



ICPAR
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CPA
RWANDA

Strategic Level

Strategic Management (SM3.2) Workbook

Institute of Certified Public Accountants of Rwanda

January 2026

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Acknowledgement.

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Overview of the Module

CPA level	Strategic level
Title	Strategic Management
Guided learning hours	120
Exam length	3 hrs

Introduction to the Module

The aim of the Strategic Management module is to provide candidates with an understanding of the role of leaders and managers in developing and implementing strategy using different organisational structures.

The Strategic Management syllabus is divided into seven main competencies across three core areas:

1. Strategic position.
2. Strategic choice.
3. Strategic implementation.

The syllabus starts with understanding where the organisation is in relation to the environment in which it operates (known as the strategic position of an organisation), and analyses both the external environment for potential opportunities and threats and the internal environment to identify an organisation's current resources, capabilities and competences. A significant influence on strategic position will also be an organisation's governance arrangements and its senior leadership. Therefore, an understanding of effective practices in both these areas will be covered within this area of the syllabus.

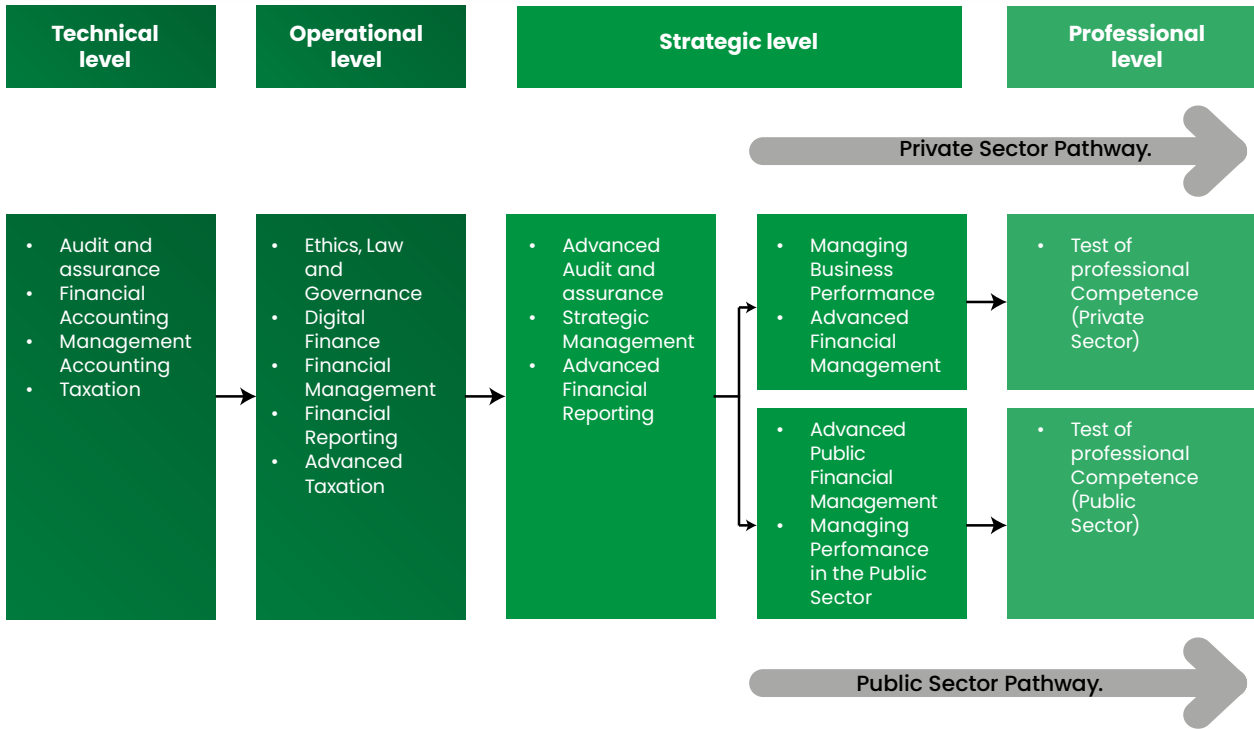
It is important for an organisation to understand its current strategic position before it considers its strategic choices for the future.

The syllabus then covers how an organisation may consider and evaluate its strategic options. It is important that the right decisions are made, and key to this will be for an organisation to understand the various stakeholders and how they can influence and impact potential strategic options. Risk will also be a significant factor to understand when considering strategic options, and therefore the identification, assessment and management of risk will be covered in this area of the syllabus.

When the strategic choices have been considered and decisions have been made, the next step is to implement the selected strategy in the most effective way.

The syllabus finally covers this implementation stage, where the strategy is translated into operational plans for the organisation to follow. It may be necessary for an organisation to change its structure or to partner and collaborate with other organisations to implement strategy effectively. This stage may also bring significant change to the organisation, and therefore the management of this change process will influence the chances of a successful implementation. A new strategy will also bring many new potential projects for the organisation to implement, so effective project management processes will be required.

This module is one of five completed at the strategic level of the CPA. Students will choose either the private sector pathway or the public sector pathway.



Key competencies

1. Strategic position:

- A. Select and apply relevant strategic analysis models to assess the internal and external environment as part of evaluating the strategic position of different types of organisation, and explain and discuss the processes, institutions and actors involved in developing and implementing government policies.
- B. Assess the effectiveness of existing governance arrangements, taking account of laws, regulations, codes, best practice and the organisation's strategy, and demonstrate an understanding of the traits of effective leadership necessary for the formulation and implementation of effective strategy and change management initiatives.
- C. Assess stakeholder conflicts, taking account of their claims, needs and powers, and advise on and develop plans to effectively balance their conflicting priorities when implementing strategic change initiatives.

2. Strategic choice:

- A. Select and apply appropriate strategic planning models to identify and evaluate suitable strategic options for different types of organisation.
- B. Analyse an organisation's risk profile and risks associated with identified strategic options.

3. Strategic implementation:

- A. Formulate suitable plans to translate strategy into operational plans, and, where appropriate, create imaginative solutions to barriers to effective implementation, and explain the purpose and nature of different structures of organisation, their stakeholders and how they interact with them.
- B. Recognise the importance of change, continuous improvement and innovation in strategic decision making and advise on different approaches to managing change, and explain the features associated with effective project planning and management systems and processes.
- C. Assess how effective human resource management can make strategy work.
- D. Apply, where appropriate, new technologies such as data analytics, in strategic analysis and decision-making and evaluate and integrate new technologies to improve supply chain and customer and client relationships.

Unit A: Strategic Position

Learning outcomes

- A.1 The purpose of strategy.
- A.2 The development of strategy.
- A.3 The external environment.
- A.4 Assessing the competition.
- A.5 Creating competitive advantage through products and services.
- A.6 Strategic resources and capabilities.

Introduction to Unit A

Unit A begins our studies with an exploration of organisational strategy, its purpose and how it is developed. Key to the development of strategy is understanding your strategic position by analysing features of the internal and external (or macro) environment. For commercial enterprises, it is important to assess the competition and build and maintain a competitive advantage by which the organisation is going to survive and prosper. Public sector entities are also accountable for their performance and should understand the relative strengths and weaknesses of other organisations providing similar or complementary goods and services. We conclude Unit A with a discussion on how organisations identify and evaluate their resources and capabilities to support their advantage and implement strategy. As part of this unit, we will discover and apply tools commonly used to inform an assessment of strategic position.

A.1 The purpose of strategy

- Define strategy and recognise the nature of strategic decisions.
- Identify how strategy may be developed at the corporate, business and operational levels within an organisation.
- Assess alternative models for developing strategy.
- Understand the rational model and its three stages of strategic management: strategic position, strategic choice and strategic implementation.
- Evaluate how organisations communicate their mission, vision and core values.
- Assess how ethics can influence an organisation's purpose and strategy.

Strategy

Strategy can be hard to define precisely and there is no single accepted definition. If you ask someone for their strategy, they may give you some combination of:

- A vision and mission to define a direction in broad terms.
- A set of goals and objectives.
- A plan.
- A set of actions.
- Key performance indicators.

This reflects how strategy is understood in different ways. The International Association of Strategy Professionals (IASP) offers the following definition:

Representation of the high-level guidelines an organisation adopts to provide value to its stakeholders and/or gain an advantage over competitors. Whether these guidelines are deliberately designed and/or emerge in time, they determine how the rest of the efforts of the organisation will be deployed.¹

Johnson and Scholes define it as follows:

The direction and scope of an organisation over the long-term which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations.²

This reminds us that strategy is about focus and purpose over the long-term and how an organisation plans to use its resources to perform better than its competitors and serve the needs of its stakeholders. In general terms, strategy concerns itself with how to succeed. It may be carefully formulated and adhered to (as intended strategy) or allowed to evolve organically (as emergent strategy). Compared with other types of situational analysis and planning, strategic thinking takes a long-term perspective. Organisations typically align their resources (and/or acquire additional resources) to support their strategy. **Strategic decisions** are likely to have long-term and far-reaching implications. This adds to the difficulty of developing strategy as the further we look into the future the more uncertain things become, and this is one reason we may allow strategy to evolve in response to unpredictable changes. The key characteristics of strategy can be summarised as planning and decision-making that:

- Is future focused.
- Is success oriented.
- Is impactful.
- Has long-term consequences.
- Anticipates and seeks to navigate the factors of the external environment.

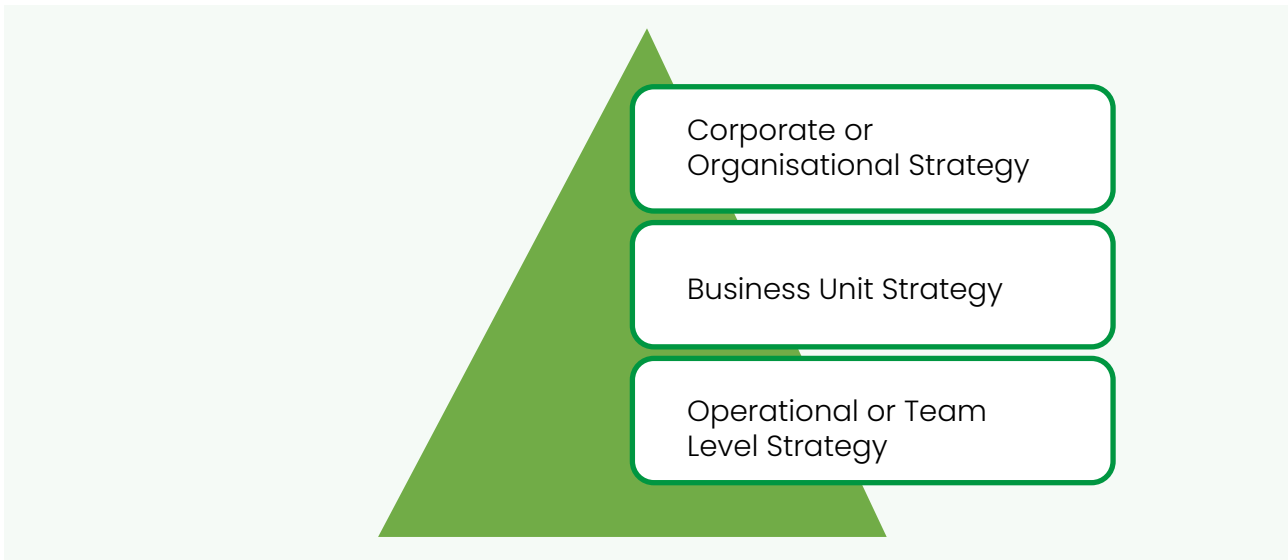
¹ IASP Body of Knowledge 3.0, International Association of Strategy Professionals, 2022.

² G. Johnson, K. Scholes, and R. Whittington, *Exploring Corporate Strategy*, 8th ed. FT Prentice Hall, Financial Times, 2008.

- Covers the broad scope of all activities, resources and capabilities deployed by the organisation.
- Concerns itself with competitive advantage.
- Aims to satisfy the expectations of its stakeholders.

There can also be different levels of strategy in an organisation, as illustrated below.

Figure 1: Levels of Strategy



These are discussed below.

Corporate (or organisational) strategy

Corporate strategy is the highest level and should determine lower-level strategies. The IASP definition given above most closely reflects corporate strategy which affects the whole organisation and incorporates significant decisions, such as:

- Mergers and acquisitions.
- Organisational design and restructuring.
- Brand development.
- Long-term financing.
- Policy development.
- Relocation.
- Diversification of products and services.
- Diversification of markets.

Corporate strategy can help unify all parts of an organisation towards shared objectives. The culture, values and competencies should be consistent with strategic aims.

Business (or business unit) strategy

In commercial enterprises, **business level strategy** is concerned with success in specific markets although more generally we can see it as answering the question of how a division or sub-entity will contribute to organisational strategy. It can mirror corporate strategy but at a lower level across a subset of the organisation and needs to be informed and driven by corporate strategy. For smaller organisations, there may be less differentiation between corporate and business level strategy.

Operational (or team) level strategy

Operational (or team) level strategy involves operationalising the corporate and business level strategy. In some ways, the idea of operational level strategy is contradictory. Strategic thinking and planning can be defined in contrast with operational thinking and planning. The table below reflects this contrast.

Figure 2: Comparison of Strategic and Operational Thinking and Planning

Strategic	Operational
Long-term	Short(er) term
Big picture, holistic	Pertaining to subsections of the organisation
Reviewed and updated as part of a longer cycle (say 3-5 years)	Reviewed and updated more regularly (say 3-6 months)
Answers: where are we going or where do we want to be?	Answers: how are we going to get there?
Requires highest level executive authority	Delegated to managers

However, all parts of an entity, from its smallest components upwards, need to work together like the organs of a biological body. Operational or team level strategy serves the same purpose as corporate and business unit strategy but at the lowest level and for the smallest subdivision of the organisation. Operational strategies focus on specific divisions, markets, regions, products, projects and initiatives.

We can think of organisational strategy as being a set of complementary strategies that are guided and bound by the highest-level vision and direction. Some organisations also make a distinction between functional and operational strategies. For example, functional strategies may include:

- IT strategy.
- Human resource management strategy.
- Marketing strategy.

Example

Ganymede produces office furniture. The CEO makes the following statement:

We plan to issue more shares to raise money for new plant capacity (rather than increase our loans) to enable us to compete better in the vital and growing markets of Latin America. After all, we've promised the shareholders 5% profit growth this year, and trading conditions are tough.

Identify the corporate, business and functional strategies entailed by this statement.

Developing strategy

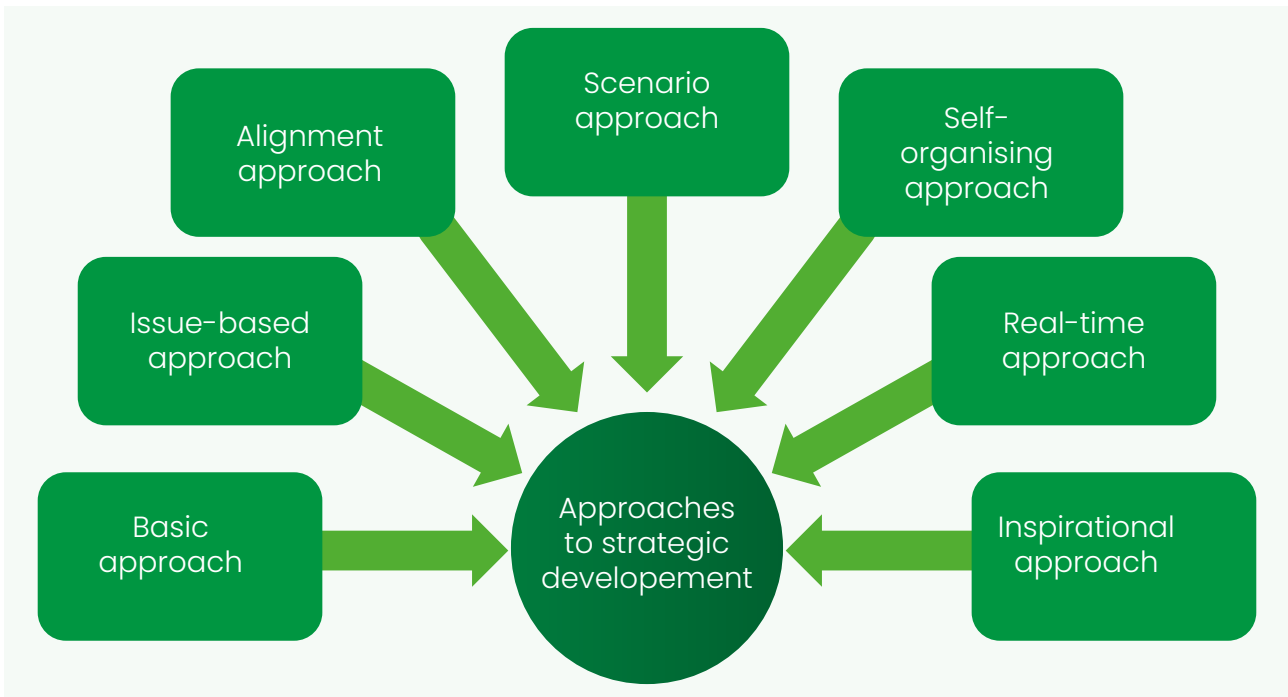
There are alternative methods of developing strategy just as there are different ways of achieving the same goals. There are also many resources to help organisations develop strategy and a rich variety of approaches, and in the next section we will explore some of these. In general, there are three types of activities used in some combination for the development of strategy.

- **Situational analysis:** we can use tools to analyse our current situation, looking at the internal and external environments and checking out the competition. The tools explored in this unit include:
 - SWOT.
 - PESTLE.
 - Porter's Five Forces.
 - Porter's Diamond.
 - Scenario planning.
 - Porter's Value Chain.
- **Evaluation of current approach:** we can analyse what strategies are currently working as well as those that need improving.
- **Goal-oriented planning:** we can start with desired end points and work backwards to strategies that will get us closer to our vision.

Here is one possible way of distinguishing such approaches.³ The point of describing this is to highlight how the approach may vary. The distinctions made are not definitive but illustrative. Such approaches are often used in combination.

³ Based on "Seven Strategic Planning Models Plus Eight Frameworks to Help Get you Started," Asana, 2023.

Figure 3: Approaches to Strategic Development

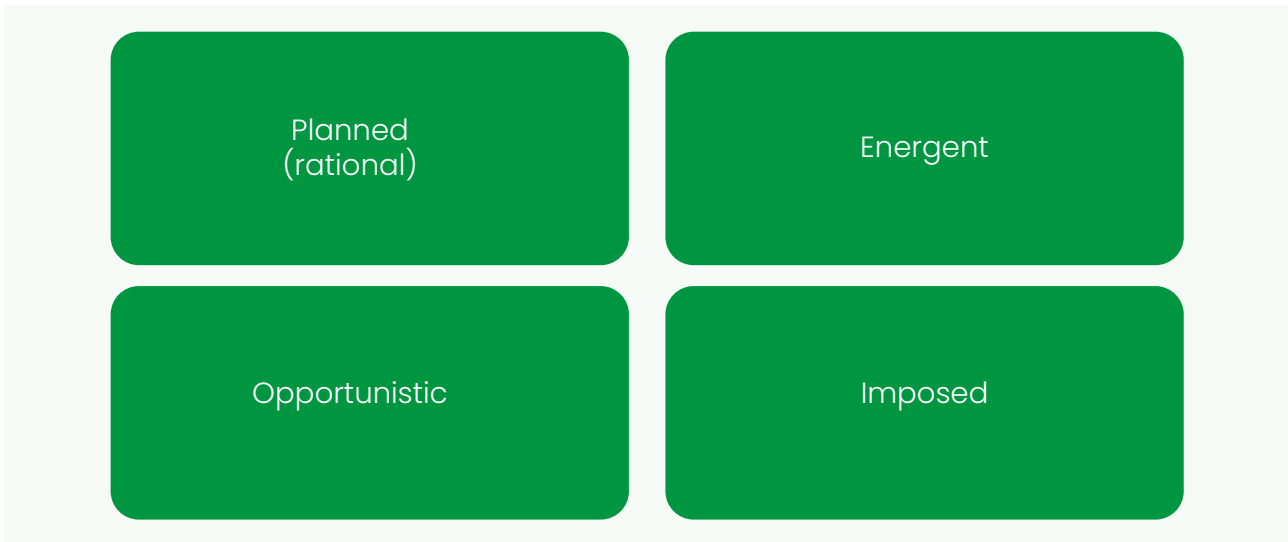


- **Basic approach:** Create a clear expression of the mission or purpose; state goals; develop actions to achieve goals with short-, medium- and long-term targets; develop, implement and monitor plans.
- **Issues based approach:** analyse strengths, weaknesses, opportunities and threats (SWOT); prioritize issues and goals (what do you need to focus on); develop an overarching approach that addresses goals/issues according to their prioritisation; update mission and vision statements to reflect new approach; align resources to priorities; develop, implement, monitor and where necessary correct plans.
- **Alignment approach (also known as strategic alignment model (SAM)):** keep focused on strategy execution, technology potential, competitive potential and service level to ensure they are aligned and, where necessary, accept trade-offs.
- **Scenario approach:** analyse external factors; consider what-if scenarios, including best, worst and most likely cases; devise solutions for dealing with each of these; build strategy around the most likely scenario with contingencies for other outcomes.
- **Self-organising approach:** allow strategies to emerge by repeatedly discussing cultural values, purpose, and possible approaches.
- **Real-time approach:** build a strategic plan based on mission and SWOT analysis, learn from competitors, but remain attuned to changes in the internal and external environments and keep the approach flexible.
- **Inspirational approach:** work with the team to develop inspiring vision and goals; assess resources; develop strategies that maintain focus on the “big, hairy audacious goals.”

Rational model: strategic position, strategic choice and strategic implementation

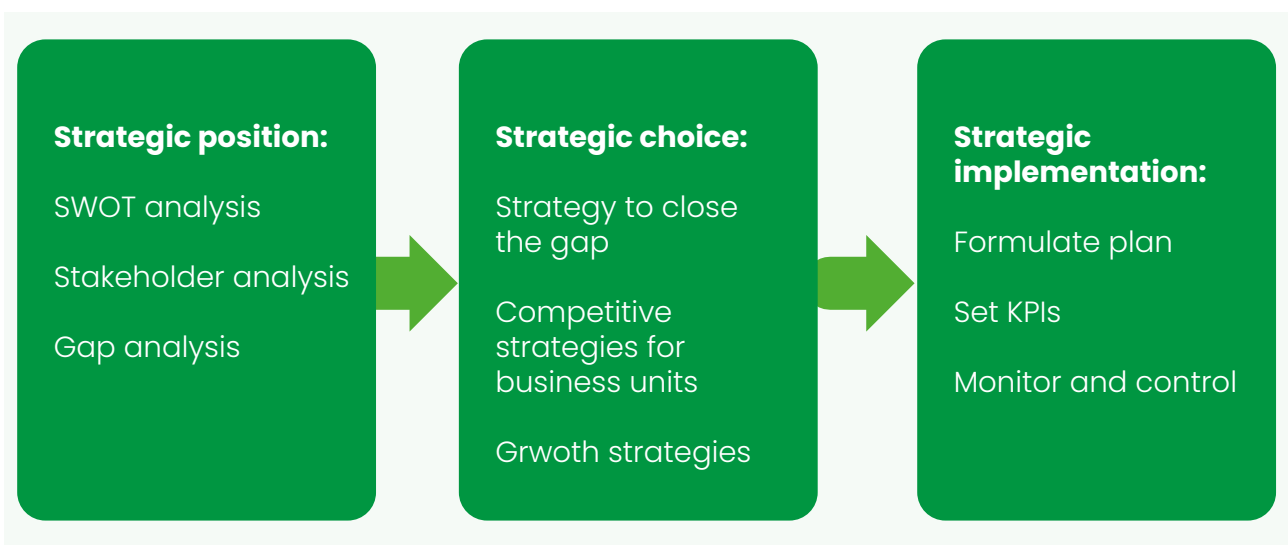
While seven approaches to strategy development were described above, we can narrow this down to four main perspectives:

Figure 4: Models for Developing Strategy



The planned approach is often described as the **rational model**, reflecting three stages of strategic management: **strategic position, strategic choice and strategic implementation**. It assumes a scientific approach led by senior leaders by which the current situation is analysed, options for strategies are identified and selected, and actions are implemented in pursuit of those strategies. It is a top-down, stepwise process. This model is attributed to Johnson, Scholes and Whittington.⁴ The three stages are described as follows:

Figure 5: Three Stages of the Rational Approach



⁴ G. Johnson, K. Scholes, and R. Whittington, *Exploring Corporate Strategy*, 8th ed. FT Prentice Hall, Financial Times, 2008.

The rational approach is sometimes criticised for being overly simplistic and ignoring uncertainty and risk. We can never have full knowledge of the current situation nor predict the future with full accuracy. The number of strategic choices is almost unlimited, and selection depends at least in part on instinct and qualitative factors that cannot be fully systematised. The model also assumes that a top-down approach is best and takes no account of the contribution middle and junior members of staff and external stakeholders can add to strategic development. Lastly, the rational model suggests organisations have time to deliberate and select strategies in a logical fashion when in reality their environments may be changing rapidly, and they must be reactive to some extent rather than fully pro-active in their approach.

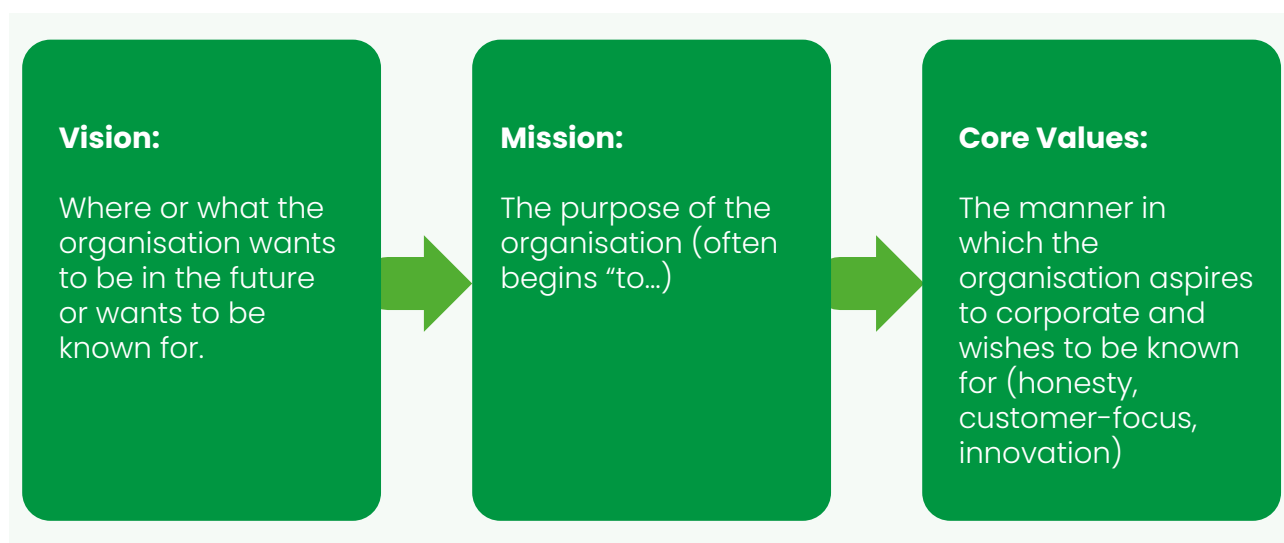
Mission, vision and core values

It is common for organisations to develop, communicate and periodically review and update their **mission (or purpose), vision and core values** as part of the strategic development process. Not all organisations formalise these and there are different styles for doing so. There are useful advantages to this approach. Statements of mission, vision and core values can succinctly capture and communicate central elements of strategy and help ensure organisational cohesion, consistency and focus. They may also be used to inform stakeholders as a way of creating an identity. Lastly, they can be used as a gauge to measure progress. As they say, if you do not know where you are going you usually end up somewhere else, meaning that without a clear sense of purpose an organisation may be unfocused and achieve little.

According to Henry Mintzberg, a mission “describes the organisation’s basic function in society, in terms of the products and services it produces for clients,” and its four key elements are:

- Purpose and planning.
- Strategy.
- Policies and standards.
- Values.

Figure 6: Vision, Mission and Core Values



The following example is taken from the Rwanda Management Institute (RMI)⁵:

Vision: To be the leading regional centre of excellence in quality capacity building and skills development in the fields of administration and resources management.

Mission: To offer training, consultancy, research and advisory services to the public, private sectors and the civil society in the fields of administration and resources management for national development.

Core values:

- Integrity, honesty, self-confidence.
- Teamwork and collective responsibility.
- Practical-oriented and interactive training methods responding to international standards.
- Industriousness, innovation and problem solving.
- Customer-oriented service delivery.
- Professionalism, ethics and discipline.

The following example is taken from the Rwanda Energy Group (REG)⁶:

Vision: To be the leading regional provider of innovative and sustainable energy solutions for national development.

Mission: Developing and providing reliable and affordable energy while creating value for our stakeholders.

Core values:

- Customer oriented.
- Integrity.
- Respect for people.
- Teamwork.
- Efficiency.
- Sustainability.

The impact of ethics on purpose and strategy

Organisational **ethics** have a big impact on purpose and strategy, although not always the one intended. The espoused and actual behaviour of organisations influence stakeholders' attitudes and actions which in turn may have a big impact on the organisation. What customers, suppliers, investors, taxpayers, voters and the public do can obviously have

⁵ <https://www.rmi.rw/index.php?id=16>

⁶ <https://www.reg.rw/about-us/vision-mission-values/>

major implications, and at the extreme an all-out boycott can result in organisational failure. Bad news, such as a scandal caused by unethical behaviour or safety fears about a product, can lead to a lack of public confidence, a fall in share prices and a drop in sales. Opinions matter and organisations carefully promote, enhance and protect their reputation.

Organisations develop and communicate core values to demonstrate they care and promote an ethical culture, but they need to do more than simply express their values.

- Senior directors set the “tone at the top” and must lead by example.
- The organisation must announce its intent by issuing a code of conduct describing expected behaviour.
- It must also demonstrate its intent by enforcing expectations in a fair and consistent manner. Failure to address misconduct weakens the ethical environment and others will follow suit.
- The organisation should provide training and frequently raise awareness of the importance of ethical matters.
- Behaviour and attitudes need to be measured and monitored to gauge the effectiveness of ethical policies.
- Stakeholder perceptions should be regularly sought and analysed.
- Leaders should establish an ethics hotline to allow employees to report ethical issues anonymously and without fear of retribution.

The risk of fraud, corruption, deceit, dishonesty, laziness, bullying and so on are ever-present. If an organisation is serious about its core values, it will develop its vision, mission and strategies in a manner consistent with them and establish practices to identify and deal with misconduct. Culture, as will be discussed later, is a reflection of how and why things are done regardless of what values are expressed. When there is a mismatch between declared and actual values, the culture may be toxic and corrosive.

A.2 The development of strategy

- Distinguish between intended and emergent strategies and the impact on the organisation and its competitive advantage.
- Explain how organisations implement an intended strategy.
- Identify how emergent strategies appear and can be beneficial to an organisation.

Intended and emergent strategies

We have already noted that organisations may adopt a range of approaches to developing strategy. Some approaches, including the rational model, may be described variously as planned, deliberate, prescriptive or intended strategies since they involve selecting strategies from among those identified as potential means of moving the organisation closer to its vision. There is a deliberative process involving plans, KPIs, implementation,

monitoring and corrections if necessary. This applies to the corporate level strategy as well as the lower levels strategies adopted by subsections of the organisation.

Figure 7: Advantages and Disadvantages of Intended Strategy

Advantages	Disadvantages
<ul style="list-style-type: none"> • Provides a clear roadmap for an organisation encouraging focused commitment. • Enables clear and appropriate alignment of resources to priorities. 	<ul style="list-style-type: none"> • Maybe rigid and unyielding. • May limit innovation and creativity. • Tendency to overlook new opportunities when they arise. • Inflexibility and inability to adapt.

Emergent strategies, by contrast, rely on an ongoing evolution of strategy rather than regarding it as somewhat fixed by a logical process. Such an approach is better suited to organisations operating in dynamic environments and subject to fast-paced risk and change. Strategy is allowed to evolve continuously and incrementally to adapt to conditions.

Often organisations formulate an intended strategy and allow it to evolve once implementation has begun. The resultant or realised strategy is the actual path taken.

Emergent strategy development may be informed by all levels of an organisation collected through meetings, surveys, a suggestions box and other similar methods. This overcomes one of the weaknesses of the top-down approach of the rational model. It also has an added advantage of motivating and unifying all members of the organisation. However, emergent strategy may be unappealing to those who prefer clarity and certainty. It is harder to rally behind a strategy that is not fully evolved.

Figure 8: Advantages and Disadvantages of Emergent Strategy

Advantages	Disadvantages
<ul style="list-style-type: none"> • Responsiveness to changing circumstances, enabling greater agility and flexibility. • Encouragement of learning, creativity and innovation. • Contribution to competitive advantage through responsiveness and innovation. • More positive and dynamic organisational culture. 	<ul style="list-style-type: none"> • Harder to align resources to priorities. • May focus on short-term adaptability and responsiveness to conditions and fail to find a route to achieving long-term goals. • Lack of structure and clear direction may lead to potential confusion and inefficiency.

“Competitive advantage” refers to relative advantages an organisation has compared with its rivals. (While public sector entities may not compete commercially, they also possess characteristics that may be described as organisational advantages by placing the entity in a favourable position to fulfil a particular purpose for the economy or society.) Competitive advantage may be achieved because of **differentiation** due

to factors such as:

- **Product differentiation** (having superior features, functionality, design, or other attributes).
- **Image differentiation** (having desirable brand, symbols, atmosphere, or events).
- **Services differentiation** (having superior pre- and post-sales customer care and support).
- **Personnel differentiation** (recruiting, training and retaining the leading talent in a given industry).
- **Resource differentiation** (having advantageous access to certain technologies, materials or location).
- **Operational differentiation** (having superior processes and/or economies of scale).

Competitive advantage may also be achieved on price, known as cost advantage (i.e., by offering products and services at prices below those of competitors).

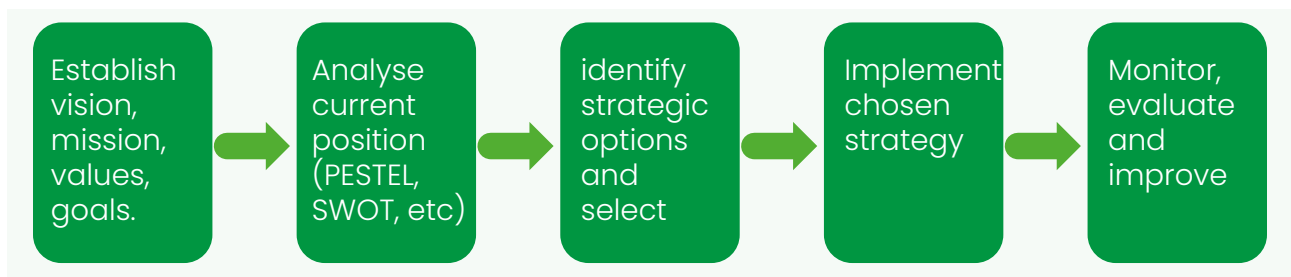
Competitive advantages are said to be sustainable when they cannot easily be mimicked.

Therefore, an emergent strategy may support competitive advantage by enabling an organisation to respond rapidly to opportunities for innovation to product, image, services, personnel, resources and operations in such a way as to maintain the edge over rivals.

Implementing intended strategies

Implementing strategies is the subject of later units in this module. However, at this stage we will consider the process in outline to identify differences between the implementation of intended and emergent strategies. Implementation is the logical step after formulation (strategic choice) for an intended strategy.

Figure 9: Implementation of Intended Strategy



Implementation involves putting strategy into action. This step may encompass a wide range of activities depending on the nature of the organisation and the strategy. In general terms it requires shaping the organisation, its processes and resources (time, money, people) to support the selected approach. Strategy implementation plans should have the following characteristics⁷:

- Holistic, reflective of the breadth of the strategy.
- Varied, drawing upon a wide cross-section of skills and experience.

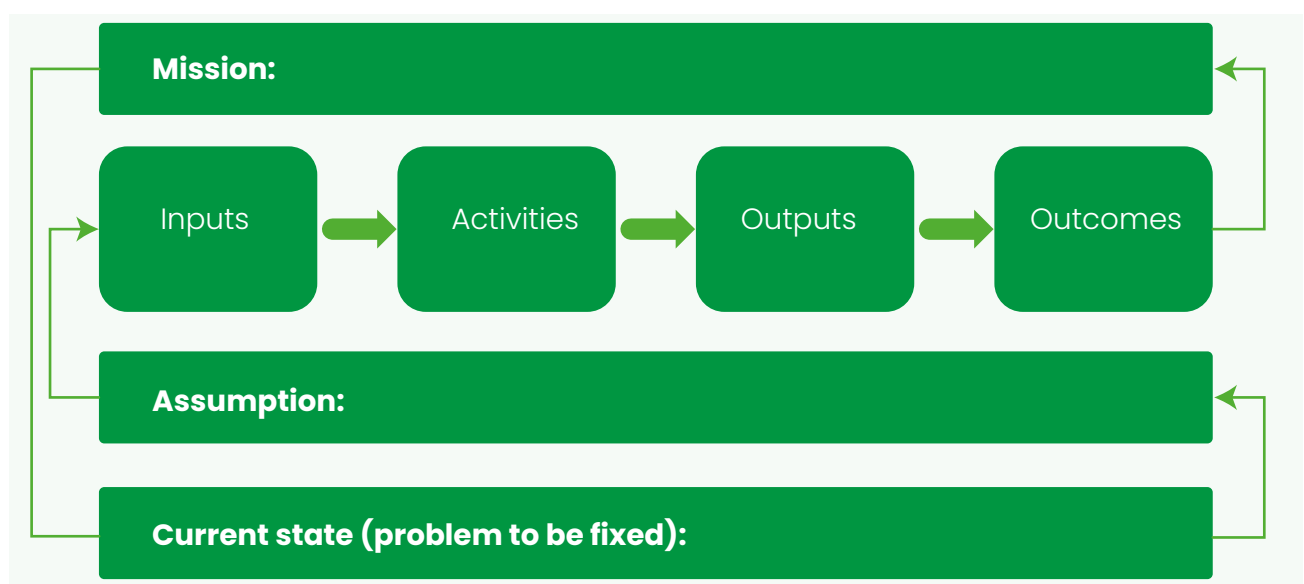
⁷ Based on "A Guide to Strategy Implementation for Managers and Teams," Alyssa Zacharius, Notion, 2023.

- Action-oriented, focused on deliverable, measurable outcomes.
- Participative, involving all levels of the organisation.

In the context of intended strategy implementation, in principle the process is like strategy development as far as being logical, stepwise and capable of being completed definitively. Once established, the plans for implementation are adopted and adhered to without significant deviation when circumstances change. As intended strategy is somewhat inflexible, so too are the associated implementation plans.

Another perspective is that adopted by so-called logic models and theory of change. In the end, strategic thinking is about making change happen. For a logic model, we start with our desired end state (vision/mission) and attempt to solve the problem of how we can change the current state to a new state resembling our goal. We then work our way backwards to determine the necessary conditions, outcomes, outputs, activities and finally inputs that will achieve this. The logic model is represented by a simple graphic like the one given below (there are many variations of this). One important dimension is the inclusion of our assumptions about other things that will happen or be in place (we may call these critical success factors). There may be many sub-steps in the diagram depending on its level of complexity.

Figure 10: Logic Model



Emergent strategies

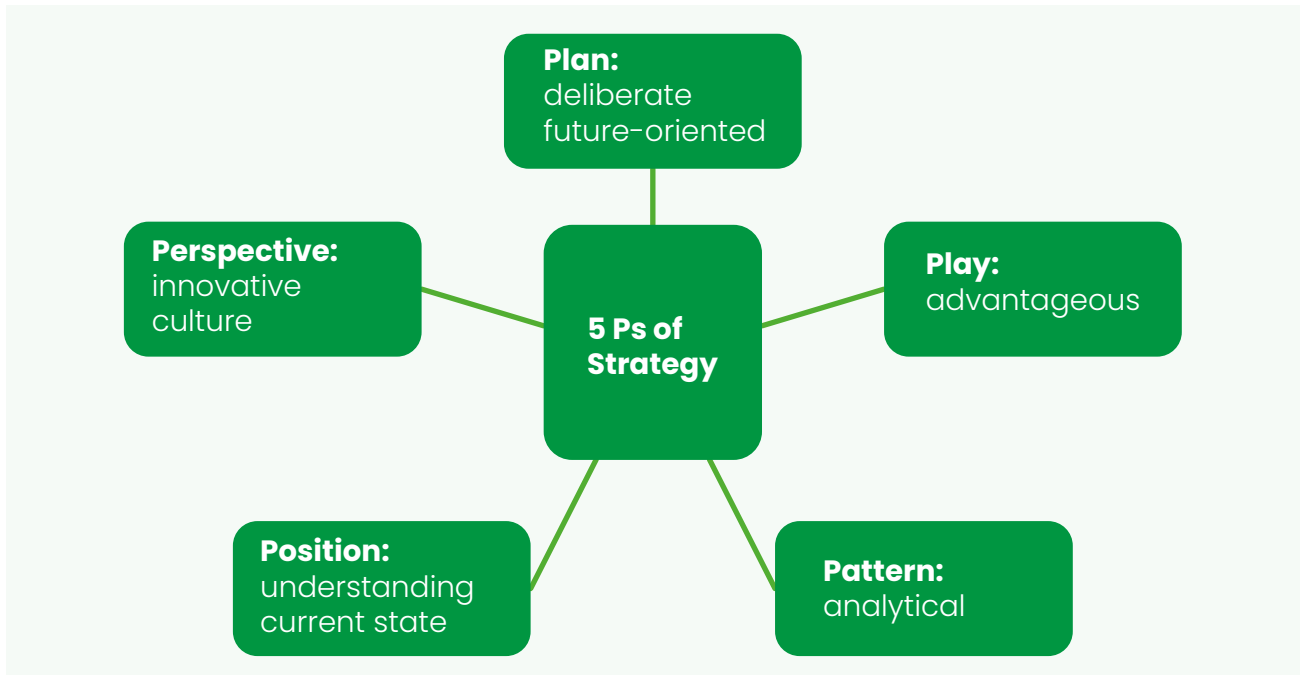
Organisations can develop a strategic plan based on analysis and tied to goals. However, our ability to predict future events and circumstances is limited by our incomplete knowledge due to change, complexity, interconnectedness, chaos, and the fallibility of people, systems, and processes.

Henry Mintzberg first coined the term **“emergent strategy”** to describe an approach to strategic implementation that allows for dynamic situations. The actual strategy is a result of trial, error, learning and adaptation. Change comes in many forms – political, economic, social, technological, legal, environmental (all the elements of PESTLE, in fact – see below) – and can be fast-moving.

It can be very powerful to let goals, decisions and plans be guided by circumstances, navigate hostile environments and capitalise on chances for innovation. We can see the realised strategy as being a factor of intended strategy and other forces.

In Mintzberg’s model, strategy is developed by the **five Ps**: plan, ploy, pattern, position and perspective.

Figure 11: Mintzberg’s Five Ps of Strategy



These dimensions are explained below.⁸

Figure 12: Five Ps of Strategy – Explained

Dimension	Description
Plan	Planning (i.e., prioritising actions, assigning resources and setting timelines) is essential but not enough on its own. Strategy is more than a plan. PESTEL and SWOT are commonly used to help.
Ploy	Strategy is a kind of plot, a cunning ruse designed to get the better of competitors. Managers must consider how competitors will respond. The strategy of one business will influence the actions of others. As a ploy, the business may hope to disrupt, dissuade, discourage, misdirect or in other ways change how competitors behave. Thinking about the thinking of others is the basis of game theory. Managers can also use scenario planning to consider multiple potential eventualities.

⁸ See “Mintzberg’s 5 Ps of Strategy,” Mind Tools, 2024.

Pattern	Strategy is a pattern in the sense that its components are integrated. The pattern may be a sequence of unrepeated stages or a repeated and cyclical activities. In fact, patterns of activity, even if not intended as a strategy, constitute a strategy. Thinking about unique selling point and core competences help analyse and establish patterns of working that support competitive advantage.
Position	Strategy is about position and positioning in the market. It is about the relationship of the organisation with its external environment. Porter's Diamond and Porter's Five Forces can be used to help analyse position.
Perspective	Each organisation has its perspective which in this sense is another way of describing culture. How things are done, why they are done and the ethos of the organisation are very important determinants of strategy. The cultural web is a tool for mapping the relevant elements of culture.

