

THE STRATEGIC PROCESS IN NON-PROFIT ORGANISATIONS

A CASE STUDY: The South African National Blood Service

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

Sincerely

A handwritten signature in black ink that reads "Blades". The signature is written in a cursive style with a large, stylized initial 'B'.

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DECLARATION

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

Signed

B Blades

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Date

15/9/2003

ACKNOWLEDGMENTS

This thesis is the culmination of more than two years of study and there are a number of people to whom I owe my gratitude.

To my husband, Andrew. I remember when I first spoke to him about undertaking this Masters degree, which was before we were married, knowing that it meant sacrifices for both of us. Even then, his commitment to me was evident, and this commitment continued during my studies. He has supported me throughout this process, in so many ways, with love and encouragement. My love for him knows no bounds.

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As I embarked on my undergraduate studies, my father, Henry Klotz, always said that he wanted me to complete an MBA. I used to nod my head in agreement, not knowing the enormous sacrifice that this would be. This thesis, and the incumbent degree, is partly in tribute to him. He afforded me so many opportunities in my life. He died over a decade ago but I hope that in completing this that I have made him proud.

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ABSTRACT

This research paper documents the process of strategic management, incorporating the five distinct tasks within that process. Each of the tasks is defined and explored within the context of the strategy-making process. The Balanced Scorecard is highlighted as a tool for implementing and executing strategy. The emphasis in this study is on the strategic process in non-profit organisations. Many strategic processes and initiatives appear to be confined to the profit sector, but with the advent of modern strategic theories such as the Balanced Scorecard, there is now an expectation that non-profit organisations can also follow sound business principles and practices.

The research paper is of a qualitative nature incorporating a case study approach. The case study is the South African National Blood Service (SANBS), which is an organisation in transformation, following changes in the Health legislation in South Africa. The organisation was formed from seven independent services and went through its first true strategic management process in late 2002, ready for its 2003-2004 financial year.

In the first chapter, an overview of the study is given. Strategic theory is presented and discussed in the second chapter, with the case study being presented in the third chapter. Chapter four includes an evaluation of the theoretical information compared to the practical implementation in SANBS. Chapter five concludes with recommendations on the way forward for SANBS.

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

The term business strategy concerns the approaches and actions crafted by management to produce successful performance in one specific line of business, the central business strategy issue is how to build a stronger long-term competitive position. For a single business company, corporate and business strategy are one and the same¹.

The central thrust of business strategy is to build and strengthen the company's long-term competitive position in the marketplace. Therefore, business is concerned primarily with forming responses to changes under way in the industry, the economy at large, the regulatory and political arena and other relevant areas crafting competitive moves and market approaches that can lead to sustainable competitive advantage building competencies and capabilities uniting the strategic initiatives of functional departments and addressing specific strategic issues facing the company².

A good strategy is well matched to a company's external and internal situation; as the situation changes, adjustments to strategy are needed. Some changes in a company's external and internal environments requires little or no response, whilst others call for significant strategy adjustments.

The most successful business strategies aim at building uniquely strong or distinctive competencies in one or more areas crucial to the strategic success of the organisation. Business strategy must also aim at uniting strategic initiatives in the various functional areas of the business. Strategic actions are needed in each functional area to support the company's competitive approach and overall business strategy. Business strategy also extends to action plans for addressing strategic issues relating to company competitive position and internal situation.

¹ Thompson, A and Strickland, A.J (2001). *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill, Ch 1

² Ibid

1.2 Background of the study

The subject of the study is the South African National Blood Service (SANBS), which is an organisation in a state of transformation. The organisation, a Section 21 not-for-profit company, was formed from the seven independent blood transfusion services due to changes in the legislation (in 1999, the government stated that they were moving to a one-license for blood transfusion in the new National Health Bill, which will now be tabled in late 2003). The Service underwent its first true strategic process last year, in readiness for its 2003-2004 financial year. This was an intense process, and a learning curve for the Board, executives and management that participated. It is the opinion of the writer that the strategic process had some flaws, particularly in the implementation, execution and evaluation of the strategy. There has been no formal review of the process in SANBS since the completion of the exercise.

This study therefore examines the strategic process in terms of theories and methodologies. The starting point is the basic strategic tasks that combine to make a strategic management process³. These tasks are identified as follows:

- 1 ***Forming a strategic vision of what the company's future business makeup will be and where the organisation is headed*** – so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.
- 2 ***Setting objectives*** – converting the strategic vision into specific performance outcomes for the company to achieve
- 3 ***Crafting a strategy to achieve the desired outcomes***
- 4 ***Implementing and executing the chosen strategy efficiently and effectively.***

³ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

5 *Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or implementation in the light of actual experience, changing conditions, new ideas and new opportunities*

These five steps are termed **strategic management** and each step will be discussed in detail in the study. Strategy is the approach used to accomplish the mission and implement the organisation's vision. Strategy exists at different levels within the organisation and is to be embraced by all staff within an organisation in order to achieve success.

Also included, as the tool for implementation and execution is the examination and discussion of the Balanced Scorecard, as pioneered by Kaplan and Norton in the 1990s. SANBS has attempted to implement this Scorecard with some difficulty.

The Balanced Scorecard is a Performance Management system that can be used in any size organisation, commercial or not-for-gain, in order to align vision and mission with its operational activities. It aims to translate strategy into identified, measurable objectives that can be evaluated and monitored. These measures are defined in terms of financial objectives, customer requirements, internal business processes (operations) and learning and growth.

The following diagram shows the relationship between strategic process and the Balanced Scorecard, which will be discussed within the study.

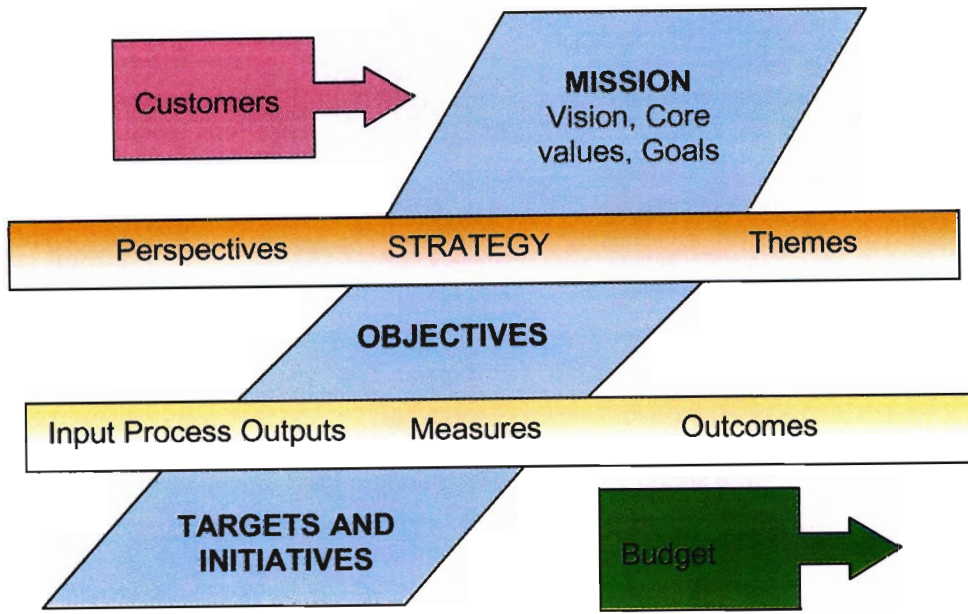


Figure 1.1 Strategic Processes and the Balanced Scorecard

Internet 2: www.balancedscorecard.org taken from Rohm. H. "A Balancing Act", Perform Magazine (2) (2), page 6

1.3 Motivation for the project

The South African National Blood Service is an organisation in transformation. It has been formed from the merger of seven independent blood transfusion services, resulting in a blend of people, processes, cultures and ideas. In addition to this, the emergence of current trends such as Corporate Governance have forced the organisation to take account of its position and implement appropriate business practices and structures.

The strategic process undertaken in 2002 was the first process of its kind in the new organisation. It was an intensive process incorporating the principles of strategic thinking beginning with the mission and vision of the organisation through to the development of the SANBS scorecard.

The strategic process was completed, but there has been no evaluation of whether the process achieved the results intended, or how the participants perceived it. The

intention of this research is to evaluate the SANBS process, before the organisation embarks on the review process in the next financial year.

1.4 Value of the Research

Since this will be the first evaluation of the strategic process, SANBS can take into account the observations and recommendations of the research when implementing review processes and strategic initiatives.

1.5 Problem Statement

SANBS as a non-profit organization has been through a strategic process, as laid out in the accepted strategic theories. The question is whether SANBS has achieved what it intended, and how successful it has been in this process.

1.6 Objectives of the study

The study has the following objectives:

- To evaluate the SANBS strategic process against accepted strategic theories and models;
- To determine the successes and failures within the process
- To establish a way forward for SANBS in terms of both strategies and strategic processes and models.

1.7 Research methodology

The research methodology is qualitative in nature and will be presented in the form of a case study approach.

1.8 Limitations of the project

SANBS (incorporated as a Section 21 company in terms of the Companies Act) is a non-profit organisation, whose mission it is, to provide patients of South Africa with safe, quality cost-effective blood and blood products. SANBS operates on a fee-for-service basis, on the principle of cost recovery. One of the major differences between the two regions of SANBS is the pricing of blood and blood products, and the costing of these products.

Due to its non-profit nature and the nature of its business, comparison with similar organisation is limited, and comparison with profit driven organisations is meaningless. Hence, no financial analysis will be included in this research.

As a result of the nature of the organisation and the differences in the regions, financial information and cost models will not be included in the study.

1.9 Structure of the study

The study will be structured with the following chapters:

Chapter two

The study is based on strategic process and this chapter will focus on strategic theories and models.

Chapter three

This chapter will focus on the case study, a detailed review of SANBS, including its history, products and services, processes and strategic planning.

Chapter four

The strategic theories and models from chapter two will be evaluated against the case study information in chapter three.

Chapter five

A conclusion will be drawn on whether SANBS has successfully completed and implemented its strategic plans. The future processes and plans to address the shortfalls will be developed as well as recommendations for and benefits of these processes.

1.10 Summary

A brief theoretical background on strategic theories and the Balanced Scorecard was presented, together with a background for the subject of the case study, the South African National Blood Service. A motivation for the study was documented, together with the value that the research will add. The problem statement and objectives of the study were also considered. Finally a summary of the content and plan of this research was given. Following this brief introduction, the next chapter discusses strategic theories and tools.

CHAPTER TWO: STRATEGIC PROCESS

2.1 Introduction

A company's strategy is the "game plan" management has for positioning the company in its chosen market arena, competing successfully, pleasing customers, and achieving good business performance. Strategy must be recognized as a *process* rather than a set of independent and unrelated tasks. Strategy does not begin and end with forming a plan but extends to full implementation and review of that plan.

There are five recognized tasks in the strategic process⁴, all of which are interrelated. These are identified as follows:

1. ***Forming a strategic vision of what the company's future business makeup will be and where the organisation is headed*** – so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.
2. ***Setting objectives*** – converting the strategic vision into specific performance outcomes for the company to achieve
3. ***Crafting a strategy to achieve the desired outcomes***
4. ***Implementing and executing the chosen strategy efficiently and effectively.***
5. ***Evaluating performance and initiating corrective adjustments in vision, long-term direction, objectives, strategy, or implementation in the light of actual experience, changing conditions, new ideas and new opportunities***

⁴ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

These five steps are termed **strategic management** and each step will be discussed in detail below.

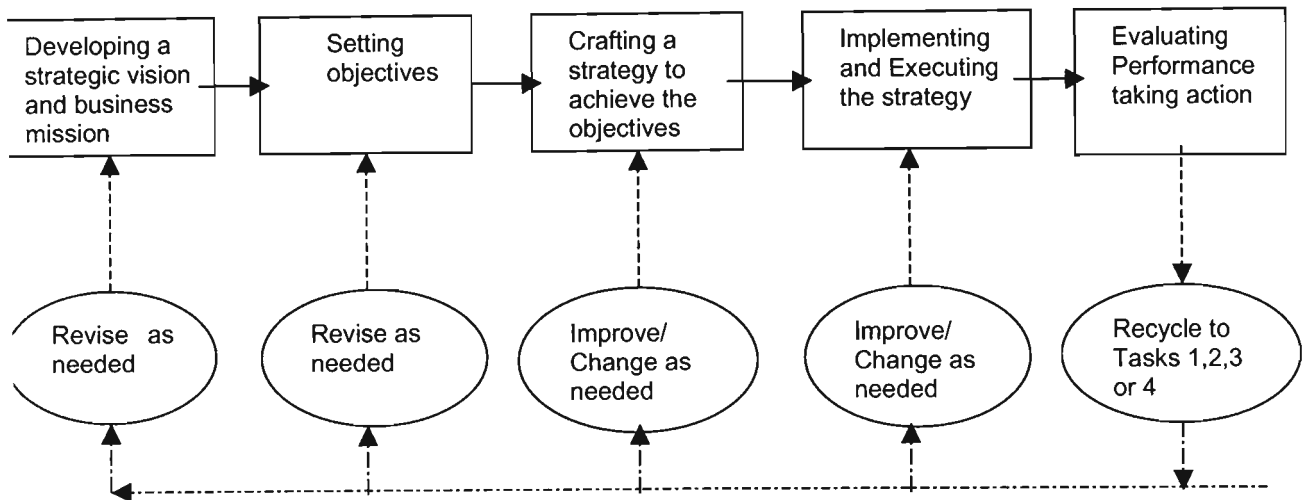


Figure 2.1 The Strategic Management Process

Thompson, A.A, Strickland, A.J and Kramer, T.R(1999). Strategic Management – Concepts and Cases, Irwin McGraw-Hill, Ch 1

2.2. Developing a Strategic Vision and Business Mission

As a first step in the process of strategic management, very early in the strategic process, management need to pose the question “What is the vision of the company – where should the company be headed, what kind of enterprise are we trying to build, what should the company’s future business make-up be?”

What a company is currently seeking to do for its customers is often termed the company’s mission. A mission statement is useful for putting the spotlight on what business a company is presently in and the customer needs it is presently endeavoring to serve. However this does not say anything about what the company’s future should be nor what its long-term objectives are. There is an even greater need for management to consider what the company should do to meet its customers needs in the future and whether the company can evolve to meet those needs. Thus managers are obliged to look beyond the present business mission and

think strategically about the impact of new technologies, changing customer needs and expectations, the emergence of new markets and competitive conditions etc. They have to make fundamental choices about where they want to take the company and form a vision of the type of enterprise they believe the company needs to become. The faster the changing conditions, the greater the management need to consider the future strategic path should be in the light of these conditions.⁵

Management's view of the kind of company it is trying to create and the kind of business position it wants to stake out in the years to come constitutes a strategic *vision*. The mission and vision can merge into one if the mission sets out what the business will become i.e. a strategic vision and a future-oriented business mission are one and the same. In practice, actual company mission statements tend to exhibit more concern with "what our business is now" than "what our business will be later"; hence the conceptual distinction is relevant. Forming a strategic vision is a prerequisite to effective strategic leadership. A manager cannot succeed as an organisation leader without having first drawn a reasoned conclusion about where the enterprise needs to head, the changes in business makeup that are required and the organisational capabilities it will take to meet future customer needs and compete successfully. With a clear, well-conceived strategic vision, a manager has a beacon to truly guide managerial decision-making, a course for the organisation to follow, and a basis for shaping the organisation's strategy and operating policies. A strategic vision indicates a management's aspirations for the organisation. It spells out a direction and describes a destination.⁶

Forming a strategic vision is thus not an exercise to create a catchy slogan, rather it is an exercise in thinking strategically about a company's future, forming a viable concept of that future and putting the company on the strategic path that management is committed to. When the company's vision conveys something substantive about what business position it intends for the company to stake out and

⁵ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

⁶ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

what course of action the company is going to follow, then the vision is truly capable of guiding managerial decision-making, shaping the company's strategy and impacting how the company is run. Such outcomes have real managerial values.

2.2.1 Characteristics of the Vision⁷

- **STRATEGIC VISIONS CHART A COMPANY'S FUTURE**

The term strategic vision is inherently more future oriented than the terms business purpose or mission statement. The statement of mission or business purpose that most company's include in their annual reports tend to deal more with the present rather than with the organisation's aspirations and long-term direction. As a rule a strategic vision should have a time horizon of a decade or more.

- **STRATEGIC VISIONS ARE COMPANY SPECIFIC, NOT GENERIC**

Strategic Visions and Company Mission statements ought to be highly personalized – unique to the organisation for which they were developed. There is nothing unusual about companies in the same industry pursuing significantly different strategic paths. The whole idea behind developing a strategic vision/mission statement is to set an organisation apart from others in its industry and give it its own special identity, business emphasis and path for development. Generically worded statements have no management value nor can they set direction. The statements should not be ambiguous or vague, as they do not communicate useful information about the company's future business makeup. The best vision statements are worded in a manner that clarifies the direction in which an organisation needs to move.

- **THE MISSION OR VISION IS NOT TO MAKE A PROFIT**

Sometimes companies couch their business purpose or mission in terms of making a profit. This is misguided – profit is more correctly a result of what the company does. The desire to make a profit says nothing about the business

⁷ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

arena in which the profits are to be sought. Missions or visions based on making a profit are incapable of distinguishing one type of profit-seeking enterprise from another. A company that says its mission and vision is to make a profit leads to the question of what the company will or can do to make that profit, and for whom.

2.2.2 The Elements Of A Strategic Vision⁸

There are three distinct pieces to the task of forming a strategic vision of a company's business future:

- Defining what business the company is presently in
- Deciding on a long-term strategic course for the company to pursue
- Communicating a vision in ways that are clear, exciting and inspiring

Defining what business a company is presently in

Coming up with an insightful definition of what business an organisation is presently in is not as simple as it might seem. These definitions can be product-oriented, customer-oriented or a technology-based definition, all to describe the same business. A company's business is defined by what needs it is trying to satisfy, by which customer groups it is targeting, and by the technologies it will use and the functions it will perform in serving the target market.

Deciding on a long-term strategic course for the company to pursue

Coming to grips with the current business and then where a company should be in 5 to 10 years is a daunting task that requires rational analysis of what the company should be doing to get ready for the changes that are coming in its present business and to capitalize on the opportunities in the market. It requires entrepreneurial instincts, creativity and an intuitive sense of what the company is capable of. A strategic vision is not supposed to be a fantasy, but rather it must be compelling enough to shape the company's actions and energize its strategy. A well-chosen vision and long-term business mission prepare a company for the future.

⁸ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

Communicating the strategic vision

A well-articulated strategic vision creates enthusiasm for the future course management has charted and poses a challenge that inspires and engages members of the organisation. Communication is almost as important as the strategic soundness of the business concept and future direction. People need to believe that management know where its trying to take the company, where the company's markets are headed and what changes lie ahead. When management can paint a picture of the company and its future in inspired words, then the vision and mission is a powerful motivational tool. Employee buy-in and a sense of organisational purpose are vital. It is particularly important that employees understand why a change needs to happen and what the compelling rationale is for a particular direction. Failure to so this creates resistance to change.

A well-worded strategic vision and mission has real managerial value:

- It crystallizes senior management's own views about the firm's long-term direction and future business makeup
- It reduces the risk of visionless management and rudderless decision-making
- It conveys an organisational purpose that arouses employee buy-in and commitment and motivates employees to go out and make a contribution to making the vision a reality
- It provides a beacon that lower-level managers can use to form departmental missions, set departmental objectives, and craft departmental and functional strategies that are in sync with the company's strategy.
- It helps an organisation prepare for the future.

In summary, the vision is a roadmap of the company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

It is a panoramic view of 'where we are going'.

A company's mission statement is typically focused on its present business scope – 'who are we and what we do'; mission statements describe an organisation's present capabilities, customer focus, activities and business makeup.

A strategic vision has much greater direction setting and strategy-making value. There is an ever-present managerial imperative to look beyond today and think strategically about the impact of new technologies on the horizon. Armed with a clear, well-conceived business course for the organisation to follow, managers have a beacon to guide resource allocation and a basis for crafting strategy for where the company needs to go.

Once the company has established its vision and mission, the second task is relevant, that of setting strategic objectives. This is the translation of the vision and mission into action.

2.3 Establishing Objectives

Setting objectives converts the strategic vision and directional course into specific performance targets.

Objectives represent a managerial commitment to achieving specific outcomes and results. Unless an organisation's long-term direction and business mission are translated into specific performance targets and measures and management is pressured into realizing these targets, then the vision and mission statements are nice words and window dressing rather than a strategic tool. Companies whose manager set objectives for each key result area and then press forward with actions aimed at achieving these performance outcomes typically outperform companies whose managers exhibit good intentions, try hard and hope for the best⁹.

