MacIntyre (1984)]

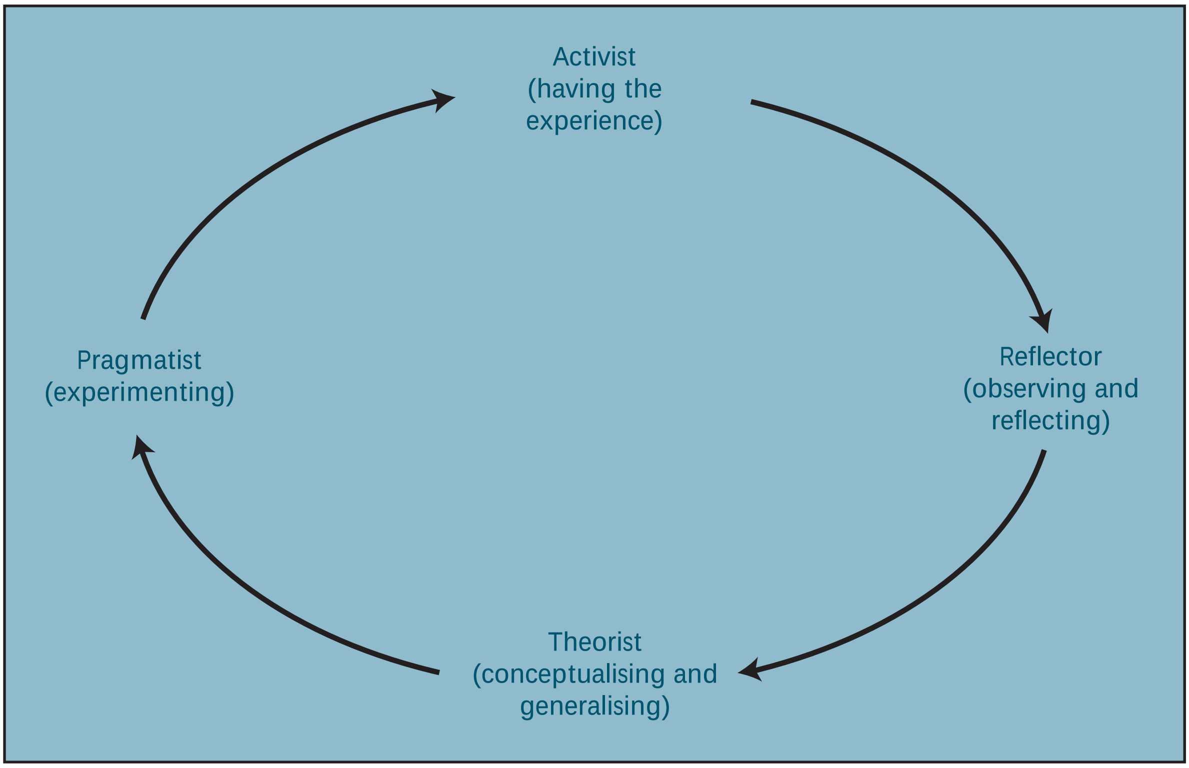

Figure 5 Experiential learning cycle and learning styles
[Source : Adapted from Kolb, Rubin and MacIntyre (1984) and Honey and Mumford (1986)]

- *Career development* : The final area of note is that of career development. There has been a revival of interest in this in recent years. Much of the current *career development* debate focuses on the issue of whether or not 'jobs for life' have ceased to exist. Whilst in many organisations traditional career paths are declining, in others lifelong careers are still available, and there is no real evidence that people's tenure in jobs has shortened. People's views about their careers and their needs appear to have diversified in recent times. There is some evidence in the late 1990s that people want more balance in their work and non-work lives, leading to recently observed trends such as *downshifting* (moving into 'alternative' ways of working and living), *portfolio careers* (having more than one job), and self employment. In general terms, the key developments seem to be that the emphasis has moved from steady upward progression in careers to the need for challenge and 'stretch' in one's work, to the notion of employability rather than employment, and to the fact that there needs to be a greater correlation between the needs of the employer and the needs of the employee. This has highlighted the desire for skills, knowledge and capabilities which are transferable from workplace to workplace, and it emphasises how important it is for managers to understand, communicate and negotiate with staff as individuals in terms of their career aspirations, needs and progression.

Linkages

Veronica Hope Hailey (1998) emphasises the need for clear links between the strategic, systems and process elements in a human resources management system. The same is true for development in organisations. The following must be in place :

- *Vertical integration* : The HRD strategy, systems and processes must be in harmony with the organisation's strategic aims and objectives.
- *Horizontal integration* : Whatever goes on in relation to development within the organisation must fit with the other aspects of people management policy. Conflict can arise and

confusing messages can easily be sent. For example, a culture of valuing people's development can be encouraged, but that message can be not supported in terms of the pay policy rewarding enhanced capability, leading to a demoralised workforce.

- *Temporal links*: As with HRM, HRD systems must be flexible enough to change and adapt in order to respond to organisational change.

Conclusions

This article has attempted to illustrate the breadth of the topic of developing people in organisations. It has demonstrated that, as with HRM, people development can be viewed in terms of strategy, systems and process, and it has touched upon several recent trends in the development of organisations, groups and individuals. It has also stressed the need for harmony and integration with organisation strategy and with other people-management policies and activities.

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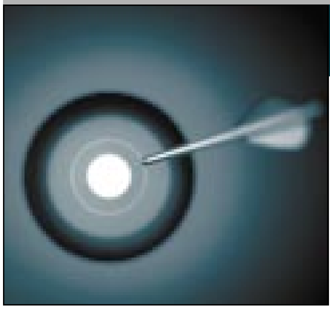
MARKETING

MARKET RESEARCH AND INFORMATION TECHNOLOGY

Lynette Ryals, Cranfield School of Management



Market research that is properly conducted can be a valuable aid to a business. This article discusses the advantages of good market research and considers some common pitfalls. Practical ways of gathering information, particularly through the use of information technology, are reviewed, and the most appropriate research methods to apply in various circumstances are listed.

