



DURBAN CAMPUS

STRATEGIC MANAGEMENT AT FBSDL (PTY) LTD

By

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MASTERS IN BUSINESS ADMINISTRATION

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TO WHOM IT MAY CONCERN:

RE: CONFIDENTIALITY CLAUSE


Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five years.

Sincerely

R. Ramchunder

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed..........

Date.....27/10/2003.....

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ABSTRACT

The research at hand seeks to provide an answer to the following business problem:

How should FBSDL (Pty) Ltd define, develop and maintain an effective Strategic Management System to ensure the long-term survival and sustainable growth of the company?

After setting out the background of the company and the motivation for the research, a model for strategic management is developed including five main elements. These are the strategic Intent, Position, Choices, Implementation and Performance. This theoretical model is then converted into a questionnaire that is used as a tool for collecting information about the company relating to the various aspects of strategic management. Information is obtained via the analysis of company data, interviewing of relevant personnel and passive observation of company practices. The company data is evaluated against the theory together with an assessment of how well suited the status quo is to emerging internal and external conditions. Finally, recommendations are made for the enhancement of the strategic management of the company – satisfying the ultimate objective of the study.

TABLE OF CONTENTS

CHAPTER 1 - INTRODUCTION

1.1. INTRODUCTION	1-1
1.2. BACKGROUND OF THE RESEARCH.....	1-2
1.3. MOTIVATION FOR THE RESEARCH.....	1-4
1.4. VALUE OF THE RESEARCH	1-6
1.5. PROBLEM STATEMENT	1-7
1.6. RESEARCH OBJECTIVES	1-7
OBJECTIVE 1	1-7
OBJECTIVE 2	1-7
OBJECTIVE 3	1-7
1.7. RESEARCH METHODOLOGY.....	1-8
STEP 1 – Literature Review	1-8
STEP 2 – Company Investigation	1-8
STEP 3 – Analysis and Evaluation.....	1-8
STEP 4 - Recommendations.....	1-8
1.8. LIMITATIONS OF THE RESEARCH	1-9
1.9. STRUCTURE OF THE STUDY	1-9
1.10. SUMMARY	1-10

CHAPTER 2 - THEORY

2.1. INTRODUCTION	2-1
2.2. STRATEGIC MANAGEMENT.....	2-2
2.2.1. STRATEGY DEFINED	2-2
2.2.2. THE PROCESS OF STRATEGY DEVELOPMENT	2-3
2.2.3. GENERAL ASPECTS.....	2-6
2.2.4. A STRATEGIC MANAGEMENT MODEL.....	2-7

2.3. STRATEGIC INTENT	2-11
2.3.1. VISION	2-11
2.3.2. MISSION	2-13
2.3.3. OBJECTIVES	2-14
2.3.3.1. Financial Objectives.....	2-14
2.3.3.2. Strategic Objectives	2-15
2.4. STRATEGIC POSITION	2-16
2.4.1. EXTERNAL ENVIRONMENT ANALYSIS	2-16
2.4.1.1. Macro-Environment Analysis.....	2-16
2.4.1.2. Industry and Market Analysis.....	2-19
2.4.2. INTERNAL ENVIRONMENT ANALYSIS	2-25
2.4.2.1. Value Chain Analysis	2-26
2.4.2.2. Core Competence Analysis.....	2-29
2.4.2.3. Benchmarking.....	2-30
2.4.3. EXPECTATIONS AND PURPOSES	2-32
2.4.3.1. Organisational Culture Mapping.....	2-32
2.4.3.2. Stakeholder Mapping.....	2-33
2.5. STRATEGIC CHOICES	2-35
2.5.1. SWOT STRATEGIES	2-35
2.5.2. FUNDAMENTAL CHOICES.....	2-38
2.5.2.1. Sustainable Competitive Advantage.....	2-38
2.5.2.2. Directions and Methods Of Development	2-40
2.5.3. STRATEGIC EVALUATION.....	2-42
2.5.3.1. Suitability.....	2-42
2.5.3.2. Acceptability	2-43
2.5.3.3. Feasibility.....	2-44
2.6. STRATEGIC IMPLEMENTATION.....	2-44
2.6.1. ORGANISING THE COMPANY.....	2-44
2.6.1.1. Organisational Structures.....	2-45
2.6.1.2. Work Design	2-45
2.6.1.3. Organisational Processes	2-46

2.6.1.4. Relationships and Boundaries	2-47
2.6.2. ENABLING STRATEGY	2-48
2.6.2.1. Managing People	2-48
2.6.2.2. Managing Information	2-49
2.6.2.3. Managing Finance.....	2-51
2.6.2.4. Managing Technology	2-52
2.6.3. MANAGING CHANGE.....	2-53
2.7. STRATEGIC PERFORMANCE	2-56
2.8. SUMMARY	2-58

CHAPTER 3 - CASE STUDY

3.1. INTRODUCTION	3-1
3.2. COMPANY BACKGROUND	3-2
3.3. STRATEGIC MANAGEMENT.....	3-4
3.3.1. THE PROCESS OF STRATEGY DEVELOPMENT.....	3-4
3.3.2. GENERAL ASPECTS.....	3-5
3.4. STRATEGIC INTENT	3-5
3.5. STRATEGIC POSITION	3-7
3.5.1. EXTERNAL ENVIRONMENT	3-7
3.5.1.1. Macro-Environment.....	3-7
3.5.1.2. Industry and Market Environment.....	3-8
3.5.2. INTERNAL ENVIRONMENT	3-11
3.5.2.1. Value Chain	3-11
3.5.2.2. Core Competence.....	3-12
3.5.2.3. Benchmarking.....	3-12
3.5.3. EXPECTATIONS AND PURPOSES	3-12
3.5.3.1. Culture.....	3-13
3.5.3.2. Politics.....	3-13
3.6. STRATEGIC CHOICES	3-14
3.6.1. SWOT STRATEGIES	3-14

3.6.2. FUNDAMENTAL CHOICES	3-15
3.6.2.1. Sustainable Competitive Advantage	3-15
4.6.2.2. Directions and Methods of Development	3-15
3.6.3. STRATEGIC EVALUATION.....	3-16
3.7. STRATEGIC IMPLEMENTATION.....	3-17
3.7.1. ORGANISING THE COMPANY	3-17
3.7.1.1. Organisational Structures.....	3-17
3.7.1.2. Work Design	3-18
3.7.1.3. Organisational Processes	3-18
3.7.1.4. Relationships and Boundaries.....	3-18
3.7.2. ENABLING STRATEGY	3-19
3.7.2.1. Managing People	3-19
3.7.2.2. Managing Information	3-20
3.7.2.3. Managing Finance.....	3-20
3.7.2.4. Managing Technology	3-21
3.7.3. MANAGING CHANGE.....	3-21
3.8. STRATEGIC PERFORMANCE.....	3-21
3.9. SUMMARY	3-22

CHAPTER 4 - ANALYSIS & EVALUATION

4.1. INTRODUCTION	4-1
4.2. STRATEGIC MANAGEMENT.....	4-2
4.2.1. THE PROCESS OF STRATEGY DEVELOPMENT.....	4-2
4.2.2. GENERAL ASPECTS.....	4-3
4.3. STRATEGIC INTENT	4-4
4.3.1. VISION	4-4
4.3.2. MISSION	4-6
4.3.3. OBJECTIVES	4-7
4.4 STRATEGIC POSITION	4-8
4.4.1. EXTERNAL ENVIRONMENT ANALYSIS	4-8

4.4.1.1. Macro-Environment Analysis	4-8
4.4.1.2. Industry and Market Analysis	4-11
4.4.2. INTERNAL ENVIRONMENT ANALYSIS	4-13
4.4.2.1. Value Chain Analysis	4-13
4.4.2.2. Core Competence Analysis	4-14
4.4.2.3. Benchmarking	4-14
4.4.3. EXPECTATIONS AND PURPOSES	4-14
4.4.3.1. Culture	4-14
4.4.3.2. Politics	4-15
4.5. STRATEGIC CHOICES	4-15
4.5.1. SWOT STRATEGIES	4-15
4.5.2. FUNDAMENTAL CHOICES	4-16
4.5.2.1. Sustainable Competitive Advantage	4-16
4.5.2.2. Directions and Methods Of Development	4-16
4.5.3. STRATEGIC EVALUATION	4-17
4.6. STRATEGIC IMPLEMENTATION	4-17
4.6.1. ORGANISING THE COMPANY	4-17
4.6.1.1. Organisational Structures	4-17
4.6.1.2. Work Design	4-18
4.6.1.3. Organisational Processes	4-18
4.6.1.4. Relationships and Boundaries	4-18
4.6.2. ENABLING STRATEGY	4-19
4.6.2.1. Managing People	4-19
4.6.2.2. Managing Information	4-20
4.6.2.3. Managing Finance	4-20
4.6.2.4. Managing Technology	4-20
4.6.3. MANAGING CHANGE	4-21
4.7. STRATEGIC PERFORMANCE	4-21
4.8. SUMMARY	4-22

CHAPTER 5 - RECOMMENDATIONS

5.1. INTRODUCTION	5-1
5.2. STRATEGIC MANAGEMENT	5-2
5.2.1. THE PROCESS OF STRATEGY DEVELOPMENT	5-2
5.2.2. GENERAL ASPECTS	5-3
5.3. STRATEGIC INTENT	5-4
5.3.1. VISION	5-4
5.3.2. MISSION	5-5
2C. OBJECTIVES	5-6
5.4. STRATEGIC POSITION	5-7
5.4.1. EXTERNAL ENVIRONMENT ANALYSIS	5-7
5.4.1.1. Macro-Environment Analysis	5-7
5.4.1.2. Industry and Market Analysis	5-11
5.4.2. INTERNAL ENVIRONMENT ANALYSIS	5-14
5.4.2.1. Value Chain Analysis	5-14
5.4.2.2. Core Competence Analysis	5-16
5.4.2.3. Benchmarking	5-17
5.4.3. EXPECTATIONS AND PURPOSES	5-17
5.4.3.1. Culture	5-17
5.4.3.2. Politics	5-18
5.5. STRATEGIC CHOICES	5-18
5.5.1. SWOT STRATEGIES	5-18
5.5.2. FUNDAMENTAL CHOICES	5-19
5.5.2.1. Sustainable Competitive Advantage	5-19
5.5.2.2. Directions and Methods Of Development	5-19
5.5.3. STRATEGIC EVALUATION	5-20
Suitability	5-20
Acceptability	5-20
Feasibility	5-21
5.6. STRATEGIC IMPLEMENTATION	5-21

5.6.1. ORGANISING THE COMPANY	5-21
5.6.1.1. Organisational Structures.....	5-21
5.6.1.2. Work Design	5-22
5.6.1.3. Organisational Processes	5-23
5.6.1.4. Relationships and Boundaries.....	5-24
5.6.2. ENABLING STRATEGY	5-24
5.6.2.1. Managing People	5-24
5.6.2.2. Managing Information	5-25
5.6.2.3. Managing Finance.....	5-25
5.6.2.4. Managing Technology	5-26
5.6.3. MANAGING CHANGE.....	5-26
5.7. STRATEGIC PERFORMANCE.....	5-27
5.8. SUMMARY	5-28

BIBLIOGRAPHY

B-1

APPENDIX A

SECTION 1 – STRATEGIC MANAGEMENT.....	A-1
1A. The Process of Strategy Development	A-1
1B. General Aspects.....	A-1
SECTION 2 – STRATEGIC INTENT	A-2
2A. Vision.....	A-2
2B. Mission.....	A-3
2C. Objectives.....	A-3
SECTION 3 – STRATEGIC POSITION	A-5
3A. External Environment Analysis	A-5
3B. Internal Environment Analysis.....	A-11
3C. Expectations and Purposes	A-15
SECTION 4 – STRATEGIC CHOICES.....	A-17
4A. SWOT Strategies.....	A-17

4B. Fundamental Choices A-18

4C. Strategic Evaluation A-19

SECTION 5 – STRATEGIC IMPLEMENTATION A-21

5A. Organising the Company A-21

5B. Enabling Strategy A-24

5C. Managing Change A-27

SECTION 6 – STRATEGIC PERFORMANCE A-28

LIST OF FIGURES

Figure 2-1	A Model for Strategic Management	2-8
Figure 2-2	Porters Five Forces Model	2-21
Figure 2-3	The Cultural Web	2-32
Figure 2-4	The Power – Interest Matrix	2-34
Figure 2-5	SWOT Strategies Matrix	2-38
Figure 2-6	Sustainable Competitive Advantage	2-39
Figure 2-7	The Product / Markets Matrix	2-40

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MASTERS IN BUSINESS ADMINISTRATION #3

STRATEGIC MANAGEMENT AT FBSDL (PTY) LTD

CHAPTER ONE

INTRODUCTION

1.1. INTRODUCTION

The research at hand seeks to provide an answer to the following business problem:

How should FBSDL (Pty) Ltd define, develop and maintain an effective Strategic Management System to ensure the long-term survival and sustainable growth of the company?

Chapter 1 sets out the background of the research with a brief review of the organisation and an outline of the focus area i.e. strategic management together with its key elements. These include strategic Intent, Position, Choices, Implementation and Performance.

This is followed by the motivation for the research which addresses the state of the defence industry, the formation of FBSDL and need for a strategic management system.

The value of the research presents the benefits of the study to the company while the research objectives state the desired end results. Here the final objective would be to recommend steps to enhance the strategic management of the company.

The research methodology then provides a brief description of the major steps to be followed including the literature review, company investigation, analysis and evaluation and the recommendations.

Finally, this introductory chapter presents the structure of the study with a brief indication of what can be expected in the following chapters.

1.2. BACKGROUND OF THE RESEARCH

FBS Defence Logistics (Pty) Ltd (FBSDL) was established in January 2003 as a joint venture company between Futuristic Business Solutions (Pty) Ltd and Xcel Information Technologies (Pty) Ltd, to position Xcel & FBS as the primary Logistics Systems House in the Southern African Defence Market. The company presently provides the following products and services to its primary client i.e. the South African National Defence Force (SANDF):

- Defence consulting that focuses on strategic planning and facilitation, policy/procedure formulation, organisation development and general consulting to ensure effective implementation of the Defence Transformation.
- Project Acquisition logistic support management to assist the Department of Defence (DoD) and Armscor to obtain and implement the required support packages for Defence Acquisition Programmes.
- Logistic Support Analysis, Product Data Management and Support Management System support, to provide a focused functional support and data exchange service between the DoD and Defence Industry (local and foreign suppliers).
- Documentation, Training and Fault Diagnostics content development for Main Equipment in the DoD and Defence Industry, using the aXcess Suite of products (developed by Xcel), as well as implementation and deployment thereof.

The company has inherited all of the defence projects and resources from its parent companies and is currently operating on Xcel's infrastructure in Pretoria, South Africa. Major projects at this time (mostly inherited from FBS) include the supply of support infrastructure such as maintenance documentation, training packages and maintenance management systems for the South African Air Force's Light Utility and Rooivalk Attack Helicopters and the South African Navy's Patrol Corvette which are soon to be delivered from Germany.

The formation of this joint venture company benefited both parties in that FBS acquired the resources it required to execute the contracts it secured and Xcel found the much needed projects to apply its highly skilled workforce on. During these early stages of the company's operation most of its capacity is being absorbed by the execution of the current projects and resolving company formation issues such as shareholdings, financing, etc. At this stage no attention is being given to the survival and growth of the company beyond these projects. The strategy of the company seems to evolve in an ad-hoc manner due to there being no strategic management system in place.

The current research aims to propose a well defined strategic management system that the company could implement. This will be achieved by first developing a comprehensive strategic management model from the literature available. The model will be converted into a questionnaire that will be used to collect information on the current situation at the company. This data will then be analysed against the theoretical model and recommendations will be made to enhance the strategic management of the company.

The aspects of strategic management that will be covered include:

- Strategic *Intent* which addresses the overriding intentions of the organisation in terms of its future desired state (vision), business purpose (mission) and quantifiable objectives (both financial and strategic).
- Strategic *Position* which deals with the various forces that influence strategy including the external environment, the internal environment and the expectations of stakeholders.
- Strategic *Choices* which addresses decisions about the organisations future in setting strategic priorities within the framework of the fundamental strategic choices required. These include choices on sustainable competitive advantage and directions and methods of development.

- *Strategic Implementation* addressing issues of organising the company, enabling strategy via the management of resources and managing changes required to deliver the strategy.
- Finally, *Strategic Performance* dealing with assessing the performance of the organisation against its stated objectives.

1.3. MOTIVATION FOR THE RESEARCH

The South African defence industry has its origins in the Second World War when industry started manufacturing and developing equipment for the South African and other Allied forces. This industry continued to grow from there on and this growth was given impetus by the imposition of the UN arms embargo against South Africa in 1997...at a time when the conflict in Angola was rapidly escalating and demanded that maximal self-sufficiency be achieved in terms of the full spectrum of armaments required to equip the South African Defence Force (SADF). Capital investment in the establishment of research, development and manufacturing capabilities in local industry soared in step with a continually increasing defence budget (peaking at 5.4% of GDP in 1988).

Subsequent to the cessation of hostilities in Namibia/Angola in 1989, the defence budget started to show a substantial and very rapid decrease with its present level having stabilised in the region of 1.7% of GDP. This dramatic decrease in defence spending had a severe impact on the defence industry, for which, in the majority of cases, the SADF was the only client. The impact on the defence industry was further compounded by the lifting of the UN arms embargo in 1995, which once again opened up international markets implying that the SADF was no longer bound to acquire defence material solely from the domestic defence industry – an industry that was not internationally competitive due to many years of isolation. The combined effect of these factors was a dramatic downsizing of the industry, characterised by significant retrenchment of skilled personnel in virtually all sectors.

In 1999 the beleaguered defence industry was thrown a lifeline when the government announced the planned acquisition of a then R30 billion arms package. The South African industry was to benefit via the counter trade obligations that were required of the overseas suppliers of equipment. A secondary aspect of the arms deal was that Previously Disadvantage Individuals were encouraged to participate in the opportunities created.

FBS (Pty) Ltd is a wholly black owned and managed enterprise, established in 1996, with the aim of supplying Engineering and IT services to the public and private sectors. During 1998/99 the company positioned itself to supply locally developed support packages as part of the arms acquisition. This was mostly accomplished via participation in joint ventures and consortiums. The 2001/2 company strategy sought to consolidate its defence activities under one entity while expanding its internal resource base. A logical move was to create one operational entity that housed all the required resources both from FBS's internal supply and possibly acquired.

Xcel Defence Logistics (XDL), a division of Xcel Information Technologies (Pty) Ltd, had been supplying Logistic Engineering and Support services to the South African Defence Force for more than twenty years. This group had gained a reputation for their high quality standards and the application of leading edge information technology. Faced with declining markets and having not capitalised on the arms deal XDL was looking for defence contracts where its highly skilled workforce could be utilised.

In January 2003 the management of FBS and Xcel decided that it would be mutually beneficial to establish a joint venture company that inherited both the defence contracts and the resources from the parent companies – The company FBS Defence Logistics (Pty) Ltd was thus established. During the 2003/2004 financial year (March to February) this company has been effectively operational where all clients and potential clients have been informed and all contracts and resources have being transferred.

The move to create one entity may have solved the short to medium term problems of both groups; however it is the long term strategy and survival of the company that needs attention. Presently, the company's strategy seems to evolve in an ad-hoc manner. While this may be appropriate in a rapidly changing environment, there is a need to compliment this approach with a well designed and organised strategic management process to ensure long term business success.

1.4. VALUE OF THE RESEARCH

By implementing a well configured strategic management system FBSDL would benefit in number of ways. These include the following:

- The company would have a clearer idea of its destination by adhering to vision, working according to a mission statement and striving to meet its stated financial and strategic objectives.
- Opportunities and threats facing the company will be better understood via a comprehensive understanding of the external environment. Similarly, the company's strengths and weaknesses would be understood by analysing the internal environment.
- Strategic priorities would be based on rational system that separates strategic issue from operational issues. This would take place within the framework of the company's more fundamental strategic choices.
- The various aspects of organising the company while enabling strategies would be more thoroughly considered together with effective change management programmes.
- The performance of the company would be comprehensively measured against both qualitative and quantitative objectives.

The strategic management system would then contribute to the ultimate business benefit i.e. realising commercial success.

1.5. PROBLEM STATEMENT

The problem statement reads as follows:

How should FBSDL (Pty) Ltd define, develop and maintain an effective Strategic Management System to ensure the long-term survival and sustainable growth of the company?

1.6. RESEARCH OBJECTIVES

The research aims to propose steps to be considered as part of the establishment of an effective **Strategic Management System** within FBSDL. To systematically arrive at such recommendations, the research must aim :

OBJECTIVE 1 : To define a Strategic Management Model derived from available management literature.

OBJECTIVE 2 : To analyse and evaluate the company's present strategic management practices.

OBJECTIVE 3 : To recommend enhancements to current system based on the model developed.

Achieving these objectives should result in a company strategy that ensures a good fit between the company and its environment, sustainable competitive advantage and improved financial and strategic performance.

1.7. RESEARCH METHODOLOGY

The research will be conducted via the following method:

STEP 1 – Literature Review

Various sources of theory on Strategic Management will be reviewed with the aim of developing a Strategic Management Model (**Objective 1**) to be used as platform for assessing the current strategic management practices within the company.

Step 1 will be covered in Chapter 2 of this paper.

STEP 2 – Company Investigation

The theoretical model developed in STEP 1 above will be converted into a questionnaire that will be used to collect data on the current strategic management processes followed by FBSDL management. Data collections methods will include analysing company data, interviewing appropriate personnel and passive observation of company practices.

Step 2 will be covered in Chapter 3 of this paper.

STEP 3 – Analysis and Evaluation

Here the data collected under STEP 2 will be analysed and evaluated against the theoretical model (**Objective 2**) to gain an understanding of the gap between the current strategic management practices and that suggested by the literature.

Step 3 will be covered in Chapter 4 of this paper.

STEP 4 - Recommendations

This step will include recommendations to enhance the current strategic management practiced within the company (**Objective 3**).

Step 4 will be covered in Chapter 5 of this paper.

1.8. LIMITATIONS OF THE RESEARCH

Due to the researcher's position as a current Director of FBSDL, there are no restrictions on accessing company data or interviewing relevant personnel. Based on this, there are no limitations of the research worth noting.

1.9. STRUCTURE OF THE STUDY

In order to systematically achieve the research objectives, this paper has been structured in the following manner:

Chapter 2 defines strategy and the process of strategy development. This leads to a presentation of a strategic management model which includes five main elements. These are the company's Strategic Intent, Position, Choices, Implementation and Performance.

Chapter 3 will present the current situation at FBSDL in terms of the various elements of strategic management. Data will be collected from the company via the analysis of company data, interviewing appropriate personnel and passive observation of company practices.

Chapter 4 includes an analyses and evaluation of the data collected in Chapter 3. Here we elaborate on the present situation, explore reasons for their existence and assess how well suited the status quo is to emerging internal and external conditions.

Chapter 5 presents recommendations for enhancements to the strategic management system based on the theoretical model developed in chapter 2 and the analysis presented in chapter 4.

1.10. SUMMARY

Chapter 1 set out the background of the research with a brief review of the organisation and an outline of the focus area i.e. strategic management together with its key elements. These include strategic Intent, Position, Choices, Implementation and Performance.

This was followed by the motivation for the research which addresses the state of the defence industry, the formation of FBSDL and need for a strategic management system.

The value of the research presented the benefits of the study to the company while the research objectives stated the desired end results. Here the final objective was to recommend steps to enhance the strategic management of the company.

The research methodology then provided a brief description of the major steps to be followed including the literature review, company investigation, analysis and evaluation and the recommendations.

Finally, this chapter presented the structure of the study with a brief indication of what can be expected in the following chapters.

This leads to chapter 2 which develops a theoretical model for strategic management based on available literature.

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CHAPTER TWO

THEORY

2.1. INTRODUCTION

Chapter 2 attempts to comprehensively cover the various issues that one needs to consider when contemplating an organisation's strategy.

Here strategy will be *defined* in a manner that provides essential insights into its nature and characteristics. This is followed by presenting the *process* of strategy development showing that strategy is not necessarily intentional or planned but can come about through a number of other influences or processes.

A *model* for strategic management is then created covering the key aspects of strategic management while simultaneously indicating their interdependent nature. These aspects include Strategic Intent, Position, Choices, Implementation and Performance.

Strategic *Intent* addresses the overriding intentions of the organisation in terms of its future desired state (vision), business purpose (mission) and quantifiable objectives (both financial and strategic). The strategic *Position* then deals with the various forces that influence strategy including the external environment, the internal environment and the expectations of stakeholders. Further, the strategic *Choices* addresses decisions about the organisations future in response to the influences discussed under strategic position. Information will be processed via a SWOT analysis within the framework of the fundamental strategic choices required. Evaluation criteria (suitability, acceptability & feasibility) for the assessment of strategic options will then be outlined. This is followed by strategic *Implementation* that looks at issues of organising the company, enabling strategy via the management of resources and managing changes required to deliver the strategy. Finally, the strategic *Performance* deals with assessing the performance of the organisation against its stated objectives. The balanced scorecard is proposed as a means to addressing both qualitative and quantitative measures of company performance.

2.2. STRATEGIC MANAGEMENT

In order to understand the area of strategic management, one must first understand the nature and characteristics of a company's strategy together with the processes and influences that contribute to the evolution of that strategy.

2.2.1. STRATEGY DEFINED

Strategy may simply be defined as 'the long-term direction of a company'; however a more comprehensive definition would provide essential insights into the nature of strategy and strategic decisions. For this purpose the following definition is presented:

"Strategy is the *direction* and *scope* of an organisation over the *long term*, which fulfils *stakeholder* expectations by achieving *advantage* for the organisation through its configuration of *resources* within a changing *environment*." (Johnson & Scoles, 2002).

From this definition it is clear that strategy and strategic decisions are associated with the following characteristics:

- Strategy is concerned with the long-term **direction** of the company. It should effectively provide the answer to the question 'Where do we want to be in the foreseeable future?' A contrast may be drawn with the short-term objectives of operations, which essentially deals with implementation of strategy.
- Strategic decisions are concerned with the **scope** of an organisation's activities. The issue of scope is fundamental to strategy in that it deals with the way managers conceive the organisations boundaries.
- The strategy of a company is influenced by the values and **expectations** of powerful stakeholders in and around the organisation. These individuals or groups are likely to ensure that the strategy reflects their attitudes and beliefs.

- Strategic decisions aim to achieve some **advantage** for the organisation over its competitors. Sustainable competitive advantage is key to the long-term survival and growth of an organisation.
- Strategy aims to configure and develop an organisations **resources** and competences to create opportunities or capitalise on them. This may at times require major resource changes.
- Strategy can be seen as the matching of the resources and activities of an organisation to the **environment** in which it operates. Here it is important to correctly position the organisation to meet identified market needs.