For objectives to function as yardsticks of organisational performance they must be stated in quantifiable terms and they must contain a deadline for achievement. They

⁹ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

have to spell out how much of a performance and by when. This means avoiding generalities like 'minimize' and 'maximize'. Spelling out organisation objectives in measurable terms and then holding managers accountable for reaching their assigned targets within a specified time frame substitutes purposeful strategic decision making for aimless actions and confusion over what to accomplish, and provides a set of benchmarks for judging the organisation's performance and progress.

In summary, the purpose of setting objectives is to convert managerial statements of strategic vision and business mission into specific performance targets – results and outcomes that the organisation wants to achieve. They function as a yardstick for tracking organisational performance and progress. Strategic objectives relate to outcomes that strengthen an organisation's overall business performance and competitive vitality.

Objective setting is required of all managers. Company-wide objectives must be broken down at organisational unit level to encourage a results-oriented culture, with accountability through the levels. Objective setting needs to be more of a top-down than bottom-up process in order to guide lower level managers and organisational units towards outcomes that support the achievement of overall business and company objectives.

There are two distinct types of performance yardsticks required – financial performance, and those relating to strategic performance. Therefore, there must be financial and strategic objectives. Without adequate profitability, a company's pursuit of its vision, as well as its long term health is jeopardized. This is not enough. Managers must pay attention to strategic well-being – its competitiveness and long-term business position.

A company's strategic objectives are important because they indicate strategic intent, the "big, hairy, audacious goal, or BHAG"¹⁰. The time horizon for strategic intent is long-term. The goals are normally over the top and beyond the immediate capabilities of the organisation.

Even though an enterprise places high priority on achieving both financial and strategic objectives, situations arise where a trade-off has to be made. A company that consistently passes up opportunities to strengthen long-term competitive position in order to realize better near-term financial gains risks diluting its competitiveness, losing momentum in its markets and impairing its ability to stave off market challenges from ambitious rivals. The surest path to sustained future profitability is to pursue strategic actions that strengthen a company's competitiveness and business position. Absent a strong position from which to compete, a company's profitability is at risk¹¹.

Experience shows that companies whose managers set objectives for each key result area and then press forward with actions aimed at achieving these performance outcomes typically outperform companies whose managers exhibit good intentions, try hard and hope for the best.

For objectives to function as yardsticks, they must be stated in quantifiable, or measurable, terms and they must contain a deadline for achievement. They have to spell out how much of what kind of performance by when. " You cannot manage what you cannot measure.....And what gets measured gets done"¹²

One of the dilemma's facing companies in the strategic process is what kind of objectives should they set?

¹⁰ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

¹¹ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

¹² Bill Hewlett, co-founder Hewlett Packard, Thompson and Strickland (1999), *Strategic Management – Concepts and Cases*, Irwin McGraw-Hill

Objectives must contain 'stretch' and a disciplined effort. As Mitchell Leibowitz said, "If you want to have ho-hum results, set ho-hum objectives" ¹³

Objectives are needed for each key result that managers deem important to success. There are two types of key result areas: those relating to financial performance and those relating to strategic importance. Achieving acceptable financial performance is a must; otherwise the organisation's financial standing can alarm creditors and shareholders, impair its ability to fund needed initiatives and perhaps even put its survival at risk. Achieving strategic performance is essential to sustaining and improving the company's long-term market position and competitiveness. Strategic objectives need to be competitor-focused, often aiming at unseating a rival considered to be the best in a particular category.

The question arises as to whether strategic objectives take precedence over financial objectives or vice versa. What happens if a trade-off arises? The pressures on managers to opt for better near-term financial performance and to sacrifice or cut back on strategic initiatives aimed at building a stronger, more competitive company is more pronounced when (1) an enterprise is struggling financially, (2) the resource commitments for strategically beneficial moves will materially detract from the bottom line for several years and (3) the proposed moves are risky and have uncertain competitive or bottom line payoff. Yet there are dangers in succumbing to the lure of immediate gains of profitability when it means foregoing strategic initiatives that would build a stronger business position. A company that consistently passes up opportunities to strengthen its competitive position in order to realize short-term financial gains risks diluting its competitiveness, losing momentum in its markets and impairing its ability to stave off market challenges from ambitious rivals. It is a well-known strategic management principle that building stronger long-term competitive position benefits shareholders more lastingly than improving short-term profitability. The surest path to protecting and sustaining a company's profitability is for its managers to pursue strategic actions that strengthen competitiveness and business position.

¹³ Mitchell Leibowitz, CEO of The Pep Boys, Thompsen and Strickland, (1999), Strategic Management – Concepts and Cases, Irwin McGraw-Hill

2.3 *Crafting a strategy: translating words into actions*¹⁴

Once managers have decided on a strategy, the emphasis turns to converting it into actions and good results. Putting a strategy into place and getting the organisation to execute it well call for different sets of managerial skills. This task calls for the organisation to draw on its resources, strengths and capabilities.

Crafting strategy is a market-driven activity whilst implementing strategy is an operations-driven activity revolving around the management of people and business processes. Strategy implementation depends on doing a good job of leading, working with and through others, allocating resources, building and strengthening competitive capabilities, installing strategy-supportive policies and shaping how the organisation performs its core business activities.

A company strategy consists of the competitive efforts and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives. A strategy thus reflects the managerial choices amongst the alternatives and signals organisational commitment to a particular product, market, and way of operating the enterprise¹⁵.

Strategy making is the critical issue of how to achieve targeted results in the light of the organisation's prospects. The objectives are the ends and the strategy is the means. The 'hows' of company strategy are a blend of (1) deliberate and purposeful actions, (2) as-needed reactions to unanticipated developments and market conditions and (3) the collective learning of the organisation over time.

Common sense instructs that a company's actions (planned and reactive) should bear a close relationship to its competencies and competitive capabilities.

¹⁴ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

¹⁵ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

The strategy-making task thus involves developing an intended strategy; adapting it as events unfold (adaptive and reactive strategy); and linking the firm's business approaches, actions and competitive initiatives. Strategy is both proactive (intended and deliberate) and reactive (adaptive).

Company strategies are partly visible and partly hidden to the outside view. Strategy making is fundamentally a market-driven and customer-driven entrepreneurial activity. The essential qualities are a talent for capitalising on emerging market opportunities and evolving customer needs, a bias for innovation and creativity, an appetite for prudent risk-taking and a strong sense of what needs to be done to grow and strengthen the business.

Executing strategy is an action-oriented, make-things-happen task that test a manager's ability to direct organisational change, motivate people, develop core competencies, build valuable organisational capabilities, achieve continuous improvement in business processes, create a strategy supportive corporate culture and meet or beat performance targets.

Companies don't implement and execute strategies, people do. Every manager has an active role in the process of executing the firm's strategic plan and all employees are participants. One of the keys to successful implementation is for management to communicate the case for organisational change so clearly and persuasively to organisational members that there is determined commitment through the ranks to carry out the strategy and meet performance targets. Management's handling of the strategy implementation process can be considered successful if and when the company achieves the targeted strategic and financial performance and shows good progress in realizing long-range strategic vision.

How managers lead the strategy implementation and execution is a function of

- Their experience and knowledge of the business
- Whether they are new to the job or veterans
- Their personal relationships in the organisation
- Their own diagnostic, administrative, interpersonal and problem-solving skills

- The authority they've been given
- The leadership style that they are comfortable with
- Their view of the role they need to play to get things done



Figure 2.2 The Strategic Implementers Action Agenda

Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill, Ch 11

Middle and lower-level managers are not only responsible for initiating and supervising the execution process in their areas but are instrumental in getting subordinates to continuously improve on how strategy-critical value chain activities are performed. How successful middle and lower-level managers are at using the resources at their command to strengthen organisational capabilities determines how proficiently the company executes its strategy on a daily basis.

2.3.1 Building a capable organisation

In order to implement and execute strategy, the organisation needs competent personnel, competitive capabilities and efficient internal organisation. Thus building a capable organisation is a priority in strategy execution. There are three types of organisation-building actions, which are paramount to the strategy:

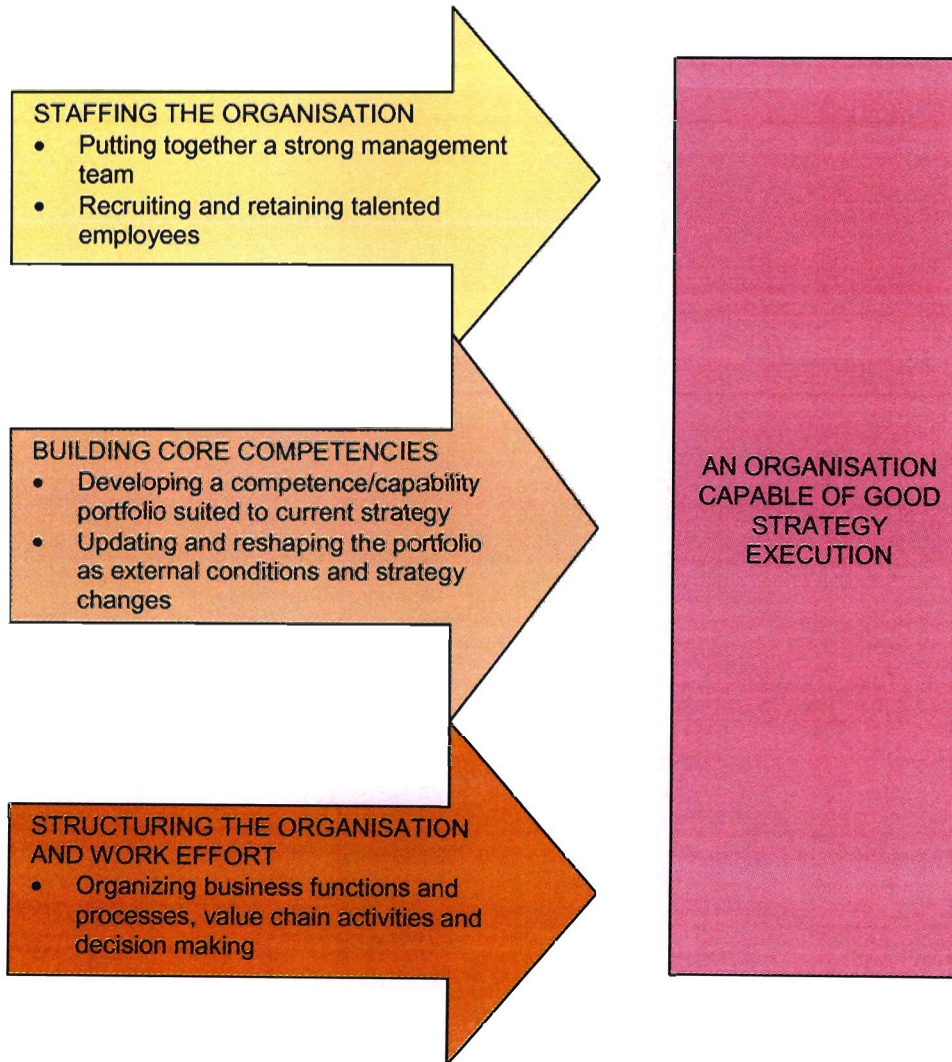


Figure 2.3 Building a Capable organisation

Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill, Ch 11

Staffing the Organisation¹⁶

Includes putting together a strong management team, recruiting, and retaining employees with the needed management experience, technical skills and intellectual capital. This includes a mix of personal chemistry and mix of skills. Talented people in possession of superior intellectual capital are not only a resource that enables proficient strategy but is also a prime source of competitive advantage.

Building Core Competencies and Competitive Capabilities¹⁷

This will enable good strategy execution and then keeping the competence /capability portfolio updated as strategy and external conditions change.

Core competencies don't come into being or reaching strategic fruition without conscious management attention. Building capabilities takes time, conscious effort and considerable organizing skill.

Core competencies rarely consist of narrow skills or the work efforts of a single department. More often, they are bundles of skills and know-how growing out of the combined efforts of cross-functional work groups and departments performing complementary activities at different locations in the firm's value chain.

Building and nurturing the core competencies is a senior management responsibility. Competencies and capabilities that grow stale can impair competitiveness unless they are refreshed and modified, in response to ongoing customer-market changes and to shifts in company strategy. Continuously refining competencies allows the sustainability of effective strategy execution and competitive advantage.

¹⁶ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill, Ch 11

¹⁷ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

The key to leveraging a company's core competencies into competitively valuable capabilities with potential for long term competitive advantage is concentrating more effort and more talent than rivals on deepening and strengthening these competencies.

A company's selected bases of competence thus need to be broad enough and flexible enough to respond to an unknown future.

Structuring the organisation and work effort¹⁸

Organizing business functions and processes, value chain activities and decision making in a manner conducive to successful strategy execution

2.4 Implementing and executing the chosen strategy

There are few hard and fast rules for organizing the work effort to support strategy. Every firm's organisation chart is unique, reflecting prior organisational patterns, varying internal circumstances, executive judgments about reporting relationships, and the politics of who gets which assignments. Every strategy is grounded in its own set of key success factors and value chain activities. Therefore a customized organisation structure is appropriate. However, there are some common considerations.

- Identify strategy-critical value chain activities
- Decide value chain activities to perform internally and which to outsource from partners
- Make internally performed strategy-critical value chain activities the main building blocks in the organisation structure
- Decide how much authority to centralize at the top and how much to delegate to down the line managers and employees

¹⁸ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

- Provide for cross-unit co-ordination and collaboration to build/strengthen internal competencies and capabilities
- Provide for necessary collaboration and co-ordination with outsiders

These steps make for an organisation structured to the requirements of successful strategy execution. In addition, outsourcing non-critical value chain activities can produce many advantages – lower costs, less internal bureaucracy, speedier decision-making, more flexibility and heightened strategic focus. Matching structure to strategy requires making strategy-critical organisational units the main building blocks in the organisation structure.

The challenge in implementation and execution is to create a series of tight fits

- Between strategy and the organisation's competencies, capabilities and structure
- Between strategy and budgetary allocations
- Between strategy and policy
- Between strategy and internal support systems
- Between strategy and the reward structure
- Between strategy and the corporate culture

The tighter the fit, the more powerful strategy execution becomes, and the more likely targeted performance can actually be achieved.

The task of implementing and executing the chosen strategy entails seeing what it will take to develop the needed organisational capabilities and to the targeted objectives on schedule. There is a need to “figure out” what must be done to put the strategy in place, carry it out proficiently and produce good results¹⁹.

This is a hands on process and largely an administrative task that includes the following principle aspects:

- Building an organisation capable of carrying out the strategy successfully

¹⁹ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

- Allocating company resources so that organisational units charged with performing strategy-critical activities and implementing new strategic initiatives have sufficient people and funds to do their work.
- Establishing strategy supportive policies and procedures
- Putting a freshly chosen strategy into place
- Motivating people in ways that induce them to pursue the target objectives energetically and, if need be, modifying their duties and job behaviour to better fit the strategy requirements of successful execution
- Tying the reward structure to the achievement of targeted results
- Creating a company culture and work climate conducive to successful strategy implementation and execution
- Installing information, communication and operating systems that enable company personnel to carry out their strategic roles effectively day-in, day-out
- Instituting best practices and programs for continuous improvement
- Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed.

Good strategy execution involves creating a strong 'fit' between the way things are done internally and what it will take for the strategy to succeed. The most important fits are between strategy and organisational capabilities, between strategy and the reward structure, between strategy and the internal support systems and between strategy and the organisation's culture. Fitting the organisation's internal practices to what is needed for strategic success helps unite the organisation behind the accomplishment of strategy²⁰.

The implementation/execution is the most complicated and time-consuming of the tasks in the strategic process. It goes across all facets of managing and must be initiated from many points.

²⁰ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

2.5 Evaluating performance and initiating corrective adjustments

The strategic process does not end with the implementation and execution of the plan. There needs to be a final step in the process which allows for ongoing monitoring and evaluating of performance. This allows the company to make corrective adjustments and be proactive in its strategy making process.

It is incumbent on management to evaluate an organisation's performance and progress. Management must stay on top of the company's situation, deciding whether things are going well internally, and monitoring outside developments. Too little progress, changes to the environment will require analysis and corrective action and therefore adjustments to the long- term direction, objectives and business model as laid out in the chosen strategy.

Whilst the strategic management process may have successfully gone through each of the accepted steps, there are factors within any organisation that can have an effect on the type of strategy that evolves, the communication of that strategy, its implementation and therefore its success or failure. One of these key factors is that of corporate culture. It is such an important factor, with far-reaching consequences for the organisation, that it merits further discussion here²¹.

2.6 Factors that shape a Company's Strategy

Every company has its own unique culture, one that is shaped by its business philosophy and principles, the way it approaches and solves problem and to put it colloquially "the way things are done". Corporate culture refers to a company's values, beliefs, traditions, operating style and internal work environment. As a result of this, culture, or the lack thereof, can have a distinct impact on the strategies of the organization.

²¹ Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill

In discussing culture, various factors have to be considered, as well as the effects of competitive conditions, the industry in which the organization operates, the influence of personal ambitions of the people within the organization and finally the impact of shared values on corporate culture²².

According to Thompson and Strickland²³, there are many factors to be considered when reviewing culture.

2.6.1 Societal, Political, Regulatory and Citizenship Considerations

All organisations operate within the broader scope of the community. A company is constrained by what is legal, what complies with governmental policies and regulatory requirements, by what is considered ethical and by what is accorded by societal's expectations, as well as the standards of good community citizenship.

Factoring in societal values and priorities, business ethics, community concerns and the potential for onerous legislation and regulatory requirements is a regular part of external situational analysis at more and more companies. Economic, societal, political, regulatory and citizenship factors limit the strategic actions a company can or should take. A company's strategy should be tailored to fit industry and competitive conditions.

2.6.2 Competitive Conditions and Overall Industry Awareness

The industry's competitive conditions and overall attractiveness are big strategy-deetermining factors. A company's strategy has to be tailored to the nature and mix of competitive factors in play – price, product, quality, performance features, service, warranties and so on. When competitive conditions intensify, the company must be able to respond with strategic actions to protect its position. A company's strategy can't produce real market success unless it fits the industry and competitive situation. A well-conceived strategy aims at capturing a company's best growth opportunities

²² Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

²³ Ibid

and defending against external threats to its well-being and future performance. This usually means crafting *offensive* moves and *defensive* moves to adjust to opportunities and threats.

2.6.3 The Personal Ambitions, Business Philosophies, and Ethical Beliefs of Managers

Managers do not dispassionately assess what strategic course to steer. Their choices are typically influenced by their own vision of how to compete and how to position the enterprise, and by what image and standing they want the company to have. Studies indicate that managers' ambitions, values, business philosophies, attitudes towards risk and ethical beliefs have important influences on strategy.²⁴ Sometimes the influence of a manager's personal values, experiences and emotions is conscious and deliberate; at other times it is unconscious. "People have to have their hearts in it". These beliefs are stamped on the strategies crafted by management.

Attitudes towards risk have a big influence on strategy. Risk avoiders favour conservative strategies that minimise downside risk, have a quick payback, and produce sure short-term profits. Risk-takers lean more towards opportunistic strategies where visionary moves can produce a big payoff over the long term. Risk takers prefer innovation to imitation and bold strategic offensives to defensive moves aimed at protecting the status quo.

Managerial values also shape the ethical quality of a firm's strategy. Managers with strong ethical convictions take pains to see that their companies observe a strict code of ethics in all aspects of business.

²⁴ Guth William D. and Tagiuri Renato, 'Personal Values and Corporate Strategy', *Harvard Business Review*, (43), no 5 (September – October 1965), pp 123 –32.

2.6.4 The Influence of Shared Values and Company Culture on Strategy

All organisation’s policies, practices, traditions, philosophical beliefs, and ways of doing things combine to create a distinctive culture. Typically, the stonger a company’s culture, the more the culture is likely to shape the company’s strategic actions. This is because culture-related beliefs are embedded in management’s strategic thinking and actions that they condition how the enterprise does business and responds to external events. Such firms have a culture-driven bias about how to handle strategic issues and what kinds of strategy moves it will consider or reject.