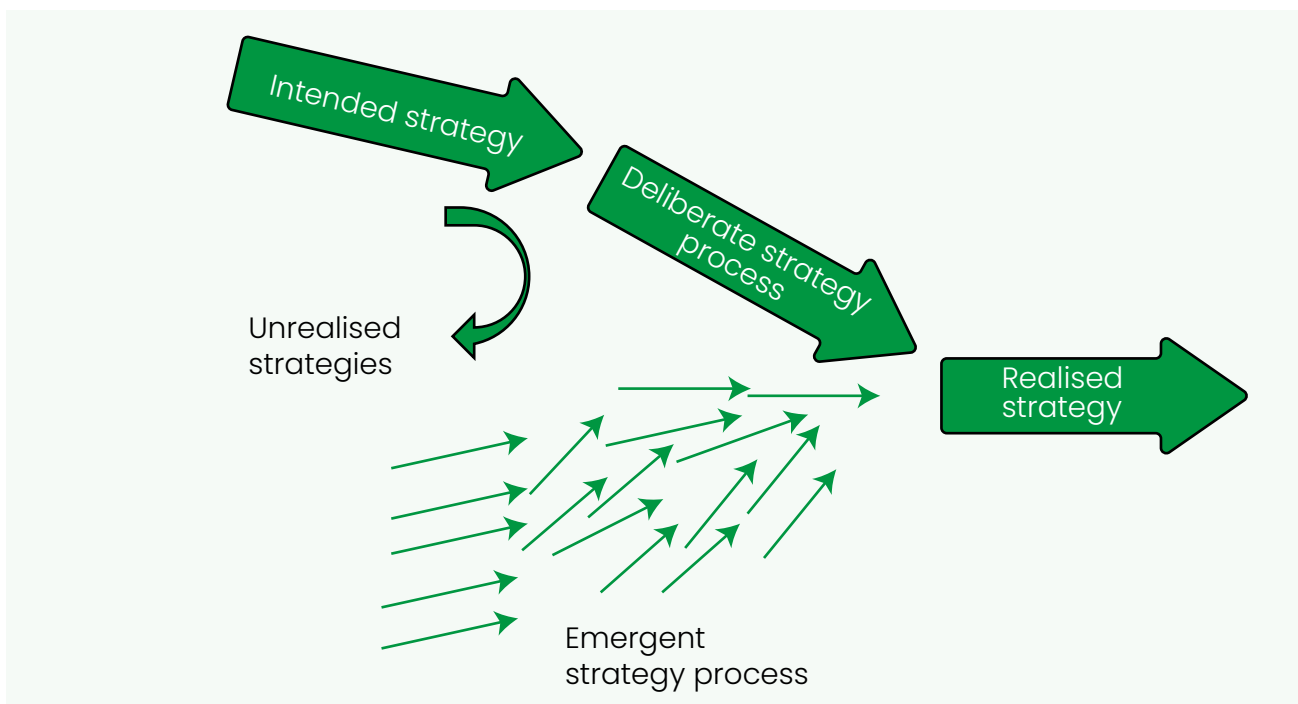
Example

An organisation is a successful supplier of office stationery within its domestic market. As part of its strategy, it intends to expand into foreign markets.

Within its strategy, what considerations should be given to plan, ploy, pattern, position and perspective?

Strategic implementation seldom goes as intended. The actual strategy tends to be the result of several factors.

Figure 13: Mintzberg's Emergent Strategy



Intended strategy: a developed strategic plan based on vision, mission, goals and situational analysis.

Deliberate strategy: implementation of an intended strategy exactly as planned.

Emergent strategy: adaptations to deliberate strategy based on opportunities and threats as they arise.

Realised strategy: actual resulting strategy which is likely to be a consequence of deliberate and emerging factors.

Unrealised strategy: the parts of the original intended strategy left unfulfilled or uncompleted.

An emergent strategy process is not the same as the absence of strategy. All organisations have an intended purpose and strategic aims, and they all have a strategic plan. The extent to which organisations react to circumstances and allow strategy to evolve in the context of circumstance is a matter of choice.

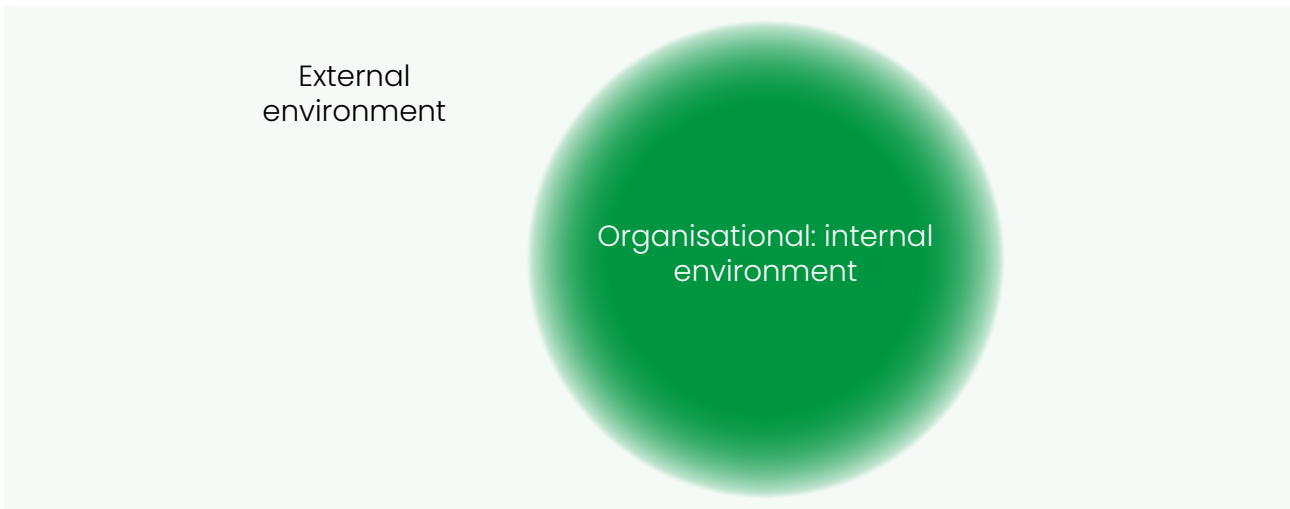
A.3 The external environment

- Assess the macro-environment of an organisation using PESTLE.
- Assess the concept of strategic drift and the implications for an organisation.
- Identify the external key drivers of change and assess how they may affect the structure of a sector or market.
- Apply the Porter's Diamond model to explore the influence of regional and national competitiveness on the strategic position of an organisation.
- Prepare scenarios to reflect different assumptions about the future external environment.
- Identify relevant opportunities and threats posed by the external environment for an organisation.

Analysing the external environment

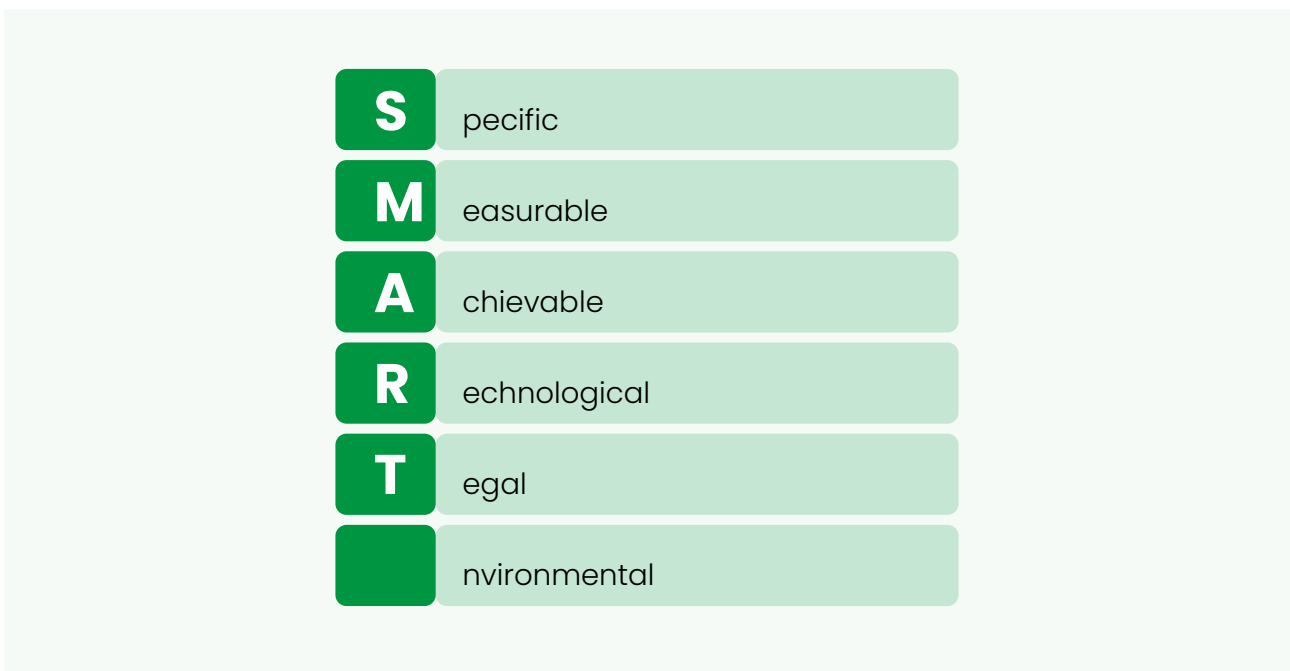
We can imagine an organisation being like a sponge in a pool of water. There is an internal and an external environment, but the organisation is porous, and the boundaries are not sharply defined. Organisations are conceptual constructs that connect people, goals, activities, physical and intangible assets, locations, structures, brands, products, services, culture, history, legal identities and more, and it is not always easy to pinpoint the precise dimensions. The so-called **external environment** (also referred to as the **macro-environment** when describing factors affecting all organisations) might be regarded as being occupied by the overlapping interests of other organisations – competitors, strategic partners, banks, suppliers, service providers, customers, legislators, regulators, tax authorities, unions, other interest groups, etc. – as well as individuals, society more generally and the physical world.

Figure 14: The Internal and External Environments



When analysing external factors for the purpose of strategic planning, organisations often use tools or frameworks. One such tool is **PESTLE** which serves as a prompt to consider different dimensions of the external environment.

Figure 15: PESTLE Analysis Framework



When we think of current and future features of the external environment that we may exploit or that may support or jeopardise our strategy, the PESTLE acronym serves as a structured checklist.

Figure 16: PESTLE – Examples

P	eg., current or future policies, attitudes of current or future governments
E	e.g., likely or possible trends in inflation, interest rates, unemployment and currency exchange rates
S	e.g., trends in demographics, attitudes, lifestyle choices and migration
T	e.g., technological innovation and application, AI, internet of things and fifth generation mobile network (5G)
L	e.g., current and future laws and regulations in areas such as HR, trading, sustainability and data privacy
E	e.g., increased competition for resources, effects of climate change and weather-related impacts on business continuity

Example

An organisation is planning to invest in its technology infrastructure as it goes through a digital transformation for all its major systems and processes. How could the PESTEL model be helpful in the planning process for this strategic change?

Political: Does the government have a digital agenda? Does it encourage organisations to make a digital transformation and does it offer incentives (tax breaks, low interest loans, etc.)? Are there expectations for helping low income or elderly citizens make the transition?

Economic: What is the best way to fund the transformation? What is the current and likely future cost of borrowing? Will economic trends sustain our business model?

Social: Does our target audience prefer to purchase online or in-person? Do they have access to reliable broadband of sufficient speed? What support will they need and expect (chat bots, help lines, etc.)?

Technological: What hardware and software will enable us to transform our business processes? How quickly will our customers be able to use 5G?

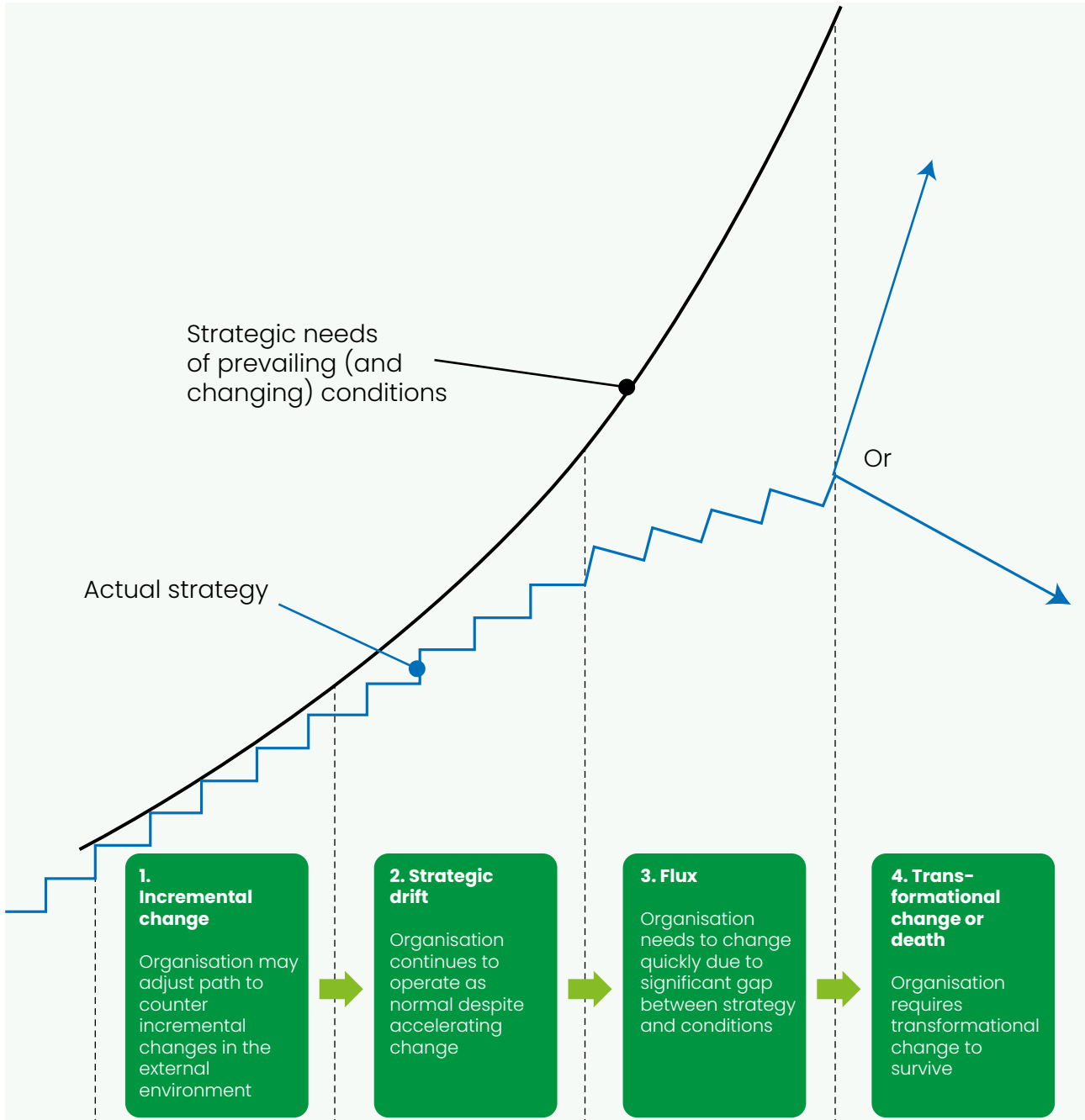
Legal: What legal and regulatory requirements for data protection and privacy will we be subject to?

Environmental: How can we minimise the environmental impact of the transformation (including the disposal of existing hardware and the installation and operation of new servers)?

Strategic drift

Strategic drift occurs when strategy no longer fits the circumstances. The concept was developed by Johnson-Laird who identified four phases over which strategic drift may occur.

Figure 17: Four Stages of Strategic Drift



During the first phase, the organisation attempts to keep up with change by making incremental changes of its own. During the second phase, the gap between the external environment and strategy widens as incremental change is no longer enough to keep pace. In the third phase, the organisation attempts to make sudden larger changes, but these may be piecemeal, poorly conceived and poorly executed causing a vacillating

effect as the gap accelerates. In the final phase, a significant transformation is required, or the organisation is likely to fail.

Strategic drift may occur for a variety of reasons, including:⁹

- Complacency.
- Resistance to change.
- Lack of strategic vision.
- Poor strategy execution.

External drivers of change

We can think of countless external drivers of change and the PESTLE model can be used to help group those drivers. What are the most important ones depends on the purpose, resources and circumstances of the organisation. Large-scale drivers include:

- Geo-politics.
- Globalisation.
- Conflict and war.
- Climate change.
- Pandemics.
- Natural disasters.
- Economic trends.
- Demographic changes.
- Scientific breakthroughs.
- Technological innovation.

The World Economic Forum (WEF) publishes an annual assessment of global risks. “Risk” in this context is skewed toward threats but aspects of these same issues and how organisations respond to them may also represent opportunities for maintaining or increasing competitive advantage. The WEF 2024 report listed risks, ranked by severity, over a two-year and a 10-year period as follows:

Figure 18: Global Risks Ranked According to Severity¹⁰

Two-year		10-year	
1.	Misinformation disinformation	and	1. Extreme weather events
2.	Extreme weather events		2. Critical change to earth systems

⁹ Based on “What Is Strategic Drift?” *i-nexus*, 2023.

¹⁰ *Global Risk Report*, World Economic Forum, 2024.

Two-year	10-year
3. Societal polarisation	3. Biodiversity loss and ecosystem collapse
4. Cyber insecurity	4. Natural resource shortages
5. Interstate armed conflict	5. Misinformation and disinformation
6. Lack of economic opportunity	6. Adverse outcomes of AI technologies
7. Inflation	7. Involuntary migration
8. Involuntary migration	8. Cyber insecurity
9. Economic downturn	9. Societal polarisation
10. Pollution	10. Pollution

The external environment is often subdivided to describe features of certain elements.

Sector: a large segment of the economy containing organisations in broadly similar industries. There are different ways of defining sectors, but a common classification is as follows:

- The **primary** (or extractive) sector includes mining, oil and gas, agriculture and fishing. The primary sector generates raw materials.
- The **secondary** sector includes manufacturing, construction and processing and generates finished goods from raw materials.
- The **tertiary** (or service) sector provides services to the primary and secondary sectors as well as directly to consumers and include financing, retail, transportation and communications as well as arts, entertainment, travel and leisure.
- The **quaternary** sector develops knowledge and includes training, consulting, IT, education, research and development.

Another broad division of the economy is made based on ownership, control and primary purpose:

- **Public sector**, where public funding and assets are used to provide goods and services for the benefit of society.
- **Private sector**, where private funding and assets are used to sell goods and services for profit.
- **Non-profit sector** (civil society), where non-governmental organisations serve aspects of the public good (e.g., charities).
- **Fourth sector** (entrepreneurial altruistic enterprise), where privately owned companies, cooperatives and foundations apply private funds in the service of a value-based mission.¹¹

¹¹ Visit [Strategic Management \(SM3.2\) - Workbook](https://www.fourthsector.org/what-is-the-fourth-sector#:~:text=The%20economies%20in%20most%20countries,sector%20(a.k.a.%20civil%20society) for examples of fourth sector movements.</p>
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A stock market is commonly organised into sectors based on clusters of similar industries, such as utilities, technology, energy, financial services and consumer staples.

Industry: a group of organisations within a broadly similar sphere of activity. An industry is a subcategory of a sector. Examples include hospitality, entertainment, automobile, mining, transport and aerospace.

Figure 19: Comparison Between Industry and Sector¹²

	Industry	Sector
Defined	Groups similar companies	Group similar industries
Breadth	Contains many companies	Contains thousands of industries
Change potential	May grow or shrink over time	Normally remains stable due to broader diversification
Classification	According to products and services of companies	According to commonalities among industries
Ranking	Last in the economic order	Second in the economic order
Analysis	Targeted view of companies' details and performances	Higher level view of industries' performances
Government oversight	Stricter enforcement possible due to limited business types and activities	Less involved due to large number of industries and existing industry oversight

Competitiveness

Commercial organisations typically compete with others in the same market for customers, resources, revenue, reputation and market share. How they compete varies widely. Markets usually enable large and small organisations to succeed alongside each other. In fact, the presence of competitors is often healthy for both the customer and the organisation. Advertising by one supplier can raise awareness about a product or service although the customer may purchase it somewhere else. High streets, shopping precincts and online traders sell similar items. Customers' choices are influenced by:

- Price.
- Quality.
- Features.
- Convenience, including methods of payment, waiting time, ease of transaction, hours of trading and location.
- Service, including speed and cost of delivery and aftersales care.

¹² Taken from "Industry vs. Sector: What's the Difference?" Investopedia, 2023.

- Surroundings and atmosphere.
- Image and reputation contributing to prestige and brand loyalty created by advertising, word of mouth and the media.
- Prior experiences.
- Random factors, such as chance encounters and spur of the moment decisions.

However, how these shape the needs, desires and behaviours of individual customers depends on other factors, such as their income, lifestyle, personal preferences, values, age, gender, sexuality, ethnicity and more. These differences allow multiple providers to operate in the same market by appealing to different audiences within it.

The **value proposition** describes the unique benefits and value a product or service offers for its intended audience. It may be used in marketing, but it also serves the organisation in clarifying and highlighting the important attributes, so they remain front of mind in all decision-making, planning and actions.

Competitive advantage is the ability of an organisation to outperform its competitors due to favourable attributes. Michael Porter identified two main sources of competitive advantage organisations may possess:

- **Cost advantage**, being able to provide the same goods and services but at a lower cost.
- **Differentiation advantage**, being able to provide different (or differentiated) goods and services that better meet the needs and expectations of customers.

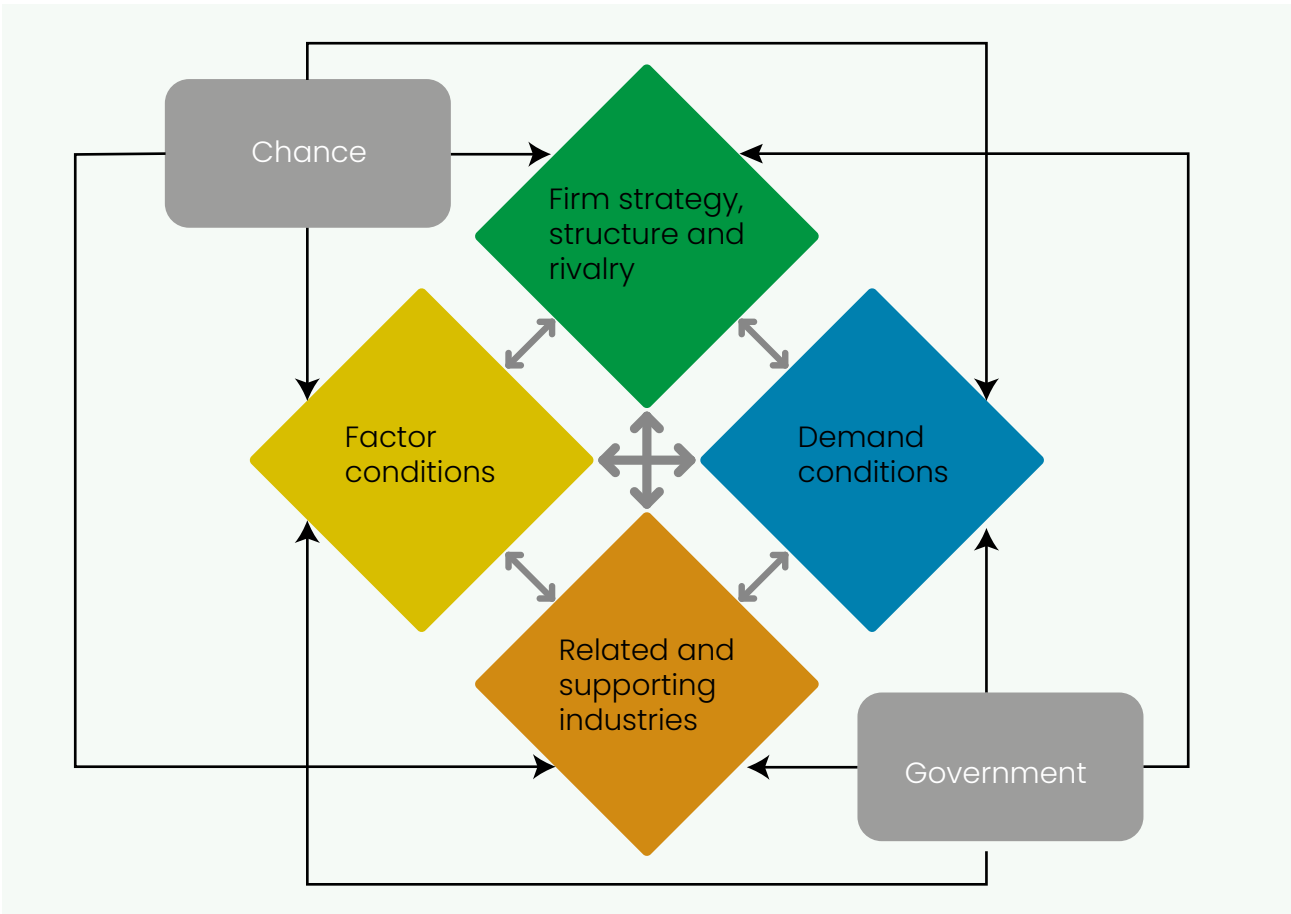
We might say the purpose of strategic management in a commercial environment is to build and sustain competitive advantage. Three types of generic strategies are suggested by Porter:

- **Cost leadership strategy**, based on cost advantage.
- **Differentiation strategy**, based on differentiating the products and services offered to the market from those of competitors.
- **Focus strategy** (segmentation strategy), based on targeting a particular segment of the market.

Porter also created a framework to help organisations understand the attributes of domestic markets that impact their comparative competitive advantage. It can also be used to evaluate the competitive advantage of nations in an international market.

Porter's Diamond Theory of National Advantage comprises four elements:

Figure 20: Porter’s Diamond Theory of National Advantage



An organisation’s ability to compete in a certain national environment is attributable to the combination of these elements. It also explains why certain nations can compete internationally for some industries and not others. These are amplified in the table below.

Figure 21: Porter’s Diamond¹³

Factors	Components
Firm strategy, structure and rivalry	Market conditions and the degree of competitiveness determine the strategies, structures, management systems an organisation needs to adopt to succeed. It is highly likely that different environments and different markets and nations require a different set of structures, strategies, etc. for businesses to succeed. This is also a big driver of innovation as rival firms wish to differentiate themselves from their competitors. The best businesses thrive, and this makes them attractive to other audiences around the world.

¹³ Based on “Porter’s Diamond Model: Why Some Nations Are Competitive And Others Are Not,” B2U, 2018.

Factors	Components
Demand conditions	<p>Demand plays a major role in competitive markets. Increases in demand will fuel an increase in competitiveness as existing firms increase supply and new firms attempt to enter the market.</p> <ul style="list-style-type: none"> • Size of domestic market – larger markets help organisations grow and improve. • Sophistication of customers – encourage organisations to improve and innovate. • Appreciation of likely future needs and opportunities.
Related and supporting industries	<p>Presence of investors, suppliers, service providers and strategic partners – supports stability and growth.</p>
Factor conditions	<p>The resources available for a nation include:</p> <ul style="list-style-type: none"> • Natural resources. • HR. • Capital. • Infrastructure. • Knowledge. • Technology. • Research and development. <p>Some countries are rich in resources such as oil, coal, natural gas and iron. Created factor conditions such as skills, technology and infrastructure have occurred over time and need to be maintained and continuously updated otherwise other nations can catch up and overtake them.</p>
Government	<p>Role of legislation and regulation in nurturing and encouraging enterprise and competition – this includes infrastructure, transportation, education, health, HR and competitive practices both nationally and internationally.</p>
Chance	<p>Circumstances created by extreme weather events, wars, famines, droughts, earthquakes, political uncertainty, social upheaval and more may all contribute to or hinder competitiveness.</p>

Regional and national competitiveness can be analysed using Porter’s Diamond. Nations that are deficient in one of more of these advantages can take steps to improve their competitiveness in a given industry. Governments need to create favourable conditions. The country may lack demand in their domestic market but may still be able to compete globally. The firms must adopt strategies and structures to rival existing providers. Relating and supporting industries are needed as enablers and these may be developed domestically or exploited globally. Natural resources may be absent and this places an

almost insurmountable barrier. If you do not have a supply of oil, it is difficult to compete with countries in the Middle East where supplies are vast. However, other nations may innovate alternatives to fossil fuels.

Scenario planning

A key element of strategic planning is anticipating the future. As we have seen, emergent strategy allows organisations to flex and adapt their strategy to changing conditions. This does not mean it is not important to try to prepare for future contingencies. The best model we have of the future is the present from which we can imagine certain “what if” scenarios. For example, what would happen if:

- Inflation increases or decreases?
- Unemployment rises or falls?
- New competitors enter our market or existing ones change their strategy?
- The cost of raw materials rises or falls?
- New technology emerges that could change our processes?

Not only do things change quickly, it feels as though the rate of change itself is increasing. Well established industries are being disrupted by new approaches, often made possible by technology. Start-ups can have the flexibility and enthusiasm to compete effectively with much larger organisations.

As with the global risks from the World Economic Forum given above, there is no shortage of attempts to predict the future external environment. Organisations can use these to help consider and prepare for a range of situations. There are many advantages to using scenario planning, including:¹⁴

- It helps decision-makers identify ranges of potential outcomes and impacts, evaluate responses and manage for both positive and negative possibilities.
- It enables a proactive response to events by visualising and anticipating potential opportunities and threats. Finance, operations and other teams can prepare initial responses.
- It is a way of capturing previously tacit knowledge and enabling an organisation to retain it.
- It is a flexible model supported by many available templates and formalised frameworks to meet the needs of the organisation.

However, it can also be a major undertaking and may rapidly become obsolete as conditions change.

Different models of scenario planning are commonly adopted reflecting four approaches (which may be combined with each other):

- **Quantitative scenarios** (typically used to model financial outcomes) consider best case and worst-case results. The assumptions about inflation, unemployment, costs, productivity, sales, etc. can be readily adjusted to create new projections.

¹⁴ See “Scenario Planning: Strategy, Steps and Practical Examples,” Oracle NetSuite, 2022.

- **Operational scenarios** consider the impact (immediate and longer-term) of an event or set of circumstances that may arise.
- **Normative scenarios** consider favourable end states and conditions and how the organisation could take advantage of them.
- **Strategic management scenarios** attempt to describe a likely future macro environment with potentially disruptive implications.

Opportunities and threats of the external environment

To complement the PESTLE model, organisations often use **SWOT** analysis when evaluating their situation.

Figure 22: SWOT Analysis



Strengths and weaknesses refer to current advantageous or disadvantageous features of the organisation. We will be returning to this aspect of the internal environment in A.6. Opportunities and threats refer to features of the external environment that may favourably or adversely impact organisational strategy and objectives (and can be further analysed using the PESTLE model). We can think of these as external risks which are discussed in Unit E below and have the same potential for positive or negative impacts. They cannot be changed, at least not directly, but are current and foreseeable features of the market.

The components of a SWOT analysis are connected. Weaknesses can be addressed by taking advantage of opportunities, and threats can be addressed by utilising strengths.

Figure 23: SWOT – Examples

S	e.g., things the organisation does well, unique resources and assets it owns or has access to, how the organisation is perceived, how it is positioned
W	e.g., things needing improvement, what competitors do better, resources that are lacking, features that are in decline
O	e.g., new markets, resources, products, services, suppliers, investors, partners, processes, laws, ways of doing
T	e.g., actions or plans by competitors, suppliers, legislators, regulators, investors and customers, or changes in laws, economy, demographics, etc. that may impact disadvantageously

Strategies can be developed based on expectations about the future. Where possible, allowance is made for different scenarios. It is a high-risk strategy to rely on conditions remaining the same or future states arising exactly as anticipated. There is a history of failed organisations who did just that. Famous failures of once household names include:

- Nokia – failed to anticipate the success of smartphones.
- Kodak – failed to anticipate the collapse in demand for analogue 35mm film.
- Blockbuster – failed to anticipate the shift to home streaming movies.¹⁵

On the other hand, there are many companies who read the writing on the wall and transformed their business models very successfully. Examples include:

- Netflix – switched from DVD rental to streaming services as well as content creation.
- Yellow Pages – switched from publishing hard copy telephone books to offering digital services as yell.com.
- Walt Disney – continued to innovate to become one of the largest global media conglomerates.¹⁶

¹⁵ Adapted from "9 Companies That Failed to Adapt to Disruption and Paid the Ultimate Price," Thomas Net, 2024.

¹⁶ Adapted from "Adapt or die: eight businesses that transformed their business models to survive," Hiscox.

A.4 Assessing the competition

- Recognise the differences between markets and industries.
- Analyse the profitability of an industry or sector using Porter's five forces framework.
- Assess how the lifecycle model can help organisations to understand competitive behaviour.
- Analyse customers and markets, including market segmentation.

Markets and industries

We have already looked at the distinction between sectors and industries (see section A.3 above.) Industries are also somewhat related to markets, but there is an important difference.

An industry is characterised by a group of organisations operating within a broadly similar sphere of activity. A market, on the other hand, represents a system of trade and exchange of goods and services and includes people, sellers and buyers. Organisations provide their outputs to a market. We can say it is where buying and selling occurs (although this does not necessarily denote a physical location).

The table below explores the distinction between markets and industries in more detail.

Figure 24: Industries vs. Markets¹⁷

Features	Industry	Market
Meaning	Group of organisations selling similar/competing products or services.	Place where goods or services are transacted, comprising consumers, sellers, commodities and prices.
How to analyse	Industry analysis: review specific organisations from the industry.	Market analysis: review people, product, positioning and pricing within a market.
Creation and demand	Created by participants (manufacturers, service providers, retailers, etc.).	Created by demand for a specific product or service.
Examples	Banking, telecommunications, renewables, insurance, travel, cosmetics.	Life insurance market, commercial solar market.

Markets may vary according to how competitive they are, and organisations may seek to gain competitive advantage over other providers in the same market. Markets can relate

¹⁷ Adapted from "Industry vs. Market: The Differences Explained," similarweb, 2024.

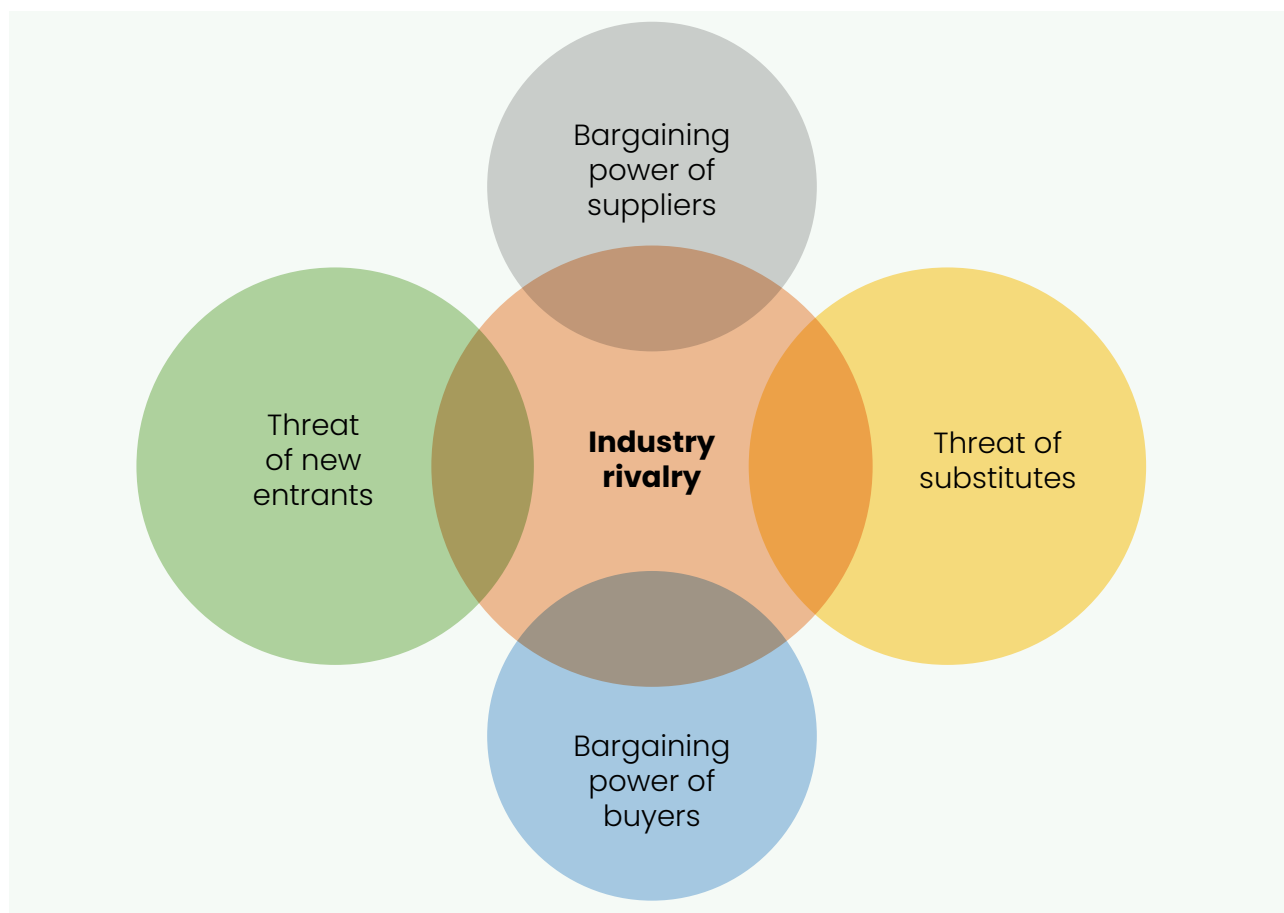
to industries or can be subdivided (segmented) according to similar types of goods and services and other characteristics, such as geographical location, customer group and method of sale. Some organisations sell to individuals. This is known as **B2C** (business to consumer). Some businesses sell to other businesses. This is known as **B2B** (business to business).

Profitability

The concept of profitability is familiar from activities and enterprises. It is measured by the margin, the excess financial value or net income, usually expressed as a percentage of the revenue generated. It is a measure of efficiency.

We can also measure the profitability of an industry or sector by taking the average profitability of the organisations contained. A useful tool for evaluating the strengths and weaknesses of an industry is **Porter's Five Forces Model**. It focuses on competitive forces that shape the environment in which organisations operate within a given industry. For Porter, coping with competition was the essence of strategy.

Figure 25: Porter's Five Forces Model



The elements of Porter's model are explained below.

Figure 26: Porter's Five Forces Explained¹⁸

Forces	Description
Bargaining power of suppliers	Suppliers enjoy greater power when there are fewer of them, they have differentiated products or strong brands and where switching costs for the buyer are high. In such situations, suppliers can more easily dictate prices and exert control on the market.
Threat of substitutes	If a customer can swap to an alternative product or service that fulfils the same need (a substitute), it threatens the industry. This occurs when a substitute is regarded as doing the same job but is better (in terms of price, performance, convenience, etc.) and customers are willing to swap (brand loyalty is not strong enough and switching costs are not high).
Bargaining power of buyers	Customers enjoy greater power when there are fewer of them, they can buy in bulk, switching costs are low and knowledge about other available products is high. This means customers can be highly price sensitive and effectively dictate prices to the market.
Threat of new entrants	Industries where new entrants can join the market easily tend to have lower profitability and individual organisations have a lower market share. Barriers of entry to an industry making it harder for new organisations to join include: <ul style="list-style-type: none"> • Economies of scale enjoyed by large organisations. • Product differentiation, strong brands and brand loyalty for existing providers. • High capital requirements and set up costs. • Significant regulatory restrictions. • Established distribution channels by existing organisations (such as retail outlets, online presence). • High switching costs from one provider to another (or new) for consumers. • High advertising spend by existing large organisations.
Industry rivalry	Rivalry is a function of the other forces and the intensity of that rivalry is intensified by: <ul style="list-style-type: none"> • A higher number of competitors. • Low rate of growth of the industry. • Products or services offered are very similar. • High barriers to exiting the industry (such as significant assets to dispose of and extended contractual obligations).

¹⁸ See "Porter's Five Forces Explained and How to Use the Model," Investopedia, 2024.

Competitive behaviour

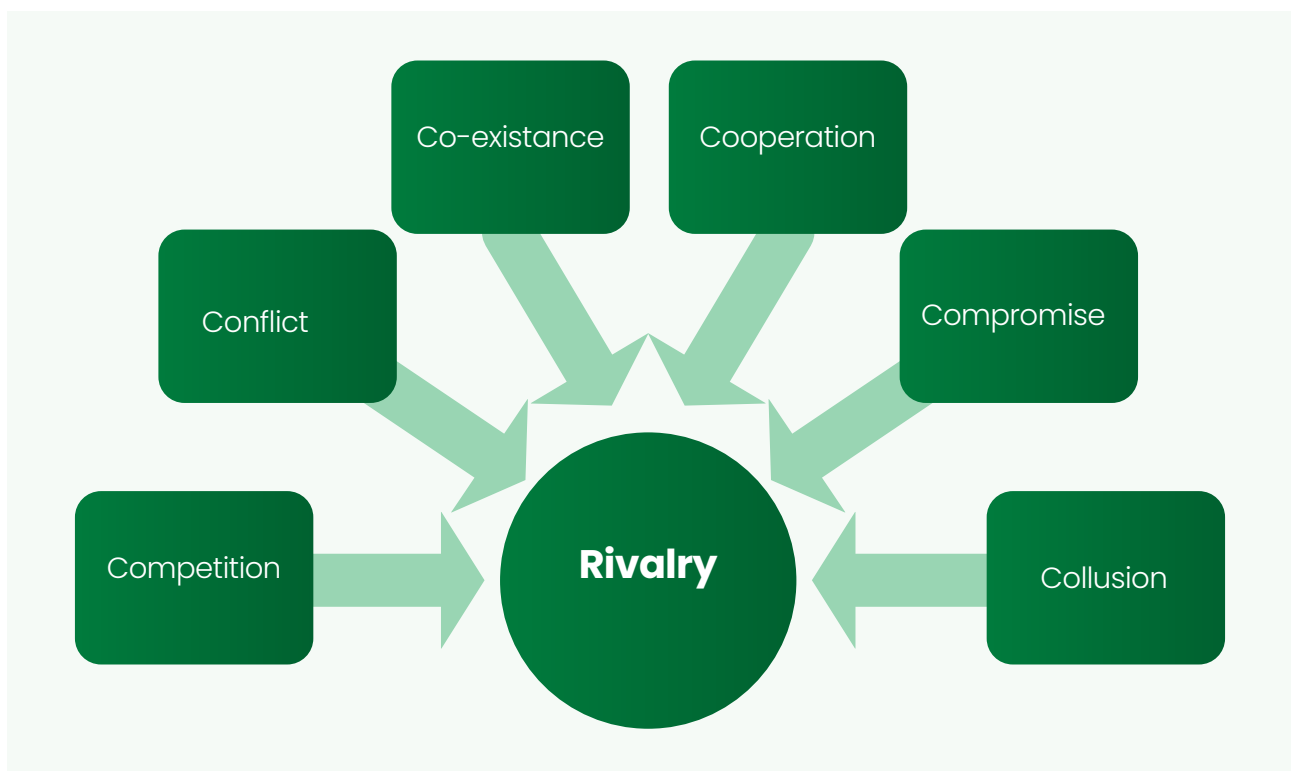
Competitive behaviour is directed at maintaining or increasing one's advantage. Competition occurs between organisations in the same market who want to keep or increase their market share. Competition can be a spur to achieve greater innovation, efficiency and tailoring of products and services to satisfy consumer demands.

The success of competitive behaviour depends on:

- Strategy.
- Anticipation of the behaviour of competitors and of other market forces.
- Resources.
- Features of the market.

Being in a competitive environment more provoke different kinds of reactions.

Figure 27: Responding to Rivalry



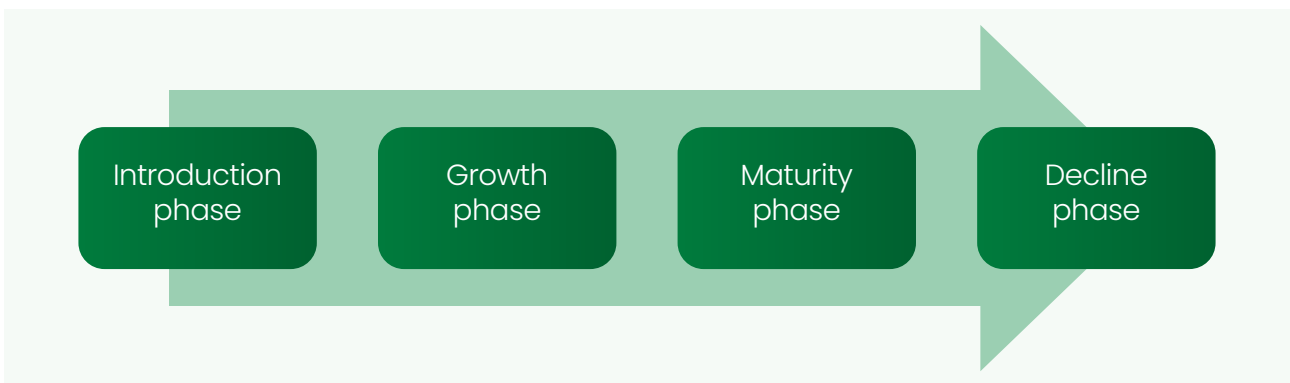
- **Competition:** an organisation may decide to accept rivalry and seek to be better (or the best). Such an approach is beneficial to consumers and to others in the market.
- **Conflict:** destructive competition can take the form of conflict. This is a form of aggression with the aim of taking down the competition. If successful it will lead to there being fewer providers in the market and possible negative consequences for consumers (such as less choice or higher prices).
- **Coexistence (or avoidance):** a peaceful, non-compete approach may also be adopted when firms decide to allow their competitors to dominate within a particular niche (i.e., a highly specialised segment of the market). Coexistence may take several

forms:

- **Cooperation**, whereby two or more organisations agree to work together for mutual advantage, perhaps competing with other players in the market.
- **Compromise** (or accommodation), whether by formal agreement or by custom and practice an organisation may decide how they will share the market with one or more of its competitors.
- **Collusion**, whereby organisations work to raise barriers to entry to the market, fix prices, agree levels of output to manage demand, and so on. This may be done through a cartel and such practices may be deemed anti-competitive and prohibited by laws and regulations.