2.2.2. THE PROCESS OF STRATEGY DEVELOPMENT

The orthodox approach to strategy development that is most commonly written about, taught and verbalised by management is one of strategy by design i.e. Strategy is developed through an analytical, intentional and sequential process of planning. Here organisations are deliberately positioned by top management via structured and directive processes. The assumptions underpinning this approach are as follows: (Johnson & Scoles, 2002).

- The various influences on an organisations performance can be identified and analysed. Strategy development is therefore a process of systematic thinking and reasoning.
- The organisations strengths can be matched to its resources so as to take advantage of opportunities and overcome threats.
- Analytical thinking always precedes and governs actions. Here strategic decisions are always made before any actions are taken.
- Top management is responsible for making strategic decisions. The rest of the organisation is responsible for carrying out these decisions.
- Tools and techniques exist that assist managers to understand the impact of the external and internal environments on the organisation, the strategic choices that exist and how to put strategic decisions into effect, etc.

- The organisation is a rational system where the environment is understood, logical decisions are made by a group of rational managers and people accept the logic.
- The organisation can be controlled in a rational way. Managers can assess whether staff are meeting expected objectives and behaving in line with the company strategy.

There are many reasons why the process of strategy development is thought of in this relatively straightforward manner. One should be able to find evidence of elements of this approach in most organisations – however, much less than what managers think it should be. The idea of a rational directive approach definitely provides managers with a sense of security and control in the face of the complex environments within which they operate. However, it must be appreciated that the process of strategy development cannot always be characterised as intentional and planned. The approach is useful but not sufficient. Strategy can come about through a number of other influences and processes. The elaboration of these that follows should create a more comprehensive understanding of the practise of strategic management (Ambrosini, 1998).

Incrementalism

Here strategy is developed in an evolutionary manner through an iterative process of trial and error.

- Strategy is continually adjusted according to changes in the environment
- Strategy develops through experimentation and gradual implementation
- Strategy develops through small-scale changes

Cultural

Here strategy is directed by the cultural aspects of an organisation, its history and the shared assumptions and beliefs of its members.

- A 'way of doing things' impacts on strategic direction
- A core set of assumptions based on past experiences guides strategy
- Strategy not in fit with the culture is resisted

Political

Here Strategy is developed through a process of bargaining, negotiation and influence between interest groups.

- Interest groups seek to realise their own desired objectives
- Influence in strategy formulation increases with power
- Control over resources and information increases power

Command

Strategy is defined and developed by a particular powerful individual within the organisation.

- An individual is the driving force behind the company strategy
- Strategy is associated with institutional power of individual
- The individual has a high degree of control over the strategy

Enforced Choice

Strategy is developed as a result of external pressures that limit an organisations ability to determine its own strategic direction.

- Strategies are prescribed by the operating environment
- Barriers in the environment severely restricts strategic mobility
- Organisation is mostly powerless to control environment

With these various different influences and processes at work within organisations, it is not surprising that significant gaps could exist between intended and realised strategies. It also poses the question as to whether top management really have control over strategic direction to the extent the design approach suggests. Further, it could be argued that the intentions of top management are not necessarily the best way forward. Strategic direction that emerges from lower in the organisation, via political / cultural processes or logical incrementalism, may be more appropriate to the needs of the organisation.

It must be understood that there is no one right way for in which strategies are developed, for example, strategy development in a fast changing environment is not likely to be the same – nor should it be – as in an environment where there is little change. Further, it is unlikely that any one of these explanations sufficiently describes the strategy development process in any organisation. Rather, it is likely that a mixture or combination of processes accounts for how strategy develops. These issues, amongst others, should alert the reader as to the significant challenges encountered when thinking about managing strategy.

2.2.3. GENERAL ASPECTS

A continuously changing internal and external environment necessitates that a company's strategy will have to be revisited, reconsidered and possibly revised. The choice of whether to continue with or change strategic decisions always presents itself, thus defining strategic management as an ongoing process rather than an event.

The notion that an organisation's strategists are at the top and its implementers are in the ranks below may be inappropriate. Many companies today are involving teams of managers and key employees in strategy-making exercises based on the following rationale:

- Many strategic issues cut across traditional functional and departmental lines
- There is a need to tap into the ideas and problem solving skills of people with different backgrounds, expertise and perspectives
- This approach gives a greater number of people an ownership stake in the strategy that emerges and encourages their commitment to implementation.

With this system, inputs should be obtained from a wide a base as possible. Senior managers should apply their minds as to the suitability, feasibility and acceptability of the recommendations. Finally the board should be briefed on important strategic moves for official approval before resources are made available for implementation.

A Strategic Management Plan should be compiled and maintained by senior management. This document will serve a valuable tool for coordinating, controlling and communicating the results of the strategic management effort. The plan must be reviewed at regular strategic management sessions, the frequency of which may be negotiated according to the pace of change of the environment.

Key aspects that should be included in the strategic management plan should be in line with those discussed in the section that follows – '*A Strategic Management Model*'.

2.2.4. A STRATEGIC MANAGEMENT MODEL

When contemplating a model for strategic management, one must take cognisance of the following:

- The various aspects of strategic management must be comprehensively covered.
- The interdependence of the main aspects of strategic management should be clearly visible.

To address the first of these points, the model needs to include aspects that provide the answers to the following questions:

- | | |
|--|-----------------------------|
| • What are the company's ambitions? | ...Strategic Intent |
| • How will the environment impact on the strategy? | ...Strategic Position |
| • What are the strategic options available? | ...Strategic Choices |
| • How will choices be translated into actions? | ...Strategic Implementation |
| • How will the chosen strategy be assessed? | ...Strategic Performance |

The second point requires that the model is specifically not linear (as portrayed in most popular literature) and that all aspects are directly linked to every other aspect in a two-way relationship. To justify this requirement one could consider, for example, that strategic implementation should not sequentially follow strategic choice for a strategy may sometimes be better understood after the organisation begins implementing it.

Figure 2-1 is presented as a 'Model for Strategic Management' that satisfies the stated requirements. At this point each of the key aspects will be briefly introduced together with the key elements that make up each aspect. The sequence of understanding the strategic Intent, Position, Choices, Implementation and Performance is a useful structure for describing the model and thinking about the problems of strategy but it must be noted that these aspects are interdependent and influence each other.

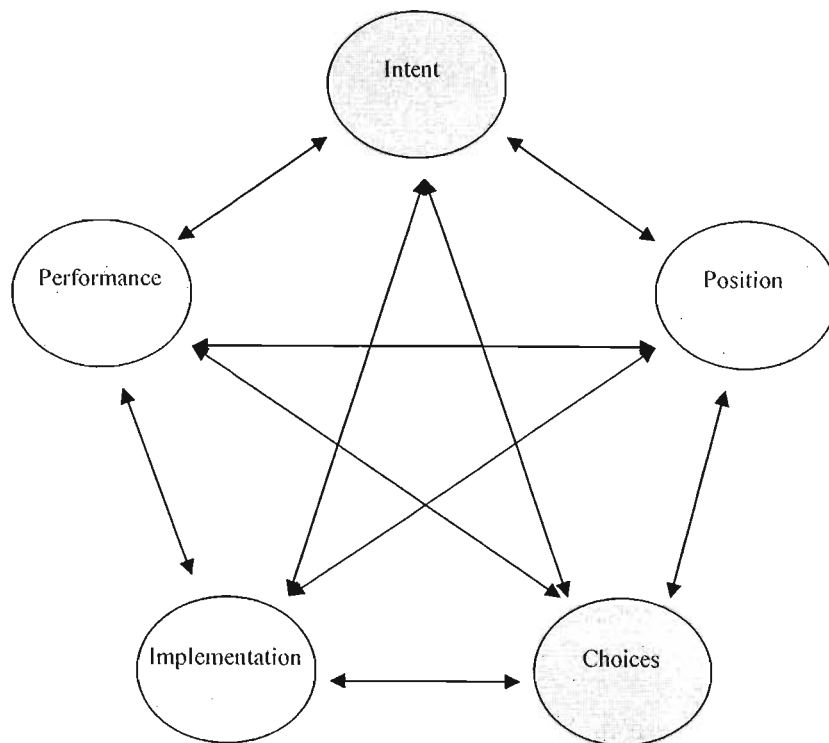


FIGURE 2-1 – A MODEL FOR STRATEGIC MANAGEMENT

Strategic Intent addresses the overriding intentions of the organisation in terms of its future desired state, business purpose and short and medium term objectives. The key elements include:

- **Vision** : Stakeholders view of the kind of company they are trying to create and the kind of business position they want to stake out in the years to come constitutes the strategic vision.

- **Mission** : A mission is a general expression of the overall purpose of the organisation. It is sometimes referred to in terms of the apparently simple, but actually challenging question : 'What business are we in?'
- **Objectives** : The purpose of setting objectives is to convert the strategic vision and business mission into specific performance targets, something the organisations progress can be measured by.

Strategic Position is concerned with the impact on strategy of the external environment, the internal environment in terms of resources and competences, and expectations and influence of stakeholders.

- **External Environment** : Understanding the external environment requires an analysis of the macro-environment (eg. Political, Economic, Social, Technical) and industries and markets (eg. Economic features, Key success factors, Competitors, etc.). This analysis should lead to an understanding of the organisations opportunities and threats.
- **Internal Environment** : The internal environment may be analysed in terms of the company's resources and competence, which make up its strategic capability. This may be achieved via the use of specific techniques such as a 'Value Chain Analysis', a 'Core Competence Analysis' and a 'Benchmarking' exercise. These analyses will facilitate an understanding of the organisations strengths and weaknesses.
- **Expectations** : The expectations of different stakeholders affect organisational purpose and what will be seen as acceptable in terms of strategies advocated by management. These need to be considered within the cultural and political framework of the organisation.

Strategic Choices are concerned with decisions about an organisations future and the way it needs to respond to the numerous influences of the elements discussed under the strategic position. Information should be processed via a SWOT analysis and strategies

formulated within the framework of fundamental strategic choices regarding Sustainable Competitive Advantage and Directions & Methods of Development.

- **SWOT Strategies** : Here the process leads to a point where strategies, based on the specific Strengths, Weaknesses, Opportunities and Threats facing the organisation, need to be determined.
- **Fundamental Choices** : The fundamental strategic choices deals with the organisations basis of sustainable competitive advantage (eg. low cost, differentiation, etc.) and the direction (eg. new products, new markets, etc.) and method (eg. internal development, mergers, joint developments) of development.
- **Strategic Evaluation** : The strategic choices available to the organisation must be evaluated against a set of criteria to determine the chances of success. These criteria include suitability, acceptability and feasibility.

Strategic Implementation is concerned with ensuring that strategies work in practice i.e. what must be done to execute strategies proficiently to produce the desired results. This requires organising the company and enabling the strategy while managing change.

- **Organising the Company** : Here consideration should be given to organisational structures, processes, boundaries, relationships, etc.
- **Enabling the Strategy** : Successful implementation of strategies needs to be supported by the adequate availability of resources. This will be considered in terms of people, information, money and technology.
- **Managing Change** : Strategic actions often involve change. This element will look at how change may be managed in terms of context, management styles and levers for change.

Strategic Performance deals with assessing the performance of the organisation against its stated financial and strategic objectives. This assessment must address both qualitative and quantitative measures and is conducted via the use of a Balanced Scorecard.

2.3. STRATEGIC INTENT

Strategy is only a means to an end – the end being the aspirations of the organisation in both the long and short terms. Strategic Intent addresses the overriding intentions of the organisation in terms of its future desired state, business purpose and quantifiable objectives. The very statement of a company's aspirations in both the long and short terms serves not only to inspire stakeholders, but also to provide a sense of common purpose and direction that can be coherently worked towards. These aspirations are usually articulated in the form of the business vision, mission and objectives.

2.3.1. VISION

Vision can be defined as 'a mental image of a possible and desirable state' of the organisation (Bennis & Nanus, 1997). It spells out direction and describes the destination. The vision is therefore the backdrop for the development of the company strategy. Although the formation of a strategic vision is widely perceived as a mere wordsmithing exercise, it stands to reason that a manager cannot function effectively without a clear future-oriented concept of the business – its customer focus, business activities, market position, etc. When the strategic vision succeeds in communicating something substantive about what path the company is to follow, its true managerial value may be realised in that it would guide stakeholders in their decisions regarding strategy formulation and implementation.

The vision must not only be inspirational but also quantifiable so that any stakeholder can determine whether the company is achieving the vision that was set. The vision statement should be reviewed periodically to determine whether it is still relevant. The ideal vision statement should address the following issues (Lindsay & Geronimos, 1997):

Who are the major beneficiaries? (that is, the major homogeneous group of individuals for whom the management team will work to achieve the vision – for example, this could be the shareholders).
What is the major benefit that the business seeks to achieve? (for example, it could be ‘profitable market dominance’)
How can the company measure whether it is achieving the major benefit within a particular time frame? (for example, by year 2005, a 50% market share with a 20% return on assets).

According to Hamel and Prahalad (1994) there should be five criteria for judging the relevance and appropriateness of a vision statement. These include:

Criteria	Definition
Foresight	What imagination and real vision is shown? Over what time frame?
Breadth	How broad is the vision of the changes likely to take place in the industry? And of the forces that will lead to change?
Uniqueness	Is there an element of uniqueness about the future? Will it cause competitors to be surprised?
Consensus	Is there some consensus within the organisation about the future? If not, there may be a problem with many different visions being pursued at once.
Actionability	Have the implications for the current activity been considered? Is there basic agreement on the immediate steps required? Have the necessary core competences and future market opportunities been identified?

This kind of assessment of the vision statement is seen as necessary for it would be all too easy to develop a vision that bore no relationship to the organisation, its resources and the likely market and competitive developments.

Finally, a vision has little meaning unless it can be successfully communicated to those working in the organisation, since these are the people that will have to realise it. Hence a vision needs to be expressed in engaging language that is easy to grasp, conveys unmistakable meaning, generates enthusiasm and elicits personal effort and dedication from everyone in the organisation. When this occurs, the first step in organisational direction-setting is successfully completed.

2.3.2. MISSION

The mission statement defines what business the organisation is in or wants to be in. It is a statement for the organisations reason for being. Developing a mission statement underpins the long-term strategies for the organisation to grow and succeed by providing an overall context. Its importance resides in its function of providing focus for the business by filtering business opportunities. Here, if a potential business opportunity arises that falls outside the mission, then either the opportunity should be rejected or the mission statement should be redefined to accommodate such opportunities.

There is a fine balance in developing a mission statement that is too restrictive and one that is too broad. If a mission is too restrictive, then profitable opportunities may be overlooked that should have been at least evaluated if not accepted. If a mission is too broad, then it becomes unclear as to what should be rejected. The danger of having a mission that is too broad is that a business may try to pursue every potential opportunity that presents itself, in so doing, spread itself so thin that it loses focus (Lindsay & Geronimos, 1997).

Mission statements are sometimes notorious in that they may be too complex and long-winded. A simple mission statement has greater meaning for employees, owners and customers alike. Generally, shorter, more succinct mission statements are preferred in that they are more easily remembered within the organisation and its environment.

A focused and succinct mission statement that provides meaning to key stakeholders should include element that answer the following questions (Lindsay & Geronimos, 1997):

What business (or activity) is the company engaged in?
Who are the key clients or customers?
Where is the business undertaken (geographic scope)?
What customer need is the organisation satisfying?

Continuously reflecting upon what business a company is really in can lead to important insights – insights that could potentially lead to a change in the strategic direction of the business.

2.3.3. OBJECTIVES

Objectives serve the purpose of converting the strategic vision and mission statement into specific performance targets. They represent a managerial commitment to achieving specific outcomes and results. For objectives to function as yardsticks of organisational performance, they must be stated in measurable terms and must contain a deadline for achievement. Arriving at the appropriate set of performance targets requires considering what performance: is possible in light of external conditions; other comparable companies are achieving; it will take to please shareholders; is required for long term competitive success and the company is capable of achieving when pushed.

The two key areas of performance, for which objectives are required, are those relating to financial performance and those relating to strategic performance.

2.3.3.1. Financial Objectives

Financial performance is crucial. Without adequate profitability, a company's pursuit of its vision as well as its survival may be at risk. Both shareholders and financiers will

hesitate to continue investing in an organisation that is not delivering satisfactory financial results. Typical financial objectives may include (Thompson & Strickland, 1999):

Financial Objectives
Growth in revenues
Growth in earnings
Higher dividends
Wider profit margins
Higher returns on invested capital, etc.

2.3.3.2. Strategic Objectives

Although one could never over-emphasise the importance of financial performance, attention also has to be paid to a company's strategic well being – its competitiveness and overall long-term business position. It would be very difficult for a company to continue to deliver good financial results unless it displays growing competitive strength and a stronger market position. Typical strategic objectives may include (Thompson & Strickland, 1999):

Strategic Objectives
A bigger market share
Higher product quality and innovation
A stronger reputation with customers
Higher levels of customer satisfaction
Improved staff productivity and attitudes, etc.

Even though companies may value both financial and strategic performance, there is often pressure on managers to opt for better short-term performance at the expense of longer-term strategic initiatives. When managers succumb to these pressures consistently

they put the company at risk of diluting its competitiveness, losing momentum in its markets, and reducing its ability to stave off challenges from ambitious rivals.

2.4. STRATEGIC POSITION

Strategic Position is concerned with the various forces that influence the strategy of an organisation. Some argue that strategy development is about 'fit' i.e. opportunities should be identified in the environment and the company's competencies should be matched to these opportunities. Others believe that strategies should be built around the unique competencies of a company i.e. markets should be found where these competencies add value. Additionally, one needs to consider the influence of the expectations of stakeholders on the development of strategy (Johnson & Scholes, 2002). Although the relative importance of these influences vary in time and from one organisation to the next, it is essential that an organisation understand the constituent elements of each.

2.4.1. EXTERNAL ENVIRONMENT ANALYSIS

Managers need to make sense of the environment within which the organisation operates in order to understand the opportunities and threats facing the organisation. This is a difficult undertaking due to the varied nature, rate of change and complexity of the most environments. Here it is critical to identify the most important influences on the organisation while ensuring that the environmental understanding is oriented towards the future. Developing an understanding of the external environment encompasses the analysis of both the broader macro and specific industry and market environments.

2.4.1.1. Macro-Environment Analysis

The macro-environment consists of broad environmental factors that impact to a greater or lesser extent on all organisations. A business generally cannot control these factors; however the value lies in being able to identify important trends that could have an impact on the company. Developments in the environment may provide opportunities to

grow in terms of products and markets or may threaten the very existence of the business if it cannot deal with the changes occurring.

Macroeconomic Environment

The macroeconomic environment deals with the state of the economy, which plays a major role in influencing the behaviour of industries. Factors of interest include (Lindsay & Geronimos, 1997):

Macro-Economic Factors
Business Cycles
GNP Trends
Interest Rates
Inflation
Exchange Rates, etc.

These are the type of indicators that need to be looked at when assessing the impact of the economy on the organisation.

Technological Developments

Technological innovation affects most products and services and the way they are produced. Typical technological advances include, improved communications, pervasiveness of personal computers, etc. Factors to be monitored include (Lindsay & Geronimos, 1997):

Technological Development Factors
Government spending on research
Industry focus on technological efforts
New discoveries/developments
Speed of technology transfer
Rates of obsolescence, etc.

Depending on whether technology is embraced or shunned can determine whether technological advances become opportunities or threats to a business.

Social and Attitudinal Trends

Here we address the areas of demographics, attitudinal and cultural change. Factors of interest include (Lindsay & Geronimos, 1997):

Social and Attitudinal Factors
Demographic Changes
Education and Health
Concern for the Environment
Distribution of Income
A growing Multicultural Society, etc.

Some of the changes in these areas pose major challenges to many businesses.

Political and Legal Environment

Political, legal and regulatory changes may inhibit or enhance company's ability to continue business. The factors that one needs to consider here include (Lindsay & Geronimos, 1997):

Political and Legal Factors
Political parties and Alignments at local and national levels
Legislation on taxation, employment, health and safety, competition, etc.
Foreign Trade regulations
Government stability
Social Welfare policies, etc.

A careful watch needs to be undertaken in these areas at all levels of law, government, and politics.

2.4.1.2. Industry and Market Analysis

An industry may be defined as a group of firms producing the same principal product or products that are close substitute for each other. Industries vary widely in their economic characteristics, competitive situations and future profit prospects. A company strategist needs to analyse various factors in order to draw conclusions on whether the industry represents an attractive investment for company funds. Detailed descriptions of these factors follow.

Key Economic Features

Analysing the economic features of an industry is a logical starting point when assessing its attractiveness. The factors to consider when profiling an industry's economic traits include (Thompson & Strickland, 1999):

Economic Features
Market Size
Market Growth Rate
Industry Profitability
Capital Requirements
Entry/Exit Barriers, etc.

Understanding these factors help frame the window of strategic approaches a company can pursue.

Key Success Factors

An industry's key success factors (KSFs) are those things that have a significant effect on a company's ability to prosper in the marketplace. All participating companies must competently achieve these factors in order to compete successfully. They may be seen as prerequisites for industry success. Typical factors include (Thompson & Strickland, 1999):

Key Success Factors
Expertise in a given technology
Low production costs
Superior quality products
Strong distribution networks
Superior resources (workforce, information systems), etc

A company with a perceptive understanding of the industry's KSF can gain competitive advantage by devoting energy to being better than its rivals in one or more of these factors.

Drivers of Change

All industries are characterised by trends and developments that require strategic responses from participating firms. The most important forces causing change i.e. the driving forces, must be identified and assessed in terms of the impact that have on the industry. Such drivers of change may include (Thompson & Strickland, 1999):

Drivers of Change
Changes in industry growth rate
Product innovation
Entry/Exit of firms
Globalisation of industry
Emerging buyer preferences, etc.

Without a keen awareness of what factors will produce the biggest changes and the implications of those changes on the company's business, managers will be ill prepared to craft a strategy that is well matched with emerging conditions.

Competitive Forces

Inherent within the notion of strategy is the issue of competitiveness. One needs to delve into the industry's competitive process to discover the main sources and strength of competitive pressures. Porters 'Five Forces model' (Porter, 1979), shown in **Figure 2-2**, is often used as a basis for analysing the competitive environment.

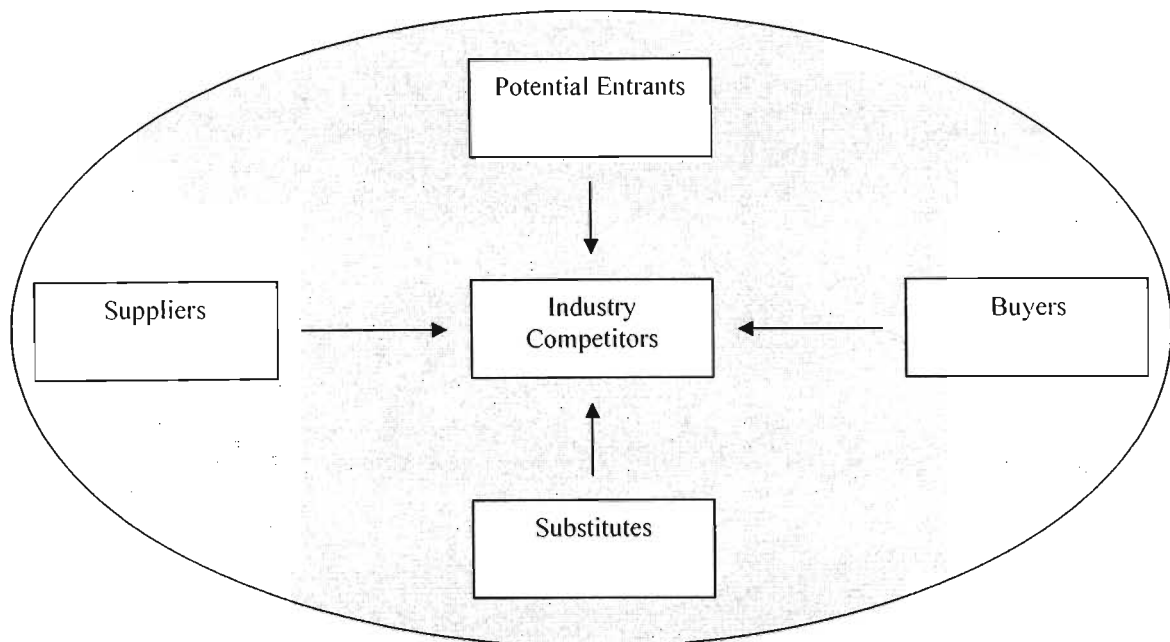


FIGURE 2-2 – PORTERS FIVE FORCES MODEL

Threat of New Entrants

New entrants to an industry upset the status quo among existing competitors. To counter this threat, competitors erect barriers to entry. Factors to be considered include (Lindsay & Geronimos, 1997):

Threat of New Entrants is high when	High	Low
Economies of scale are..		✓
Product differentiation is..		✓
Capital requirements are..		✓
Switching costs are..		✓
Incumbents proprietary knowledge is..		✓
Incumbents access to government subsidies is..		✓

Bargaining Power of Suppliers

This force can be felt through suppliers increasing their prices and/or decreasing the quality of goods and services they provide. Either situation has the potential to reduce profitability in the industry. Factors to be considered include (Lindsay & Geronimos, 1997):

Power of Suppliers is high when	High	Low
Concentration relative to buyer industry is..	✓	
Importance of customer to supplier is..		✓
Differentiation of suppliers product and services is	✓	
Switching costs of buyer are..	✓	
Threat of forward integration by supplier is..	✓	
Availability of substitute products is..		✓

Bargaining Power of Buyers

Customers can exert power over an industry (and reduce industry profitability) through forcing prices down, playing competitors against each other, and/or demand a higher quality or more services for the same price. Factors to consider include (Lindsay & Geronimos, 1997):

Power of Buyers is high when	High	Low
Concentration relative to supplier industry is..	✓	
Volume of purchase is..	✓	
Product differentiation of supplier is..		✓
Threat of backward integration by buyer is..	✓	
Buyers knowledge of suppliers cost structure is..	✓	
Cost savings from supplier's products are..		✓
Importance of suppliers input to quality of buyers final product is..		✓
Percent of total buyers cost spent on suppliers input is..	✓	

Threat of Substitute Products

The availability of substitute products places an upper limit on an industry's product prices. When prices of existing products pass those of substitutes, customers generally switch to substitutes. Factors to consider here include (Lindsay & Geronimos, 1997):

Threat of Substitute Products is high when	High	Low
Profitability of industry producing substitute is..	✓	
Rate of improvement in substitute product is..	✓	
Price attractiveness of substitute product is..	✓	
Quality and performance of substitute product is..	✓	
Cost of switching to substitute product is..		✓

Intensity of Rivalry among Competing Firms

The intensity of rivalry among competitors is a function of how vigorously they employ tactics such as lower prices, improved features, enhanced customer service, special promotions etc. In most industries, the success of a company's strategy is dependent on the offensive/defensive moves employed by rival companies. Factors to consider include (Lindsay & Geronimos, 1997):

Intensity of Rivalry is high when	High	Low
Number of competitors is..	✓	
Industry growth rate is..		✓
Product differentiation is..		✓
Switching costs are..		✓
Exit barriers are..	✓	
Strategic stakes are..	✓	

In assessing the competitive pressures created by rivalry among competitors, a strategist's job is to identify which tactics are most and least successful in a particular industry.