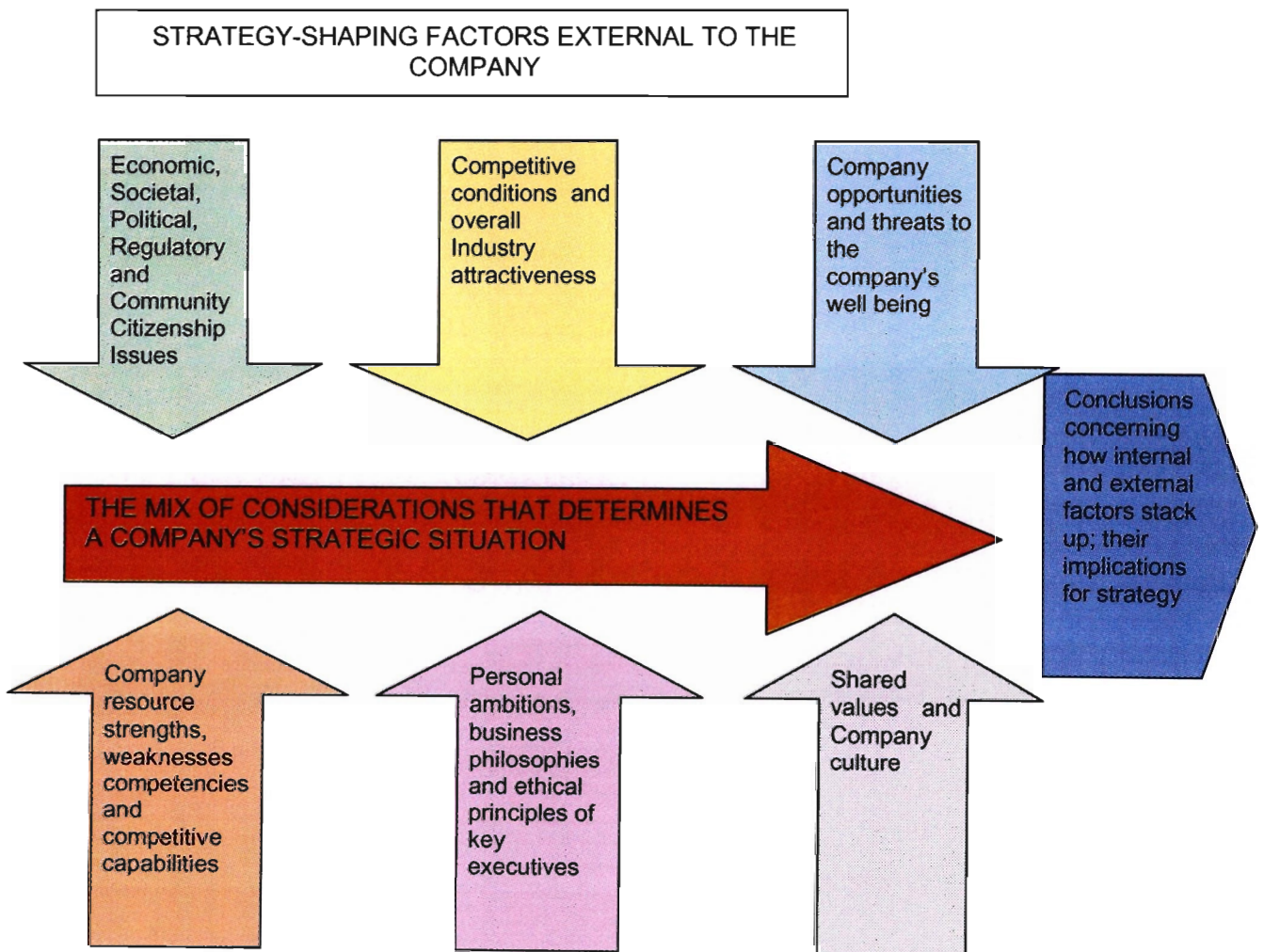


Figure 2.4 Shared Values and Company Culture

Thompson, A and Strickland A.J. (2001) *Crafting and Executing Strategy: Text and Readings – International Edition*, McGraw-Hill, Ch 2

2.7 Strengths, Weaknesses, Opportunities and Threats (SWOT)

The SWOT analysis is a popular tool used by management as an organising framework for intuitive information and as a means of summarizing and integrating more formal analyses about the external operating environment and an organisations current resources and capabilities. Ideally it should be used as preliminary environmental scanning tool to enable management to review the organisation internally and externally with respect to identified strengths, weaknesses, opportunities and threats.

The strengths and weaknesses can be defined as statements of the internal capabilities of the organisation whilst opportunities and threats exist outside of the organisation in many different areas. Strengths are internal resources that would enable an organisation to deal effectively with its business environment. An internal weakness would leave opportunities poorly accounted for, or not addressed at all. It is related to the available resources, the competence of the organisation in undertaking its activities and the balance of its resources and mix of activities. Opportunities and threats are typically the same for all competitors – the issue that will vary will be their ability to capitalise on them.²⁵

2.7.1 Limitations and Pitfalls

There are limitations and pitfalls of any SWOT analysis:²⁶

- A SWOT analysis can yield long lists of observations which provide little insight or clarity about required action
- There are no mechanisms to ensure that management/participants challenge their own frame of reference or their organisation's paradigm
- Management can conceive of strengths and weaknesses in terms of the strategy they conceive to implement rather than that which currently exists. Strengths and

²⁵ Ambrosini, V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 8

²⁶ Ibid

weaknesses must be considered in terms of current realized strategy rather than just future intended strategy

- Evidence suggests that management see environmental changes as threats rather than opportunities (solution: label environmental changes as opportunities rather than threats)

2.7.2 Aim of a SWOT analysis

Aim of the SWOT is to match likely external environmental changes with internal capabilities, to test these out and challenge how an organisation can capitalise on new opportunities or defend itself against future threats. The analysis challenges the “robustness” of the organisation’s current strategy and highlight areas that need to change in order to sustain or develop its competitive position. There is no right or wrong way to undertake a SWOT analysis. The most common methods are the PEST analysis (Political, environmental, social and technological) or the famous Porter’s Five Forces model²⁷.

A basic SWOT analysis would consider the following²⁸:

- Environmental changes that are most critical
- Internal strengths that will remain as such, or become weaknesses in the changing environment
- Internal element that is most influenced by each external change

²⁷ Ambrosini V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall, Ch 8

²⁸ Ibid

2.7.3 Benefits of the SWOT analysis ²⁹

- Thinking through when future changes might occur and the resultant opportunity or threat
- Challenging management's mindset about when an environmental change is an opportunity or threat
- Matching external changes with internal repercussions and attempting to gauge the size of the internal impact and identify key priorities for strategic attention
- Providing a format for thinking about competitive positioning by comparing the impact of changes on the organisation with that on competitors

2.7.4 Conclusion

After a SWOT analysis, the organisation would have a picture of both its internal and external environment. From the outcome, threats could be transformed into opportunities, with the correct application of resources. Likewise, there is a possibility of turning weakness into strength. In addition, the outcome of the SWOT analysis puts the organisation in a position to further define its core competencies, those areas that provide a source of competitive advantage.

2.8 Core Competencies

Organisations that understand their strengths are better able to compete successfully in a rapidly expanding and competitive global economy. Core competence analysis enables them to see past their end products and services and their sources of competitive advantage³⁰.

²⁹ Ibid

³⁰ Ambrosini, V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management

According to Prahalad and Hamel core competence of an organisation lies in the collective learning in the organisation, more especially “to co-ordinate diverse production skill and integrate multiple streams of technologies”.³¹

The skills of the organisation are embodied in different areas namely: administrative, technical and institutional. John Kay has attributed corporate success to four distinct capabilities: innovation, architecture, reputation and strategic assets. The combination of these contributes to the capability of the organisation.³²

Core competence of an organisation is its enabling culture and is considered essential to the corporate survival in the short and long term. These are invariably unique to the organisation and should be invisible to competitors and difficult to imitate, even when their existence is understood and known to competitors. The core competence is greater than the competence of the individual or department.

Traditionally, core competence has been built through acquisitions and mergers. This is often not successful, as the acquirer does not have the skill to manage the new business. Attempts to impose its own culture lead to an erosion of the value of the acquired organisation. Core competencies need to be matched in order for mergers and acquisitions to survive. If organisations concentrate on core competences, this enables organic growth by building on own strengths and unique capabilities.

2.8.1 When is a core competence not a core competence?

According to Ambrosini³³, it is easy to mix core competence with sources of competitive advantage i.e. differentiators that enable organisations to achieve unique market positions. It is also easy to mix core competences with key or main products. They are often confused with strategic assets. Core business is not necessarily core competence.

³¹ Prahalad, C.K and Hamel, G. (1990). ‘The core competence of the corporation’, Harvard Business Review, May – June 1990

³² Kay, J. (1993). *The Foundations of Corporate Success*, Oxford

³³ Ambrosini V, Johnson G and Scholes K (1998) *Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management*, Prentice Hall, Ch 1

2.8.2 Finding the core competence of an organisation?

In most cases the core competences of an organisation are hidden from competitors and from the organisation itself. In order to find core competence, we must trace steps from the known to the unknown. This can be done with a bottom up approach or a top down approach³⁴. The first aggregates various materials and processes. The second is a decomposition of products and services into their constituent parts.

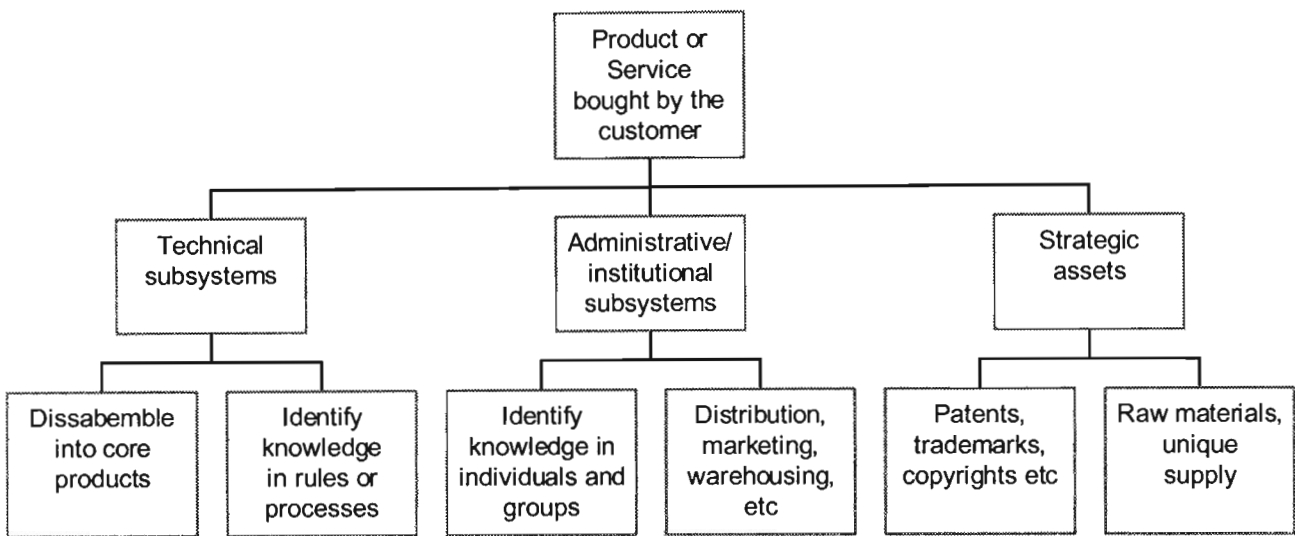


Figure 2.5 Unraveling Core Competence – the top-down approach

Ambrosini V, Johnson, G and Scholes K (1998) Exploring Strategic Management: Exploring Techniques of Analysis and Evaluations in Strategic Management, Ch 1

There appears to be no difference between the two approaches. However, the bottom up approach starts from the organisation and may not move outwards towards the customer because one is overwhelmed with detail and the frame of reference is lost. The bottom up approach may work for a product based organisation, but there is a risk of missing the core competence in a service-based organisation.

In the second approach, one begins externally, working inwards.

³⁴ Internet 11: www.2GC.co.uk

Underpinning this top-down approach are basic technologies, bodies of knowledge, corporate and individual learning, the relationship culture and strategic assets, processes and raw materials. This leads to core competence and an enabling culture.

Steps in the process, according to Ambrosini³⁵, the process is as follows:

1. Analyse the revenue stream and identify the products and services offered by the organisation to it served markets. This can begin with those products that make a significant contribution to the revenue of the organisation but don't focus on cash cows.
2. Using the selected products and services
 - a. Disassemble to identify the CORE products and services and the disassemble those into their constituent parts to unearth the basic technologies, people skills, processes and strategic assets which combine to produce these core products
 - b. Dissect the services to identify the CORE processes or unique talents that confer unique value to the delivered service. E.g. if it is a fast food business, is it the process, the people, or the location?
 - c. Relate the products and services to the subsystems e.g. technical, administrative or institutional.
 - d. Analyse the subsystem, which contributes to the company's market strength to find the basic technologies, people skills, processes and strategic assets, which combine to produce these core products. This is the core competence.
3. Test these findings using the three tests proposed by Prahalad and Hamel³⁶, which are:
 - 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?

³⁵ Ambrosini V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall, Ch 8

³⁶ Prahalad, C.K and Hamel, G. (1990). 'The core competence of the corporation', Harvard Business Review, May – June 1990

If the core competences you have identified meet these criteria, then you have been successful. If not you have to start again. This process of “reverse engineering” is used to understand the business and its prime source of competitive advantage; it must not be seen as a confirmation of past strategies and used to consolidate the status quo unless unbiased assessments of market opportunity confirm that course of action³⁷.

2.8.3 Core Competence of a Service Provider

Determining the core competence of a service provider is more difficult than a product based organisation, as the end products do not necessarily explain how “the complex harmonisation of individual technologies and production skills” makes one retailer better in the perception of its customers. However, applying the methodology above, allows one to go through the exercise³⁸.

2.8.4 Using Core Competences for Strategic Planning

Once the core competencies are identified they can be used to determine the new markets or products/services in which they can be exploited. Core competences can be substituted for products/services in analysing the potential of the organisation to benefit from its own core³⁹ competences. Core competences become the inputs into:

- Portfolio analysis (are competences being applied to stars or dogs?)
- Studying potential threats to the organisation, which requires that you search for substitute core competences from rival organisations, in substitute products, in new technologies and/or new suppliers⁴⁰
- Acquisition strategy or strategic alliances where the objective is to complement core competences rather than acquire new ones which are at variance with the culture and management capability of the organisation.

³⁷ Ambrosini V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall, Ch 8

³⁸ Ibid

³⁹ Porter, M.E (1987), “From competitive advantage to corporate strategy”, HBR, May/June and (1979) “How competitive forces shape strategy”, HBR, March/April

⁴⁰ Ibid

- Divestment decisions, where those units and subsidiaries which do not exploit or add to the core competences of the organisation are targeted for disposal rather than those which deploy the core competences

2.8.5 Conclusions on Core Competence

The Core competencies approach enabled the organisation to take a strategic look at itself to understand its true position in the supply chain between knowledgeable individuals and their potential clients and how it added value by interposing itself between the two.

2.9 CULTURE

Strategy has to be considered within the cultural and political context of organisations and further, that it needs to be translated into day-to-day aspects of the organisation in order to ensure effective implementation.⁴¹

The “cultural web” developed by Gerry Johnson⁴² can be used to understand the relationship between strategy and organisational culture.

Comparing an existing cultural web with a desired cultural web can flag potential problems of implementing strategy and stimulate thinking around the means of implementation.

One of the problems organisations face in managing strategic change is effecting changes in organisational culture. There is a tendency that current strategies persist because they are configured within that which is taken for granted within the organisation – assumptions about the nature of the organisation, its environment and the way things are done on the organisation. This can occur even when the strategy is formulated based on sound rational argument⁴³.

⁴¹ Ambrosini V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 9

⁴² Ibid

⁴³ Collis, D.J and Montgomery, C.A (1998) Creating Corporate Advantage, Harvard Business Review on Corporate Strategy, Harvard Business School Press

Mapping culture can provide an understanding of barriers to change; and how re-mapping on the basis of culture needed to deliver the strategy can help to identify means of managing strategic change.

2.9.1 The concept of culture and the cultural web

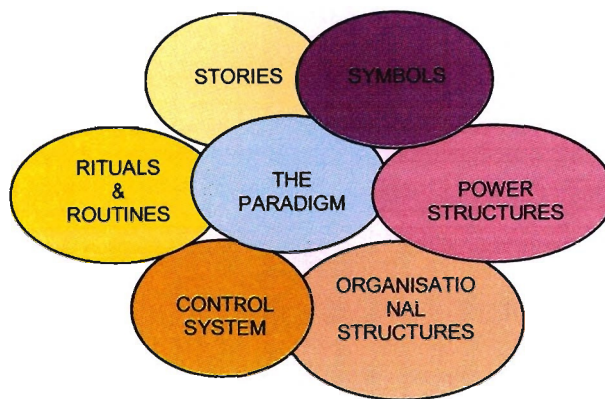


Figure 2.6 The Cultural Web

Exploring Strategic Management: Exploring Techniques of Analysis and Evaluation in Strategic Management, Veronique Ambrosini with Gerry Johnson and Kevin Scholes, Ch 9

Definitions of the Cultural web:⁴⁴

The paradigm: the set of assumptions about the organisation, which is held in common and taken for granted in the organisation

The routine: ways that members of the organisation behave towards each other, and that link different parts of the organisation. The way we do things around here may provide a distinctive and beneficial organisational competence.

The rituals: of organisational life e.g. training programmes, promotion and assessment, a signal of what is especially valued

⁴⁴ Ambrosini, V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 9

The stories: told by members of the organisation to each other, to outsiders, to new recruits etc, embed the present in its organisational history and flag the important events and personalities, as well as the mavericks who deviate from the norm

Other symbolic aspects: such as logos, offices, cars, titles, or the type of language and terminology commonly used. These symbols become a short hand representation of the nature of the organisation.

Formalized control systems: measurement and reward systems that monitor and therefore emphasize what is important in the organisation, and focus attention and activity

Power structures: associated with the key constructs of the paradigm. The most powerful management groupings in the organisation, likely to be the ones associated with the core assumptions and beliefs about what is important.

The formal organisational structure: or the more informal ways in which the organisation works, are likely to reflect power structures and delineate important relationships and emphasize what is important in the organisation

Culture is explained as that which is taken for granted in a society or organisation. At its most basic, it is the assumptions about what the organisation is “there to do”, or the reasons for its success historically. Culture can be thought of as the organisational routines, systems and structures. This is what is reflected in the diagram above.

The “taken for grantedness” acts as a filter by which members of the organisation make sense of their world internally and externally. This provides shorthand of the way of understanding of complex situations, and it may be the basis of understanding of the organisation’s success, providing competitive advantage because the culture is difficult to imitate.

It is also problematical as opinion and new ideas may be filtered out, and because it culture is difficult to change, particularly if the success of the organisation has been based upon it in the past.

2.9.2 The value of Cultural mapping⁴⁵

There are a number of purposes to mapping organisational culture:

- Surfacing that which is taken for granted – questioning that which is rarely, if ever questioned. If it is not questioned, it cannot be changed.
- By mapping aspects of culture, it may be possible to see where barriers exist
- Identification of linkages in the culture which are resistant to change
- Map of organisational culture can provide a basis for examining the changes that need to occur to deliver a new strategy
- Consideration of whether strategic changes can be managed – development of practical ideas for strategic implementation and change

2.9.3 Value of remapping the organisational culture⁴⁶

Conceiving of what the culture would look like if a different strategy is followed is useful and important because:

- Gives an indication of the extent to which the existing culture is an impediment to change, and the extent of the change required
- Premise that organisations will change if people change their views about what makes a successful organisation (difficult to achieve)
- Mapping the sort of structure, systems, routines, rituals and symbols, which, desirably would support a new strategy, can give clues about what it might be

⁴⁵ Ambrosini, V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 9

⁴⁶ Ibid

helpful to change. It can also give insights into what can and cannot be managed in culture change.

Once remapped, useful questions are:

- What is the extent of the change required?
- What aspects of the change are relatively straightforward to manage and which are difficult?
- Are there any changes that would have a particularly high impact?⁴⁷

Noel Tichy is quoted as saying *“Leadership is accomplishing something through other people that wouldn't have happened if you weren't there...Leadership is being able to mobilize ideas and values that energize other people...Leaders develop a storyline that engages other people”*⁴⁸

There are two final strategy-implementing tasks that remain, namely creating a strategy-supportive culture and exerting the internal leadership needed to drive the implementation forward.

2.9.4 Building a Strategy-Supportive Corporate Culture⁴⁹

Every company has a unique organisational culture. Each has its own philosophy and principles, its own ways of approaching problems and making decisions, its own work climate, its own embedded patterns of 'how we do things around here', its own lore, its own taboos and political don'ts – in other words, its own beliefs, behavior and thought patterns, business practices and personality that define its corporate culture.

An organisation's culture is bred from a complex combination of sociological forces operating within its boundaries. A company's culture is manifested in the values and business principles that management preaches and practices, in its ethical and

⁴⁷ Ambrosini, V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 9

⁴⁸ Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Chapter 13

⁴⁹ Ibid

standards and official policies, in its stakeholder relationships, in the traditions the organisation maintains, in its supervisory practices, in employees' attitudes and behavior, in the legends people repeat about happenings in the organisation, in the peer pressures that exist, in the organisation's politics and in the 'chemistry' that permeates the work environment. All these sociological forces, some of which operate quite subtly, combine to define the organisation's corporate culture.