For years, market research has been the Cinderella of management disciplines. The availability and power of information technology are, however, transforming this field, and this article examines the impact of IT on market research.

What do you really want to know ?

One of the commonest problems encountered in market research is a lack of clarity in the company about what exactly the market research is to be used for. If the purpose of the research project is unclear, it is impossible to prepare a proper brief for internal researchers or for a market research agency. Managers beginning such a research project should ask themselves what business decisions will be affected by the market research. A lack of focus is often the root cause of disappointment with the results of a market research project. Therefore, before commissioning market research, use in-company resources to decide exactly what information gap the market research project is designed to address.

Most research projects have four stages :

- secondary (or desk) research;
- primary research;
- data analysis;
- reporting of the results.

After the project there is likely to be a project evaluation. Each of these aspects of a marketing research project is considered below, and the role of IT during each research stage is discussed.

Secondary data

Research projects often begin with secondary research. Secondary research consists in examining data that has already been published. Secondary market research used to be largely restricted to industry surveys published, for example, by Keynote, Business Intelligence and Mintel. Additional desk sources included patent applications and reports from trade associations and the UK Monopolies and Mergers Commission (now the Competition Commission), for instance. These surveys can be helpful if there happens to be one in the area that the researcher is particularly interested in, but they quickly become out of date.

IT has transformed secondary research. The first big change came with the arrival of databases, such as the Jordan's database, that could be searched online. Soon there were host databases, such as the FT Profile and Dialog databases, that acted as gateways to multiple databases. Share price information and charts are now available from Datastream, company accounts can be accessed from, for example, the One Source, Fame and Dun & Bradstreet databases, and newspaper reports can be examined via the FT Discovery and Reuters Business Briefing databases. The scope and searching facilities of such databases increase all the time. One, the Euromonitor database, even provides industry and geographical forecasts. As with other databases, it is possible to download the results of a Euromonitor search directly into a spreadsheet.

The other major advance in the last few years has been the Internet. Traditional database providers such as Mintel have embraced this technology and used it to provide easier and wider access to their products. This sometimes allows information to be accessed that would previously have taken much longer, and been much more expensive, to collect. European patent databases, for example, can currently be searched at http://gb.espacenet.com/, and US patent databases at http://www.uspto.gov/patft/. The Internet also provides access to other information sources such as customer discussion groups about products, and the book reviews by readers at online booksellers such as http://www.amazon.co.uk and http://www.amazon.com.

The Internet is potentially the source of a massive amount of information, and Internet references are increasingly found in management reports. Currently, the accepted method of citing a World Wide Web reference in the market research field is to give the name of the Web site and its URL, the date on which the researcher last visited the site, and the date on which the site was last updated. The date on which the site was last updated should be displayed on the site; if it is not, this may be an indication that the information on the site is out of date. Researchers should bear in mind that anyone can put (almost) anything on the Internet; in the absence of confirmatory data, it may be wise to treat Internet data as opinion rather than fact.

Occasionally, secondary sources provide enough information to support a business decision. More often, they help to clarify the questions that should be asked, rather than provide the answers. In this case, the research moves into the primary research stage, during which fieldwork is carried out.

Primary research

Primary research consists in seeking information from a primary or original source, often a customer. For many commercial purposes, the most useful type of primary market research relates to a specific issue (such as the question of whether to enter a new market or launch a new product). It provides results that are specific to a single organisation, and the identity of the researching company is revealed to the interviewee during the interview and not before,. The revealed identity approach allows the researcher to collect responses about the sponsoring company and its competitors that are unbiased by the interviewee knowing which company the researcher is representing. After the company's identity has been revealed, specific questions about experiences with that company's performance or products can be asked.

There are three principal approaches to primary research :

- *One-on-one interviews* (*face-to-face, by telephone, by mail, or by email*) : Face-to-face interviews are widely used to discuss qualitative issues, and they are the method of choice when the questions are difficult or sensitive. Telephone interviews tend to be much shorter, and they require a different questionnaire design; they are used for quantitative research, particularly when fast results are needed. Mail and email surveys are far cheaper, but the response rates can be low if they are not carefully designed and targeted. It is also difficult to guarantee the quality of the responses in terms of the completion of the questionnaire, the following of the instructions, and so on.

- *Focus groups* : Focus groups are groups of 6–12 people who are brought together for a discussion. Focus groups are very useful for in-depth discussion, for example of products or brand images, but they are expensive to run. They also require expert management by the focus group leader to prevent individuals from dominating the discussion.
- *Clinics* : Clinics are a combination of individual face-to-face interviews and a focus group. They are often associated with new product testing.

Mistakes in data analysis and interpretation

The third stage of the research project is data analysis. IT and statistical techniques can help to prevent mistakes in the analysis or interpretation of data that can ruin a market research project. Examples are statistical techniques that do the following :

- check the actual out-turn against the expected results;
- compare two sets of results and indicate whether the difference is significant;
- indicate the explanatory power of the results.

A good researcher should be fully conversant with these techniques, and should be able to advise you not just of the actual research results, but also about their statistical validity.

IT can also be helpful when qualitative data, such as transcripts of interviews or answers to open questions on a questionnaire, have to be analysed. There are software packages that help with the interpretation of such data, sometimes by counting the frequency with which key words or phrases and their synonyms are used. Other, more complex, software packages help to identify patterns in qualitative data.

Telling it like it isn't : transmission bias

The final stage of the research project is the presentation of the information in a format that aids management decision making. The danger at this final stage is that a report or presentation can be written in a way that (perhaps entirely unintentionally) misleads the reader.

Transmission bias occurs when the researcher or manager has to summarise the findings of the research and present his or her conclusions. Sometimes bias creeps into this process, with undue weight being given to certain findings. IT can help prevent this through data visualisation, in which research data is presented in chart format. Charts are easier for people to comprehend than tables of figures or pages of comments. Increasingly, data analysis software incorporates data visualisation features so that charts are constructed directly from the data analysis as opposed to via presentation software.