Competition

A company cannot expect to compete successfully against its rivals without monitoring their actions, understanding their strategies, and anticipating what moves they are likely to make next. Good sources of such information include annual reports, speeches, industry analysis, business media, Internet searches, trade show exhibits, customers, suppliers, former employees etc. It is important to rate the company against major rivals in its various market segments. For this purpose the following dimensions may be considered (Lindsay & Geronimos, 1997):

Industry Dimension	Company	Rival 1	Rival 2	Rival 3
Estimated market share				
Estimated sales				
Profitability				
Product/service range				
Customer perception of products				
Pricing				
Distribution				
Product quality				
Promotional strategies				
Offensive / Defensive capability				
Major strengths				
Major weaknesses				

It is usually clear who the current major rivals are, however these may not necessarily be the companies that are best positioned for the future. A company needs to gain strategic insight into competitors in order to assess where they are headed and what tactics they are likely to employ. The following may be considered when profiling the strategies and objectives of rivals (Thompson & Strickland, 1999):

Competitive Scope
Local, Regional, National, etc.
Strategic Intent
Be dominant, Maintain position, Survive, etc.
Market Share Objectives
Expand via int/ext growth, Maintain, Compromise for short term profits, etc
Competitive Position
Getting stronger, Maintaining present position, Losing ground, etc
Strategic Posture
Offensive, Defensive, Aggressive Risk-taker, Conservative Follower, etc
Competitive Strategy
Cost, Differentiation, Niche

The results of such analyses should allow managers understand the implications of competitor strategies for their own business while devising effective countermeasures to obtain or maintain competitive advantage.

2.4.2. INTERNAL ENVIRONMENT ANALYSIS

The previous sections addressed the elements of the external environment that influence an organisations strategy by creating both opportunities and threats. In this section we take cognisance of the fact that successful strategies are also very much dependent on a company's ability to perform at the levels required for success. Here the company needs to be subjected to an internal analysis in order to determine its strengths and weakness, which in turn determines how well or poorly the business can service the needs of its customers and stakeholders. This internal environment analysis should be conducted via a Value Chain Analysis (VCA), a Core Competence Analysis (CCA) and a Benchmarking Exercise. Elaborations of these techniques follow.

2.4.2.1. Value Chain Analysis

Value chain analysis is a useful framework for structuring knowledge that one has about a business in order to gain new insights into the business. It allows a strategist to systematically identify strengths and weaknesses. The analysis assumes that an organisation's basic purpose is to create value i.e. a firm is a collection of activities that are performed to design, produce, market, deliver and support its product/service. The organisation is divided into separate value adding activities (Lindsay & Geronimos, 1997). The company's strengths and weaknesses are then assessed with respect to these activities. Activities can be divided into two broad groups i.e. *Primary activities* (those that contribute directly to the product creation, sale and after sale service) and *Support activities* (those that support the primary activities).

Primary Activity	Distinct Activity	Poor	Average	Excellent
Inbound Logistics	Soundness of inventory control			
	Efficiency of warehousing, etc			
Operations	Productivity of equipment			
	Automation of processes			
	Work flow design, etc			
Outbound Logistics	Efficiency of delivery			
	Efficiency of warehousing, etc			
Marketing & Sales	Effectiveness of research			
	Innovation of promotions			
	Evaluation of dist. Channels			
	Development of quality image			
Service	Attention to complaints			
	Customer inputs to products			
	Customer education, etc			

Support Activity	Distinct Activity	Poor	Average	Excellent
HR Management	Effectiveness of recruiting			
	Effectiveness of training			
	Appropriate reward systems			
	Employee motivation, etc.			
Tech. Development	Success of R&D activities			
	Quality of facilities			
	Experience of personnel			
	Ability to innovate, etc			
Procurement	Dependence on suppliers			
	Efficiency of procedures			
	Supplier relationships, etc			
Infrastructure	Business Management			
	Quality Management			
	Information systems, etc			

By assessing the company's strengths and weaknesses with respect to each of these activities, a strategist should develop an indepth understanding of the organisations capabilities.

Over and above the VCA, examining other internal environmental issues may provide a more extensive assessment of a company's strengths and weaknesses (Lindsay & Geronimos, 1997). These include:

- **Financial Analysis** : This includes calculating major financial ratios, sources of funds, etc.
- **Culture & Leadership** : Here we assess the way an organisation conducts business and the influence of the leadership on strategy.
- **Legitimacy & Reputation** : Addresses how the organisation is perceived.

The tables that follow elaborate on issues within these areas of concern.

Financial Issues	Poor	Average	Excellent
Cost of funds compared to key competitors			
Ability to raise addition funds			
Liquidity ratios compared to key competitors			
Leverage ratios compared to key competitors			
Profitability ratios compared to key competitors			
Activity ratios compared to key competitors			
Relationship with creditors and shareholders			
Dividend policy			
Match between sources and use of funds			

Culture & Leadership Issues	Poor	Average	Excellent
Sense of identity provided to members			
Consistency of culture (SBU vs. Corporate)			
Ability of culture to foster innovation			
Capacity to adapt and evolve			
Executive, managerial and employee motivation			

Legitimacy & Reputation Issues	Poor	Average	Excellent
Effectiveness in coping with restrictive regulations			
Relationship with consumer activist groups			
Relationship with media			
Relationship with government			
Ability to obtain government funding			
Extent of trade tariff protection			

Analysis of these additional internal issues should provide a more comprehensive assessment of a company's ability to satisfy the needs of its markets.

2.4.2.2. Core Competence Analysis

Companies need to have a firm understanding of their true strengths in order to compete effectively in an increasingly competitive world. A core competence analysis will enhance this understanding by forcing strategists to look beyond their markets and products to their core technologies and sources of competitive advantage. The core competences of an organisation lie in its collective learning i.e. its group of skills and technologies that enables the organisation to deliver particular benefits to customers. Parsons (1960), an early proponent of the idea, suggested that the skills and capabilities of an organisation are embodied in three subsystems: administrative, technical & institutional.

In most cases the core competences of an organisation are hidden from competitors and even from the organisation itself. In searching for these core competences, it helps to trace from the known to the unknown. The analysis follows a top-down approach, which decomposes products and services into their constituent parts. In doing so one must consider whether it is the product, the way it reaches the market, the way it was built or resourced (among other factors), that constitute the core competences of the organisation.

The following steps should be followed (Ambrosini, 1998):

Step 1	
Analyse the revenue stream to identify the products/services offered by the organisation. One should start with those products/services that make significant contribution to the company's revenue, profit and strategic purpose.	
Step 2	
Using the products/services as guides	
A	Disassemble them to identify the core products and services, then
B	Disassemble the core products to identify the basic technologies, people skills, processes and strategic assets that combine to produce products.
C	Dissect the services to identify the core processes or unique talents that confer

	unique value to the delivered service
D	Relate the products or services to their subsystems: technical, administrative or institutional.
E	Analyse the subsystem that contributes to the company's market strength to find the basic technologies, people skills, processes and strategic assets that combine to produce these core products/services.
Step 3	
Test these findings using the following three tests:	
A	Do they provide potential access to a wide variety of markets?
B	Do they make a significant contribution to the perceived customer benefits of the end product?
C	Is it difficult for competitors to imitate?
If the core competences identified meet these criteria then the analysis can be considered successful, if not then one needs to start again.	

Once the core competences have been identified they can be used to develop new products or enter new markets in which they can be exploited thus positioning the business for the future.

2.4.2.3. Benchmarking

Benchmarking is a widely used technique that allows a company to measure its performance against predetermined standards. It can be usefully be regarded as a process for initiating improvements by identifying the size of performance gaps, and therefore the amount of improvement that is necessary to match and surpass best practice. Since a benchmarking exercise is potentially highly resource consuming, an organisation should concentrate its benchmarking efforts on areas considered key to itself (core competences) and/or key to its competitors (competitive advantage). These should be periodically revised to ensure that they are still in line with the strategic direction of the company.

A typical benchmarking process should include the following steps (Ambrosini, 1998):

Step 1 - Planning	
A	Map the business process you wish to benchmark
B	Determine the data to be collected
C	Select a benchmarking category
	<i>Internal (against similar internal units)</i>
	<i>Competitive (against competitor organisations)</i>
	<i>Functional (against orgs known for best practice in that function)</i>
	<i>Generic (against conceptually similar processes)</i>
Step 2 - Analysis	
A	Collect data
B	Measure and identify trends
Step 3 – Integration	
A	Communicate the results
B	Set 'stretched' best practice goals that have realistic timescale
Step 4 – Action	
A	Plan tasks, responsibilities, timescales and sequences
B	Structure and activate the implementation team
C	Recalibrate – Determine if benchmarking standards have changed during project

By definition, the output of the benchmarking process could suggest significant changes within the organisation. In order for these changes to be effective it is firstly necessary to secure the full commitment of senior management and secondly to manage the change process correctly. The rate of change should be determined by the culture of the organisation so as to ensure that the changes are not damaging. When conducted in a correct manner, benchmarking could effectively assist in the improvement of a company's performance.

2.4.3. EXPECTATIONS AND PURPOSES

A comprehensive assessment of an organisations strategic position would not be complete without considering the role that people play in the evolution of it strategy. The expectations of various stakeholders and the influence that these expectations have on the strategy of an organisation must be taken in consideration. These issues may be assessed within the cultural and political framework of the organisation. The specific techniques employed include an organisational culture mapping and a stakeholder mapping.

2.4.3.1. Organisational Culture Mapping

The culture of an organisation i.e. the way things are done, may prove to be a significant obstacle to strategic change even when a strategy is based on sound rational argument. Mapping of an organisations culture can provide a basis for examining the changes that may be required to deliver a companies strategy (Ambrosini, 1998). For this purpose a strategist could make use of the cultural web as shown in **Figure 2-3**.

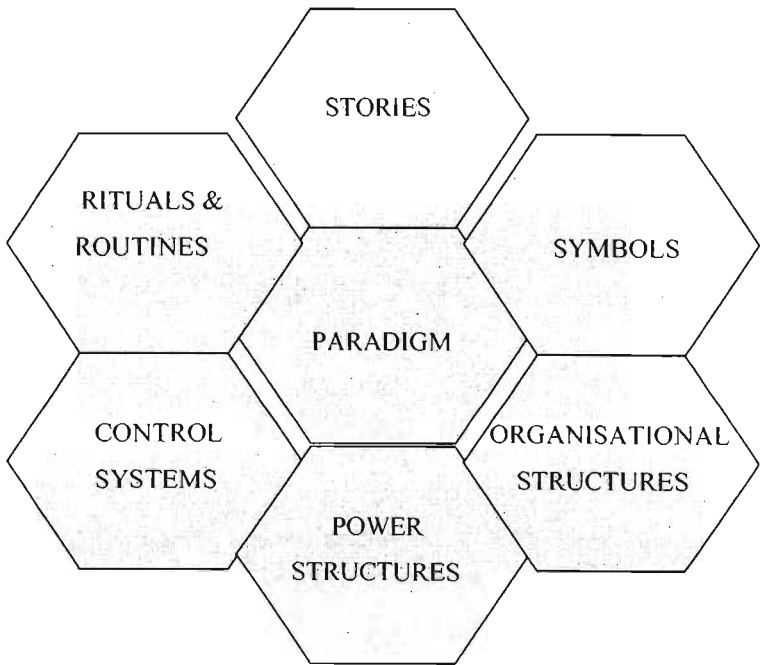


FIGURE 2-3 – THE CULTURAL WEB

Elements of the cultural web are included in the table below:

Elements of the Cultural Web	
Paradigm	Set of common assumptions taken for granted
Routines	The way things are done
Rituals	Points to what is important & valued. (promotions, assessments, etc)
Stories	Told by members – flagging important events and personalities
Symbols	Represents nature of organisation. (Logos, cars, titles, language, etc)
Control Systems	Measurement and reward systems focus attention on activity
Power Structure	Power of different groups
Org. Structure	Reflects power structures and what is important in organisation

Once the elements of the cultural have been applied to the organisation, one needs to conceive of what the culture should look like in order to facilitate the current strategy. Conceptually, this re-mapping should give an idea of the extent to which the present culture is an impediment and the extent to which change is required.

2.4.3.2. Stakeholder Mapping

A company strategist must be cognisant of the fact that the processes of formulating and implementing strategies have a strong political dimension. It is therefore imperative that the political influences within an organisation are well understood and strategies are developed that are politically viable. Different stakeholders may have a common purpose at a very general level (eg. making profit) but would probably wish to impose different purposes and priorities at the more detailed levels. Stakeholder mapping (Ambrosini, 1998) is a tool that may be used to understand the political environment. It underlines the importance of two issues:

- How interested each stakeholder group is to impress its expectation on the organisations purpose and choice of strategies.
- Whether they have the means to do so i.e. how powerful are they?

The Power-Interest Matrix (**Figure 2-4**) is a template on which the orientation of different stakeholder groups can be mapped.

		Level of Interest	
		Low	High
Power	Low	A Minimal Effort	B Keep Informed
	High	C Keep Satisfied	D Key Players

FIGURE 2-4 – THE POWER-INTEREST MATRIX

The most common use of stakeholder mapping is in relation to a particular strategic development. For this new development stakeholders should first be plotted in relation to how they would line up – the level and nature (for or against) of their interest and the extent of their power. A second map should then be plotted showing how one needs stakeholders to line up if the development is going to have a good chance of success. A comparison of the two maps should indicate where problems exist, thus establishing political priorities.

2.5. STRATEGIC CHOICES

Strategic choices are concerned with decisions about an organisations future and the way it needs to respond the numerous influences of the elements discussed under the strategic position. Further, given the interdependent nature of strategic management, these choices need to be mindful of the realities of their implementation, which themselves can influence strategic choices. An essential starting point when considering strategic choices is to analyse and process the information obtained from determining the strategic position of the organisation. This is covered in the section called SWOT Strategies. Here the process involved leads to a point where strategies, based on the specific **Strengths, Weaknesses, Opportunities and Threats** facing the organisation, needs to be determined. These strategies are defined within the framework of the fundamental strategic choices made by the company i.e. choices regarding Sustainable Competitive Advantage and the Directions and Methods of Development. Finally, strategic choices need to be assessed for suitability, acceptability and feasibility before implementation.

2.5.1. SWOT STRATEGIES

Once completed, the outputs of the analyses included under the strategic position should form the basis for developing the organisations key strategic options that we call the SWOT strategies. These strategies are developed from an assessment of the interaction among the most important strategic **Strengths, Weaknesses, Opportunities and Threats**.

Strengths and Weaknesses are internal factors that influence how well or poorly an organisation can service the needs of its customers and stakeholders. The internal environment analysis provides the information required.

Opportunities and Threats involve factors external to the organisation but relevant to its industry and markets. Opportunities can be exploited or pursued; Threats could damage, constrain or destroy an organisation and measures must be taken to overcome them. The external environment analysis provides the information required here.

The SWOT strategies may be developed via the following process (Lindsay & Geronimos, 1997):

Step 1 – Separating Strategic & Operational Issues

All issues must be consolidated and only the truly strategic issues should be considered further as part of the strategic management process. Operational issues are either short term or have less of an impact on the organisation. In order to separate strategic and operational issues the following logic may be applied.

Issue Identified	Operational	Strategic
When will the issue impact the company?	Now	> 2 years
How great will impact be?	Small	Very significant
How broad will the impact be?	Part of company	All of company
How great a risk is doing nothing?	Small	Great
How much change will addressing issue involve?	Minor change	Major change

Step 2 – Isolate most significant Strategic Issues

After the strategic strengths, weaknesses, opportunities and threats have been identified; these should be further reduced to the three to five most important items in each category.

Step 3 – Identify Interactions and Formulate Strategies

The following two questions need to be considered at this point.

- Are there any interactions among each of the strategic item in the four SWOT categories?
- Are there any possible strategies that arise from these interactions?

These interactions and strategies may be summarised as follows:

Interaction Between ...	Possible Strategies
Strengths & Opportunities	What strategies can be formulated to build upon this strength item to take advantage of this opp. item?
Strengths & Threats	What strategies can be formulated to build upon this strength item to reduce this threat item?
Weaknesses and Opportunities	What strategies can be formulated to negate this weakness item to take advantage of this opp. item?
Weaknesses and Threats	What strategies can be formulated to negate this weakness item to reduce this threat item?

Step 4 – Setting Priorities

By rearranging the information obtained in step 3 it is possible to construct a SWOT strategies matrix that provides a more holistic view, making it easier to perceive interactions between the items and the strategies that can be developed from these interactions.

Further, it must be recognised that not all strategies will have the same degree of urgency. High priority strategies occur at intersections of strengths & opportunities and weaknesses & threats. The strength/opportunity strategies should be easier to implement and the weakness/threat strategies could be critical to the survival of the business. Lower priority strategies occur at the intersection of strengths & threats and weaknesses & opportunities.

The complete SWOT Strategies Matrix is shown in **Figure 2-5**.

	Major Strengths	Major Weaknesses
	1.	1.
	2.	2.
	3.	3.
Major Opportunities	High Priority Strategies	Lower Priority Strategies
1.		
2.		
3.		
Major Threats	Lower Priority Strategies	High Priority Strategies
1.		
2.		
3.		

FIGURE 2-5 – SWOT STRATEGIES MATRIX

2.5.2. FUNDAMENTAL CHOICES

As discussed earlier, the SWOT strategies need to be defined within the framework of the fundamental strategic choices that must be determined by the organisation. These are choices regarding Sustainable Competitive Advantage and the Directions and Methods of Development.

2.5.2.1. Sustainable Competitive Advantage

Successful business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. A company may have a number of strengths and weaknesses as compared to its competitors; however there are only two basic types of competitive advantage that a firm can possess. These are cost leadership (become a low cost producer) and differentiation (distinguish products/services from

competitors). The significance of any strengths and weaknesses is a function of how it impacts on the relative cost or differentiation.

Sustainable competitive advantage needs to be considered against the scope of a company's activities. This could either be narrow (focus) where a company concentrates on a narrow niche for selling its products or broad where the business targets a wide range of the market. This results in three generic strategies: cost leadership, differentiation and a focus strategy that has two variant (cost or differentiation). **Figure 2-6** below illustrates this point. Each of these strategies provides a different route to sustainable competitive advantage (Lindsay & Geronimos, 1997).

COMPETITIVE ADVANTAGE			
		Low Cost	Differentiation
SCOPE	Broad	1 Cost Leadership Strategy	2 Differentiation Strategy
	Narrow	3 Cost Focus Strategy	4 Differentiation Focus Strategy

FIGURE 2-6 – SUSTAINABLE COMPETITIVE ADVANTAGE

Cost Leadership

Here the aim is operate the business in a highly cost efficient manner and open up a sustainable cost advantage over rivals. Cost advantage may be achieved through a variety of sources including economies of scale, proximity to low cost labour, sources of raw materials, experience in managing costs, etc.

Differentiation

Here a business seeks to be unique with respect to something that is perceived to be important to customers, thus commanding a premium price. Differentiation can be achieved in many ways including product features, packaging, after sales service, etc.

Focus

This strategy relies on a narrow competitive scope within an industry. A company tailors its strategy to serve specific market segment competing via cost or differentiation. Here companies must monitor competitor underperformance within segments.

2.5.2.2. Directions and Methods of Development

The direction (eg. new products, new markets) and method (eg. internal, merger/acquisition, alliances) of developing an organisations strategies is considered fundamental strategic choices because they permeates the entire business i.e. they have marketing implications (in terms of setting marketing objectives and development of marketing strategies), product development implications (in terms of research, development, procurement, etc.) production implications (in areas of retooling, etc.) and financial implications (in term of how strategies will be financed). The direction and method of development choices therefore provides an umbrella within which more specific functional strategies (as discussed in under SWOT strategies) may be developed.

Directions of Development

The products/markets matrix in **Figure 2-7** provides a model for considering the available choices regarding the directions of development (Johnson & Scoles, 2002).

	Existing Products/Services	New Products/Services
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

FIGURE 2-7 – THE PRODUCTS/MARKETS MATRIX

It looks at products on one dimension (divided into existing and new products) and markets on the other dimension (divided into existing and new markets). As a result of the intersection of these four choices for developing the business, the following four strategies appear:

Market penetration strategy	Existing products to existing customers
Market development strategy	Existing products to new customers
Product development strategy	New products to existing customers
Diversification strategy	New products to new customers

Further, it is worth considering the risk associated with each of these options. Market penetration strategies tend to be lower risk and easier to implement but as for any lower risk option the returns may not be too great. At the other extreme are diversification strategies that have high risk because a company would have to access new markets with new products with which it may have little or no experience. Product and market development strategies fall within these extremes because here companies are dealing with just one unknown – either the new product or the new market.

Methods of Development

For any of the directions of development chosen above there are different methods of development. These methods are of three types: internal development, mergers & acquisitions, and joint ventures & alliances (Johnson & Scholes, 2002). There are various reasons why an organisation may choose a specific or combination of development methods, some of which are summarised under strategy suitability within the discussion on strategic evaluation.

Company strategists need to determine which of these fundamental strategic choices are appropriate to their business environment and what priority to give them in terms of implementation.

2.5.3. STRATEGIC EVALUATION

The strategic choices available to an organisation need to be evaluated in order to determine whether these choices have a chance of being successful or not. This evaluation may be conducted against a predetermined set of success criteria. The three main success criteria are suitability, acceptability and feasibility (Johnson & Scoles, 2002).

2.5.3.1. Suitability

Suitability is concerned with whether a strategy addresses the circumstances within which the company is operating – the strategic position. Here strategies are assessed from the point of: exploiting opportunities and avoiding threats, capitalising on strengths and remedying weaknesses, and satisfying expectations. The table below gives some examples of why strategic choices regarding development directions and methods might be suitable.

Strategic Choice	Reasons why choice might be suitable in terms of :		
Directions	External Environment	Internal Environment	Expectations
Market Penetration	Gain market share	Exploit superior resources	Low risk. Exploit current strategy
Product Development	Exploit knowledge of customer needs	Exploit R & D	Medium risk. current strategy + market knowldg.
Market Development	Current mkt. saturated	Exploit current products	
Diversification	Current mkt. declining	Exploit core competencies–new areas	
Methods			
Internal	First in field. No partner	Competence development	Cultural/Political ease
Merge/Acquisition	Speed / PE Ratios	Acquire competences	Returns
Joint Venture	Speed / Industry norm	Complementary comps.	Dilute risk

2.5.3.2. Acceptability

Acceptability is concerned with the expected performance outcomes of a strategy. These can be of three types: return, risk and stakeholder reaction. There are a number of approaches to understanding the acceptability of strategies. The table below provides a summary of the more popular approaches.

Criteria	Used to Understand	Examples
Return		
Profitability Analyses	Financial returns on investment	Return on Capital Employed
		Payback Period
		Discounted Cash Flows
Cost-Benefit Analysis	Wider costs/benefits (Including intangibles)	
Real Options	Sequence of decisions	Real options analysis
Shareholder Value Analysis	Impact of new strategies on shareholder value	
Risk		
Financial Ratio Projections.	Robustness of strategy	Break-even analysis
Sensitivity Analysis	Test assumptions	What If analysis
Stakeholder Reactions		
Stakeholder reactions	Political dimension of strategy	Stakeholder mapping
		Game theory

The details of these approaches are beyond the scope of this paper and may be found in various management references. In considering the different approaches it is necessary to understand the limitations of each and helpful to use more than one approach in building a picture of the acceptability of a particular strategy.

2.5.3.3. Feasibility

Feasibility is concerned with whether an organisation has the resources and competences to deliver a strategy. The approaches that can be used to understand feasibility include financial feasibility and resource deployment.

Financial feasibility can be assessed by using a *funds flow forecast* which identifies the funds required and the likely sources and timing of those funds.

Resource deployment considers the resources and competence required for a particular strategy. This assessment needs to further consider the resources required to sustain a competitive advantage.

2.6. STRATEGIC IMPLEMENTATION

Understanding the strategic position of an organisation and considering the strategic choices available are of little value unless the strategies managers wish to follow can be turned into organisational action. Such actions take the form of organising the company in term of its structure and processes, enabling strategy via the management of company resources, and managing any changes that may be required to deliver company strategies.

2.6.1. ORGANISING THE COMPANY

The organisation of people i.e. the roles they play, how they interact and the relationships they build are crucial to the success of an organisations strategy. Within the area of organising one needs to consider the organisational structure, work design, and the processes and relationships that connect, drive and support the people within and around the organisation.

2.6.1.1. Organisational Structures

Organisational structures define the levels and roles that facilitate or constrain how the processes or relationships work within an organisation. There are various basic structure types, each having their advantages and disadvantages that must be considered when determining how well a particular structure suits a given business environment. The table below includes a brief description of the classic structures employed by companies (Johnson & Scoles, 2002).

Structure Type	Description
Simple	No formal structure. Run by control of individual.
Functional	Division acc. to functions eg. production, marketing, finance, etc
Divisional	Division acc. to products, service, geographical areas.
Matrix	Combination of functional and divisional
Team/Project Based	Structures people into cross-functional teams

A comprehensive coverage of the advantages and disadvantages of each structure type together with their applicability to different business environments is beyond the scope of this paper and can be found in various management references. It is worth noting that few organisations adopt a pure structure. Managers need to be skilful in blending structure types to match the environment while ensuring that the structure keeps pace with changing conditions.

2.6.1.2. Work Design

The changing demands of the labour market relating to job satisfaction must be taken into account when organising a company. Work design deals with the design of jobs, works spaces and work schedules in response to these changes.

According to the Job Characteristics Model (JCM) (Robbins & De Cenzo, 1998), any job can be described in terms of five core dimensions. These include:

Dimension	Description
Skill Variety	Degree to which job requires a variety of skills
Task Identity	Degree to which job requires the completion of whole piece of work
Task Significance	Degree to which job effects the lives or work of other people
Autonomy	Degree to which job provides independence ito. scheduling, procedures, etc
Feedback	Degree to which direct & clear feedback is provided on performance

Research indicates that people who work on jobs with a high degree of these dimensions are more motivated, satisfied and productive than those who do not. Increased motivation may be achieved with flexible scheduling options including:

Flexitime	Flexible time arranged around core working hours
Job Sharing	Allows two or more individuals to split a traditional forty-hour week
Telecommuting	Work from home – linked to office via a network

2.6.1.3. Organisational Processes

Although the structure of a company is important when organising, it is the formal and informal processes at work within the organisation that controls its operations and therefore vital to the successful execution of strategy. Several stereotypical control processes are outlined below (Johnson & Scoles, 2002), each having their advantages and disadvantages that, like in organisational structure, must be considered when determining how well a particular process suits a given business environment.