2.9.4.1 Perpetuating the Culture

Once established corporate cultures can be perpetuated by screening and selecting new group members according to how well their values and personalities fit, by systematic indoctrination of new members in the culture's fundamentals, by the efforts of senior group members to reiterate core values in daily conversations and pronouncements etc. The staffing of an organisation with new employees is one of the most important ways in which a culture is perpetuated. Company managers tend to hire people that they feel comfortable with – which generally means hiring people with values and beliefs that will embrace the prevailing culture. Job seekers tend to accept jobs at companies where they expect to be comfortable and happy. Employees who thrive and are pleased in the work environment move into senior roles and positions of greater responsibility. The longer people stay at an organisation, the more their beliefs and values tend to be molded by mentors, fellow workers etc⁵⁰.

⁵⁰ Ambrosini, V, Johnson G and Scholes K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 9

2.9.4.2 Forces that cause culture to evolve

Even stable cultures are not static. Just like strategy and organisation structure, they evolve. A number of factors can cause this⁵¹:

- Internal crises
- Revolutionary technologies
- New leadership
- Turnover of key staff members
- Diversification into new businesses
- Rapid growth, that adds new employees
- Expansion into different geographical areas (especially foreign countries)

2.9.4.3 Culture: Ally or Obstacle to Strategy Execution?

An organisation's culture is either an important contributor or an obstacle to successful strategy execution⁵². This depends on whether the beliefs, vision, objectives and business approaches underpinning the strategy are compatible with the culture or not. When the culture is in conflict with some aspect of the company direction, performance targets or strategy, the culture becomes a stumbling block that impeded successful strategy implementation and execution⁵³.

2.9.4.4 How Culture can promote better Strategy Execution⁵⁴

A culture grounded in values, practices and behavioral norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution. A tight culture-strategy alignment acts in two

⁵¹ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy: Text and Readings – International edition*, McGraw-Hill

⁵² Ibid

⁵³ Ibid

⁵⁴ Ibid

ways to channel behavior and influence employees to do their jobs in a strategy-supportive fashion:

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job. E.g. Culturally appropriate behavior thrives, whilst culturally disapproved behavior gets squashed and often penalized.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate. It promotes strong employee identification with the company's vision, performance targets and strategy.

Therefore, implementing a strategic plan involves moving the organisation's culture into close alignment with the requirements for proficient strategy execution. The optimal condition is a work environment that mobilizes organisational energy in strategy-supportive fashion, promoting 'can-do' attitudes and acceptance of change where needed, enlisting and encouraging people to perform strategy-critical activities in superior fashion and breeding needed organisational competencies and capabilities.

2.9.4.5 The Perils of Strategy-Culture Conflict⁵⁵

Conflicts between strategy and culture send mixed signals to organisation members and force an undesirable choice. Should members be loyal to the culture and company traditions, as well as their own personal beliefs, (which are likely to be compatible with the culture) and therefore resist actions to pursue the culture? Or should they go along with the strategy and engage in actions that will erode their beliefs and values?

⁵⁵ Thompson, A and Strickland, A.J (2001) *Crafting and Executing Strategy: Text and readings*, International edition, McGraw-Hill

When a company's culture is out of sync with what is needed for strategic success, the culture has to be changed as rapidly as can be managed. The more entrenched the mismatched aspects of culture, the greater the difficulty of implementing new or different strategies until better strategy-culture alignment emerges.

2.9.5 Strong versus Weak Cultures

Company cultures vary widely in the degree to which they are embedded in company practices and norms. Some are strong and go directly to the company's heart and soul; others are weak, with shallow roots that support little in the way of a definable corporate culture.

A company's culture can be strong and cohesive in the sense that the company conducts its business according to a clear and explicit set of principles and values, that management spends time communicating these principles and values to organisational members and explaining how they relate to its business environment. Three factors typically contribute to the development of a strong culture (1) a founder or strong leader who establishes values, principles and practices that are consistent and sensible; (2) a sincere, long-standing company commitment to operating business according to established traditions, thereby creating an internal environment that supports decision-making and strategies based on cultural norms; and (3) a genuine concern for the well-being of the organisation's three biggest constituents – customers, employees and shareholders⁵⁶.

In contrast to strong-culture companies, a company's culture can be weak and fragmented in the sense that many subcultures exist, few values and behavioral norms are widely shared and there are few sacred traditions. In weak-culture companies, there is little cohesion and 'glue' across organisational units. The lack of a definable culture tends to result in many employees viewing the company as a place to work and their job as a way to make a living. As a consequence, weak cultures provide little or no strategic implementing assistance because there are no common bonds or values that management can use as levers to mobilize

⁵⁶ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy: Text and Readings – International edition*, McGraw-Hill

commitment to executing the chosen strategy. Whilst a weak culture does not usually pose a strong barrier to strategy execution, it provides no assistance either.

2.9.6 Unhealthy Cultures

Unhealthy cultural characteristics⁵⁷:

- Politicized internal environment
- Hostility to change and to people in favour of change
- Promoting managers who exert close supervisory control as opposed to leaders who understand the vision and are motivators and decision-makers
- An aversion to looking outside the company for superior practices and approaches

2.9.7 Conclusion

Culture is often seen as a barrier to change, more so because it is difficult to be clear about what is meant by it or if anything useful can be done to change it. The 'cultural web' is a useful device for achieving clarity on what constitutes culture in an organisation, why this is significant for strategy development, and the ways it may be possible to manage change. It also highlights what is taken for granted in an organisation in influencing the persistence of existing strategies, acting to prevent change, but potentially, giving clues as to important levers and mechanisms for achieving change.

Now that these elements have been discussed, it is time to turn one of the tools of implementing and arranging strategic options into measurable targets and actions – the Balanced Scorecard.

⁵⁷ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy: Text and Readings – International edition*, McGraw-Hill

2.10 BALANCED SCORECARD

2.10.1 Introduction to the Balanced Scorecard

The Balanced Scorecard has emerged in recent years as a strategic control tool. It has a high profile in management seminars and is placed alongside approaches such as ABC and TQM. The documentary evidence suggests that it is key for driving the performance in organisations; that it transforms strategic management paradigms by placing emphasis on the enablers instead of the results and that it is the provider of all strategic information⁵⁸.

Kaplan and Norton have stated themselves: “ The Balanced Scorecard provides managers with the instrumentation they need to navigate future competitive success”⁵⁹They claim that it “addresses a serious deficiency in traditional management systems: their inability to link a company’s long-term strategy with its short-term actions”.

However, the theory is not without criticism. Some say that the Balanced Scorecard does not cohere with the stakeholder approach to performance management. Perceiving the Balanced Scorecard as a performance management system, they argue that the key to such a system is that it ‘focuses on one output of strategic planning: senior management’s choice of the nature and scope of the contracts that it negotiates...with its stakeholders’ and that the ‘performance management system is the tool the company uses to monitor these relationships’. Also, the Balanced Scorecard is criticized for failing to⁶⁰:

⁵⁸ Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

⁵⁹ Ibid

⁶⁰ Ibid

- Highlight employee and suppliers' contributions (that it doesn't consider the extended value chain, which is an essential element of today's networked organisations)
- Identify the role of the community in defining the environment within which the company works
- Identify performance measurement as a two-way process (that it focuses primarily on top-down performance measurement)

If the Balanced Scorecard is defined as a *strategic control mechanism*, then Simons is a key critic of these systems, saying that '(systems) do not fully understand the means by which strategic control has been achieved'⁶¹. He also states that 'strategic control can be achieved using familiar systems in special ways that recognize how strategies are formulated and implemented in organisations' Managers do use controls strategically, but without resorting to specialized strategic control techniques. The result of this process is an unobtrusive, yet effective, control of strategy⁶².

2.10.2 Origins of the Balanced Scorecard

The Balanced Scorecard was identified and implemented by Kaplan and Norton as a performance management tool. Its aim is to present management with a concise summary of the key success factors of a business and to facilitate the alignment of business operations with the overall strategy. It 'provides a medium to translate the vision into a clear set of objectives. These objectives can be further translated into a system of performance measurements that effectively communicated a powerful, forward-thinking, strategic focus to the entire organisation.

⁶¹ Thompson, A and Strickland A.J (2001), *Crafting and Executing Strategy: Text and Readings*, International edition, McGraw-Hill, Reading 5

⁶² Internet 5: www.balancedscorecardworld.com

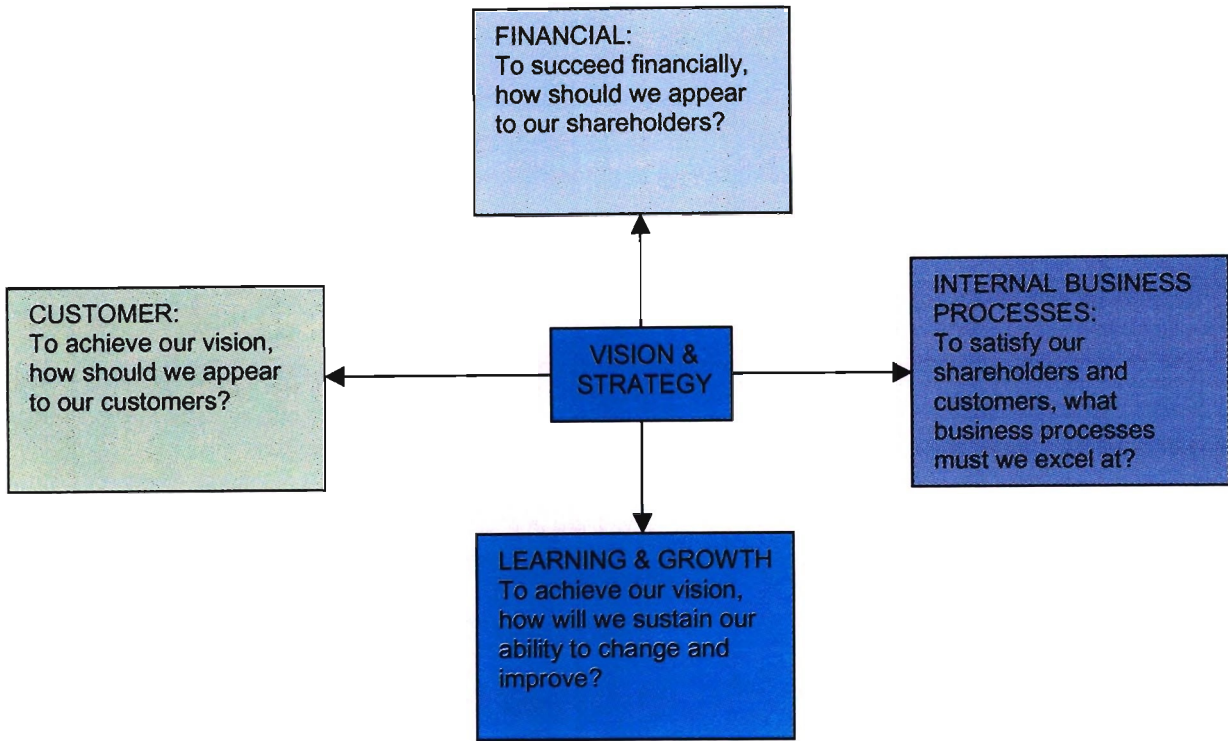


Figure 2.7 The Balanced Scorecard

Internet 2: www.balancedscorecard.org

2.10.2.1 Relevant and Balanced Information

One of the primary motivations in developing the Balanced Scorecard was that top management were being overwhelmed with data and were spending too much time analyzing these rather than making decisions. A further intention was to overcome the bias of existing management information towards financial measures. The Balanced Scorecard paradigm is that the financial perspectives are obtained by successful implementation of strategic initiatives in the key business perspectives – as opposed to being their driving force.

2.10.2.2 Four Perspectives⁶³

The original Balanced Scorecard design identified four perspectives: financial, customer, internal-business-process and the learning-and-growth perspective. These perspectives represent three of the major stakeholders of the business (shareholders, customers and employees) thereby ensuring a holistic view of the organisation is used for strategic reflection and implementation. The importance of each of these perspectives is that the perspectives themselves and the measures chosen are consistent with the corporate strategy. The financial perspective represents the long-term objectives of the company. The measures chosen will represent the relevant stage in the product or service life cycle and are summarized by Kaplan and Norton as rapid growth sustain and harvest.

Financial objectives for the growth stage will be based on sales volumes, existing and new customer relationships and process development. The sustain stage will be represented by measures and analyzing return on investment such as return on capital employed, discounted cash flow analysis with measures such as payback periods and revenue volume.

The customer perspective consists of measures relating to the most desired customer groups. It will include several standard measures such as customer satisfaction and customer retention. Market share, customer value and customer profitability are other key measures that enable the organisation to create a clear vision of the customers whom it should target, together with an identification of their needs and expectations from the business.

The internal-business-process perspective focuses on the internal processes required in order for the company to excel at providing the value expected by the customers both productively and efficiently. These can include both short-term and long-term objectives as well as incorporating innovative process development in

⁶³Internet 12: <http://oamweb.osec.doc.gov/bsc/guide>

order to stimulate improvement. This perspective is particularly relevant during a period of change as it focuses activity on key processes required in order to implement the change programme efficiently.

The learning and growth perspective focuses on internal skills and capabilities, in order to align them to the strategic goals of the organisation. The Balanced Scorecard process will often identify gaps between the required and existing skills and capabilities. Using it to identify strategic initiatives and related measures, these gaps can then be addressed and closed by initiatives such as staff training and development⁶⁴.

2.10.2.3 Cause-and-Effect Relationships

Identifiable cause-and-effect relationships are an important aspect of the Balanced Scorecard when choosing appropriate indicators. It enables the translation of the financial aim, such as increase revenue by x%, into operational factors, which will lead to increased revenue. Therefore, by evaluating the relevant factors in each segment of the Balanced Scorecard, which may have an impact on a financial aim, the appropriate measures can be identified and the alignment of actions to the strategic goals is facilitated.

2.10.3 The Role of the Balanced Scorecard

An increasing number of roles have been identified in the Balanced Scorecard. This is shown below:

- The strategy is the reference point for the entire management process
- The shared vision is the foundation for strategic learning
- Goal alignment exists from top to bottom
- Education and open communication about strategy are a basis for employee empowerment
- Compensation is linked to strategy

⁶⁴ Internet 12: <http://oamweb.osec.doc.gov/bsc/guide>

- Stretch targets are established and accepted
- Strategic initiatives are clearly identified
- Investments are determined by the strategy
- Annual budgets are linked to long-range plans
- Feedback system used to test the hypotheses on which strategy is based
- Team problem solving
- Strategy development is a continuous process

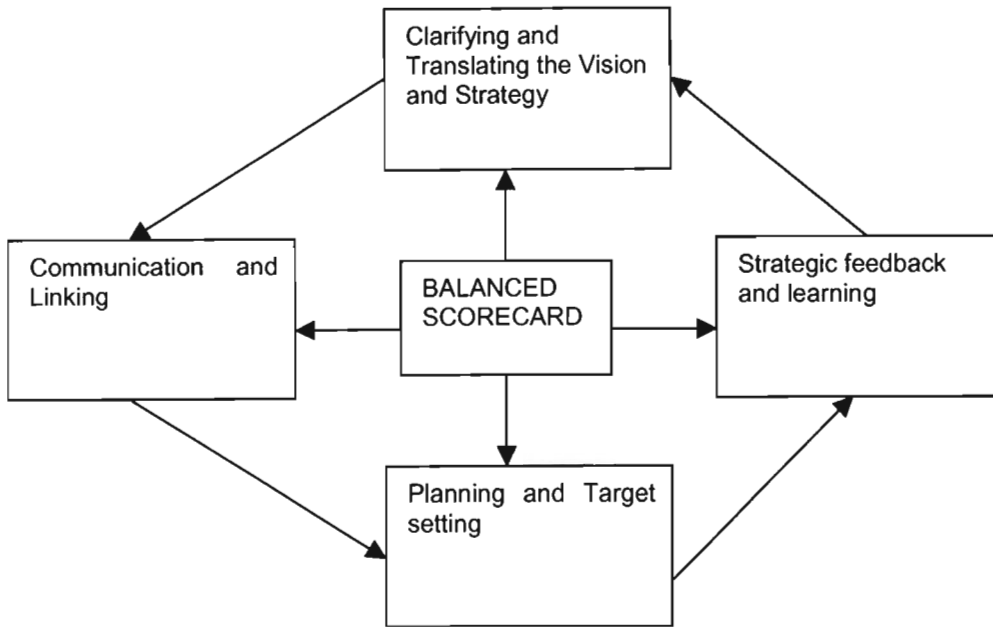


Figure 2.8 The Role of the Balanced Scorecard

Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

Although the Balanced Scorecard will have a role to play in each of the four sections of the management system, one or two sections will usually dominate. This will depend on the motivation for the development of the Balanced Scorecard.

The Balanced Scorecard does indeed improve on current systems in a variety of ways.

- Provides relevant and basic information in a concise way for managers
- Creates an environment conducive to learning organisations through testing of cause-and-effect relationships

2.10.4 The Balanced Scorecard and Strategy⁶⁵

In Simon's criticism of strategic control systems, he relies on the definitions put forward by Schendal and Hofer (1979) who state that strategic control 'focuses on whether (1) the strategy is being implemented as planned and (2) the results produced by the strategy are those intended' and by Lorange et al (1986) who define a strategic control system as 'a system to support managers in assessing the relevance of an organisation's strategy to its progress in the accomplishment of its goals, and where discrepancies exist, to support areas needing attention'. From these definitions, it is apparent that the perception of a strategic control system is a process for keeping strategies on track and essentially parallel strategy formation with planning and strategy implementation with control. There is therefore a lack of unplanned, no room for spontaneous reflection, and no place for management of the unintended strategy, which according to Mintzberg, makes up a substantial part of the emergent strategy of an organisation.

Simons goes on to discuss the array of formal control systems available to management. He describes these as follows:

- Diagnostic control systems – which periodically and systematically measure progress against plans, therefore concentrating on yesterday's strategies
- Interactive control systems – which are those requiring regular management attention and discussion within the organisation and therefore focusing on the formation of tomorrow's strategies
- Boundary control systems – which are designed to communicate the boundaries of permissible activity to all employees in the organisation

⁶⁵ Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

Simons argues that top management will place emphasis on the particular type of system that addresses the critical uncertainties that management perceive could threaten the achievement of their vision for the future, suggesting that only one of these systems will be the focus of management at any one time. This argument is one for the competencies of management to decide on which formal control system to place emphasis on. However, there does not seem to be a reason for management to have to make this choice at all. Each system has its place within the organisation and in fact, the Balanced Scorecard is the combination of all three of these systems.

The Balanced Scorecard contains a boundary control system in that it evolves from the vision, mission and strategic goals of the organisation. Its four perspectives depict the limits in the organisation as it encourages employees to focus their attention on the key aspects of the business. Communication of strategy is inherent in the Balanced Scorecard implementation process and it is therefore a tool for definition and dispersion of the core values of the organisation. Using the Balanced Scorecard in this way ensures that employees are aware of the mission, strategic goals of the organisation, and their role in the achievement of these goals. This facilitates adherence to core values, so long as there is understanding.

The Balanced Scorecard also contains elements of an interactive control system in that it reinforces the learning organisation theory by providing for the possibility to test cause-and-effect relationship hypotheses by forcing managers to look at the organisation across processes and by providing 360-degree feedback.

Finally the Balanced Scorecard contains the elements of the diagnostic control system. Its inclusion of lag indicators, which measure the progress towards the achievement of objectives, fits into Simons' definition. These diagnostic measures are part of the whole.

It is therefore plausible that the Balanced Scorecard is a strategic control system, which offers managers the possibility to combine all types of control systems and that it adds value to management. It allows the measurement of performance of the current strategy, whilst enabling time to be spent on the formation of future

strategies. This eliminates the need for managers to choose between which control systems to use at any given time, thereby maximizing the productivity of a holistic information base. It therefore seems logical to argue that the Balanced Scorecard is a 'necessary' tool for today's managers. However, what are the potential conflicts between the Balanced Scorecard and existing systems?

2.10.5 The Balanced Scorecard and Existing Management Control Systems

Within an organisation there exists a multitude of management control systems⁶⁶, both formal and informal. Each of these systems influences behavior, either voluntarily or involuntarily. It is therefore essential that there is coherence between the systems and that employees receive a consistent message throughout the organisation.

The majority of traditional systems aim at fulfilling one particular purpose e.g. planning and costing systems are for resource planning and improved knowledge of costs. They appear to be standalone systems and are treated as such by management. In addressing one issue, management does not consider the cohesion with the strategic goals of the organisation and the impact.