Was it worth it ? : evaluating a market research project

There are a variety of factors that contribute to a successful research project, and managers who are asked to evaluate a market research project (whether the researchers are from an external agency or are an internal function) can do this using a checklist such as the following :

- delivery against the brief and the usefulness of the information;
- delivery on time;
- delivery against the budget;
- the number, completion and quality of responses;
- the appropriateness of the methodology, and the validity of the results;
- the quality of written reports and presentations;
- liaison during the project;
- the ability to get on with the internal team, and the overall impression;
- the ability to get on with interviewees;
- whether one would work with them again.

The fourth item on the list (the number, completion and quality of responses) is particularly important. Completion of responses is an important indicator of how good the questionnaire was and how well the interviewers handled the interview. Missing responses may indicate either that there was a questionnaire design fault, or that the interview or the time was not well managed.

A good market research agency should indicate not just how many respondents took part in the overall research project, but also, for each part of each question, how many actual responses there were.

Conclusions : four pitfalls to avoid

There are four pitfalls that should be avoided in market research that incorporates the use of IT:

- Powerful IT packages are enabling data to be collected, analysed and disseminated, and these packages are impacting upon market research. However, market research projects can and still do go wrong. The first pitfall is that, at the end of the day, if the data that goes into the process is garbage, the results that come out at the other end will also be garbage. Indeed, in some ways, the 'garbage in, garbage out' problem is worse when IT is involved. Some companies view IT packages as black boxes : you put data in, and, miraculously, you get information out. One marketing manager commented on this as follows :

  'It's not "garbage in, garbage out" that is the problem. If we know *that it is garbage, that is OK. It is "garbage in, gospel out" that gives us the difficulty* !'

- A second pitfall is over-expectation. Sometimes, managers are disappointed with the results of a market research project because 'it didn't tell us anything we didn't already know'. Ground-breaking research is rare. However, if you obtain confirmation of the things you thought you knew, this is in itself a very valuable contribution to your company's store of knowledge.
- A third pitfall is the possibility of not getting value for money. To avoid this, the right people must be asked the right questions using the appropriate method. This entails obtaining a representative sample and identifying the most appropriate research method. *Table* 1 matches the research method to the issue.
- The final pitfall is that information collected has a limited shelf life. Market research goes out of date quite quickly, depending upon the rate at which the market is changing. A rule of thumb is that information that is more than six months old should be treated with caution. It is worth considering updating useful research regularly.

Table 1 Most appropriate research methods

Issue	Method				
	One-to-one interview			Group interview	
	Face to face	Phone	Mail/ email	Focus groups	Clinics
Limited budget		✔	✔✔		
Urgent timeframe		✔✔			
Sensitive questions	✔✔				
Difficult questions	✔✔			✔	
Further questions that may be determined by previous responses	✔✔	✔	✔		
New product development	✔✔			✔	✔✔
New product introduction				✔✔	✔
Increase share of customer spend	✔✔	✔	✔		
Identification of customer segments		✔✔	✔	✔✔	
Assessment of customer satisfaction		✔	✔		
Competitor benchmarking	✔✔	✔		✔✔	✔

[Two ticks : best method, one tick : possible method.]

Wealth warning : research with customers raises expectations !

Market research has an impact not just on the company carrying out the research, but also on the companies and individuals who have given up their time to participate in it. Customers are often pleased to be invited to take part in a research study, and welcome the chance to air their views about products or services. However, they do then have an expectation that their supplier will listen to what they say. The process of carrying out market research itself raises expectations that something will improve. Therefore, if a company carries out research and then does nothing with the results, *it will be worse off than if it had never done the research in the first place*. Therefore listen to what your customers say, and then *take action* !

Acknowledgements

The comments of my colleague Mary Betts-Gray, Business Information Specialist, Management Information and Resource Centre, Cranfield School of Management, are gratefully acknowledged.

Further reading

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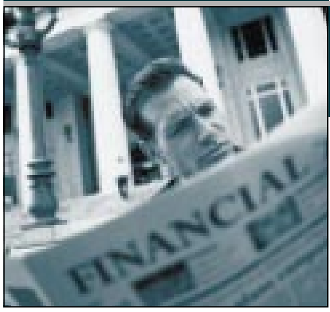
FINANCE

SHAREHOLDER VALUE



Clare Minchington and Graham Francis,
Open University Business School

The creation of shareholder value is seen as an important objective for companies. This article reviews the theoretical basis for shareholder value calculations, and analyses common measures such as EVA. It concludes with details of recent research conducted by the authors that examines the extent of the adoption of value-based measures.

What is shareholder value ?

For many years, companies have measured their performances in terms of profit or earnings per share. However, growing dissatisfaction with these measures has led to a whole new array of metrics being developed and promoted under the banner of shareholder value. Shareholder value measures have diverted the focus away from profits and towards cash flows. These measures also recognise that capital invested in an organisation is not free, and they make a charge for the use of the capital employed by an organisation in its operations.

Shareholder value is created by generating future returns for equity investors which exceed the returns that those investors could expect to earn elsewhere. The belief is that these excess returns will be reflected within the share price of the company. The returns are measured in terms of cash flow, and the cost of capital is used to charge for the use of the capital invested. In essence, the idea is that if you manage your business to add to your shareholder value, then you also improve the value of your shareholders' investment, and this is consistent with the organisational objective of maximising shareholders' wealth.

How do you create shareholder value ?

Rappaport (1986) suggested seven drivers within a business that can be managed to create value :

- a growth in sales;
- an increase in the operating profit margin;
- a reduction in the cash tax rate;
- a reduction in the working capital investment;
- a reduction in the fixed asset investment;
- a reduction in the weighted average cost of capital;
- an increase in the competitive advantage period.

The theory is that improvements in these value drivers lead to an increase in shareholder value.

