

# Strategy in action

## STRATEGY IN ACTION - EXAM LEVEL

Exam question types from the 2022 sample exam, question 6: explain creative destruction (5p, 20 words) and assess whether a wide or narrow zone of indifference fits (5p); the marking model rewards a wide zone. Write full sentences, use the English technical terms and do not translate them.

## Purpose, stakeholders and the power/attention-matrix

**Definition. Purpose** is the value an organisation creates for its stakeholders, financial and non-financial, and must be consistent with the culture. Freeman: stakeholders and organisation are mutually dependent. Five types: economic, social/political, technological, community/society and internal.

| Quadrant          | Power | Attention | Approach              |
|-------------------|-------|-----------|-----------------------|
| A key players     | high  | high      | cultivate support     |
| B sleeping giants | high  | low       | keep satisfied        |
| C gadflies        | low   | high      | information provision |
| D                 | low   | low       | minimal effort        |

**Applying.** Determine per issue the position of each stakeholder. Petrobras: the truckers were a sleeping giant that woke up.

**Pitfall.** The axis is called attention, not interest. Positions differ per issue, and a gadfly can wake a sleeping giant. Mission, vision and objectives must be aligned.

## CSR and the four stances

**Definition. CSR** is the commitment of organisations to behave ethically and contribute to economic development, with attention to workforce, community and society, above the legal minimum.

| Stance                            | Rationale            | Leadership | Mode      | Relation                     |
|-----------------------------------|----------------------|------------|-----------|------------------------------|
| laissez-faire                     | comply with the law  | peripheral | defensive | unilateral                   |
| enlightened self-interest         | sound business sense | supportive | reactive  | interactive                  |
| forum for stakeholder interaction | triple bottom line   | champion   | proactive | partnership                  |
| shaper of society                 | societal change      | visionary  | defining  | multi-organisation alliances |

**Applying.** Place the organisation on what it does, not on what it says: Rio Tinto (Juukan Gorge) is laissez-faire, BlackRock under Fink is enlightened self-interest.

**Pitfall.** Laissez-faire is not the same as unethical: the company keeps to the law.

## Networks and legitimacy

Organisations are networks. Granovetter: the strength of weak ties. Global networks are vulnerable, hence stakeholder due diligence is needed. Subsidiaries have internal and external legitimacy (Bartlett & Ghoshal 1990).

## Schein and the cultural web

**Definition. Organisational culture** is the taken-for-granted assumptions and behaviours. Schein has four layers: values, beliefs, behaviours, assumptions. The deeper the layer, the stickier. Subcultures can exist.

The **cultural web** has the paradigm in the middle, surrounded by stories, symbols, rituals & routines, power structures, organisational structures and control systems (Huawei wolves).

**Identity** is how insiders see the organisation, **image** how outsiders see it. Culture is what really happens. Merck, Carlsberg and WeWork are examples of organisational identity in the book, not of culture.

**Pitfall.** Identity, image and culture are three different concepts. Reus: culture is the informal twin of structure, and Schein sees two functions: external adaptation and internal integration.

## Strategic drift

**Definition. Strategic drift** is the emergence of a gap because the organisation changes more slowly than its environment. Four phases: incremental change, strategic drift, flux, transformation

or death (Nokia versus Microsoft under Nadella).

Four causes: uncertainty, lock-in/core rigidities, cultural entrenchment and powerful people (Kodak).

**Pitfall.** Drift is not doing nothing: the organisation does change, but too little and too slowly.

## Founders and creative destruction

**Imprinting theory:** founders leave their mark on the organisation. A founder is not automatically an entrepreneur. Schumpeter: **creative destruction** is "a process of industrial mutation that continuously revolutionizes the economic structure from within". The entrepreneur creates something new and thereby destroys something old. A pizza baker who does the same as his competitors is a founder, not an entrepreneur.

Examples: the music industry (gramophone, cd, Apple mp3), Netflix, Uber, Wikipedia, Booking.com.

**Entrepreneurship** has three elements: the entrepreneur (or team), the environment (trends and marketplace gaps) and resources and capabilities. Six steps: opportunity recognition, feasibility, business plan, industry analysis, business model/strategy and financing. The process is iterative (pivoting, Starbucks). Forms of enterprise: sole proprietorship, partnership/VOF, BV, NV and public.

**Model answer (20 words).** "Creative destruction is the process in which an entrepreneur, by creating something new, at the same time destroys existing firms or products, like the mp3 did to the cd."