Process	Description
Direct Supervision	Direct control of strategy by one/few individuals
Planning & Control Systems	<p>Strategy controlled by systems that plan and control resources. Eg. Financial, Production, Marketing, Organisational plans.</p> <p>Addition controls include</p> <ul style="list-style-type: none"> • Policies and Procedures & • Quality Systems (TQM, ISO 9000, etc)

Performance Targets	Focus on Outputs eg. Profits, Service, etc
	Freedom of processes within boundaries
	Balanced Scorecards could be used to measure performance
Market Mechanisms	Relates to internal contracting for resource inputs from other parts of org. & supplying outputs to other parts of org.
Social Processes	Relates to culture and the sharing of knowledge via the social interaction of communities.
Self-control	Integration & co-ordination of knowledge occurs thru direct interaction of individuals without supervision.
	Managers merely facilitate and supports

Although some processes may dominate, in reality a blend of these processes will exist. What is important is that the processes are consistent with other organisational elements.

2.6.1.4. Relationships and Boundaries

The final aspect of organising that needs to be considered is the relationships and boundaries that exist both internal and external to the organisation.

Internally, the debate on centralisation vs. decentralisation addresses the issue of the levels at which decisions should be made (Johnson & Scoles, 2002). Over-centralised companies run the risk of losing their competitiveness when top managers become out of touch with markets or operations whereas decentralised companies experience difficulty implementing low cost strategies that require consistency and standardisation. Again, this decision must take cognisance of the environment within which the company is operating.

External relationships cover issue such as outsourcing and alliances (Johnson & Scoles, 2002). Outsourcing occurs when an organisation decides to buy in services or products that were previously produce in-house. When outsourcing, one should ensure that an

outside supplier can provide better value for money and that core competence are not outsourced since these underpin competitive advantage as previously discussed.

Alliances may be formed in a number of ways. The organisational concerns are similar to those with outsourcing. The table below provides a summary of the various alliance types together with the factors that influence the choice of alliance.

Type of Relationship	Informal	Contractual	Ownership
	Networks	Licensing	Consortia
	Opportunistic	Subcontracting	Joint Ventures
Influencing Factors			
Market	Fast Change	>>>	Slow Change
Assets	Managed Separately	>>>	Managed Together
Financial Risk	Maintains Risk	>>>	Dilutes Risk
Political Climate	Unfavourable	>>>	Favourable

2.6.2. ENABLING STRATEGY

Successful strategies require enabling i.e. individuals and managers throughout the organisations need to direct their resources and competences in support of the organisational strategies. Further, these individuals and managers must develop unique resources and competences in their part of the organisation (HR, IT, Finance, Marketing, etc.) on which successful new strategies can be built. In this section we look at four key resource areas: people, information, finance and technology in terms of the ways in which they could enable strategic success.

2.6.2.1. Managing People

People are at the heart of strategy in most organisations. It is therefore vital to understand the link between business and human resource strategies. This includes the informal ways that people behave as well as the formal systems and procedures.

People need to be developed as a resource. Here HR activities can enable strategies in the following ways (Johnson & Scoles, 2002):

HR Audits to identify people requirements to support present or build new strategies
Goal setting and performance assessment of individuals or teams
Implementing reward systems based on performance
Facilitate mentorship programs to maintain long-term strategic advantage
Implement formal and informal training and development programs

Ideally all individuals should be familiar with the organisations strategies and able to see how their jobs contribute to its success/failure. Here the developments needs of individuals should be brought in line with the organisations strategies such that they take ownership of their own development.

The informal ways in which people behave have been address under the *expectations and purpose* section of this paper i.e. within the political and cultural context of the organisation. Managers should never underestimate the impact of these 'softer' HR issues especially in an era where the need for organisations to create and share knowledge is crucial to success and can be strongly influenced by how trust is built and sustained within the organisation.

2.6.2.2. Managing Information

In the modern economy, knowledge management and information management features widely as a potential source of competitive advantage. Information processing capability can strengthen an organisations strategic capability by directly or indirectly reducing costs and/or improving service quality. Managers need to consider the impact of IT on strategy from various perspectives (Johnson & Scoles, 2002).

From a core competence point of view IT can have the following impact:

Core Competence Element	Impact
Value added features	<ul style="list-style-type: none"> - Lower prices - Pre/post purchase information - Shorter development times - Personalisation, etc
Competitive Performance	<ul style="list-style-type: none"> - More emphasis on service based on information - Increased importance of data mining
Robustness	<ul style="list-style-type: none"> - Lesser impact from rarity of technology - Complexity from knowledge & not technology - Codification reduces casual ambiguity

From a competitive forces point of view the following must be considered:

Comp. Element	Impact
New Entrants	Raised barriers due to IT integration with suppliers/customers.
Supplier Power	Increased threat of supplier forward integration
Buyer Power	Increased power due to more information - Internet
Substitutes	Increased threat of direct and indirect substitution
Rivalry	IT is fuelling hyper-competition

Over and above the impact on a company's strategic position (as illustrated above) IT can significant contribute to better strategy implementation. From a company structuring and control point of view the following can be considered:

Configuration	Impact
Centralised, bureaucratic	Facilitate cost reduction through routinisation
Decentralised	Accurate & timely info. For complex coordination
Hybrid	High quality info. For bottom-up planning and top-down coordination

The wide-ranging impact of IT on a business should alert managers to the fact that IT can not only fine tune existing strategies and processes but can transform the entire organisation.

2.6.2.3. Managing Finance

The management of an organisation's finance can be a key determinant of strategic success. Although the relationship between strategy and finance is context specific, there are certain broad principles that apply to all organisations (Johnson & Scoles, 2002).

The first is *managing for value*, which is concerned with creating value for shareholders. Value creation is determined by three main issues, including:

- Funds from Operations – This is determined by sales revenue and direct production and indirect overhead costs.
- Investment in Assets – This is determined by the capital investments/disposals.
- Financing costs – This is determined by the cost of debt and equity.

From a business strategy point of view it is critical to understand what the key value and cost drivers are. Managers may make use of the Value Chain concept to quantify value and cost drivers that drive cash inflows and outflows respectively. This would help prioritise their efforts for performance improvement.

The next issue that faces all organisations is how they will be *financed*. Here it is essential that managers balance business risk with financial risk. The greater the business risk the lower should be the financial risk to the organisation. This implies that when operating in high growth markets (high business risk) funding should be via equity (low financial risk but more expensive) or when operating in low growth market (low business risk) funding should be via debt (higher financial risk but cheaper).

Finally managers must consider the impact on strategy of the financial expectations of stakeholder other than shareholders. These include institutional shareholders, provider of finance, suppliers, employees, customers and the greater community. Managers must understand how these expectations will favour certain strategies over others.

2.6.2.4. Managing Technology

Technology and innovation may enable strategic success in several different ways. These include (Johnson & Scoles, 2002):

Mechanism	Strategic Advantage
Product novelty	Offering something no one else can
Process novelty	Offering it in ways others can't match
Complexity	Offering something others find difficult to master
Intellectual property	Offering something that is legally protected
Robust design	Offering something that provides a platform for future
Rewriting rules	Offering something that makes old products redundant

Although the impact of technology on strategy is likely to be dependent on context, managers need to be cognisant of the following:

- Technology can influence the competitive situation in that it may lower or raise barriers to entry, assist substitution, and change the relative power of supplier/buyers and competitive rivalry.
- The rate of diffusion of innovation can have a significant effect on its market success.
- Core competences may be found in the process of linking technologies rather than the technologies *per se*.
- Strategic decisions must be made regarding developing or acquiring technology. This will be dependent on in-house knowledge, complexity, risk, speed, etc.

Managers must ensure that the technology and business strategies are aligned while encouraging a creative environment where innovation is fostered, communication is extensive and where there is a culture of a learning organisation.

2.6.3. MANAGING CHANGE

Envisaging a strategy and designing a structure and processes for its implementation does not mean that people will make it happen. In most organisations there is a resistance to change that must be carefully managed.

The approach taken to managing strategic change needs to be dependent on the wider context within which that change is required. Balogun & Haley (1999) have highlighted a number of important contextual features that must be taken into account in designing change programmes. These include:

Feature	Definition
Time	How quickly change is required
Scope	What degree of change is required
Preservation	What organisational resources and characteristics need to be maintained
Diversity	How homogenous are people within organisation
Capability	What is managerial capability to implement change
Capacity	What is the degree of change resources available
Readiness	How ready for change is the workforce
Power	What power does the change leader have to impose change

A thorough assessment of the contextual features must inform choices about the means by which change can be managed. This includes the style of change management that one adopts. The various styles together with their means, benefits and problems are summarised in the following table (Johnson & Scholes, 2002). It is worth noting that styles of managing change are not mutually exclusive and that different stages in the change process may require different styles.

Style	Context	Benefits	Problems
Education & Communication	Group briefings accept strategic logic & trust top management	Overcome misinformation	Time consuming
Collaboration / Participation	Involvement on strategic issues by taskforces & groups	Increase ownership of decisions	Time consuming Encourages existing paradigms
Intervention	Change agent retains controls & delegates elements of change	Controlled process with involvement	Risk of perceived manipulation
Direction	Use of authority to set direction and means of change	Clarity & speed	Lack of acceptance
Coercion/Edict	Explicit use of power through edict	May be successful in crises or confusion	Least successful unless crisis

More than looking at the change context and management styles one must consider the different levers that can be employed to manage strategic change (Johnson & Scholes, 2002). These include:

Structure & Control Systems

Changing aspects of organisational structure and control are important aspects of strategic change. These have been covered under *organising the company*.

Organisational Routines

The planning of the implementation of the intended strategy must be driven down to operational levels, which is likely to require changes in the routines of the organisation. It is at this level that changes in strategy become really meaningful for most people in their everyday working lives.

Symbolic Processes

Symbols are everyday things (objects, events, acts or people) that are especially meaningful in the context of a particular organisation. The creation or manipulation of symbols can reshape beliefs and expectations via the day-day experience of the organisation.

Power & Political Processes

Strategic change may require the reconfiguration of power structures in the organisation. In order to do this a change agent needs to build a power base, overcome resistance and achieve commitment to the strategy. The following mechanisms may be employed:

- Manipulation of resources – acquire, reallocate or withdraw resources
- Associate with powerful stakeholder groups
- Building alliances and networks of sympathisers

Communicating Change

Successful strategic change requires that members of the organisation understand the need for change, what it intends to achieve and what is involved in the changes. Here change agents must consider the following:

- Communication of strategy should not be too complex
- The choice of media (eg. interactive, bulletins, etc) should match the nature of change in terms of its complexity
- Organisational members should be involved in strategy development
- Communication must be two-way in that feedback must be encouraged

Change Tactics

Some specific change tactics that may be considered include:

- Proper timing of changes
- Responsible handling of job losses & demonstrate short-term successes

2.7. STRATEGIC PERFORMANCE

It is always incumbent on management to evaluate the organisations performance and progress. Subpar performance, as well as important new internal or external circumstances calls for corrective actions or adjustments. Long-term directions may need to be revised, the business redefined, performance targets may have to be raised or lowered, strategies may need revision or aspects of its implementation may need modification.

According to Thomas and Strickland (1999), winning strategies must pass *all* of three tests. These include:

- The Goodness of Fit Test – A good strategy must be tailored to fit the internal and external situation.
- The Competitive Advantage Test – A good strategy leads to sustainable competitive advantage.
- The Performance Test – A good strategy boosts company performance in terms of profitability, competitive strength and market position.

Upon deeper analysis, one realises that the "Goodness of Fit" and "Competitive Advantage" tests are not separate from, but rather pre-requisites to good performance. Therefore assessing performance against the company's objectives, both financial and strategic, should provide a comprehensive indication of how good a strategy really is.

The process of developing useful performance indicators has always been difficult for many managers. One reason for this is that many indicators give a useful but only partial view of the overall picture. Also, some indicators are qualitative, whilst the quantitative end of assessing performance has been dominated by financial analysis. Finally, such measures focused mainly on historical figures that have little to do with future success. In order to cope with this situation Kaplan & Norton (1996) introduced the Balanced

Scorecard, which has been used as way of identifying a useful, but varied set of key measures.

The Balanced Scorecard combines quantitative and qualitative measures of the selected strategy. It acknowledges the different expectations of the various stakeholders and attempts to link scorecard performance measures to the chosen strategy. While recognising that every strategy is unique, there are four strategy perspectives that need to appear on every scorecard. These are summarised in the following table.

Balanced Scorecard		
Strategy Perspective	Example	Scorecard Measure
Financial	Shareholders view of performance	Return on Capital
		Sales growth
		Cost reduction
Customer	Customer satisfaction	Customer satisfaction
		Customer retention
		Customer acquisition
Internal	Assess quality of people and processes	Training & development
		Job turnover
		Product quality
Innovation & Learning	Examine how organisation learns and grows	Employee satisfaction
		Employee retention
		Employee profitability

There is the danger that the scorecard may lead to too much measurement in large organisations, turning the whole process into a bureaucratic nightmare. However, it does represent a useful attempt in moving the measurement of strategic success beyond a few narrowly focused financial measures.

2.8. SUMMARY

This chapter on the theory of strategic management has extensively covered the various issues that one needs to consider when contemplating an organisation's strategy. A brief summary of these follow:

Strategy was *defined* in a manner that provides essential insights into its nature and characteristics.

The *process* of strategy development showed that strategy is not necessarily intentional or planned but can come about through a number of other influences or processes.

A *model* for strategic management was created covering the key aspects of strategic management while simultaneously indicating their interdependent nature. These aspects include Strategic Intent, Position, Choices, Implementation and Performance.

Strategic *Intent* addressed the overriding intentions of the organisation in terms of its future desired state (vision), business purpose (mission) and quantifiable objectives (both financial and strategic).

Strategic *Position* dealt with the various forces that influence strategy including the external environment, the internal environment and the expectations of stakeholders.

Strategic *Choices* addressed decisions about the organisations future in response to the influences discussed under strategic position. Information was processed via a SWOT analysis within the framework of the fundamental strategic choices required. Evaluation criteria (suitability, acceptability & feasibility) for the assessment of strategic options were then presented.

Strategic *Implementation* addressed issues of organising the company, enabling strategy via the management of resources and managing changes required to deliver the strategy.

Finally, Strategic *Performance* dealt with assessing the performance of the organisation against its stated objectives. The Balanced Scorecard was presented as a means to address both qualitative and quantitative measures of company performance.

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STRATEGIC MANAGEMENT AT FBSDL (PTY) LTD

CHAPTER THREE

CASE STUDY

3.1. INTRODUCTION

Objective 1 of the current research was to define a Strategic Management Model derived from available management literature. This was the focus of Chapter 2 of this paper. The idea here was to define a theoretical model that can be used as a platform to assess the current strategic management practices of the company under investigation.

Having achieved this objective, the present chapter will focus on the **Case Study**. Here the theoretical model developed in Chapter 2 was converted into a questionnaire that was be used to collect data on the current strategic management processes followed by FBSDL management. Data collections methods included:

- Analysing company data such as management plans and reports, memos, websites, data captured on information systems, etc.
- Interviewing appropriate personnel including Directors, Operations Managers, Project Managers, Engineers, etc.
- Passive observation of company practices relating to management styles, politics, culture, leadership, etc.

The completed questionnaire is included as **Appendix A**. The questions include direct references to the theory and answers are limited to a relatively high level.

Chapter 3 includes a narrative consolidation of the of the company responses in an attempt to provide an understanding of how the various aspects of strategic management are addressed at FBSDL. In order to maintain a direct mapping to the theory, the case study has been structured in a manner similar that of the theoretical model.

The analyses and evaluation of the company's current situation follows in Chapter 4 which addresses **Objective 2** of the research.

3.2. COMPANY BACKGROUND

FBS Defence Logistics (Pty) Ltd (FBSDL) was established in 2003 as a joint venture company between Futuristic Business Solutions (Pty) Ltd and Xcel Information Technologies (Pty) Ltd, to position Xcel & FBS as the primary Logistics Systems House in the Southern African Defence Market.

FBS (Pty) Ltd is a wholly black owned and managed enterprise, established in 1996, with the aim of supplying Engineering and IT services to the public and private sectors. During 1998/99 the company positioned itself to supply locally developed support packages as part of the arms acquisition. This was mostly accomplished via participation in joint ventures and consortiums. The 2001/2 company strategy sought to consolidate its defence activities under one entity while expanding its internal resource base. A logical move was to create one operational entity that housed all the required resources both from FBS's internal supply and possibly acquired from an external source.

Xcel Defence Logistics (XDL), a division of Xcel Information Technologies (Pty) Ltd, had been supplying Logistic Engineering and Support services to the South African Defence Force for more than twenty years. This group had gained a reputation for their high quality standards and the application of leading edge information technology. Faced with declining markets and having not capitalised on the arms deal XDL was looking for defence contracts where its highly skilled workforce could be utilised.

In January 2003 the management of FBS and Xcel decided that it would be mutually beneficial to establish a joint venture company that inherited both the defence contracts and the resources from the parent companies – The company FBS Defence Logistics (Pty) Ltd was thus established. During the 2003/2004 financial year (March to February) this company has been effectively operational where all clients and potential clients have been informed of the transition and all contracts and resources have being transferred from FBS and XDL to FBSDL.

FBSDL is presently providing the following products and services to its primary client i.e. the South African National Defence Force (SANDF):

- Defence consulting that focuses on strategic planning and facilitation, policy/procedure formulation, organisation development and general consulting to ensure effective implementation of the Defence Transformation.
- Project Acquisition logistic support management to assist the Department of Defence (DoD) and Armscor to obtain and implement the required support packages for Defence Acquisition Programmes.
- Logistic Support Analysis, Product Data Management and Support Management System support, to provide a focused functional support and data exchange service between the DoD and Defence Industry (local and foreign suppliers).
- Documentation, Training and Fault Diagnostics content development for Main Equipment in the DoD and Defence Industry, using the aXcess Suite of products (developed by Xcel), as well as implementation and deployment thereof.

Major defence projects that the company is currently involved in include the following:

- The development of Interactive Electronic Technical Manuals and System Support Data for the SA Air Force Light Utility Helicopters purchased from Agusta in Italy.
- The supply of Logistic Engineering services and the development of Maintenance Documentation and Training Packages for the Combat Suite that will be fitted to the SA Navy Patrol Corvettes purchased from Blom + Voss in Germany.
- The development (and conversion to electronic format) of System Manuals for the same Patrol Corvettes.
- The supply of Logistic Engineering services and the supply of a complete support package for the SA Air Force C130 Transport Aircraft Upgrade programme.
- The development and supply of a support package (inc. Documentation, Training, Support Data, etc.) for the SA Air force Rooivalk Attack Helicopter.

3.3. STRATEGIC MANAGEMENT

A significant portion of the company's capacity is being utilised on projects inherited from FBS. These include work on the support systems of the Patrol Corvettes and Light Utility Helicopters. Currently, the development phases of these projects are near completion and the first systems will soon be delivered by the foreign suppliers to the South African National Defence Force. The key focus of all at FBSDL at this time is to deliver on these projects while resolving company formation issues such as share holdings, management structures, financing, etc. There is not much energy being spent on considering the future of the company beyond these programmes.

3.3.1. THE PROCESS OF STRATEGY DEVELOPMENT

Given this situation, Strategic Management has thus far not been identified as a dedicated task that would naturally form part of management responsibilities. By default, the company strategy is being developed via the impact of various influences / processes. The most significant of these include:

- **XDL Culture** – On an operational level, the dominant personnel at FBSDL are ex-XDL members due to their experience in the industry. Here we find that there is significant resistance to change to the extent that most of these personnel see FBSDL as still XDL but with a new look. They would prefer to continue doing business the way it was done at XDL.
- **Planning & Control** – For financial reasons it was decided that FBSDL should operate on XDL's infrastructure. This includes business planning and management systems that force the company's management to plan (at least for the current financial year) budgets, etc. Further, performance is measured relative to these plans.
- **Politics** – The FBS and XDL people come from vastly different backgrounds with very different ways of doing business. This leads to extensive negotiation and debates on various issues. This is underpinned by the fact the relationship is relatively new where power bases are being established.

- External Forces – Although somewhat underestimated by FBSDL management, the strategy of the company is largely dictated to by changes in the client environment since the SANDF is ultimately the only client.

3.3.2. GENERAL ASPECTS

The board of directors is made up of two XDL members (including the Managing Director) and three FBS members (including the Chairman of the Board). Only one of the FBS members is active in FBSDL on a full time basis while the others are non-executives. Both XDL members are full time members of FBSDL. Most of the company decisions are made by these three full time members of FBSDL – here again with an XDL dominance. XDL operated with very much a bureaucratic, hierarchical system where managers made decisions and employees implemented these decisions. Inputs on strategic issues were not broadly sought but were obtained from upper and middle management. Now FBSDL is being managed this way, much to the dissatisfaction of ex-FBS personnel who were consulted on strategic issues in the FBS environment.

With the XDL culture dominating the way things are run at FBSDL, there does not seem to be a drive to properly configure the Strategic Management of the company, let alone the compiling of a comprehensive Strategic Management Plan. The XDL members of the management are content with the just the financial plans contained in the business planning information systems.

3.4. STRATEGIC INTENT

Strategic Intent addresses the overriding intentions of the organisation in terms of its future desired state, business purpose and quantifiable objectives. These intentions are usually articulated in the form of the business vision, mission and objectives. As noted earlier, the management and staff of FBSDL are focusing on short term objectives such as the delivery on projects and resolution of problems relating to the merging of the companies. This is being done at the expense of considering the future of the company.

Nevertheless, certain aspects of the strategic intent were articulated while the joint venture was still in the conceptual phase.

The **vision** of the company was discussed at a few initial board meetings where all members submitted inputs. As it currently stands, the vision reads as follows:

‘FBSDL aims to be the preferred supplier of system support solutions in all its targeted markets by providing high quality, relevant & cost-effective products packaged with exceptional customer service.’

This vision, although insightful and potentially very valuable, was presented in an early attempt at a business plan and has never surfaced since. Most stakeholders are not aware of its existence due to it never being properly communicated and discussed.

The **mission** statement was mostly adopted from XDL without much consideration or debate. It reads as follows:

‘We provide logistic engineering and system support products to the department of defence for reliable and cost effective systems operations.’

Although well stated in terms of its simplicity, this mission statement has lived with XDL for many years but has not stood the test of time. This statement may have been more damaging than XDL realised. Had it been carefully analysed in time, XDL would have understood that it was too restrictive to cope with the changing business environment. FBSDL needs to guard against a similar fate.

Finally, it stands to reason that a company that is not adequately addressing its future would be lacking in terms of its business **objectives**. As mentioned earlier, the XDL infrastructure included a business planning system that requires managers to propose financial objectives for the current financial year. This system is being loaded with financial projections relating to currently contracted projects. Future financial objectives

such as revenue growth, profit growth, improved cash flow, etc. are not being considered. Strategic objectives such as market share growth, higher product quality and innovation, stronger reputations with clients, etc. are not mentioned anywhere. The very basis for rational decision making i.e. well understood objectives is almost entirely lacking at this stage.

3.5. STRATEGIC POSITION

Strategic Position is concerned with the various forces that influence the strategy of an organisation. These include the external macro and industry environment, the company's internal environment and the expectations of stakeholders that manifest in the company's cultural and political characteristics.

3.5.1. EXTERNAL ENVIRONMENT

In order for managers to have an understanding of the opportunities and threats that face their company, they must have a keen awareness of the environment within which they operate. This includes the broader macro and specific industry and market environments. FBSDL's management don't actively monitor the external environment in any structured manner but instead have a general idea of significant factors based on their collective experience.

3.5.1.1. Macro-Environment

The macro-environment consists of broad environmental factors that impact to a greater or lesser extent on all organisations. A business may not be able to control these factors but must be aware of and act on the impact they have on the company.

FBSDL is a highly cash sensitive business. This forces managers to have a relatively good understanding of the significant **macro-economic factors** that have an impact on the business. These include client business cycles affecting the level of activity, interest

rates impacting on the cost of capital, inflation affecting the cost of labour and infrastructure and exchange rates affecting international business.

Being a high technology provider of products and services, FBSDL's business is directly subjected to external **technology development factors**. These include government spending primarily via Armscor, technology investments of competitors, the introduction of new technologies by foreign suppliers, obsolescence of IT infrastructure, etc. The monitoring of these developments are somewhat neglected.

The management of the company are acutely aware of **social and attitudinal changes** due to the high degree of such changes taking place in the industry. These essentially include demographic changes in the workplace, employee's needs for empowerment via education and training, environmental concerns, income distribution relating to defence spending and a growing multicultural society. The awareness of these factors is not necessarily translated into actions to accommodate the changes.

The changes in the **political and legal** environment that have had a significant impact on companies such as FBSDL include South Africa's move to an open economy that encourages foreign trade and changes in government procurement practices that favours previously disadvantaged individuals. While the procurement factors are well taken care of due to FBS's majority shareholding, the introduction of foreign suppliers into the environment needs more attention.

3.5.1.2. Industry and Market Environment

FBSDL primarily operates in the South African defence industry which has its unique characteristics in terms of its economic features, competitive situation, profit prospects, etc. Here again, the management of FBSDL have not adopted any systematic approach to understanding the environment but rather understand some aspects while lacking in their understanding of others.

The **economic features** of the defence industry were never analysed by FBSDL before deciding to operate in this environment. To understand why the company is active in this industry one would have to look at the backgrounds of the two companies that came together to form FBSDL. XDL was involved in this market for many years but was struggling to survive the changes that were taking place especially in terms of affirmative procurement policies. FBS had managed to align with major equipment suppliers thereby securing contracts relating to system support. From here it is clear that FBSDL was formed by companies that, for very different reasons, were already involved in this industry and not through a rational process of analysing the economic features.

When it comes to **key success factors**, required to prosper in this industry, the ex-XDL managers have a lot to contribute. This is how XDL managed to survive for such a long period of time in the defence industry. Having achieved these factors, XDL would have survived for some time into the future had it not been for the industry transformations. The most important factors include having developed expertise in logistic engineering and support product development, providing superior quality products and very strong customer relationships. FBS on the other hand managed to achieve key success factors such as an adequate empowerment status and alignment with major emerging players.

A key characteristic of the defence industry has been the significant rate of change over the past decade. XDL did not cope well with these changes and FBS was born of these changes. The key **drivers of change** include changes in the growth rate, entry/exit of firms, globalisation, emerging buyer preferences, etc.