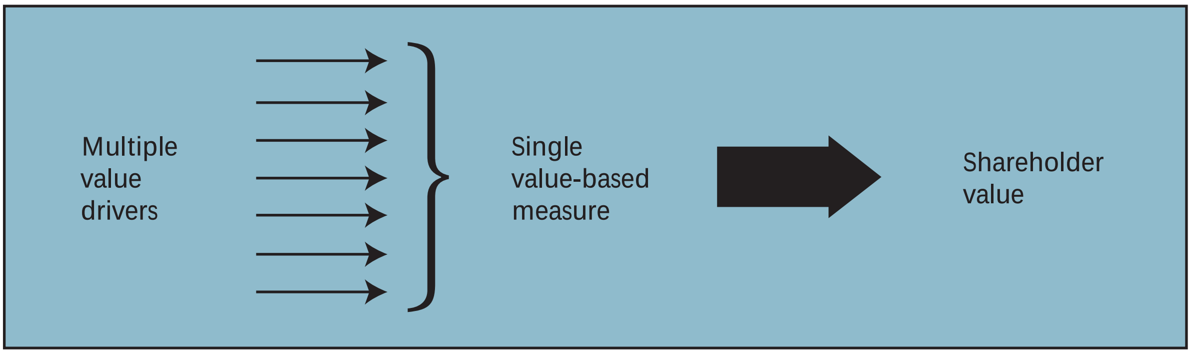


Figure 1 The role of value-based measures in the creation of shareholder value

A common theme of value-based measures is that they take these drivers and summarise them into a single measure, be it Economic Value Added ('EVA' is a Stern Stewart registered trademark), shareholder value analysis (SVA), or any of the other value-based measures that have been developed (see *Figure* 1).

This idea is echoed in the words of Ehrbar (1998), a senior vice-president of Stern Stewart, who wrote the following:

> *'The mandate under an EVA management system … is to increase EVA as much as possible in order to maximize shareholder wealth.'* (p 134)

How do value drivers generate shareholder value ?

This section illustrates the calculation of shareholder value. However, remember that, in practice, it is *not sufficient simply to calculate shareholder value*. Action needs to be taken to manage and improve the value drivers. An understanding of the calculation is essential, though, for the effect of changes in operational performance on shareholder value to be predicted, and to focus attention on key value-generating activities.

Using forecasts for Rappaport's value drivers, the future cash flows can be forecast within the competitive advantage period (this is also known as the 'value growth potential period'). This competitive advantage period for an organisation depends on for how far into the future the company expects to be able to add value above its weighted average cost of capital (WACC). In practice, this is often estimated to be 3–10 years.

Let us consider an imaginary company, Angel plc, which operates in a retail environment, and expects a reasonable level of growth for four years into the future and no major improvements in its operating profit margin. The company could have the set of forecast value drivers shown in *Table* 1.

These value drivers are used to forecast future cash flows generated by the company within the competitive advantage period, as shown in *Analysis* 1. Let us assume that Angel has a WACC of 9% and debt with a market value of £500 million, and that its sales were £3000 million in 1999.

The free cash flows can then be discounted using the WACC to give the present value of the company. However, this calculation only takes into consideration the period of competitive advantage, which in this case has been taken as four years. To find the value of the enterprise, we must also calculate a terminal value for the organisation at the end of the competitive advantage period. Common methods are as follows:

- The cash flow from the end of the competitive advantage period is treated as a perpetuity and discounted back to the present value. The perpetuity can be assumed to be constant or growing.

Table 1 Forecast value drivers

	Actual	Competitive advantage period				Future
	1999	**2000**	**2001**	**2002**	**2003**	**2004 onwards**
Sales growth, %	8	8	6	5	3	0
Operating profit margin, %	12	12	12	12	12	12
Sales/NBV of fixed assets	2.8	2.8	2.8	2.8	2.8	2.8
Working capital investment/sales, %	15	15	15	15	15	15
Cash tax rate, %	30	30	30	30	30	30
Depreciation/NBV of fixed assets, %	7	7	7	7	7	7

Analysis 1 Calculation of free cash flows

	Actual	Competitive advantage period				*Future*
	1999	2000	2001	2002	2003	*2004 onwards*
	£M	£M	£M	£M	£M	*£M*
Sales	**3000.0**	3240.0	3434.4	3606.1	3714.3	*3714.3*
Operating profit		388.8	412.1	432.7	445.7	*445.7*
Depreciation		81.0	85.9	90.2	92.9	*92.9*
Earnings before interest, tax, depreciation and amortisation (EBITDA)		469.8	498.0	522.9	538.6	*538.6*
Tax		116.6	123.6	129.8	133.7	*133.7*
Expenditure on fixed assets		166.7	155.3	151.5	131.5	*92.9*
Increase in working capital		36.0	29.2	25.8	16.2	*0.0*
Free cash flow		150.5	189.9	215.8	257.2	*312.0*

Analysis 2 Calculation of terminal value at end of competitive advantage period

	Competitive advantage period				*Future*
	2000	2001	2002	2003	*2004 onwards*
Free cash flow, £M	150.5	189.9	215.8	257.2	312.0
Discount factor, 9%	0.917	0.842	0.772	0.708	7.871
Discounted cash flow, £M	138.0	159.9	166.6	182.1	2455.8

- A multiple such as enterprise value (the market value of equity plus the market value of debt) (EV) to earnings before interest, tax, depreciation and amortisation (EBITDA), known as EV/EBITDA, is used.

In this example, we assume a simple perpetuity with no growth from the year 2004 onwards, as shown in *Analysis* 2. The discount factor used should be the WACC of the company.

Analysis 3 Calculation of shareholder value

	£M
Competitive advantage period value	646.6
Terminal value	2455.8
Enterprise value	3102.4
Market value of debt	500.0
Shareholder value	2602.4

We then calculate the shareholder value as shown in *Analysis* 3. The calculation first results in an enterprise value for the organisation as a whole. The market value of the debt must then be subtracted to obtain the shareholder value.

Alternatively, the shareholder value of a company can be calculated using the present value of the economic profits of the company into the future, rather than the free cash flows. This calculation is included as an appendix to this article for those who are interested. Note that it gives an answer that is identical to that calculated using the free cash flows.

What value-based measures exist ?