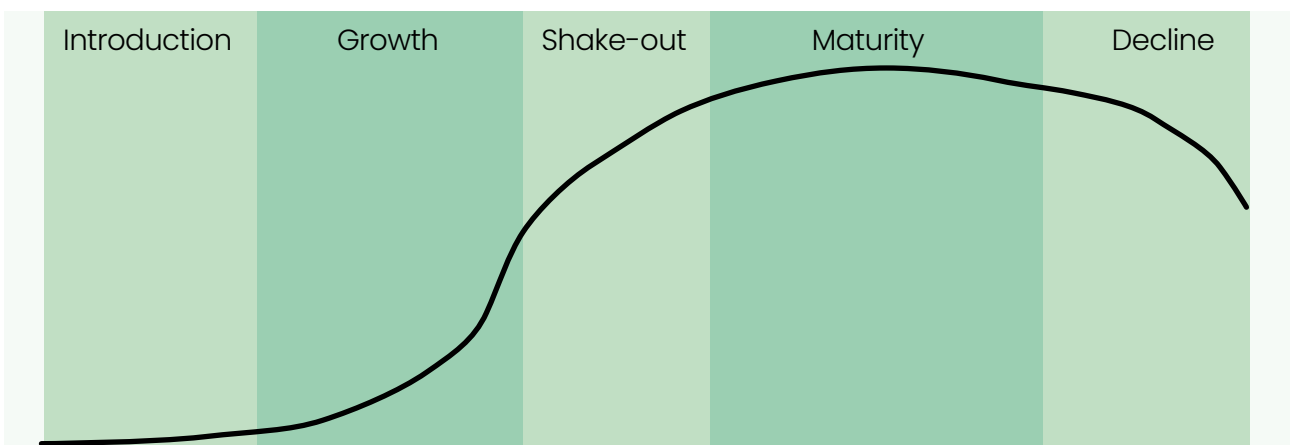
The behaviour of a market and of the participating suppliers, customers, wholesalers, retailers, and others who enable trading changes as the market matures. To appreciate this involves recognition of a lifecycle model. Markets do not remain the same over time. This is illustrated and described below.

Figure 28: Industry Lifecycle Model



If we drew a graph of demand over time it would probably resemble the following:

Figure 29: Industry Life Cycle



“Shake-out” refers to a phase during the later stages of growth when competition is fierce and weaker firms are taken over or forced out.

Figure 30: Industry Lifecycle Explained¹⁹

Phase	Description
Introduction	Industries begin with an innovation, a new product or service or a new way of combining products and services or of bringing them to market. Initial demand will come from consumers who are early adopters. Generally, information is limited and the industry is fragmented. The product or service is likely to undergo rapid development as suppliers iron out the kinks and there may be low profitability.
Growth	In the growth phase, both knowledge and demand increase rapidly as consumers understand the proposition. Competition increases quickly as firms vie for market share. Profitability increases as the industry takes shape.
Maturity	Maturity occurs as the market consolidates, and supply, demand and supporting services enable an effective distribution. Profitability is optimised. Maintaining market share is a high priority. Barriers to entry may begin to prevent new organisations from joining. Price competition is more important as product differentiation begins to diminish.
Decline	Further consolidation may occur as organisations merge with or acquire each other. Weaker providers fail as competition is fierce. Demand may be saturated. New products or services may emerge in adjacent markets, sapping demand and driving firms to reposition themselves. Decline may be delayed through continuous innovation or by sustained demand.

There is a similar lifecycle model for individual organisations and products (i.e., launch, growth, maturity and decline).

Customers and markets

When organisations compete on product or service differentiation, they attempt to satisfy the needs of a segment of the market more successfully than their rivals. To achieve this, they need to be able to identify and target that audience through their marketing and supply channels.

Segmentation involves analysing the market into smaller chunks known as segments for the purpose of targeting products and services. A segment is a subsection of a market in which a group of consumers can be identified, usually on one of the following bases:

- **Homogeneity**, where a group of consumers with common needs can be distinguished.
- **Distinction**, where a group of consumers with different needs from others can be distinguished.

¹⁹ Adapted from "Understanding the Industry Life Cycle: Phases and Examples," Investopedia, 2023.

- **Reaction**, where a group of consumers who respond to the market differently from others can be distinguished.

If an organisation is first to recognise and respond to a segment, they can gain a competitive advantage, at least temporarily until others catch up. Markets may be segmented by one or more factors, illustrated below.

Figure 31: Market Segmentation

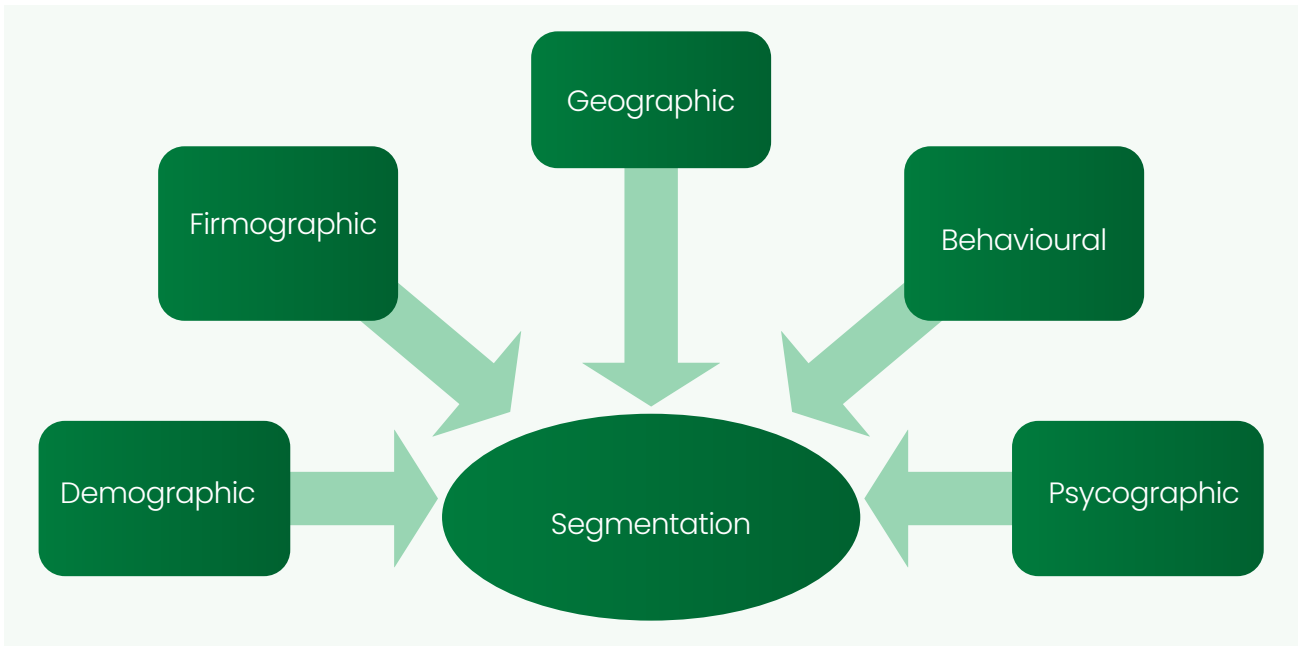


Figure 32: Market Segmentation – Explained²⁰

Segmentation	Description
Demographic (B2C)	Relating to features of the population – age, gender, ethnicity, education, occupation, income, etc.
Firmographic (B2B)	Relating to features of organisations (when organisations are the customer) – size, number of employees, revenue, etc.
Geographic	Relating to location.
Behavioural	Relating to behavioural characteristics, especially purchasing and consumption habits and responses to similar products and services.
Psychographic	Relating to personal characteristics of consumers – lifestyle, interests, opinions, personality, etc.

²⁰ Adapted from "Market Segmentation: Definition, Examples, Types, Benefits," Investopedia, 2024.

A.5 Creating competitive advantage through products and services

- Understand the need for an organisation to identify appropriate critical success factors (CSF) for products and services.
- Apply Porter's Value Chain to identify those new and existing activities that can create value to the customer.
- Explain the benefits of organisations operating within a value network.
- Identify internal and external approaches to benchmarking an organisation's performance.

Critical success factors

Critical success factors (CSFs) are things that must be completed or achieved to enable an organisation to reach its goals. They are not the goals themselves nor are they measures to gauge how close we are to achieving the goals. In contrast, key performance indicators (KPIs) are metrics of success.

CSFs are essential prerequisites or conditions for being able to succeed. They should be identified as part of the strategic process. They help organisations recognise what must be done to reach the goals. What can be confusing is that we can set targets for CSFs. However, when we define the CSF in relation to a strategic goal, it should be clear that the CSFs play a role rather than being an end in themselves.

We start with the goal. For example, imagine one goal is to increase market share and part of the approach includes a social media marketing campaign. In this context, examples of CSFs may include:²¹

- Improved rates of social media engagement.
- Improved email open and click-through rates.
- Faster turnaround in creating content assets.
- Increasing clientele each month.

They play a very important role in keeping organisations on track to achieving their strategic goals. Without achieving these things, we would be unable to increase our market share. However, achievement of these CSFs is not the same as achieving the goal.

Value creation

The goal of most organisations can be described as value creation. Value is the worth of an organisation. It may be measured in monetary terms, but it is more than simply the number at the bottom of a balance sheet. Brand, reputation, culture, staff loyalty, know-how, patents, networks of customers and suppliers, systems and processes all form part of value. These additional components of value are things that make it hard for a newly formed organisation to compete with an established supplier in a market, even if they had

²¹ Taken from "What Is a Critical Success Factor? A Quick Guide," Project Manager, 2024.

similar amounts of capital. Even for public sector organisations, the goal is to continue to improve systems and processes to ensure greatest possible benefit is delivered to the public good.

Value can be created, transformed, destroyed or retained. The concept of a value chain is that value is created through a series of steps and processes encompassing everything it takes to produce a product or service and deliver it to the customer. Any competitive advantage an organisation has or wishes to have is part of the value chain, and so improvements to the value chain are ways of building competitive advantage.

Porter's Value Chain is a strategic management tool for analysing the value chain according to five primary activities and four supporting secondary activities. It is represented graphically as a segmented arrow with the head driving toward margin.

Figure 33: Porter's Value Chain

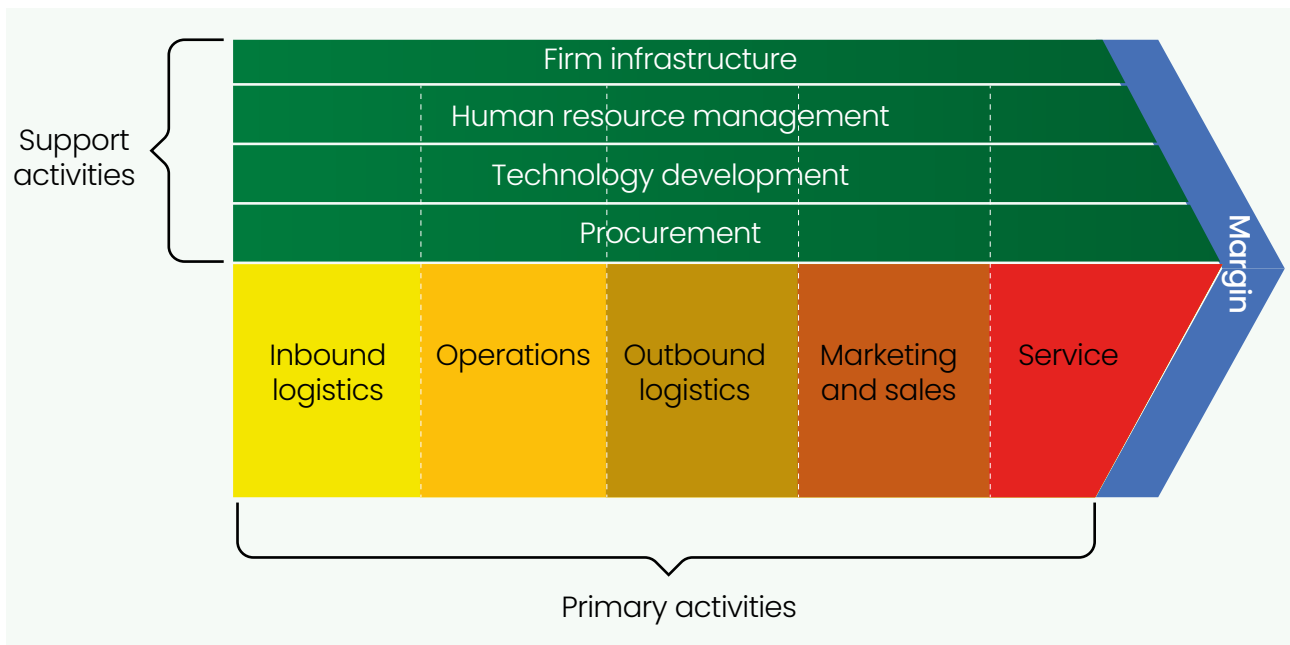


Figure 34: Porter's Value Chain Explained²²

Elements	Description
Primary activities:	Activities directly related to the production, sale, maintenance, support of the product or service.
Inbound logistics	All aspects of receipt and storage of goods, including warehousing, inventory control and relationships with suppliers.
Operations	All procedures used to convert inputs into the finished product or service.

²² Adapted from "What Are the Primary Activities of Michael Porter's Value Chain?" Investopedia, 2021.

Outbound logistics	All activities to distribute the product or service to customers including storage, transportation and shipping.
Marketing and sales	All activities to raise the profile of the product or service among the target audience, including advertising, promotion and pricing.
Service	All activities to maintain products and enhance the customer experience, which may include after sales customer care, refunds and replacements.
Support activities:	Activities to support the primary activities (as illustrated in the diagram with dotted lines).
Procurement	Processes to support the acquisition of inputs and resources, including identifying and negotiating with suppliers.
Technology development	Development of equipment, hardware, software, procedures, technical knowledge and processes to support research and development, manufacturing and automation of operations.
Human resource management	Attracting, hiring, rewarding, developing and promoting people involved in any of the primary and secondary activities.
Firm infrastructure	Support systems and functions to enable operations, including finance, accounting, legal and administrative functions.
Margin	The resulting value created.

Value networks

A value network (or value net) is a group of organisations and individuals linked through their transactional connections, such as buying, selling and service relationships as well as sharing information for mutual benefit. They are often represented graphically as dots called **nodes**, representing members of the network and lines called **connectors** representing relationships. They are helpful to increase understanding and as a strategic planning tool and can be used to grow value through a combination of internal and external resources. A value network diagram shows interdependencies among external members (e.g., customers and suppliers) and/or internal members (e.g., sales and marketing teams).

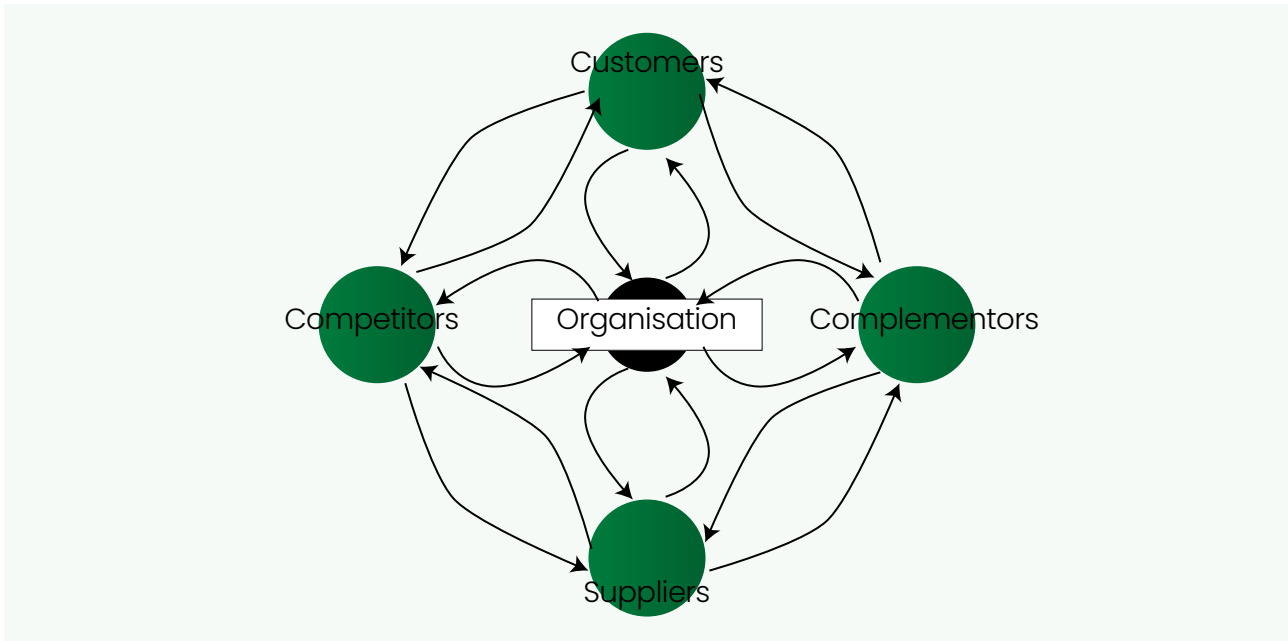
There are different types of value networks depending on the nature of the group, the members and their relationships. They may illustrate all members of the group or concentrate on types of members and relationships, such as customers, services, service providers and contracts. Some networks are relatively stable while others exist with greater fluidity among the members. **Internal value networks** focus on the relationships within an organisation. **External value networks** focus on relations between the organisation and other organisations or individuals.

In an internal network, value is created through the interactions among members within an organisation, such as members of the sales and marketing function with production. In an external value network, value is created through the interactions with individuals and organisations such as customers, suppliers and investors. In any network, the interactions

need to benefit all members otherwise this could lead to important connectors between nodes failing. The value may be either tangible or intangible or both.

Networks resemble tree diagrams. Members may appear in clusters around key nodes connected to other clusters. A simple value network is shown below.

Figure 35: Value Network



The graphic illustrates a simple network. Each of the connectors (arrows) should be defined in terms of the value derived or exchanged from that relationship. Between customers and the organisation, for example, there is an exchange of goods (or services) and money. Between the organisation and competitors, while they are rivals, there is an exchange of information and there may also be agreed collaboration in activities that support strategy.

Benchmarking

One opportunity for an organisation when evaluating their position and performance is to use benchmarks for the industry for organisations of a similar size. **Benchmarking** provides a standard reference point allowing comparisons to be made. They can serve as useful targets and help organisational leaders determine their relative strengths and weaknesses compared with their nearest rivals. Review of benchmarks may suggest areas for improvement and innovation and thus support progress. Care should be taken to ensure comparison with benchmarks are valid. No two organisations are identical and so reference to an industry average, while useful, needs to be interpreted carefully. There may be reasons for variances between the organisation and benchmarks that are not simply about under- or over-performance. An organisation's targets need to be specific to their strategic priorities and circumstances.

Core competencies relate to the strategic advantages held by an organisation and are therefore central to the ability to generate value. A core competency is what enables an organisation can do something better than its rivals. To be a core competency an activity must:

- Provide superior value or benefits to the consumer.
- Be difficult for a competitor to replicate.
- Be rare.²³

Common core competencies include:

- Greatest quality products.
- Most innovative technology.
- Best customer service.
- Largest buying power.
- Strongest company culture.
- Fastest production or delivery.
- Lowest cost provider.
- Highest degree of flexibility.²⁴

An organisation may choose to outsource some of its activities and operations as a way of improving efficiency. However, it should not outsource its core competencies or anything it wishes to develop into core competencies since, by definition, these are the things it does better than others.

Core competencies are linked to, but not the same as, **unique selling point** (USP). The competencies are the enablers of competitive advantage. The USP is the essence of what makes your product or service better than those of your competitors. USP can be expressed as a unique selling proposition being a short statement that summarises those superior features. The proposition helps focus an organisation on the primary benefits they should promote to their customers and may also in some form be used directly in advertising.

As discussed above, an organisation may pursue a **differentiation** strategy (as opposed to cost strategy) by which it seeks to gain competitive advantage by virtue of differences in its product or service compared with those of its competitors. We now know those differential advantages are due to an organisation's core competencies.

A.6 Strategic resources and capabilities

- Identify and distinguish between capabilities, resources and competences.
- Discuss the changing impact of organisational knowledge as a strategic capability.
- Identify and evaluate the strengths and weaknesses of an organisation using a SWOT analysis.

Capabilities, resources and competences

²³ See "Core Competencies in Business: Finding a Competitive Advantage," Investopedia, 2023.

²⁴ See "Core Competencies in Business: Finding a Competitive Advantage," Investopedia, 2023.

An organisation may possess a variety of enablers that support its ability to compete. It is useful to classify these according to their role, how easy they are to acquire and the time taken to acquire or develop them.

Figure 36: Capabilities, Resources and Competencies

Enablers	Description	Example	Relative ease of acquisition
Resources	Assets and materials held or used by an organisation, may be tangible or intangible	Plant, equipment, raw materials	High
Capabilities	Organisational ability to utilise and exploit the assets	Produce, sell and distribute furniture	Medium
Competences	Skills, knowledge and mindsets developed by individuals and teams over time through training and experience	Operate equipment, negotiate, manage relationships	Low
Core competencies	Activities that enable strategic advantage and set the organisation apart	Best customer service, lowest cost provider	Very low

Sometimes a fine distinction is made between competencies and competences, the latter being statements of the former, but the words are commonly used interchangeably.

Organisational knowledge

Organisational knowledge is an intangible and yet crucial asset. If it includes technical know-how not possessed by competitors that contributes to competitive advantage, then it forms part of the organisation's core competencies. Sometimes knowledge is lost when individuals leave, and therefore it is important organisations guard against this by ensuring it is retained. Commonly three types of knowledge are distinguished as shown in the table below to assist with the process of knowledge management.

Figure 37: Tacit, Implicit and Explicit Knowledge

Knowledge	Description
Tacit	Knowledge gained from personal experience that is difficult to articulate, document or record, and share.
Implicit	Skills and understanding required to apply explicit knowledge.
Explicit	Knowledge that is readily articulated, documented or recorded, and shared.

Knowledge is a key component of strategic capability which refers to an organisation's ability to use core competencies for competitive advantage.

Strengths and weaknesses

We first explored **SWOT** analysis in A.3 above when considering external opportunities and threats. The model is also used to evaluate strengths and weaknesses referring to current advantageous or disadvantageous features of the organisation known as the **internal environment**. Strengths are those attributes contributing to organisational advantage and equate to core competencies. Weaknesses are those attributes requiring improvement.

A **TOWS** analysis builds on a SWOT and helps an organisation understand the relationships between internal and external factors and helps develop actions to exploit strengths and opportunities as well as develop areas of weakness and resist threats. The presentation of TOWS analysis is given below.

Figure 38: TOWS Analysis

Opportunities		External factors	
		Threats	
<ul style="list-style-type: none"> • ... • ... • ... 		<ul style="list-style-type: none"> • ... • ... • ... 	
Internal factors	Strengths	S-O How can the organisation use its strengths to take advantage of opportunities	S-T How can the organisation use its strengths to mitigate threats and/or turn threats into opportunities
	Weaknesses	W-O How can the organisation use opportunities to address weaknesses	W-T How do weaknesses increase the organisation's exposure to threats (and therefore what weaknesses should be prioritised for remedy)

Unit A key terms

5Ps A.2

B2B A.3

B2C A.3

Barriers to entry A.4

Benchmarking A.5

Capabilities A.6

Competences A.6

Competitive advantage A.2, A.3

Connectors A.5

Core competencies A.5

Core values A.1

Critical success factors A.5

Differentiation A.2, A.3, A.5

Emergent strategies A.2

Ethics A.1

Explicit knowledge A.6

External environment A.3

External value network A.5

Implicit knowledge A.6

Industry A.3

Intended strategies A.2

Internal environment A.6

Internal value network A.5

Levels: corporate, business, operational A.1

Lifecycle model A.4

Macro-environment A.3

Market segmentation A.4

Mission A.1

Niche A.4

Nodes A.5
Organisational knowledge A.6
PESTLE A.3
Porter's Diamond Model A.3
Porter's Five Forces Model A.4
Porter's Value Chain A.5
Private Sector A.3
Public Sector A.3
Purpose A.1
Rational model A.1
Resources A.6
Sector A.3
Segmentation A.4
Strategic choice A.1
Strategic decision A.1
Strategic drift A.3
Strategic implementation A.1
Strategic position A.1
Strategy A.1
Substitute A.4
SWOT A.3, A.6
Tacit knowledge A.6
TOWS A.6
Unique selling point (USP) A.5
Value A.5
Value chain A.5
Value creation A.5
Value network A.5
Value proposition A.3
Vision A.1

Summary of Unit A and key learning outcomes

Learning outcomes	Summary
The purpose of strategy.	We explored the nature and concept of strategy and strategic decisions, and looked at how strategy works at different levels in an organisation. Key aspects of most strategic plans are vision, mission, core values and goals. Ethics can play a major impact.
The development of strategy.	There are different ways of developing strategy, and we explored the rational (or intended) and emergent models. The concept of competitive advantage was explored in detail as it is central to the success of an organisation and its ability to compete in its markets. The Mintzberg 5Ps model helps explain the dimensions of strategic position.
The external environment.	We explored tools like SWOT and PESTLE to analyse the internal and external environments to help establish our strategic position. PESTLE is a popular framework for analysis of the macro environment. With the best of intentions, organisations can find themselves where their strategy no longer matches the external conditions and experience strategic drift. A transformation is often required to avoid fatal consequences. There are useful ways of exploring the external environment, and we defined sectors, industries and markets. The market (even at the national level) can be analysed holistically using Porter's Diamond.
Assessing the competition.	Competitiveness depends on responding to customer needs which can be changeable. Having a clear value proposition helps keep organisations focused as well as communicating a USP to the intended audience. Porter's Five Forces model is also used to evaluate the sources and strength of competitive rivalry. Industries evolve over time and recognition of the phases helps organisations shape their strategy.
Creating competitive advantage through products and services.	Returning to the topic of competitive advantage, we identified the importance of critical success factors to support the process of managing the value creation process. Porter's Value Chain helps organisations analyse how their processes add value and how they can be improved. The concept of a value network allows us to draw representations of interconnectedness. We also saw how benchmarks are used to enable useful comparisons.
Strategic resources and capabilities.	We distinguished between resources, capabilities, competences and core competencies. An important asset for competitive advantage is organisational knowledge, and we explored how it may be protected. Lastly, as an extension of the SWOT model, we looked at TOWS which helps identify how elements of the internal and external environments can be used together to strengthen strategic position.

Quiz questions

1. Which of the following are characteristic features of strategic planning and decision-making? (Select all that apply.)
 - A. Future-focused.
 - B. Success oriented.
 - C. Limited impact.
 - D. Long-term consequences.

2. Strategy can be developed by organisational leaders in a systematic, logical, stepwise fashion based on an analysis of the internal and external environments. The process involves determining the current strategic position, selecting appropriate strategic choices and rigorously implementing the chosen strategy.

This approach to developing strategy is most accurately defined by which of the following? (Select one.)

- A. Planned (or rational) model.
 - B. Emergent model.
 - C. Opportunistic model.
 - D. Real-time approach.
3. As part of its webpage describing its strategy, an organisation includes the following:
Integrity, honesty and self-confidence.
From which part of a strategy is this most likely taken? (Select one.)
 - A. Vision.
 - B. Mission.
 - C. Core Values.
 - D. Goals.

4. There are two main approaches to strategic development:
 - A. Rational (or intended).
 - B. Emergent.

For each of the following, identify to which of the two main approaches to strategic development it belongs:

- I. Provides a clear roadmap for an organisation.
- II. Is responsive to changing circumstances.
- III. Encourages learning, creativity and innovation.

IV. Enables clear and appropriate alignment of resources to priorities.

5. When are competitive advantages sustainable? (Select all that apply.)
 - A. When they are based on technologies available to all sellers in the market.
 - B. When customers cannot distinguish products offered by rivals.
 - C. When they cannot easily be mimicked.
 - D. When they are based on a unique location solely occupied by one organisation.

6. Which of the following are among Mintzberg's Five Ps of Strategy? (Select all that apply.)
 - A. Penetration.
 - B. Perspective.
 - C. Plan.
 - D. Product.

7. The term "macro environment" is used to refer to which of the following? (Select one.)
 - A. Manufacturing industry.
 - B. External environment.
 - C. Public sector.
 - D. Issues relating to sustainability.

8. Which of the following occurs during the flux stage of strategic drift, as identified by Johnson-Laird? (Select one.)
 - A. The organisation's strategy is adjusted by large steps but in a reactive, piecemeal and poorly conceived manner.
 - B. The organisation makes small adjustments to strategy in an attempt to keep pace with changes in the macro-environment.
 - C. The organisation is no longer able to keep pace with external changes despite making small revisions to its strategy.
 - D. The organisation faces a major failure if it does not radically change its strategy.

9. Which of the following are included among the generic strategies described by Porter? (Select all that apply.)
 - A. Cost leadership strategy.
 - B. Differential strategy.
 - C. Emergent strategy.
 - D. Focus strategy.

10. An organisation's strategy may include an analysis of the following:

- A. Market
- B. Industry

To which do each of these following characteristics belong?

- I. It represents a group of organisations selling similar or competing products and services.
- II. It is a place where goods and services are transacted.
- III. It is created by demand for a specific product or service.
- IV. It comprises consumers, sellers, commodities and prices.

11. Which of the following is a potential barrier of entry to a market? (Select all that apply.)

- A. Economies of scale enjoyed by large organisations already operating in the market.
- B. High capital requirements and set up costs.
- C. Existence of a substitute (a product or service that satisfies the same need or purpose).
- D. Low switching costs from one provider to another.

12. The following represents the phases of an industry lifecycle:



Match these phases to the following (select each option once):

- I. Decline phase.
- II. Growth phase.
- III. Introduction phase.
- IV. Maturity phase.

13. In Porter's Value Chain, which of the following is an example of a primary activity? (Select all that apply.)

- A. Operations.
- B. Human resource management.
- C. Marketing and sales.
- D. Technology development.

14. What are the features of an organisation's core competencies? (Select all that apply.)

- A. It must be new.

- B. It must be rare.
- C. It must be difficult to replicate.
- D. It must be appreciated by the customer.

15. Which of the following are features of a value network? (Select all that apply.)

- A. A value network (or value net) must include external nodes.
- B. All members of a value network must benefit from the transactions otherwise the connections between nodes will begin to fail.
- C. The value represented in a value network may be tangible or intangible.
- D. Value in a value network move in one direction only between nodes.

16. Enablers that support an organisation's ability include the following:

- A. Capabilities.
- B. Competences.
- C. Core competencies.
- D. Resources.

Match the following definitions with the enablers (select each item once):

- I. Activities that enable strategic advantage and set the organisation apart.
- II. Assets and materials held or used by an organisation, may be tangible or intangible.
- III. Organisational ability to utilise and exploit the assets.
- IV. Skills, knowledge and mindsets developed by individuals and teams over time through training and experience.

17. What kind of knowledge is correctly described as being readily articulated, documented or recorded, and shared? (Select one.)

- A. Explicit knowledge.
- B. Implicit knowledge.
- C. Implied knowledge.
- D. Tacit knowledge.

18. Of which of the organisational enablers listed below is the following an example?

Operate cutting equipment in accordance with health and safety standards.

- A. Capabilities.
- B. Competences.
- C. Core competencies.
- D. Resources.

Resources

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Unit B: Leadership and Governance

Learning outcomes

- B.1 Qualities of leadership.
- B.2 Organisational culture.
- B.3 Agency theory.
- B.4 Ownership and different governance approaches.
- B.5 Directors and board structures.
- B.6 Governance in the public sector.

Introduction to Unit B

Having discussed processes supporting the development of a strategic position in Unit A, this unit acknowledges the human element by exploring leadership and governance. While participation across an organisation at all levels in developing and implementing strategy is likely to be advantageous, the role of those charged with governance is paramount in defining purpose, setting direction, navigating threats and opportunities, and steering the entity towards success. Leadership style is instrumental in determining how strategy is developed. We will consider the traits that contribute to effective leadership. Organisational culture is both a reflection and a driver of attitudes and behaviour and is a vital component of success. It is also necessary to consider how organisations are owned and controlled, the separation of which creates the need for transparency and ethical stewardship. Governance structures vary according to organisational type, legislative and regulatory requirements, cultural expectations, customs and habits. They can be very complex especially for public sector entities.

B.1 Qualities of leadership

- Identify the key leadership traits required for the successful implementation of strategy.
- Compare alternative theories of leadership in effective strategic implementation.

Leadership traits

A trait is a distinguishing characteristic. We often think of qualities like decisiveness, courage, strength, resoluteness and powerful oratory skills as being typical of great historical leaders, but the importance of complementary qualities like compassion, introspection, humility and vulnerability as well as some of the dangers of too much charisma are increasingly being recognised and understood, especially in an organisational context.

There are many ways to categorise leadership traits. Long lists have been created. One influential thinker (RM Stogdill) identified the following traits as critical for leaders:²⁵

- Adaptable to situations.
- Alert to the social environment.
- Ambitious and achievement oriented.
- Assertive.
- Cooperative.
- Decisive.
- Dependable.
- Dominant.
- Energetic (high activity level).
- Persistent.
- Self-confident.
- Tolerant of stress.
- Willing to assume responsibility.

In some ways, the shorter lists are more useful. To lead involves setting an example and persuading others to follow, and for this reason communication, relationship-building and integrity are often listed near the top. In dynamic situations, leaders must anticipate change and be flexible. This requires insight based on a combination of analysis and instinct. There must also be a drive to keep pushing forward and to inspire others. Leadership is sometimes viewed in terms of legacy, and the ability to develop people and create new leaders is one way of measuring success.

As an example, Harvard Business Review listed the following eight qualities as the most important for success leadership:²⁶

- Authenticity.
- Curiosity.
- Analytical prowess.
- Adaptability.
- Creativity.

²⁵ Stogdill, R. M. 1974.

²⁶ "8 Essential Qualities of Successful Leaders," Harvard business Review, 2023.

- Comfort with ambiguity.
- Resilience.
- Empathy.

Given the great diversity of circumstances in which leadership is required, it would be unlikely that a simple list of attributes could suffice. Leaders generally require an arsenal of qualities they can utilise according to the situation together with the skill to adapt accordingly. Individuals are naturally strong in some traits and need to develop greater skills in other areas.

Theories of leadership

Different theories have been developed to help explain leadership. They are useful in helping us understand what makes some leaders more successful than others. Here are some key theories:²⁷

- **Trait theory.** Trait theories attempt to boil leadership down to a set of innate characteristics. People born with charisma, courage, determination and so on are predisposed to be leaders. However, leadership is more than just a list of traits. It is hard to find common traits that all successful leaders possess. Consider, for example, the very different styles of Winston Churchill and Mahatma Gandhi, undoubtedly great leaders both but with completely contrasting personalities. In addition, trait theory ignores the fact that leadership characteristics can be acquired or taught.
- **Behavioural theories.** Behavioural theories describe leadership in terms of actions and behaviours. Of particular interest are the behaviours of being task oriented and people oriented. Behaviours can be taught and learned.
- **Contingency theories.** Contingency theories emphasise the importance of context. Great leadership looks very different according to the situation.
- **Full range leadership model.** Full range leadership model recognises a range of leadership on a broad spectrum of transactional to transformational (see below). Effective leaders use these two approaches together in varying combinations according to the needs of the situation and the individuals being led.

In addition to theories of leadership, it is common to describe the way in which leaders lead. Six leadership styles are described below.

²⁷ See "Exploring the 4 Leadership Theories: A Comprehensive Overview," Medium, 2023.

Figure 39: Leadership Styles²⁸

Leadership style	Description	Situations
Participative (or democratic)	Characterised by a high level of participation in the decision-making process in which the views and inputs of team members are invited and considered. Can be effective at encouraging individuals to feel involved and vest in the success of the collective results.	Appropriate when it is important to secure consensus, build team cohesion and share responsibility where team members have useful experience and time allows for a collaborative decision-making process.
Authoritative (or visionary)	Characterised by low participation in decision-making and a high degree of control. Can be effective at driving a team forwards, but may encounter resistance and a lack of buy-in. At its extreme it can become autocratic and involve excessive micromanagement.	Appropriate for situations where prompt decision-making is required, or where team member lack skills and experience.
Delegative (or laissez-faire)	Characterised by allowing subordinates to make decisions, requiring trust in the skills and integrity of subordinates.	Appropriate for stable environments with experienced and skilled team members where uniformity is not a high priority.
Transactional (or managerial)	Characterised by agreements and rewards or punishments in which team members know what is expected and what is at stake for them personally.	Appropriate for highly structured environments with clear roles and responsibilities based on hierarchy and merit-based promotions.
Transformational	Characterised by a strong vision and drive to make big changes, requiring the ability to inspire others to strive towards the same goal. Transformational leaders are focused on the future, change and people.	Appropriate for environments requiring major and rapid change.

²⁸ See "The 6 most common leadership styles & how to find yours," *The International Institute for Management Development*, 2024.

Leadership style	Description	Situations
Servant	Characterised by putting the needs of team members first through an emphasis on relationship building and developing individuals to reach their full potential.	Appropriate for highly ethical, people-oriented cultural environments that welcomes diversity and creativity.

Effective leaders can adapt their style to suit their team and circumstances. However, leaders naturally have their own preferred or default approach which they should recognise and nurture, especially given the importance of authenticity. At the same time, self-awareness can help leaders extend their range of leadership skills.

B.2 Organisational culture

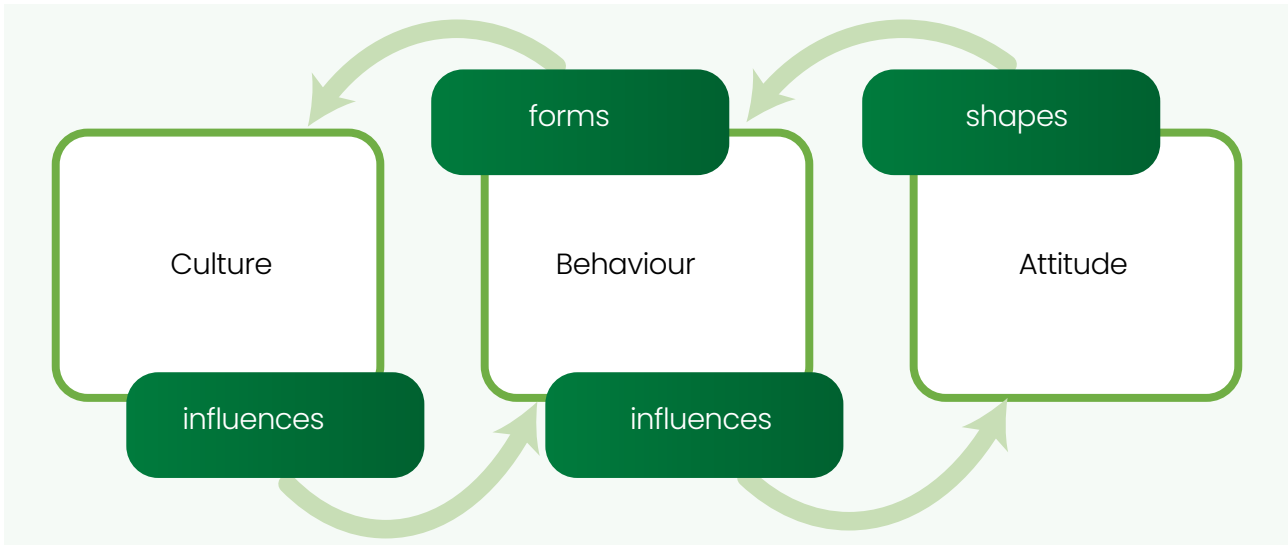
- Discuss the importance of leadership in defining and managing organisational culture.
- Analyse the culture of an organisation using the cultural web.
- Describe an organisation's culture and the implications for effective delivery of its strategy.

Leadership and culture

We have already referenced organisational culture several times without defining it. It is often described as "how we do things around here." In other words, culture is revealed by behaviour. It is not the values or desired behaviours described in policy documents, but the actual how and why of what is done. It is an intangible quality of organisations and yet is of great importance, not least because it shapes how strategy is developed and implemented.

A useful model is the ABC of culture, illustrated below.

Figure 40: ABC of Culture²⁹



In this model:

- **Attitude** is the default position adopted by the organisation and members of it. Attitudes are based on a foundation of beliefs which are accumulated over time.
- **Behaviour** represents the actions, decisions, communications, processes followed, policies adopted, systems operated, etc. by the organisation and members of it.
- **Culture** is the shared set of beliefs, values, habits, customs, rituals, stories, structures, power bases, control systems, symbols, heroes, villains and history among the members of the organisation.

Culture is invisible, but we can see behaviour and we can gauge attitudes by that behaviour. Monitoring practices and collecting feedback from surveys are methods often used to evaluate culture. Organisational culture is influenced by the culture of individuals but is not necessarily the same or even simply an average of the sum of cultures. This is clear from the fact that people will behave differently at work than elsewhere. There is not necessarily a single pervasive culture in an organisation. Divisions, teams, and groups of colleagues who collaborate or socialise at or outside of the workplace may all have different cultures. Organisational culture also changes, whether by the design and efforts of leaders or by natural processes, including external changes in social norms. Cultures can become toxic when the collective values have become eroded to the point they allow, endorse or even encourage unethical behaviour, disrespect, bullying, discrimination, illegal activity and more.

Cultural web

Although culture is hard to observe directly, a useful tool in its analysis is a map that reveals the influences on culture and may be used to reveal important factors about the current or future culture. Three valuable uses that can be made of a cultural web are:

- Surfacing – the map reveals truths about the way things are routinely done.
- Barriers and alignment – the map shows what factors drive or prevent cultural

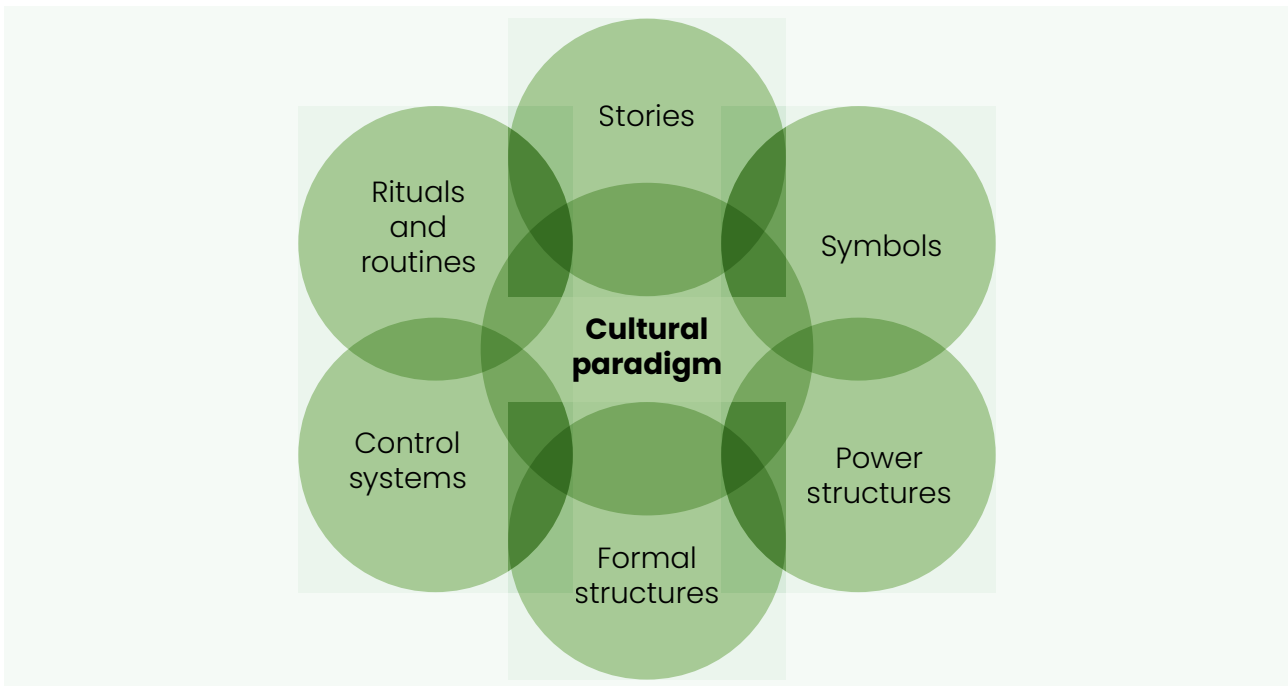
²⁹Based on Hillson, D. "The A-B-C of risk culture: how to be risk mature," PMI, 2013.

change.