In keeping with the elements of the Five Forces model, the **competitive forces** of concern to the management of FBSDL include new entrants in the industry in the form of smaller companies, increasing bargaining power of suppliers due to their scarcity, increased bargaining power of buyers due to increased competition, the threat of substitute products mostly from foreign suppliers and the increased intensity of rivalry due to the shrinking market size.

The **competition** in the defence support industry is relatively well understood. There are essentially three main players that supply a full range of system support services and are more or less aligned with the three arms of service. These include:

- **FBSDL** :- primarily supporting Air Force systems. XDL was the strongest player in the Air Force environment and FBS was able to secure a major contract to provide support products for a new fleet of helicopters. FBSDL has also penetrated the Navy environment via contracts to support the soon to be delivered naval Patrol Corvettes.
- **Logtek** :- primarily supporting Navy systems. This company has been in the navy environment for a very long time and have very strong relationships with key decision makers. Logtek has also enjoyed some success in the Army environment.
- **Genan Systems** :- primarily supporting Army systems. This company is a wholly owned subsidiary of Armscor (the defence force's contracting agency) and therefore has an unfair advantage over privately owned companies.

Other players in this space include:

- A few companies that supply specialised technical services to these main players or either directly to the defence force, Armscor or main equipment suppliers.
- Smaller consulting companies supplying professional services again to these main players or either directly to the defence force, Armscor or main equipment suppliers.
- Internal support divisions of main equipment suppliers who essentially supply support services for their company's own equipment. However, with the trend towards converting these traditionally cost centers into profit centers, these divisions now operate as business units trying to secure business outside their own companies. This phenomenon is regarded as a major problem for companies such as FBSDL.

At FBSDL, there is no conscious drive to gather information on competitors. Here the managers are generally aware of which companies are working on which major defence programmes. The company does not measure itself against its competitors, mostly because of the nature of competition in this industry. As shown above, companies are entrenched within a market segment (either Air Force, Navy or Army) and rarely try to compete in other segments.

Most of what has been said thus far on competition applies when it comes to understanding the strategies and objectives of competitors. Random bits of information are received when competitors make strategic moves. At these times, the most FBSDL can do is react in order to protect itself.

3.5.2. INTERNAL ENVIRONMENT

Apart from the impact of the external environment, successful strategies are also very much dependent on a company's ability to perform at the levels required for success. An understanding of a company's internal environment provides an indication of its strengths and weakness, which in turn determines how well or poorly the business can service the needs of its customers. FBSDL has thus far not followed any systematic process of determining its strengths and weaknesses. Weaknesses, that ultimately manifest themselves as problems, are dealt with on an ad hoc basis and strengths are taken for granted.

3.5.2.1. Value Chain

From a Value Chain (primary activities) perspective, areas of concern relating to inbound logistics include the control of inputs utilised in the product development process. Further, operational efficiency is compromised by unstructured management of performance and labour intensive processes. Marketing and sales efforts are neglected due to management capacity being almost totally absorbed by current programmes. After

sales service, which has great potential as a source of competitive advantage, is not adequately capitalised on.

Secondary activities include HR management in terms of the development of training and mentorship programmes, performance related remuneration systems, social interaction etc. Other areas such as procurement, infrastructure, company image and reputation are insufficiently addressed by management.

3.5.2.2. Core Competence

As in the case of the Value Chain, FBSDL has never followed a structured process to establish its core competencies hence its sources of competitive advantage. The various technologies, skills, processes, etc. that were inherited from FBS & XDL were rapidly put together in order to continue delivering on programmes with a minimal amount of disruption. Here, the company's core competences probably resides in areas such as its integrated IT infrastructure, the ability of personnel, engineering methodologies and strategic assets such as market knowledge and software licences.

3.5.2.3. Benchmarking

It has never been common practice for companies such as FBSDL operating in the defence support industry to measure themselves against competitors. This is largely due to way the competitive environment is structured. Here each of the three major players primarily support systems within one of the three arms of service. Traditionally each arm conducted business in very different ways resulting in competing companies supplying very different types of products and services.

3.5.3. EXPECTATIONS AND PURPOSES

The understanding of FBSDL's strategic position can only be considered comprehensive by taking into account the expectations of various stakeholders and the influence that

these expectations have on the strategy in addition to the external and internal environments. These issues may be addressed within the cultural and political framework of the company.

3.5.3.1. Culture

Being a relatively new company, it cannot be said that FBSDL has its own entrenched culture; however it has inherited the cultures of two vastly different companies (FBS & XDL). The XDL culture could have been defined as bureaucratic, hierarchical, disciplined and heavily controlled. On the hand the FBS culture was more flexible, dynamic, entrepreneurial and easy going. A key element of this difference is the fact that the ex-XDL personnel are older, more experienced and relatively settled in their careers, whereas the ex-FBS personnel are generally younger, less experienced (but well qualified academically) and very comfortable in a fast-changing environment. The XDL culture seems to be dominating at this stage mainly due to FBSDL having adopted XDL's infrastructure and the XDL dominance in terms of the management of operations. This has the effect of perpetuating the stagnation of the ex-XDL personnel while demoralising the ex-FBS staff who feel that FBS has merely been absorbed into XDL.

3.5.3.2. Politics

The political environment at FBSDL is relatively turbulent at this stage. This is mainly due to the fact that most personnel still identify with their previous employers (either FBS or XDL). Using the power/interest model as a framework for understanding the political environment, the following applies:

Power – The XDL group have established their power base via the management of operations, the use of XDL infrastructure and their many years of experience in the industry. The FBS group exercise their power via a higher shareholding in FBSDL, a more significant contribution of revenue generating programmes and wider access to a transformed client environment.

Interest – When assessing the level of interest that the groups have in strategic issues – it is possible that FBS views FBSDL as one of its many investments in a diverse range of companies while XDL group sees FBSDL as a company that will remain their main (if not only) interest for many years to come. Here FBS members are more likely to support decisions that result in higher returns in the shorter term while XDL members would support decisions that bring consistently moderate returns over the longer term.

These differences are expected to remain present in the FBSDL environment for some time into the future.

3.6. STRATEGIC CHOICES

Strategic choices addresses the way FBSDL responds the numerous influences of the elements discussed under the strategic position. Strategies should be based on the specific **Strengths, Weaknesses, Opportunities and Threats** facing the organisation within the framework of the fundamental strategic choices made by the company.

3.6.1. SWOT STRATEGIES

Rationally, strategic choices may only be made after a company understands its strategic position. As we have seen, the management of FBSDL have not yet invested the energy into determining the strategic position of the company via a comprehensive analysis of the external & internal environment together with the expectations of key stakeholders. Establishing the strategic position would lead to a process of establishing strategic priorities by first separating the strategic issues from the operational issues. It is here that we clearly observe the major consequence of having not looked at the company's strategic position. FBSDL's management spend most of their time attending to short term operational issues that require urgent resolution. This is done at the expense of neglecting major strategic issues that could have a severe impact on the long-term survival and growth of the company.

3.6.2. FUNDAMENTAL CHOICES

Certain choices made by the company are considered fundamental because they permeates the entire business i.e. they have marketing implications (in terms of setting marketing objectives and development of marketing strategies), product development implications (in terms of research, development, procurement, etc.) production implications (in areas of retooling, etc.) and financial implications (in term of how strategies will be financed). Choices regarding FBSDL's sustainable competitive advantage and directions and methods of development fall into this category.

3.6.2.1. Sustainable Competitive Advantage

FBSDL's source of competitive advantage is derived from the competitive profile of the local defence support industry. As discussed earlier, each of the major market segments (i.e. the different arms of service) are serviced primarily by one of the major companies in the industry. These companies tailor their products and services to best suite the requirements of their clients. Each arm of service conducts business in a manner different from the others resulting in the competing companies supply products and services that are somewhat different from each other. Here it could be said that the source of competitive advantage is differentiation (mostly due to product features) and target markets are narrow in terms of scope.

4.6.2.2. Directions and Methods of Development

Directions of Development

Presently, all of FBSDL's business is confined to the supply of specific system support products and services within the local defence industry. The company has secured sufficient business to ensure its survival in the short term and is currently not looking at development in terms of its products or markets.

Methods of Development

FBSDL is currently executing the majority of its contracts utilising internal resources. There are a few areas where the company lacks capacity and therefore employs the skills of professional consultants on a contract basis. These consultants are usually very expensive and not always available when required. Additionally, certain specialist skills are subcontracted to companies with the required expertise. The methods of development that are being pursued include internal development together with a broad base of alliances.

3.6.3. STRATEGIC EVALUATION

In a well designed strategic management system the strategic choices available to an organisation would be evaluated against predetermined success criteria including suitability, acceptability and feasibility.

Suitability is concerned with whether a strategy addresses the circumstances within which the company is operating – the strategic position. FBSDL is presently not in a position to assess the suitability of decisions since the strategic position of the company has not been clearly established.

Acceptability is concerned with the expected performance outcomes of a strategy. Presently FBSDL does not measure decisions against any criteria such as return, risk or stakeholder reactions to determine its acceptability. Acceptability is assessed more on gut feel of middle to upper management.

Feasibility is concerned with whether an organisation has the resources and competences to deliver a strategy. This is an area where the management of FBSDL exercises more diligence than with suitability and acceptability. Supplying products and services into public sector markets means that a company must be able to cope with lengthy sales cycles and extended payment periods. This requires that the cash flow be carefully

managed. FBSDL does well in this regard. Further, the company seems to manage the deployment of its resources adequately.

3.7. STRATEGIC IMPLEMENTATION

Strategic implementation addresses the translation of strategic choices into specific actions within the framework of organising the company in term of its structure and processes, enabling strategy via the management of company resources, and managing any changes that may be required to deliver company strategies.

3.7.1. ORGANISING THE COMPANY

In relation to the way FBSDL is presently organised, we consider the company's organisational structure, work design, and the processes and relationships that connect, drive and support the people within and around the organisation.

3.7.1.1. Organisational Structures

The organisational structure of FBSDL is not well defined at this stage. This is mainly due to the fact that the parent companies employed very different types of organisational structures. XDL had a divisional structure where each division focused on a particular product or service. Here employees specialised in a specific field and gained many years of experience focusing on a narrow set of tasks. FBS operated with a type of simple structure where the company had a certain capacity of professional skills that were employed across a range of disciplines. The merging of these and the defining of FBSDL's structure that is effective without damaging staff morale has proven to be a very difficult task. A lot of work is still required in this regard.

3.7.1.2. Work Design

Work design is an emerging concept that responds to the changing demands of the labour market relating to job satisfaction. These changes are certainly evident in a professional services environment such as FBSDL. Here people are looking for a richer working experience in terms of autonomy, diversity, progress, etc. While the majority of jobs at FBSDL measure well on dimensions such as autonomy and feedback, other dimensions such as skills variety, task identity and significance are somewhat lacking.

3.7.1.3. Organisational Processes

FBSDL is a highly professional company where most individuals have high calibre academic qualifications plus considerable working experience. In an environment such as this, control via direct supervision is not only inappropriate but also impractical in that it would be impossible for a manager to micromanage staff due to the technical depth of tasks performed. Work at the company is controlled via performance targets that are monitored within the management information systems.

3.7.1.4. Relationships and Boundaries

Internal relationships, from the perspective of centralised vs. decentralised decision making are characterised by most decisions being made centrally by managers that are not too close to issues on the operational level. Project teams are often frustrated by this. There is evidence that professional staff members are looking for more responsibility in terms of decision making.

The **external relationships** that FBSDL maintains mostly comprises of an informal network of alliance partners and certain formal contractual relationships with suppliers of highly specialised expertise and professional consultants. Initiatives such as outsourcing have not featured in these early stages of the company's operation.

3.7.2. ENABLING STRATEGY

In order for strategies to succeed they must be enabled via the management of key company's resources such as people, information, finance and technology. The following sections focus on each of these resource areas.

3.7.2.1. Managing People

Being essentially a professional services organisation, FBSDL's success hinges on how successfully the company can develop and retain a skilled workforce. The present staff compliment is made up of the members that were inherited from FBS and XDL. From XDL the company inherited mainly people with many years of experience without much academic qualifications. These skills focused more on the support products areas such as maintenance manuals and training packages. On the other hand, the personnel that were brought in from FBS are mostly younger people with very strong academic qualifications and lesser work experience. They focus more on the logistic engineering services side of the business. The merger arrangement was that all personnel would be transferred from the parent companies, not necessarily just those that were required. This has resulted in a situation where the present compliment of personnel is not well matched with the company's requirements.

With FBSDL running mostly on XDL's infrastructure, the company has by default adopted many of the ex-XDL systems. This includes some of the HR systems such as the performance management system. Here goal sessions are held annually where objectives are set for the year against which performance is measured. Training and development requirements are also identified within this system. It seems to be a very good system in theory; however personnel don't seem to take it very seriously.

Finally with the company future strategies not being well defined and communicated at this stage, personnel are unable plan their personal development in line with the

company. This has a serious demoralising effect of individuals, especially the younger personnel who have more of a need to envisage a long-term career path.

3.7.2.2. Managing Information

FBSDL has adopted the information technology infrastructure that was previously being used by XDL. This helped the company save on capital investment costs. The information systems support the company in the following ways:

- a. Core functions – all of the company’s products and services are developed and delivered in electronic format. This includes the use of databases, engineering modelling software, documentation and training package development software and maintenance information systems.
- b. Support functions – Various IT applications are used in business support including finances, human resources, management information, marketing and research and development.

From a core competence point of view the information systems add value by improving efficiencies & reliability, allowing for re-use of information and decreasing response time to client queries. From a competitive forces point of view the systems facilitates the mass storage of proprietary defence system data that raises the entry barrier into the industry.

3.7.2.3. Managing Finance

FBSDL’s financial management is presently taking place on a short term ad hoc basis. Funds are being received from current clients and are used to cover immediate expenses such as salaries, rent, services etc. In terms of ‘managing for value’ the company faces problems such as lengthy client payment periods, high costs of specialist consultants, an unfavourable overhead allocation system and looming financing problems. These problems consume excessive management energy at the cost of sound long term financial planning and control.

3.7.2.4. Managing Technology

As indicated earlier, the core technologies utilised by FBSDL as those that were inherited from XDL. These essentially include databases, engineering modelling software, documentation and training package development software and maintenance information systems. Having mostly serviced Air Force clients past XDL managed to firmly entrench these technologies in this environment. This afforded XDL and now FBSDL a certain level of security in that the technology switching costs could be very high. Currently, the management of the company is not spending energy on changes in the technology environment.

3.7.3. MANAGING CHANGE

FBSDL was formed due to changes that were decided on by the two parent companies FBS & XDL. Conceptually, the formation of this joint venture company made good business sense, however it should be apparent that there are various issues that must be resolved to ensure that FBSDL continues to survive and grow in future. The formation of the company was merely the starting point of the changes required.

3.8. STRATEGIC PERFORMANCE

The management of all companies must comprehensively measure the performance of the company in order to assess the success of their chosen strategies. At FBSDL the only evidence of performance management is the measurement of the financial performance in terms of revenues, profit margins and cash flows. This is done on a quarterly basis over the current financial year. There is no indication at this stage that management intends changing this system to comprehensively measure both financial and strategic performance.

3.9. SUMMARY

The case study in this chapter focused on the present situation at FBSDL in relation to the various aspects of strategic management. A questionnaire was used to collect information by analysing company data, interviewing relevant personnel and passively observing current practices. While the questionnaire mapped directly to the theoretical model, the information included in this chapter leaned more towards a general narrative consolidation of the observations relating to the strategic management aspects. Key points that were noted include the following:

Strategic Management

- Most of the company's capacity is absorbed by current projects and strategic management is not given much attention.
- FBSDL's strategy is mostly influenced by the XDL culture, planning and control systems, political processes and external forces.
- Inputs on strategic issue are not broadly sought and a comprehensive strategic management plan does not exist.

Strategic Intent

- The vision is relatively well articulated but is has never been properly communicated or discussed.
- The mission statement is an adoption of XDL's mission statement and could be as detrimental to FBSDL as it was to XDL.
- The only objectives that exist are the current year's financial objectives while there is no indication of any strategic objectives.

Strategic Position

- In the macro-environment, economic, social and political factors are generally understood however technology factors need some attention.
- In the industry environment, economic features were never analysed while key success factors have been contributed by both FBS and XDL.

- All of the competitive forces are of concern and information on competitors has never been collected.
- The company has never employed systematic processes such as Value Chain, Core Competence and Benchmarking to understand its strengths and weaknesses.
- FBSDL has inherited two vastly different cultures but the XDL culture is presently dominating due to their infrastructure and management influence.
- The political environment is very turbulent with both groups trying to establish their power bases.

Strategic Choices

- With the strategic position not being well understood, there is no sound basis for establishing strategic priorities. Most management capacity is absorbed by operational issues while important strategic issues may be neglected.
- Differentiation is the major source of sustainable competitive advantage due to the nature of the competitive environment.
- No particular direction of development is being focused on while the preferred method of development seems to be internal development together with a network of alliances.
- Decisions cannot be based on suitability; acceptability is assessed on gut feel while the company performs better on feasibility issues.

Strategic Implementation

- Organising the company is proving to be difficult due to differences that existed in parent companies. This is starting to demoralise certain staff members.
- Job dimensions such as autonomy and feedback are in place while others such as task identity and significance are lacking.
- Work at the company is controlled via performance targets that are monitored within the management information systems
- Most internal decisions are centralised and external relationships include alliances and contractors. Outsourcing is not being considered at this stage.

- Regarding HR - The present compliment of personnel is not well matched with the company's requirements; the performance management system is not taken very seriously and personnel are not able to develop the career plan in line with the company.
- Information systems adequately satisfy present requirements and future development is not being attended to.
- Financial management is taking place on a short term ad hoc basis consuming excessive management energy at the cost of sound long term financial planning and control.
- The company still needs to go through significant changes in order to enjoy commercial success.

Strategic Performance

- The only evidence of performance management is the measurement of the financial performance in terms of revenues, profit margins and cash flows. There is no indication of moving to a more comprehensive system.

The analyses and evaluation of the company's current situation presented in this chapter follows in Chapter 4 that addresses **Objective 2** of the research.

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STRATEGIC MANAGEMENT AT FBSDL (PTY) LTD

CHAPTER FOUR

ANALYSIS & EVALUATION

4.1. INTRODUCTION

Chapter 3 of this paper focused on collecting data on FBSDL's current strategic management practices via the use of a questionnaire. At this stage it should be apparent that the questionnaire was designed to accommodate answers on a relative high level. The chapter content included a narrative consolidation of the of the company responses in an attempt to provide an understanding of how the various aspects of strategic management are addressed at FBSDL.

The analyses and evaluation of the company's current situation follows here in Chapter 4 which addresses **Objective 2** of the research.

The style of discussions and evaluations that follow aims at assessing whether the present situation is acceptable or are there changes required? This is based on how well suited the present situation is to emerging internal and external conditions.

The discussions stop a point where it becomes clear if current practices should be perpetuated or certain changes are required to enhance the strategic management of the company. Recommendations in this regard are the subject of Chapter 5 which addresses **Objective 3** of the research.

4.2. STRATEGIC MANAGEMENT

4.2.1. THE PROCESS OF STRATEGY DEVELOPMENT

The investigation into the impact of the various influences/processes on the company's strategy development show that Planning, Cultural and Political influences are high while Incrementalism, Command and Enforced choice are low.

Some of the significant aspects that influence the outcome include a dominant XDL culture, rigid management planning & control information systems, extensive negotiation between ex-FBS and ex-XDL groups. Here the following points need to be considered:

- a. While formal planning allows for setting of objectives and measuring performance there is the risk that this process could become a self-serving ritual rather than a means of analysis and thinking about complex strategic problems that face the organisation.
- b. Given that the company operates in a rapidly changing high technology industry, the XDL dominant culture may prove to be an obstacle to the flexibility required to remain competitive. Further, these market conditions may require that strategies are continuously adjusted to match changes in the environment.
- c. The high political component with its extensive negotiation and consultation could result in delayed response times and information overload which carries the risk of a major strategic issue being overlooked in a mass of data.
- d. The low impact of command may be more appropriate in a professional consulting environment but should be available as a contingency in time of crisis.
- e. The fact that enforced choice is considered to have a low impact indicates that the managers don't have an appreciation for how significant external forces such as government decisions are to the organisations performance. This is especially relevant in the defence sector i.e. FBSDL's primary market.

In a general sense, it seems that FBSDL is merely executing the business brought in by FBS in an XDL manner. As stated earlier, this way of conducting business may work in the short term but will not sustain or grow the company in the longer term. The company would benefit from a combination of retaining aspects that work well while implementing changes in various other areas.

4.2.2. GENERAL ASPECTS

FBSDL (Pty) Ltd is a company that is process of settling down after the integration of projects and resources from the two parent companies. At this stage the company is focused on the smooth execution of its present workload. Strategic management responsibility has by default fallen into the hands of the board of directors. Not much effort is being invested in the company's future due to the present tasks absorbing most of the available capacity. This situation goes to the very survival of the company beyond its current work load. The company must address this issue as a matter of urgency.

Inputs on strategic issues are sought from members of the board and middle management. This way of doing things is somewhat a reflection of XDL's hierarchical / bureaucratic history. It has the effect of excluding key personnel who may have valuable inputs on strategic issues. Further, managers may not have a clear understanding of operational issues and may therefore be ill equipped to make certain decisions. Finally, with only a few people involved on strategic decisions it would be difficult for all to feel a sense of ownership over strategies.

The absence of a strategic management plan results in various key aspects of strategic management being overlooked. This extends all the way from the strategic intent where the vision, mission or objectives may be inadequate; the strategic position where the external and internal environment may not be well understood; strategic choices where strategic priorities may be incorrect; strategic implementation where the company may be inappropriately organised or strategic performance where the measurement of the company performance may be lacking.

4.3. STRATEGIC INTENT

4.3.1. VISION

(Existence of a Vision)

FBSDL's **vision** reads as follows :

‘FBSDL aims to be the preferred supplier of system support solutions in all its targeted markets by providing high quality, relevant & cost-effective products packaged with exceptional customer service.’

(Aspects of the Vision)

The vision does address who the **major beneficiaries** are i.e. FBSDL. Addressing the beneficiaries in this broad sense does has its benefits in that it gives all i.e. shareholders, managers & employees a sense of inclusion and ownership of this common vision.

The **major benefit** that the company seeks to achieve is to be ‘the *preferred* supplier of system support solutions in all its targeted markets’. This aspiration is adequate in that being preferred is all the company needs. In this highly complex consulting environment customers tend to stay with a service provider with whom they have reached a certain level of comfort.

No **time frame** for the achievement of this benefit has been articulated. This could be due to the project dependant nature of the environment. There are often long sales cycles to land a contract but once started, a project could last several years. The danger does exist that there is no time pressure on the company to achieve its aim.

(Measurement Criteria)

When one reads the vision of the company, the word ‘**imagination**’ does not come to mind, however, considering the complex nature of the environment within which the

company operates, it would require imagination to deliver on the values articulated in the vision.

This vision has **breadth** in that it is well cognisant of changes likely to take place in the industry. The defence logistics market is shrinking and therefore in the process of consolidation. The only companies that will survive are those that produce high quality, cost-effective products and most certainly exceptional customer service.

There is no element of **uniqueness** about the future, however there would have to be significant uniqueness in delivering on the vision.

On the high level, it could be said that there is **consensus** within the organisation about the future however, there may be differences on how this vision needs to be achieved. This is an area that will require definite attention.

The vision definitely falls short on **actionability**. This is probably because most of the company's capacity is presently absorbed in stabilising the current environment. The implications of the vision on all current and future activities need to be understood and implemented.

(Communication of Vision)

The vision is not well **communicated** to stakeholders. Most personnel, especially on the operational level of the company don't take the concept of a vision very seriously not to mention the value it offers. This is probably due to the fact that they never look at the company from a strategic perspective in terms of changing market and competitive conditions and the need for the company to adapt in order to survive. A professional consulting environment can ill afford this situation. The problem is further exasperated, by XDL's entrenched culture of employer/employee relationships where managers take care of the 'business' and employees perform their allocated piece of work.

4.3.2. MISSION

(Existence of Mission Statement)

FBSDL's **mission statement** reads as follows :

‘We provide logistic engineering and system support products to the department of defence for reliable and cost effective systems operations.’

(Filtering Business Opportunities)

The mission statement does serve the purpose of filtering potential business opportunities, however it may be too restrictive in that profitable opportunities may be overlooked that should have been at least evaluated if not accepted.

The mission statement needs to be cognisant of the changing market environment in term of the following.

- The range of products and services offered
- The width of the client base

(Mission Evaluation Questions)

In terms of the mission statement evaluation questions, the following applies:

The mission statement does state **what business** the company is engaged in, however this needs to be reconsidered in the light of a changing client environment.

It does make mention of **key customers**; however this may be too narrow.

It indicates that the **business is undertaken** locally. This may also be too narrow.

The customer needs being satisfied is clearly articulated – ‘reliable, cost effective operations’.

4.3.3. OBJECTIVES

The management of FBSDL have either neglected or not yet considered the all important task of objective setting. As mentioned earlier, most of the management capacity has thus far been absorbed in stabilising the present environment. The company is trying to cope with its present workload and not much attention is being paid to future revenue streams. This may have been acceptable initially but the situation can now be considered critical since the major defence programmes will be winding down within the next three years.

(Financial Objectives)

The only evidence of financial objectives set is mere reporting of figures relating to work that is presently contracted. These are presented in terms of revenue, profits and cash flows. These figures show a diminishing trend due to the fact that new projects are yet to be identified. This goes to the very survival of the company and requires immediate attention.

(Strategic Objectives)

Related to the problem with financial objectives which looks at the short term well being of the company, FBSDL is also found lacking when it comes to strategic objectives which addresses the long term survival and growth of the company. In order to realise its vision of '*being the preferred supplier in all its targeted markets*' FBSDL needs to set specific strategic objectives relevant to these markets. This would emphasise the stance required based on the company's market position. High share markets need to be defended while a more aggressive, offensive stance is required in low share markets.

(Measurability, Deadlines & Considerations)

FBSDL is not in a position to respond to questions on measurability, deadlines and objective setting considerations at this stage, however these must be kept in mind as the company develops its financial and strategic objectives.

4.4 STRATEGIC POSITION

4.4.1. EXTERNAL ENVIRONMENT ANALYSIS

4.4.1.1. Macro-Environment Analysis

(Macro-Economic Factors)

The macro-economic environment is not monitored per se, but due to the impact that these factors have on the daily running of the business, managers have a good sense for what factors are important to the company. These include:

Business Cycles – Cycles within a financial year have an impact on the level of activity. In the government (client) environment the beginning of the financial year is relatively quiet due to elaborate tender processes and the end of the year is very busy due to pressure to deliver and spend allocated budgets.

Interest Rates – Negative cash flows are not unusual in this business due to lengthy payment periods. This necessitates borrowing of short term funds from financial institutions at negotiated interest rates.