## Agency and corporate governance

**Definition.** In the **agency problem** (principal-agent) the manager as agent does not act in the interest of the owner, for example through empire building. The **collective action problem** arises with fragmented owners. In the **principal-principal** problem large and small shareholders clash.

|         | Adverse selection                                | Moral hazard                       |
|---------|--------------------------------------------------|------------------------------------|
| Moment  | before the contract (pre-contract)               | after the contract (post-contract) |
| Problem | agent knows more about his quality or intentions | agent behaves differently          |
| Remedy  | screening, signalling, due diligence             | monitoring, incentives             |

**Applying.** Car mechanic: the seller knows more about the car than you do (adverse selection), or he works more sloppily after the sale (moral hazard). **Corporate governance** (board/supervisory board, shares and bonus) limits these problems.

**Pitfall.** Do not confuse adverse selection with moral hazard: it is about the moment. Agency is also something other than principal-principal.

## Leadership and Barnard's zone of indifference

Top: envisioning, aligning, embodying. Middle: champions, sense makers, adapters.

Entrepreneurial: opportunity spotter, resource marshaller, risk taker. Styles: transformational (soft levers), transactional (hard levers) and situational (continuum).

**Barnard's zone of indifference** is the range of instructions that an employee carries out without objection. A wide zone fits trust, clear interests and a strong culture; a narrow zone means the employee tests every instruction critically. Exam answer (marking model of the 2022 sample exam, 5p): a **wide** zone of indifference, because people then accept many different requests and orders without asking questions. Support this with evidence from the case.

## Performance evaluation and gap analysis

Three dimensions: product markets, accounting profitability, market measures. Three comparisons: targets, trends and comparable organisations. **Gap analysis** compares desired and actual performance.

## SAFE and the forcefield-analyse

**SAFE** tests strategic options:

- **Suitability**: does the option fit the gap and the situation (gap analysis, SWOT)?
- **Acceptability**: the 3 R's: Risk, Return and stakeholder Reactions.
- **Feasibility**: financial, people and skills, and the change context (forcefield).

If one component fails, you do not do it.

**Forcefield-analyse** (forcefield analysis): weigh forces for and against change. If the balance is negative, first strengthen the forces for change.

**Pitfall**. Return is only a part of acceptability. A financially strong option can fail on stakeholder Reactions.

## Structure and growth path

Chandler: structure follows strategy. The reverse also holds (ostrich). Structure follows complexity: internal for coordination, external for customers, markets and countries.

| Phase | Structure                     | Crisis or disadvantage                                            |
|-------|-------------------------------|-------------------------------------------------------------------|
| 1     | simple structure              | leadership crisis                                                 |
| 2     | functional structure          | autonomy crisis                                                   |
| 3     | divisional structure (M-form) | knowledge not shared, duplication, fights over resources, holding |
| 4     | matrix                        | two bosses, loyalty, contradictory demands, expensive             |

The book also mentions the agile team. **Coordination mechanisms:** standardisation of work (kitchen), skills (R&D) and output (sales).

## Goold & Campbell and KPIs

**Goold & Campbell** distinguish strategy styles on two axes: planning influence and business unit accountability. Three styles: strategic planning, financial control and strategic control. The diagonal is consistent. High central influence with strict accountability is unfair. KPI problems: inappropriate measures and inappropriate target levels.

**Pitfall.** Planning and financial control are different styles.

## Soft implementation

- **Culture change** in five steps with the 4 R's: recruitment, retraining, reward, reinforcement. Cultures are sticky.
- **Sensemaking** (Balogun & Johnson): fracturing, differentiated understanding, mutual adjustment. Communication is not the same as understanding: implementation is the strategy.
- **Procedural justice** (fair process) with the three E's: Engagement, Explanation and clarity of Expectations. **Distributive justice** is about the outcome: equality or equity. Haspeslagh & Jemison: justification and voice.

**Pitfall.** Procedural and distributive justice are different.

## Kotter

Eight steps: urgency, coalition, vision, communicate, empower, short-term wins, consolidate, institutionalise. At the Festival d'Aix-en-Provence urgency was weak until COVID, a coalition of Audi and Vienne emerged (the middle manager as sense maker and adapter), short-term wins followed (donations 20 percent of revenues in 2019, 25 in 2021 and 31 expected in 2022) and an extension to 2027.

## Exam help

- Always name the model, apply it to the case and give a judgement.
- For BlackRock: economic stakeholder with social values, purpose "financial well-being", Fink calls the culture "not perfect".
- When in doubt: do not translate.