- Planning change – the map enables leaders to move the organisation towards a better, stronger, healthier culture aligned with its strategy.

The model of the **cultural web** was devised by Johnson and Scholes and is illustrated below.

Figure 41: Cultural Web³⁰



The model comprises six elements all of which contribute to culture. If leaders wish to change culture, they need to consider all these elements. Each element signals what is desirable or acceptable and what is not. It is almost impossible to permanently change culture in a desired way by tackling only some of these elements. For example, restructuring an organisation and introducing a new logo can contribute to a cultural change but the effort would be incomplete and likely ineffective without also adjusting the other elements.

Figure 42: Cultural Web – Explained

Elements	Description
Stories	Events, people and achievements the organisation chooses to memorialise in collective memories, stories, gossip, photos, awards, reports, preserved artefacts, web pages, etc. This constitutes a shared history with its heroes and villains.

³⁰Based on "Cultural Web," Johnson and Scholes, Leadership Centre, 2002.

Elements	Description
Symbols	Visual cues that represent (or are taken to represent) what the organisation stands for, including buildings, logos, décor, dress codes, relative size and location of offices, parking spaces and web page design.
Power structures	The actual centres of power, influence and decision-making authority.
Formal structures	The structure according to the organisation chart, lines of authority and the distribution of roles and responsibilities.
Control systems	Systems used to regulate activity, including financial systems, quality systems, risk management, performance management, rewards, promotions and punishments.
Rituals and routines	Repeated patterns of behaviour, including meetings, greetings, events, celebrations, parties, onboarding and offboarding, working hours and breaks.

Example

Think about organisations you have worked for and/or with. Use the elements of the cultural web to describe and compare the cultures of these organisations.

Culture and strategy

Peter Drucker, management consultant, very famously said: culture eats strategy for breakfast. This suggests that no matter how well-crafted your strategy is, what determines whether it will be successful is culture. In fact, how strategy is developed is also dependent on culture. Strategic development is a product of the attitudes and behaviours of those involved. Who gets to be involved is decided by formal and informal structures as well as habits and routines. Those involved take their cues (consciously or unconsciously) from the stories, symbols, etc. around them. They aim to create success based on what is celebrated and rewarded. They follow a process. They observe protocols and accept who has the decision-making authority. Strategic development will be subject to oversight and control and the resulting strategy will very much be a product of culture. This may be very positive with a healthy culture or it might simply reinforce a poor culture.

Another framework, known as the McKinsey **7S Model**, is sometimes used to help align an organisation (including its culture) with the desired strategy. Like the cultural web, it helps leaders understand how to effect lasting change and recognises the importance of aligning multiple factors. Simply changing one of the elements will result in an organisation drifting back to its original shape. At the centre of the model is shared values which are a fundamental component of culture. There are three hard elements:

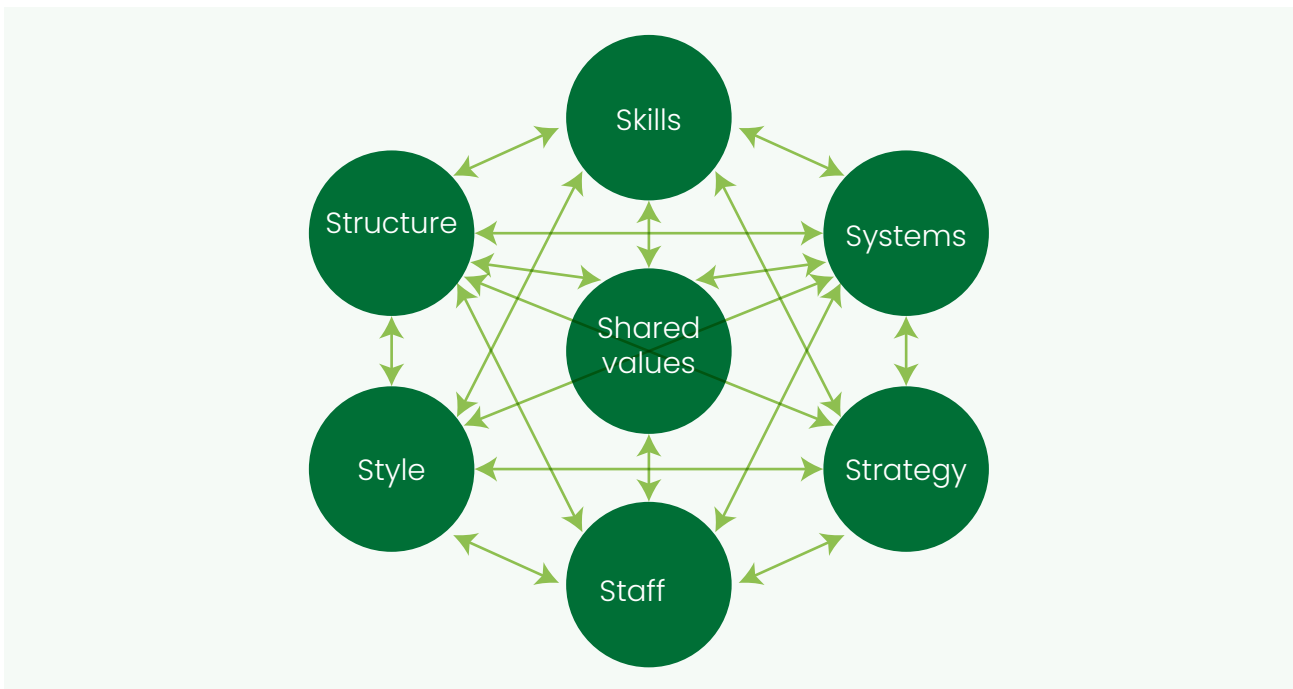
- Strategy.
- Structure.
- Systems.

They are hard in the sense they are tangible and paradoxically are relatively easy to change. Leaders can create a new strategy, design and implement a new structure, and implement new systems. The other elements are soft:

- Shared values.
- Skills.
- Style.
- Staff.

These are soft in the sense of being intangible and are much harder to change. Leaders can appoint new staff members, train them, and reassign them to different roles, but attitudes and behaviours take longer to influence. As we have seen, style and shared values are shaped by culture.

Figure 43: McKinsey 7S



B.3 Agency theory

- Discuss the principal-agent theory in relation to corporate governance.
- Analyse the issues connected with the separation of ownership and control.

Separation of ownership and control and the principal-agent theory

In some organisations, the owners are also directly in charge of day-to-day control. This is true of smaller entities and family-owned companies, for example. For companies, the shareholders are the owners. A shareholder may be a person, company or institution owning shares. There may be very many shareholders although the numbers who have a controlling interest may be far more restricted. A **controlling interest** may be held by an individual shareholder or a group of shareholders acting together. Typically, they have a vote and can exert some influence over the board and senior management. A shareholder with a controlling interest may even become members of the board or chairman. A controlling shareholder is described in the Rwanda Companies Act 2021 as follows:

A shareholder that controls more than fifty percent (50%) of the voting interests in the company.³¹

The number of shareholders who have a controlling interest may be very limited as a percentage of the total number of shareholders. The amount of control that can be exerted can vary. It is possible that no one individual or group has a controlling interest. Employers, customers and members of the public can take action such as industrial action, boycotts and protests that may influence the strategy of an organisation.

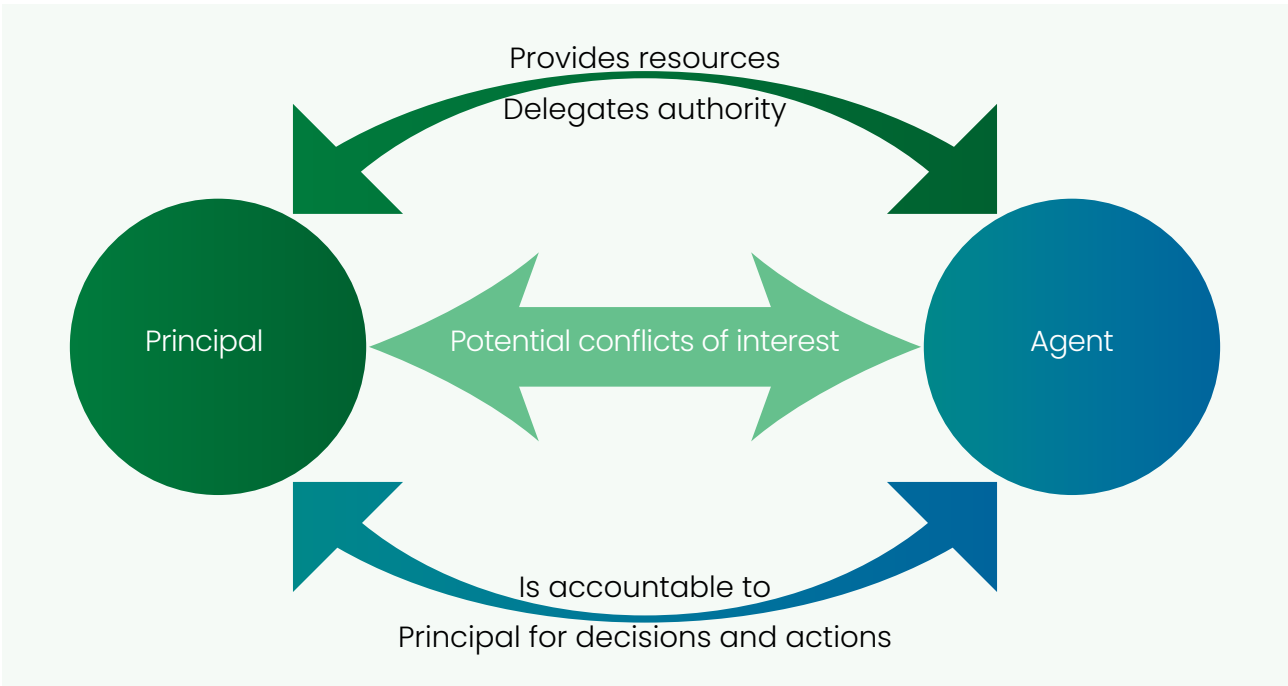
In the case of public sector entities, public officials are elected, appointed or employed to manage affairs and assets on behalf of the public. The members of the public are ultimately in control, but it is likely to be indirect and very limited for an individual. The public can register their protest with officials and their elected representatives and can wield ultimate power through the ballot box.

In all other respects there is a separation between **ownership** (shareholders or primary stakeholders in the case of the public sector) and those who exert **control** by acting on their behalf and in their interests. The owners are referred to as the **principal** and provide capital by buying shares or paying taxes, for example, while those in day-to-day are the agents. A similar separation is observed between a client and a lawyer, for example.

The act of acting on behalf of someone else in their interests is referred to as **agency** and attempt to describe the relationship between agents and principals as **agency theory**. The separation of principal and agent can lead to a conflict of interests and priorities. The agent has decision-making powers, and without controls this may result in the principal's wishes being neglected or abused. An example is where a shareholder wants high dividends and long-term increasing value while the CEO may be more interested in paying senior managers large bonuses. The **principal-agent theory** (or problem) is illustrated and described below.

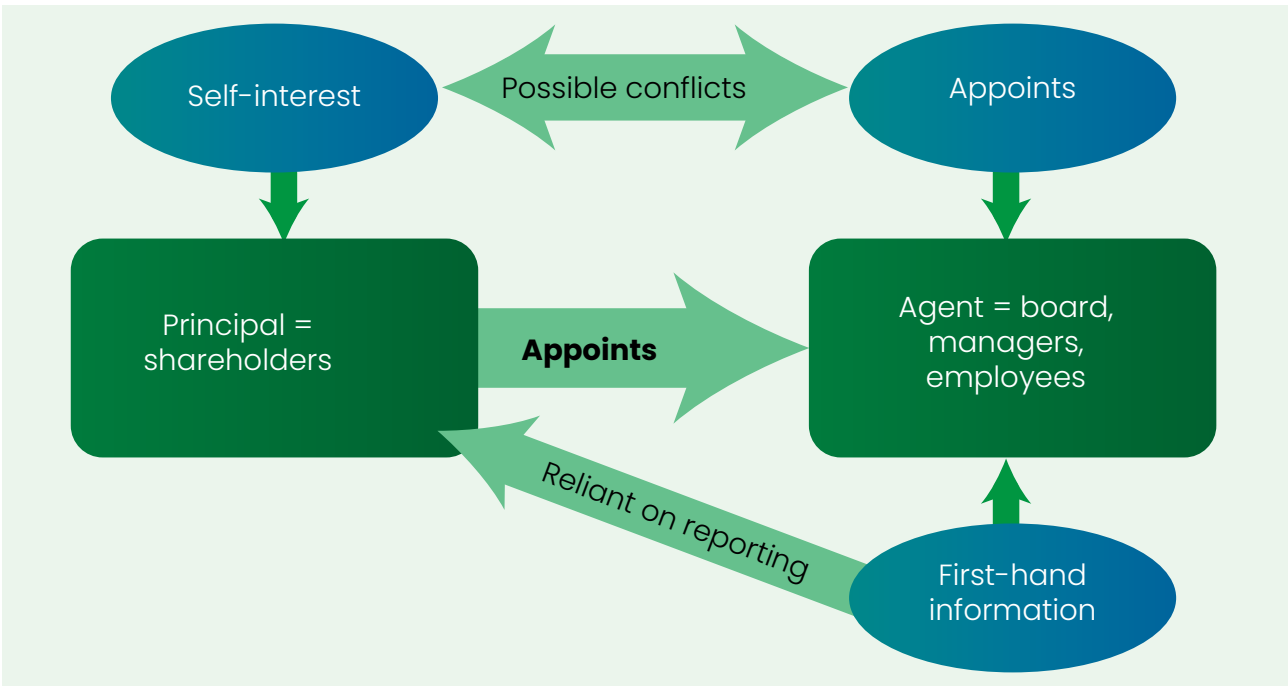
³¹ Companies Act (summary), Rwanda, 2021.

Figure 44: Principal-Agent Theory



The reason for appointing agents is they have time and expertise the principal does not have. The principal accepts the risks because the outcome is likely to be better than other alternatives where the principal acts for themselves.

Figure 45: Agency Problem (Company)



The principal is generally unable to have a direct line of sight into day-to-day operations and is likely too busy in any case. Instead, the principal must rely on reports of performance, position and prospects but these may not be reliable. **Agency costs** arise when the

agents' interests determine decisions and actions to the detriment of the interests of the principal. Agency costs include:

- Failing to notify or to consult investors on major decisions.
- Withholding information about the business and decisions.
- Awarding excessive pay to directors.
- Granting large amounts of share options to the board at bargain prices.
- Making unjustifiable use of company flats, cars, planes etc.
- Holding lavish expense accounts and going on glamorous business trips.
- Making vanity investments, such as on HQ buildings and high profile acquisitions.
- Being rewarded with "golden parachutes" at retirement/dismissal such as several years' pay and guaranteed pensions.
- Having close relations with political and celebrity figures backed up by charitable giving by the firm they manage.

There are solutions to the problem. The principal must incentivise the agents to act in a way that serves the interests of the principal. Compensation, bonuses and promotion can be based on evaluation linked to performance the principal is interested in. The principal accepts these rewards as part of the agency costs.

In broader terms, as we will see in B.4, the need for governance stems from the principal-agent problem (although it extends to recognise the interests of a wide range of stakeholders). Stakeholders need confidence in their appointed agents and expect them to behave with integrity. Trust alone is insufficient, and transparency is essential based on reliable independent reporting. Accountability is only real if there are consequences for inappropriate actions and behaviours.

B.4 Ownership and different governance approaches

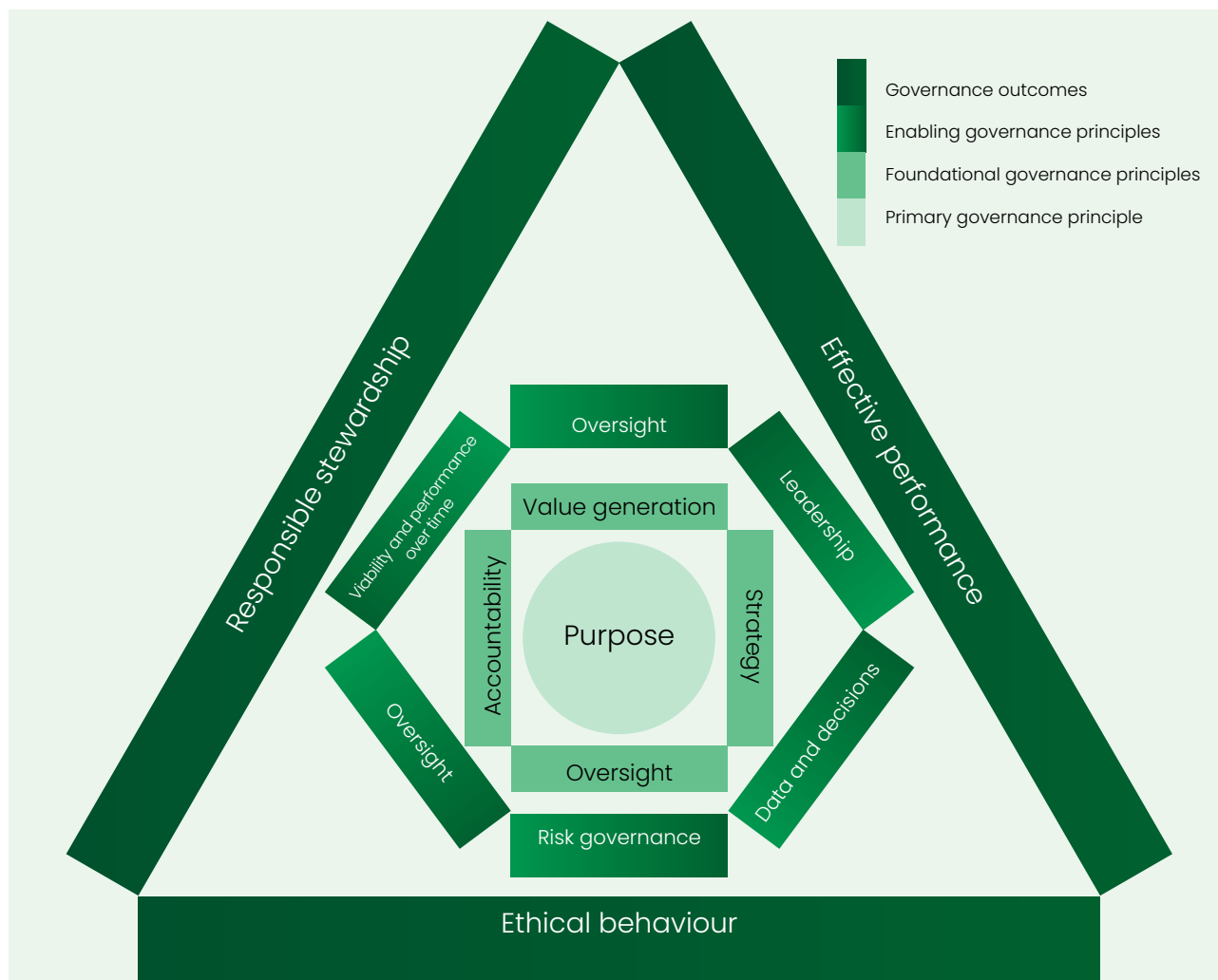
- Discuss the role and influence of institutional investors in corporate governance.
- Compare the rules- versus principles-based approaches to governance.
- Distinguish between the family and joint stock company models of ownership and their influence on governance.

Institutional investors and corporate governance

ISO 37000 defines good governance as "a human-based system by which an organisation is directed, overseen and held accountable for achieving its defined purpose in an ethical and responsible manner."³² The ISO framework for governance places purpose as the centre (primary governance principle) with responsible stewardship, effective performance and ethical behaviour beings its aims. In between are 10 principles (four foundational and six enabling) needed to achieve the governance outcomes. This is illustrated below.

³²ISO 37000:2021 *Governance of organisations – Guidance*, ISO, 2021.

Figure 46: Governance, based on ISO 37000



Corporate governance can be described as a “system of rules, practices and processes by which a company is directed and controlled.”³³ In this context a **company** is defined as follows:

A company is a legal entity which is made up of at least one physical person, or one corporate person, for the purposes of doing business. A company shall have a separate legal personality from its shareholders.³⁴

There are two broad categories of company: private company and a public company. Both are privately owned by shareholders and are therefore part of the private sector. Publicly owned entities may be referred to as public corporations, state-owned enterprises or **parastatals**.

A **private company** restricts the right to transfer its shares and debentures; limits the number of its shareholders to one hundred; and also prohibits any invitation to the public to subscribe for any shares or debentures of the company. If a company has only one shareholder, it is presumed to be a private company.

³³ “Corporate Governance: Definition, Principles, Models and Examples,” Investopedia, 2023.

³⁴ The Companies Act Simplified, Rwanda Development Board.

A **private company** is limited to having a maximum of one hundred shareholders and a prohibition to inviting the public to subscribe for shares or debentures. Furthermore, there are some restrictions on the right of shareholders to transfer their shares.

Public companies refer to entities that have offered shares to the public through an initial public offer and its securities have been listed in one or more stock exchanges. This is also different from government owned firms.

As a starting point, every company is assumed to be public company unless it is stated in its application for incorporation that it is a private company. A public company generally can be subscribed to by members of the public and there is no limit to the number of shareholders that a public company may have.³⁵

Debentures, referenced here, are loans made to companies by many individuals. They are not shareholders and are not entitled to a vote or a share of profit but will earn interest on their loan.

Shares, on the other, are described as follows:

A share is simply a divided-up unit of the value of a company. While owning shares in a business does not mean that the shareholder has direct control over the business's day-to-day operations, being a shareholder does entitle the holder to an equal distribution in any profits, if any are declared in the form of dividends.³⁶

The purpose of a corporate governance code is to ensure the needs of a company's stakeholders are recognised and held in balance. Those needs are not always aligned and may be in opposition to each other. The table below illustrates some possible examples.

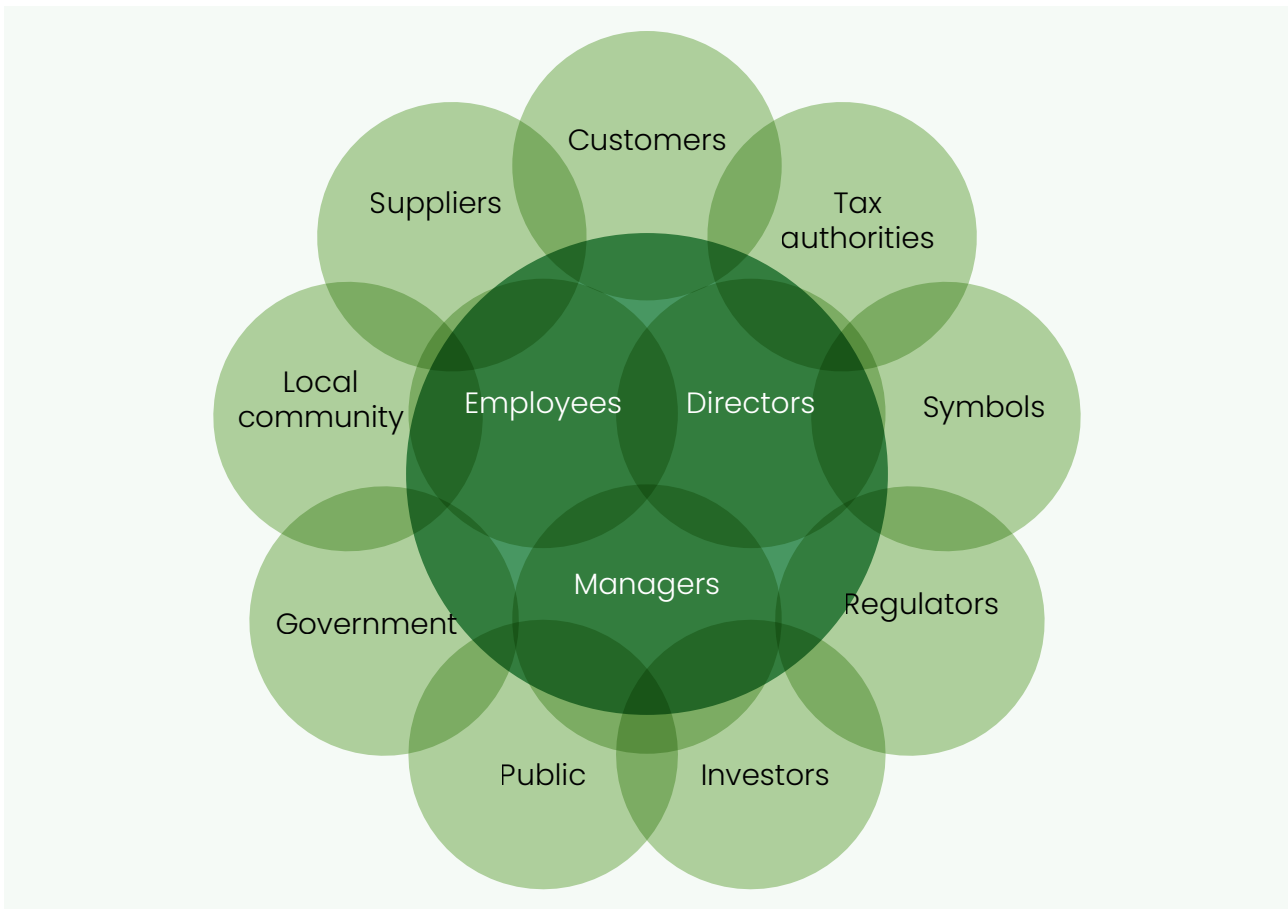
Figure 47: Opposing Stakeholder Interests

Stakeholder	Needs and interests	↔	Opposing needs and interests	Stakeholders
Environmentalists	Sustainability	↔	Rapid growth	Investors
Short-term investors	High dividends	↔	Large reserves	Long-term investors
Customers	Low prices	↔	High quality	Other customers
Managers	Innovation	↔	Stability	Members of staff
CEO	Entrepreneurism	↔	Control	Board
Agents	Autonomy	↔	Accountability	Principal
Directors	High profits	↔	Taxation	Government
Lenders	High liquidity	↔	Prompt payment	Suppliers

³⁵ The Companies Act Simplified, Rwanda Development Board.

³⁶ The Companies Act Simplified, Rwanda Development Board.

Figure 48: Organisational Internal and External Stakeholders³⁷



“Institutional investors are large entities such as pension funds, hedge funds, and insurance companies that hire finance and investment professionals to manage large sums of money on behalf of their clients or members.”³⁸ They are typically contrasted with retail investors who are individuals investing their own money, usually for themselves. Give their size, institutional investors exert considerable influence. They can spend heavily on market research and are hence very well informed. Other investors tend to take notice where institutional investors are moving their money. Likewise, boards track institutional investors very carefully and are very keen to keep them happy.

Institutional investors generally seek long-term sustainable growth in preference to rapid short-term gains. They can use their power to influence decision-making. Their active role in corporate governance often includes the following:³⁹

- Active ownership and engagement to advocate for sound practice and communicate their interests and concerns.
- Voting power exercised in shareholder meetings, including electing directors, executive compensation and mergers.
- Proxy voting on behalf of the owners of the shares they manage.

³⁷Based on *CRMA Study Guide and Practice Questions, 3rd Edition, Francis Nicholson, The Institute of Internal Auditors, 2023.*

³⁸“Institutional Investors vs. Retail Investors: What’s the Difference?” *Investopedia, 2023.*

³⁹Based on “*Institutional Investors and their Role in Corporate Governance,*” *Aon India, 2023.*

- Board nominations and direct influence on the board.
- Long-term value creation by advocating for strategies that promote sustainable growth.
- Risk management by exerting pressure on companies to mitigate risks that may harm their investments.

Rules and principles in corporate governance

Governance codes can be based on rules, principles or both. A rules-based model is more detailed and specific making it easier to comply with as the requirements tend to be clear cut. At the same time, this advantage is also a disadvantage as there is little room for adapting rules to suit different situations. Rules require less thinking and are somewhat inflexible and this may lead to their application in situations where they do not really work or are even counterproductive. Principles-based codes are built on high level propositions that are designed to be interpreted to match different situations. Some people prefer the more prescriptive rules-based approach as it leaves little room for doubt about what is expected while others prefer the broader principles-based approach because it allows a more flexible approach to implementation.

When corporate governance codes include requirements there is often a “comply or explain” principle, meaning organisations must consider the requirements and if they choose or cannot comply, they must provide an explanation (often to a regulator or inspector). Often organisations have their own codes which are expected to be consistent with regulatory or legislative requirements.

The Guiding Code of Corporate Governance produced by the Private Sector Foundation – Rwanda “is not mandatory but prescriptive for an improved culture of good corporate governance.” The stated uses of the code, typical of all governance codes, are stated as follows:⁴⁰

- Building confidence in the business community.
- Preventing financial crisis.
- Curbing corporate scandals.
- Raising standards and driving reform.
- Building consensus for reform.
- Adapting international standards.
- Measuring corporate governance practices.
- Guidance for developing tailor-made company codes.

The code is written as series of higher-level principles with more prescriptive requirements. The following example has been taken from the code:

Shareholders of the company shall jointly and severally protect, preserve and actively exercise the supreme authority of the company in general meetings. They have a duty, jointly and severally to exercise that supreme authority to:

- Ensure that only competent and reliable persons who can add value to the company

⁴⁰ *Guiding Code of Corporate Governance, Private Sector Foundation – Rwanda, 2009.*

are elected or appointed to the board of directors.

- Ensure that the board of directors is constantly held accountable and responsible for the efficient and effective governance of the company.
- Change the composition of a board of directors that does not perform according to expectations or in accordance with the mandate of the corporation.

The Capital Market Corporate Governance Code 2012 for all listed companies describes its purpose as follows:

The purpose of this code is to ensure that companies are directed and managed at board and management level in a fair and transparent manner. It provides guidance on how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.⁴¹

The requirements are very prescriptive and specific. For example:

- Every company must be headed by an effective Board of Directors.
- Each director must be well qualified to carry out his duties.
- Each director must disclose any conflict of interests.

Models of ownership

In broad terms, a joint-stock company is one that is owned by its investors. The amount of ownership (share) is proportionate to the amount invested and the level of profits they earn. Shares are transferable and may be traded. Joint-stock companies have a legal identity separate from its owners and can sue and be sued. Though not true historically, shareholders in most modern have limited liability for the debts of the company meaning they risk no more than the amount of equity they own in the company. (Unlimited liability would entail shareholders being wholly responsible for debts of the company and potentially putting their personal assets at risk.)

A family-owned business may be defined as one where two or more family members have the majority ownership. Typically, the family members are related to the founders of the company and may have ownership and control.

Advantages of a joint stock company include the following:⁴²

- Access to large amounts of money.
- Share of control given to shareholders via voting rights.
- Trading of shares on stock exchanges.
- Limited liability for shareholders.
- Alternative forms of borrowing (such as debentures, a form of loan from multiple parties) are also available.
- No limit on the number of shareholders (may not apply to private limited companies).
- Diversification of investment risk – the company is not heavily dependent on a small number of individuals for funding.

⁴¹ Capital Market Corporate Governance Code 2012.

⁴² Based on "Joint-Stock Company: What It Is, History, and Examples," Investopedia, 2023

- Are generally subject to legislation and corporate governance codes to protect shareholders, customers, suppliers, lenders, directors, employees and other stakeholders.
- Generally required to publish independently audited financial statements.

However, disadvantages may also arise, include:⁴³

- Complexity in formation with legal formalities.
- Lack of secrecy with details about the company, its directors and financial performance being publicly available.
- Impersonal work environment lacking the family ties and history of alternative organisational models.
- Highly regulated.
- Delay in decision making requiring a formal, documented and consultative process.
- Oligarchic management where effective control is in the hands of a few people (and not really with the many small shareholders).
- Conflicts of interest (as described in B.3 and B.4 above) and issues relating to agency costs and principal-agent problem (see B.3).

In contrast, the relative advantages and disadvantages of a family-owned, family-run business are shown below.

Figure 49: Family-Owned, Family-Run Organisations⁴⁴

Advantages	Disadvantages
<ul style="list-style-type: none"> • Stability in leadership and strategy. • Commitment by family members in terms of effort and due diligence. • Flexibility of working practices. • Long-term perspective. 	<ul style="list-style-type: none"> • Disgruntled family members feeling under pressure to work in the business. • Nepotism whereby family members are favoured for positions and promotions leading to dissatisfaction among other employees.
<ul style="list-style-type: none"> • Reduced costs where family members may be prepared to loan money and/or take a reduced salary to keep the business afloat. 	<ul style="list-style-type: none"> • Conflicts between family members. • Lack of formalised structure. • Lack of succession planning as leaders assume there will be family members to take their place in due course.

⁴³Based on "Advantages and Disadvantages of a Joint Stock Company," *Geeks for Geeks*, 2023.

⁴⁴Based on "The Advantages and Disadvantages of a Family business," *Vistage*, 2020.

B.5 Directors and board structures

- Assess the duties of directors and the role and responsibilities of the board.
- Evaluate the cases for and against unitary and two-tier board structures.
- Describe and assess the role and responsibilities of Non-Executive Directors (NEDs) and Executive Directors (EDs).
- Explain the meaning of board diversity and evaluate issues of diversity on boards of directors.
- Assess the purposes and accountabilities of the board committees.
- Describe the types of board remuneration and assess the general principles for remunerating directors to align with stakeholder interests.

Directors and boards

The board (of directors) of a company is its governing body. It carries ultimate accountability for the affairs of an organisation and is its highest-level decision-making authority. It comprises directors elected by shareholders (for public companies). The role of the board is to set organisational-level strategy, provide direction and oversight, appoint (and fire) the CEO, engage with and protect the interests of shareholders. The board should ensure the organisation has the resources, structure and internal control framework needed to successfully fulfil its mission.

A **board** is defined as follows:

The Board of Directors is the highest governing authority within the management structure at any publicly traded company. The business and affairs of a company is managed by, or under the supervision of the Board of Directors. They have all the powers necessary for managing, and for directing and supervising the management of the business and affairs of the company.

The primary responsibility of the board of directors is to protect the shareholders' assets and ensure they receive a decent return on their investment. The board is also responsible for overseeing the operations and management of the company besides approving the appointment of the Chief Executive Officer and the amount of dividends to be paid to shareholders amongst others.⁴⁵

Directors of a board are said to have **fiduciary responsibilities**, meaning they have a duty of care, a duty of loyalty and a duty of obedience. These duties are a combination of regulatory, legal, and ethical responsibilities. These are described below.⁴⁶

- **Duty of care** refers to the obligation to act diligently, prudently and competently. This may include:
 - Being interested and remaining informed about the company and its affairs.

⁴⁵ The Companies Act Simplified, Rwanda Development Board.

⁴⁶ Adapted from "What are a Board of Directors' Fiduciary Duties? Care, Loyalty, and Obedience," esop partners, 2022.

- Preparing for meetings.
- Actively participating in meetings.
- Being alert to issues.
- Seeking more information when required before making decisions.
- Investigating irregularities.
- **Duty of loyalty** refers to allegiance to the company and its members rather than serving selfish interests. This requires:
 - Making a declaration of potential conflicts of interest.
 - Recusing oneself from discussions and decisions where there is an actual or an appearance of a conflict of interest.
- **Duty of obedience** means guiding the company to make wise decisions and challenging management when actions appear to conflict with the mission of the company or expose its assets to an undue level of risk.

Unitary and two-tier structures

Boards may be structured in one of two main ways:

- Unitary board.
- Two-tier (or dual) board.

With a **unitary board** structure, there is a single board of directors fulfilling the roles and responsibilities described above. With a two-tier (or dual) board structure there are two boards:

- **Management board**, responsible for day-to-day operations, comprising executive directors only and led by the CEO.
- **Supervisory board**, comprising executive and nonexecutive directors led by the chairman of the board with responsibility for oversight of the organisation. Other groups are also represented, such as major shareholders, employees and investors.

Relative advantages and disadvantages of unitary and two-tier boards are described below.

Figure 50: Unitary and Two-Tier Boards⁴⁷

	Unitary board	Dual board
Advantages	<ul style="list-style-type: none"> • All major decisions are taken in one forum – reduces the potential for lack of clarity. • Flexible and relatively inexpensive to operate single body. • Connects executive and non-executive directors, strengthening dialogue, understanding, responsiveness and oversight. • Efficient information flow. 	<ul style="list-style-type: none"> • Clearer separation of roles between executive and non-executive duties. • Greater representation of shareholders' interests. • Better balance of power between CEO and chairman (when positions are separated). • Greater consultation and broader inputs to strategy.
Disadvantages	<ul style="list-style-type: none"> • May blur the distinction between executive and non-executive roles. • Combined chairman/CEO role can be far too powerful. • Board may be less independent. • Non-executive directors may be too remote from operations to fully grasp circumstances. 	<ul style="list-style-type: none"> • Can be unwieldy and bureaucratic. • May lead to stagnation as consensus is hard with broader representation. • May reduce risk appetite and stifle growth. • Independent directors have a stronger role but potentially one that over-emphasises stock market performance.

Executive and non-executive directors

We have already referenced executive and non-executive directors but have not yet defined them.

A **director** is a member of the board. The Rwanda Companies Act describes “director” as follows:

A member of the Board of Directors, whether a shareholder or not, being appointed by shareholders to make follow-up on the management of a company.⁴⁸

An **executive director** acts as a decision-maker and manager of organisational activity. They represent senior management. Executive directors are responsible for strategic planning and implementation and include the CEO and other members of the so-called C-suite (i.e., sometimes literally those with “chief” in their title but generally those reporting

⁴⁷Based on Crowther and Aras, “A Handbook of Corporate Governance and Social Responsibility,” ResearchGate, 2010.

⁴⁸Companies Act (summary), Rwanda, 2021.

to the CEO, such as the Chief Financial Officer (CFO), Chief Information Officer (CIO) and Chief Operating Officer (COO), although titles may vary). Executive directors are appointed by shareholders or a nominations committee.

A **non-executive director** (NED), also known as an independent director, is a board member who is not part of the team responsible for managing the organization, its resources and activities. NEDs are not employed by the company and bring an external perspective. They are voting members of the board and involved in strategising, policy making and oversight. Because they are external, they are well-positioned to provide robust examination of and challenge to management decisions with the aim of strengthening performance. Appointment of a NED can be purely based on skills and expertise but may also have a public relations benefit by association with a recognisable name, brand or organisation. NEDs may receive financial compensation through fees or shares. The latter helps ensure they have a vested interest in the company, but care must be taken to avoid creating a conflict of interest. NEDs are appointed by shareholders.

In law, the CEO and chairman of the board cannot be the same person in a public company:

In a public company, the functions of the chairperson of the Board of Directors and the Chief Executive Officer shall not be exercised by the same individual.⁴⁹

There are also rules regarding the balance of executive and non-executive directors on the board:

In a public company, a majority of directors must be non-executive directors and at least one-third (1/3) of the directors must be independent directors.

Diversity

Diversity simply refers to differences. In the context of an organisation, including key bodies like the board, diversity can be gauged through personal characteristics, such as:

- Gender.
- Sexuality.
- Ethnicity.
- Language.
- Culture.
- Age.
- Personality.
- Physical and mental capacities and capabilities.
- Background.

Diversity is recognised as important for several reasons:

- Diversity of ability, thought and experience helps organisations understand multiple perspectives, solve problems and make decisions. Conversely, members of teams with little diversity tend to think and act in similar ways and are unlikely to inspire

⁴⁹Companies Act (summary), Rwanda, 2021.

each other to be innovative.

- Equality of opportunity is ethically desirable and legally protected.
- Demonstrating a policy of diversity, equity and inclusion (DEI) is often attractive to employees, customers, investors and other stakeholders. Conversely, discriminatory practices are likely to be damaging to a company's reputation.

Under the heading of corporate social responsibilities, the Guiding Code of Corporate Governance describes the following obligations:⁵⁰

The board of directors will monitor the social responsibilities of the company and promulgate policies consistent with the company's legitimate interests and good business practices. In particular the board of directors shall:

- Promote fair, just and equitable employment policies.
- Promote and be sensitive to the preservation and protection of the natural environment.
- Be sensitive to and conscious of gender interests and concerns.
- Promote and protect the rights of children and other vulnerable groups.
- Enhance and promote the rights and participation of host community.

Boards not only have a role for promulgating good practice. They must also lead by example. Appointments to the board should follow formal and transparent procedures and would be expected to encourage diversity.

Board committees

Companies are required by law to establish an audit committee comprising at least three independent directors. In addition, good practice dictates that companies should establish other standing committees. Typically board committees include:

- **Audit committee** (required) to supervise financial statements and the reports of the external and internal auditors. Membership should include non-executive directors outside the board of directors including those with skills in finance and accounting. It is sometimes combined with the risk committee.
- **Finance committee** to oversee the preparation of the annual budget and oversee its deployment, monitoring and reporting.
- **Compensation committee** (or remunerations) to establish pay rates for managers.
- **Nominating committee** (or nominations) to determine the skills and expertise needed for the board and support the process for recruitment and selection of directors. This includes appointments to board committees and their chairs.
- **Risk committee** to oversee risk management and internal control and receive reports from the risk function. Membership often includes executive and nonexecutive directors. It is sometimes combined with the finance committee or with the audit committee.

In addition to standing committees, boards sometimes establish ad hoc committees for a limited period to address a particular need.

⁵⁰ The Guiding Code of Corporate Governance, Private Sector Foundation, 2009.

Committees help board fulfil their duties and allow for additional time and resources to be applied to areas of particular importance. They enable work to be undertaken between meetings of the full board and free up the board agenda. They increase the oversight capacity of the board and may have delegated decision-making powers.

Board remuneration

Executive directors receive a salary for their senior management positions while non-executive directors do not. However, NEDs often receive compensation for their service, and this may be necessary to secure the skills and expertise (and potentially big names) desired. Typically, there are two main components: cash and equity.

- Cash: NEDs may receive fees for meetings and travel expenses in addition to a retainer.
- Equity: NEDs may also receive company stock (shares) and stock options (to buy shares).

The purpose of compensation is to ensure directors service the interests of the company. Without compensation, NEDs may be unwilling to take a seat on a board or may be unmotivated to contribute much effort. Share ownership increases a director's personal stake in the company and desire for the company to prosper. However, care must be taken that compensation drives the right kind of behaviour. Directors must balance a range of conflicting interests in their capacity as setting strategy and risk appetite. Their personal reward should not cause bias or a conflict of interest.

B.6 Governance in the public sector

- Assess and evaluate the strategic objectives, leadership and governance arrangements of public sector organisations.
- Discuss obligations of public sector organisations to meet the economy, effectiveness and efficiency (3 Es) criteria.

Strategic objectives, leadership and governance in the public sector

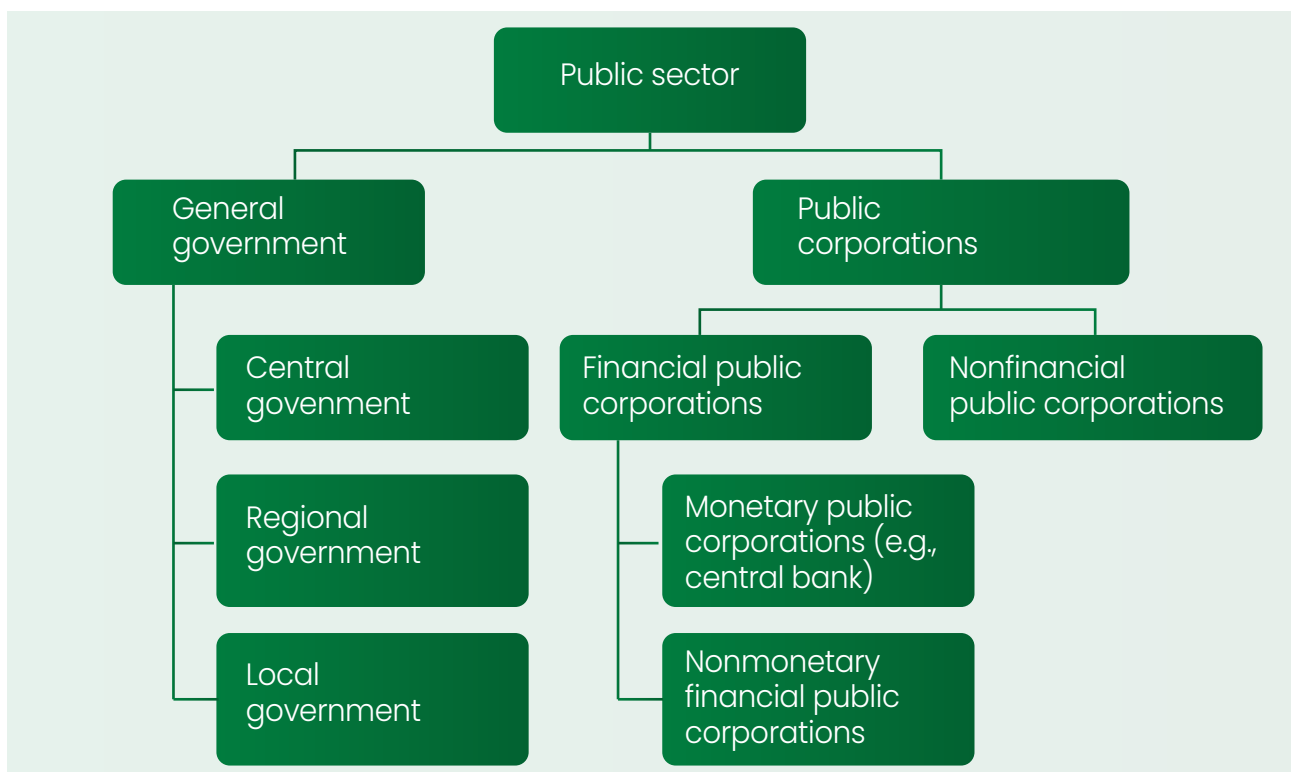
The public sector comprises activities and assets partially or wholly funded by public money on behalf of the public. This covers a very wide range of endeavours. Public sector entities include:

- Central government departments.
- Local government.
- Administrative entities.
- Public program agencies (e.g., health, education and law enforcement) providing services to the public (including schools, hospitals and police).
- Statutory bodies (e.g., the Rwanda Allied Health Professions Council) – bodies created by statute for a particular purpose.
- State owned enterprises (SOEs) – publicly funded or subsidised bodies operating

on a commercial or quasi-commercial basis (e.g., Isaka-Kigali Standard Gauge Railway).