Various measures have been developed from Rappaport's original ideas on value drivers creating shareholder value. One reason for the variety of methods is that a number of management consultants are promoting them. Each measure can be seen as being analogous to a traditional measure, as shown in *Table* 2.

Table 2 Value-based measures

Traditional measure	Shareholder value equivalent
Discounted cash flow	Shareholder value analysis (SVA) Market value added (MVA)
Residual income	Economic Value Added (EVA) Economic profit
Internal rate of return	Cash flow return on investment (CFROI)

Shareholder value analysis

In shareholder value analysis, the future free cash flows are discounted to a present value at the company's cost of capital, less company debt. This is very similar to Rappaport's original calculations as illustrated above. SVA calculates a value for the company that is based on projected future cash flows.

Economic Value Added

EVA can be defined as the net operating profit after tax (NOPAT) created during the year in excess of the cost of invested capital :

$$\text{EVA} = \text{NOPAT} - \text{WACC} \times \text{opening invested capital}$$

This is essentially a *residual income* (RI) calculation. RI is very similar in principle to EVA, although it lacks some of its detailed refinements. RI has long been advocated by academics as a measure that is theoretically superior to return on capital employed. This type of measure is also known as *economic profit*. Rather than considering all future cash flows, the EVA model looks annually at the value created by the company. This approach can more easily be linked to a performance-related pay scheme for management, but it also opens up the old problem of encouraging short-termism by focusing on annual targets.

EVA offers a refinement over RI in that the problems of using historic accounting data are addressed through adjustments being made to the raw profit and asset values. Common adjustments are the following :

- converting accruals records to a cash basis;
- removing non-recurring events such as restructuring costs;
- capitalising intangible investment activities such as marketing.

Using the figures for Angel from the above example, and assuming a capital employed of £1000 million (see also the appendix), the EVA or economic profit for the year 2000 can be calculated as shown in *Analysis* 4.

Analysis 4 Calculation of economic profit for year 2000

	2000 £M
Net operating profit	388.8
Tax	116.6
Net operating profit after tax (NOPAT)	272.2
Interest charge (£1000M × 9%)	90.0
Economic profit	182.2

Market value added

Market value added (MVA) is the additional value that is added to a company by its management over the years above the actual value of the funds invested by the shareholders. It could also be viewed as the present value of the amount by which investors expect future profits to exceed the cost of capital. It is related to EVA, as, in theory, it should represent the present value of expected future EVAs.

Cash flow return on investment

Cash flow return on investment (CFROI) is essentially the discount rate at which the net present value of the inflation-adjusted cash flows available to capital holders equals the current value of the asset base. It is an estimate of the real rate of return earned by the company on all its assets. Its assets are treated as a portfolio of projects, with some old projects finishing each year, and new projects being added.

What is going on at the moment ?

The results of a survey of UK accountants recently conducted by the authors showed that the level of adoption of these metrics was relatively low, with EVA, for example, being used by 10% of large UK companies as a divisional performance measure. However, the survey revealed that, although relatively few firms were currently using value-based metrics, many more were considering their introduction. *Figure* 2 shows those value-based measures that had been introduced into organisations within the previous three years, or were currently being considered.

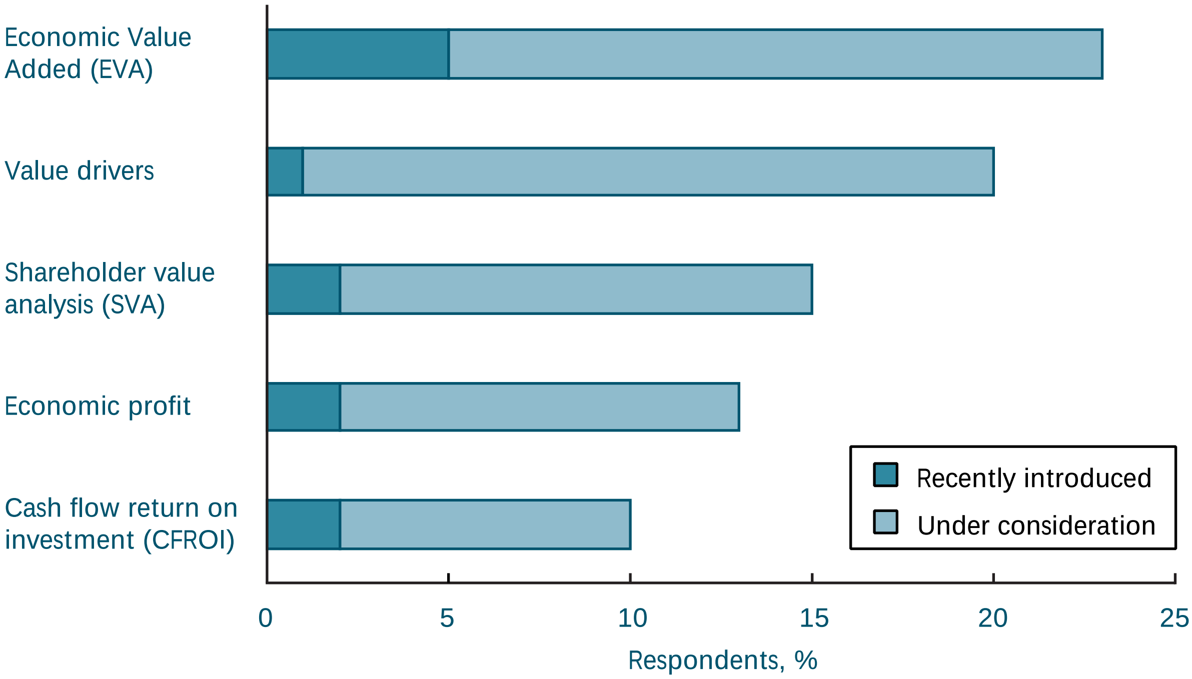


Figure 2 Value-based performance measures recently introduced or under consideration

When asked why the new value-based measures had been introduced, organisations appeared to be mainly driven by external or group level pressures :

- external pressure :
  - company takeover;
  - response to city analyst;
- group pressure :
  - reflection of group objectives;
  - concentration on the ‘whole’ business.