Inflation – In a professional consulting environment, inflation is a concern when it comes to cost of labour and infrastructure.

Exchange Rates – Undertaking business in international markets requires that exchange rates be monitored very carefully. Fluctuations on major contracts could be financially disastrous.

With South Africa having moved to a more open economy and international defence trade becoming more common, companies such as FBSDL should be well aware of macro-economic factors as an input to its business planning processes.

(Technology Development Factors)

FBSDL is essentially an engineering company operating a technologically advanced environment. The technological tools presently employed to provide services and develop products are adequate to deliver on the programmes currently contracted. This fact, together with the lack of attention on the future has resulted in the monitoring of technology developments being neglected. Technology development factors of importance to the company include:

Government Research Spending – The defence force, via its contracting agency (Armcor) spend a considerable amount funds research and development programmes.

Industry Technology Investments – Competitor companies are investing significant resources in new technologies with the aim of setting standards within the client environment.

New Developments – International players are introducing new technologies into the defence environment via large-scale defence acquisition programmes.

Technology Transfer – Client users are increasingly looking to move away from a paper based environment to an interactive electronic environment.

Technology Obsolescence – IT infrastructure technologies are evolving a rapid rate. This has implications for FBSDL's technology based tools.

(Social & Attitudinal Factors)

South Africa has been in the process of significant social transformation over the last decade. The apartheid system had resulted in considerable demographic imbalances in most economic sectors. The defence sector is probably where these imbalances are most visible. FBSDL was born from this transformation and therefore acutely aware of the impact on the business. Significant factors include :

- a. **Demographic** changes in the workplace have become a factor to be catered for. Here there is an influx of people from previously disadvantaged groups (black races, women, etc) into the high technology defence sector.
- b. Regarding **education**, employees seem to be increasing independent and ambitious in terms of their qualifications and knowledge. On the other hand, the education and knowledge levels in the client environment seem to be dropping.
- c. Concerns for the **environment** have generally an impact on defence activity and therefore a secondary impact on defence related company's like FBSDL.
- d. **Income distribution** is a major concern when considered from the perspective of available defence spending. As noted earlier, defence spending has been diminishing for the last decade or so due to government prioritising social welfare programmes.
- e. The growing **multicultural** nature of our society is becoming apparent in the workplace. Cohesion and harmony amongst people from different backgrounds has a significant impact on the performance of the company.

(Political & Legal Factors)

The social transformation mentioned above was preceded by changes in the political and legal environment. These changes have had, and continue to have a considerable impact on companies that operate primarily in the public sector. Major factors include:

- a. Procurement practices – here all government contracts favour companies that include previously disadvantaged individuals on an equity, management and operational level.
- b. South Africa's move to an open economy has encouraged an increase in foreign trade. This has had a significant impact on defence acquisition programmes.

While the company has the necessary empowerment profile to tender for government work, attention must be to issue of foreign suppliers entering the local defence market.

4.4.1.2. Industry and Market Analysis

(Economic Features)

Logically, it would make sense to first assess the economic features of an industry before choosing to invest in it. This logic would apply if an interest group had certain resources and was looking to start conducting business in a potentially profitable industry. Earlier we addressed the reasons why FBSDL is active in the defence industry, i.e. although for very different reasons, both XDL and FBS were already involved in this environment and not through a rational process of analysing the economic features. The initial objectives were to establish FBSDL as a single coherent entity and execute the current work load profitably. Having achieved these objectives, the company now needs to look to the future. A good starting point is to start analysing the economic features of the industry.

(Key Success Factors)

The key success factors thus far achieved by FBSDL have been contributed by both XDL and FBS. The most important factors include XDL having developed expertise in logistic engineering and support product development, providing superior quality products and very strong customer relationships. FBS on the other hand managed to achieve key success factors such as an adequate empowerment status and alignment with major emerging players. Although these may be adequate to realise commercial success in the short-term, the company must focus on emerging factors that are becoming important. These include the provision of cost-effectiveness of solutions to clients with shrinking budgets, comprehensive skill sets, strong relationships with the new order of clients and social responsibility in terms of transformation.

(Drivers of Change)

FBSDL was formed due to the massive changes that have taken place and are still taking place in the defence industry. The most significant of these is the government's attempts to encourage transformation of companies tendering for defence contracts. Having handled this change the company must now understand and act on further key drivers of

change in the industry. These include changes in the growth rate, entry/exit of firms, globalisation, emerging buyer preferences, etc.

(Competitive Forces)

At this time the management of FBSDL don't seem to analyse competitive forces in-depth, however they have a general idea of competitive activity. In keeping with the elements of the Five Forces model, specific points that should be of concern relating to defence industry include the following:

- a. **Threat of new entrants** – New entrants are mostly individual consultants operating close corporations. These companies capitalise on strong relationships with certain decision makers in the client environment.
- b. **Bargaining power of suppliers** – Suppliers of certain specialised skills are becoming scarcer. These skills relate mostly to logistic engineering and specific defence systems (e.g. Helicopters and Sub-marines).
- c. **Bargaining powers of buyers** – This is increasing due to shrinking markets and increased competition. On the other hand, client knowledge is decreasing which is decreasing their bargaining power.
- d. **Threat of substitute products** – Here the company needs to carefully monitor the activity of newer foreign suppliers of equipment. They may try to sell their own support systems to the defence force as part of a package.
- e. **Intensity of Rivalry** – With market spaces getting smaller it can be expected the rivalry will increase.

(Competition)

Although the present competitive landscape in the defence industry is relatively well known, the management of FBSDL should be aware that this is changing. The significant changes include the consolidation of medium size companies to form larger companies, the entry of a number of specialist consulting firms, the growing drive of support divisions of equipment suppliers to tender for work outside their companies and the recent entry of foreign suppliers providing complete packages to the SANDF.

The knowledge the FBSDL has on competitors is in no way accurate or complete. This leaves the company vulnerable to competitor moves to gain more territory. Information gathering requires more diligence.

It has been noted that FBSDL does not measure itself against its competitors, mostly because of the nature of competition in this industry. However it is certain that the pending changes in the client environment will result in changing the status quo. Significant changes include:

- Moves to consolidate the arms of services and thereby standardise systems and
- Main equipment suppliers looking to outsource non-core functions such as system support.

Measurement against competitors must now be taken more seriously and incorporated into normal business practice.

4.4.2. INTERNAL ENVIRONMENT ANALYSIS

4.4.2.1. Value Chain Analysis

Thus far, there has been no systematic identification of the company's strengths and weaknesses via a structured process such as Value Chain Analysis (VCA). Weaknesses are dealt with on an ad hoc basis and strengths are taken for granted. While the company is presently managing to execute its current workload, weaknesses do exist that could ultimately threaten the company's survival and strengths are not adequately capitalised on to take advantage of opportunities that exist. With the need to prepare the company for a future in a rapidly changing environment, FBSDL's management must establish a thorough understanding of the company's strengths and weaknesses followed by appropriate actions.

4.4.2.2. Core Competence Analysis

Without an understanding of the company's core competences, FBSDL would not be clear on its source of competitive advantage. This would result in the company having difficulty in determining which areas to protect or build to compete effectively. The shrinking defence markets may call for the company to search for alternate markets where its competencies could be applied. It is therefore now necessary for FBSDL to understand its real sources of competitive advantage by determining its core competencies.

4.4.2.3. Benchmarking

Thus far, companies have been able to survive and prosper in the defence industry without measuring aspects of their businesses against best practices mostly due to the structure of the competitive environment. It has been mentioned earlier that the client environment is changing where the government is looking to rationalise defence operations. This will lead to companies competing for the same client by employing any means of competitive advantage at their disposal. FBSDL needs to consider improving its performance by assessing what clients perceive as best practice and implement changes to meet these standards. Further, benchmarking exercises must include international companies recently entering the local market.

4.4.3. EXPECTATIONS AND PURPOSES

4.4.3.1. Culture

Although FBSDL inherited two vastly different cultures, the XDL culture seems to be dominating at this time due to FBSDL having adopted XDL's infrastructure and the XDL dominance in terms of the management of operations. The management of the company should address this situation by realising that neither of these ex-cultures would work in the FBSDL environment. The XDL culture could have benefited from a bit more

flexibility while maintaining discipline and the FBS culture needed more control while maintaining the enthusiasm (especially in a growing company). The merging of these cultures, if improperly managed could be disastrous, however with the proper attention and nurturing, could result in a new culture that draws from the strengths of the parent companies. This is an area that needs to be carefully attended to by the company's management.

4.4.3.2. Politics

The political turbulence at FBSDL is due to the diverse backgrounds of the FBS and XDL groups. With the members of the company still identifying with these divisions, there is bound to be a power struggles and varied interest levels in strategies for some time to come. This may change in time but for now it is important for company strategists to understand these differences so that proposed strategies are politically viable.

4.5. STRATEGIC CHOICES

4.5.1. SWOT STRATEGIES

An essential starting point when considering strategic choices is to analyse and process the information obtained from assessing the strategic position of the organisation. As we have seen, the management of FBSDL have not yet invested the energy into determining the strategic position of the company via a comprehensive analysis of the external & internal environment together with the expectations of key stakeholders. This needs to be attended to by considering the various recommendations made in the relevant sections of chapter 5.

FBSDL's management has to realise that the company would not survive if the management capacity is mostly absorbed in operational issues. Strategic priorities must be set by separating the strategic issues from the operational issues.

4.5.2. FUNDAMENTAL CHOICES

4.5.2.1. Sustainable Competitive Advantage

Based on the competitive profile of the local defence industry, FBSDL and other major players find their source of competitive in differentiating their products (mostly due to product features) to suite the needs of the arm of the defence force that they primarily service. Here target markets are narrow in terms of scope.

This is all changing. The defence force is consolidating its operations and therefore standardising its support systems. All companies will soon be competing for a single broader client and will therefore have to look for alternate sources of competitive advantage.

4.5.2.2. Directions and Methods Of Development

Directions of Development

Although FBSDL has secured sufficient business to ensure its survival in the short term prevailing market conditions call for FBSDL to consider moving in one or more directions in terms of developing its products and markets. Significant emerging market conditions include:

- Threats such as a shrinking local defence budget and increased competition amongst local competitors together with foreign companies entering the local market.
- Opportunities such as clients seeking a more comprehensive set of solutions to be supplied by long term partners.

Additionally the company should capitalise on certain strengths such as its well developed engineering skills and high quality products.

Methods of Development

In terms of methods of development, internal development and alliances should suffice over the short to medium term. However, with the consolidation of the defence industry and the increasingly aggressive competition, FBSDL should consider methods such as mergers, acquisitions or joint ventures in the longer term.

4.5.3. STRATEGIC EVALUATION

The **suitability** of strategic decisions can only be assessed when the internal and external environments of the company is understood. As discussed earlier, this is an area that requires considerable attention of the FBSDL's management.

The **acceptability** of strategic decision is also an area that needs attention. The company must employ a system more rational than gut-feel by considering criteria such as returns, risk and reactions. This should be supported by intuition of those with the relevant experience.

In the area of **feasibility** FBSDL performs relatively well. This is mostly due to the cash-sensitive nature of the business. This practice should be maintained and developed into a proactive approach as opposed to one of crisis avoidance.

4.6. STRATEGIC IMPLEMENTATION

4.6.1. ORGANISING THE COMPANY

4.6.1.1. Organisational Structures

The devising of an effective organisation structure for FBSDL has been difficult due to them parent companies having employed very different types of structures. It is not workable to simply adopt the structure of any of the parent companies. The XDL structure was not flexible enough to adapt to a fast changing environment and the FBS

structure was not defined enough to motivate employees along any specific career path. Further, the varying nature of current and foreseeable projects must be taken into account. Management needs to skilfully design a structure that will suit the company's business environment.

4.6.1.2. Work Design

While it may seem like a secondary issue, the management of FBSDL should not underestimate the importance of creatively designing the work of its professional employees. The dimensions of skills variety, task identity, task significance, autonomy and feedback are becoming very important to highly skilled personnel who demand a satisfying work experience. In an environment where professional skills are hard to come by, FBSDL should make a concerted effort to satisfy the needs of its employees.

4.6.1.3. Organisational Processes

Controlling the work of professional via direct supervision has the effect of antagonising and demoralising personnel, especially those who require a fair degree of autonomy. Ideally one would like to have operations functioning under self-control however the current company environment is not mature enough to accommodate this. The more middle-tier control processes such as control systems and performance targets are suitable at this stage.

4.6.1.4. Relationships and Boundaries

The issue of **centralised vs. decentralised** decision making needs to be re-visited at FBSDL. Presently most decisions are made centrally by managers who may not be familiar with issues within projects. This sometimes leads to incorrect decisions being made and also reduces efficiency. Further, the growing need of project members to take full responsibility for their outcome should encourage a move towards decentralisation.

The external formal and informal relationships are adequately managed at this stage. There are not many areas that the company could consider for **outsourcing** at this time. Potential candidates could be sought in non-core functions.

4.6.2. ENABLING STRATEGY

4.6.2.1. Managing People

FBSDL has a considerable staff compliment that was inherited from both XDL and FBS. Although most personnel are currently deployed on projects, the management of FBSDL finds that the capabilities of staff has to continuously be made to fit with project requirements. This sometimes results in problems where staff members with very different academic qualifications end up performing similar work much to their dissatisfaction. These problems exist due to a mismatch of company requirements and staff capability, a situation exasperated by the fact that the company's direction is not clearly defined. This situation has to be attended to before the company starts losing valuable staff members.

The performance management system inherited as part of the XDL infrastructure appears to be well designed. This system has to be re-energised so that staff members understand its value. There has to be a move away from the XDL culture of viewing performance management as merely ritualistic.

Finally, the management of FBSDL should develop an appreciation of how important career planning is to staff members. Most staff members want to know that their time with the company facilitated an advancement of their careers which keeps them marketable in an increasingly competitive labour market. Management must address these issues urgently or stand to lose high calibre personnel.

4.6.2.2. Managing Information

Adopting XDL's information infrastructure helped FBSDL to save on capital investment costs. These systems adequately satisfy the company's present requirements relating to its core and support functions and are well managed and supported by full-time IT staff. However, with the changing client environment and increasing competition, the company needs to further lever its IT capability to secure its competitive position in the future.

4.6.2.3. Managing Finance

The management of FBSDL must seriously re-visit the financial management of the company. On paper the company does show a profit but it is in the area of cash flow that most problems exist. With cash being managed on a month-to-month basis, managers are continuously stressed about being able to meet financial commitments such as salaries, etc. Further, staff members are acutely aware of this problem causing them to worry about receiving their salaries on time. This is extremely detrimental to the stability of the company and must be addressed as a top priority.

4.6.2.4. Managing Technology

Although FBSDL has its technologies firmly entrenched in the Air Force environment the company's management should be aware that this would not ensure long term business.

With the pending changes in the client environment requiring a rationalisation of technologies employed, FBSDL will soon be in the situation where its technologies are competing with those sold by its competitors to the Navy and Army. Further, the threat of foreign technologies being supplied to the SANDF as part of system packages must be addressed.

4.6.3. MANAGING CHANGE

As noted earlier, the formation of this joint venture company was merely the start of the changes required to eventually enjoy commercial success. There are significant changes requires in most areas of the company.

As suggested in the theory – managing these changes must take into account the wider context within which the changes is required. Further, the appropriate management styles and levers must be employed when managing these changes.

4.7. STRATEGIC PERFORMANCE

At FBSDL the only evidence of performance management is the measurement of the financial performance in terms of revenues, profit margins and cash flows. This is done on a quarterly basis over the current financial year.

The problem here is that this system is not comprehensive in that many qualitative strategic areas of performance are neglected. It has been mentioned that the performance of the company should be measured against its financial and strategic objectives. Earlier it was noted that FBSDL needs to invest energy in setting these objectives. Once this is done the company can identify specific performance measures by employing a system such as the Balanced Scorecard.

4.8. SUMMARY

Chapter 4 focused on the analyses and evaluation of the information obtained in chapter 3 of this paper. The discussions elaborated on the present situation together with reasons for their existence. This was followed by an assessment of the acceptability of the status quo in the light of emerging internal and external conditions. Key points that were highlighted include the following:

Strategic Management

- The process of strategy development should guard against ritualistic planning, inflexible culture, information overload and underestimating the impact of the environment.
- Not much effort is invested in future planning resulting in the non-existence of a comprehensive strategic management plan.

Section 2 – Strategic Intent

- The vision is relatively well articulated but is found lacking in terms of time frames and actionability. Further, the vision needs to be better communicated.
- The mission statement is effective but needs to be revised in terms of the products and services offered and the width of the client base.
- The task of objective setting requires significant attention especially in the area of strategic objectives.

Section 3 – Strategic Position

- Various macro-environment factors within the areas of economics, technology, politics and social transformation were highlighted for FBSDL's management to consider.
- Micro-environment factors include an analysis of industry economic features and consideration of emerging key success factors, drivers of change and competitive forces. Further, changes in the client environment calls for more diligent monitoring of competitors.

- Changing market conditions require that FBSDL establish a firm understanding of its strengths and weaknesses. Structured techniques such as Value Chain, Core Competence Analysis and Benchmarking must be considered.
- It is very important that FBSDL establishes its own identity and culture different from that of its parent companies.
- The turbulent political environment must be understood to ensure that strategies are politically viable.

Section 4 – Strategic Choices

- The strategic position of the company must be established before setting strategic priorities. FBSDL's management has to move away from just resolving short term operational issues.
- Sources of competitive advantage have to be reconsidered due to changes in the client environment. This also applies to directions and methods of development.
- FBSDL is unable to assess suitability of strategies, measures acceptability on gut feel but does exercise more caution on feasibility.

Section 5 – Strategic Implementation

- Organising the company is proving to be difficult due to differences that existed in parent companies.
- The demanding nature of professional staff requires that work be creatively designed. Further, the control processes implemented must be appropriate.
- HR requirements must be aligned with company strategies while satisfying the development requirements of staff.
- Information systems adequately satisfy present requirements but must be adapted to the future client environment.
- Massive problems exist in the area of financial management. These must be considered as critical to the company's survival.
- The management of the changes required in the company must take into account the wider context and employ appropriate management styles.

Section 6 – Strategic Performance

- Company performance can only be properly measured after financial and strategic objectives are comprehensively set. Following this, a performance measurement system must be implemented.

With chapter 4 having analysed the present situation together with the reasons why changes are required, chapter 5 will present certain recommendations to help enhance the company's strategic management system based on the theoretical model developed in chapter 2.

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CHAPTER FIVE

RECOMMENDATIONS

5.1. INTRODUCTION

Chapter 4 of this paper focused on the analyses and evaluation of FBSDL's current strategic management practices. Here we looked at the current situation, the reasons why things are done in a certain way and whether these practices were adequate / inadequate for the company to survive and grow especially in the light of emerging internal and external conditions.

The current chapter seeks to satisfy **Objective 3** of the research by recommending enhancements to the strategic management system based on the theoretical model developed in chapter 2.

5.2. STRATEGIC MANAGEMENT

5.2.1. THE PROCESS OF STRATEGY DEVELOPMENT

When it comes to strategy development, it must be recognised that no one dimension or configuration must be seen as being representative of 'best practice'. Managers themselves should determine what would represent 'best practice' within the context of their organisation. As mentioned during the evaluation of FBSDL's current situation, there are certain aspects of strategy development that should be maintained while adjustments in other areas could be beneficial. Here the following recommendations should be considered:

- a. Formal planning and control systems should be maintained with setting of objectives and performance measurement. This allows strategic plans to be quantified and encourages accountability amongst managers. However, the company should guard against this process becoming a self-serving ritual by recognising that this merely a support process and should not distract management from focusing on significant strategic problems facing the organisation.
- b. Management should take more cognisance of the rapidly changing nature of high technology industries and introduce a greater element of 'Incrementalism' in its strategy development. This requires frequent reviews of and continual small scale changes to company strategies. Experimentation and trying new approaches in the market place should be encouraged.
- c. Certain elements of the dominant XDL culture should be retained, for example a disciplined work force and high quality outputs. However, aspects such as highly formal relationships and punitive consequences of failure should be discouraged especially in a fast changing environment that requires flexibility, innovation and trusting relationships.
- d. Bargaining and consultation processes should be maintained to facilitate a sense of ownership of company strategies but these should be regulated by

middle management to avoid information overload and minimise inefficiencies. This would allow for the faster response time required in fast changing markets.

- e. At most times a command culture is not well received in a professional environment such as FBSDL but, as mentioned earlier, this mechanism should be available to the company as a contingency in time of crisis. There should be an individual who is able to take charge of a situation in an acceptable and respectful manner.
- f. Managers need to develop a greater appreciation for the impact that external forces have on FBSDL's strategies. The fact that at this stage the company has only one primary client (i.e. the SANDF) leaves it very dependent on government decisions. Issue such as long sales cycles and continuously changing customer requirements should be factored into the company's strategy decisions.

Implementation of these recommendations into the strategy development process should assist FBSDL to operate as the new entity that it is, with new drive and ambition as opposed to just an old company (XDL) with a new face (FBS).

5.2.2. GENERAL ASPECTS

While the complexities of merging two very different cultures cannot be underestimated, FBSDL and in fact no company can afford to have all of its leading capacity completely absorbed in coping with its present situation. Further it seem that strategic management is not considered seriously enough by the company in that it is not seen as a separate dedicated task but rather implied in management activities. Here the company would benefit from the following :

- a. A strategic management 'champion' has to be identified. This could be the Managing Director. He/she should oversee the strategic management process and outputs.

- b. More tasks should be delegated to middle management so that energy at the top management level could be available to look to the future of the company.

When it comes to obtaining inputs to strategy development, FBSDL should realise that in a knowledge intensive consulting business such as itself, a considerable amount of knowledge sits on the operational levels of the company. Here the following should be considered :

- c. Operational level consultants should be brought into the strategy development process. This will not only result in inputs from a broader knowledge base but also gives a greater number of people an ownership stake in the strategy that emerges and encourages their commitment to implementation.

A financial plan focusing on present performance will not ensure future success. FBSDL should :

- d. Extend its financial plan into a complete strategic management plan to include all elements discussed under the present model. This plan could be reviewed on a quarterly basis.

5.3. STRATEGIC INTENT

5.3.1. VISION

It was stated earlier that ‘a manager cannot function effectively without a clear future-oriented concept of the business’. For a company that has not yet spent much time looking to future, FBSDL has a surprisingly insightful vision. The following strengths must be noted:

- It includes all stakeholders, thereby encouraging broader ownership

- It is realistically ambitious in aspiring to be the 'preferred' supplier. Here words such as 'the best' or 'world leader' are not used because the vision could then sound over ambitious and not be taken seriously.
- Changing market conditions are taken into account by stressing quality, relevance, customer service etc.
- Imagination and uniqueness are implied in the delivery of the vision.

Mapping the vision against the theory has highlighted certain aspects that require attention. The company would benefit from considering the following recommendations

- a. A time frame for achieving the major benefit must be articulated. Here the company would be able to measure its performance in this regard.
- b. A common understanding (consensus) of the company's future and the way is to be realised must be firmly established and communicated.
- c. The actionability of the vision must be cleared i.e. the implications for all business processes and outcomes must be determined and understood.
- d. Very importantly – the vision needs to be well communicated throughout the organisation. All stakeholders need to understand how their personal efforts contribute towards the attainment of the company's vision.

5.3.2. MISSION

The importance of a mission statement cannot be overemphasised for it underpins all long term strategies by providing an overall context. The company's mission statement is well written in the sense that it is simple thereby providing greater meaning for employees, owners and customers alike. However, it does suffer from several shortcomings, probably because it is merely an adoption of XDL's mission statement. It must be remembered that XDL had served this market for many years and therefore housed a heavily entrenched culture which did not respond well to a changing environment. FBSDL cannot afford to perpetuate this way of doing things and therefore

needs to look at redesigning the business starting with its mission statement. The company would benefit from considering the following:

- a. The current client environment is going through considerable change. Here defence departments are looking to outsource many of their non-core skills and are looking for long term partners that provide comprehensive solutions as opposed to certain services / products. FBSDL should consider getting involved earlier in defence acquisition programs by providing consulting services relating to the design of support environments. This would also ensure simpler provision services and products at later stages in programmes. Further, the company should consider long term support of clients by providing specialist skills for systems that have been commissioned.
- b. In terms of customers, the company should focus more on supplying services / products to main equipment suppliers rather than directly to the defence force. This is in line with the trend where defence customers are more interested in buying a system packaged with support as opposed to developing support themselves.
- c. Having secured the opportunity to participate in the defence packages, FBSDL needs to focus attention on supplying services / products to international clients by capitalising on offset obligations of present clients.

2C. OBJECTIVES

It stands to reason that a company cannot function effectively without a clear destination in mind. Without definite goals the organisation may be able to survive for a short while during which time stakeholders may be focusing on mostly urgent issues while neglecting those that are important. In FBSDL, we have a company where all the components of establishing the company's strategic intent are found somewhat lacking. However, it is in the area of objective setting that the most serious problems have been identified. The following recommendations must be considered as a matter of urgency:

- a. Financial objectives need to be set in terms of revenue growth, profit growth and cash flows. These must take into account estimated revenues from new business that is still to be secured.
- b. Strategic objectives in present and future market segments need to be established. This would include market share growth, higher product quality, stronger reputations, improved productivity, etc. Here it would be important to align strategic objectives with the company's market position. In markets such as the Air Force where FBSDL is strong, market share needs to be defended with objectives such as improved customer service. In lower share markets such as the Navy & Army, objectives such as building stronger relationships with clients should be pursued.
- c. Objectives should be stated in measurable terms and must contain a deadline for achievement. Further, the responsibility for achieving objectives should be appropriately allocated within the company. As far as possible, performance based remuneration should be linked to the achievement of objectives.
- d. Objectives should be realistic so that they have the effect of demoralising individuals when not attained. Here FBSDL must take into account factors such as external and internal conditions, other companies, potential of the company when pushed, etc.

5.4. STRATEGIC POSITION

5.4.1. EXTERNAL ENVIRONMENT ANALYSIS

5.4.1.1. Macro-Environment Analysis

(Macro-Economic Factors)

While it seems that the management of FBSDL have good understanding of the macro-economic factors that impact on the company, it would be more beneficial if this understanding was incorporated into the future business planning. The following recommendations should help:

- a. The effects of client **business cycles** could be minimised by attracting clients with varying cycles. This would help stabilise the labour demand throughout a financial year. Consultants are generally very expensive and not always available on short notice.
- b. The need for loans and overdraft facilities should be minimised at time when **interest rates** are increasing. Alternate sources of funding such as shareholder loans should be considered.
- c. **Inflation** related increases in the cost of labour and infrastructure should be adequately covered in prices quoted to clients. This can be facilitated by escalation clauses in future contracts.
- d. The effects of unfavourable fluctuations in **exchange rates** included in international contracts should be mitigated by applying facilities such as forward cover on exchange rates, etc.