There are many ways of characterising the different entities in government. We can distinguish legislative (law-making), judicial (courts) and executive (administers laws). We can also identify these same general government functions at a central, regional and local level in addition to **public corporations** (also known as **state-owned enterprises** or **parastatals**) which operate like companies and may be further subdivided as financial or non-financial public corporations. This is illustrated in the graphic below.

Figure 51: The Public Sector



We can also understand the public sector in how it compares and contrasts with key aspects of the private sector as shown in the table below.

Figure 52: Public and Private Sectors Compared

	Private sector entities	Public sector entities
Ownership	Private individuals (sole traders, partners, shareholders, members of a cooperative).	The public.

	Private sector entities	Public sector entities
Purpose	To make a profit for the owners (although private sector may also have philanthropic goals).	To provide a service to the public and to safeguard publicly owned assets (e.g., parks, buildings, art, roads, bridges).
Funding:		
• Long term (solvency)	From owners (capital) and other investors, equity and reserves (retained profits).	From loans, bonds, investments, equity and reserves (retained surpluses).
• Short-term funding (liquidity)	From trading activities.	From taxes, fees, licenses, fines, levies, tariffs, duties etc. and from allocations from other public funds (e.g., central government budget).
Employment	By the entity through a process of recruitment and selection.	By election, appointment (usually by other elected officials) or employment (e.g., civil servants).
Governance and control	Ultimately by the board on behalf of the owners with additional oversight by regulators.	Ultimately by the elected local or national assembly with additional oversight by auditors and inspectors as well as organisational structures.

Public entities are established with a defined purpose. Strategic objectives and planning are set within the context of public policy. **Public sector governance** has the same purpose as for private sector entities, namely, to ensure there is true accountability by the organisational leaders to the public whom they serve and this is achieved through structures, processes, rules, practices and so on. The aim is to ensure organisational leaders are best placed to ensure successful achievement of goals as well as providing transparency to external stakeholders through reliable reporting. What constitutes the governing body (the equivalent of the board) in public sector entities can vary widely. State-owned enterprises often have a board structure very similar to companies but with some political appointments and/or oversight. Other examples are shown below:

- Head of the organisation (minister, etc.), i.e., a single person.
- An external oversight committee (e.g., parliamentary committee, government committee, or a committee represented by different ministries).
- Line ministry or a superior organization.
- Dual leadership: minister (political leader) plus secretary general (administrative

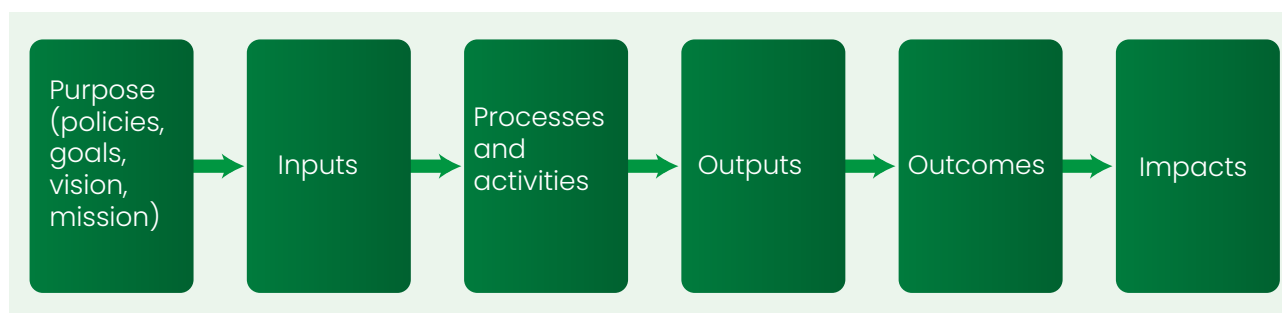
leader).

- Board of the agency/department represented by the executive only (with those appointed within the organisation).
- Audit committees at the agency/department level with non-executive directors/independent members.
- Audit committees centralised for the government.
- Thematic boards: e.g., internal control board led by a secretary general (or deputy).
- Dedicated unit or person within the public administration with specific oversight responsibilities.⁵¹

Measuring performance in the public sector

As objectives in the public are more varied than generating financial returns for shareholders, there is a need for a broader array of measures for evaluating performance. We can identify six major components of organised activities, as shown in the figure below.

Figure 53: Public Sector Performance

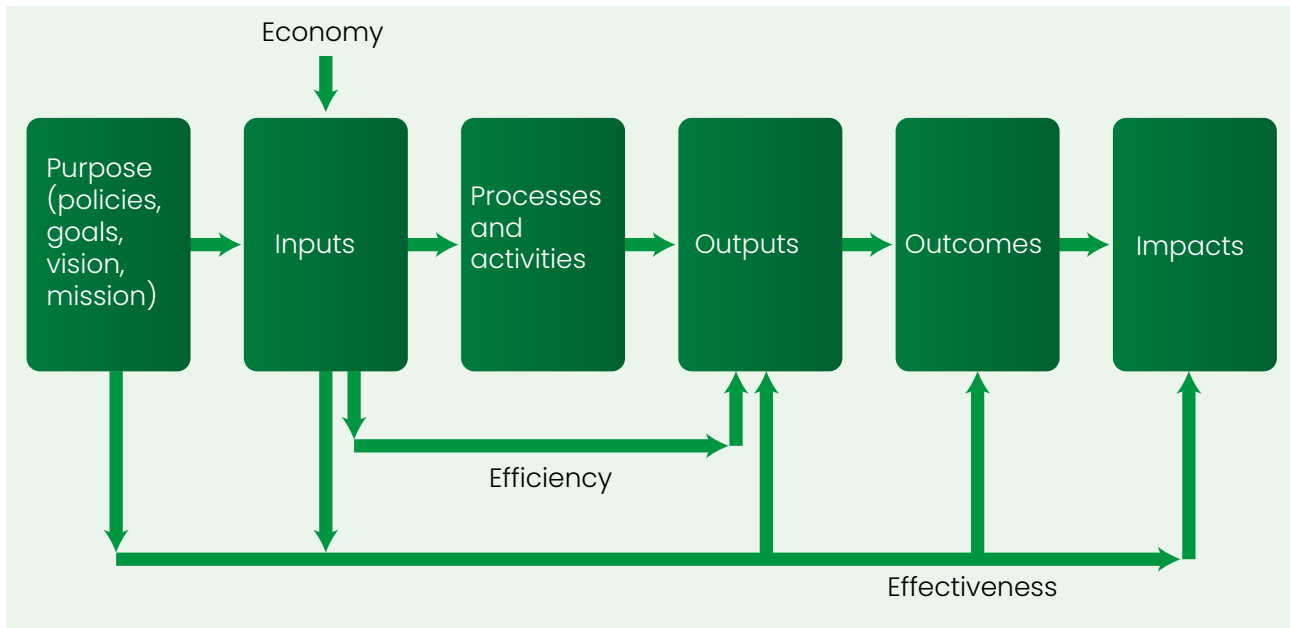


Inputs include money, time, materials and other resources. Outputs are the immediate results from the processes and activities employed. For an initiative aimed at digital transformation, an entity would spend time, money and expertise introducing new technologies and establishing revised processes. The immediate outputs would include revised process maps, training manuals and standard operating procedures. However, the outcomes relate to the improved functionality – faster, less resource intensive, more sophisticated, etc. Lastly, impacts can be considered to be the long-term outcomes. Ultimately this is what the entity is trying to achieve. This may be reflected in better services for the public, improvements in health and wellbeing, economic growth, and so on.

Having established a basic model for picturing performance, we can now explore three main dimensions: economy, efficiency and effective (known as the Three Es or 3Es). These are shown in the picture below.

⁵¹ "Assessing the Effectiveness of Internal Control: PEMPAL Guidance for Public Sector Internal Auditors," PEMPAL IACOP, 2020.

Figure 54: The Three Es



Economy is minimising costs of resources used in performing an activity. The resources used should be available in due time, in and of appropriate quantity and quality and at the best price.

Efficiency is getting the most from available resources. It is concerned with the relationship between resources employed (the inputs) and outputs delivered in terms of quantity, quality, and timing.

Effectiveness is meeting the objectives set and achieving the intended results⁵²

⁵² ISSAI 300 Performance Audit Principles, INTOSAI, 2019.

Unit B key terms

3Es B.6

7S Model B.2

Accountability B.3

Agency theory B.3

Agency B.3

Agency costs B.3

Agent B.3

Authoritative leadership style B.1

Autocratic leadership style B.1

Board B.5

Company B.4

Control (contrasted with ownership) B.3

Controlling interest B.3

Corporate governance B.4

Cultural web B.2

Culture B.2

Debentures B.4

Delegative leadership style B.1

Democratic leadership style B.1

Director B.5

Diversity B.5

Dual board B.5

Economy B.6

Effectiveness B.6

Efficiency B.6

Executive directors B.5

Family B.4

Fiduciary responsibilities B.5

Institutional investors B.4

Joint stock B.4
Laissez faire leadership style B.1
Leadership B.1
Limited liability B.4
Management board B.5
Non-executive directors B.5
Ownership (contrasted with control) B.3
Parastatal B.6
Performance B.6
Principal B.3
Principal-agent theory B.3
Private company B.4
Public company B.4
Public corporation B.6
Public sector governance B.6
Retail investors B.4
Servant leadership style B.1
State-owned enterprise B.6
Supervisory board B.5
Transactional leadership style B.1
Three Es B.6
Traits B.1
Two-tier board B.5
Unitary board B.5
Visionary leadership style B.1

Summary of Unit B and key learning outcomes

Learning outcomes	Summary
Qualities of leadership.	Organisations are human endeavours and much of their success depends on their leaders. There are many ways of analysing leadership traits, and highly effective leaders can adapt their style to suit their circumstances and the characteristics of the people they are leading. We explored some common leadership styles and considered the circumstances under which they would be most useful.
Organisational culture.	Although culture is hard to see clearly and therefore to analyse and change, it is a very powerful influence on all stages of strategy (Drucker said culture eats strategy for breakfast). The model of the cultural web is used to help analyse culture and may help identify how culture may be improved. Another model is the McKinsey 7S which provides a useful reminder that lasting cultural change requires change across multiple organisational elements otherwise the organisation will snap back to its former habits.
Agency theory.	In many organisations there is a separation of ownership and control which is the basis of the agency problem. It can create tensions and conflicts of interest. Controls are needed (such as alignment of compensation, one of the costs of agency) to resolve such issues.
Ownership and different governance approaches.	Governance recognises the accountability of the agent and institutionalises structures and processes to ensure transparency. How governance operates depends on the kind of organisation. We explored different models of ownership and control, including joint stock and family run companies. Investors are a major stakeholder and often have a major influence on the affairs of for-profit entities. Other stakeholders and stakeholder groups must also be considered, and their interests considered. Governance can be codified to model best practices.

Learning outcomes	Summary
Directors and board structures.	For companies, the directors on the board are the primary agents and ultimately accountable to the stakeholders. We discussed their roles and how boards are commonly organised, distinguishing between executive and non-executive (or independent) directors. Diversity in all its many forms plays an important part of core competence for an organisation and is encouraged by governance codes and enforced in some respects by law.
Governance in the public sector.	We note how governance in public sector entities can take very many different forms. The priority of service to the stakeholder is deeply ingrained. Performance is not measured primarily in profitability but in terms of economy, efficiency and effectiveness. Public and private sector entities were compared for the purpose of understanding the similarities and differences.

Quiz questions

1. Which of the following is a distinctive feature of a laissez-faire style of leadership? (Select one.)
 - A. There is a high degree of consultation and discussion prior to the leader making the important decisions.
 - B. The relationships between the lead and team members is based on a system of expectations and rewards (or punishments).
 - C. The leader takes the lead on all major decisions and engages in very little consultation with team members.
 - D. Team members have a high degree of delegated decision-making authority with limited interference by the leader.
2. Which of the styles of leadership listed below is characterised by the leader placing a high priority on the needs of team members, emphasising relationship building and personal development? (Select one.)
 - A. Servant.
 - B. Transactional.
 - C. Transformational.
 - D. Visionary.
3. When a high degree of uniformity is needed, decisions need to be made quickly and team members are relatively inexperienced, which style of leadership is likely to be most effective? (Select one.)
 - A. Delegative.
 - B. Autocratic.
 - C. Democratic.
 - D. Managerial.
4. What conclusions should be drawn from the McKinsey 7S model? (Select all that apply.)
 - A. Some components of an organisation are easier to change than others.
 - B. When trying to make a major permanent change in one of the components of an organisation, it is necessary to make changes in the others as well.
 - C. Shared values is one of the three hard elements of the model which are relatively easy to change.
 - D. The soft components are the least important when trying to bring about lasting change in an organisation.

5. Which of the following are important uses to be made of a cultural web model? (Select all that apply.)
- A. Surfacing – it helps to reveal important truths about the culture of an organisation.
 - B. Competitor analysis – it provides a comparative analysis of the culture of other organisations and their core competences on which competitor advantage is based.
 - C. Barriers and alignment – it helps to identify the factors responsible for driving or preventing change.
 - D. Structure – it leads to a recommendation for the most effective structure for the organisation.
6. Which of the following are elements of the cultural web? (Select all that apply.)
- A. Symbols.
 - B. Rituals.
 - C. Sales.
 - D. Stories.
7. Which of the following stakeholders may be correctly described as having a controlling interest? (Select all that apply.)
- A. A company that is a shareholder.
 - B. A shareholder with more than 50% of the total shares.
 - C. A group of shareholders acting together to exert influence over the board.
 - D. All shareholders who are eligible to vote at an annual general meeting (AGM).
8. What is the origin of the principal-agent problem? (Select one.)
- A. Ownership is divided among many shareholders.
 - B. There is a separation of ownership and control.
 - C. In some countries, the chief executive officer (CEO) may also be the chairman of the board.
 - D. In private companies and family run businesses, the owners may have executive powers.
9. Which of the following is described as the cost of agency in the context of principal-agent theory? (Select all that apply.)
- A. Travel costs incurred by shareholders to attend the annual general meeting (AGM).
 - B. The cost to the company of borrowing capital from sources other than shareholders.
 - C. Remuneration for non-executive directors.
 - D. Bonus schemes for the agent linked to performance the principal is interest in.

10. Identify each of the following characteristics listed below as relating to:

- A. Private company.
- B. Public company.
- C. Neither.

Characteristics:

- I. They are owned by the public.
- II. They may have only one shareholder.
- III. They may offer their shares to the public through an initial public offer.
- IV. They may have more than 100 shareholders.

11. Which of the following are appropriate purposes of a corporate governance code? (Select all that apply.)

- A. To prevent companies from taking risks.
- B. To raise standards of leadership and control.
- C. To build confidence in the business community.
- D. To measure corporate governance practices.

12. Which of the following is an advantage to an organisation of being a joint stock company? (Select one.)

- A. The company is not responsible for its debts.
- B. The company can trade its shares on a stock exchange.
- C. The steps involved in establishing a joint stock company are very few and simple.
- D. The owners keep very close control of day-to-day operations.

13. What are the elements of fiduciary responsibility? (Select all that apply.)

- A. A duty of care.
- B. A duty of obedience.
- C. A duty of loyalty.
- D. A duty of anonymity.

14. Why does the board of directors establish multiple standing committees? (Select all that apply.)

- A. The board is required to do so by law.
- B. Standing committees make it easier for the board to manage its workload.
- C. Non-executive directors may receive a salary if they are appointed to chair a standing committee.

- D. Having more committees can increase board oversight and strengthen governance.
15. Which of the following measures of performance appropriate to public sector bodies is characterised by minimising costs of inputs? (Select one.)
- A. Efficiency.
 - B. Effectiveness.
 - C. Economy,
 - D. Equity.
16. What is a parastatal? (Select one.)
- A. A state-owned enterprise.
 - B. A privately owned company.
 - C. A company with a two-tier board structure.
 - D. A non-government organisation.
17. Which of the following are characteristics of public sector entities that distinguish them from private sector bodies? (Select all that apply.)
- A. Stakeholders of public sector entities are interested in the financial statements.
 - B. Public sector bodies exist primarily to provide a service to the public.
 - C. Long-term solvency of private sector entities may come from loans.
 - D. The financial activities and statements of a public sector body are subject to audit by the Office of the Auditor General.
18. Which branch of government is concerned with reviewing and advising on the law? (Select one.)
- A. Judiciary.
 - B. Legislative.
 - C. Executive.
 - D. Administrative.

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Unit C: Stakeholders

Learning outcomes

- C.1 Stakeholder management.
- C.2 Corporate social responsibility.
- C.3 Stakeholder reporting.

Introduction to Unit C

We have already talked about stakeholders many times, especially in the context of ownership, control and having competing interests. Stakeholder is a broad term referring to any party who has an interest (or stake) in the organisation. Distinction is sometimes made between internal and external stakeholders as well as direct and indirect stakeholders. As organisations can have far-reaching consequences, the web of stakeholders can extend very wide. When considering the impact organisations – individually or collectively – may have on climate change, for example, then we may potentially regard everyone on the planet and future generations as well to be stakeholders.

Stakeholders are not simply passive. They can exert considerable pressure on organisations. Organisational leaders need to take account of the needs, interests and power of stakeholders when formulating and implementing strategy. In this unit we will explore ways of evaluating and managing stakeholders. This includes reporting financial and nonfinancial metrics.

C.1 Stakeholder management

- Evaluate the relative influence of a range of stakeholders on organisational purpose and strategy.
- Assess the concept of stakeholder power and interest using Mendelow's matrix and use to help formulate appropriate strategies to manage stakeholders.
- Evaluate a range of stakeholder claims and interests in an organisation and how they may conflict.

Stakeholder influence

We discussed the interests of **stakeholders** (i.e., those who have a stake or interest in the affairs of an organisation) in B.4 in the context of governance and noted that their interests are diverse and often conflicting. The separation of agent and principal places obligations (accountability) on the agent to act with integrity and due diligence on behalf of the principal (the owner), and we can extend this obligation to include other

stakeholders.

The “stake” held by stakeholders may be through ownership (such as a partner or a shareholder) or investment, in which case the stakeholders’ concerns may be located primarily in the organisation’s performance, position and prospects. Such things are driven by the decisions and behaviours of those in control (which may directly include the owners). Organisational leaders, employees, customers and suppliers each have a stake in the economy, efficiency and effectiveness of operations and in the successful delivery of goods and services, although their interests may differ. Stakeholders (individuals and groups) include anyone directly or indirectly affected by an organisation and this can stretch very broadly to include taxpayers, citizens, members of the local community and even the stakeholders of competing organisations. Given the potential for long-term impacts on economic, physical and environmental well-being, organisational stakeholders include future generations.

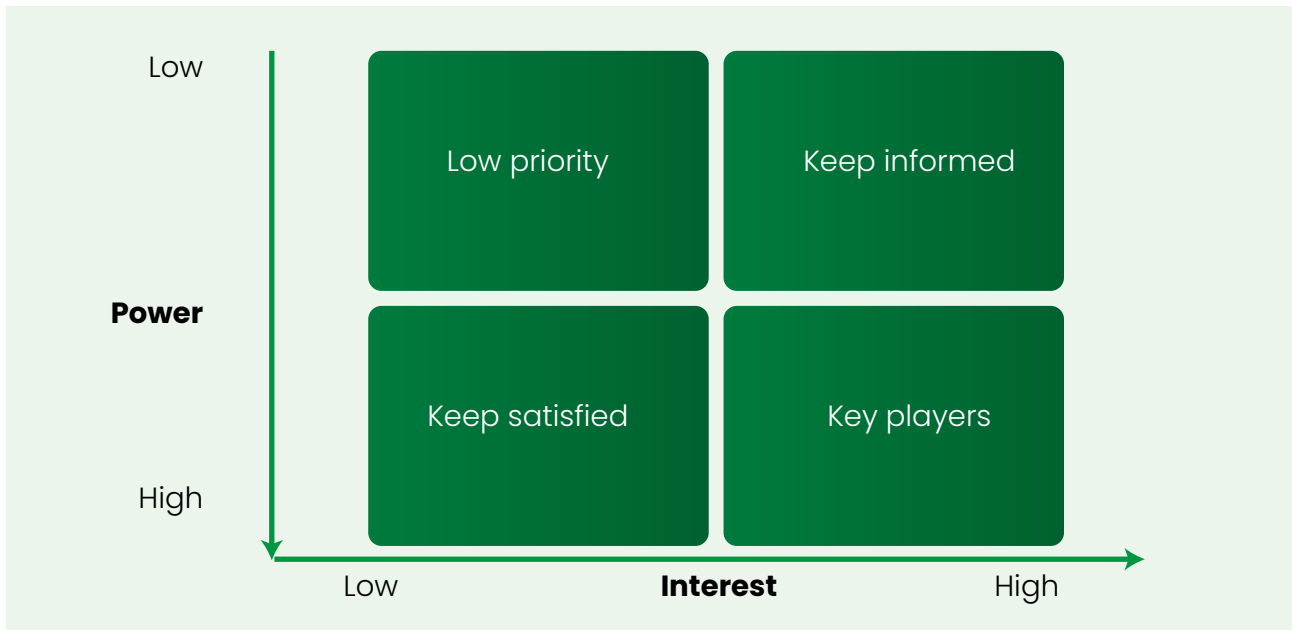
An important dimension of stakeholders for decision-making, control and strategy is their relative power and influence. Organisational leaders must take the interests of stakeholders very seriously, not just because of the accountability that exists and the fiduciary responsibilities of directors (care, loyalty and obedience – see B.5). Stakeholders have rights and can exert significant direct and indirect influence.

- Direct stakeholders, especially the owners, have the most obvious and direct influence. In family-owned enterprises, the owners are involved in strategic and operational decision making. Shareholders have rights to vote on key issues, including the appointment of members of the board. Those with a controlling interest can wield their power to influence strategic decisions. The opinions and actions of shareholders can cause the value of a company to rise or fall. In the public sector, the electorate have the chance to vote for their representatives who in turn are responsible for policy and for high level appointments. Legislators exert power over the decisions and actions of organisations through laws, regulations, fines and other instruments.
- In describing Porter’s Five Forces (A.4), we noted that in a market with few suppliers or where the cost of switching from one supplier is high, suppliers exert a lot of power and can effectively dictate prices to their customers. Similarly, in markets with few customers and where customers can readily switch from one supplier to another, customers are powerful. Individually or collectively, the demands and actions of suppliers and customers can exert significant power over organisational strategy and decision-making. Suppliers, customers and investors can “vote with their feet,” meaning they can decide to take their money and trade to other organisations. They can also protest and influence others, including other customers, suppliers and investors. By lobbying and petitioning they can influence lawmakers to take action.

Mendelow’s matrix

To help organisational leaders identify, prioritise and manage stakeholders, Mendelow created the matrix shown below.

Figure 55: Mendelow's Matrix



Stakeholder management is a deliberate pro-active approach to ensuring organisations are aware of the potential for stakeholder influence and are taking practical steps to monitor and leverage it. The two dimensions recognise that a stakeholder's influence is dependent not only on their ability to influence (power) but also on the degree to which they maintain an active interest in the affairs of the organisation.

Figure 56: Mendelow's Matrix – Explained

Stakeholder group	Action needed by organisation
Low power and low interest	Low priority: this group has the lowest interest and potential power. They require the least attention although they should be monitored periodically as circumstances may change. These are likely indirect stakeholders with very little engagement with an organisation. However, this can change, often precipitated by a high-profile failure with potentially large impact. The Deepwater Horizon oil spill of 2010 is an example where the opinions and actions of many were radically changed following a major oil leak in the Gulf of Mexico.
Low power and high interest	Keep informed: the members of this group have low power and do not influence decision-making but are actively interested in the affairs of the organisation. They should be kept informed, and their views and opinions should be heard. This group may include members of staff. On a day-to-day basis they may not impact strategy and individually they have limited power. However, when galvanised they can be more powerful, such as when workers take industrial action. They may also be whistleblowers if the actions or behaviours of senior managers are illegal or immoral with far-reaching consequences.

Stakeholder group	Action needed by organisation
High power and low interest	Keep satisfied: this group has the potential to exert significant power but chooses not to, at least at present. For example, local or national governments may have other priorities. They should be kept satisfied and organisational should seek to maintain positive relationships. Governments can decide to court public favour by taking on corporations that have caused them embarrassment or may be easy targets if they are not “playing by the rules.” When low interest switches to high interest, this could create problems (or opportunities) for an organisation.
High power and high interest	Key players: those with high power and active interest are the individuals and groups to which organisations should pay most attention. They may be members of the board, shareholders with a controlling interest, other significant investors or suppliers and customers with major power in the market. Regular and active two-way engagement is an important part of an organisation’s management of these stakeholders.

Stakeholder interests

In B.4 we considered the potential claims and interests of stakeholders and how these may conflict. Stakeholder management involves an attempt to anticipate and reduce the potential for conflict. The reasons for conflicts include the following⁵³:

- **Competing interests:** different stakeholders and stakeholder groups have their own priorities (e.g., low prices, high quality, prompt payment, quick delivery, long-term solvency, high dividends, environmental stewardship, investment in infrastructure, rapid growth, safe working conditions and generous remuneration). These inevitably compete and it is impossible to satisfy all such demands. The process of identifying and managing these competing interests, taking decisions based upon a reasoned analysis and communicating the rationale for the course of action taken help to reassure stakeholders that the organisation is following a balanced approach in which their interests have been duly considered and addressed.
- **Lack of clarity:** stakeholders study the vision, mission, values, goals, actions and reports on performance, position and prospects and evaluate the extent to which these support their own claims and interests. If these are unclear, incomplete or ambiguous, stakeholders will make their own interpretations and act accordingly. This highlights the importance of transparency and stakeholder engagement and of setting and communicating well-stated targets.
- **Poor communication:** pro-active engagement and communication are essential for effective stakeholder management. A variety of methods (e.g., face to face meetings, emails and surveys) can be deployed, taking account of cultural differences. When legitimate issues and concerns are raised, it is important the organisation responds (and is seen to respond) to them in a considered and timely manner.
- **Resistance to change:** when organisations introduce new policies, strategies, products and services, systems, structures and senior directors, stakeholders need

⁵³See “What are the most common causes of stakeholder conflict?” LinkedIn community discussion.

time to familiarise themselves with such changes. There is a natural resistance to change, especially if current practices are deemed to be successful. Resistance can present itself in the form of fear, anger, frustration, reluctance, avoidance or even attempted sabotage to demonstrate the new approach is not working. Change management involves careful preparation, effective and sustained communication, promotion and celebration of successes, and tenacity to see it through to completion.

- **Personality clashes:** style is an important part of culture, but individuals (internally and externally) have their own way of doing things. When engaging with stakeholders, it is important to recognise and allow for such differences to ensure relationships remain positive and professional. Sometimes egos need to be stroked to ensure stakeholders feel important and appreciated.

When managing stakeholder interests, it is important to recognise that some go beyond financial concerns, as we will see in C.2 below.

C.2 Corporate social responsibility

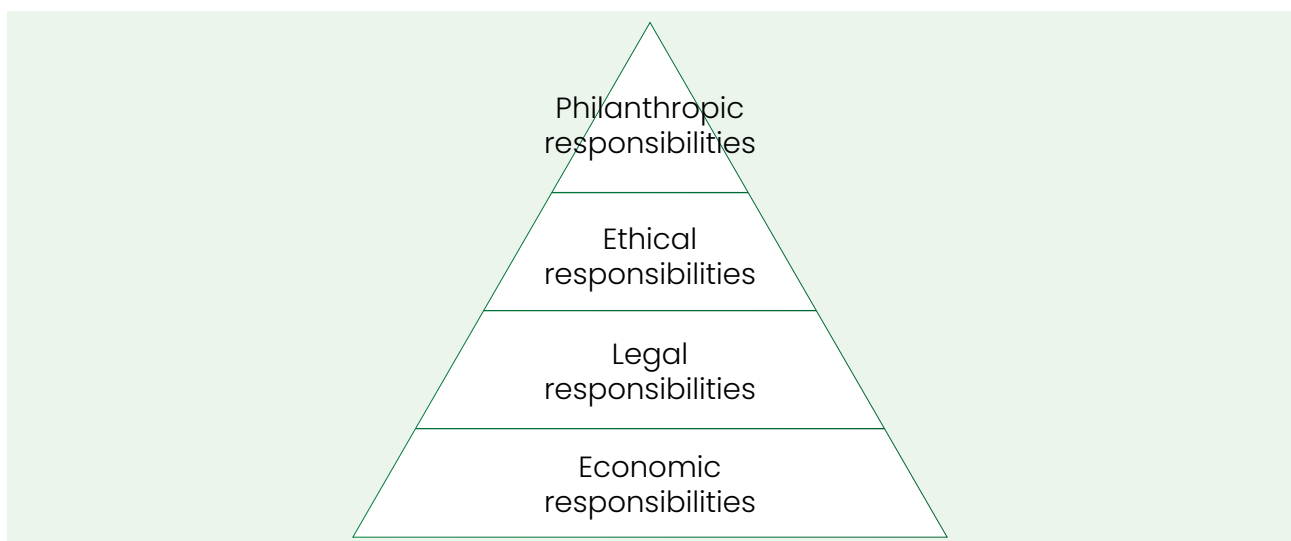
- Explain corporate social responsibility and how an organisation can be an effective “corporate citizen” in governance.

Corporate social responsibility

The term **corporate social responsibility (CSR)** is an acknowledgement that organisations have duties beyond the financial concerns of its direct stakeholders. In the public sector this is clear as the priority objective is to provide services in the public interest. Private sector organisations can have significant impacts on social, economic and environmental well-being and there is increasing recognition of the importance of these wider responsibilities, as is clear from public opinion and legislation.

A pyramid model is sometimes used to illustrate four key dimensions of CSR and this is illustrated below.

Figure 57: The Four Levels of CSR Pyramid



Economic responsibilities. To be successful an organisation must be solvent and its activities sustainable. This is necessary but should support other responsibilities rather than override them.

Legal responsibilities. Compliance with laws, regulations, policies and other authorities is one of the costs of doing business. It is a requirement as a good corporate citizen and is expected by stakeholders as a minimum. Failure to comply is likely to lead to reputational damage, fines and restrictions on operations, potentially leading to the complete failure of the organisation.

Ethical responsibilities. Conformance with societal and cultural norms is also an expectation. Failure to do so is indicative of a toxic culture and likely to be damaging economically in the long term.

Philanthropic responsibilities. These are voluntary responsibilities that go beyond all the others. Increasingly, however, this is not only appreciated but expected by employees, customers and investors.⁵⁴

In recent years, CSR has been linked to reporting. Public and private sector organisations (most notably public companies) have always been required to make disclosures about their financial performance, position and prospects. Attempts have been made to extend this to include nonfinancial metrics. This has led to the creation of frameworks and reporting standards (including the IFRS Sustainability Disclosure Standards) to help guide and standardise disclosures to ensure stakeholders receive relevant, consistent, and complete information on which to base their actions. Different terminology is used to describe the other responsibilities of organisations and the information they should provide, including:

- Nonfinancial, to differentiate from the more familiar financial reports.
- Corporate social responsibility, to emphasise the broader scope of impacts and accountabilities organisations have.
- **Environment, social and governance (ESG)**, to distinguish areas of nonfinancial responsibility and reporting.
- **Sustainability**, referring both to the ability of the organisation to continue operating and its use of resources in a way that ensures consumption of raw materials does not compromise future supplies.
- **Diversity, Equity and Inclusion (DEI)**, denoting largely HR policies that seek to treat individuals fairly, enable their participation and proactively seek diversity at all levels. (This concept was discussed in the context of board diversity in B.5 above.)
- **Sustainable development goals (SDGs)**, referring specifically to the 17 goals adopted by all governments of the United Nations as a means of prioritising people, planet and prosperity in a sustainable and equitable balance.⁵⁵

A related term is that of a **corporate citizen**. This goes beyond the concept of “giving back” (through philanthropic donations) but is more broadly understood as acting responsibly on behalf of its employees and other stakeholders to defend their civil, social and political rights. Organisations can be powerful advocates and agitators for change and justice. The term is often used in capital markets as investors (both individuals and institutional)

⁵⁴ See “Pyramid of Corporate Social Responsibility: Go Beyond Profit,” *Double the Donation*, 2024.

⁵⁵ *Sustainable Development Goals, United Nations*.

seek companies with acceptable ESG practices. Companies that are corporate citizens seek to produce increased social and economic well-being while satisfying the needs of their shareholders and investors. Companies have become increasingly aware of investors' expectations and conscious of how their actions, behaviours and reporting impacts decisions by investors.

We can recognise five stages an organisation goes through when developing corporate citizenship.⁵⁶

Figure 58: Five Stages of Corporate Citizenship

Stages	Description
Elementary	Maintaining a basic, unrefined approach with limited involvement by senior managers, complying with minimum expectations for health and safety, ESG, data privacy, etc. but lacking any concerted effort to demonstrate corporate citizenship.
Engaged	Developing policies to promote DEI and engaging with community stakeholders.
Innovative	Policies becoming more innovative with increasing engagement and participation.
Integrated	Formalising corporate citizenship as an integral part of an organisation's approach to regular operations, and monitoring community impacts and activities as part of business lines.
Transforming	Demonstrating deep awareness of corporate citizenship as a driver for strategic innovation, placing social and economic involvement as a central pillar of vision, mission and values.

C.3 Stakeholder reporting

- Assess the value of integrated reporting in corporate governance.
- Advise on the six capitals of an integrated report and discuss the how this information will be useful to stakeholders.

Integrated reporting

To support corporate citizenship and provide open, transparent information to stakeholders, organisations (in many cases voluntarily but with increasing legislative and regulatory pressure) routinely publish nonfinancial reports to supplement the more traditional annual report (typically comprising Statement of Financial Performance, Statement of Financial Position, Net Change in Equity and Cashflow Statement).

The nonfinancial report may be a separate publication, appended to the main report or fully integrated with financial information. **Integrated reporting** (as the name suggests)

⁵⁶ See "Corporate Citizenship: What It Means, 5 Stages, and Examples," Investopedia, 2022.

favours an approach in which nonfinancial dimensions are presented and discussed side-by-side with financial data. The term is used to describe all such reporting but has a specific technical application referring to reports prepared in accordance with the IFRS Integrated Reporting Framework.⁵⁷

According to the Framework:

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates, preserves or erodes value over time.⁵⁸

Fundamental to this approach is recognition that value that can be created, preserved or eroded includes more than just financial resources. The Integrated Reporting Framework provides seven guiding principles:

Strategic focus and future orientation. An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.

Connectivity of information. An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time.

Stakeholder relationships. An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.

Materiality. An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.

Conciseness. An integrated report should be concise.

Reliability and completeness. An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability. The information in an integrated report should be presented: (a) on a basis that is consistent over time; and (b) in a way that enables comparison with other organisations to the extent it is material to the organization's own ability to create value over time.

In addition to these seven principles, the Framework describes eight related elements that form the basis of an integrated report:

Organisational overview and external environment. What does the organisation do and what are the circumstances under which it operates?

Governance. How does the organisation's governance structure support its ability to create value in the short, medium and long term?

Business model. What is the organisation's business model?

Risks and opportunities. What are the specific risks and opportunities that affect the

⁵⁷ See *Integrated Reporting, IFRS*.

⁵⁸ *Integrated Reporting Framework, IFRS, 2021*.

organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?

Strategy and resource allocation. Where does the organisation want to go and how does it intend to get there?

Performance. To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

Outlook. What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

Basis of presentation. How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Six capitals

To support the principles, the Framework defines six capitals that together comprise value. These are defined as follows:

Financial capital. The pool of funds that is:

- Available to an organisation for use in the production of goods or the provision of services.
- Obtained through financing, such as debt, equity or grants, or generated through operations or investments.

Manufactured capital. Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services, including:

- Buildings.
- Equipment.
- Infrastructure (such as roads, ports, bridges, and waste and water treatment plants).

Manufactured capital is often created by other organisations, but includes assets manufactured by the reporting organisation for sale or when they are retained for its own use.

Intellectual capital. Organisational, knowledge-based intangibles, including:

- Intellectual property, such as patents, copyrights, software, rights and licences.
- "Organisational capital" such as tacit knowledge, systems, procedures and protocols.

Human capital. People's competencies, capabilities and experience, and their motivations to innovate, including their:

- Alignment with and support for an organisation's governance framework, risk management approach, and ethical values.
- Ability to understand, develop and implement an organisation's strategy.
- Loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.

Social and relationship capital. The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being.

Social and relationship capital includes:

- Shared norms, and common values and behaviours.
- Key stakeholder relationships, and the trust and willingness to engage that an organisation has developed and strives to build and protect with external stakeholders.
- Intangibles associated with the brand and reputation that an organisation has developed.
- An organisation's social licence to operate.

Natural capital. All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. It includes:

- Air, water, land, minerals and forests.
- Biodiversity and eco-system health.

The Integrated Reporting Framework helps leaders and stakeholders identify those linkages between strategy, governance and financial performance on the one hand and the macro environment on the other. By exploring the different kinds of capitals, it helps clarify resources and relationships important to the organisation and leads to better decision making and allocation of resources. The approach can have a fundamental impact on performance management. Integrated reporting can be regarded as the visible output of integrated thinking which is the mindset needed to be aware of the full range of impacts an organisation has on financial and nonfinancial resources. Integrated thinking is described by the Integrated Reporting Council as "the active consideration by the organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects."⁵⁹

⁵⁹ See "Transition to integrated thinking," KPMG, 2022.

Unit C key terms

Corporate citizen C.2

Corporate social responsibility C.2

Diversity, Equity and Inclusion (DEI) C.2

Environment, social and governance (ESG) C.2

Integrated reporting C.3

Mendelow's matrix C.1

Six capitals C.3

Stakeholder C.1

Stakeholder management C.1

Sustainability C.2

Sustainable Development Goals (SDGs) C.2

Summary of Unit C and key learning outcomes

Learning outcomes	Summary
Stakeholder management.	We identified that stakeholders have an interest (or stake) in an organisation and may also exert influence over decisions and activities. Evaluation of stakeholders is a critical part of the strategic process. We explored Mendelow's Matrix as a tool for evaluating the power and interest of stakeholder groups. This helps to formulate a plan for stakeholder management. Conflicts of interest often arise and can be navigated better if they are understood and anticipated.
Corporate social responsibility.	Although terminology changes (corporate social responsibility; triple bottom line; people, planet, profits; ESG; sustainability; etc.), recognition that the influence and responsibility of organisations go further than money has long been established. The concept of being a corporate citizen was explored especially in the context of how investors make their decisions.
Stakeholder reporting.	Developments in reporting have followed the escalating interest in nonfinancial impacts. Integrated reporting (and variations of it) share more information with stakeholders to improve transparency, awareness and accountability and enable better decision making. We focused on the specific standards and framework established by the IFRS for reporting on the six capitals and how value is created, protected or destroyed.

Quiz questions

1. According to the analysis from Mendelow's Matrix, how should stakeholders who have high interest in the company and limited power be managed? (Select one.)
 - A. Keep satisfied.
 - B. Keep informed.
 - C. Engage closely.
 - D. Monitored periodically.
2. For which of the following reasons are conflicts of interest among different stakeholder groups likely to occur when a new strategy is introduced? (Select all that apply.)
 - A. There is poor and infrequent communication with stakeholders.
 - B. There are personality clashes among the big players.
 - C. Stakeholders have a low level of interest in the affairs of the company.
 - D. There is resistance to change.
3. Stakeholders are sometimes described as being either direct or indirect stakeholders. Which of the following would correctly be considered among the group of direct stakeholders? (Select all that apply.)
 - A. Shareholders.
 - B. Customers of competitor companies.
 - C. Directors.
 - D. Future generations.
4. In the abbreviation ESG, what does the letter S stand for? (Select one.)
 - A. Sustainable.
 - B. Social.
 - C. Specific.
 - D. Strategic.
5. What is a corporate citizen? (Select one.)
 - A. The legal status of a limited stock company.
 - B. A shareholder of a company.
 - C. A publicly owned company.
 - D. A company that seeks to enhance social and economic well-being.

6. There are five stages in the maturity of corporate citizenship. Assuming Elementary to be the first stage, arrange the following in order from least to most mature. (Select each item once.)
- A. Integrated.
 - B. Engaged.
 - C. Transforming.
 - D. Innovative.
7. Which of the following would be correctly considered to be part of human capital in the IFRS model of six capitals? (Select one.)
- A. An employee's competence.
 - B. Biodiversity.
 - C. Intellectual property.
 - D. Infrastructure.
8. In accordance with the IFRS Integrated Reporting Framework, which of the following information should be included in an integrated report? (Select all that apply.)
- A. All activities carried out by the company in the previous 12 months that created, preserved or eroded value.
 - B. Insight into the company's strategy.
 - C. Positive and negative matters relevant to the company's ability to create, preserve or erode capital.
 - D. Financial performance, position and prospects.
9. Which of the following elements are included in the concept of social and relationship capital? (Select all that apply.)
- A. Shared norms, common values and behaviours.
 - B. Tangible assets for use in the production of goods and services.
 - C. An organisation's tacit knowledge, systems, procedures and protocols.
 - D. An organisation's social license to operate.

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Unit D: Strategic Choice

Learning outcomes

- D.1 Corporate strategy.
- D.2 Achieving competitive advantage.
- D.3 Methods of development.

Introduction to Unit D

Having focused so far on strategic position, in this unit we turn our attention to the next stage in the strategic process, namely strategic choice. Organisations have a wide range of options available to them in terms of arranging their resources and exploiting their advantages. As entities grow larger, they may organise activities according to a parent-unit relationship by which a head office function works with multiple strategic business units. The nature of this relationship is explored together with approaches that cause the parent to add or destroy value. Strategic choices regarding the portfolio of products and services include diversification and globalisation. We have already briefly introduced the topic of diversification when discussing strategy at the highest level in A.1. To help leaders with the analysis of options we shall also explore the Boston Matrix and its public sector equivalent to evaluate and select appropriate strategies for products and services.

D.1 Corporate strategy

- Explain the relationship between a corporate parent and its strategic business units (SBUs).
- Assess the implications of corporate strategies of product or market diversification.
- Assess the benefits and problems of pursuing a corporate strategy of globalisation.
- Explain how a corporate parent can create or destroy organisational value.
- Explain three approaches for the corporate parent – portfolio managers, synergy managers and parental developers.
- Apply the Boston Consulting Group growth/share matrix and the public sector matrix to assist corporate parents to manage their business portfolios.

Corporate parents and strategic business units

As part of their strategic thinking, organisations must decide which operations and business units they should own and maintain direct control over, and what structure of the organisation will optimise success. A classic structure for a company is to have a head office that maintains overall strategic control and direction plus multiple strategic business units (SBUs) that may be divisions, departments, branches, subsidiaries or other sub-elements of the organisation. An SBU may be defined as a sub-component of an organisation with its own business level strategy supported by its own strategic plan and marketing strategy. It is commonly a profit centre (i.e., a part of the organisation expected to generate surplus revenue above its expenses), although the term can be applied to a public sector entity. The role of the corporate parent is for the head office in its relationship with the SBUs.

According to Goold and Campbell (1991) there are three main styles of corporate parenting:

- Strategic planning.
- Financial control.
- Strategic control.⁶⁰

These styles vary according to how much the head office function determines the business level strategy of the SBUs and are described below.

Figure 59: Corporate Parenting Styles

Corporate parenting style	Features	Potential disadvantages
Strategic planning	<ul style="list-style-type: none">• Organisation maintains a focus on a relatively small number of SBUs with significant synergies.• Head office plays a major role in setting SBU strategies.• Strategic planning and decision-making are highly formalised.• Activities (and sometimes resources) across SBUs are well integrated.	<ul style="list-style-type: none">• Lines of communication may be stretched, and decision-making may be slow.• SBU managers may feel less ownership of the strategy.• With heavy involvement by head office, there can be a tendency to try to sustain SBUs even when they are failing.

⁶⁰See "Corporate parenting styles," Kaplan Financial Knowledge Bank, 2020.