Not only does the Balanced Scorecard provide a measurement framework, which improves alignments of actions to the strategic goals, but it also provides a platform for identifying priorities. During the identification of strategic initiatives, there are often many ideas but by constantly referring back to the strategic objectives and goals, these initiatives can be prioritized.

Although the Balanced Scorecard is designed to become a key part of the management system of the an organisation it is rarely introduced as such from the beginning. It is often run parallel with other systems, at least in the beginning to insure against teething problems. Achieving a Balanced Scorecard is a time-consuming process and often initiatives need to be introduced and the plan implemented before the Balanced Scorecard can be completed.

⁶⁶ Internet 11: www.2GC.co.uk

The adoption of the Balanced Scorecard will have a direct impact on other management control systems of the organisation and vice versa. It is necessary to demonstrate to employees that the Balanced Scorecard is not a supplement to current systems that adds work, rather a system that adds value to the organisation. It is essential to identify the advantages of the Balanced Scorecard from the beginning and communicate these to the organisation.

The Balanced Scorecard will require the collation of new data, which may require new collection systems and new responsibilities. There is normally a tendency to resist change. It is therefore essential to explain the process and to use the informal systems to the advantage of the process as opposed to its disadvantage.

2.10.6 The Balanced Scorecard and Culture

Three major types of culture will affect the Balanced Scorecard⁶⁷:

- National culture

This is primarily the approach to financial performance and how this is viewed in different countries e.g. in the USA return to shareholders is important whilst in Europe it is a stakeholder approach. These different emphases have an influence on the development and implementation of the Balanced Scorecard. The Balanced Scorecard would therefore add value in different areas in each of these cases.

National culture is also of relevance when it comes to defining performance indicators within international organisations. A prime example here is the customer perspective where marked differences abound in perceptions and satisfaction measurements e.g. Eastern vs. Western customers.

⁶⁷ Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

- Occupational culture

The Balanced Scorecard will be affected by traditions in the case of occupational culture. Certain occupations have their own defined culture, which consists of unstated, informal rules. A Balanced Scorecard that attempts to use formal indicators to change behavior and therefore go against these traditions is likely to be unsuccessful and therefore such cultures must be considered when designing the Balanced Scorecard.

- Organisational culture

This has potentially the largest impact on the Balanced Scorecard, either positively or negatively. It is also considered that national and occupational cultures override organisational cultures. However, this has been disputed. It is put forward by Collins and Poras (1994) that a strong organisational culture can in fact override national and occupational differences, leading to an organisational 'cult-like' environment.

The organisational culture put in place to implement strategy also affects the role of the Balanced Scorecard. A decentralized organisation, which relies on trust and autonomous decision-making for its success would rely on the Balanced Scorecard in a different way to a centralized organisation that relies on a top-down process of instructions and implementation through its hierarchy. The implementation of the Balanced Scorecard should therefore correspond not only to the formal strategic approach of the organisation but also to the various informal cultures to which it is host.

2.10.7 The Balanced Scorecard and the Missing Elements⁶⁸

Recognition of the informal elements of is important if a new system is to be successful. Chapello (1996) demonstrates the extent of the informal systems in place through her identification of six major axes to be considered for management control. The elements are informal and over which the management have little control.

It is still important to ass that what cannot be measured is still relevant. It is essential to build into a Balanced Scorecard the potential for highlighting unforeseen events, which may have changed the competitive environment of the company. Changes occur and must be taken on board if an organisation is to remain alert and proactive.

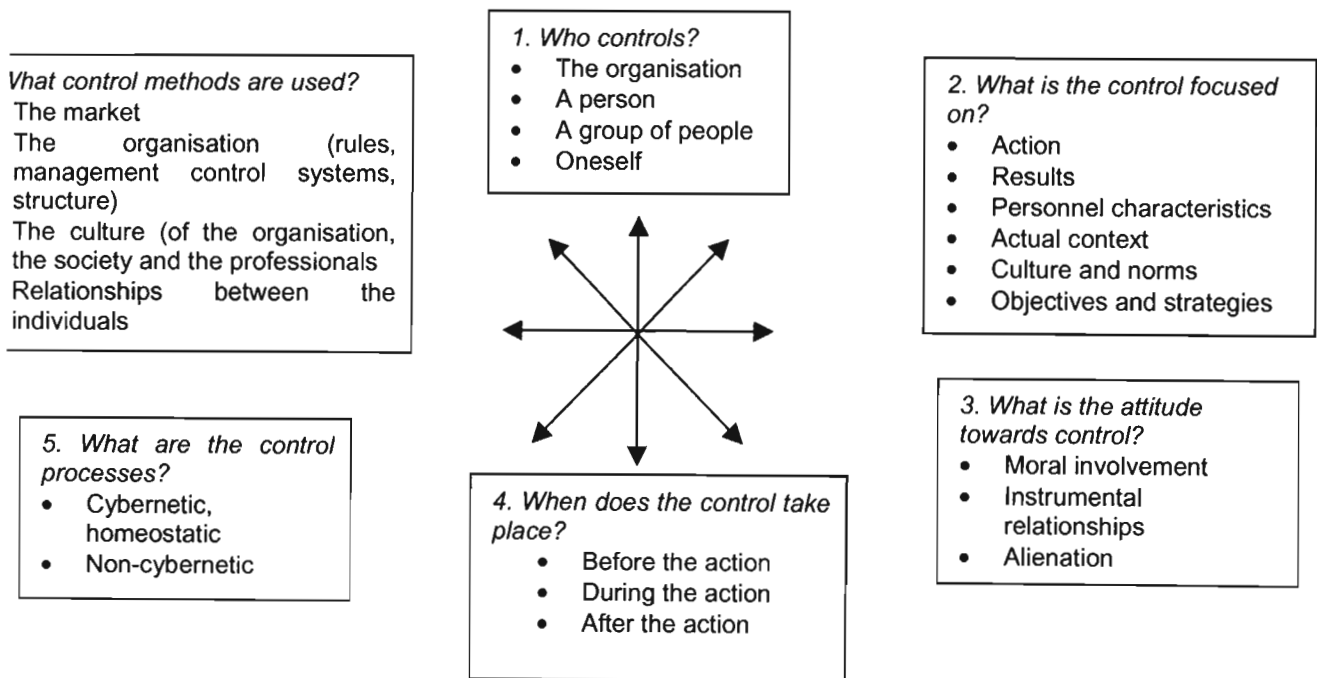


Figure 2.9 The Balanced Scorecard and the Missing Elements

Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

⁶⁸ Thompson, A and Strickland A.J, *Crafting and Executing Strategy: Text and Readings*, International edition (2001), McGraw-Hill, Reading 5

2.10.8 Conclusion

This discussion demonstrates that the Balanced Scorecard is a necessary good for today's organisation. It adds value by providing both relevant and balanced information in a concise way for managers. It creates an environment that is conducive to learning organisations within which hypotheses regarding cause-and-effect relationships can be tested and the groundwork for a 360-degree feedback process is laid. It also eliminates the need for management to choose which control system is use at any one time by incorporating aspects of the boundary, interactive and diagnostic control systems. This enables management to maximize the use of a holistic information base.

However, the Balanced Scorecard implementation process relies on both informal and informal processes, whether this is in relation to the strategic approach and its corresponding culture, to the cultural aspects of the organisation or indeed the management control processes already in place. These are written and unwritten rules and they must be considered in order for the process to be implemented successfully. Each Balanced Scorecard implementation is therefore unique.

The key issue still to be addressed in the Balanced Scorecard is the issue of cost-benefit. This would be of interest to those companies that have implemented the Balanced Scorecard and those considering it. However, given that many of the advantages are of an intangible nature, it would be difficult to quantify them in a robust manner.

CHAPTER 3 CASE STUDY

3.1 Background

The South African National Blood Service was born out of the seven independent blood transfusion services serving South Africa. This merger came out of a government initiative to have one national blood transfusion service, and hence at a meeting in Johannesburg in 1999, the announcement that there would be only one blood transfusion license was made. This meant that the licenses under which the individual services operated would be revoked and only one license would be issued under the new national health bill, which was in the process of being drafted.

From that date, the blood transfusion services began the merger process, to amalgamate the services whilst maintaining a service the public. The seven individual services were the South African Blood Transfusion Service (SABTS) in the Gauteng region, Northern Blood Transfusion, Highveld, the Natal Blood Transfusion Service, Border Blood Transfusion, the Eastern Cape and Western Province Blood Transfusion Service (WPBTS).

Each of the independent services had a similar structure. A donor majority Board ran each Service with a Chief Executive Officer and management structure. Each had their own committee structures according to their needs and staff complements. This meant that each individual infrastructure had to be dismantled and restructured in one single service.

It was decided to have three regional areas in order to service the needs of the country, these being the Western Cape Region, the Inland Region and the East Coast Region. This process began by the regional mergers taking place first. The SABTS incorporated Northern and Highveld, whilst the NBTS incorporated Border and the Eastern Cape. The WPBTS would be responsible for the Western Cape area.

These regional mergers meant the dissolution of the structures mentioned above. The culture of the blood transfusion was not one of a commercial corporate where restructuring is a way of life. Many of the employees had been, and remain, in blood transfusion their entire working life and retrenchment was not an option. Thus the high level employees were retained in various capacities in order to achieve the merger.

These regional mergers continued, whilst in the background teams of employees designing an appropriate structure for the new single blood transfusion service, incorporating the principles of Corporate Governance. There was no defined strategic process, as we understand it, rather an aim to achieve a single service. A Technical Design Team (TDT) was responsible for the design of the new structure and the implementation of good governance as required in terms of the King Code and given the quasi para-statal nature of the industry.

The restructuring process was quite far progressed, with defined regions and a draft mission and vision when the WPBTS took the decision not to continue the process on the basis that the government was unconstitutional in only deciding to issue one license. This remains the case today with WPBTS not part of SANBS. Once the new legislation has been promulgated, the case may go further. In terms of this decision, WPBTS has not been part of any further restructuring and continues to operate as a single independent service in the Western Cape. The management and staff have not been part of the strategic process nor have they been part of the restructuring process. It remains to be seen what will transpire after the legislation is promulgated and this question must be considered as one of the most important strategic issues facing SANBS in the future.

The SANBS transformation process continued, without the WPBTS participation, despite ongoing communication to convince them otherwise. SANBS was registered as a company in 2000. From the financial year-end 31 March 2001, the merger was complete with two regions in place – the East Coast Region and the Inland Region. Even though the final national picture was incomplete, the TDT continued its work.

From 31 March 2001, the financial results incorporated SANBS, which was made up of the two regions.

It is useful at this point to define the relationship between the Department of Health and SANBS, which is shown below:

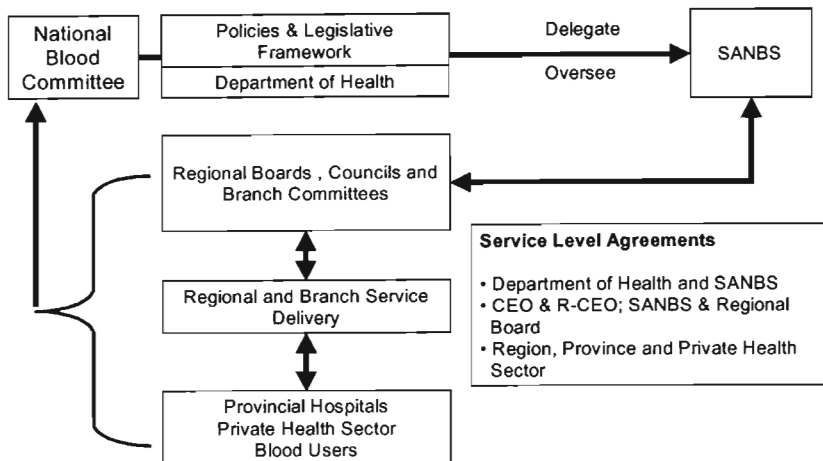


Figure 3.1 Relationship between SANBS and the Department of Health
SANBS Corporate Governance and Business Planning Procedure, 2003

The Department of Health is ultimately accountable to the citizens of South Africa for all aspects of blood transfusion. This is defined in the Policy with regard to Blood Transfusion in South Africa (1998), Draft National Health Bill (2001); and the Policy to protect the safety of the blood supply against the HIV / AIDS pandemic (1999). The Department of Health delegates to SANBS as a legal entity, the responsibility to provide these services. SANBS is licensed and operates in terms of the Human Tissue Act (1983 and 1990, as amended) (To be replaced by the National Health Act and the relevant regulations, standards and guidelines). The Minister of Health under section 65 and 102 of the draft National Health Bill makes regulations regarding the composition of a National Blood Transfusion Service. The Department of Health oversees and inspects the operations of SANBS to ensure that SANBS implements all relevant policies and procedures to deliver an appropriate, equitable and affordable quality service to patients. The relationship between SANBS and the

Department of Health will be formalised in a Service Level Agreement or Memorandum of Understanding.

The SANBS Chairperson will incorporate in the annual report a statement whether or not SANBS complies with the Memorandum of Understanding and acts within the legal framework related to the discipline of blood transfusion.

The National Blood Committee (NBC) is established by the Minister of Health and its duties are formalised in the National Health Act and the regulations described in terms of the Act.

Annually the CEO of SANBS will report to the NBC on all relevant services provided by SANBS and the management of risk.

3.2 SANBS Structure

Each division has a department in each region. The Regional Chief Executives form part of the National Directorate as described above. It is recognized that the service delivery to the patient is through the regional chief executives and their regions, whilst the strategic decision-making is through the directors and the divisions. This decentralized service delivery has been provided for in the new National Health Bill and hence the structure is such that it can incorporate additional regions, should the Western Cape issue be resolved. With the new structure in place, it was time for SANBS to move forward into its Business Planning cycle.

3.3 The Environment

The environment in which SANBS operates is one regulated by standard operating procedures, defined processes and a total quality management orientation. The process of blood transfusion is both labour and capital intensive. Many staff are required to collect (called blood procurement), process, test and issue blood across the country, whilst the technological investment is high with state-of-the-art equipment and processing techniques.

SANBS is a non-profit organisation. This is a legislated requirement, as SANBS deals in human tissues (governed by the Human Tissues Act). As a non-profit

organisation, SANBS operates on a fee-for-service basis, based on cost recovery. The costs of recovery include the cost of collection, processing, testing and issue of blood and blood products. As stated in 1.8 financial and costing information does not form part of this study. SANBS is also tax-exempt in accordance with Section 30 and in terms of that section is defined as a Public Benefit Organisation.

It is worth documenting the flow of the blood transfusion operation

3.3.1 Procurement

Blood is procured from voluntary, non-remunerated blood donors. The practice of procuring blood from voluntary non-remunerated donors is common internationally, although there are some countries in which some blood donors are remunerated (e.g. the United States of America) There are ethical and other considerations around the question of remunerated versus non-remunerated donors, and it is not for this study to document the debate here.

Fixed sites and mobile clinics are used to extend a network of blood collection points across the country. Both have advantages and disadvantages but it is necessary to use both types of clinic in order to collect sufficient, safe blood to satisfy the needs of the patients of South Africa. Donors are required to complete questionnaires when donating blood. The questionnaire and the unit of blood, as well as the samples taken at the time of donation, are all coded with the same barcode label, issued at the time of the donation. From this point in the process, this barcode is used to track the unit of blood. The only time this is traced back to the donor's name on the form is when there is an issue of which the donor needs to be notified.

3.3.2 Processing and Testing

Each unit of blood is subject to standardised processing and testing. Blood consists of a number of components. When a full unit is used in a transfusion, this is referred to as whole blood. If whole blood is not required, the unit can be processed into the blood components namely plasma, platelets and red cells. Simultaneously in the process, the blood is tested according to specific, accepted tests. Every unit of blood

is tested and results are tracked on a specifically designed computer system. The system also tracks the issues of blood, hence the “vein to vein” audit trail.

3.3.3 Distribution and Issue

Distribution of blood and blood products is through a network of Blood Banks, countrywide, situated in hospitals. Depending on the needs of the hospital or area, the Blood Bank may operate a full 24 hours, or part thereof. When the service is not 24 hours, emergency blood is kept by the hospitals. There is also a variety of blood products stocked at the various Blood Banks depending on the needs of the hospital e.g. platelets have a shorter shelf life and require specific storage needs so these are not stocked at all Blood Banks.

The doctor or attending medical practitioner is the prescriber of the blood or blood product and he starts the issue process by completing the requisite documentation. Once the blood or blood product has been ordered, it is the responsibility of the Blood Bank to cross match the unit to the patient (i.e. O Blood group is the universal donor and is compatible with all other blood groups but A for example can only take A or O blood, not B or AB) to ensure that the patient’s blood type matches the unit being issued.

3.3.4 Natal Bioproducts Institute

The Natal Bioproducts Institute (NBI) is a manufacturer of plasma-derived products, through the process of fractionation. Contained in its memorandum and articles of association, the SANBS Board appoints the NBI Board, and hence NBI is an associate company of SANBS. NBI purchases plasma not required for blood transfusion and uses this to manufacture fifteen pharmaceutical products. These include coagulation factors for the treatment of haemophilia and albumin products for resuscitation purposes. NBI is also a not-for-profit company as it is processing plasma derived from human blood and is a separately incorporated company

For all purposes, and for the purposes of this study, NBI is not included in the SANBS structure or strategic planning. It has its own Board, executive and management and is a completely separate entity. There are also legislative differences between SANBS and NBI, NBI being regulated by the Medicines Control Council (MCC)

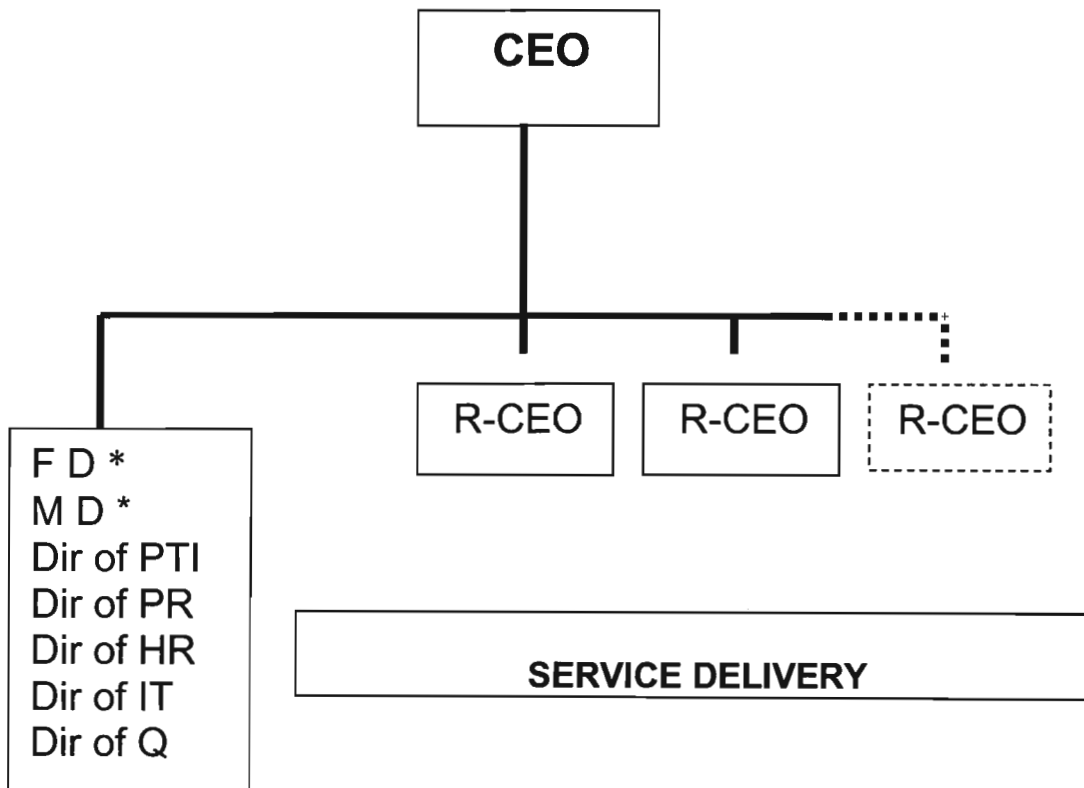


Fig 3.2 The SANBS Structure

SANBS Corporate Governance and Business Planning Procedure, 2003

CHAPTER FOUR: EVALUATION

4.1 SANBS Strategic Process

With the appointment of the National Directorate, the time came to define the SANBS strategy and the strategic planning process began in earnest in August 2002 (just prior to the formal appointment of the directors). A strategic team was called together including the incumbent directorate, senior management and stakeholders in the form of Natal Bioproducts Institute (NBI).