(Technology Development Factors)

The defence industry has a reputation being a technology leader, largely due to the considerable funding secured from government agencies for technology development. Although FBSDL's tools are considered adequate at present, continuously neglect of technology monitoring and investment may result serious competitive disadvantage. Here the following recommendations should be considered:

- a. **Government spending** plans should be assessed in terms of the impact on current technologies being utilised by the company. Further, FBSDL should attempt to influence this spending to its advantage. A good starting point would be obtaining information on Armscor's research and development budgets.
- b. **Industry investment** in technology developments need to be well understood. Markets in which FBSDL has set technology standards should be defended by investing in technology upgrades, etc. In markets where competitor technologies are strong, FBSDL should adopt a more offensive approach by actively demonstrating to clients the capabilities of the company's technologies.

- c. The company needs to capitalise on its present involvement on international acquisitions programmes by aligning its technology strategy with the **new developments** being introduced by foreign supplier of defence equipment. This is a key consideration since defence clients are increasingly looking to purchase packages inclusive of maintenance technologies. FBSDL should consider investing in a capability to support these technologies.
- d. In terms of **technology transfer**, evolving user requirements must be researched so that these may be accommodated in future technology strategies. Further, FBSDL should take the initiative to encourage users to move into a high tech electronic environment. This should lead to new business opportunities while reducing production and maintenance costs.
- e. The company should be cautious not to become a victim of **technology obsolescence**. Effort should be invested in ensuring that all technology tools remains in line with the rapid evolution of IT infrastructure. This should take care of performance, reliability and compatibility issues.
- f. To take responsibility for all of these technology issues, FBSDL should consider forming a **technology workgroup** that reports to senior management.

(Social & Attitudinal Factors)

Social and attitudinal factors may seem to be softer than say economic or technological factors, but upon closer inspection, one gets to understand how fundamentally significant they really are. Companies such as FBSDL that operate in the highly controversial, rapidly changing defence industry would benefit from considering the following:

- a. **Demographic changes** in the work force i.e. more younger and less experienced staff, should be buffered by developing progressive training and mentoring programmes. However, the company should be careful not to stifle the creativity of young, enthusiastic staff members.
- b. Formal **education** of employees should be encouraged to increase knowledge levels and employees satisfaction. This may be facilitated by bursary programmes, study loans, etc. Here the company should ensure that trained staff

remain with the company by employing standard training contracts. The diminishing skill levels in the client environment should be accommodated in the usability of products supplied. Further, this situation presents an opportunity for the company in that the range of services offered could be extended to address this problem.

- c. The **income distribution** problem should be considered very serious. This goes directly to the future survival of the company. FBSDL needs to expand into markets other than defence. Here the company needs to look into applying its skills in the commercial sector. Further, international business activities must be expanded.
- d. The **multicultural** working environment needs to be harmonised by the introduction of social functions, team building exercises, etc.

(Political & Legal Factors)

It was the changes in the political and legal environment within South Africa that led to the formation of FBSDL. FBS was favoured due to its empowerment status and XDL was not. The strategy of bringing the two groups together into FBSDL has worked well thus far. In order for FBSDL to continue its success from a political and legal perspective, the following must be considered:

- a. The empowerment status of the company should not be compromised. Here the majority of shares should remain in the hands of previously disadvantaged individuals (PDIs). Similarly, these individuals should be encouraged into upper management positions after gaining adequate experience on the operational levels. Finally, FBSDL's employment policies should encourage further employment of PDIs as it becomes affordable for the company to provide training.
- b. FBSDL needs to act on the increasing preference of South African defence clients to purchase complete system packages from foreign suppliers. Here the company needs to secure long-term and preferably exclusive relationships with these foreign companies so that it may benefit from the offset obligations imposed by the South African government.

5.4.1.2. Industry and Market Analysis

(Economic Features)

Having achieved its initial objectives of executing the current workload profitably, FBSDL now needs to look to its future business. Management should invest energy in analysing the economic features of the defence industry. The following significant features should be considered:

- a. **Market size** should be assessed. Here one could look at the current spending of all buyers of the type of services and products sold by the company. This would essentially include spending by defence force, Armscor and suppliers of defence equipment.
- b. The **market growth rate** needs to be determined. This may be done by comparing the previous year's budgets to the present and planned spending by clients. Should there be a negative growth rate then FBSDL may need to look for alternate revenue sources.
- c. Even if the market size and growth rates are found to be satisfactory, it does not mean that companies are necessarily making profits. Here the **profitability** of the industry must be understood. If it is found that profits are generally low, then the reasons for this must be assessed. High risk factors must be identified and controlled.

(Key Success Factors)

FBSDL needs to build on the key success factors achieved by both XDL and FBS before the formation of the joint venture. Recommendations in this regard include:

- a. Developing a **comprehensive skills set** so that so that the company may offer complete solutions to clients. This would facilitate long-term partnering with major clients. Further, an area that requires attention is the enhancement of the logistic engineering skills. Here the company can capitalise on the strong academic backgrounds of the ex-FBS personnel.

- b. The **cost-effectiveness** of solutions must be further enhanced. This is required due to the increasing price sensitivity of defence clients. Budgets have been shrinking for some time now and clients are looking for the best value for money.
- c. **Customer relationships** need to be continuously strengthened. Here FBSDL must build on XDL's relationships with the older players together with FBS's relationship with the newer ones.

(Drivers of Change)

Having been born of changes taking place in the defence industry, FBSDL should have a keen awareness of the impact of the major drivers of change. The company would be wise to look at the following:

- a. Changes in the industry **growth rates** in line with shrinking defence budgets could necessitate the search for markets outside of defence. Industries could be identified in which complex engineering equipment need to be supported.
- b. In terms of **entry/exit of companies**, it seems that many of the medium size companies have either consolidated to form a larger company (such as in the case of FBSDL) or have left the industry. Further, there are many small companies entering the industry providing consulting services. Here FBSDL needs to market itself as one of the few remaining major players in this field. Also, alliance should be formed with the smaller consulting companies to alleviate capacity problems and gain access to more clients.
- c. **Globalisation** of the industry requires that FBSDL form strong alliances with international players. This will secure a place in local markets and also open up international markets for the company.
- d. Responses to **emerging buyer preference** in terms of packaged solutions and purchasing from a single point main equipment supplier have been looked at.

(Competitive Forces)

The shrinking of the market size together with the significant rate of change within the defence industry call for a more diligent approach to assessing competitive forces than is presently practiced at FBSDL. Here, the company should consider the following:

- a. **Threat of new entrants** – To combat the threat of individual consultants entering the market, FBSDL needs to form alliances with as many of these companies as possible. With access to each others markets, work sharing agreements could be negotiated. Further, FBSDL must differentiate itself from companies by being marketed as a sort of systems house providing complete solutions as opposed to specialised consulting.
- b. **Bargaining power of suppliers** – To counter the reliance on scarce external specialised skills FBSDL should intensify its training and mentorship programmes so that these skills developed in-house. Further, the company should try and maintain alliances with ex-defence force personnel who could be contracted on a short term basis when specific defence system skills are required.
- c. **Bargaining powers of buyers** – This force may be countered by reducing the company's reliance on a few customers. Alternate sources of income must be investigated. On the other hand, FBSDL should capitalise on the client decreasing knowledge hence bargaining power by establishing long-term relationships.
- d. **Threat of substitute products** – The threat of foreign suppliers introducing substitute products into the local environment may be countered by emphasising to local clients the importance of local support. Alternately, obtaining skills on substitute system via alliances with foreign suppliers could be considered.
- e. **Intensity of Rivalry** – The increasing rivalry needs to be combated with higher quality, increased cost-effectiveness and superior customer service.

(Competition)

The increase in competitive aggression resulting from changes in the client environment coupled with the fact that major player have already to some extent penetrated the others

segments call for a concerted effort to gather information on competitors. The following recommendations can be considered:

- a. **Information** can be gathered from various sources including annual reports, industry analysis, Armscor bulletin boards, target customers, common suppliers and former employees of competitors.
- b. At the very least, FBSDL should **measure** itself against the major players along certain dimensions including (but not limited to) estimated market share, profitability, product range and quality, major strengths and weaknesses.
- c. The future competitive landscape should be understood by compiling **competitor profiles** in terms of their strategic intent, competitive positions and strategies, market share objectives, etc.

5.4.2. INTERNAL ENVIRONMENT ANALYSIS

5.4.2.1. Value Chain Analysis

Analysis of a company's strengths and weaknesses contributes directly to assessing its ability to satisfy the needs of its markets. Having established the requirement for a systematic approach in this regard, the following elements within the Value Chain Analysis should be focused on:

(For primary activities – those that contribute directly to product development & sales)

- a. **Inbound Logistics** – Here the company needs to emphasise the control of inputs obtained for the development of support products. These include the control of source information via a proper configuration management system and the control of user inputs via well documented system baselines.
- b. **Operations** – Factors to be enhanced includes the productivity and performance management of professionals. Further, the automation of labour intensive

processes such as data capturing must be considered. These improvements will ultimately reflect in the rates charged to price sensitive clients.

- c. **Outbound Logistics** – FBSDL should ensure that most products are delivered in electronic media. This would save on costs while enabling easier control and maintenance of deliverables.
- d. **Marketing & Sales** – A considerable amount of work needs to be done in this area. This includes effective market research, creating client awareness of the company, developing a quality image, etc.
- e. **Service** – In this industry, superior customer service translates to considerable competitive advantage. FBSDL should focus on resolving complaints effectively, continuously involve customers in product development, ensure that clients are sufficiently educated in the usage of products, etc.

(For secondary activities – those that support primary activities)

- f. **HR Management** – Focus areas within HR should include the development of effective training and mentorship programmes, performance related remuneration packages, an employee share option program and sufficient social activities to develop a strong bond amongst people from very different backgrounds.
- g. **Technology Development** – As mentioned earlier, FBSDL should consider forming a technology workgroup to ensure that the company's solutions incorporate the latest technologies. This should be supported by a dedicated technology budget.
- h. **Procurement** – Here the company needs to become independent of certain high cost suppliers by developing in house skills especially in the area of logistic engineering. Further, alliance should be established with wide range of professional service providers. This would prove useful at time when the company experiences capacity problems.
- i. **Infrastructure** – The company needs to ensure that it has sufficient management capacity, especially to take care of strategic issues as opposed to operational issues. The quality infrastructure needs to be functioning effectively. This is also a

source of competitive advantage. Further, the adequacy of the internal information systems needs to be assessed. Highly paid management personnel should not be spending excessive amounts of time loading and retrieving data from these systems.

- j. **Financial Issues** – Dedicated financial personnel should be employed to look at issues such as profitability, liquidity, debtors, creditors, dividends, sources of funding, etc.
- k. **Culture and Leadership** – Areas that need attention is the company's ability to adapt to changes and the sense of identity and motivation of personnel.
- l. **Legitimacy & Reputation** – Good relationships must be maintained with the media especially when the defence industry is being heavily scrutinised.

5.4.2.2. Core Competence Analysis

With the Value Chain Analysis having focused more on the negative aspects (i.e. weaknesses) inherent in the company, the Core Competence Analysis seeks to establish the positive aspects in terms of sources of competitive advantage. While following the process presented in the theory section of this paper, FBSDL should look for its core competences within the following broad categories:

- a. **Basic Technologies** – Consider the proprietary software tools and integrated IT infrastructure.
- b. **People Skills** – Consider the qualifications and experience of personnel. More importantly, their ability to apply their knowledge to provide specific customer solutions.
- c. **Processes** – Here one could look at the specific engineering and production methodologies applied in programme execution.
- d. **Strategic Assets** – These could include certain tangibles such as software licence exclusivity and intangibles such as market knowledge and strong customer relationships.

5.4.2.3. Benchmarking

Benchmarking, like other processes that suggest improvement or evolution has thus far been considered secondary in the minds of FBSDL's management. This process could prove valuable in the light of the changing competitive environment. Here FBSDL must:

- a. Identify appropriate areas that can be practically benchmarked. This could include process efficiencies, product quality, customer/employee loyalty, etc.
- b. Identify companies that are perceived to follow best practices in these areas. These must include local and international players.
- c. Determine performance gaps and formulate plans to narrow/close gaps.

5.4.3. EXPECTATIONS AND PURPOSES

5.4.3.1. Culture

It is important that FBSDL adopts neither of the cultures of its parent companies but rather develop and nurture a culture of its own. Just idea of being part of something new will go a long way in maintaining the enthusiasm and moral of company personnel. Here FBSDL would benefit from:

- a. Developing its own identity. This could be achieved by establishing its own infrastructure (i.e. move away from the XDL infrastructure), image (stay away from mentioning its parent companies), methodologies, etc.

While establishing a culture of its own, FBSDL should try to incorporate the strengths that were present in its parent companies. Here to following could be useful:

- b. From XDL – areas such as discipline, quality, accountability, technology orientation, stability, etc. should be incorporated as much as possible.

- c. From FBS – areas such as flexibility, adaptability, entrepreneurship, enthusiasm, risk orientation, etc. should be retained as far as possible.
- d. At certain intervals (say annually) the culture of the company can be assessed using a technique such as the cultural web to check if it supports company strategies.

5.4.3.2. Politics

Having looked at the fundamental power and interest levels of the key groups within FBSDL, management could make use of a technique such as stakeholder mapping when strategic moves are being contemplated. This should assist with the political viability of strategic suggestions.

5.5. STRATEGIC CHOICES

5.5.1. SWOT STRATEGIES

It is clear that the strategic priorities of the company can only be determined once its strategic position is well understood. By considering the recommendations thus far, the company should be in a better position to move on. FBSDL's management needs to then consider the following:

- a. Separating the strategic issue from the operational issues by applying criteria such as the extent of the impact an issue has on the company and the level of risk if an issue is not addressed.
- b. Setting strategic priorities by identifying interactions between strengths & opportunities, and weaknesses & threats.

5.5.2. FUNDAMENTAL CHOICES

5.5.2.1. Sustainable Competitive Advantage

The consolidation of the defence force and the resulting standardisation of systems dictate that competitive advantage based on differentiated product features will no longer suffice. All companies in this space will have to look for alternate sources of competitive advantage. Here FBSDL should consider:

- a. Enhancing other aspects that would differentiate the company from competitors. This could include product quality, customer service, capacity, empowerment status, etc.
- b. Low cost must become a major source of competitive advantage. Here the company needs to look at its process efficiencies, labour rates, cost structures, etc. This is becoming very important in an increasingly price sensitive market.

5.5.2.2. Directions and Methods Of Development

Directions of Development

With the need to secure the long term survival and growth of the company, FBSDL's management need to consider the most suitable directions in which to develop the company's products and / or markets. Here one needs to take cognisance of the emerging market conditions together with the company's strategic capability. The following directions should be considered:

- a. **Product Development** – here FBSDL should consider expanding its products and services to provide a comprehensive set of solutions to its clients. This should also facilitate the development of long term partnerships.

- b. **Market Development** – The well developed engineering skills and high quality support products could be applied in non-defence industry sectors that require the support of complex engineering equipment. This could include the ports, airlines, railways, mining and the like.

Methods of Development

Having just recently being formed by the merger of two companies and executing its present workload adequately, FBSDL should look to stabilise its internal environment before considering development methods that require significant changes. In this regard the company should:

- a. Develop **internally** especially in areas such as logistic engineering where it is still dependant on consultants.
- b. Build **alliances** with as many providers of specialist skills as possible so that it may offer more comprehensive solutions without carrying underutilised capacity.
- c. Consider planning for **mergers, acquisitions and joint ventures** in the future, especially when there is insufficient space for many players.

5.5.3. STRATEGIC EVALUATION

Suitability

After the strategic position of the company is clearly established, FBSDL should be in a position to determine the suitability of strategic decisions. When it reaches this point management must ensure that strategies are either exploiting opportunities, avoiding threats, capitalising on strengths, remedying weaknesses or satisfying expectations.

Acceptability

The expected performance outcome of a proposed strategy needs to be properly addressed. FBSDL's management should consider employing a combination of the

techniques suggested in the theory to assess strategic choices in terms of return, risk and shareholder reactions.

Feasibility

The diligence that is presently practiced when it come to managing the resources of the company must be extended as inputs to assessing the feasibility of proposed strategies. Here the company needs to be cautious not to neglect potentially profitable opportunities by being too risk averse when additional resources are required. This could be facilitated by drawing more on the risk taking FBS culture as opposed to the more conservative XDL culture.

5.6. STRATEGIC IMPLEMENTATION

5.6.1. ORGANISING THE COMPANY

5.6.1.1. Organisational Structures

A changing external and internal environment requires that a company designs an organisational structure that suits the environment at a given point in time. This does not mean that the structure should change too often for this would have a destabilising effect that would reduce the moral of employees. While designing the organisational structure for FBSDL management should keep the following in mind:

- a. Certain strengths of the ex-XDL structure should be maintained. These include clear responsibilities and defined career development paths for individuals. This encourages accountability and stability.
- b. Certain strengths of the ex-FBS structure should be maintained. These include adaptability and diversity in working experience of individuals.
- c. The varying nature of projects must be acknowledged. This may require a move to team based structure where individuals have a set of core skills but can be utilised across disciplines as the need arises. Companies such as FBSDL cannot

afford to have individuals who although well trained in their field, are underutilised due to low project demand and the lack of flexibility.

- d. The emerging, entrepreneurial spirit evident in employed professionals should be accommodated and capitalised on. Here the company could consider viewing a project team as an independent 'company' responsible for its own performance. Remuneration could be aligned with the performance of teams and individuals.
- e. Finally, the structure should be reasonably flat. This will avoid incurring high overhead costs due to many levels of management. Additional benefits include easier communication and increased innovation and efficiency.

5.6.1.2. Work Design

Careful design of the work of individuals is becoming increasingly important to ensure the retention and productivity of professional employees. The high costs of recovering from the resignation of a well trained and experienced staff must also be considered. The satisfaction of employees at FBSDL could be increased by considering the following:

- a. **Skill Variety** – Individuals should be exposed to a range of disciplines such as both logistic engineering and support product development to keep them stimulated. This would also help with capacity problems.
- b. **Task Identity** – Teams / individuals should be allowed to take a project to completion so that they could enjoy seeing the end products of their work.
- c. **Task Significance** – As far as possible, employees should be given a complete understanding of a project being worked on. This will allow him/her to see the significance of their individual contributions.
- d. **Autonomy** – Professional employees should be allowed to function autonomously. Management should be by outcomes or objectives. Individuals should be allowed to schedule their own work.
- e. **Feedback** – Managers should be close enough to projects to provide meaningful feedback to individuals. When professionals sense that management is unable or

not interested in giving feedback they lose respect for the manager / manager's role.

Flexible scheduling options will also help to increase motivation. Here FBSDL could:

- f. Employ a **flexitime** system where individuals can keep their own schedules around certain core work hours.
- g. Implement a proper information technology and communication infrastructure to facilitate **telecommuting**. This would increase the productivity of employees working remotely.

5.6.1.3. Organisational Processes

In terms of controlling the operations of FBSDL managers should be cognisant of the maturity as well as the limitations of the current environment. Too much supervision would be rejected by professionals while too much freedom could be chaotic. Currently it is advisable to stay with the middle-tier control processes while slowly moving towards the more mature ones. Here the following should be implemented:

- a. Comprehensive planning and control systems should be put in place. This should run across functions such as finances, marketing, HR, etc.
- b. The company should have policies and procedures that employees adhere to. These could span both core and support functions. Further, an ISO 9000 compliant quality control system should be implemented.
- c. Performance targets should be set for teams and individuals. This could be linked to the remuneration system.
- d. Social processes should be facilitated in order to encourage the sharing of knowledge amongst professionals
- e. The company should be gradually moved in the direction where self control prevails. This could be facilitated by allowing teams to take full business control of their immediate environments.

5.6.1.4. Relationships and Boundaries

In order to cultivate a respectful, mature and responsible working environment, FBSDL must consider decentralising certain levels of decision making. Here project teams can be empowered to make operational decisions while management could take responsibility for decisions that have more of a strategic impact on the company.

External relationships including outsourcing and alliances must be sought in non-core functions such as software development.

5.6.2. ENABLING STRATEGY

5.6.2.1. Managing People

There are obviously many HR issues that require the attention of FBSDL's management. Most of these stem from fact that the company strategies and requirements are yet to be properly defined. Nevertheless, once this is in place the company must consider the following:

- a. A comprehensive HR audit needs to be conducted to determine the personnel requirements to support present strategies and build new strategies.
- b. The present performance management system must be properly implemented. Here personnel must be made aware of the importance of the system by linking remuneration to performance.
- c. Training, development and mentorship programs must be designed to ensure that the company has a sufficient number of personnel with a range of skills. This will also reduce FBSDL's dependence on certain individuals.
- d. Personal development of personnel must be aligned with the company's strategies with individuals have a clear idea of their contribution to the company's success.

5.6.2.2. Managing Information

FBSDL presently have well managed information systems, however it is the leverage of the company's information capability to secure future competitive advantage that needs attention. Here the following should be considered:

- a. FBSDL should tighter integration with client and supplier systems to increase switching costs.
- b. More effort should be invested in providing systems that set standards in the client environment to ensure longer term business.

5.6.2.3. Managing Finance

Financial management issues need to be given the highest priority at FBSDL. The company may look profitable but short term cash flow issues may threaten its survival. The following recommendations should be considered:

- a. The impact of lengthy payment periods may be reduced by attempting to re-negotiate contracts to shorten these periods and also provide for interim payments base on progress.
- b. The use of high cost specialist consultants should be minimised by accelerating the development of internal capacity.
- c. Overhead allocations should be re-visited and possible changed to an activity based system.
- d. Debt financing facilities must be arranged in the short term while the business risk is low and shareholders should be gear to provide loan to finance the company as the business risk increases.

5.6.2.4. Managing Technology

The defence against threats from a technology perspective must be given a high priority by FBSDL's management. Recommendations in this regard have been presented elsewhere in this paper. The most significant of these include:

- a. Technology standards set in the Air Force environment must be further entrenched by providing upgrades and client training.
- b. Navy and Army clients must be exposed to benefits of adopting FBSDL technologies in their environments.
- c. Alliance must be forged with foreign suppliers so that FBSDL technologies may be supplied as part of the packages that they offer South African clients.

5.6.3. MANAGING CHANGE

The strategic changes required at FBSDL must be carefully managed to ensure that there is a minimal amount of resistance to these changes. With the considerable pressure to deliver on the current programmes, the company cannot afford to demoralise its employees by mismanaging the change programme. Management needs to take the following contextual features into account:

- a. Most changes required should be considered urgent. Personnel should be made aware of the changes and the consequences of not implementing changes.
- b. The scope of the changes is considered broad since there has not yet been much planning for the future.
- c. Certain organisational resources and characteristics must be maintained. This includes high product quality, good professional skills, etc.
- d. Changes will be received differently among personnel, especially since the ex-XDL and ex-FBS have very different profiles.
- e. Management's capability to implement changes must be reviewed. Outside help could be considered.

Being a highly professional environment, the most appropriate style of managing change would probably be a more collaborative style which encourages the participation of most of the professional employees. This will help build trust while increasing the ownership of decisions.

Appropriate levers of change could include implementing a flatter organisational structure, ensuring that changes filter down to operational levels, shifting power balances and proper communication and feedback processes.

5.7. STRATEGIC PERFORMANCE

The measurement of a company's performance gives an indication of how successful its chosen strategies are. Management may need to consider revising the company's long-term direction, redefining the business, adjusting performance targets, changing of certain strategies or aspects of its implementation.

We have determined that FBSDL is not in a position to comprehensively measure its performance because the company has to first invest energy into setting financial and strategic objectives against which its performance can be measured. Once this is done FBSDL must consider employing a method such as the Balanced Scorecard.

5.8. SUMMARY

Chapter 5 aimed to satisfy the final objective of the research by recommending enhancements to FBSDL's strategic management system based on the theoretical model developed earlier in chapter 2.

Key recommendations include the following:

Section 1 – Introduction

- The strategy development process should encourage planning, introduce more incrementalism, allow for certain cultural influences, facilitate consultation and be more cognisant of the impact of the environment.
- Strategic management should be identified as a dedicated management task supported by the appointment of champion, delegation of operational tasks to middle management and the development of a comprehensive strategic management plan.

Section 2 – Strategic Intent

- Although relatively well articulated, the vision needs time frames, more consensus and actionability in terms of business processes and outcomes. It also must be better communicated and more widely bought into.
- The mission statement is effective but must be revised in terms of the scope of services offered and width of the company's client base.
- Clear financial and strategic objectives must be set. These must be measurable, realistic and linked to remuneration as far as possible. Further, responsibility for achieving objectives must be appropriately allocated within the company.

Section 3 – Strategic Position

- Various recommendations relating to the macro-environment within the areas of economics, technology, politics and social transformation were presented for FBSDL's management to consider.

- Micro-environment recommendations include an analysis of industry economic features and consideration of emerging key success factors, drivers of change and competitive forces. Further, changes in the client environment calls for more diligent monitoring of competitors.
- FBSDL has to develop a firm understanding of its strengths and weaknesses. To this end numerous recommendations have been made within internal analysis techniques such as the Value Chain, Core Competence Analysis and Benchmarking.
- From a cultural point of view FBSDL must develop its own identity, incorporate strengths from the cultures of its parent companies and review its culture regularly using techniques such as the Cultural Web.

Section 4 – Strategic Choices

- After establishing the strategic position of the company, strategic priorities must be set separating strategic issues from operational issues and identifying interactions between strengths & opportunities and weaknesses & threats.
- Significant changes in the client environment require that sources of competitive advantage move away from product differentiation towards cost leadership.
- The directions of development that should be considered include product and market development. In the short to medium, this can be achieved via internal development and alliances. Mergers and acquisitions can be considered in the long term.
- Strategic options (once determined) must be assessed for suitability, acceptability and feasibility in a much more disciplined manner.

Section 5 – Strategic Implementation

- The organisational structure of the company must inherit certain strengths of the parent companies while acknowledging the varying nature of projects together with the emerging entrepreneurial spirit of professional employees.
- The work of employees must be creatively designed to include a variety of skills, clear contributions to the success of the company, greater autonomy and feedback.

- Control of the company should be facilitated via planning and performances targets while gradually moving in the direction of self control.
- Decision making should be de-centralised to allow project teams to take more responsibility for operational decisions.
- Human resources functions such as an HR audit, performance management systems and training and development programs must be implemented.
- Information management should aim for tighter integration with clients and the setting of industry standards.
- Financial management issues must be resolved as a matter of urgency. Recommendations include the reduction of client payment periods, revising overhead allocation systems, arranging debt financing facilities, etc.
- Technology management should ensure that established markets are defended while newer markets are penetrated. This includes alliances with foreign suppliers.
- The management of the changes required in the company must take into account the wider context and employ appropriate management styles.