Corporate parenting style	Features	Potential disadvantages
Financial control	<ul style="list-style-type: none"> • Head office is less hands-on with SBU strategy but sets short term financial targets. • SBUs respond to financial targets by developing business level strategies (aligned with corporate strategy). • Continued under-performance is likely to lead to changes in BU leadership or divestment (wherein the company sells or closes the SBU). • Company may maintain a broader diversity of activities. • Growth strategy likely to be led by acquisitions. 	<ul style="list-style-type: none"> • Company more likely to be risk averse and over-stretch itself in terms of targets. • Decentralisation may lead to a failure to exploit synergies. • Head office may constrain flexibility by imposing stringent operational controls (to mitigate risks associated with delegated managerial control).
Strategic control	<ul style="list-style-type: none"> • A more balanced approach between control by head office and autonomy for the SBUs. • SBUs have greater say over strategic planning. • Performance is measured by more than short term financial targets to include market share and growth, and technological innovation. 	<ul style="list-style-type: none"> • There may be greater ambiguity in what is expected of SBUs and less cohesion of company as a whole.

Diversification

Two primary diversification strategies are available to an organisation. Product diversification involves expanding the range of products (or services) offered. New products can be developed or acquired. Market diversification involves selling products and services to markets or market segments previously uncatered for.

Globalisation

Globalisation reflects the increasing interconnectedness of organisations and their activities globally. Technology – most notably the internet – has made this possible. It is also facilitated and sometimes disrupted by geopolitics and trade agreements. The move towards globalisation has created vast interdependencies. Countries can specialise

in industries for which they have competitive advantages and trade with others for everything else they need. As a strategy for an organisation there are both considerable opportunities and threats.⁶¹

Opportunities of globalisation:

- Access to new markets.
- Access to cheaper labour and resources.
- Greater access to new knowledge and technology.
- For countries this can include:
 - Enhanced global cooperation and tolerance.
 - Economic growth.

Threats from globalisation:

- Increased competition.
- Increased vulnerability of supply chains across multiple countries, regulatory regimes, time zones and languages.
- Exploitation of labour and resources and potential impact on reputation.
- For countries this can include:
 - Imbalance of trade.
 - Domestic job losses.

Value creation and destruction

Value is the positive worth of an organisation and may be measured through a combination of financial and nonfinancial metrics. In C.3 above we explored the Integrated Reporting Framework within which six types of capital are identified as a means of recognising value. In acknowledging social responsibility, we understand how an organisation can create, preserve or destroy value for itself and for external stakeholders.

In the context of corporate parenting, the parent does not generally have a direct relationship with customers and suppliers (although it will usually lead on stakeholder engagement and public relations with shareholders, investors and the broader community.) A corporate parent must identify whether it is adding or destroying value through its “parenting.” It adds value by helping SBUs build competitive advantage, but it inevitably adds cost (remuneration, administration, head office operations, etc.) and in this way reduces (i.e., destroys) total value.

A corporate parent may add value in the following ways:⁶²

- By adding resources and expertise the SBUs would not otherwise have.
- By providing centralised services for SBUs on a more economic basis, such as IT and HR.

⁶¹ “Advantages and Disadvantages of Globalization,” MotionPoint, 2022.

⁶² See “Corporate parenting styles,” Kaplan Financial Knowledge Bank, 2020.

- By providing access to markets, suppliers and sources of finance that would not be available to individual units.
- By setting targets to drive performance and quality.
- By encouraging collaboration and information sharing across SBUs.
- By establishing an effective framework for risk management and internal control.
- By leading and coordinating common purpose, goals and objectives.

A corporate may also destroy value:

- Through high head office costs that exceed the benefits to SBUs.
- Through additional bureaucracy that reduces flexibility and responsiveness and delays decision-making.
- Through added complexity and potential confusion.

Three approaches

Johnson, Scholes and Whittington identify three main approaches for a corporate parent to add value.⁶³ These are:

- Portfolio managers.
- Synergy managers.
- Parental developers.

These are described below.⁶⁴

Figure 60: Portfolio Managers, Synergy Managers and Parental Developers

Approach	Description
Portfolio manager (financial control)	<ul style="list-style-type: none"> • Corporate parent acts as agent for financial markets and shareholders. • Pursues strategy of acquisition of SBUs it then improves together with existing units, and divesting low performing SBUs. • Encourages high autonomy of SBUs. • Maintains low costs of head office functions through decentralisation. • Sets challenging targets with incentives for growth and improvement. • May lead a large number of diverse SBUs.

⁶³ G. Johnson, K. Scholes, and R. Whittington, *Exploring Corporate Strategy*, 8th ed. FT Prentice Hall, Financial Times, 2008.

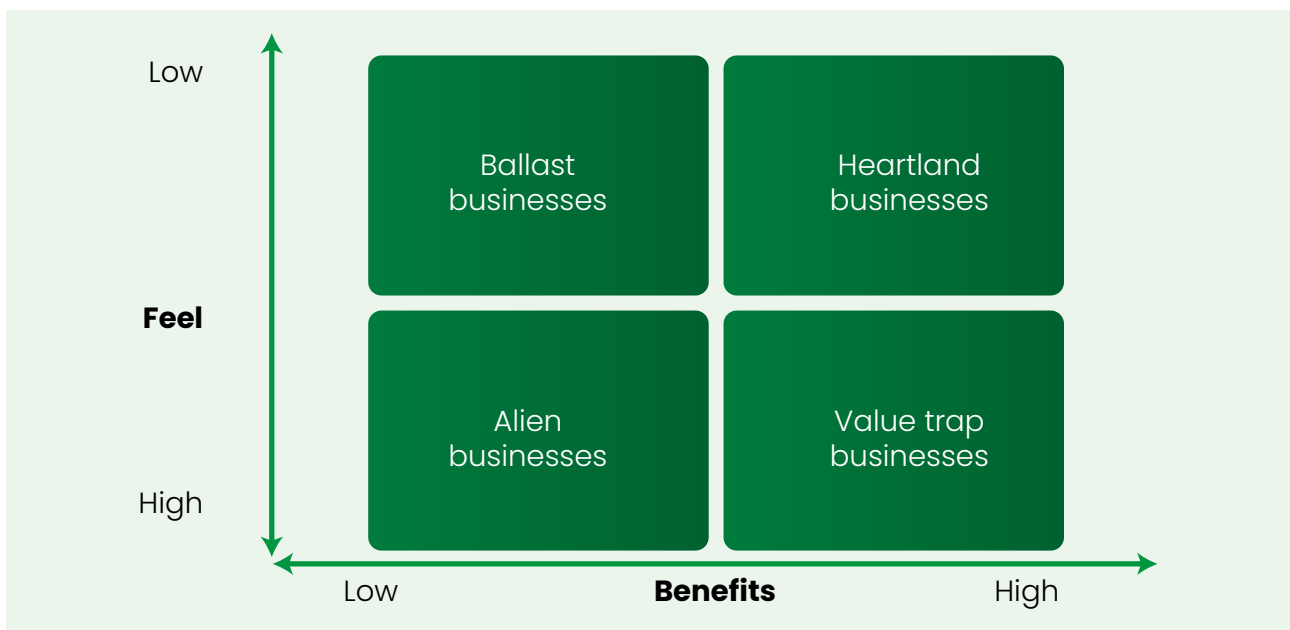
⁶⁴ See "Corporate parenting styles," Kaplan Financial Knowledge Bank, 2020.

Approach	Description
Synergy manager (strategic planning)	<ul style="list-style-type: none"> Corporate parent strives for synergy and enhances value by sharing resources and activities. May add costs through integration and centralisation of services. May find synergy difficult with diverse SBUs. May need to provide direct intervention to ensure synergy.
Parental developer (strategic control)	<ul style="list-style-type: none"> Corporate parent leads on innovation and development through application of senior director expertise. Requires a sound understanding of the needs of each SBU. Need to be ready to divest low-performing SBUs.

A portfolio is a set of products, services, projects, initiatives, business lines and investments that are grouped together for the purpose of strategic management. Usually, they are grouped on the basis of synergies and/or specialist knowledge and skill needed to manage them.

The Ashridge portfolio matrix is used to help organisations evaluate the attractiveness of a potential acquisition or of an existing strategic business unit. It does so by scoring those entities on two axes: benefits and feel. Benefits relates to the value the organisation (the corporate parent) may be able to add to its strategic unit or potential acquisition. Feel relates to the style and culture and whether it is a good fit. This gives rise to a matrix illustrated below:⁶⁵

Figure 61: Ashridge Portfolio Display



⁶⁵Based on "Ashridge Portfolio Matrix," MBA Knowledge Base, 2021.

Alien businesses are outside the parent's own industry and so business knowledge is low. There is a low feel and very limited options to add value.

Value trap businesses are also outside the parent's own industry (so there is a low feel) but the parent has plenty of opportunity to add value through superior knowledge, resources and competences to help the organisation improve.

Ballast businesses are inside the industry of the parent with a high feel but there are few if any opportunities for the parent to add value.

Heartland businesses are also inside the industry of the parent with a high feel and plenty of opportunity to add value through improvements.

Portfolio management

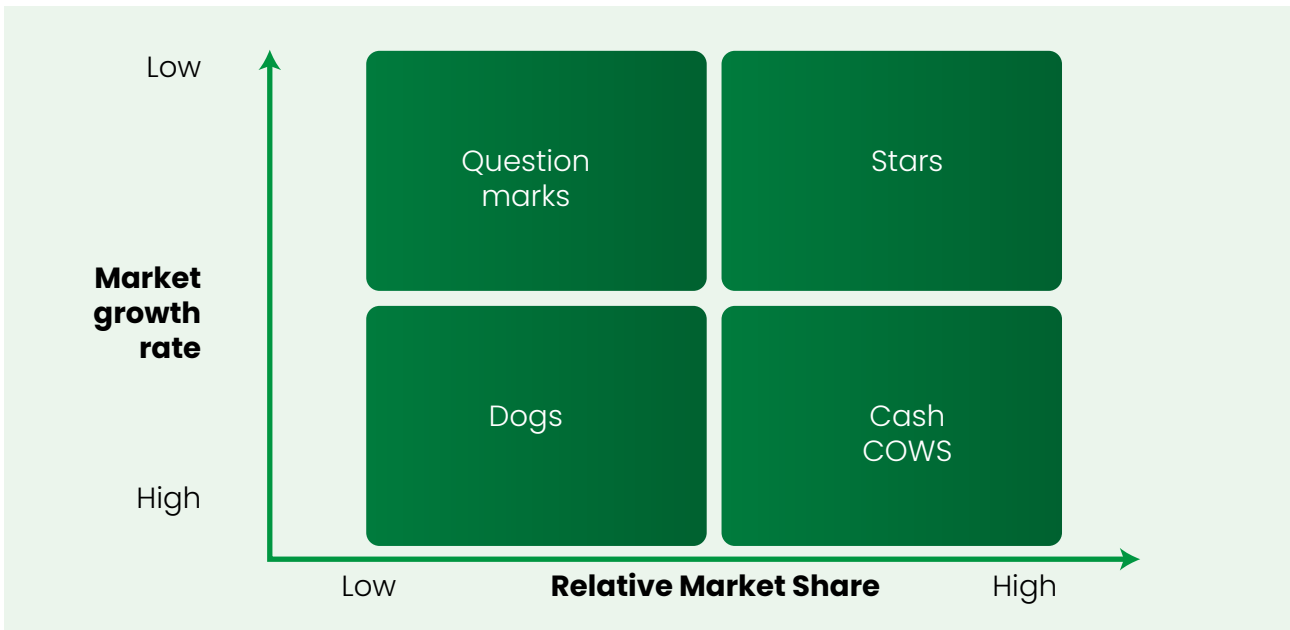
The Boston Matrix was designed to help organisations analyse their portfolio of products, services, businesses and brands, and is a popular tool used in strategy. With a portfolio an organisation must decide how it wishes to apportion its time and resources (which are always limited) to promotion and development. The Boston Group Consulting Matrix (to give it its full title) organises products and services into four quadrants by using two axes:

- Market share.
- Market growth.

The matrix is illustrated below and is based on several assumptions:

- Market share can be increased by applying more resource to marketing activities.
- An increase in market share will translate into added value for the organisation.
- The biggest gains in a product's lifecycle are to be made during its maturity stage (the final stage before decline).
- The greatest opportunity to establish market dominance is during a products growth phase (the phase after introduction).

Figure 62: Boston Matrix



The quadrants of the matrix are described below.

Figure 63: Boston Matrix – Explained

Quadrant	Market growth rate	Relative market share	Explanation
Question marks (or problem children)	High	Low	Products with low market share in high growth markets have potential but are likely to require significant investment to succeed against competing products. When investment is finite, organisations will need to prioritise which Question Marks to support while allowing others to fail.
Stars	High	High	Products with a high growth rate and a high market share. To sustain growth Stars are likely to require high investment but (following a typical market lifecycle) growth will slow down at some point. In this case, if Stars maintain their market share, they will become future Cash Cows.

Dogs	Low	Low	Products with a low growth rate and a low market share typically have limited prospects even with major investment. It is likely they will be divested or closed.
Cash cows	Low	High	Products with a high market share and low growth rate are likely to be dominant in a mature market. They require limited investment (except to create a barrier to entry for competing products). They provide continuing profits which are then used to investment in Stars and Question Marks.

A balanced portfolio is one where there are products or services in all quadrants as Stars are needed to replace Cash Cows when they reach the end of their lifecycle and Question Marks have potential to be future Stars. Dogs are perhaps an inevitable result of a certain amount of trial error but usually best terminated or sold.

The matrix is a useful analytical tool although it is somewhat simplistic. It does not help forecast how products and markets will behave in the future. It ignores the complexity of real-life situations and relies on the assumptions listed above as well as a predictable product lifecycle. Growth in market share is not an infallible indicator of future success and market share does not guarantee positive cashflows.

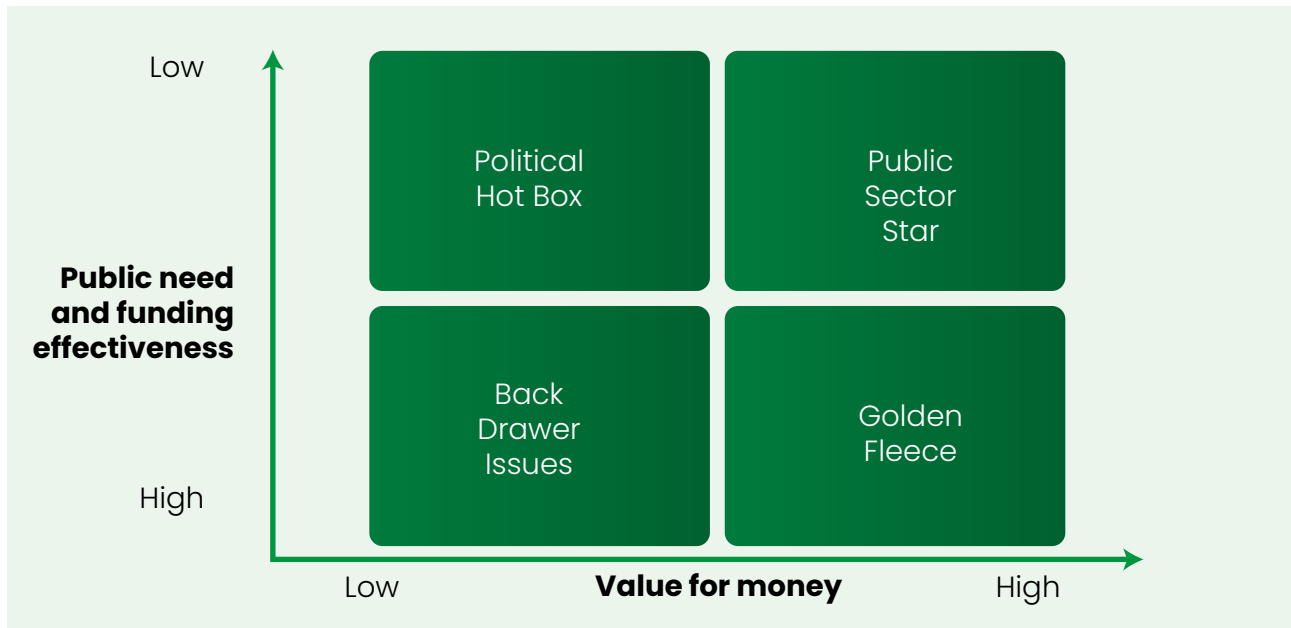
The criticism of the Boston Matrix can be summarised as follows:⁶⁶

- It uses only two measures (growth and market share).
- It encourages companies with Cash Cows to adopt holding strategies rather than trying to increase demand which may make them vulnerable to a disruptive competitor.
- It implies only those with a large market share should remain whereas many organisations succeed in maintaining a small niche. Large market share does not guarantee high profits and low market share does not always mean the product is unprofitable.
- It implies the most profitable markets are those with high growth but barriers to entry and high price competition may mean this is not the case.
- Not all Dogs are bad as they may support organisational economies of scale and protect market share.

The Boston Matrix is sometimes adapted to create a public sector matrix.

⁶⁶See "The Boston Consulting Group (BCG) growth share matrix," Kaplan Financial Knowledge Bank, 2020.

Figure 64: Public Sector Matrix



The underlying principles are somewhat similar to the Boston Matrix although the assumption is that strategy is driven by a combination of public need and value for money. The generation of revenue is not usually directly or exclusively linked to sales as service users do not pay at the point of access or do not pay a commercial rate and what they do pay may be linked to their ability to pay. However, the matrix suffers from similar weaknesses as the Boston Matrix. Additionally, it is difficult to measure public need, funding effectiveness and value for money in objective terms.

Public Sector Star. This is something the entity or public sector system is doing well and should not change. They are essential to the viability of the system.

Political Hot Box. These are services the public needs or wants, or which are mandated, but for which there are no adequate resources or competencies.

Golden Fleece. These are services that are done well but for which there is low demand. They may be perceived to be less important and present a potential target for cost cutting.

Back Drawer Issues. These are normally unappreciated and have the least priority for attracting funding. They are visible candidates for cost cutting, but if management thinks highly enough of them it may be possible to move them to the category of political hot boxes.

D.2 Achieving competitive advantage

- Define competitive advantage and its importance for organisational strategy.
- Evaluate, using the strategy clock, the generic strategy options available to an organisation.
- Advise on how the 7 Ps can help an organisation build and sustain its competitive advantage.
- Identify opportunities for improving competitiveness through collaboration with others.

Competitive advantage

Competitive advantage is defined in A.5 and refers to relative advantages an organisation has compared with its rivals.

- A comparative advantage exists when an organisation can produce the same products and services as its competitors more efficiently and at a lower cost.
- A differential advantage exists when an organisation can produce products and services that are better than those of their competitors at satisfying customer needs. There are many drivers of differential advantage, as identified in A.2 above.

Building competitive advantage, therefore, can be on the basis of cost, product differentiation, or specialisation (appealing to a market niche). These are defined in more detail below according to Porter's Generic Strategies. When competitive advantage is sustainable an organisation is positioned to maintain above average profitability.⁶⁷

Generic strategy options

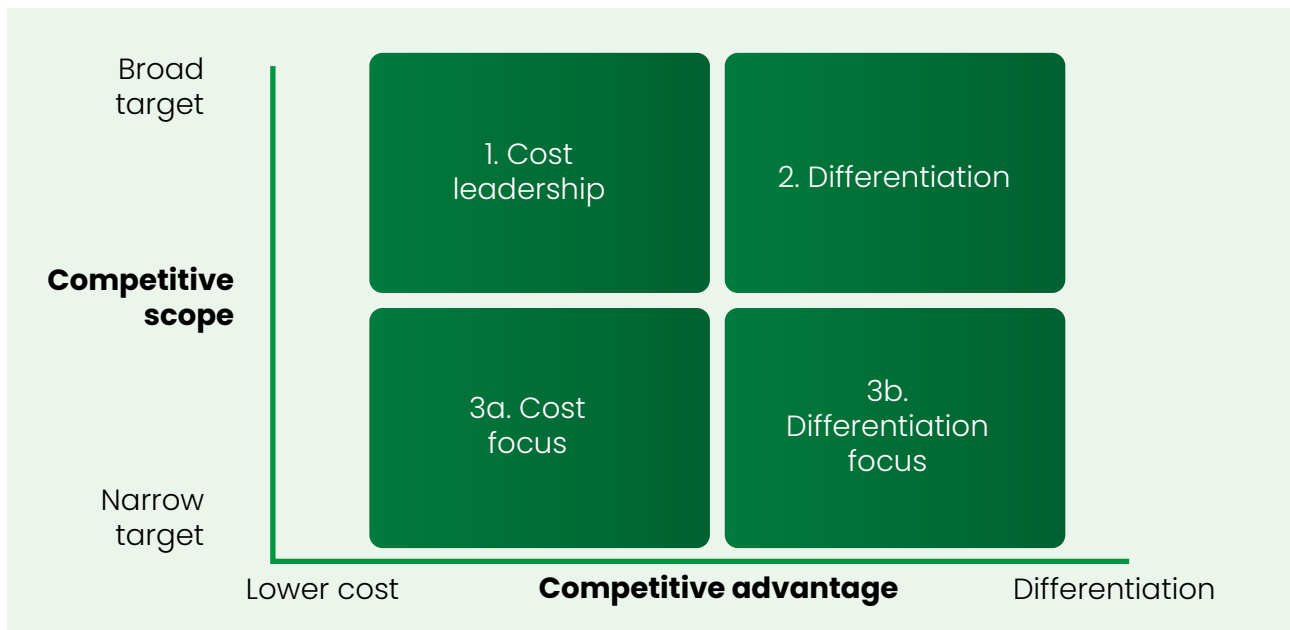
Porter described three generic strategy options very similar to the ones described above, namely:

- Cost leadership.
- Differentiation.
- Focus (market segmentation):
 - Cost focus.
 - Differentiation focus.

These ways of competing can be illustrated in a simple matrix as shown below.

⁶⁷ See "Competitive Advantage Definition with Types and Examples," Investopedia, 2023.

Figure 65: Porter's Generic Strategies



These are further described below.⁶⁸

Figure 66: Porter's Generic Strategies – Explained

Strategy	Competitive scope	Competitive advantage	Explanation
Cost leadership	Broad target	Lower cost	The firm aims to be the low-cost producer in its market. Cost advantage may be achieved by factors such as economies of scale, proprietary technology, preferential access to resources and superior expertise. With prices at or close to the market average, a firm can sustain above average profitability.
Differentiation	Broad target	Differentiation	The firm aims to be unique by offering attributes valued by customers others cannot emulate for which it may charge a premium price.

⁶⁸See "Porter's Generic Competitive Strategies (ways of competing)," University of Cambridge, IfM Management Technology Policy.

Strategy	Competitive scope	Competitive advantage	Explanation
3a. Cost focus	Narrow target	Lower cost	The firm focuses a market niche (identifiable with unique needs or ways of catering for those needs) within which it competes as a low-cost producer.
3b. Differentiation focus	Narrow target	Differentiation	The firm focuses a market niche (identifiable with unique needs or ways of catering for those needs) within which it competes on product differentiation.

Porter suggests that a cost leadership strategy seeks to achieve the position of lowest-cost producer in the industry as a whole. By producing at the lowest cost, the manufacturer can compete on price with every other producer in the industry, and earn the higher unit profits, if the manufacturer so chooses. Cost leadership can be achieved by:

- Setting up production facilities to obtain economies of scale.
- Using the latest technology to reduce costs and/or enhance productivity (or use cheap labour if available).
- Exploiting the learning curve effect in high technology industries and in industries depending on labour skills for product design and production methods. By producing more items than any other competitor, an organisation can benefit more from the learning curve, and achieve lower average costs.
- Concentrating on improving productivity.
- Minimising overhead costs.
- Getting favourable access to sources of supply.

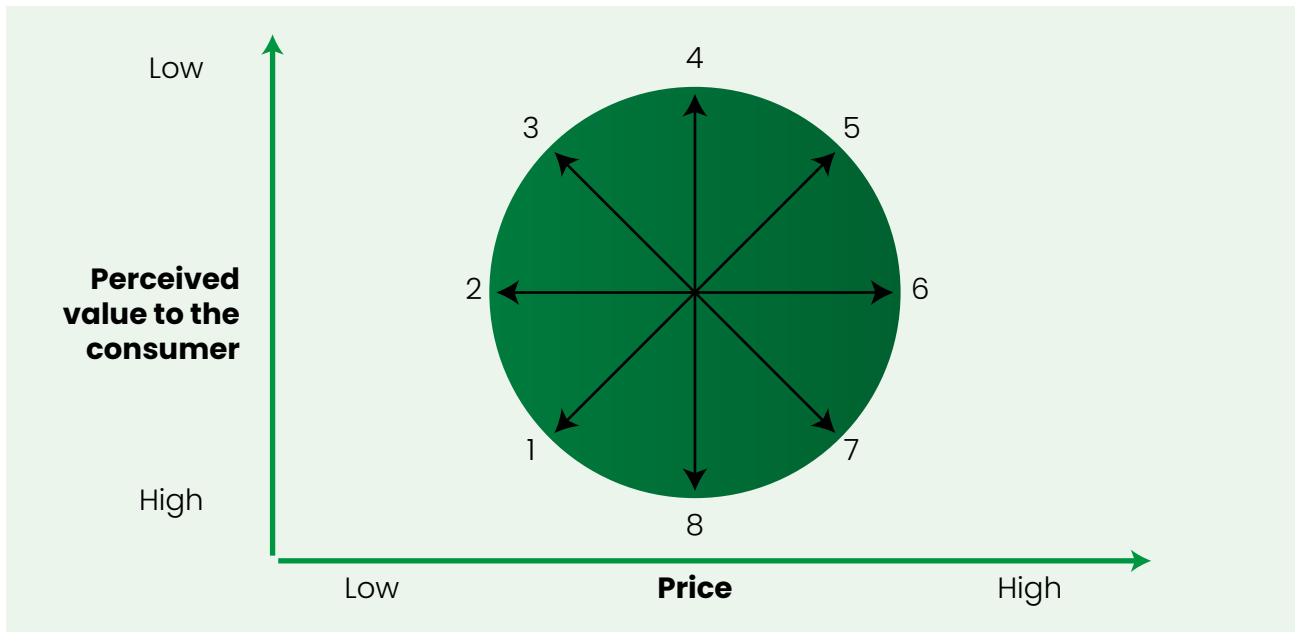
A differentiation strategy can be achieved by:

- Building up a brand image.
- Giving the product special features to make it stand out.
- Exploiting other activities of the value chain (for example, quality of after-sales service or speed of delivery).
- Using IT and innovation to create new services or product features.
- Building customer relationships through effective branding and marketing.
- Creating complementary products and/or services.

The concept of three generic strategies has been extended to eight by Bowman and Faulkner using what they called a strategy clock which caters for a greater degree of variability and combinations in strategic positions⁶⁹ The two axes for this model are perceived value to the consumer and price.

⁶⁹See "Bowman's Strategy Clock," *MindTools*, 2024.

Figure 67: Bowman’s Strategy Clock



The eight strategies are explained below.

Figure 68: Bowman’s Strategy Clock – Explained

Strategy	Perceived value to the consumer	Price	Description
1. Low price, low added value	Low	Low	Firms do not usually choose to compete in this “bargain basement” category but may be forced to if the product lacks differentiated value. The strategy is to sell high volume. Products are likely inferior but cheap.
2. Low price	Moderate	Low	Firms compete in this category as low-cost leaders. The position is sustainable with high volumes and a low cost of supplies (which strong firms can dictate to their suppliers).
3. Hybrid	Moderate	Moderate	Firms compete in this category by differentiating their products from other low-cost alternatives. Volume is a factor but so too is a good reputation for fair prices and reasonable quality. Strong customer loyalty is important.

Strategy	Perceived value to the consumer	Price	Description
4. Differentiation	High	Medium	Firms compete in this category based on high perceived value. This allows and necessitates charging higher prices or larger market share. High price points can communicate value. Branding and loyalty are important.
5. Focused differentiation	High	High	Firms compete in this category on high perceived value and high prices for targeted markets where image, style and brand are highly significant differentiators.
6. Risky, high margins	Moderate	High	Firms in this category provide a fairly standard product at higher prices which is successful if the consumer accepts it. It may work in the short term as consumers may be willing to believe premium pricing means higher quality.
7. Monopoly pricing	Low	High	Firms can compete in this category if they command a monopoly, and customers have no choice. Monopolistic conditions usually do not prevail because of natural market forces or regulation.
8. Loss of market share	Low	Moderate	Firms compete in this category by providing low value at standard prices. This is likely to result in a loss of market share fairly quickly. Consumers will only accept low quality if the price is low enough.

Positions 6, 7 and 8 are not truly competitive positions in most markets and are designed to fail. When deciding their competitive strategy, organisations have some key questions to consider.

If competing on price:

- Are you a price leader?
- Can you sustain a cost leader position? Can you control your costs and sustain a good margin?

- Are you able to exploit all the cost advantages available to you?
- Can you balance low price against the perception of too low value?
- Is your cost advantage limited to one or a few small market segments? Are these segments capable of sustaining your business, given the volume and margins you project?⁷⁰

If competing on perceived value:

- Do you have a well-identified target market?
- Do you understand what your target market truly values?
- Are you aware of the perceived value of your competitor's products?
- Are there areas of differentiation that you can capitalise on that others cannot easily copy?
- Do you have alternate methods of differentiation in the event you lose your competitive advantage in that area?⁷¹

7Ps

The purpose of marketing is to raise awareness about your products and services which is converted into customers making purchases. The various elements that go into marketing can be grouped under the following headings referred to as the 7Ps (or extended) Marketing Mix model.

⁷⁰ Taken from "Bowman's Strategy Clock," MindTools, 2024.

⁷¹ Taken from "Bowman's Strategy Clock," MindTools, 2024.

Figure 69: 7Ps Marketing Mix



Organisations can vary the elements of the marketing mix as they plan and implementing their marketing strategy. The elements are described below.

Figure 70: 7Ps Marketing Mix – Explained

Pillars	Description
Place	Place denotes where the customer may purchase the product or service and the channels of distribution by which it is delivered to the customer. Place may include physical locations and online outlets while channels may be from wholesaler or retailer or in some cases peer to peer where customers become agents.
Price	Price refers to the strategies that may be adopted, such as skimming (a high price when a product is new to market), penetration (a low price to gain market share), psychological (below whole numbers, such as FRw 199,000 for a new fridge rather than FRw 200,000), cost-plus (prices set based on the cost plus a mark-up), or loss leader (low prices below a viable minimum to gain market share).
Product	Product refers to all the features of the product or service (other than price), such as design, branding, convenience, quality, packaging, accessories and after-sales care.

Promotion	Promotion refers to the tactics used to attract buyers, such as advertising campaigns, special offers, trials, free gifts and money back guarantees.
Process	Process refers to the steps a customer must follow to acquire the product or service, including the ordering, payment and delivery processes.
People	People refers to those involved in bringing the product or service to the customer.
Physical environment (or presence)	Physical environment (or presence) includes the experience a customer has when visiting stores or websites including graphics, sounds, ambience, décor, logos and colours.

All these so-called pillars contribute to whether a customer will be enticed to make a purchase and whether they will be likely to make repeat purchases in the future or recommend the product or service to their friends. An organisation can control much of these elements for an overall favourable experience. Each product or service requires a unique marketing mix for its intended market segment.

Collaboration/partnering

We have so far considered the efforts of an organisation in achieving competitive advantage as if they are always working in isolation. Organisations often collaborate even with rivals for mutual benefit. Benefits may include:

- Increasing organisational reach and access to new markets.
- Achieving efficiencies and economies of scale by sharing costs and services.
- Building competitive advantage by pooling resources and expertise for a unique market offering.

Conditions need to be right for this to be a viable option. The following expectations are important:⁷²

- Consistent display of fair and ethical practices.
- Mutual respect for each other's strengths and contributions.
- Clear communication and openness to feedback and collaboration.
- Shared goals and interests that align with each other's values.
- Willingness to support and promote each other's successes and growth.
- Understanding and acknowledgment of each other's differences and limitations.
- Willingness to adapt and adjust to changing circumstances and challenges together.
- Consistent demonstration of trustworthiness and dependability.
- Willingness to invest time and resources into the partnership for mutual benefit.

⁷² Taken from "Why collaborating With Your Competition Might Be The Best Business Decision You Ever Make," MFSBiz, 2023.

- Common enemy or threat that unites them towards a common cause or mission.

There are also potential risks in partnering with a competitor. These include:⁷³

- The possibility of loss of confidential information and trade secrets.
- Increased competition in the marketplace.
- Conflict of interest.
- Dependence on the competitor for success.
- Difficulties in maintaining brand differentiation.
- Decreased bargaining power.
- Trust issues among customers and stakeholders.
- Damage to brand reputation.
- Legal complications.
- Challenges in sharing resources and responsibilities.

D.3 Methods of development

- Recommend product and market options using the Ansoff matrix.
- Assess how internal development, mergers, acquisitions, strategic alliances and franchising can be used as different methods of strategic direction.
- Identify success criteria to assist in the choice of a strategic direction and method.
- Assess the suitability, acceptability and feasibility (SAF) of different strategic options.

Product and market options

We have so far considered the elements of the marketing mix (the 7Ps) to help position our product or service in the market appropriately. We have also explored generic strategic for achieving success with our product or service (Porter's generic strategies and Bowman's Strategy Clock of eight strategies). Using the Boston Matrix or the Public Sector Matrix we have seen how we can categorise our products or services which will also help us decide where we should prioritise our investment. We will now use yet another tool to examine what strategic choices we can make with respect to growth.

The Ansoff Matrix (also called the Product/Market Expansion Grid) considers four basic strategies for growth. When considering markets in this analysis we may choose to interpret this as broadly as appropriate, such as a geographical market (e.g., the central European market) or a particular segment for our product or service (e.g., female teenagers with high disposable income).

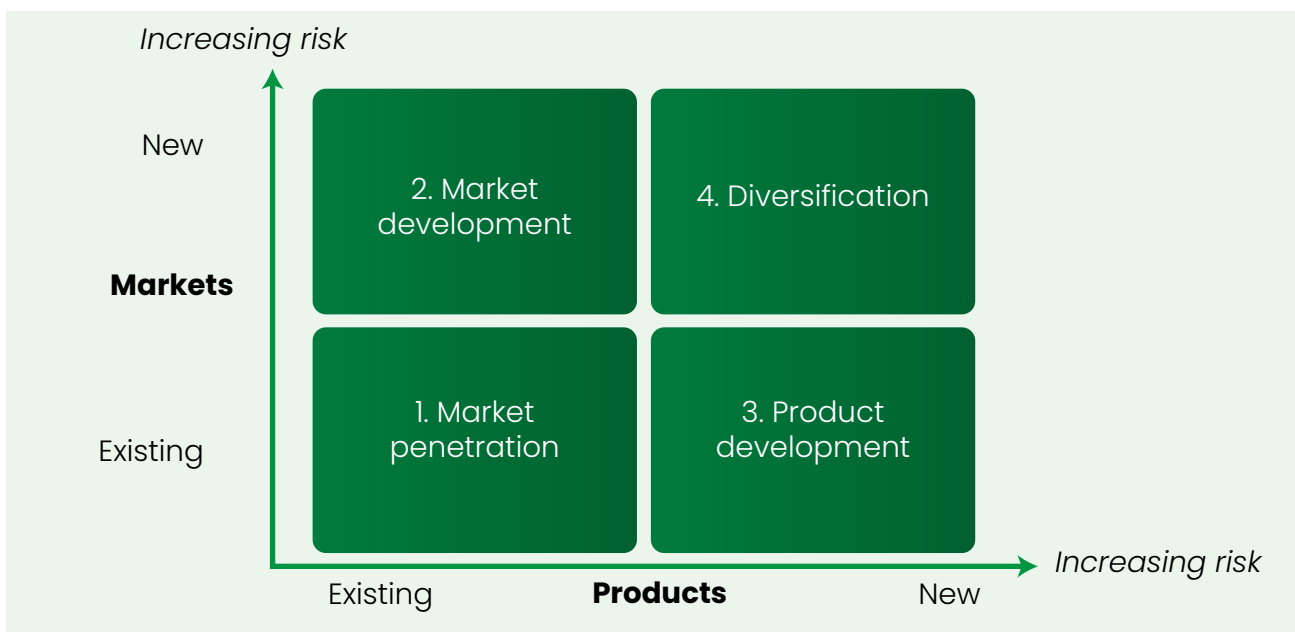
To put it simplistically, if we want to grow sales we can:

⁷³ Taken from "Why collaborating With Your Competition Might Be The Best Business Decision You Ever Make," MFSBiz, 2023.

- Sell more of our existing product in our existing market.
- Sell our existing product in a new market.
- Sell a new product in our existing market.
- Sell a new product in a new market.

A new product may be an adaptation (i.e., a revised marketing mix) of an existing product with new features, pricing strategy, promotions, distribution channels, etc. Sticking with what we know (products and markets) is the least risky approach. As we adapt the product and/or move to new markets, it becomes riskier because there is greater uncertainty. All these elements are shown in the Ansoff Matrix below.

Figure 71: Ansoff Matrix



These elements are described below in order of least to most risky.⁷⁴

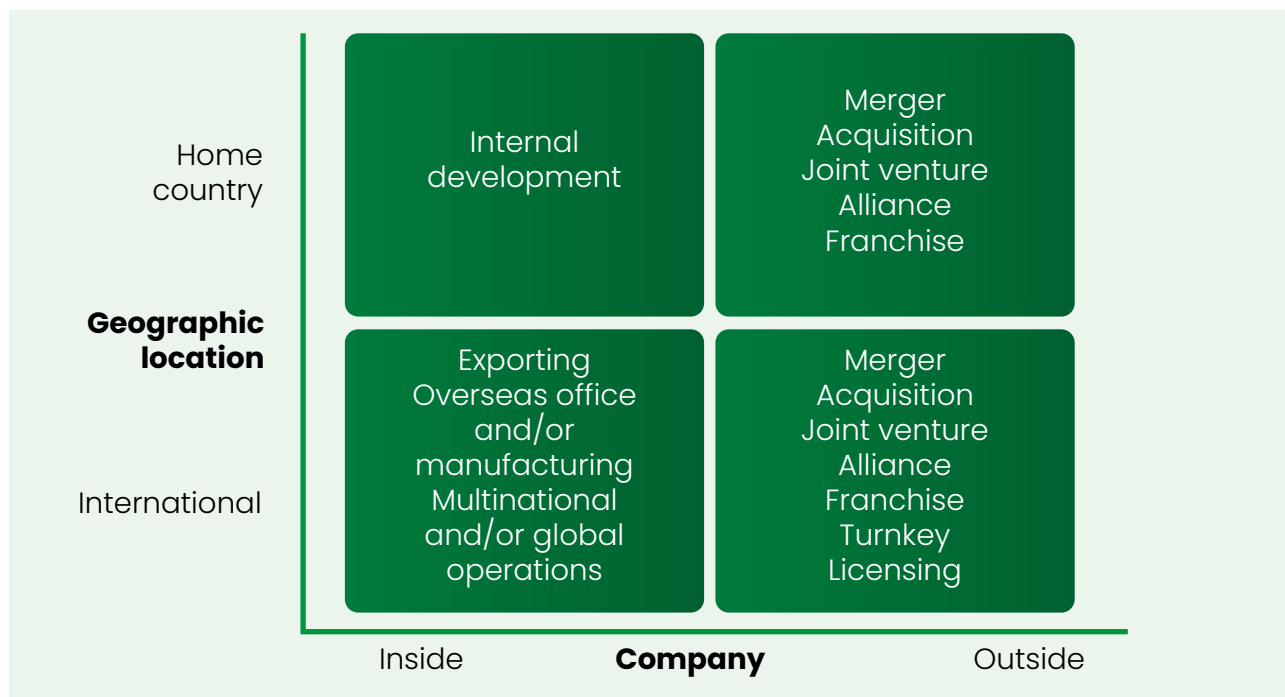
1. Market penetration as a growth strategy involves selling more of the same product within the same market. This may be selling more to the same customers (for a greater “share of wallet”) or finding new customers in the same market. This is the least risky strategy as both the product and market are familiar and likely to involve exploiting exiting relationships and arrangements. Penetration strategies may include:
 - Increasing marketing efforts or streamlining distribution processes.
 - Decreasing prices to attract new customers within the market segment.
 - Acquiring a competitor in the same market.
2. Market development as a growth strategy involves selling an existing product to a new market or market segment. Market development strategies may include:
 - Catering to a different customer segment or target demographic.

⁷⁴ See “Ansoff Matrix: The Product/Market Expansion Grid,” CFI, 2024.

- Entering a new domestic market (regional expansion).
 - Entering a foreign market (international expansion).
3. Product development as a growth strategy involves selling new products to the same market and audience. This may be by developing complementary products or by expanding a range of related products or simply by relying on market awareness and brand loyalty to sell additional products. Investment in research and development is often greater than the expense of market development, making this a riskier option. Product development strategies may include:
- Investing in R&D to develop new products.
 - Acquiring the rights to produce and sell another firm's products.
 - Creating a new offering by branding a product produced by a third party (this is known as a white label product).
4. Diversification as a growth strategy involves selling new products to a new market and is therefore the riskiest approach involving both product and market development. Three types of diversification are possible:
- Related diversification (also known as concentric or horizontal diversification) where the new product or market have synergies with existing products and markets.
 - Unrelated diversification (also known as conglomerate diversification) where the new product or market have little or no synergies with existing products and markets. In such cases, the purpose of diversification is in part to reduce reliance on existing products or markets by expanding into unrelated opportunities.
 - Vertical diversification (also known as vertical integration) where the organisation takes control over other stages in the supply chain (for example, when a wholesaler opens retail outlets or starts manufacturing its own products).

The expansion method matrix, illustrated below, shows different ways in which an organisation can expand, either as an organisation or its operations geographically or both.

Figure 72: Expansion Method Matrix



Strategic direction

Growth can be measured in various ways (e.g., value of capital, number of customers, percentage of market share, number of employees and size of organisational “footprint”) and the Ansoff Matrix above considers growth strategies largely in terms of revenues and profits (although share of market and share of wallet are included). We can also make a distinction between internal growth and external growth.⁷⁵

Internal growth (or internal development, also known as organic growth) involves expansion of an organisation through the application of its own resources and capabilities. As sales and revenues increases, profits are reinvested to fund expansion of operations. Compared with external growth, internal development can be slow, expensive and risky. However, the advantages of this approach to growth include:

- The organisation increases its capabilities through knowledge acquisition.
- Investment is spread over time as funds become available for profits.
- There are no availability constraints (i.e., not dependent on the availability of acquisition targets or suitable strategic partners).
- The organisation maintains strategic independence.
- The organisation can manage cultural evolution (rather than needing to make sudden adjustments as a result of alliances, mergers and acquisitions).

Often internal development occurs as an organisation learns and gains experience and expertise. There is less risk involved unless external conditions require a major shift. Internal development also occurs in the absence of acquisition opportunities. However, it can be slow. It is hard to build economies of scale and compete with larger established providers.

⁷⁵ See “Internal and External growth Strategies,” B2U, 2017.

Rather than acquiring the resources and capabilities from others, internal development involves the gradual accumulation of these. Sometimes the conditions of the market require much more rapid expansion.

External growth (or inorganic growth) is achieved through access to external resources. These approaches may allow for much more rapid growth than internal development could support. These approaches include the following⁷⁶:

- Mergers and acquisitions by which one entity takes over another (acquisition) or two or more entities join to become a new single entity (merger). The aims of mergers and acquisition may include:
 - Business extension to include new markets, products and geographies.
 - Consolidation to reduce the number of competitors, increase economies of scale and achieve greater combined power in the market.
 - Building capabilities by acquiring additional competencies and resources.
 - Achieve rapid growth to take advantage of an opportunity ahead of the competition.
 - Financial and tax efficiency gains.
 - Asset stripping (i.e., acquiring assets to sell rather than maintaining the entity as a going concern).
- Strategic alliances by which two or more entities maintain independence and autonomy but agree to collaborate. In a joint venture or consortium alliance, two or more entities establish a new entity. In other cases, agreements and contracts may be entered into to pursue jointly funded and mutually beneficial activities.
- Franchising by which one entity (the franchisor) licenses the use of its brand and products or services to others (the franchisees) on the basis of an agreed investment and/or share of profits.

Alternatives to acquisitions and mergers include the following:

- Consortia.
- Joint ventures.
- Licensing.
- Subcontracting.
- Franchising.
- Alliances.

While loss of control and independence may be a downside of external growth, advantages include:

- Potential for rapid growth.
- Access to additional resources and capabilities.
- Economies of scale.

⁷⁶ See "Internal and External growth Strategies," B2U, 2017.

- Access to new channels of distribution.
- Decreased competition.

Franchising offers some appealing advantages as a means of achieving growth method, including:

- Reduces capital requirements.
- Reduces managerial resources required.
- Improves return on promotional expenditure through speed of growth.
- Benefits of specialisation.
- Low head office costs.
- Reduced supervision costs.
- Risk management.