The TDT had proposed a SANBS Vision and mission, which needed to be aligned and refined, as well as accepted, by the strategic team. This formed the first point in the strategic process.

SANBS made use of an external consultant to facilitate to the strategic process. With the consultant in place, an agenda was drawn up to take the team through a defined process, conducting environmental analysis, reviewing the mission and vision, defining the strategy, objectives and actions leading up to a SANBS Balanced Scorecard. The remainder of this chapter will document that process.

4.1.1 Environmental Scanning

The SANBS environment is a highly regulated one. SANBS is delegated responsibility by the department of Health and operates within a legislative framework including the Human Tissues Act as well as strict quality controlled operating procedures and information requirements.

In order to define the strategy, the team needed to define and review the environment in which SANBS operates. This was done using a SWOT analysis and the results of the process are shown below. These were identified from an international, national and internal scenario. The tables are taken from the SANBS Strategic Planning document, done in August and September 2002.

4.1 International Opportunities And Threats

| Opportunities | Threats |
|--|--|
| <ul style="list-style-type: none"> • Donor recruitment expertise • Technical expertise • New technology able to be part of implementation, offering of resources e.g. Abbot products • Expertise in safe blood management • International funding to Educare SADC / Internationally • Financial and Political spin off • Exports (NBI) • Assist international blood programs incl. rare donors • Foreign patients <ul style="list-style-type: none"> ○ Referrals ○ Surgery ○ Stem cells • Can obtain state of the art technology e.g. Viral inactivation • International accreditation for certain aspects • Bid for ISTB congress 2006 • International knowledge sharing e.g. Lecturing, workshops, training material, HIV/AIDS, TTI • International support for safe blood practice in face of local threats | <ul style="list-style-type: none"> • Technology <ul style="list-style-type: none"> ○ Unaffordable ○ Appropriate for SA • Perception <ul style="list-style-type: none"> ○ Not buy NBI Products ○ SA Blood as risky as SADC • Non-conformance to international criteria / Processes e.g. Mad Cow Disease • Exchange rate • Suppliers <ul style="list-style-type: none"> ○ To few ○ Expensive (dictate market) ○ E.g. Hep C Licensing ○ Service limitation (MAK, SAP) • Non Payment for by SADC for patients in SA • New products e.g. Oxygen carriers (linked to percipient of blood) • International Health policies and legislation • Resources drained because of expertise brain drain includes funding limitation |

Table 4.1.1.1: International Opportunities and Threats

4.1.1.2 National Opportunities And Threats

| Opportunities | Threats |
|---|----------------|
| <p>1. Political</p> <ul style="list-style-type: none"> • Education and raising profile of BT with: <ul style="list-style-type: none"> ○ Government ○ Blood Users ○ Public • Input into legislation governing BT <p>2. Socio-Economic</p> <ul style="list-style-type: none"> • Research and development with other medical disciplines • Diversification <ul style="list-style-type: none"> ○ Stem Cells ○ Aphaeresis ○ Cell salvaging • Strategic partnerships with private healthcare providers • Efficient service delivery - cost effective • Better service coverage – National <p>3. Technological</p> <ul style="list-style-type: none"> • Research and development • Contribution to develop more sensitive tests • Evaluation of new techniques/ technology • Develop novel / Unique interventions to improve blood safety <ul style="list-style-type: none"> ○ Donor screening and selection ○ NAT for HIV ○ Haemovigilance | |

Table 4.2 National Opportunities and Threats

4.1.1.3 Internal Opportunities And Threats

| Opportunities | Threats |
|--|--|
| <ul style="list-style-type: none"> • Well established (Knowledge Base) • Delivering excellent service • Sufficient resources (money people) • Known in public eye • Committed, passionate, loyal employees • Blood is good value for money • Committed to vision (no cherry picking) • Proven ability to adapt to technological/ Medical change • Appropriate IT • Committed donor base • Modern Medical technology • Total control over span of activities • Fee for service • Donors custodian of SANBS governance • Major asset base (properties) • Infrastructure available in SA • Culture: Not Business (Private), Not Government • Usage of blood almost predictable • Captive Market • Links with Who and other International organisations (improved standards to achieve vision) • Ethical, innovative Management level • Appropriate medical ethics • Not politicized (blood) • Community support | <ul style="list-style-type: none"> • Aging donor population • HIV/AIDS staff risk (donor base, sustainability financial) • Technical affordability – Matching technology, 1st world standards • Finance: Debtors difficult to collect • Perception: discrimination in donor selection • Inequitable fee structures • Interregional differences • Downward pressure – Medical aids & State • Not developing middle management appropriately – equity implication • Public perception of SANBS • Public perception of safety of blood • Staff: Not enough new blood - losing expertise • Transformation interventions – deal with psychological impact • Buy in for transformation process • Resource requirements for transformation • Lack of business discipline • Strategic interface with NB • Waste management, Risk management, donor retention • Duplication of effort (INR & ECR) |

| | |
|---|--|
| <ul style="list-style-type: none"> • Government support for SANBS • Young, Passionate, well qualified experts as national Directors | <ul style="list-style-type: none"> • Benevolent culture • Understanding of implications of new policies • Communication • Lack of integration – Medical & Non Medical • Where do we pitch our standards • Alignment: ECR vs. INR, ECR within • Flexibility • Lack of manpower planning • Understanding of matrix structure • Governance: Role of regional boards • Resource optimization lacking vested interests • Marketing: Branding ourselves appropriately • Interface with stakeholders |
|---|--|

Table 4.3 Internal Opportunities and Threats

The SWOT analysis assisted in conceptualizing the current SANBS state, defining the internal and external issues that were paramount in a time of continuous change. There is still considerable uncertainty in terms of the effects of the legislation, which is to be decided by Parliament in the next sitting. Even if one license becomes legislated, there are still other laws to repeal, and there is no guarantee that this would be the end of the constitutional process on the part of WPBTS. However, should one license be legislated, then service providers would have to make application for that license and would have to demonstrate to the Department of Health that they can render a service to the country.

As a secondary process, as part of the Business Planning process, SANBS also undertook a Risk assessment, defined into financial and non-financial risks. These risks were identified, ranked according to likelihood and impact (likelihood multiplied

by impact) and an action plan for each was documented. These risks were presented to the Audit Committee, Executive Committee and finally to the Board.

4.1.2 Developing a Strategic Vision and Business Mission

In order to define the SANBS strategy it was necessary to go through the SWOT analysis as part of the strategy making and implementation process already outlined. This exercise was a preliminary exercise to prepare for the first task of the process: forming the strategic vision and laid the foundation for the first task of forming a strategic vision for SANBS. The strategic management process was followed⁶⁹:

1. Forming a strategic vision of where the organisation is headed
2. Setting objectives
3. Crafting a strategy to achieved desired outcomes
4. Implementing and executing the chosen strategy efficiently and effectively
5. Evaluating performance, and initiating corrective adjustments in vision, long-term direction, objectives, strategy or execution in the light of actual experience, changing conditions, new ideas and new opportunities

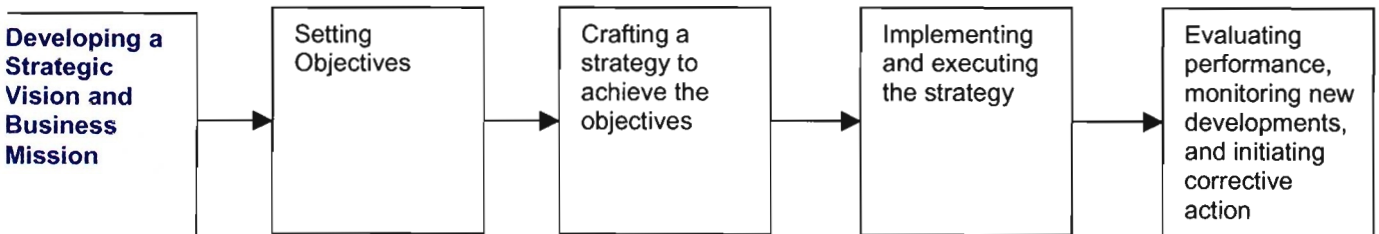


Figure 4.1 The Strategic Process – Developing a Vision and Mission

Thompson, A.A, Strickland, A.J and Kramer, T.R(1999). Strategic Management – Concepts and Cases, Irwin McGraw-Hill, Ch 1

From the environmental scanning and SWOT analysis the draft vision and mission were analyzed and translated into strategic statements.

⁶⁹ Thompson, A and Strickland, A.J (2001) Crafting and Executing Strategy : Text and Readings – International Edition, McGraw – Hill, Ch 1

The SANBS vision had been defined as follows:

To be acknowledged nationally and internationally as a centre of excellence in the discipline of blood transfusion.

The vision provides the “roadmap” of SANBS’s future, specifying where the organisation sees itself in the years to come, particularly referring to the type of organisation that management is trying to create.

The SANBS mission had been agreed as follows:

SANBS, an association of voluntary non-remunerated donors, provides all patients with sufficient, safe quality blood products and medical services related to blood transfusion in an equitable cost effective manner.

A company’s mission statement is typically focused on its present business scope – ‘who are we and what we do’; mission statements describe an organisation’s present capabilities, customer focus, activities and business makeup. The mission statement above does indeed define who SANBS is (an association of voluntary non-remunerated donors) and what we do (provides all patients with sufficient, safe, quality blood products and medical services...).

A strategic vision has much greater direction setting and strategy-making value. There is an ever-present managerial imperative to look beyond today and think strategically about the impact of new technologies on the horizon. Armed with a clear, well-conceived business course for the organisation to follow, managers have a beacon to guide resource allocation and a basis for crafting strategy for where the company needs to go. This is the aim of the above vision and mission.

Once the executives and management, with Board participation, had confirmed the vision and mission, the team moved to the next step in the strategic management process, setting objectives that would translate the vision and mission into actions and targets.

4.1.3 Setting Objectives

The next step in the process⁷⁰ was to define the objectives.

1. Forming a strategic vision of where the organisation is headed
2. Setting objectives
3. Crafting a strategy to achieved desired outcomes
4. Implementing and executing the chosen strategy efficiently and effective
5. Evaluating performance, and initiating corrective adjustments in vision, long-term direction, objectives, strategy or execution in the light of actual experience, changing conditions, new ideas and new opportunities

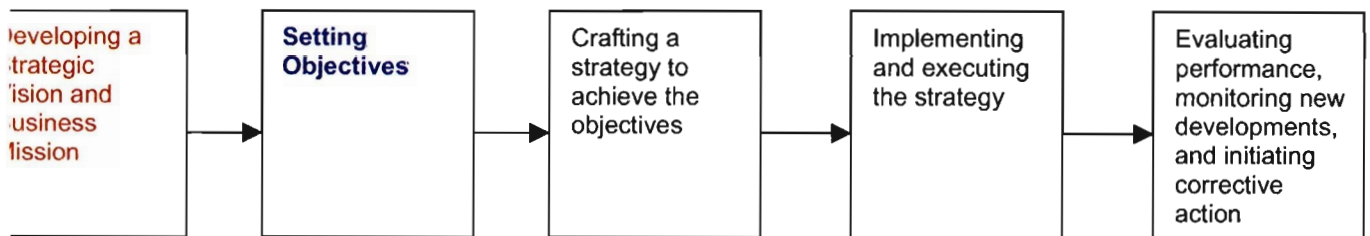


Figure 4.2 The Strategic Process – Setting objectives

Thompson, A.A, Strickland, A.J and Kramer, T.R(1999). Strategic Management – Concepts and Cases, Irwin McGraw-Hill, Ch 1

In order to set objectives, the team defined *strategic statements*, taken from the Mission statement. These statements were used as the foundation for the setting the objectives in the strategic process. In order to give the statements meaning, each statement was more fully defined and indicators were ascribed to the statement, which could be used to measure whether SANBS was achieving the objective or not. This assisted in converting the strategic statements of vision and mission into

⁷⁰ Thompson, A and Strickland, A.J (2001) Crafting and Executing Strategy : Text and Readings – International Edition, McGraw – Hill, Ch 1

understandable strategic statements with identified actions and indicators. This definition process further assists in communicating the vision and mission throughout the organisation. From this process, specific divisional objectives were defined and are shown below. These were aligned to each of the strategic statements that had been identified. In terms of strategic process, this developed the strategy at different levels i.e. firstly at an organisational level and then at a functional level.

The strategic statements are shown below:

| |
|---|
| SANBS will provide all patients' sufficient blood, blood products and medical services related to blood transfusion |
| SANBS will provide all patients with safe, quality blood products and medical services related to blood transfusion |
| SANBS will provide all blood products and medical services in an equitable manner |
| SANBS will provide all blood products and medical services in a cost effective manner |

Table 4.4 Strategic statements
SANBS Strategic Planning Document

These statements were further expanded as follows:

STATEMENT 1

| | |
|------------------------------|--|
| Strategic Statement | <i>SANBS will provide all patients' sufficient blood, blood products and medical services related to blood transfusion</i> |
| Descriptive Statement | All patients are those that have a clearly defined need for blood and blood products and medical services are those that fall into the ambit of blood transfusion in South Africa. Sufficient blood, blood products and medical services are defined as meeting criteria agreed as appropriate in partnership with health care providers/facilities, including Natal Bioproducts Institute. Taking these criteria into account, sufficient is defined then as: 100% availability of blood, blood products and medical services. |
| Indicators | 1. Criteria must be defined to draw up SLA Design models that include product & medical service range as well as quantity required for different levels of service to be provided |

| | |
|--|---|
| | <p>Accurate data must be available to decide which model is suitable for each health care facility</p> <p>2. SLA must be in place with all health care providers/facilities and reviewed annually to determine compliance</p> <p>3. Blood discard analysis</p> <p>4. Number of customer complaints</p> <p>5. On time delivery</p> <p>6. Number of SANBS initiated cancellation of elective surgery incidents</p> <p>7. Evaluation of maternal morbidity and mortality report in relation to blood availability</p> <p>8. Continuing Medical Education programme in place on appropriate blood usage</p> <p>9. Establishment of blood user groups in hospitals and the contribution by SANBS of data as an enabler</p> |
|--|---|

Table 4.5 Expanded Strategic statements 1
SANBS Strategic Planning Document

STATEMENT 2

| | |
|-----------------------|--|
| Strategic Statement | <i>SANBS will provide all patients with safe, quality blood products and medical services related to blood transfusion</i> |
| Descriptive Statement | <p>Supply products and services to stakeholders that comply with the safe blood policy and safety and quality standards (act, regulations, standards and licensing requirements, plasma specifications) by:</p> <p>Selecting low risk voluntary non-remunerated blood donors.</p> <p>Appropriate testing of every unit according to National and International approved standards.</p> <p>Delivering the right product and services at the right time to the right patient for the right indication.</p> |

| | |
|------------|--|
| Indicators | <p>Quality and Safety Assurance by: Quality system and compliance audits which will include quality control programs and quality assurance programs. Assessment of processes according to GLP and GMP. Haemovigilance reports. Stakeholder Feedback by: Blood utilisation committees. Market research. Inspection by licensing authority. Accreditation by international recognised bodies. Customer complaints. Information Management by: Levels of wastage. Haemovigilance reports. Look back programs. Surveillance of TTD of the donor population and category movement. The residual risk of transmitting TTD Loss of products due to management of unused blood (positive screen results, sero-conversion etc.)</p> |
|------------|--|

Table 4.6 Expanded Strategic statements 2
SANBS Strategic Planning Document

STATEMENT 3

| | |
|-----------------------|--|
| Strategic Statement | <i>SANBS will provide all blood products and medical services in an equitable manner</i> |
| Descriptive Statement | SANBS will provide blood products and related services to patients in a non-discriminatory manner, according to need. |
| Indicators | Customer satisfaction index based on number of complaints Audit to ensure that products are distributed and issued in such a manner that the level of risk and availability in each area are comparable |

Table 4.7 Expanded Strategic statements 3
SANBS Strategic Planning Document

STATEMENT 4

| | |
|-----------------------|--|
| Strategic Statement | <i>SANBS will provide all blood products and medical services in a cost effective manner</i> |
| Descriptive Statement | Provision of products and services in an efficient and effective manner, at an appropriately determined cost to ensure the sustainability of SANBS. |
| Indicators | Cost of non-conformance (product defects, customer complaints) Waste Statistics (units that could have been transfused but were discarded) Budget compliance through cost centre accountability (QQCPE) Comparison of price increases with CPI and other relevant indicators e.g. medical inflation, foreign exchange trends Cost model (derived from process analysis): e.g. Cost per unit (Procurement) Cost per unit (PTI) Cost of Support Services, based on levels of demand and legislation |

Table 4.8 Expanded Strategic statements 4
SANBS Strategic Planning Document

4.1.4 Crafting a strategy

The next step in the process⁷¹ was to define the objectives.

1. Forming a strategic vision of where the organisation is headed
2. Setting objectives
3. Crafting a strategy to achieved desired outcomes
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance, and initiating corrective adjustments in vision, long-term direction, objectives, strategy or execution in the light of actual experience, changing conditions, new ideas and new opportunities

⁷¹ Thompson, A and Strickland, A.J (2001) *Crafting and Executing Strategy : Text and Readings – International Edition*, McGraw – Hill, Ch 1

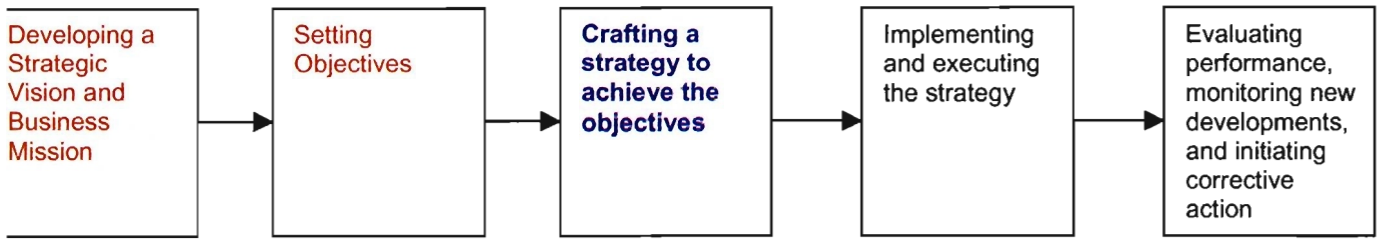


Figure 4.3 The Strategic Process – Crafting Strategy

Thompson, A.A, Strickland, A.J and Kramer, T.R(1999). Strategic Management – Concepts and Cases, Irwin McGraw-Hill, Ch 1

In order to translate the objectives into strategic actions, the statements were defined per division so that each functional area had defined strategic objectives as well as long-term and short-term plans. The number assigned to it indicates the relationship that the divisional objective had to the strategic statement so that all functional strategic objectives could be linked to the single business strategy.

| MEDICAL DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|--|----------------------------|---|
| Gathering information to establish SLA | 1 | <ul style="list-style-type: none"> • Survey of various health care providers and NBI to determine needs • Survey of services currently provided • Gap analysis |
| Establish models that would form the basis for a SLA | 1 | <ul style="list-style-type: none"> • Define criteria of product range in partnership with health care providers and NBI, in conjunction with PTI division • Set criteria and develop various models |
| Develop a measurement of outcome system for the provision of sufficient blood and services | 1 | <ul style="list-style-type: none"> • Establish a customer complaint and response system • Monitor number of SANBS initiated cancellations of elective surgery incidents • Evaluation of Maternal Morbidity and Mortality report in relation to blood availability • On time delivery of blood • Determine whether SLA is established and reviewed annually for compliance |
| Establishment of blood user groups | 1,2,3,4 | <ul style="list-style-type: none"> • Review of current blood user groups in operation • Setting criteria for establishing user groups • Set the criteria for the composition of blood user groups, terms of reference and responsibilities • Establish blood user committees on all tertiary and quaternary hospitals • Develop systems to provide appropriate information |
| Medical education and blood safety programme | 1,2,3,4 | <ul style="list-style-type: none"> • Maintaining and improving clinical guidelines • Establish range and content for educational programmes for donors, users and staff • Set up relevant educational programmes and implement in conjunction with external and internal stakeholders – link to CPD • Audit effectiveness of educational programme |
| Safe Blood Policy and Risk Management | 2 | <ul style="list-style-type: none"> • Gather information on safety of the blood supply • Develop a safe blood policy in conjunction with PTI, Procurement and Quality • Implement, monitor and review policy as well as risk indicators periodically |
| Haemovigilance Programme | 1 | <ul style="list-style-type: none"> • Design model for prospective capturing of haemovigilance data • Establish necessary infrastructure for an effective sustainable programme • Training of users • Implement and monitor • Release Annual report in conjunction with Department of Health |
| Blood utilization Audit programme | 1,2 | <ul style="list-style-type: none"> • Establish level of IT support to be able to capture information • Develop information sheets and data base • Training and implementation • Analysis and distribution of information to blood user committees • Monitoring of transfusion trends |