Several respondents talked about the need to focus on shareholder value, and measures being implemented as a result of a company takeover.

A number of barriers to the implementation of the new value-based performance measures were identified by this study. Over 20% of the respondents, who were qualified accountants, were not aware of the EVA performance measure. Apart from a lack of awareness of the new measures, many of those who were familiar with the new metrics viewed them as being ‘too complicated to apply', and felt that 'non-financial managers could not easily understand them'. A number of respondents saw the measures as yet another management fad. This is typified in the comments of one respondent, who described EVA as being 'the flavour of the month, but is basically an existing tool given a marketing boost and high profile'. Those who were supportive tended to focus on the whole organisation. For example one respondent wrote 'EVA is well worth using to emphasise the "whole" company'. The study identified a number of companies that used value-based measures at head office level, but retained traditional profit measures in their divisions. KPMG, in a 1995 survey of value-based management, described this type of company as 'light users', who report overall results in value-based terms, but retain traditional measures within their performance measurement systems.

What are the problems in implementing these measures ?

Value-based measures can be reasonably straightforward for an organisation to calculate. However, incorporating them within the performance measurement system is a much greater challenge, particularly at the divisional level within an organisation. The technical barriers to implementation include the need to establish the cost of capital and value the capital employed. At the divisional level, there is also the added difficulty of dealing fairly with the synergies between divisions. The measures require some fairly detailed adjustments to profit and capital employed figures to move them away from historical profit towards economic value. These adjustments, whilst introducing greater theoretical vigour into the measures, also place an increasing burden on the accountants who have to calculate them, and the line managers who have to interpret them.

The authors have found three types of difficulty which are associated with the implementation of these new measures in practice :

- *Awareness difficulties* : Firstly, there is a possible lack of awareness of new measures, despite very active promotion by the management consultants.
- *Technical difficulties* : Once a measure has been selected, the barriers to implementation include technical difficulties, such as the establishment of the cost of capital and the capital asset base.
- *Organisational difficulties* : There can also be organisational barriers, such as time, and resistance to change. Organisations may encounter cultural and political difficulties in trying to gain acceptance and ownership of the new measures.

Summary

Shareholder value has become the mantra in almost every boardroom in the UK. However, as is the case with many new management ideas, the concept of shareholder value has been around for many years. In terms of organisational objectives, it is consistent with maximising shareholders' wealth. It differs from traditional approaches to measuring performance in the way in which it calculates and reports that wealth. It has been suggested that merely adopting the terminology may lead to an increase in a company's share value, owing to an improvement in the City's perceptions of the company. However, if companies are to continue to reap real intrinsic benefits from these measures, it cannot be enough simply to calculate and report these measures. For an ongoing and sustainable increase in shareholder value to be achieved, organisational changes must be undertaken to shift the focus of the management away from profit and towards value drivers.

Appendix

To estimate the future economic profits of a company, we must first forecast the future capital employed. Assuming an opening capital of £1000 million for Angel, and using the same changes in capital expenditure as in our free cash flow forecast (see *Analysis* 1), we obtain the capital values shown in *Analysis* 5.

These capital values can then be used to calculate the present values of the future economic profits generated by the organisation, as shown in *Analysis* 6.

Finally, the shareholder value of the company can be calculated as shown in *Analysis* 7.

The discounted cash flows approach used in the main article and the economic profits approach shown in this appendix give identical results for the shareholder value, as mathematically they are identical calculations that are carried out in a different manner.

Analysis 5 Calculation of capital values

	2000	2001	2002	2003	2004
	£M	£M	£M	£M	£M
Opening capital	1000.0	1121.7	1220.3	1307.4	1362.2
Increase in working capital	36.0	29.2	25.8	16.2	0.0
Increase in fixed assets	166.7	155.3	151.5	131.5	92.9
Less Depreciation	81.0	85.9	90.2	92.9	92.9
Closing capital	1121.7	1220.3	1307.4	1362.2	1362.2

Analysis 6 Calculation of present values of future economic profits

	Actual	Competitive advantage period				*Future*
	1999	2000	2001	2002	2003	*2004 onwards*
	£M	£M	£M	£M	£M	*£M*
Sales	**3000.0**	3240.0	3434.4	3606.1	3714.3	*3714.3*
Net operating profit		388.8	412.1	432.7	445.7	*445.7*
Tax		116.6	123.6	129.8	133.7	*133.7*
Net operating profit less adjusted taxes		272.2	288.5	302.9	312.0	*312.0*
Interest charge		90.0	101.0	109.9	117.7	*122.6*
Economic profit		182.2	187.5	193.0	194.3	*189.4*
Discount factor, 9%		0.917	0.842	0.772	0.708	*7.871*
Present value of economic profit		167.1	157.9	149.0	137.6	*1490.8*

Analysis 7 Calculation of shareholder value

	£M
Cumulative present value of economic profits in competitive advantage period	611.6
Terminal value	1490.8
Opening capital	1000.0
Enterprise value	3102.4
Market value of debt	500.0
Shareholder value	2602.4

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  Perhaps one of the best sources on EVA, along with the book by B Stewart in the further reading list.
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Further reading

- ***In Search of Shareholder Value***

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ORGANISATIONAL BEHAVIOUR

INFLUENCING OTHERS

Donna Ladkin, Cranfield School of Management and University of Bath

Knowing what needs to be done is of little use unless you can persuade the rest of your organisation to go along with your wishes. This article explores influencing skills as a key business talent. It sets out some important areas to consider before you start interacting with others, and suggests some useful practical approaches.

Ever been here ... ?

You have this great idea – a way to save your business a million pounds. It not only saves money, but also time and inefficiency. You have prepared the figures and sorted it all out. In three months, the business will have saved £100 000. In six months, the plan will have paid its own way. All you need to do is sell the idea. All you need to do is convince Harry in manufacturing to let two of his people go. All you have to do is push back that marketing campaign, the one that Celia has been working on. Surely she will agree when she sees the benefits ? You go and tell them the story. At the points at which you expected eyes to light up, they cloud over with incomprehension instead. The sell you thought would be as easy as pie looks more like a deflated meringue. You did the numbers ... what went wrong ?