However, there are also several distinct disadvantages:

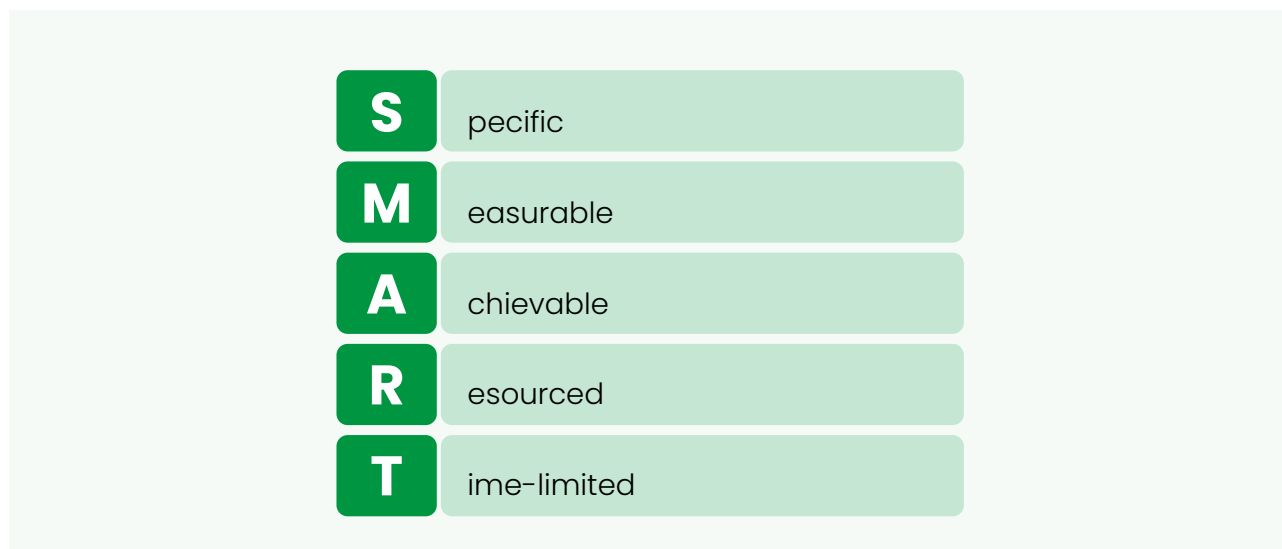
- Profits are shared.
- The search for competent candidates is both costly and time consuming.
- Control over franchisees.
- Risk to reputation.
- Potential for conflict.

Success criteria

An essential part of the strategic process is to monitor and evaluate its success so that corrective action can be taken if required. Success criteria are indicators that show how closely strategic direction and method are to the intended outcomes. The ultimate measure of success is attainment of the organisation's vision, mission and goals, but these are likely to be very high level and set several years ahead. Other intermediate performance indicators are needed to keep track.

Success criteria are more useful if they have the following characteristics:

Figure 73: Success Criteria – SMART



The more carefully and precisely success criteria are defined, the easier it is to determine whether you are being successful. Difficulties arise when they are vague, hard to measure (although qualitative criteria are important and valuable), unrealistic, unsupported and open ended.

Suitability, acceptability and feasibility (SAF)

Suitability, acceptability and feasibility (SAF) are three criteria used to identify optimal strategic options. They can also be the basis for evaluating new strategic initiatives.

- Suitability is a measure of whether a strategy is aligned with organisational needs, vision, mission, goals, priorities and values.
- Acceptability is a measure of whether a strategy satisfies stakeholder expectations.
- Feasibility is a measure of whether a strategy can be achieved given the time and resources available and conditions.

Tools and frameworks can be used to review the internal and external conditions, the features of the market, and strategic options available. For example, an organisation may be using the Ansoff Matrix to explore options for product and/or market expansion. Each of these options can be evaluated in the context of suitability, acceptability and feasibility.⁷⁷

Suitability analysis assesses whether the strategy will exploit the key opportunities and avoid threats by leveraging strengths and securing weaknesses (e.g., by using a SWOT or TOWS analysis). Careful consideration must be given to each option as to whether it is suitable for the macro-environment, industry and sector (e.g., using Porter's Five Forces and Diamond), and whether it aligns with the vision, mission, goals and values. One may consider:

- Market conditions.
- Strategic focus.
- Leveraging strengths.

⁷⁷ See "Suitability, Acceptability, Feasibility (SAF) Framework to Score Strategic Options," MarketingForIT, 2021.

- Resource reallocation.

Acceptability analysis assesses how the strategy will be viewed by stakeholders (the analysis may make use of Mendelow's Matrix). Stakeholders will consider risks, potential returns, sustainability, environmental impacts, reputation and other factors.

Feasibility analysis assesses the practicality of implementing a strategy. Consideration must be given to the necessary resources and capabilities, and whether these are available internally or a suitable approach to external growth is needed.

Unit D key terms

7Ps D.2

Ansoff Matrix D.3

Boston Matrix D.1

Competitive advantage D.2

Corporate parent D.1

Diversification (of product or market) D.1

Franchise D.3

Generic strategy options D.2

Globalisation D.1

Marketing mix (7 Ps) D.2

Mergers and acquisitions D.3

Parental developers (in the context of corporate parent) D.1

Portfolio D.1

Portfolio managers (in the context of corporate parent) D.1

Public sector matrix D.1

Strategic alliance D.3

Strategic business unit D.1

Strategy clock D.2

Success criteria D.3

Suitability, acceptability and feasibility (SAF) D.3

Synergy managers (in the context of corporate parent) D.1

Value D.1

Summary of Unit D and key learning outcomes

Learning outcomes	Summary
Corporate strategy.	<p>In this unit we moved from strategic position to strategic choice. Now that an organisation has decided where it wants to go, strategic choice focuses on how it is going to get there. We investigated some of the many options. This includes questions about the alignment of resources to the strategy, including the relationship between the head office function (corporate parent) and SBUs. We explored three key ways in which the corporate parent may add value. Questions about diversification (products and markets) and opportunities for globalisation may be critical to strategic implementation. The Boston Matrix and the public sector equivalent were examined to help analyse the portfolio of existing products and services which helps to determine how best to manage their future management</p>
Achieving competitive advantage.	<p>Once again, the topic of competitive advantage was visited considering comparative and differential advantages. Three generic strategies identified by Porter provide a useful model for helping organisations decide how they will compete. We saw how this model is expanded by Bowman's Strategy Clock. The choices made for marketing can be representing the extended marketing mix (the 7Ps). As an alternative to competition, we considered how collaboration can also be advantageous.</p>
Methods of development.	<p>Most companies want to consolidate their position and then grow. Growth is usually necessary to sustain an organisation as products and markets have natural lifecycles leading ultimately to decline. The Ansoff Matrix identifies four main options for growing products and or markets. An organisation itself can grow organically or inorganically and we noted the common options in both categories. It is always important to know if you are being successful and we examined success criteria as well as the importance of sustainability, acceptability and feasibility (SAF) as characteristics of a planned strategy.</p>

Quiz questions

1. Which of the following are features of a strategic planning corporate parenting style? (Select all that apply.)
 - A. The corporate parent plays a major role in setting strategic business unit strategies.
 - B. The company maintains a relatively narrow range of activities and small number of strategic business units.
 - C. Performance measures for strategic business units are defined in broad terms including market share and technological innovation.
 - D. The growth strategy is focused principally on mergers and acquisitions.
2. Which of the following behaviours are typical of a parental developer approach by the corporate parents as a means of adding value? (Select one.)
 - A. The corporate parent encourages a high autonomy of the strategic business units.
 - B. The company pursues a strategy of acquisition as a primary strategy for growth.
 - C. The corporate parent leads on innovation and development by applying senior director expertise.
 - D. The company maintains lead head office costs through decentralisation.
3. When using the Boston Matrix to analyse products and services, what is the name given to those that are in a market with high growth and have a low market share? (Select one.)
 - A. Stars.
 - B. Dogs.
 - C. Question marks.
 - D. Cash cows.
4. In the matrix of Porter's Generic Strategies, which strategy is characterised by having a broad target in terms of its competitive scope and a competitive advantage based on cost? (Select one.)
 - A. Cost focus.
 - B. Differentiation.
 - C. Cost leadership.
 - D. Differentiation focus.
5. Which of the following are included in the extended marketing mix (7Ps)? (Select all that apply.)

- A. Pressure.
 - B. Presence.
 - C. Promotion.
 - D. Persistence.
6. Which of the following is a potential disadvantage of collaborating with a rival? (Select all that apply.)
- A. Erodes brand identity in the marketplace.
 - B. Limits organisational reach and access to new markets.
 - C. Reduces the opportunity to achieve economies of scale.
 - D. Creates potential for legal complexities and challenges.
7. Considering the Ansoff Matrix for exploring product and market expansion, which strategy typically has the highest level of risk associated with it? (Select one.)
- A. Market development.
 - B. Diversification.
 - C. Market penetration.
 - D. Product development.
8. Which of the following strategies can be adopted to achieved organics growth? (Select one.)
- A. Mergers and acquisitions.
 - B. Strategic alliances.
 - C. Franchising.
 - D. Reinvestment of trading surpluses.
9. Applying the suitability, acceptability and feasibility (SAF) model for evaluating a strategic option, which of the following approaches is most likely to the help determine acceptability? (Select one.)
- A. Undertaking a SWOT analysis.
 - B. Analysing the market using Porter's Five Force model.
 - C. Assessing available resources and capabilities.
 - D. Applying Mendelow's Matrix to assess the relative level of interest and power of stakeholder groups.

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Unit E: Risk and Controls

Learning outcomes

- E.1 Risk identification and assessment.
- E.2 Risk management.
- E.3 Internal controls.

Introduction to Unit E

The concept of risk is familiar to us from everyday experience. We may take a risk, be at risk or do something risky, all of which convey uncertainty and jeopardy. Sometimes we can measure risks, such as when money is gambled on the outcomes of dice or cards. We know the probabilities and we know what money may be lost or won. Often situations are not so easy to calculate but the general principle is the bigger the potential for big rewards, the greater the potential for big losses.

The concept of risk in the context of organisational activity has a more specific application although it too is related to uncertainty and potential payoffs or losses. When we have objectives and pursue them, we can never be 100% certain of the outcome which may turn out to be better or worse than desired. By anticipating the potential for a range of scenarios, organisations can prepare and do things that reduce the likelihood and/or impact of something unfavourable occurring while being ready to exploit favourable situations.

An organisation's system of internal control is a formalised approach to identify, analyse, evaluate and respond to risks. Given the propensity for risk to be present in every goal-oriented activity – including all stages of strategic planning through to operationalisation and implementation – the most effective form of risk management is embedded into everything an organisation does.

E.1 Risk identification and assessment

- Identify key risks and their impact on the organisation's strategy.
- Identify and distinguish between strategic and operational risks.
- Assess organisation and board attitude to risk and how risk appetite influences strategic decisions.
- Discuss the dynamic nature of risk and the ways in which risk varies between organisations.
- Assess the impact and probability of risk using a risk map.

Risk identification

Risk may be defined variously as follows:

The possibility that events will occur and affect the achievement of strategy and business objectives.⁷⁸

The effect of uncertainty on objectives, whether positive or negative.⁷⁹

What these two leading definitions have in common is linking risk to objectives. Without objectives there is no risk. Risk is explained in terms of how events or circumstances may affect our objectives. The second definition also links risk to uncertainty. People, events, systems and resources are finite, unreliable, interconnected, complex, changeable and chaotic. While we may plan what seems like a logical approach to reaching our goals, every step has uncertainty – starting with our assumptions, our presumed knowledge of the world and even our powers of reasoning. No two situations are ever identical and so our expectations about the future being the same as the past are ill-founded. However, the past is all that we have to go on and is our best guide to what is likely to occur.

It is interesting to note that the first definition given above (from COSO) describes risk in terms of the probability of events and the second (from ISO) as the effect of uncertainty. The two dimensions of risk most commonly described are likelihood and impact. This is helpful because when we consider responses to risk, we can try to address either the likelihood or the potential impact or both. For example, your objective when driving is to arrive at your destination safely and in good time. An accident may occur in which you are injured. Driving more slowly and paying close attention reduce the likelihood of an accident while wearing a seatbelt reduces the impact on you should an accident occur.

Because of the fundamental connection of risks to objectives, the identification of risks starts with a review of objectives rather than a hypothetical discussion of everything that might happen in the future. What are we trying to achieve and what may arise that may impact our achievement? In many ways, risk identification has similarities with identifying opportunities and threats when considered alongside our objectives. Risks do not just have negative consequences. They also give rise to opportunities.

The process of risk identification may give rise to a long list. Organisational leaders must determine which are the significant ones that require their attention and need to be addressed. This involves a prioritisation of risks aligned with the strategic priorities. There is a natural tendency to focus on the potential for negative impacts: what risks could cause the greatest damage to our prospects of achieving our goals. In a prioritised list of risks, the key risks are those most capable of impacting the priority goals of the organisation.

Strategic and operational risks

As risks relate to objectives and we have strategic and operational risks, it comes as no surprise to find strategic and operational risks. Strategic risks are those whose impacts can damage our competitive advantage and even the survival of the organisation. Sometimes strategic risks are identified as either business risks (i.e., relating to the decisions, actions and behaviours of managers) or non-business risks (stemming from the external environment). Operational risks, on the other hand, may disrupt day to day activities. However, operational risks have the potential – if chronic or pervasive – to erode

⁷⁸ *Internal Control – Integrated Framework, COSO, 2013.*

⁷⁹ *ISO 31000 Risk Management, ISO, 2017.*

our ability to maintain cost leadership or pursue a differentiation strategy.

Being able to anticipate and prepare for risks is the basis of risk management (see E.2). A useful distinction is provided below:

Strategic risks threaten an organisation's ability to deliver expected outcomes, which can harm the organisation's ability to grow and prosper. Such risks can arise from technological change, an evolving competitive landscape, poor management, or changes in customer demands.

Operational risks stem from inadequate or failed internal procedures, employee errors, cybersecurity events, or external events such as weather disasters. A comprehensive Operational Risk Management (ORM) plan is critical to identify such risks and then implement practical risk management steps.

Risk assessments are essential to understand the different types of risks, possible risk events, and potential harm so that an organisation can optimize company performance while mitigating unnecessary risks⁸⁰

Examples of operational risk include:

- Inadequate or failed internal processes.
- Human error.
- System failures and downtime.
- Inadequately trained staff.
- Breakdown of business process controls.
- Fraud.
- Cybersecurity events, such as data breaches.
- External events, such as natural disasters or pandemics.⁸¹

Common causes of operational risk include:

- Technology.
 - Hardware.
 - Software.
 - Cybersecurity.
 - Privacy.
- People.
 - Employees.
 - Vendors.
 - Customers.
 - Other stakeholders.

⁸⁰ "The Difference Between Strategic and Operational Risk," RiskOptics, 2022.

⁸¹ "The Difference Between Strategic and Operational Risk," RiskOptics, 2022.

- Regulatory and compliance issues.

Examples of strategic risk include:

- Business decisions that are unclear or poorly communicated.
- The introduction of new products or services.
- Changes in senior management.
- Unsuccessful mergers or acquisitions.
- Changes to customer demands or expectations.
- Damage to the company's reputation.
- Financial challenges (such as poor cash flow).
- Emergence of new competitors.
- Problems with suppliers, vendors, or other stakeholders.⁸²

Risk attitude and risk appetite

Individuals and organisations differ in their risk attitude. This is a general disposition toward risk based on how risks are perceived and accepted. For an organisation, risk attitude is linked to culture. Risk attitude may be described on a spectrum of being risk averse to risk tolerant.

Risk appetite is a more formalised expression to describe how much risk the organisation is prepared to take. Risk appetite is defined by COSO as “the types and amount of risk, on a broad level, an organisation is willing to accept in pursuit of value.”⁸³ Boards typically define and communicate risk appetite. This may include broad risk appetite statements as well as appetite for risk with categories of objectives or type of risk.

Risk appetite should be used as a guide in formulating strategy and selecting strategic options. Some options have greater uncertainty. For example, the options identified in the Ansoff Matrix are riskier when considering new products and/or markets, with diversification being the riskiest strategy. Similarly, the eight types of strategies represented in Bowman's Strategy Clock and those with a high price, low value approach are provably unsustainable.

Dynamic nature of risk

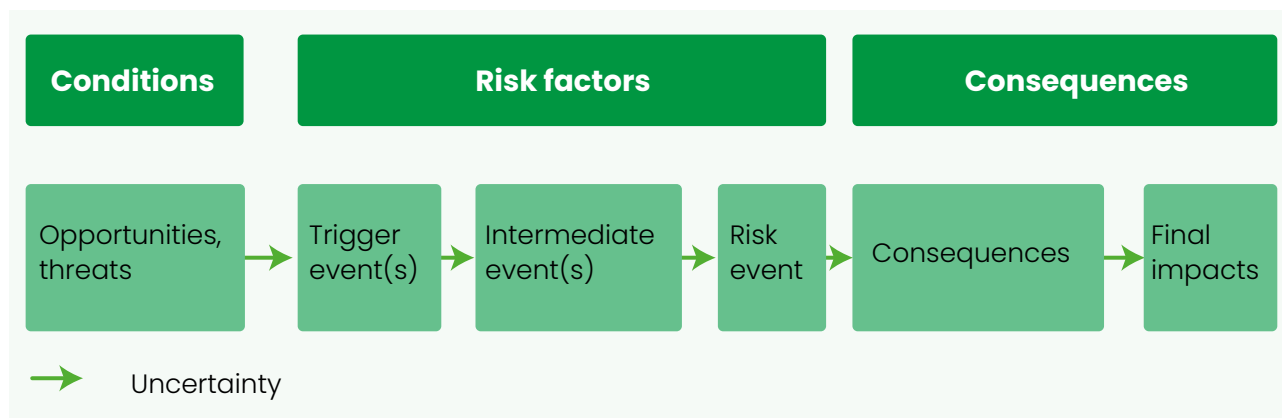
So far, we have considered that we can identify risks from consideration of objectives and an analysis of the internal and external environments. An additional feature of risks is their ability to evolve. Risk identification and analysis cannot be a one-time activity but requires continued vigilance and monitoring.

To appreciate the dynamic nature of risk, it is helpful to consider the composition of a risk.

⁸² “The Difference Between Strategic and Operational Risk,” *RiskOptics*, 2022.

⁸³ *Enterprise Risk Management – Integrating with Strategy and Performance*, COSO, 2017.

Figure 74: Anatomy of a Risk



We tend to think of risk in terms of their potential impact, and this aligns with everyday language. We might say, for example, there is a risk that I will be involved in a car accident. However, we should take a broader view. When analysing present conditions, we may identify opportunities and threats with the potential to impact the attainment of our objectives (favourably or unfavourably). However, the conditions may or may not lead to a sequence of events that precipitates any such consequences. Each arrow in the sequence illustrated above involves some uncertainty.

When the conditions are familiar, we can make better estimates about the likelihood of trigger events leading to an impact on our objectives. Organisations often talk about “new and emerging risks” without distinguishing between these, but a useful distinction can be made. We can say a new risk arises when we are faced with new conditions or when we have a new objective. In many cases, these are new to us but are well known and understood. They can be identified, analysed, evaluated and managed. New risks may arise due to:

- Restructuring.
- Relocation.
- Changes in leadership.
- Revisions to strategy.
- Introduction of a new process or system.
- Changes in the external environment.

The situation regarding an emerging risk is different insofar as it arises due to previously unexperienced situations. There is limited literature available to help an organisation anticipate and therefore manage the risk. Neither the likelihood nor the impact can be approximately estimated. ISO 31050 provides the following description:

Emerging risks are characterised by their newness, insufficient data, and a lack of verifiable information and knowledge needed for decision-making related to them. As these risks can develop with the potential for large threats and opportunities, appropriate management of emerging risks should be established as a part of an organisation’s risk management. It should include changes in circumstances or conditions related to multiple aspects of the organisation’s external context and the implications for its internal context.

Emerging risks can include, for example:

- Risks arising from unrecognized changes in organizational contexts.
- Risks created by innovation or social and technological development.
- Risks related to new sources or previously unrecognized sources of risk.
- Risks from new or modified processes, products or services.

Consequences of emerging risks can include, for example:

- Exposure to unforeseen hazards and threats with uncertain outcomes.
- Increased exposure to hazards and threats from known risk sources.
- Lost or gained opportunities.⁸⁴

The related concept of so-called black swan events is also useful to note. These are described as follows:

Black swan events are rare and unexpected events with severe consequences with the potential to cause a change in a formerly held belief or system of beliefs. There are three defining attributes of a black swan event:

- It is unpredictable.
- It results in severe and widespread consequences.
- People will rationalise it afterwards as having been predictable (known as hindsight bias).⁸⁵

Black swan events, therefore, may be the trigger event of an emerging risk. However, while rare and unpredictable, one may argue (unlike emerging risks) they are not unforeseeable. Stock market crashes, terrorist attacks, earthquakes and pandemics are extremely difficult to forecast. Even so, they are the kinds of things that have been known to happen occasionally. By contrast, emerging risks arise from novel conditions, and we simply do not know what the consequences could be. Artificial Intelligence and global climate change take us into previously uncharted waters.

Risk maps

To help with the process of prioritisation, it is common to attach values to the likelihood and impact of each risk. These may be calculated based on previous experience, benchmarks, computer models and algorithms or as part of a collective approximation. Qualitative descriptors can be used (such as very low, low, moderate, etc.) as well as quantitative ones. For example, we may create a scale of 1-5 for both impact and likelihood, where 1 is very low and 5 is very high. The severity of the risk can be calculated by likelihood multiplied by impact. This produces results from 1 up to 25 for the most significant risks. This can be illustrated in the form of a risk map.

Risk maps (sometimes called heat maps) show risks in a visual way by plotting them on a chart according to their impact and likelihood. Quantifying risks can bring problems, for example, giving a false impression of accuracy, so qualitative techniques are often used as well, such as visual techniques like risk mapping.

⁸⁴ ISO 31050:2023, *Risk Management – Guidelines for managing an emerging risk to enhance resilience*, ISO, 2023.

⁸⁵ "Black Swan Event," CFI, 2024.

A risk map or heat map can be drawn, as a chart or graph, using risks from a risk register and each series of risks can be plotted on this map to decide on the best way to manage them. A typical risk map is a chart with one scale for severity or impact of loss and the other scale for frequency or likelihood of loss. The approach to managing the risks should vary according to their position on the risk map.

Figure 75: Risk Map

Impact						
5	5	10	15	20	25	
4	4	8	12	16	20	
3	3	6	9	12	15	
2	2	4	6	8	10	
1	1	2	3	4	5	
	1	2	3	4	5	Livelihood

The heat map adds colours to help identify those key risks requiring most attention (pictured in red and orange). There are many variations of this model with varying degrees of sophistication.

Some caution is advised. Firstly, this numerical approach assumes we would worry as much about a risk with a high impact and a low likelihood as a risk with a low impact and a high likelihood. However, if there is a chance something may seriously disrupt operations, even if unlikely, we would probably pay it more attention than something that is quite likely to occur but only be a minor nuisance. Some models add weight to the impact measures for this reason. Secondly, it is important to consider risks in aggregate. Sometimes events or circumstances that appear relatively harmless in isolation pose a much more serious threat in combination. Thirdly, while this looks like a scientific method, it involves plenty of assumptions and guesswork. Therefore, managers need to look beyond the numbers to what is important. Debating if something is a 1.2 or a 1.4 is unlikely to be helpful.

E.2 Risk management

- Explain and assess the role of a risk committee, risk department and a risk manager.
- Explain and evaluate the use of a risk register.
- Assess the concept of embedding risk in an organisation's culture and values.

- Explain the concept of diversifying risk and when this would be appropriate.
- Explain risk management options, including risk transfer, avoidance, reduction and acceptance (TARA).
- Explain and assess the benefits of incurring some risk using the “as low as reasonably practical” (ALARP) principle.

Risk functions

To enable an organisation to manage its risks, it is common to establish some supporting roles and structures. These are described below.

Figure 76: Key Risk Functions

Functions	Description
Risk committee	<p>A risk committee is a common standing committee of independent directors of a board, sometimes combined with audit and/or compliance. Its purpose is to oversee an organisation’s risk strategy and ensure there is an effective risk management framework in place. Key roles and responsibilities include:⁸⁶</p> <ul style="list-style-type: none"> • Risk oversight. • Setting risk appetite and strategy. • Reviewing risk policies and control. • Reporting and communication. • Compliance and regulatory adherence.
Risk department	<p>A widely accepted principle of risk management is that risks and their controls should be the responsibility of the manager responsible for the associated activity to which the risks relate. This is often referred to as risk ownership. The purpose of a risk department is not to assume responsibility for managing the risks of an organisation. However, a risk department can:</p> <ul style="list-style-type: none"> • Lead on establishing and maintaining a risk management framework. • Promote risk awareness across an organisation. • Promote good practice. • Ensure a consistent approach. • Provide guidance and training. • Monitor and provide reports on risk management.

⁸⁶See “What is a Risk Committee? (Overview, Roles and Responsibilities),” OnBoard, 2024.

Functions	Description
<p>Risk manager</p>	<p>A risk manager may be a member of a risk department. Alternatively, they may be part of another team or function with responsibility to lead risk management within that area. This helps to embed a standardised approach across an organisation while ensuring that risk management is embedded in operational activities.</p> <p>The risk may report to senior management. Alternatively, and commonly in large financial services organisations, the head of risk management may report directly to the board to create greater independence from management functions. Key roles include:</p> <ul style="list-style-type: none"> • Providing the overall leadership, vision and direction for enterprise risk management. • Establishing integrated risk management framework for all aspects of risk across the organisation. • Integrating enterprise risk management with other business planning and management activities. • Framing authority and accountability for enterprise risk management in business units. • Promoting an enterprise risk management competence throughout the entity. • Developing risk management policies, including the quantification of management’s risk appetite through specific risk limits. • Defining roles and responsibilities. • Ensuring compliance with codes, regulations and statutes and participating in setting goals for implementation. • Establishing a common risk management language that includes common measures around likelihood and impact, and common risk categories. • Developing analytical systems and data management capabilities to support risk management programme.

Risk registers

A risk register is a log of risks and may apply to a project, a process, a system, a team, a strategic business unit or an organisation. It is used as a tool to track and manage risks. The following information is usually included:⁸⁷

- Risk identification.
- Risk owner.

⁸⁷ See “How to Build a Risk register for Your Business,” RiskOptics, 2023.

- Risk description and analysis.
- Risk category.
- Risk probability or likelihood.
- Risk impact linked with the operational or strategic objective (or objectives) the risk may affect.
- Risk response plan or control.
- Risk priority (may be on a scale such as low, medium, high).
- Risk status to indicate whether the response plan is complete and functioning as intended or requires additional attention.

As risks are dynamic, the risk register needs to be maintained, periodically reviewed and updated. Controls should be tested to ensure they are working as intended. Internal auditing provides independent assurance on the adequacy and effectiveness of governance, risk management and internal control.

The benefits of maintaining a risk register include the following:⁸⁸

- Supports identifying risk patterns over time and/or across multiple projects and functions.
- Provides a common scale for risk measurement.
- Provides more confidence in decision making.
- Enforces accountability.

Embedded risk management

It is typical for organisations to increase their maturity over time with respect to managing risk. Initially, risk management may be reactive, fragmented and inconsistent. However, with greater sophistication, skill and resource, the approach becomes more holistic, proactive and consistent across all activities. Embedding risk management into strategic planning, budgeting, resource allocation, operations, procurement, project management – in fact throughout all activities – ensures that risks are identified and managed in the most effective way. It requires a culture in which risks are readily discussed and risk activities are centrally coordinated through a risk department.

Embedded risk management (or integrated risk management) offers an organisation significant benefits, including:⁸⁹

- Better data.
- Stronger disaster preparedness and resilience.
- Increased cost savings in risk management activities.
- New efficiency gains in business operations.
- Greater risk appetite awareness.
- Better prioritisation of projects and activities.

⁸⁸See "How to Build a Risk register for Your Business," RiskOptics, 2023.

⁸⁹See "The Essentials of Integrated Risk Management (IRM)," AuditBoard 2023.

- Better risk management through a comprehensive and holistic view of risk.
- Enhanced trust from stakeholders and other third parties.

Diversifying risk

The purpose of risk management is not to reduce or eliminate risk taking. Firstly, it is not possible to pursue an objective without taking risks. In fact, we may regard goal-oriented activity and risk taking as the same thing. Secondly, it would be counter-productive in many instances to simply try to reduce risk. Risk gives rise to opportunities and threats and organisations can scarcely be successful without it. This applies equally to public and private sector entities.

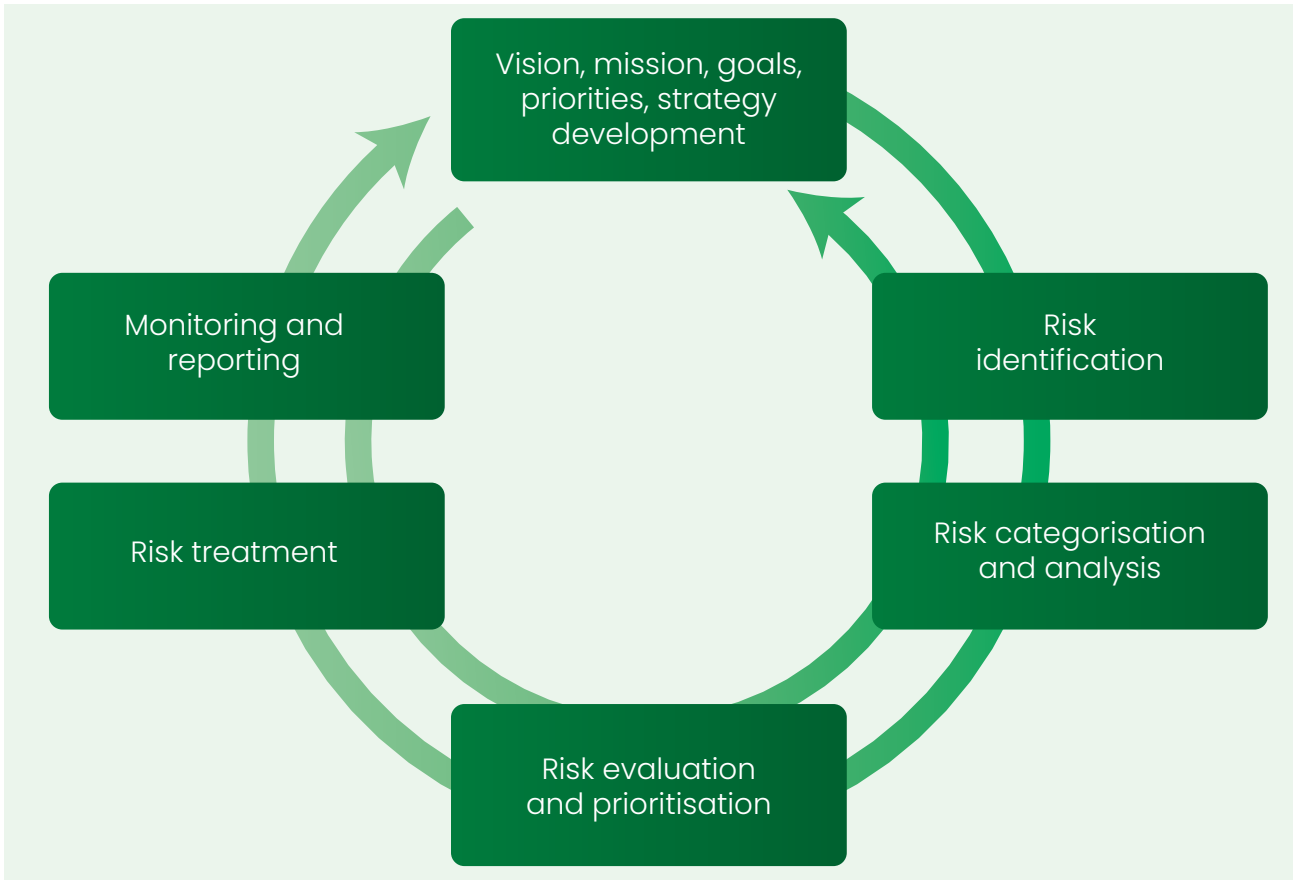
Instead, risk management aims to enable better decision-making informed by greater risk awareness. A successful organisation is one that takes risks more ably than another.

Diversifying risk is a strategy commonly used by investors but can also be applied to organisational strategy. One way to manage risk is to invest in different funds with limited correlation, meaning they will respond differently to circumstances. It follows the wisdom of “don’t put all your eggs in one basket.” For example, an investment portfolio that relies heavily on technology is more vulnerable to factors that affect that industry, such as a failure in supply of microchips. A diversified portfolio can weather such storms more easily. In a similar way, strategic choice about markets and products should consider the advantages of diversifying risk. The choice of growth strategies explored in the previous unit will be driven in part by the advantages of diversifying risk. In D.3 we considered different types of diversification depending on the kinds of benefits being sought.

Risk management options

The graphic below summarises the key stages in risk management:

Figure 77: Risk Management



It is a cyclical, continuous and iterative process. Although we can start with the vision, mission, goals and strategy, these are in turn informed by organisational risk awareness, risk attitude and risk appetite. The risk processes described should be embedded so they are integral to planning and decision-making.

Once risks have been identified and evaluated, the organisation will determine an appropriate response. A risk map like the one described in E.1 above helps to identify risks requiring the most urgent attention.

Four main types of risk response (or risk treatment) are recognised:

Figure 78: Risk Treatment

Treatment (TARA)	Alternative terminology	Description
Transfer	Share	Risks can be transferred through insurance or credit default swaps, for example, so that the burden of the potential impact is shared. Some impacts may be uninsurable, however, and the disruption caused even when adequately covered may still give rise to an erosion of value.

Avoid	Terminate	Risks can only be fully avoided by abandoning the activity or objective.
Reduce	Treat, mitigate	Control measures may be applied to reduce the likelihood or the impact of a risk or both to reduce the exposure to an acceptable level.
Accept	Tolerate, retain	Unless one decides to avoid a risk (by abandoning the activity or goal), the only alternative is to accept risk. We may reduce them or share them to some extent, but a level of residual risk will be retained.

These treatments may be used in combination and, unless one decides to avoid, there is always an element of acceptance of the residual risk. Risk treatments or responses are often referred to as controls. This suggests that we only seek to mitigate or reduce risks. We should also note opportunities to exploit or leverage risks and take advantage of opportunities. The goal of treatment is to manage risks within the risk appetite communicated by the board or risk committee.

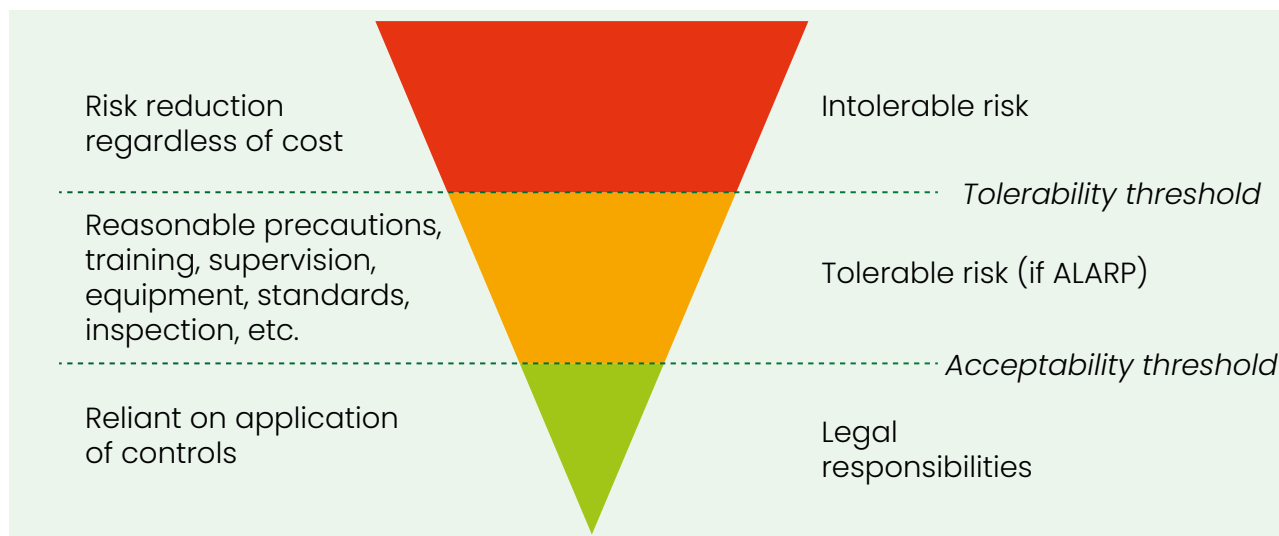
As low as reasonably possible (ALARP)

Recognising that a level of risk must be accepted without choosing to terminate, what is an appropriate residual level? Mitigation requires time, effort and resource and may ultimately fail. There is a point at which the additional burden of further controls becomes excessive relative to the benefit we are trying to achieve.

In some matters we may feel that any level of risk is unacceptable, especially when we are talking about health and safety. If someone may be injured or killed, then our first reaction could be that it is simply not worth the risk. However, there are many activities undertaken where an accident is a real possibility. Construction, engineering, aeronautics, aviation, nuclear energy, armed combat, peacekeeping and fighting infectious diseases are all examples where we accept a level of danger. Even in industries where people are much less obviously at risk, we can never reduce the possibility of injury or death to zero.

This brings us to the concept of as low as reasonably possible (ALARP). Organisations provide training, safety equipment and supervision. Regulations and inspections are used to enforce minimally acceptable standards. Employees are monitored but ultimately we must rely on their good sense and judgment.

Figure 79: ALARP



When risks are intolerably high, especially when the potential for injury or injury are unacceptable regardless of the potential benefits, either the activity is to be abandoned or risk reduction is required at any cost. Below the tolerability threshold we continue to reduce risks up to a point where all that can be reasonably done within the bounds of practical control until the risk is deemed to be as low as reasonably possible. Within this region the risk is deemed tolerable. Below this level the risk is acceptable and further precaution is considered unnecessary and beyond what is reasonable or practicable. Divers of forklifts, trucks, taxis or airplanes, operators of heavy equipment and fire fighters among others are deemed to be operating within a level of acceptable risk. While in principle further measures could be taken to reduce the risk further, the level has been reached where additional safety features, training, equipment, supervision, and so on are deemed to be no longer necessary nor valuable.

E.3 Internal controls

- Evaluate the key components of an effective internal control system.
- Evaluate the effectiveness and potential weaknesses of internal control systems.

Internal control

COSO (the Committee of Sponsoring Organizations of the Treadway Commission) is the body responsible for the most widely used framework for internal control which it describes as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.”⁹⁰ When those processes are considered collectively, they are often referred to as a system of internal control. COSO’s model comprises five components. It is commonly shown as a three-dimensional cube but the graphic below is designed to show the relationships among the components:

⁹⁰Internal Control – Integrated Framework, COSO, 2013.

Figure 80: COSO Internal Control

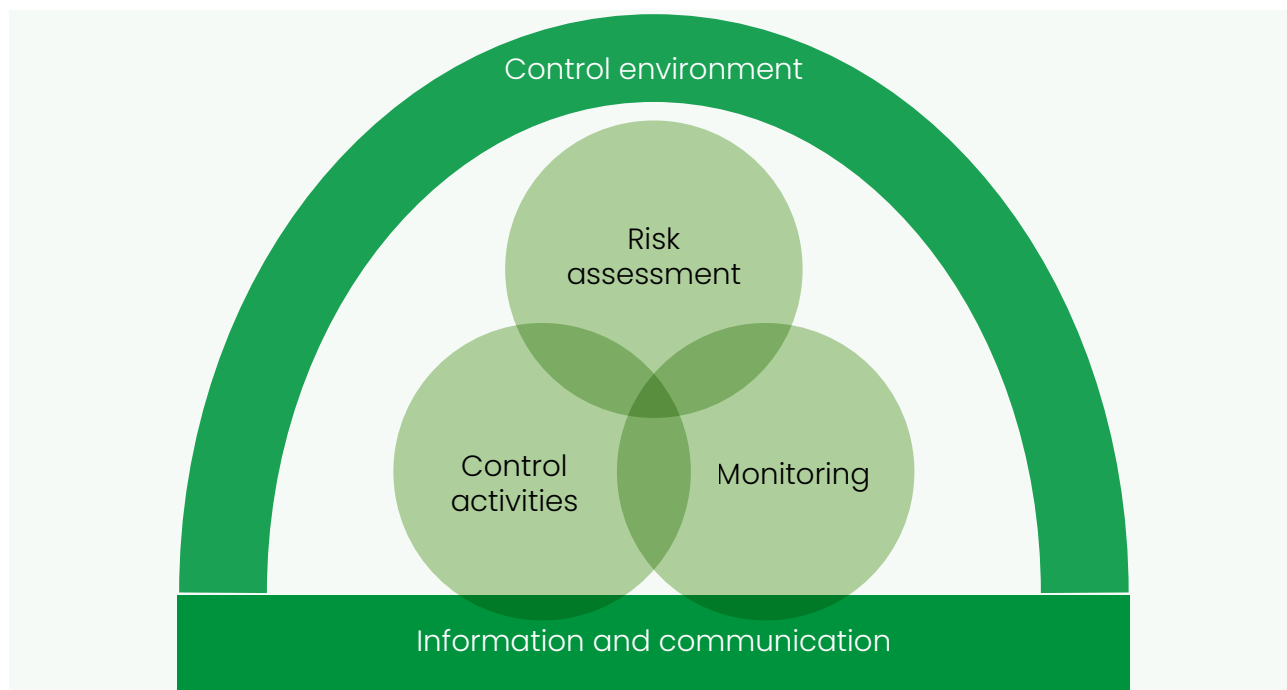


Figure 81: COSO Internal Control – Explained

Component	Description
<p>Control environment</p>	<p>The control environment refers to the overall approach, mindset and culture with respect to risk and control, and is established top-down. It includes:</p> <ul style="list-style-type: none"> • Values and culture. • Tone at the top. • Oversight by the board or governing body to ensure an appropriate and effective system of internal control is in place. • Policies, structures, processes, job descriptions, code of conduct, training, awareness raising and other supporting elements to ensure alignment with vision, mission and goals.
<p>Risk assessment</p>	<p>Internal control requires regular risk identification and evaluation. This is greatly enhanced by a rigorous framework and process for risk assessment to include a risk register to log likelihood and impact, management response, and risk and control ownership. As a minimum, risk assessment should be conducted regularly, but the system of internal control needs to be attentive and responsive to changes in the internal and external environments.</p>

Component	Description
Control activities	The control activities are the agreed responses to the identified risks based on the four basic treatments described above (TARA, E.3). Control activities comprise planning, process development, assignment of responsibilities, resource allocation, training and communications to provide – in accordance with the COSO definition – “reasonable assurance regarding the achievement of objectives.” That assurance cannot be absolute as uncertainty cannot be eliminated.
Monitoring	Periodic and ongoing monitoring, measuring and reporting is necessary to ensure the system of internal control continues to perform as intended. Any control weaknesses or deficiencies need to be identified and repaired. Sometimes, a threat may dissipate, and a control can be relaxed or eliminated. Otherwise, risk may evolve and require additional responses and new and emerging risks need to be identified, evaluated and responded to appropriately and in a timely fashion.
Information and communication	Internal control is dependent on information and communication. Responsible parties and relevant stakeholders need to be included in the distribution of reports using information that is reliable, timely and useful.

Evaluating internal control

Another useful framework to consider for governance, risk management and internal control is the Three Lines Model.⁹¹ The model recognises the need for contributions from across the organisation to ensure the system of internal control is adequate and effective.

- The board is responsible for ensuring the organisation has effective systems in place for governance, risk management and internal control, allocating resources to management, and providing oversight. To provide independent and object assurance, the board is also responsible for ensuring there is an appropriately positioned and resourced internal audit function.
- Management (i.e., those with executive functions which includes all managerial and operational personnel) is responsible for applying resources and taking actions to achieve the organisation's objectives according to the direction set by the board. Management provides reports to the board on performance, position and prospects. Management is responsible for implementing the system of internal control.
- Internal auditing provides assurance and advice to management and the board. The function reports to the board or audit committee to ensure organisational independence. It helps management identify control deficiencies and provides advice for the continuous improvement of operations. Both management and internal audit undertake regular risk assessments and monitor control activities.