Table 4.9 Medical division objectives, activities and action plans

| PROCESSING, TESTING AND ISSUE (PTI) DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|---|----------------------------|--|
| Standardisation of Product preparation and Quality | 2 | <p>Audit and analysis of current product standards, specifications and practices</p> <ul style="list-style-type: none"> • Determine Best practice and decide on ideal standards • Identify barriers to implementation • Agree on SANBS standards • Implement standardisation of product preparation |
| Review number of processing centres with a view to rationalisation | 1,2,4 | <p>Workload analysis focussing on units processed, equipment, spare capacity, staffing and current costs</p> <ul style="list-style-type: none"> • Logistics analysis based on geographical location, transport, infrastructure, timing requirements for plasma and product availability to collection areas • Implication of change identified above • Develop project plan to rationalise number of processing centres and implement changes |
| Alignment of testing standards for transfusion microbiology markers | 2 | <p>Audit and analysis of current practice</p> <ul style="list-style-type: none"> • Determine ideal/best practice and decide on standards to be adopted • Develop project plan for implementation • Agree SANBS standards and implement |
| Create centres of excellence | 2,4 | <p>Identify and develop national reference centres for Transfusion Microbiology</p> <ul style="list-style-type: none"> • Identify and develop national reference centres for Red Cell Serology • Identify and develop national reference centres/centralised testing centres for Special Services • Consult with relevant stakeholders and agree on timelines for change, implement changes |
| Manage inventory control nationally | 1, 2, 3, 4 | <p>Audit and analyse stockholding and issuing patterns at branch and blood bank level</p> <ul style="list-style-type: none"> • Develop optimal stockholding models for each branch and blood bank, based on usage • Create a national inventory management function • Develop a national inventory management system and implement |
| Prepare SLAs for customers/users | 1 | <p>Review current blood bank service provisions</p> <ul style="list-style-type: none"> • Establish service provision models in partnership with SANBS medical directors • Design SLAs and match with healthcare facilities • Assist medical director in implementing SLAs with hospitals where blood banks are currently situated |
| Review and where feasible rationalise blood banks | 3, 4 | <p>Analyse service provision to customers on a national basis</p> <ul style="list-style-type: none"> • Develop a model to ensure equitable provision of blood bank service to customers nationally • Develop a plan to provide equitable coverage to all areas within SANBS and implement |
| Implement standardised cross match nationally | 2 | <p>Develop and implement new cross match procedure</p> |

Table 4.10 PTI division objectives, activities and action plans

| PROCUREMENT DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|--|----------------------------|---|
| Establish and direct a procurement plan ensuring 100% availability of blood and blood products, taking cost-effectiveness into account | 1, 2, 3, 4 | <p>Meet the national demand for blood by setting blood procurement goals per region, per branch, per risk category, per blood group, taking cost effectiveness into account</p> <ul style="list-style-type: none"> ● Establish and direct a supply chain management system to include a national planning, forecasting, controlling and 'in processing' measurement of blood and blood products for the 17 SANBS hubs, including the measurement of cost efficiency and effectiveness. ● Develop and direct a national marketing plan to include – <ul style="list-style-type: none"> ○ Establishment of policies and procedures with regard to national marketing programmes to promote selection, recruitment and retention of voluntary, non-remunerated donors ○ Establish and promote the strengths of the SANBS brand. ○ Direct appropriate donor communication strategies ○ Influence and manage SANBS's relationship with national and regional media ○ Form strategic partnerships with Government, service organisations and commerce alike ● Analysis of the existing active national donor base thereby ensuring it is maintained and/or expanded to consist of a minimum of 80% regular committed donors ● Formulate and direct an educational strategy to endure the safety of the blood supply and the continuous education of the South African community on the importance of safe blood donation – to ensure a safe donor bases as well as national confidence in the blood service ● Ensure Procurement forms an integral part of SANBS's Risk Management/Safe Blood programme to include staff training, commitment and responsibility for the procurement of sufficient, safe blood ● Benchmark and adopt best practice from national and international standards particularly in the donor collections area, but including donor recruitment, marketing strategies and research projects ● Standardisation of donor collection techniques and standard operating procedures as identified by benchmarking national and international best practices ● Expansion of national donor based by continuous education and the identification and upliftment of risk categories. |

Table 4.11 Procurement objectives, activities and action plans

| HUMAN RESOURCES DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|---|----------------------------|---|
| Attract, deploy and retain competent, focussed employees in the appropriate organisational structure to enable achievement of organisational objectives | 1, 2, 4 | Transformation implementation <ul style="list-style-type: none"> ● Implement Organisational Performance Management ● Implement Individual Performance Management ● Implementation of Work Organisation plan to review organisational structure ● Develop SANBS Manpower Plan as part of Business Planning Cycle |
| Actively improve competence at all levels of the organisation | 1, 2, 4 | Determine workplace skill level and requirements to facilitate workplace skills plan <ul style="list-style-type: none"> ● Investigate and plan achievement of accreditation ● Develop project plan for phase 2 of Skills Development Act plans ● HR initiatives to meet current and future levels of required competence including leadership development, diversity training and ABET ● Continued vocational training ● Succession planning procedure for critical positions |
| To create and promote a culture of positive relationships | 1, 2, 4 | Employee Communication audit and development of national communication strategy <ul style="list-style-type: none"> ● Audit of employee relations activities as indication of organisational climate ● Alignment of INR and ECR ER processes prior to development and implementation of ER procedure ● Conclude substantive negotiation and align negotiations with Business Planning cycle ● Develop consultation process with labour on new procedures ● Introduction of partnership forums ● Increase pool of chairpersons for disciplinary enquiries |
| To ensure that SANBS workforce is demographically representative and embraces quality, fairness and diversity in the treatment of all employees | 1, 2, 4 | Review equity targets and progress towards targets <ul style="list-style-type: none"> ● Identify all aspects not complying to EEA ● Identify non-conformances and discriminatory issues ● Identify number of equity appointments versus vacancies ● Expedite development plans for senior level equity candidates |
| Facilitate remuneration structures, which will consistently attract, motivate and retain competent employees to support a culture of superior performance | 1, 2, 4 | Complete alignment of ECR employee benefits and remuneration <ul style="list-style-type: none"> ● Centralise payrolls in ECR ● Uniform medical aid for SANBS (including subsidies) ● Alignment of other conditions of service and benefits ● Streamline comprehensive remuneration and reporting system |

Table 4.12 Human Resource division objectives, activities and action plans

| FINANCE DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|---|----------------------------|---|
| To implement sound financial and internal control processes | 4 | Development of financial philosophies <ul style="list-style-type: none"> ● Establish mandates of authority across SANBS ● Maintain budget control for remainder of 2002 – 2003 ● Review administrative contracts and processes ● Alignment of accounting information and infrastructure ● Alignment of budget preparation ● Development and implementation of Financial Policies and Procedures manual ● Establish strategic purchasing policies |
| To ensure optimal financial processes and departmental design | 4 | Competency analysis of the department to establish skills database <ul style="list-style-type: none"> ● Roll out of CBI initiatives and process re-engineering within the department ● Roll out of work organisation policy and role definition ● Review of business processes in line with next business planning cycle ● Implementation of staff development plans following Performance management cycle |
| To ensure cost effective blood products | 1, 2, 3, 4 | Maintain budget control for remainder of financial year <ul style="list-style-type: none"> ● Establish project team and scope for development of national price list for products and services ● Establish project team for development of cost models for Procurement, PTI and support services |
| To add value to core SANBS functions | 1, 2, 3, 4 | Establish terms of reference for SLAs <ul style="list-style-type: none"> ● Analysis of competency assessment to develop skills database for staff ● Training of non-financial management and staff |
| To train, develop and retain finance staff | 1, 2, 3, 4 | Complete training needs analysis after competency assessments <ul style="list-style-type: none"> ● Finalise individual performance agreements ● Implementation of communication policy within department |

Table 4.13 Finance division objectives, activities and action plans

| INFORMATION TECHNOLOGY (IT) DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|--|----------------------------|--|
| Consolidated operational reporting | 1, 2, 3, 4 | Set up SLAs with national directorate <ul style="list-style-type: none"> • Initiate investigation into one blood bank management system |
| Highly available IT infrastructure | 1, 2, 3, 4 | Linking of ECR and INR networks <ul style="list-style-type: none"> • Cost analysis of converting network to Ethernet • Expand ECR network to PE • Align national policies and procedures • Investigate video conferencing • Remote support • Voice over data • National Intranet • National helpdesk |
| Consolidate QA systems | 1, 2, 3, 4 | Set up SLA agreements with national directorate <ul style="list-style-type: none"> • Initiate investigation into one QA system |
| Consolidated Business Reporting and Control | 1, 2, 3, 4 | Set up SLA agreements with national directorate Initiate investigation into the provision of one system |

Table 4.14 IT division objectives, activities and action plans

| QUALITY DIVISION OBJECTIVES | STRATEGIC STATEMENT | ACTIVITIES AND ACTION PLANS |
|---|----------------------------|---|
| Develop, implement and maintain a Quality Management System to ensure SANBS meets national standards and accreditation requirements (Accreditation target date: September 2003) | 2, 3, 4 | <ul style="list-style-type: none"> • Gap analysis (process analysis) using national accreditation requirements as a reference • Develop a project plan to close the gap <ul style="list-style-type: none"> ○ Areas for improvement ○ Target dates ○ Resources (human) ○ Budget • Draft and approve Quality Manual (policies and procedures) • Document control <ul style="list-style-type: none"> ○ Develop and implement structured approach to the design and control of all documents ○ Roll out document control software program • Measure the performance of organisational units against set standards <ul style="list-style-type: none"> ○ Develop and implement audit management processes ○ Roll out audit management software ○ Evaluate and standardise QC program • Building customer relationships <ul style="list-style-type: none"> ○ Communicate quality requirements to suppliers ○ Vendor audits ○ Approved vendor lists |

Table 4.15 Quality division objectives, activities and action plans

4.2 The SANBS Balanced Scorecard

The next step in the strategic process is to implement and execute the chosen strategy efficiently and effectively. In order to do this SANBS chose the Balanced Scorecard as the tool to do this. The Balanced Scorecard translates strategy into actions and can be used to measure and manage the organisational performance of SANBS.

1. Forming a strategic vision of where the organisation is headed
2. Setting objectives
3. Crafting a strategy to achieved desired outcomes
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance, and initiating corrective adjustments in vision, long-term direction, objectives, strategy or execution in the light of actual experience, changing conditions, new ideas and new opportunities

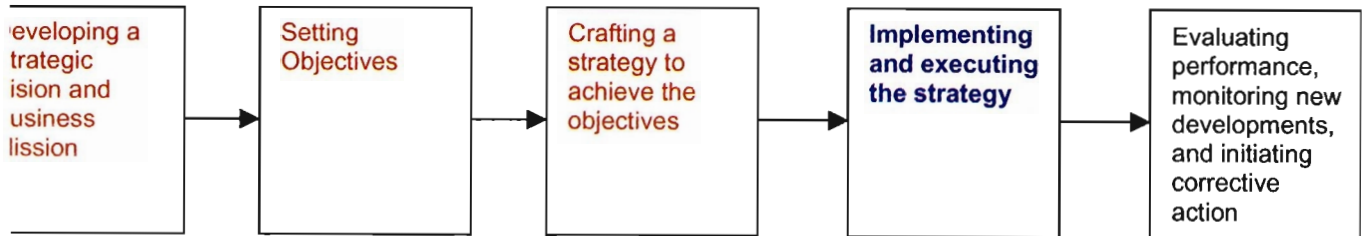


Figure 4.4 The Strategic Process – Implementing and Executing Strategy

Thompson, A.A, Strickland, A.J and Kramer, T.R(1999). Strategic Management – Concepts and Cases, Irwin McGraw-Hill, Ch 1

The strategic statements and objectives were translated into the Balanced Scorecard perspectives of the Customer, Finance, Internal and Learning and Growth.

The Balanced Scorecard has been widely used in non-profit organisations and is aligned to the proposed Performance Management system for SANBS.

| <i>Perspective</i> | <i>Objective Description</i> | <i>Measure Description</i> |
|----------------------------|------------------------------|-------------------------------|
| <i>Customer</i> | Build the SANBS Brand | International Participation |
| | | International Publications |
| | | Public surveys |
| | | User surveys |
| | Customer Satisfaction | Compliance with SLA's |
| | | Customer Satisfaction |
| | | Major Customer Complaints |
| | | Minor Customer Complaints |
| | | Product Complaints Major |
| | Product Complaints Minor | |
| Educated Customers | Attendance at CME courses | |
| | Blood usage statistics | |
| | Surveys | |
| <i>Financial</i> | Cost Efficiency | Cost of waste |
| | | Issued Unit Cost |
| | | Processed Unit Cost |
| | | Procurement Unit Cost |
| | Improve Fin. Management | Bad debts |
| | | Accounts receivable (Private) |
| | | Accounts Receivable (State) |
| <i>Internal</i> | Deliver Quality Product | Cross-match Errors |
| | | On Time Deliveries |
| | Donations & Materials Mgt. | Discards, Viral or SEQ |
| | | Stock Levels |
| | Donors | Donor Complaints |
| | | Donor Retention |
| | | Donor Turnover |
| | | New suitable donors |
| | Improve Process Management | Resolve Donor Complaints |
| | | Equipment Failures |
| Excess Product Discarded | | |
| <i>Learning and Growth</i> | Employee Relations | Non-conforming Products |
| | | Absenteeism |
| | | Disciplinary Cases |

| <i>Perspective</i> | <i>Objective Description</i> | <i>Measure Description</i> |
|--------------------|-----------------------------------|------------------------------|
| | Equity | Grievances Resolved |
| | | Diversity Training |
| | Knowledge, Competence, Innovation | Equity Appointments |
| | | Publications & Presentations |
| | | R&D Projects Approved |
| | | Training Days |
| | | Training Expenditure |
| | | People Optimisation |
| | Staff to donation ratio | |
| | Staff turnover | |
| | Vacancies | |
| | Vacancy lead time | |

Table 4.16 The SANBS Balanced Scorecard
SANBS Strategic Planning Document

To provide all users with sufficient, safe quality blood products and medical services related to blood transfusion in an equitable, cost effective manner.

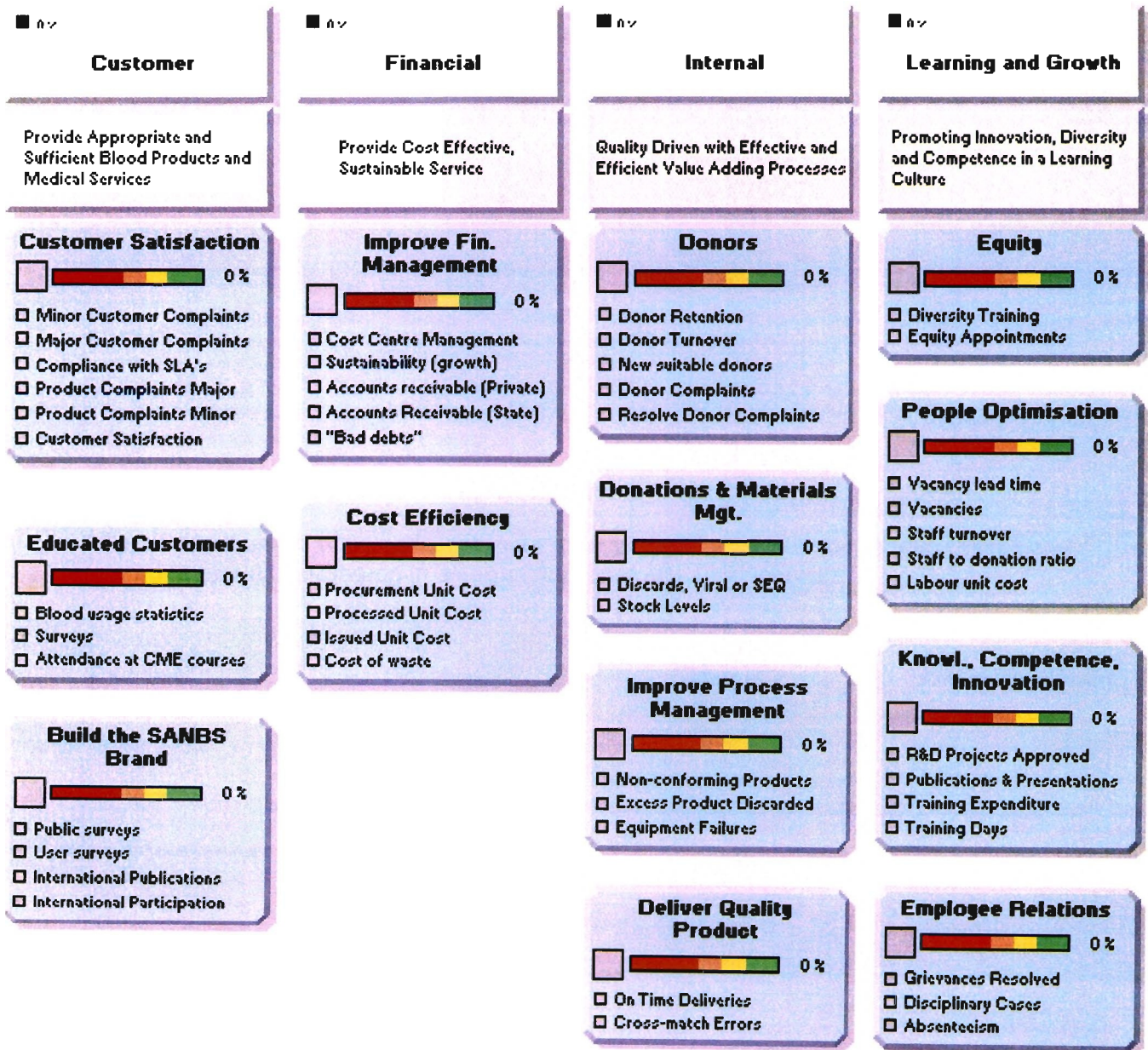


Figure 4.5 The SANBS Balanced Scorecard – the Dashboard
SANBS Strategic Planning Document

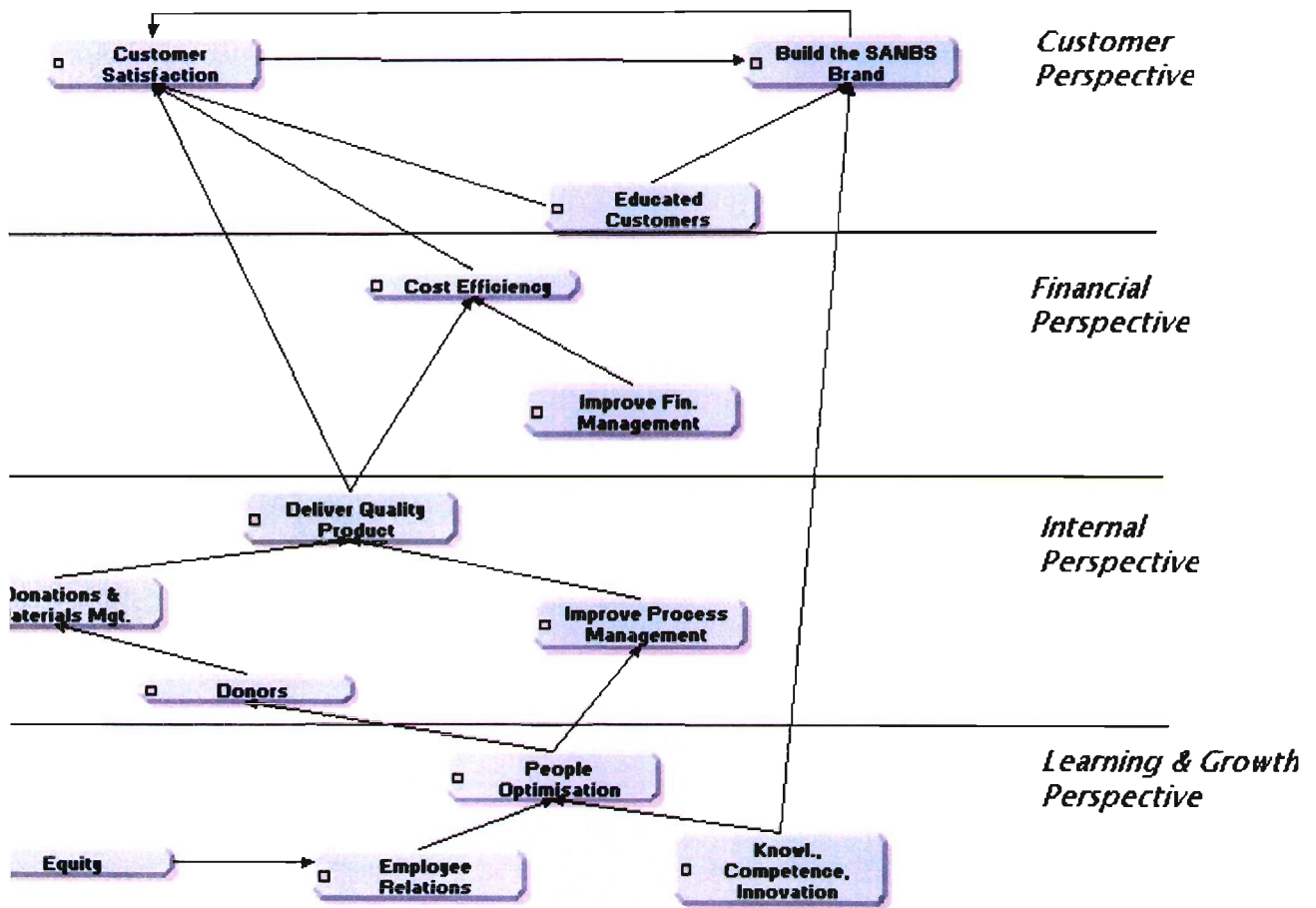


Figure 4.6 The SANBS Balanced Scorecard – linking the objectives and perspectives
SANBS Strategic Planning Document

Each of the objectives clearly links to other objectives and to one or more of the four perspectives, linking therefore to the SANBS vision. SANBS succeeded in 'unwrapping' its strategy into the perspectives of the Balanced Scorecard, thereby documenting a plan of objectives.