Section 6 – Strategic Performance

- Once comprehensive financial and strategic objectives have been set, FBSDL must consider implementing a performance measurement system such as the Balanced Scorecard.

Having covered the various aspects of strategic management quite comprehensively, it must be noted that effective strategy development and execution is always a product of much organisational learning – progress reviews, continuous improvement and corrective adjustments are thus expected and normal.

The implementation of these recommendations should significantly improve the strategic management of FBSDL, thus taking the company closer to commercial success.

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MASTERS IN BUSINESS ADMINISTRATION #3

STRATEGIC MANAGEMENT AT FBSDL (PTY) LTD

APPENDIX A

QUESTIONNAIRE

SECTION 1 – STRATEGIC MANAGEMENT

1A. The Process of Strategy Development

Theory Reference 2.1.2

1A1. What is the impact (high/low) of the following influences/processes on the company's strategy development:

Influence/Process	Impact	Comment
Planning	High	Objectives, Procedures, Measurement
Incrementalism	Low	Not much adjustment or experimentation
Cultural	High	Evidence of resistance to change
Political	High	Much bargaining & consultation
Command	Low	No individual command
Enforced Choice	Low	External forces not seen as very significant

1B. General Aspects

Theory Reference 2.1.3

1B1. Who is responsible for the company's strategy?

Board of Directors

1B2. How widely within the company are inputs sought?

Upper and Middle management.

1B3. Is there a Strategic Management Plan?

No. Only a financial plan.

1B3.1. How often is the plan reviewed?

The financial plan is reviewed on a quarterly basis.

1B3.2 On what is this period based?

Traditional way of doing things.

SECTION 2 – STRATEGIC INTENT

2A. Vision

Theory Reference 2.2.1

2A1. Does the Company have a vision?

Yes.

2A2. Does the vision address the following aspects?

Aspect	Y/N	Comment
Who are the major beneficiaries?	Y	FBSDL (all inclusive)
What is the major benefit that the business seeks to achieve?	Y	Preferred supplier of system support solutions
Can achievement of major benefit be measured within a time frame?	N	No time frame articulated

2A3. How does the vision measure against the following criteria?

Criteria	Y/N	Comment
Foresight	N	No imagination shown – implied
Breadth	Y	Considers industry changes
Uniqueness	N	No uniqueness shown – implied

Consensus	Y	On high level – needs attention
Actionability	N	Implications need attention

2A4. Is the vision well communicated to all stakeholders?

No. Specific problems at the operational level.

2B. Mission

Theory Reference 2.2.2

2B1. Does the Company have a mission statement?

Yes

2B2. Is it effective in filtering business opportunities?

Yes, however the mission statement may be too restrictive.

2B3. Does the mission statement answer the following questions?

Mission Statement Question	Y/N	Comment
What business the company is engaged in?	Y	Needs revision
Who are the key clients/customers?	Y	Needs revision
Where is the business undertaken?	Y	Needs revision
What customer needs the company is satisfying?	Y	Well articulated

2C. Objectives

Theory Reference 2.2.3

2C1. What type of financial objectives does the company set?

Financial Objectives	Y/N	Comment
Revenue growth	N	Needs implementation
Profit growth	N	Needs implementation
Dividend growth	N	N/a
Return on Investment	N	N/a
Other	N	Cash Flows

2C2. What type of strategic objectives does the company set?

Strategic Objectives	Y/N	Comment
Market share growth	N	Needs implementation
Higher product quality & innovation	N	Needs implementation
Stronger reputation with clients	N	Needs implementation
Improved staff productivity & Attitudes	N	Needs implementation
Other	N	New markets, wider coverage

2C3. Are objectives measurable?

N/a. To be implemented.

2C4. Are there deadlines for achieving objectives?

N/a. To be implemented.

2C5. Does the objectives take the following into account?

Objective Setting Considerations	Y/N	Comment
External conditions	N	Needs implementation
Other comparable companies	N	Needs implementation
Shareholder expectations	N	Needs implementation
Requirements for long term success	N	Needs implementation
Potential of the company when pushed	N	Needs implementation

SECTION 3 – STRATEGIC POSITION

3A. External Environment Analysis

Theory Reference 2.3.1

3A1. Macro-Environment Analysis

Theory Reference 2.3.1.1

3A1.1 What Macro-Economic factors do the company monitor? Give reasons.

Macro-Economic Factor	Y/N	Reason/Comment
Business cycles	Y	Dependent on client cycles
GNP trends	N	
Interest rates	Y	Cost of capital concerns
Inflation	Y	Cost of labour / infrastructure
Exchange rates	Y	International contracts
Other	N	Investigate

3A1.2 What Technology Development factors do the company monitor? Give reasons.

Technology Development Factor	Y/N	Reason/Comment
Government spending on research	N	Needs to be monitored
Industry focus on technological efforts	N	Needs to be monitored
New discoveries/developments	N	Needs to be monitored
Speed of technology transfer	N	Needs to be monitored
Rates of obsolescence	N	Needs to be monitored
Other	N	Investigate

3A1.3 What Social & Attitudinal factors do the company monitor? Give reasons.

Social & Attitudinal Factor	Y/N	Reason/Comment
Demographic changes	Y	Needs follow up with action
Education & health	Y	Needs follow up with action
Concern for the environment	Y	Needs follow up with action
Distribution of income	Y	Needs follow up with action
Growing multicultural society	Y	Needs follow up with action
Other	N	Investigate

3A1.4 What Political & Legal factors do the company monitor? Give reasons.

Political & Legal Factor	Y/N	Reason/Comment
Political Parties & alignments	N	Risky
Legislation on taxation, employment, health and safety, competition, etc.	Y	Impacts on procurement
Foreign trade regulation	Y	Impacts on procurement
Government stability	N	Intact
Social welfare policies, etc	Y	Same as Income distribution

3A2. Industry & Market Analysis

Theory Reference 2.3.1.2

3A2.1 What key industry Economic Features do the company assess?

Economic Features	Y/N	Comment
Market size	N	Needs to be assessed
Market growth rate	N	Needs to be assessed
Industry profitability	N	Needs to be assessed
Capital requirements	N	Not significant
Entry/exit barriers	N	Not significant

3A2.2 What type of Key Success Factors do the company aim to achieve?

Key Success Factors	Y/N	Comment
Expertise in a given technology	Y	Needs enhancement
Low production costs	Y	Increasing price sensitivity
Superior quality products	Y	To maintain client loyalty
Strong distribution networks	N	Not significant
Superior resources (workforce, IT, etc.)	Y	Needs development
Other	Y	Empowerment, Relationships

3A2.3 What industry Drivers of Change do the company assess?

Drivers of Change	Y/N	Comment
Changes in industry growth rate	Y	New markets may be needed
Product innovations	Y	For setting standards
Entry/Exit of firms	Y	Implications for competition
Globalisation of industry	Y	Co-operation required
Emerging buyer preferences	Y	Responses required

3A2.4 Are the following Competitive Forces monitored?

Competitive Force	Y/N	Comment
Threat of New Entrants	Y	Mostly individual consultants
Bargaining Power of Suppliers	Y	Expensive specialised skills
Bargaining Power of Buyers	Y	Increasing – smaller markets
Threat of Substitute Products	Y	Increasing – Foreign suppliers
Intensity of Rivalry	Y	Increasing – smaller markets

Each competitive force is influenced by various factors. What factors are considered when assessing the various forces?

3A2.4.1 What factors are considered when assessing the Threat of New Entrants?

Threat of New Entrants	Y/N	Comment
Economies of scale	Y	Execute larger projects
Product differentiation	Y	Comprehensive solutions
Capital requirements	Y	Technology Investment
Switching costs	Y	Setting standards
Incumbents proprietary knowledge	Y	Ownership of data
Incumbents access to gov. subsidies	N	Not significant

3A2.4.2 What factors are considered when assessing the Bargaining Power of Suppliers?

Power of Suppliers	Y/N	Comment
Concentration relative to buyer industry	Y	Scarce specialised skills
Importance of customer to supplier	Y	Few customers
Differentiation of suppliers products	Y	Knowledge intensive skills
Switching costs of buyer	Y	Knowledge intensive skills
Threat – forward integration by supplier	N	Unlikely
Availability of substitute products	N	Knowledge intensive skills

3A2.4.3 What factors are considered when assessing the Bargaining Power of Buyers?

Power of Buyers	Y/N	Comment
Concentration rel. to supplier industry	Y	Few Buyers
Volume of purchase	Y	Large scale programmes
Product differentiation of supplier	Y	High quality and service
Threat - backward integration by buyer	Y	Likely in industry
Knowledge of suppliers cost structure	Y	Single source tenders
Cost savings from supplier's products	Y	Due to reduced budgets
Importance of suppliers input	Y	Safety critical components

% of total buyers cost spent on input	N	Average of 10%
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3A2.4.4 What factors are considered when assessing the Threat of Substitute Products?

Threat of Substitute Products	Y/N	Comment
Profitability of industry producing sub.	Y	Profitable foreign firms
Rate of improvement in sub. product.	Y	Could influence clients
Price attractiveness of sub. product	Y	Subsidised by package
Quality/performance of sub. product	Y	Could influence clients
Cost of switching to sub. product	Y	Could be low – packaged

3A2.4.5 What factors are considered when assessing the Intensity of Rivalry among Competing Firms.?

Intensity of Rivalry	Y/N	Comment
Number of competitors	Y	More new entrants
Industry growth rate	Y	Negative growth
Product differentiation	Y	Influence client decisions
Switching costs	Y	Cost-effectiveness valued
Exit barriers	Y	High investments
Strategic stakes	Y	Goes to long term survival

3A2.5 Competition

3A2.5.1 What sources of information do the Company use to monitor competitors?

Information Source	Y/N	Comment
Annual Reports	N	Needs Implementation
Speeches	N	Not significant
Industry Analysis	N	Needs Implementation

Business Media	N	Needs Implementation
Internet Searches	N	Needs Implementation
Trade Shows	N	Needs Implementation
Customers	N	Needs Implementation
Suppliers	N	Needs Implementation
Former Employees	N	Needs Implementation

3A2.5.2 Along what industry dimensions do the Company measure itself against competitors?

Industry Dimension	Y/N	Comment
Estimated market share	N	Needs Implementation
Estimated sales	N	Needs Implementation
Profitability	N	Needs Implementation
Product/service range	N	Needs Implementation
Customer perception of products	N	Needs Implementation
Pricing	N	Needs Implementation
Distribution	N	Not significant
Product quality	N	Needs Implementation
Promotional strategies	N	Needs Implementation
Offensive / Defensive capability	N	Needs Implementation
Major strengths	N	Needs Implementation
Major weaknesses	N	Needs Implementation

3A2.5.3 What factors are considered when profiling the Strategies and Objectives of Competitors?

Competitor Aspects	Y/N	Comment
Competitive Scope	N	Needs Implementation
Strategic Intent	N	Needs Implementation

Market Share Objectives	N	Needs Implementation
Competitive Position	N	Needs Implementation
Strategic Posture	N	Needs Implementation
Competitive Strategy	N	Needs Implementation
Other	N	

3B. Internal Environment Analysis

Theory Reference 2.3.2

3B1 Value Chain Analysis

3B1.1 Does the Company perform Value Chain Analysis to determine its Strengths & Weaknesses?

No. This practice needs to be encouraged.

3B1.2 What Primary Activities are or should be assessed?

Primary Activity	Distinct Activity	Y/N	Comment
Inbound Logistics	Soundness of inventory control	N	
	Efficiency of warehousing, etc	N	
	Other	Y	See Ch. 5
Operations	Productivity of equipment	Y	See Ch. 5
	Automation of processes	Y	See Ch. 5
	Work flow design, etc	N	
	Other	Y	See Ch. 5
	Other	Y	Investigate
Outbound Logistics	Efficiency of delivery	N	
	Efficiency of warehousing, etc	N	
	Other	Y	See Ch. 5

	Other	Y	Investigate
Marketing & Sales	Effectiveness of research	Y	
	Innovation of promotions	N	
	Evaluation of dist. Channels	N	
	Development of quality image	Y	
	Other	Y	See Ch. 5
Service	Attention to complaints	Y	
	Customer inputs to products	Y	
	Customer education, etc	Y	
	Other	Y	See Ch. 5

3B1.3 What are the Support Activities assessed?

Support Activity	Distinct Activity	Y/N	Comment
HR Management	Effectiveness of recruiting	Y	
	Effectiveness of training	Y	
	Appropriate reward systems	Y	
	Employee motivation, etc.	Y	
	Other	Y	See Ch. 5
Tech. Development	Success of R&D activities	Y	
	Quality of facilities	Y	
	Experience of personnel	Y	
	Ability to innovate, etc	Y	
	Other	Y	See Ch. 5
Procurement	Dependence on suppliers	Y	
	Efficiency of procedures	N	
	Supplier relationships, etc	Y	
	Other	Y	See Ch. 5
	Other	Y	Investigate
Infrastructure	Business Management	Y	

	Quality Management	Y	
	Information systems, etc	Y	
	Other	Y	See Ch. 5
	Other	Y	Investigate

3B1.4 Are any additional internal issues assessed?

Financial Issues	Y/N	Comment
Cost of funds compared to key competitors	Y	See Ch. 5
Ability to raise addition funds	Y	
Liquidity ratios compared to key competitors	Y	
Leverage ratios compared to key competitors	Y	
Profitability ratios compared to key competitors	Y	
Activity ratios compared to key competitors	Y	
Relationship with creditors and shareholders	Y	
Dividend policy	Y	
Match between sources and use of funds	Y	
Other	Y	Investigate
Culture & Leadership Issues	Y/N	Comment
Sense of identity provided to members	Y	
Consistency of culture (SBU vs. Corporate)	N	
Ability of culture to foster innovation	Y	
Capacity to adapt and evolve	Y	
Executive, managerial and employee motivation	Y	
Other	Y	See Ch. 5

Legitimacy & Reputation Issues	Y/N	Comment
Effectiveness in coping with restrictive regulations	N	
Relationship with consumer activist groups	N	
Relationship with media	Y	

Relationship with government	Y	
Ability to obtain government funding	Y	
Extent of trade tariff protection	N	

3B2 Core Competence Analysis

3B2.1 Has the Company identified its Core Competencies?

No, however market forces require that this be done.

3B2.2 What process was followed to determine the Core Competencies?

None. Will follow process described in theory section.

3B2.3 Within what categories are / will Core Competencies (be) identified?

Category	Y/N	Comment
Basic Technologies	Y	See Ch. 5
People Skills	Y	See Ch. 5
Processes	Y	See Ch. 5
Strategic Assets	Y	See Ch. 5
Other	?	Investigate

3B2.4 Does the Core Competencies pass the following tests?

Test	Y/N	Comment
Provide access to a wide variety of markets	?	TBD
Significant contribution to perceived customer benefits	?	TBD
Difficult for competitors to imitate	?	TBD

3B3 Benchmarking

3B3.1 Does the Company use Benchmarking to assess performance gaps?

No. Process improvements have not yet been focused on.

3B3.2 What process is followed?

Not applicable.

3B3.3 What are the Benchmarking categories used / should be used?

Category	Y/N	Comment
Internal	N	Not Practical
Competitive	Y	Practical
Functional	Y	Practical
Generic	?	Investigate
Other	?	Investigate

3B3.4 Provide examples of recent Benchmarking exercises.

None.
Could be considered in several areas.
Details in Chapter 5.

3C. Expectations and Purposes

Theory Reference 2.3.3

3C1 Culture

3C1.1 Is the impact of Culture on strategic change assessed within the Company?

No, however one could assess characteristics inherited from XDL & FBS.

3C1.2 How is this done?

Presently no structured method is utilised.
As the company develops its own culture, methods such as Cultural Web could be used.

3C1.3 What are the elements of culture assessed / that could be assessed?

Culture Element	Y/N	Comment
Paradigms	Y	Relevant
Routines	Y	Relevant
Rituals	Y	Relevant
Stories	Y	Relevant
Symbols	Y	Relevant
Control Systems	Y	Relevant
Power Structure	Y	Relevant
Organisational Structure	Y	Relevant

3C1.4 Provide examples where culture had an impact on strategic issues.

XDL failed to adapt to changing environment due to entrenched culture.

3C2 Politics

3C2.1 Is the impact of Politics on strategic change assessed within the Company?

To some extent. More diligence in this regard is required.

3C2.2 How is this done?

Informally at this stage.

3C2.3 Against what criteria are stakeholders mapped / should be mapped?

Political Criteria	Y/N	Comment
Level of Interest	Y	Relevant
Level of Power	Y	Relevant

3C2.4 Provide examples where politics had an impact on strategic issues.

Selection of business partners. FBS proposed working with ex-XDL competitors.

SECTION 4 – STRATEGIC CHOICES

4A. SWOT Strategies

Theory Reference 2.4.1

4A1 What criteria is / should be used to separate Strategic from Operational issues?

Criteria	Y/N	Comment
When will the issue impact the company?	?	Investigate
How great will impact be?	Y	Significant
How broad will the impact be?	Y	Significant
How great a risk is doing nothing?	Y	Significant
How much change will addressing issue involve?	?	Investigate
Other	?	Investigate

4A2 How are / can strategic priorities (be) established?

Interactions between:	Priority (H/L)	Comment
Strengths & Opportunities	H	
Strengths & Threats	L	
Weaknesses & Opportunities	L	
Weaknesses & Threats	H	
Other	?	

4B. Fundamental Choices

Theory Reference 2.4.2

4B1 Sustainable Competitive Advantage

4B1.1 Does the Company have a source of Sustainable Competitive Advantage?

Sustainable Competitive Advantage	Y/N	Comment
Low Cost	N	In Future
Differentiation	Y	Enhance
Other	N	

4B1.2 How are Target Markets (Scope) defined?

Target Markets	Y/N	Comment
Broad	N	In Future
Narrow	Y	

4B2 Directions & Methods of Development

4B2.1 What Directions of Development does / should the Company pursue?

Direction of Development	Y/N	Comment
Market Penetration	N	Saturated
Market Development	Y	Feasible
Product Development	Y	Feasible
Diversification	N	High risk

4B2.2 What Methods of Development does / should the Company pursue?

Method of Development	Y/N	Comment
Internal Development	Y	Short Term
Mergers	Y	Long Term
Acquisitions	Y	Long Term
Joint Ventures	Y	Long Term
Alliances	Y	Short Term
Other	?	Investigate

4C. Strategic Evaluation

Theory Reference 2.4.3

4C.1 Against what criteria are / should strategic options (be) evaluated?

Evaluation Criteria	Y/N	Comment
Suitability	Y	In Future
Acceptability	Y	In Future
Feasibility	Y	In Future

4C.1.1 How are / will options (be) deemed to be Suitable?

Suitability Decisions	Y/N	Comment
Exploiting Opportunities	Y	In Future
Avoiding Threats	Y	In Future
Capitalising on Strengths	Y	In Future
Remedying Weaknesses	Y	In Future
Satisfying Expectations	Y	In Future

4C.1.2 How are / will options (be) deemed to be Acceptable?

Acceptability Decisions	Y/N	Comment
Return	Y	In Future
Risk	Y	In Future
Stakeholder Reactions	Y	In Future

4C.1.2.1 How is / will Return (be) assessed?

Return Decisions	Y/N	Comment
Profitability Analysis	Y	In Future
Cost-Benefit Analysis	Y	In Future
Real Options Analysis	?	Investigate
Shareholder Value Analysis	?	Investigate

4C.1.2.2 How is / will Risk (be) assessed?

Risk Decisions	Y/N	Comment
Financial Ratio Decisions	Y	In Future
Sensitivity Analysis	?	Investigate

4C.1.2.3 How are / will Stakeholder Reactions (be) assessed?

Stakeholder Reaction Decisions	Y/N	Comment
Stakeholder Mapping	Y	In Future
Game Theory	?	Investigate

4C.1.3 How are strategic options deemed to be Feasible?

Feasibility Decisions	Y/N	Comment
Financial Feasibility	Y	Extend
Resource Deployment	Y	Extend
Other	?	Investigate

SECTION 5 – STRATEGIC IMPLEMENTATION

5A. Organising the Company

Theory Reference 2.5.1

5A1 Organisational Structure

5A1.1 What type of organisational structure does / should the company employ?

Structure Type	Y/N	Comment
Simple	Y	Elements of
Functional	N	Inappropriate
Divisional	Y	Elements of
Matrix	N	Problematic
Team/Project Based	Y	Fundamental

5A2 Work Design

5A2.1 Along what dimensions are / should jobs (be) designed

Job Dimension	Y/N	Comment
Skill Variety	Y	Sensible
Task Identity	Y	Sensible
Task Significance	Y	Sensible
Autonomy	Y	Sensible
Feedback	Y	Sensible

5A2.2 Are any flexible scheduling options employed to increase motivation?

Scheduling Options	Y/N	Comment
Flexitime	Y	Feasible
Job Sharing	N	Problematic
Telecommuting	Y	Feasible
Other	?	Investigate

5A3 Organisational Processes

5A3.1 What organisational processes are / should be employed to control operations?

Process	Y/N	Comment
Direct Supervision	N	Inappropriate
Planning & Control	Y	Suitable
Systems	Y	Suitable
Performance Targets	Y	Suitable
Market Mechanisms	N	Inappropriate
Social Processes	Y	Future

Self-Control	Y	Future
Other	?	Investigate

5A4 Relationships and Boundaries

5A4.1 At what level are decisions made in the company?

Decision Levels	Y/N	Comment
Centralised	Y	Present
De-Centralised	N	Future

5A4.2 What criteria is / can be used to make outsourcing decisions?

Outsourcing Decisions	Y/N	Comment
Value for money	Y	Important
Core Competencies	Y	Important
Other	?	Investigate

5A4.3 What type of relationships does the company form?

Type of Relationship	Y/N	Comment
Networks	Y	Present
Opportunistic	Y	Present
Licensing	N	Future
Subcontracting	Y	Present
Consortia	N	Future
Joint Ventures	N	Future
Other	?	Investigate

5B. Enabling Strategy

Theory Reference 2.5.2

5B1 Managing People

5B1.1 How do / should Human Resource activities contribute to strategy enablement?

Human Resource Activities	Y/N	Comment
HR Audits	Y	Required
Goal Setting & Performance Assessment	Y	Implement
Performance based Reward Systems	Y	Implement
Mentorship Programs	Y	Required
Training & Development Programs	Y	Required
Other	?	Investigate

5B1.2 Are all individuals familiar with the company's strategies?

No. Future strategies are yet to be determined.

5B1.3 Are individuals able to see how they contribute to the success of strategies?

No. Needs to be attended to.

5B1.4 Are individuals development needs in line with the company strategies?

No. Needs attention.

5B1.5 Do individuals take ownership of their own development?

No. Needs attention.

5B2 Managing Information

5B2.1 Is Information Technology leveraged to enhance Core Competences?

Core Competence Element	Y/N	Comment
Value Added Features	Y	Evident
Competitive Performance	Y	Evident
Robustness	Y	Evident

5B2.2 Is Information Technology used to influence impact of Competitive Forces?

Competitive Force Element	Y/N	Comment
New Entrants	N	Implement
Supplier Power	N	N/a
Buyer Power	N	N/a
Substitutes	Y	Evident
Rivalry	Y	Evident

5B2.3 Is Information Technology used to facilitate structuring & control of the company?

Yes. Well structured management information systems.

5B3 Managing Finance

5B3.1 Comment on how funds are managed from Operations.

Funds are managed on a short term ad hoc basis without much future planning.
There are many problems in this area that require urgent attention. See chapters 4 & 5 for elaborations.

5B3.2 How are Investment decision made?

Currently the company is not in a position to make any significant investments due to cash flow problems. There is also no urgent need at this time – the present level of investment is adequate to execute current programmes.

5B3.3 How are Financing decisions made?

The company is financed internally at this stage from current revenues. The pending financing decisions will be made based on business risk and availability of funds from shareholders.

5B3.4 Are financial expectations of non-shareholders considered?

Stakeholders	Y/N	Comment
Providers of Finance	Y	
Employees	Y	
Suppliers	Y	
Customers	Y	
Community	N	Investigate

5B4 Managing Technology

5B4.1 Is Technology & Innovation considered as part of the company strategy?

Technology Mechanism	Y/N	Comment
Product Novelty	N	Investigate
Process Novelty	N	Investigate

Complexity	Y	Implemented
Intellectual Property	Y	Implemented
Robust Design	Y	Implemented
Rewriting Rules	Y	Implemented

5B4.2 What criteria is used to make technology acquisition decisions?

Criteria	Y/N	Comment
In-house Knowledge	Y	Sensible
Complexity	Y	Sensible
Risk	Y	Sensible
Speed	Y	Sensible
Other	?	Investigate

5C. Managing Change

Theory Reference 2.5.3

5C1 What contextual features are / should be taken into account when designing change programs?

Contextual Feature	Y/N	Comment
Time	Y	Significant
Scope	Y	Significant
Preservation	Y	Significant
Diversity	Y	Significant
Capability	Y	Significant
Capacity	Y	Significant
Readiness	Y	Significant

Power	Y	Significant
Other	?	Investigate

5C2 What style of change management does / should the company employ?

Style	Y/N	Comment
Education & Communication	Y	Appropriate
Collaboration/Participation	Y	Appropriate
Intervention	N	Sometimes
Direction	N	Sometimes
Coercion/Edict	N	Inappropriate
Other	?	Investigate

5C3 What lever of strategic change does / should the company employ?

Levers of Change	Y/N	Comment
Structure and Control Systems	Y	
Organisational Routines	Y	
Symbolic Processes	Y	
Power and Political Processes	Y	
Communicating Change	Y	
Change Tactics	Y	
Other	?	Investigate

SECTION 6 – STRATEGIC PERFORMANCE

Theory Reference 2.6

6A What system is used to measure company performance.

Presently the company measures only financial performance against targets.

6B Does the company employ the use of a Balanced Scorecard system?

No. This must be considered for the future.

6C What are the strategic perspectives considered within the Scorecard?

Strategic Perspective	Y/N	Comment
Financial	N	Future
Customer	N	Future
Internal	N	Future
Innovation & Learning	N	Future
Other	?	Investigate

6C1 What are the Financial Measures considered?

Financial Measures	Y/N	Comment
Return on Capital	N	Future
Sales Growth	N	Future
Cost Reduction	N	Future
Other	?	Investigate

6C2 What are the Customer Measures considered?

Customer Measures	Y/N	Comment
Customer Satisfaction	N	Future
Customer Retention	N	Future
Customer Acquisition	N	Future
Other	?	Investigate

6C3 What are the Internal Measures considered?

Internal Measures	Y/N	Comment
Training & Development	N	Future
Job Turnover	N	Future
Product Quality	N	Future
Other	?	Investigate

6C4 What are the Innovation & Learning Measures considered?

Innovation & Learning Measures	Y/N	Comment
Employee Satisfaction	N	Future
Employee Retention	N	Future
Employee Profitability	N	Future
Other	?	Investigate