It is true that Harry only needs to lose two members of staff, but his most recent recruits are friends of an uncle to whom he owes a favour. He does not want to dismiss them when they have only just settled in. Celia has been working on the marketing campaign for the last eight months. Her bonus depends on her delivering on time. However, can they not see that your proposed course of action will benefit the company, and that protecting their own turf will not help the greater good ? If only they were more broad-minded, if only the company culture did not encourage people to look after their own patch, if only ... .

If only you had thought about influencing in a different way. Perhaps if you had considered three areas before launching into your ‘sell’ :

- knowing the people you are trying to influence;
- understanding your own vision and its implications;
- understanding that influencing is not a rational process;

you might have achieved a different outcome.

Knowing the people you are trying to influence

The first step in influencing people is to know them. This may sound obvious, but the kind of ‘knowing’ involved in influencing someone is different from being able to recognise the person in a corridor or knowing who his or her manager is. Knowing someone in a way that will help you to influence him or her means understanding the following :

- *His or her explicit and hidden agendas* : This entails having an idea about the person's business agendas, such as the targets he is tasked with achieving, how he sees his part of the organisation fitting into the rest of the company (which will not necessarily correlate with its position in the organisational chart), and to whom he feels most answerable. It means knowing what other pressures are being exerted on him in the business, and from where. Understanding his deadlines, and the critical points in his work cycle, can help you to choose an optimal time to launch your bid. Developing a sense of his personal agenda is more difficult, but this is just as important as (if not more important than) appreciating the business agendas of others. For instance, if he is secretly harbouring a desire to move to another part of the organisation and your suggestion would mean phasing that department out, expect all kinds of 'rational' resistance to your idea. Having some sense of the personal alliances of those whom you are trying to influence is also key, as shown in the above example of Harry and his uncle's friends.
- *What it will cost him or her to do what you are suggesting* : The easiest situations to influence are those in which there is congruence between what you are trying to achieve and the best interests of those whom you are attempting to influence. Of course, this is not always the situation. It may help you to frame your proposal if you consider what the person you are influencing stands to lose if you get what you want. For instance, you may be suggesting what seems like a simple reorganisation to you, but she may have just settled in three vital new team members, and may not have the energy to face more change. Consider what you are asking for from the other's perspective. Remember that time is itself a commodity; just listening to your idea can mean that the person forfeits a coffee break or the completion of a task. Find ways of articulating and positioning your view so that both parties have something to gain from accepting it. This entails doing your homework beforehand so that you can present your case as a win–win proposal.
- *How he or she likes to be influenced* : People like to be influenced in various ways. Some people will only be swayed by facts and figures into seeing it your way. They will want to see your expert knowledge at work when you present the upside and the downside of your case. For others, it will be more important for them to know how the 'boss' views your idea, or they will want to find out what others they respect think about it. You may find this approach repellent because it makes you feel as if unseen forces are ganging up on you. The technique of bargaining is often used when trying to influence people. If you adopt this approach, you will be more successful if you understand what the influencee recognises as a bargaining chip. For example, for some people, appreciation and verbal thanks have enough value in themselves to be effective bargaining devices. Others will want tradeoffs that have monetary or material value. You will not be successful in bargaining unless the bargain offers things which people value.
- *How the message is conveyed* : Similarly, people differ in terms of the way they like a proposal to be conveyed. Does the person prefer written communication to spoken communication ? Does she like to have time to think things over first, so that asking her to consider your proposal on the spur of the moment will always result in a 'no' ? What kind of backup data will he need to make his decision ? Will facts and figures suffice, or will he need confirmation that someone else also thinks that your plan is a good idea ? If the opinions of others will be called for, make sure you know whose opinions will be rated as worthwhile.

These points suggest that influencing others takes time. Getting to know people well enough to be able to influence them *does* take time. In most business environments, this may seem to be a waste of a valuable commodity. After all, how can you justify chatting with people when there is so much work to be done ? However, the gathering of this kind of information does not just take time; it is more a question of engaging a certain mindset. It entails having a 'heads up' orientation to the personal dynamics alive in the organisation, as well as to facts and figures. It means taking time over coffee to discover how others see the business, to notice what is concerning whom, and to be aware of issues internal and external to the company that are affecting strategy and tactics.

Taking the time to get to know those whom you will want to influence is an investment; doing this will save you time downstream. This seems to be even more true in today's world of email, voicemail and videoconferencing. Research shows that the use of remote communications tools is much more successful and satisfactory when the people have had some prior face-to-face interaction. There still seems to be no substitute for testing another person's handshake !

Knowing what you want out of the influencing process

Influencing is not just about understanding the other person's agendas, preferences and timing issues. The influencer also needs to understand what he or she is trying to achieve by influencing. This can be accomplished through the following :

- *Having a strategy* : Naturally, the gravity of the situation you are trying to influence will determine the scale of the strategy you use; not every hallway encounter needs a four-point influencing plan ! For major issues, however, you may like to consider your proposal as more a campaign than a one-off 'hit'. This entails understanding your own long-term and short-term objectives. Consider the ideal outcome, but also think about the poorest outcome, and compromises between the two. What will your next plan of action be should you fail to influence the situation ? Which allies can you rely on to back you up ? If the issue you are involved in is a major one, you could consider carrying out a trial run with someone who knows the situation and those you are trying to influence, to get his or her feedback about your approach.
- *Being clear about what you want, and what is in it for you* : Remember that situations which involve influencing are not politically neutral. Those whom you are trying to influence will be weighing up what is in it for you. Be prepared to articulate this yourself, rather than leaving assumptions unvoiced. It can be helpful if you are able to express (at least to yourself) *why* you want what you want. It can also be beneficial if you understand your own underlying assumptions about the issue you are trying to influence. Ask yourself questions such as the following :
    - What are my assumptions about why this is a useful/appropriate/effective plan of action ?
    - What are my assumptions about the surrounding circumstances ?
    - What are my assumptions about what will be different as a result of this action being taken ?
    - How will I know whether I have achieved the results I want ?
    - How will this be better for whom, and what is the downside ?
- *Understanding your own power base and the style of influencing that works best for you* : Understand the power base that you have and how it can assist you to influence. Recognise that informal power works outside formal organisation structures. For example, you may have a relatively lowly position within the organisation, but have enormous expert power because of the technical competence you bring to your role. You may have important connections outside the company because of charity work that you do in your community. Recognising such links and the power they give you can give you the edge when you are trying to influence a situation which is going to be decided by personal preferences and considerations.