What has proved challenging to the organisation, is the identification and definition of the measures, and in fact how to implement these. SANBS has tried to compile a number of scorecards at different levels within the organisation, firstly a complete SANBS scorecard, then regional scorecards (for the measurement of operational service delivery) and finally divisional scorecards (for the measurement of divisional strategic objectives). The definition of three scorecards and the need for these all to 'marry' with the SANBS scorecard has complicated the score carding process. At the time of writing, the three scorecards have been populated, but the measures have either not been defined, or in some cases not implemented.

The process has been further complicated by SANBS, correctly, wanting to relate the strategic objectives into performance management objectives. The system has two components, Service Level Agreements (SLAs) and Individual Performance Agreements (IPAs). It is the responsibility of the divisions to render a service within the regions and, the responsibility of the regions to deliver a service to the hospitals (and therefore patients) within that region. SANBS is still grappling with the measurements and definition of those measures. The Balanced Scorecard is recognised as a Performance Management tool⁷² and SANBS needs to finalise the measures so that the scorecard can be utilised appropriately as the basis for Performance Management, so that the organization moves in the same direction.

4.3 Strategic Self-assessment – Strategy development questionnaire

SANBS has not undertaken step 5 of the strategic management process, namely that of evaluation, monitoring of new developments and initiating corrective action. As a first step in this process, the writer has undertaken to examine the perceptions of the management team that took part in the strategy crafting exercise.

⁷² Internet 2: www.balancedscorecard.org

The project was a learning curve for all concerned as it was the first time that a systematic process had been undertaken for the organisation. Previously budgeting was the annual exercise that determined where the organisation was headed, with performance being measured against financial information only. The Balanced Scorecard process is incomplete and the traditional models of measurement have to be incorporated into the strategic process to be able to measure and manage the whole organisation.

In order to measure the perceptions of the management team and use this information for the strategic review process, a questionnaire from Ambrosini has been used to determine what the team perceived the strategic management process. There are different approaches to strategy development, and since this is the first true strategic management process in SANBS, it is worthwhile to evaluate the perceptions of the participants. The different approaches include: ⁷³

- Strategy developed as a management intent
- Strategy developed as the outcome of cultural and political processes in and around the organisation
- Strategy imposed on an organisation

There are likely to be any number of configurations across organisations.

4.3.1 The Strategic Development Questionnaire

The questionnaire⁷⁴ asks respondents to answer thirty-six statements on the basis of whether they agree or disagree with each of the statements. The statements are derived from research and relate to the six dimensions of strategy development, which are shown below. The responses are then entered into a grid, which sorts the statements in the six strategy dimensions. The total of the responses tells which of the dimensions resulted in the strategy (the perception according to the respondent).

⁷³ Ambrosini V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 12

⁷⁴Ibid

The output from the questionnaire can be included in a pictorial presentation that identifies the dominant processes operating within the organisation's strategic process. The questionnaire also builds on a conceptual framework, allowing the organisation to 'fill in the blanks' and move forward.

The six dimensions of strategy development⁷⁵ are documented below. These are as follows:

- Planning dimension
- Incremental dimension
- Cultural dimension
- Political dimension
- Command dimension and
- Enforced choice dimension

| Dimension of Strategy Development | Definition of dimension | Characteristics of Dimensions |
|-----------------------------------|--|---|
| Planning Dimension | Strategy is developed through an analytical, intentional and sequential process of planning | <ul style="list-style-type: none"> • Strategies are the outcome of rational, sequential planned and methodical procedures • Strategic goals are set by senior organisational figures • The organisation and the environment are analyzed • Definite and precise objectives are set • Precise plans for implementation are developed • The strategy is made explicit in the form of detailed plans |
| Incremental Dimension | Strategy is developed in an evolutionary but purposeful manner, through an iterative and adaptive process of trial and error | <ul style="list-style-type: none"> • Strategy is continually adjusted to match changes in the operating environment • Strategy options are continually assessed for fit • Early commitments to a strategy is |

⁷⁵ Ambrosini V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Ch 12

| | | |
|---------------------|--|---|
| | | <p>tentative and subject to review</p> <ul style="list-style-type: none"> • Strategy develops through experimentation and gradual implementation • Successful options gain additional resources • Strategy develops through small scale changes |
| Cultural Dimension | <p>Strategy is directed and guided by the cultural aspects of an organisation, its history and the shared assumptions and beliefs of its members</p> | <ul style="list-style-type: none"> • A 'way of doing things' in the organisation impacts on strategic direction • Strategies are evolved in accordance with a set of shared assumptions that exist in the organisation • A core set of shared assumptions based on past experience and history guides strategic action • Organisational history directs the search for and selection of strategic options • Strategy not in fit with the culture is resisted |
| Political Dimension | <p>Strategy is developed through a process of bargaining, negotiation and influence between internal interest groups</p> | <ul style="list-style-type: none"> • Strategies are developed by negotiation and bargaining between groups • The interest groups seek to realize their own desired objectives • Influence in strategy formulation increases with power • Power comes from the ability to create or control the flow of scarce resources • Interest groups form coalitions to further their desired strategy • The control and provision of information is also a source of power • A strategy acceptable to the most powerful interest groups is developed |
| Command Dimension | <p>Strategy is defined and determined by a particular powerful individual within an organisation</p> | <ul style="list-style-type: none"> • Strategies are prescribed by the operating environment • An individual is the driving force behind the organisations strategy • Strategy is primarily associated with the institutional power of an individual or small group • The strategy represents the |

| | | |
|---------------------------|---|---|
| | | <p>aspirations for the organisation's future of this individual</p> <ul style="list-style-type: none"> • The individual becomes the representation of the strategy for the organisation • An individual has a high degree of control over strategy |
| Command Dimension | <p>Strategy is defined and determined by a particular powerful individual within an organisation</p> | <ul style="list-style-type: none"> • Strategies are prescribed by the operating environment • An individual is the driving force behind the organisations strategy • Strategy is primarily associated with the institutional power of an individual or small group • The strategy represents the aspirations for the organisation's future of this individual • The individual becomes the representation of the strategy for the organisation • An individual has a high degree of control over strategy |
| Enforced Choice Dimension | <p>Strategy is developed as a result of external pressures which limit an organisation's ability to determine its own strategic direction</p> | <ul style="list-style-type: none"> • Strategic choice is limited by external forces which the organisation is unable to control • Strategic change is instigated from outside the organisation • Organisations are not able to influence their operating environments • Barriers in the environment severely restrict strategic mobility |

Table 4.17 The Strategic Development Dimensions

Ambrosini, V, Johnson, G and Scholes, K (1998) Exploring Strategic Management – Exploring Techniques of Analysis and Evaluation in Strategic Management, Prentice Hall , Ch 12

4.3.2 Results of the Strategic Development Questionnaire

The directors and managers involved in the strategic planning process have answered as follows:

| Dimension | Score |
|--------------------|-------|
| Planning | 72 |
| Incrementalism | 12 |
| Cultural influence | 58 |
| Political | -12 |
| Command | -11 |
| Enforced Choice | 58 |

Table 4.18 Results of Strategy development questionnaire

The overwhelming response to the planning dimension is to be expected given that this was the first extensive process that SANBS had undertaken in terms of strategic planning. The process was intensive from the development of the mission and vision, right through to setting objectives and designing the SANBS Balanced Scorecard. Alongside this process was the budget-planning project, which was linked to the strategic process.

The cultural influence is also to be expected given the nature of the organisation. The blood transfusion service is historically an institution that has a unique culture. By its nature it is a service organisation and is not commercially driven. It is also interesting that the enforced choice element is a strong one. There is a limited strategic choice for SANBS due to the constraints within it operates, as well as the nature of the organisation. Although SANBS has choices, these are not as wide as a commercial, competitive organisation, hence the feeling of 'enforced choice'.

In addition the outcome of the questionnaire has also shown the culture in the organization to be one of acceptance of the process and participation in the process. There has been no formal 'measurement' or identification of what the SANBS culture is outside of this process so the questionnaire is only a preliminary indicator of this, limited to the participants in the process, who represent a small, senior group of the organization. The results therefore cannot be ascribed or extrapolated to the whole of SANBS.

In terms of strategic management, there has been no process to address the evaluation of the strategy during the year. The directors have provided feedback on the progress of their initiatives during the year but there has been no overall evaluation and review of strategy. SANBS is planning a review weekend before the commencement of the next Business Planning cycle. This lack of evaluation and review during the year is due to the measures not being complete in the BALANCED SCORECARD, as this is the very reason for the use of this tool.

4.4 Conclusion

SANBS achieved some aspects of the strategic management process. There is a clearly defined vision and mission, supported by strategic objectives. This has underpinned a crafted strategy but SANBS has failed in the full implementation and execution of the strategy through the use of the BALANCED SCORECARD on a company, regional and divisional level. The results of the strategy development questionnaire clearly show the perceptions of the participants. SANBS can be satisfied that the process shows planning and culture a key to the process, together with an enforced choice. Since SANBS is a non-profit organisation with authority delegated from the department of Health, it is advantageous that this process was not perceived either as political or a commanded process.

It therefore remains to recommend a way forward for SANBS in order to complete the strategic process and avoid the same pitfalls in the future.

CHAPTER FIVE: RECOMMENDATIONS

The previous chapter reviewed the SANBS strategic process and the attempted implementation of the Balanced Scorecard. Going forward there are conclusions to be drawn in respect of this process and recommendations for the future in the organisation.

A reminder of the strategic process is shown below⁷⁶:

1. **Forming a strategic vision** of what the company's future business makeup will be and where the organisation is headed – so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.
2. **Setting objectives** – converting the strategic vision into specific performance outcomes for the company to achieve
3. **Crafting a strategy** to achieve the desired outcomes
4. **Implementing and executing** the chosen strategy efficiently and effectively.
5. **Evaluating performance and initiating corrective adjustments** in vision, long-term direction, objectives, strategy, or implementation in the light of actual experience, changing conditions, new ideas and new opportunities

⁷⁶ Thompson A and Strickland A.J (2001) *Crafting and Executing Strategy : Text and Readings – International edition*, McGraw-Hill, Ch 1

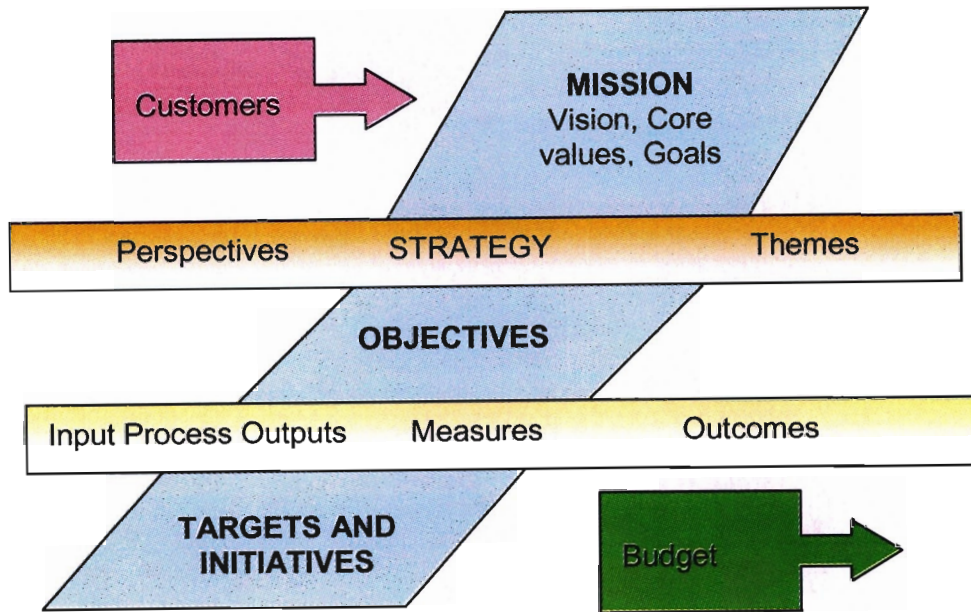


Fig 5.1 Strategic Processes and the Balanced Scorecard

Internet 2: www.balancedscorecard.org taken from Rohm. H. "A Balancing Act", Perform Magazine (2) (2), page 6

This study began with the above figure in chapter one and it is useful to revisit in when reviewing and concluding on the strategic process within SANBS. The figure shows customer requirements are the input into the mission, vision, core values and goals of the organization. This was achieved by SANBS as the first step in the strategic process.

SANBS has achieved the formation of a strategic and mission, which clearly state what kind of organization SANBS strives to be and where it wants to go in the future. This vision and mission was communicated to all levels of the organization and is widely recognised by executives, management and staff alike. Achieving this 'buy-in' or acceptance is an important step in the strategic process and this was achieved in the SANBS process and reinforced during the process.

The mission and vision was then further defined into strategic statements, which 'unpacked' the vision and mission into key targets and goals. The strategic statements are reiterated below:

| |
|---|
| SANBS will provide all patients' sufficient blood, blood products and medical services related to blood transfusion |
| SANBS will provide all patients with safe, quality blood products and medical services related to blood transfusion |
| SANBS will provide all blood products and medical services in an equitable manner |
| SANBS will provide all blood products and medical services in a cost effective manner |

Following these strategic statements, detailed objectives were set. The objective setting exercise was intensive and translated the vision and mission into clear actions and tasks defined at divisional level. These objectives were focused and clearly defined the strategic objectives of the organization. The result of this exercise was that the objectives supported the mission and vision, and were understood and accepted by the organization at all levels.

The strategy was crafted in terms of the divisional objectives. Defined action plans and initiatives were documented per division. These were also ascribed timelines for completion, and were defined in terms of project plan, budget and resources required. SANBS was successful in crafting a strategy in the strategic management process. These divisional objectives and action plans were included in chapter four.

In order to implement and execute the strategy, SANBS chose the Balanced Scorecard as the tool to translate the vision, mission and objectives in to actions that could be measured. Although the Balanced Scorecard was initially only implemented in profit-driven organizations, it now has wide acceptance and implementation in the non-profit and government sectors. The tool is flexible to allow for the defining of objectives that can be measured and can therefore be adapted to most organization's needs. However, in SANBS, the implementation and execution of this scorecard has floundered to a large extent due to the difficulty in defining the measures for each of the perspectives. Although the Balanced Scorecard itself is

defined for each of the perspectives, the measures remain incomplete. Not only has SANBS attempted to populate a company scorecard, but also to have regional scorecards to measure service delivery, and a divisional scorecard to measure strategic objectives.

In view of this, the strategic process has failed in the very critical phase of implementation and execution. The scorecards have only been extended to the branch infrastructure within the regions, but there is no review or report back on this information. The lack of measurement and review implies that the fifth task of evaluating the strategy and taking initiating corrective action timeously cannot and is not undertaken successfully, if at all. These final two critical tasks are the two that are lacking in the strategic process.

In the future, SANBS has to revisit these two areas and implement them appropriately. Without the fourth task of implementation and execution, SANBS cannot evaluate or take corrective action. Depending on the internal and external environment, this may lead to opportunities being missed, potential threats becoming a reality or a movement from a position of strength to a position of weakness. This fifth task in the process is perhaps the most important in the process allowing the organization timely evaluation and response. Had the implementation of the Balanced Scorecard been complete, the measures would indicate a “dashboard” of issues and key measures to review, evaluate and adjust if necessary. This is the area that SANBS has to concentrate on in the next strategic process and the remedies for this are simple enough and required a concerted effort in the definition and implementation of the measures and the subsequent ‘roll out’ to the rest of the organization.

The benefits to SANBS in conclusively implementing the Balanced Scorecard will result in the organization having a “dashboard” of indicators with which to effectively measure the organization. This dashboard can be shown by means of the diagram shown in chapter four. These measures and objectives underpin the perspectives and the strategy of SANBS.

To provide all users with sufficient, safe quality blood products and medical services related to blood transfusion in an equitable, cost effective manner.

| Customer | Financial | Internal | Learning and Growth |
|---|--|---|---|
| Provide Appropriate and Sufficient Blood Products and Medical Services | Provide Cost Effective, Sustainable Service | Quality Driven with Effective and Efficient Value Adding Processes | Promoting Innovation, Diversity and Competence in a Learning Culture |
| <p>Customer Satisfaction</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Minor Customer Complaints <input type="checkbox"/> Major Customer Complaints <input type="checkbox"/> Compliance with SLA's <input type="checkbox"/> Product Complaints Major <input type="checkbox"/> Product Complaints Minor <input type="checkbox"/> Customer Satisfaction | <p>Improve Fin. Management</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Cost Centre Management <input type="checkbox"/> Sustainability (growth) <input type="checkbox"/> Accounts receivable (Private) <input type="checkbox"/> Accounts Receivable (State) <input type="checkbox"/> "Bad debts" | <p>Donors</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Donor Retention <input type="checkbox"/> Donor Turnover <input type="checkbox"/> New suitable donors <input type="checkbox"/> Donor Complaints <input type="checkbox"/> Resolve Donor Complaints | <p>Equity</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Diversity Training <input type="checkbox"/> Equity Appointments |
| <p>Educated Customers</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Blood usage statistics <input type="checkbox"/> Surveys <input type="checkbox"/> Attendance at CME courses | <p>Cost Efficiency</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Procurement Unit Cost <input type="checkbox"/> Processed Unit Cost <input type="checkbox"/> Issued Unit Cost <input type="checkbox"/> Cost of waste | <p>Donations & Materials Mgt.</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Discards, Viral or SEQ <input type="checkbox"/> Stock Levels | <p>People Optimisation</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Vacancy lead time <input type="checkbox"/> Vacancies <input type="checkbox"/> Staff turnover <input type="checkbox"/> Staff to donation ratio <input type="checkbox"/> Labour unit cost |
| <p>Build the SANBS Brand</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Public surveys <input type="checkbox"/> User surveys <input type="checkbox"/> International Publications <input type="checkbox"/> International Participation | | <p>Improve Process Management</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Non-conforming Products <input type="checkbox"/> Excess Product Discarded <input type="checkbox"/> Equipment Failures | <p>Knowl., Competence, Innovation</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> R&D Projects Approved <input type="checkbox"/> Publications & Presentations <input type="checkbox"/> Training Expenditure <input type="checkbox"/> Training Days |
| | | <p>Deliver Quality Product</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> On Time Deliveries <input type="checkbox"/> Cross-match Errors | <p>Employee Relations</p> <p><input type="checkbox"/> 0%</p> <ul style="list-style-type: none"> <input type="checkbox"/> Grievances Resolved <input type="checkbox"/> Disciplinary Cases <input type="checkbox"/> Absenteeism |

On the whole the strategic process was inclusive and accepted by the organization. This is indicated by the outcome of the strategic development questionnaire. The questionnaire shows that the participants perceived the process to be one of an enforced choice, driven by planning and culture. This is to be continued in not only the strategic processes in the organization, but throughout the organization in all activities. However, the outcome of this questionnaire is limited to the small group that were surveyed. This group consisted of the senior managers who were involved in the strategic process and does not necessarily reflect the feelings of the organization. It would be worthwhile to extend the questionnaire to the remainder of the organization, to establish the perceptions of the staff.

Given that SANBS was formed from seven, very different, independent services, it is an imperative that the organization cultivates its own culture in the merged organization.

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