- *Choosing what you are going to spend time influencing others about* : Do not expect to be able to exercise influence over every situation. This is very important, as people can wear themselves out trying be influential in every arena of organisational life. Pick and choose the situations and issues that are most important to you and your team. Recognise that no matter how exact your level of information is, or how broad your perception, you still have only one piece of the total organisational puzzle. Be aware of what you are trying to influence and why. Do not fight every battle. Select the ones you are going to fight and realise why you are fighting them.

Understanding that influencing is not a rational process

Following the logical steps outlined above will help you to influence more effectively. Finally, though, let us consider the inexplicable nature of influencing. The origin of the word 'influence' is an Old French word, which had the general sense of 'an influx, or flowing into matter'. It also had the more specific astrological meaning of 'the flowing of an ethereal fluid (affecting human destiny), the sense imperceptible, or indirect, exerted to affect change' (*New Oxford Dictionary of English* (1998)).

The origin of the word captures for me something of the ephemeral quality of influencing. The influencing of another person is essentially a subtle interaction of interpersonal energies. It consists of more than saying the right bargaining words or approaching someone at the optimal time. Effective influencing combines the ability to win trust and to inspire. It challenges you to tell your story in a way that encourages others to want to get involved, and to see it your way. It requires that you speak well and with feeling about your vision, your goal, and why it is that people should be influenced by you.

Work out your strategy. Understand those you whom are trying to influence and how they will see the issue. Articulate your own underlying assumptions about the situation. In just taking these steps, you may find that your own interest and curiosity about the wider picture and the consequences of your view being acted upon create a subtle effect on how you present your case. Engaging seriously in the process itself may go some distance towards garnering those 'ethereal', 'imperceptible' forces.

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- ***The Empowered Manager***

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  Includes a section on mapping influencers and a force-field analysis.

- ***Talking 9 to 5***

  Tannen, D (1996) Virago

  Looks at gender differences in language and how they effect one's ability to influence and use authority.

OUTLINE SYLLABUS

Management Quarterly is designed to be a three-year endeavour, setting out key management techniques in core disciplines. Over that time, it is expected that the content may develop and change. However, here we set out the current anticipated syllabus for the journal.

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What is strategy ? ✔ *Part* 1, *October* 1998

What does corporate HQ do ? ✔ *Part* 2, *January* 1999

Strategic alliances ✔ *Part* 3, *April* 1999

Competitive strategy ✔ *Part* 4, *July* 1999

Strategic analysis tools – the external environment ✔ *Part* 5, *October* 1999

Strategic analysis – assessing internal resources ✔ *Part* 6, *January* 2000

Linking external and internal analysis

Strategic choice : stakeholders

Strategic decision making

Strategic change

International strategy

The future of strategy

Human resources

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Changing roles and responsibilities ✔ *Part* 2, *January* 1999

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Performance management : motivating and monitoring ✔ *Part* 5, *October* 1999

Developing the organisation ✔ *Part* 6, *January* 2000

Personal development and people management competencies

Managing conflict and difference

The role of trade unions and collective representation

Impact of the European Union

International HRM

Ethics and corporate governance

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Relationship marketing ✔ *Part* 5, *October* 1999

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Market segmentation and positioning

Analytical tools for marketing

Managing the marketing mix

Developments in marketing

Branding

International marketing

OUTLINE SYLLABUS – *Continued*

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The cost of capital ✔ *Part* 5, *October* 1999

Shareholder value ✔ *Part* 6, *January* 2000

Valuation of companies

Financial instruments

International finance

Mergers and acquisitions

Project finance

Venture capital

Articles are also being commissioned to cover: information systems, just-in-time operations, and total quality management. Further material on people management, concentrating on the individual rather than the organisation, will also be included.

Copies of the journal articles referred to can generally be obtained through the Institute library. A charge is made for these articles, based on the number of pages to be copied.

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Strategy ***Linking internal and external analysis***

Various perspectives on the firm have been examined in the series. In this article, cost and value are explored in a strategic context, and SWOT analysis is discussed.

Human Resources ***Personal development and people management competencies***

Individuals have differing personal competencies. This contribution looks at how to manage the various styles, and how to get the best out of people. Personal development and personal awareness are considered in this context, together with coaching and mentoring issues.

Marketing ***Market segmentation and positioning***

What is segmentation, and how can one customer type be distinguished from another? The segmentation process is examined, together with market targeting and positioning.

Finance ***Company valuation***

Asset-based and market-based methods of valuation are discussed, together with the valuation of fundamentals using shareholder-value techniques explained in this issue. The questions of 'value to whom?' and synergies are also considered.

Project Management ***Dealing with project risk***

This article, which builds on new research, looks at how risk can be assessed in practice, alternative ways of viewing risk, and how to take account of projects with differing levels of risk.

Management Quarterly will act as an aide-memoire for members, provide new ideas, and encourage good practice, but the Faculty cannot accept responsibility for the accuracy or completeness of issues of *Management Quarterly*. **Being general in nature, the points made in *Management Quarterly* may or may not be relevant to specific circumstances**. Responses from the membership will be a very important part of the successful development of the series. Comments please, to Chris Jackson on 0171 920 8486 (or by e-mail to CDJackson@icaew.co.uk).

Management Quarterly is compiled and edited by Ruth Bender, who joined Cranfield School of Management as a lecturer in 1994, having completed her MBA there. Prior to this, she was a corporate finance partner in Grant Thornton. Ruth is a member of the Faculty committee.

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