⁹¹ *The Three Lines Model, The IIA, 2020.*

Unit E key terms

ALARP E.2

Black swan E.1

COSO E.3

Diversifying risk E.2

Embedded risk management (or integrated risk management) E.2

Emerging risk E.1

Impact E.1

Internal control E.3

Key risk E.1

Likelihood E.1

New risk E.1

Operational risk E.1

Probability E.1

Risk E.1

Risk appetite E.1

Risk attitude E.1

Risk committee E.2

Risk department E.2

Risk manager E.2

Risk map E.1

Risk register E.2

Risk treatment (Treat, Tolerate, Transfer, Terminate) or (transfer, avoid, reduce, accept (TARA)) E.2

Strategic risk E.1

System of internal control E.3

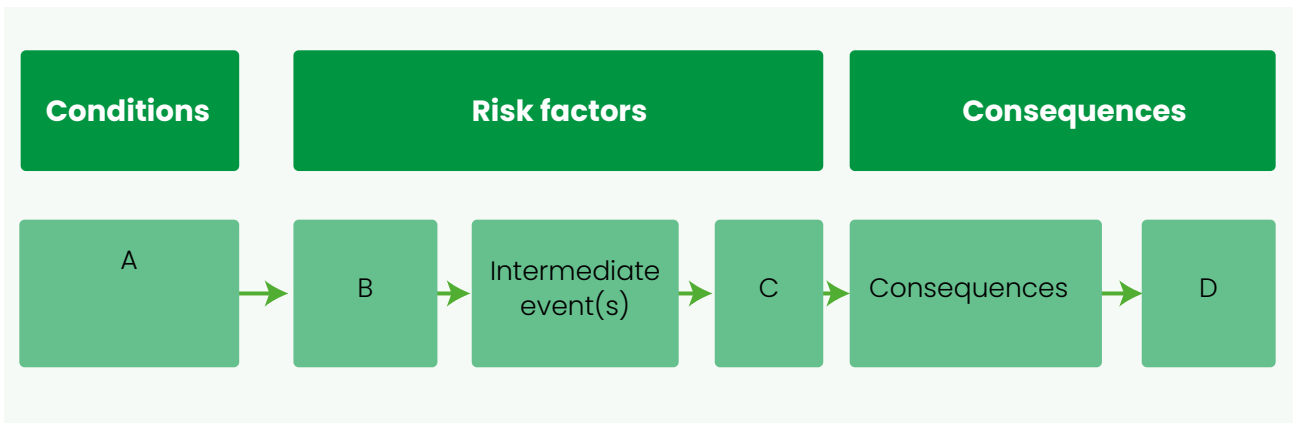
Three Lines Model E.3

Summary of Unit E and key learning outcomes

Learning outcomes	Summary
Risk identification and assessment.	<p>We identified different definitions of risk and emphasised both their connection with objectives and their potential for both favourable and unfavourable impacts. Risk identification must be a systematic process repeated often. Risks are generally analysed according to their likelihood (or probability) and impact. Risk maps provide a useful way of representing risks according to their prioritisation. As risks link to objectives, we recognised they exist at strategic and operational levels. As the board has overall accountability to the stakeholders, it should set the right appetite for the organisation and key categories of risk. We also noted that risks continue to evolve, some more rapidly than others, and require close monitoring.</p>
Risk management.	<p>Risk management is a highly evolved discipline. We explored common structures and processes used to manage risks. Best practice indicates risk management should be embedded so that it is a part of everything the organisation does rather than an add-on activity. One strategy involves risk diversification. Risk treatments are the responses management makes to the identified risks to maintain exposures at the optimal level and in accordance with risk appetite. We also explored the notion of “as low as reasonably possible” in recognition that risk likelihood cannot be reduced to zero.</p>
Internal controls.	<p>We explored the COSO model for internal control and examined each of its five components. The framework is a useful approach to analysis the effectiveness of the system of internal control. We also looked at the Three Lines Model which helps organisations align their resources to different aspects of internal control activities and ensure they are coordinated.</p>

Quiz questions

1. Which of the following are typical characteristics of emerging risks? (Select all that apply.)
 - A. There is high volatility in the circumstances giving rise to the risk.
 - B. There is a low level of uncertainty regarding the dimensions of the risk.
 - C. There is plenty of previous experience and data to use to help forecast the likelihood and impact of the risks.
 - D. The risk has the potential for significant impacts.
2. Consider the anatomy of a risk given below:



- Identify the components of the risk from the following:
- I. Final impacts.
 - II. Risk event.
 - III. Opportunities, threats.
 - IV. Trigger events.
3. Which of the following is an accurate definition of risk appetite? (Select one.)
 - A. The amount of risk an organisation is prepared to take.
 - B. The amount of a risk an organisation can withstand.
 - C. The amount of risk to which the organisation is exposed.
 - D. The amount of risk remaining after controls have been implemented.
 4. Which of the following information is commonly included in a risk register? (Select all that apply.)
 - A. Risk identification.
 - B. Risk attitude.

- C. Risk owner.
 - D. Risk category.
5. What risk response is being implemented through the use of insurance? (Select one.)
- A. Accept.
 - B. Avoid.
 - C. Transfer.
 - D. Reduce.
6. In accordance with the principle of “as low as reasonably possible,” when a risk is at a level above the tolerability threshold, what responses would be acceptable? (Select all that apply.)
- A. Rely on the application of controls in place and monitor periodically.
 - B. Implement risk reduction measures regardless of the cost.
 - C. Take reasonable precautions such as issuing safety equipment.
 - D. Abandon the activity.
7. In accordance with the Three Lines Model, which party is responsible for managing risks? (Select one.)
- A. The board.
 - B. Management.
 - C. Internal auditing.
 - D. External auditing.
8. Which of the following would be correctly identified as being part of the control environment component of the COSO framework for internal control? (Select all that apply.)
- A. Values and culture.
 - B. Evaluating risks.
 - C. Escalating control failures to the appropriate level.
 - D. Oversight by the governing body.
9. Who is responsible for monitoring the system of internal control? Select all that apply.)
- A. Business unit managers.
 - B. Internal auditing.
 - C. The board.
 - D. The risk manager.

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Unit F: Strategic Implementation

Learning outcomes

- F.1 Organisational structure.
- F.2 Process change.

Introduction to Unit F

Having completed our examination of strategic position and strategic choice, we now move to the third stage of strategic implementation. With a clear vision, mission and goals and a determination of how the organisation is going to build its competitive advantage, the process is completed through taking appropriate actions to making it a reality.

Once an organisation has determined its strategy, it is important to align resources to match the priorities and objectives. This includes two major aspects of an organisation: its people and its processes. There are many variations of organisational structure each with their particular advantages and disadvantages depending upon the features of the organisation and its environment. Internal and external relationships play a critical role in the successful delivery of strategy, and we will investigate Mintzberg's Organisational Model to help analyse the options available for structure, processes and relationships.

Internal processes are also critical for a successful strategy. Much benefit can be achieved from process improvement, redesign and reengineering. Guided by Harmon's Process-Strategy Matrix, we will consider the relative merits of maintaining processes in-house or outsourcing them to external service providers.

F.1 Organisational structure

- Advise on the possible organisational structures to deliver a selected strategy.
- Advise on how internal relationships can be re-organised to deliver a selected strategy.
- Discuss how external relationships can be used to deliver a selected strategy.
- Explore, using Mintzberg's organisational model, the design of structure, processes and relationships.

Organisational structures

Organisational structures are designed to align human and other resources to support strategic objectives and operational necessities. The activities of many individuals need

to be coordinated to act like a single entity. The org chart showing functions, divisions, teams, managers, superiors and subordinates is one visible part of organising for success, but we should remember that it also involves an arrangement of resources, processes, relationships, authority, accountabilities, responsibilities and tasks.

Before we consider the range of choices for organisational structures, it is useful to consider some of the key ingredients, as described in the table below.

Figure 82: Elements of Organisational Structure

Element	Description
Chain of command	The chain of command is the system for passing down orders, providing supervision and reporting up performance. Line management refers to the direct relationship between a director, manager, or supervisor and their subordinates. A line manager is responsible for the effective deployment of their subordinates, providing direction, resources, encouragement, training, feedback and discipline. The chain of command strengthens accountability.
Specialisation	Organisations are like microcosms of society in allowing for and taking advantage of specialisation. Individuals, teams and departments can focus on narrow areas of activity according to their expertise resulting in more efficient and effective operations overall. The opportunity for and degree of specialisation tends to be higher in larger organisations and in tall, hierarchical structures.
Span of control	Span of control refers to the size of teams reporting to a single line manager. A manager with a wide span of control has a large team of direct reports. As span increases, a manager can spend proportionately less time with each individual team members.
Hierarchy	Hierarchy describes the number of levels of authority within the structure. A very hierarchical structure has many levels and long chains of command from the CEO to the most junior level. A traditional structure is tall with many layers of hierarchy and shaped like a pyramid. Managers tend to have narrow spans of control compared with flatter structures. They have a high degree of specialisation and departmentation. Individuals can recognise where they fit into the overall structure and recognise a path for promotion. A flat structure, on the other hand, has fewer levels of hierarchy and managers have larger spans of control. There is less opportunity for specialisation and departmentation with broader teams covering a wider span of roles. Individuals may feel their position is less clear and there are fewer opportunities for promotion.

Element	Description
Departmentation	Departmentation is an extension of individual specialisation and concerns the grouping together of similar and related tasks. Often departmentation is made based on function (human resource management, finance and accounting, marketing, production, sales, distribution, etc.) but may also apply to geography, product line or market segment, or a combination of such divisions. Departmentation is more acute in highly centralised organisations in which core functions are pooled together to support the strategic business units.
Centralisation	Centralisation refers to the degree to which decision-making (and therefore power and control) is distributed across the organisation. In highly centralised entities decision-making is concentrated at the most senior levels. This can ensure consistency and coordination but can lead to slow decision-making by senior managers who may be remote and out of touch. It can also lead to disaffection by others who want to be involved in strategising, directing and managing. In a highly decentralised organisation power is delegated down to lower levels of management and distributed more widely enabling quicker response times and better-informed decisions. However, this requires greater effort to maintain coordinated focus on strategic goals. Decentralisation refers to the process of moving away from a highly centralised structure to a more widely distributed basis for decision-making.
Formalisation	Organisations differ according to their formalisation of policies, operating procedures, job descriptions, etc. Highly formalised organisations tend to operate according to rules and have a higher degree of bureaucracy.
Bureaucracy	Bureaucracy (literally “rule by desks”) describes structures with high formalisation, clearly delineated lines of authority, merit-based appointment and promotion and high levels of specialisation. This is not intended to be a negative description and typifies traditional public sector civil service with a strong career orientation and clear paths for progress. Bureaucracy is necessary for public administration and for maintaining continuity through changes of political leaders. However, such environments leave less room for individuality and creativity and can feel impersonal. When bureaucracy becomes excessive compared with its utility it is referred to as red tape.

The following main types of organisational structure can be identified:⁹²

Figure 83: Organisational Structures

Structure	Description
Functional	The functional (or bureaucratic) organisational structure organises the workforce according to specialisation with multiple departments.
Divisional or multidivisional	Larger companies often organise on a divisional or multidivisional basis arranging the workforce according to products, services, projects, subsidiaries and geography.
Team-based	Team-based structures are comprised of groups of workers with team leaders supporting specific goals and functions. This is similar to the functional and divisional models but characterised by smaller tight-knit teams that may exist for a fixed period.
Flat	Flat (or horizontal) structures have short chains of command, wide spans of control and fewer levels of hierarchy. Workers have a higher degree of autonomy but there may be less specialisation and departmentalisation. Because of the relative simplicity of the structure, responsiveness and implementation tend to be faster.
Matrix	Matrix structures combine departmentalisation with cross-functional integration based on shared goals and activities. Individual workers may have a line manager as well as report to one or more horizontal team leaders. The structure can be an effective way of ensuring close cooperation but may also be confusing.
Network	A network structure joins a centralised head office function with contractors and third-party vendors. While it may mirror a functional or divisional model, the satellites are not staffed by employees of the organisation and the framework is more flexible and responsive to changes in the environment.

⁹²See "Organizational Structure for Companies With Examples and Benefits," Investopedia, 2024.

The following is a summary of the main organisational structures, their features and their relative advantages and disadvantages.⁹³

Figure 84: Features, Advantages and Disadvantages of Structures

Structure	Main features	Advantages	Disadvantages
Functional	Structured according to primary specialised functions (marketing, finance, HR, production, etc.)	<ul style="list-style-type: none"> • High degree of specialisation. • Efficient coordination. • Strong supervision and control. 	<ul style="list-style-type: none"> • Difficult inter-departmental communications. • Lack of flexibility. • Tendency to creating silos with lack of cooperation. • Tendency to slow decision making. • Tendency to high level of bureaucracy.
Divisional	Structured for different sectors and/or markets with autonomous divisions (which may have a functional substructure).	<ul style="list-style-type: none"> • Responsive to needs of markets. • Rapid decision-making. • Flexible and adaptive. 	<ul style="list-style-type: none"> • Duplication of functions can be inefficient. • Complex coordination. • Lack of overall cohesion.
Network	Combination of functional and divisional structures with a double chain of command (employees reporting to functional and divisional managers).	<ul style="list-style-type: none"> • Improve inter-departmental communication and collaboration. • Optimum use of resources. 	<ul style="list-style-type: none"> • Conflicting priorities. • Complexity of decision-making. • Can lead to conflicts and ineffective coordination (requires highly skilled managers).

⁹³Based on "5 Types of Organisation Structure with Their Benefits and Disadvantages," Wevalgo, 2024.

Structure	Main features	Advantages	Disadvantages
Matrix	Decentralised with divisions or related entities working together towards common goals. Entities may be internal or independent of the organisation. Common in creative industries, strategic alliances and large-scale projects.	<ul style="list-style-type: none"> • Entities maintain their autonomy. • Flexible and agile. • Shared expertise. • Access to new resources. 	<ul style="list-style-type: none"> • Complex coordination. • Risk of dependency. • Loss of control.
Team	Employees grouped around projects and tasks on permanent or temporary basis.	<ul style="list-style-type: none"> • Effective collaboration. • Rapid decision-making. • High motivation and commitment. 	<ul style="list-style-type: none"> • Difficulties in coordination. • Internal conflicts more likely. • Potential for communication overload. • Potential for employees to feel unsettled as teams change.

Internal relationships

When we consider organisational structures, they comprise a network of internal relationships. Some of these are formalised, most notably line management relationships. These are based on authority and accountability. Other kinds of internal relationships are also important:

- Between coworkers, whether in the same team with the same line manager or more widely.
- Mentor-mentee relationship.
- Service provider-client relationship.

Teams of coworkers naturally form relationships with each other. Friendships can be healthy (and are inevitable) but in some circumstances can be problematic if loyalties affect work-related behaviour and decisions. Many organisations have policies regarding nepotism to avoid favouritism being the basis for rewards and promotions. Animosity can also cloud judgment. Team leaders have a role to play to ensure harmonious integration to the extent required for successful operations. Work-related social events can have positive or negative consequences and employees may resent being made to attend activities outside normal working hours. Nevertheless, team-building is a useful activity.

Line managers typically provide oversight, direction, instructions, evaluation, discipline etc. as needed. They may also act in the capacity of a coach or mentor (although a coach or mentor does not have to be a line manager). The focus is supportive and developmental.

For those functions providing a service for other departments (e.g., IT, HR, marketing, finance and accounting), other employees can be considered to be an internal customer. This can be formalised by establishing an internal service level agreement which may include, for example, standards for how quickly inquiries and requests will be responded to. A digital ticketing system is often used so that response times and completion rates can be logged, tracked and analysed. This shifts the mindset from regarding such functions as non-profit centres to recognising them as important partners. It also helps the internal service provider focus on the quality of the service they provide.

Changes in strategic choice can create the need for restructuring or reorganisation. External threats and pressures may also be the cause. Key strategic reasons for restructuring include the following:⁹⁴

- Mergers and acquisitions, to eliminate duplication, ensure consistency and unite cultures.
- Management style, when a switch from hierarchical to a flatter structure or vice versa is deemed appropriate given the market conditions, organisational priorities and proclivities of senior leaders.
- Downsizing, when divesting, outsourcing or shrinking operations is necessary to support the strategy (perhaps in the interests of consolidation or to allow growth in other areas).
- New technology, which may change the way business processes operate and require reconfiguration of existing teams.
- Business direction, when strategies involving new products and/or markets require a realignment of teams and resources.
- Performance gaps in which existing structures have been identified as a contributory factor and where new ways of doing things are part of the solution for improvement.
- External pressures.

Sometimes organisations fluctuate between a centralised and a decentralised model. When conditions are favourable and the organisation is successful, senior management may be prepared to delegate decision-making down the chain of command and relinquish some control. Conversely, when conditions are more difficult there is a tendency for senior management to pull control back to a more centralised arrangement.

External relationships

Organisations and the individuals who comprise them also have relationships with external parties, including customers, clients, suppliers, external auditors, regulators, shareholders, investors, lenders, competitors, legislators, peers in similar positions in other organisations, recruiting agencies, professional associations, schools and universities. Such relationships are essential for delivering strategy. There are structural forms where the boundaries between the organisation and the macro-environment are

⁹⁴See "7 Reasons You May Have to Reorganize," Nakisa.

less pronounced, such as joint ventures, franchises and licensing. A matrix or network structure with independent entities also blurs the boundaries. A virtual organisation is one that has little or no physical presence. Its employees and operations may be highly scattered geographically. Interactions among staff and with suppliers and customers may be primarily online. This works well where the product or services is also primarily digital in nature. Other forms of boundary-less organisation structures include so-called “hollow” (i.e., with limited concentration of “head office” or core functions) and modular (similar to a matrix structure) forms.

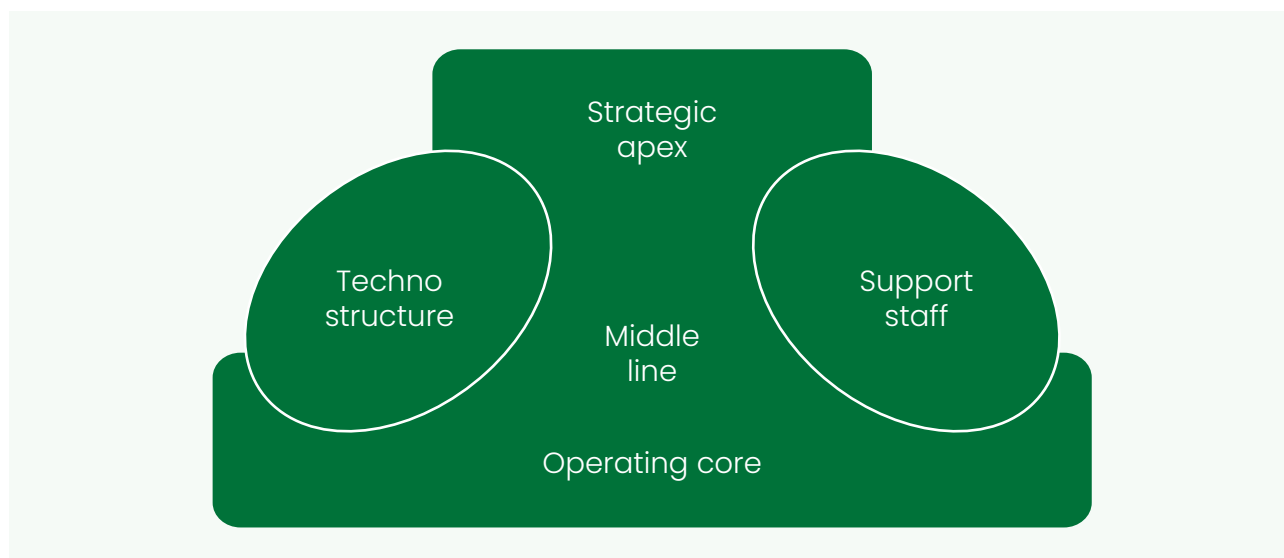
Mintzberg’s organisational model

Mintzberg’s organisational model comprises five components used to describe different structures. The components are as follows:

- Strategic apex.
- Middle line.
- Operating core.
- Techno structure.
- Support staff.

These are illustrated in the diagram below.

Figure 85: Mintzberg’s Organisational Model



These components are described below.⁹⁵

⁹⁵See “Mintzberg’s theory on organisations,” ACCA.

Figure 86: Mintzberg’s Organisational Model – Explained

Component	Description
Strategic apex	The highest-level decision makers (directors and senior executives) whose role is to define the mission and strategic direction and manage the organisation’s relationship with the external environment.
Middle line	Linking strategic apex to operating core ensuring activity is aligned with expectations.
Operating core	Responsible for carrying out the activities needed to deliver outputs.
Techno structure	Providing analysis and planning.
Support staff	Providing research and development, public relations, legal services and other support functions, contributing to the efficiency and effectiveness of the three central components.

Mintzberg used this model to describe five categories of organisational structure, as follows:⁹⁶

- Simple structure: a centralised, often autocratic structure with decision-making power focused in the strategic apex by a CEO and the c-suite.
- Machine bureaucracy: reliant on the technostructure in which planner and controllers are influential to ensure standardisation of outputs. Formalisation is high with multiple layers of hierarchy. E.g., large-scale car manufacturing.
- Professional bureaucracy: clear lines of authority and administration often determined by laws, regulations, policies and oversight bodies. The operating core is the major coordinating influence. E.g., schools and universities.
- Divisionalised: a divisional structure typically with a core “head office” function and strategic business units. The middle line is the strong coordinating influence. E.g., multinationals.
- Adhocracy: flexible, responsive task-based structure with limited formalisation. Research and development may be the primary driver. E.g., new technology company.

F.2 Process change

- Advise on how an organisation can re-design its internal processes to deliver a selected strategy.
- Establish an appropriate scope and focus for business process change using Harmon’s process-strategy matrix.
- Advise on the benefits and problems of business process outsourcing.
- Advise on possible redesign options for improving the current processes of an

⁹⁶See “Mintzberg’s theory on organisations,” ACCA.

organisation.

Redesigning internal processes

Implementing new strategy often requires business process change which may contribute to building competitive advantage. Organisational activity comprises many internal processes. Any repeated task is an internal process, ranging from hiring new staff to requesting help with an IT issue. Clarity, consistency, regular review and continuous improvement are essential for successful operations. Internal processes generally do not link to external parties such as vendors and customers.

Processes are designed to help ensure:

- Consistency (accuracy and quality).
- Efficiency (cost reduction and speed).
- Transfer of knowledge (through communication and training).
- Employee satisfaction.

Internal processes typically have the following features:⁹⁷

- They have an internal “customer” who is the beneficiary of the process.
- They are independent of the formal organisational structure.
- They may cross organisational boundaries between divisions, departments and teams.
- They should be linked to strategic objectives.
- They exist in a hierarchy.

A process generally comprises a set of steps designed to achieve a particular result. We may distinguish between:

- Formal processes which are defined and documented and are considered official.
- Informal processes that have evolved through custom and practice and may be considered unofficial.

Internal processes can be categorised as follows:⁹⁸

- Operational processes aimed at managing resources (materials, money, people, time). This includes production, investing, warehousing and transportation with an emphasis on efficiency, consistency and reliability.
- Administrative processes aimed at collecting, processing, storing and communicating information to facilitate core functions.
- Customer management processes used internally without directly engaging with customers, including customer relationship management with a focus on customer experience.
- Social processes to provide structure to conversations and meetings.

⁹⁷ See “Business process change,” Kaplan Financial Knowledge Bank, 2020.

⁹⁸ See “What are Internal Processes? + 7 Improvement Strategies,” Budibase, 2023.

- Innovation processes to encourage and capture innovative thinking.
- Regulatory processes to ensure the organisation remains compliant with relevant laws, regulations and policies.

Internal processes can be improved, redesigned or reengineered. This is a matter of the extent to which the steps are changed and whether this impacts part or much of the entire process. The approaches are highly varied but are likely to involve:

- Formalisation.
- Documentation (business process mapping).
- Monitoring and review.
- Improving, redesigning or reengineering to correct faults, avoid bottlenecks and utilise technology and automation.

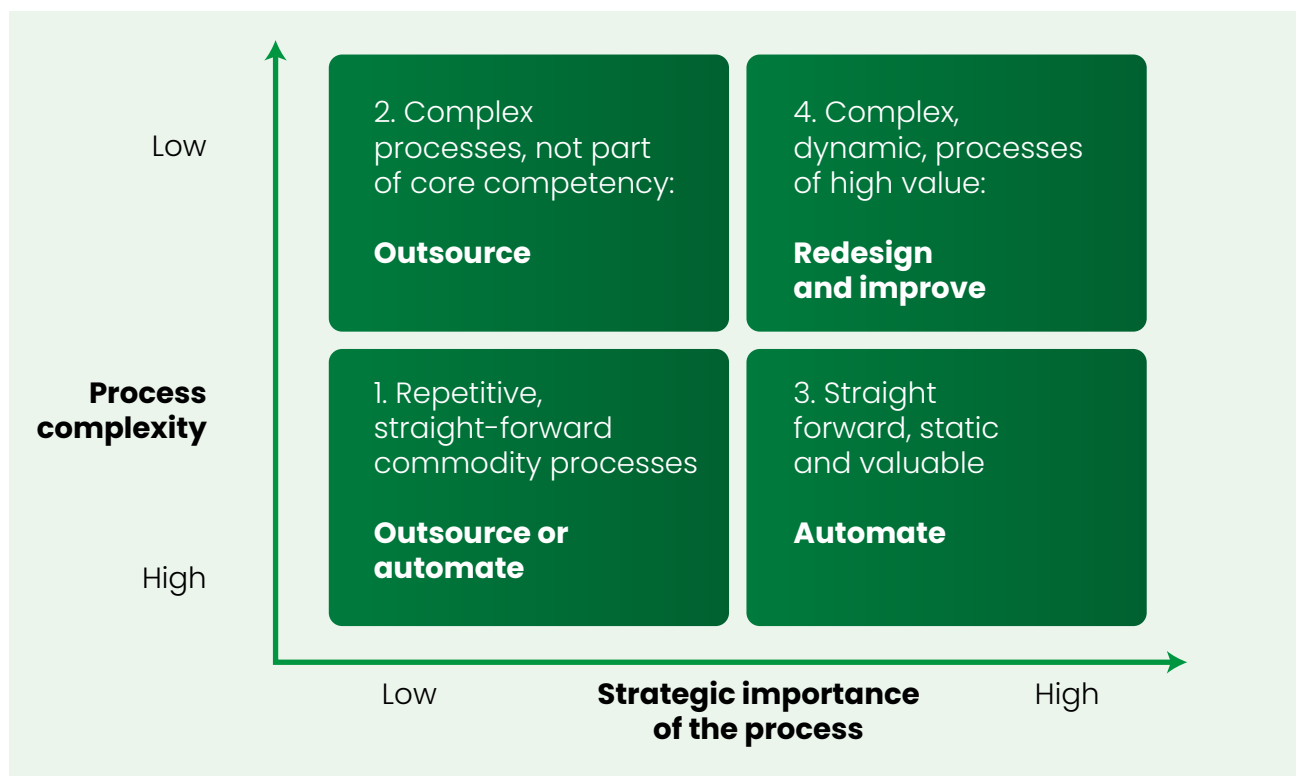
Harmon's process-strategy matrix

Harmon's process-strategy matrix is used to determine how to manage individual processes considering two dimensions:

- Process complexity dynamics.
- Strategic importance.

This approach gives rise to four quadrants illustrated below.

Figure 87: Harmon's Process-Strategy Matrix



Organisation may consider outsourcing as a way of increasing efficiencies and freeing up resources to focus on core competences. In general, organisations should outsource

where there is no competitive advantage to retaining the processes in-house and should automate wherever possible to increase efficiencies. As an alternative, organisations can improve processes. Processes of high strategic importance central to competitive advantage should be kept in-house and improved to add more value through redesign and reengineering. The aims of these improvements include simplification, adding more value, and fixing gaps and disconnects.

Figure 88: Harmon’s Process–Strategy Matrix – Explained

Process complexity	Strategic importance	Description and examples	Action
Low	Low	Simple, stable, repetitive, no competitive advantage. e.g., payroll, security, maintenance, mailroom, data entry.	Outsource or automate
Low	High	Simple, stable, strategically important e.g., production.	Automate
High	Low	Complex, dynamic, specialised, not a core competence. e.g., tax, internal auditing, finance and accounting, customer support.	Outsource
High	High	Complex, dynamic, knowledge-intensive core competence, source of competitive advantage. e.g., new product design, contract negotiation.	Improve, redesign, reengineer

Outsourcing

The Harmon Process–Strategy Matrix includes strategies to outsource processes that are not part of an organisation’s core competence or competitive advantage. Outsourcing involves hiring an external service provider to perform processes previously undertaken in-house. The aim is to achieve efficiency gains. An outsourced provider typically offers high specialisation and benefits from economies of scale. This further allows the organisation to focus its resources of its core competencies.⁹⁹

Redesign options

⁹⁹See “Outsourcing: How It Works in Business, With Examples,” 2024, Investopedia.

The redesign options presented by the Harmon model fall into four main areas (although most approaches use a combination of these):

- Re-engineering, by which processes can be reimagined and redesigned from scratch.
- Simplification, by which redundant process elements are eliminated.
- Value-added analysis, by which activities that add little or no value can be improved or eliminated.
- Gaps and disconnects, by which problems in workflow, especially at departmental boundaries, are identified and improved.

The aims of process redesign and improve include the following:¹⁰⁰

- Reduce operational costs.
- Enhance quality of products and services.
- Increase speed of business operations.
- Improve customer service.
- Boost profits.
- Clarify purpose.

It can be achieved in many ways including:

- Updating technology (often a very significant aspect of process improvement, increasingly making use of robotics, automation and artificial intelligence).
- Reducing staff.
- Increasing staff expertise.
- Improving output.
- Cutting costs.
- Streamlining processes.
- Increasing product quality.
- Creating cross-functional teams.

¹⁰⁰ See "7 Examples of Business Process Reengineering (With Tips)," Indeed, 2023.

Unit F key terms

Centralisation F.1

Chain of command F.1

Decentralisation F.1

Departmentation F.1

Flat F.1

Formalisation F.1

Harmon's process-strategy matrix

Hierarchical F.1

Line management F.1

Matrix F.1

Mintzberg's organisational model F.1

Network F.1

Outsourcing F.2

Span of control F.1

Specialisation F.1

Tall F.1

Traditional F.1

Summary of Unit F and key learning outcomes

Learning outcomes	Summary
Organisational structure.	With this unit, we moved to the third stage of the strategy process, namely implementation. Organisational structures often evolve organically but they are critical to the effective operation of an organisation. We explored different dimensions of structures and how they change the way organisations work. Key to this are the internal and external relationships that exist and are necessary. A formalised way of analysing organisational structures is by using the Mintzberg model.
Process change.	As well as thinking about reorganisation, organisations also need to look at their processes to determine if they are suited to their chosen strategy. In this unit we reviewed formal and informal processes. They can be improved, redesigned or reengineered, depending on the amount and scale of change needed. Harmon's process-strategy matrix as used to help identify and analyse the options for process improvement.

Quiz questions

1. Which of the following are characteristics of a tall organisational structure? (Select all that apply.)
 - A. There are multiple levels of hierarchy.
 - B. The chains of command are long.
 - C. There is a high degree of specialisation.
 - D. Individuals are likely to be uncertain about their career path through the organisation.
2. What is the correct title to describe an organisation structure that joins a centralised head office function with multiple contractors and third-party vendors. (Select one.)
 - A. A matrix structure.
 - B. A network structure.
 - C. A bureaucratic structure.
 - D. A divisional structure.
3. With reference to Mintzberg's organisational model, in which type of structure is the operating core most likely to be the coordinating influence? (Select one.)
 - A. A machine bureaucracy, such as a large auto plant.
 - B. A professional bureaucracy, like a school or university.
 - C. An adhocracy, such as a new technology company.
 - D. A divisionalised structure, such as a multinational.
4. With reference to Harmon's Process Strategy Matrix, what types of activities are most appropriately outsourced? (Select all that apply.)
 - A. Repetitive, straight-forward commodity processes.
 - B. Complex process which are not part of the core competency.
 - C. Complex, dynamic processes of high strategic importance.
 - D. Static and valuable processes that are significant to the company's strategy.

5. A company pursues a differentiation strategy based on product design and service excellence. It has entity-wide innovation processes. However, recently the company has started to lose market share to competitors with new product features and has decided to implement a new approach to innovation support by artificial intelligence. What term should be used to describe this change? (Select one.)
- A. Process improvement.
 - B. Process redesign.
 - C. Process reengineering.
 - D. Process formalisation.
6. Which of the following are features of informal processes? (Select all that apply.)
- A. They are considered unofficial.
 - B. They are unimportant.
 - C. They are well defined and documented.
 - D. They usually evolve over time.

Resources

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Unit G: Change and Project Management

Learning outcomes

- G.1 Managing strategic change.
- G.2 Leading and managing projects.

Introduction to Unit G

This unit explores two key aspects of implementation: change management and project management.

Strategy is about change. There are few exceptions where an organisation can continue to operate the same way for many years. Even if performance is meeting or exceeding the wishes of stakeholders, inevitably changes in the internal and external environment will force the organisation to consider significant, whether in response to perceived threats or opportunities. Change management requires effective leadership and an ability to drive the changes through to completion in a way that is sustainable.

Strategy involves much more than project and programme management, but when it comes to strategic implementation an organisation needs a systematic approach to planning and undertaking the necessary changes. Project management techniques are essential for achieving the necessary innovations for delivering the strategic priorities.

G.1 Managing strategic change

- Advise on the different styles of leadership for managing strategic change.
- Explore different types of strategic change and their implications for an organisation.
- Determine the organisational context of change using Balogun and Hope Hailey's contextual features model.
- Establish potential blockages and levers of change.
- Manage change in the organisation using Lewin's three stage model.

Leadership styles and managing change

We previously discussed leadership styles in B.1. Being able to lead organisational change is particularly important for strategy implementation which is likely to involve major change.

This begs the question of which style is the most appropriate for managing change.

Research conducted by Battilana and Kimsey in the context of social change identified some useful perspectives on leadership styles.¹⁰¹ Firstly, they concluded that the source of power a leader has comes from three sources:

- Personal, due to charisma, passion, expertise and other qualities.
- Positional, due to organisational roles and status.
- Relational, due to connections with others internally and externally.

Leaders can draw upon all these sources of power in bringing about change. Secondly, the research showed that three tasks are the most important in effecting change: communicating, organising and evaluating. It is easy to recognise the importance of these in an organisational context. Finally, how a leader addresses those tasks depends on the approach they take which may be characterised as one or a combination of the following:

- Agitator.
- Innovator.
- Orchestrator.

As an agitator, a leader inspires others and galvanises them into action. As an innovator, a leader proposes solutions to the problems of change and communicates them clearly so they can be adopted. Lastly, as an orchestrator, a leader of change is able to plan, bring the necessary resources, build and sustain critical relationships, organise people, resources, and activities and have the energy to see it through to completion. It seems logical to suggest a change leader should adopt all three of these approaches as required, moving from agitator to innovator and then orchestrator as the organisation progresses from strategic position through strategic choice to strategic implementation.

Another perspective of the connection between leadership styles and strategic change can be drawn from Kotter's 8 steps for leading change:¹⁰²

1. Create a sense of urgency to inspire people to act.
2. Build a guiding coalition of committed people.
3. Form a strategic vision to clarify how the future will be different from the past and secure buy-in.
4. Get everyone on board by focusing on the opportunities that exist.
5. Remove obstacles, breakdown silos and enable people to innovate.
6. Generate and celebrate short-term wins to maintain momentum.
7. Sustain acceleration, improve systems and structures, and pursue change relentlessly.
8. Institutionalise changes to ensure they are sustained in new behaviours, processes and structures.

¹⁰¹ "Should You Agitate, Innovate, or Orchestrate?" *Stanford Social Innovation Review*, 2017.

¹⁰² "The 8 Steps for Leading Change," Kotter.

On this last point, you may recall that in B.2 we introduced the 7S model which recognises that sustainable change requires a shift in all the hard (strategy, structure and systems) and soft (shared values, skills, style and staff) elements otherwise there is a tendency for an organisation to “snap back” to its former way of doing things.

Returning to our range of leadership styles, we can consider how they are useful for Kotter’s eight steps, as illustrated below:

Figure 89: Leadership Styles and Strategic Change

Leadership style	Effectiveness for change management
Participative (or democratic)	For building consensus and getting everyone on board
Authoritative (or visionary)	For articulating a vision and creating a sense of urgency
Delegative (or laissez-faire)	For breaking down silos and enabling others to contribute to change
Transactional (or managerial)	For communicating how the future will be different, setting goals and celebrating successes
Transformational	For embedding change
Servant	For recognising and addressing emotional resistance to change

From these general management categories we can identify different approaches to effecting change according to the leadership style. These include:

- Education and communication.
- Collaboration and participation.
- Intervention.
- Direction and coercion.

Strategic change

What is distinctive about strategic change compared with other kinds of change? While strategic change may be dramatic, transformational and organisation-wide, it may be implemented in other ways.

- Incremental change is the least disruptive form of change, and occurs through small and frequent adjustments to improve processes, products and services by enhancing quality, efficiency, customer service, etc. As changes occur in the external environment (shifts in customer tastes, actions by competitors, new technologies, economic conditions, laws, etc.), adjustments are often needed just to maintain position. Internal and external feedback and innovation are important drivers of incremental change.

- Evolutionary change is more significant and is orchestrated more proactively and requires significant planned modifications as the organisation moves towards a clearly defined endpoint. One or more of the McKinsey 7S dimensions may require improvements. Evolutionary change is a thoughtful realignment to a new strategy or changed conditions.
- Revolutionary change is radical and involves major changes across the organisation requiring bold, visionary, decisive leadership. Major elements of the McKinsey 7S dimensions will be changed significantly.
- Emergent change is reactive and somewhat unpredictable. The risk management process should help the organisation anticipate and prepare for new and emerging risks but major and sudden shifts in the external environment are hard to forecast and emergent change is often needed in response.

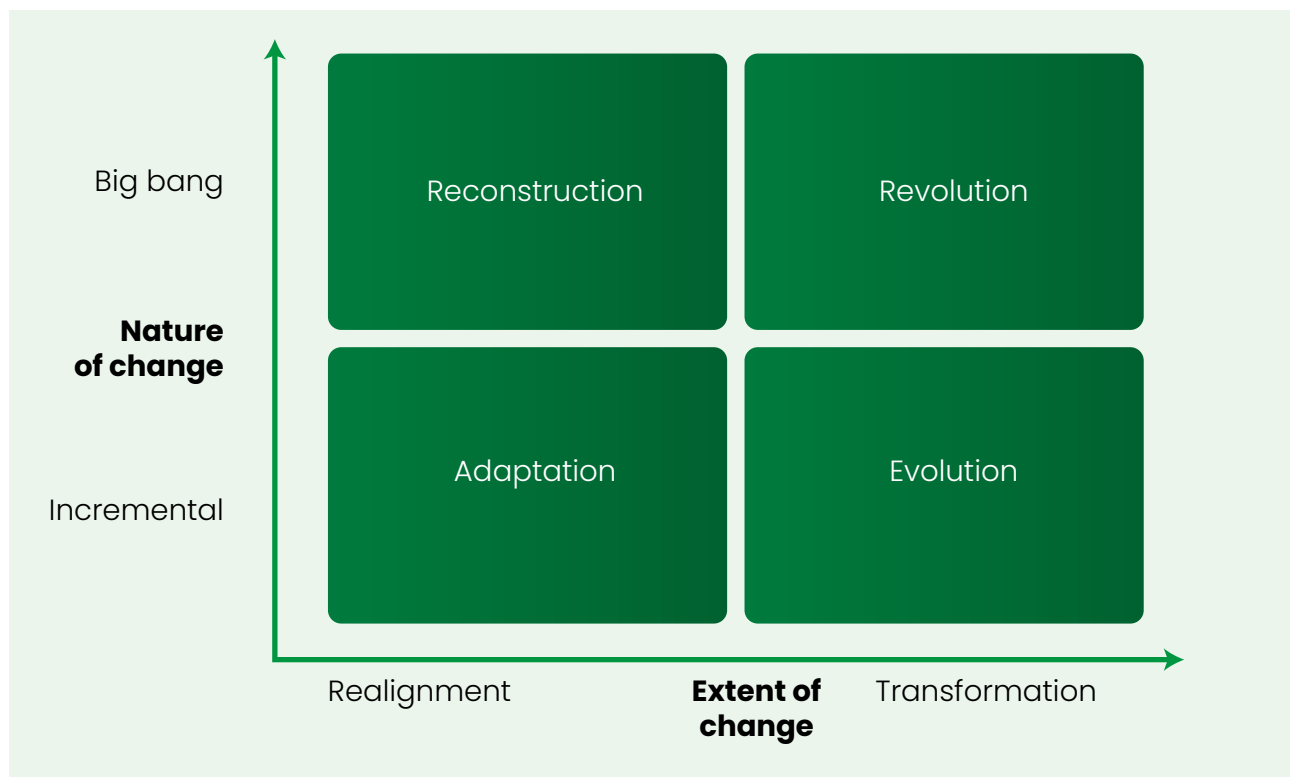
Balogun and Hope Hailey's contextual features model

The Balogun and Hope Hailey's contextual features model helps to formalise change models by considering two axes:

- Extent of change.
- Nature of change.

This leads to four main categories of change as shown in the graphic below:

Figure 90: Balogun and Hope Hailey's Contextual Features Model



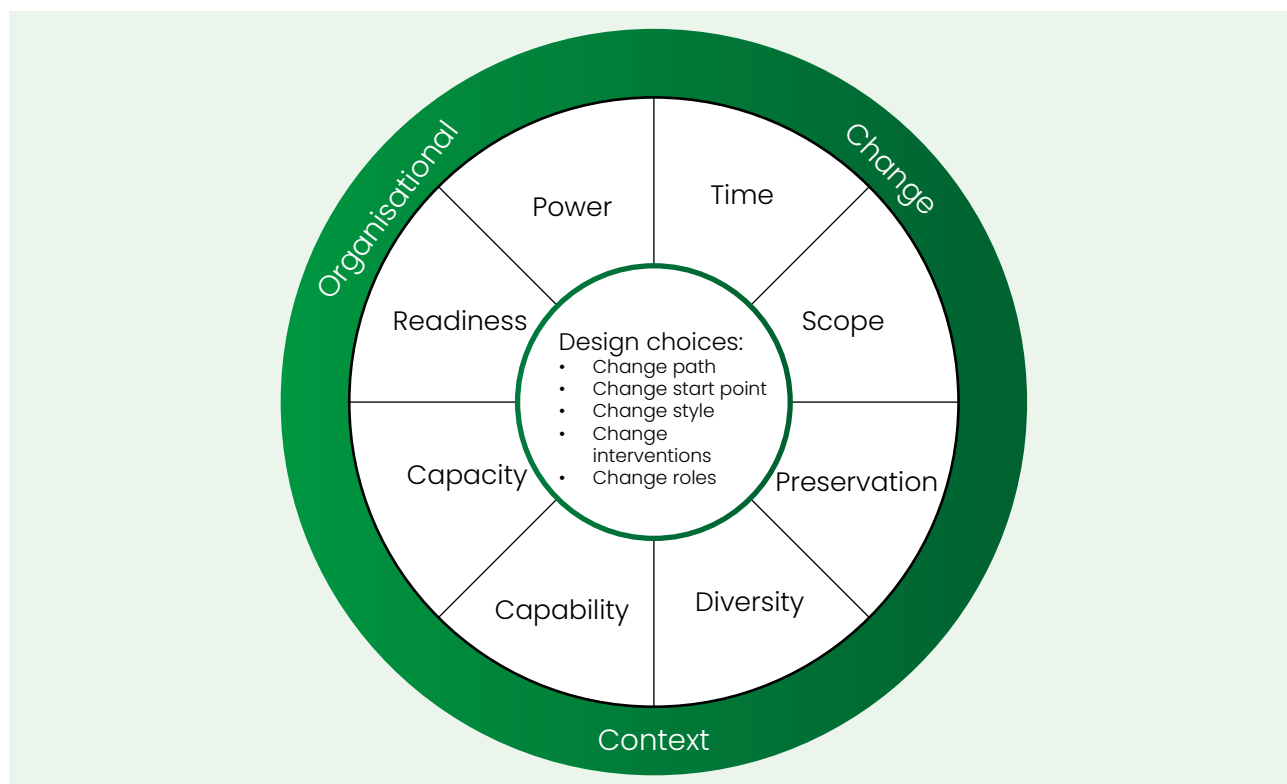
These categories are explained below.

Figure 91: Balogun and Hope Hailey’s Contextual Features Model – Explained

Classification	Description
Adaptation	Change introduced incrementally to realign operations through multiple steps, usually within existing culture.
Evolution	Change that is transformational and implemented gradually through related initiatives. Cultural change is necessary.
Reconstruction	Change is rapid and significant through multiple simultaneous initiatives but within the existing culture.
Revolution	Change through many simultaneous initiatives across much of the organisation, likely reactive and driven from the top, requiring cultural change.

Change, of course, does not occur in a vacuum. For it to be implemented successfully, organisational leaders need to be aware of the context. This is the basis of Balogun and Hope Hailey Change Kaleidoscope illustrated below.

Figure 92: Balogun and Hope Hailey’s Change Kaleidoscope



These features are described below:¹⁰³

¹⁰³ See "Managing Strategic Change," Kaplan Financial Knowledge Bank, 2020.

Figure 93: Balogun and Hope Hailey Change Kaleidoscope – Explained

Features	Explanation
Inner circle – design choices	Describing key features of the planned change and how it will be implemented
• Change path	Types of change, timescales, extent of change and intended outcomes
• Change start point	Initiation point (e.g., top-down, bottom-up)
• Change style	Leadership style to be adopted
• Change interventions	Mechanisms for change (e.g., training, process redesign or reengineering, restructuring, diversification)
• Change roles	Roles and responsibilities for implementing change
Middle ring – specific contextual factors	Factors to be considered when planning change
• Time	How quickly does change need to be effected?
• Scope	How much of the organisation will be affected?
• Preservation	What aspects of the organisation (people, structure, culture, skills etc.) need to be retained?
• Diversity	What differences among functions and teams require special consideration?
• Capability	Do the capabilities needed to implement the change exist and where?
• Capacity	What resources are available to invest in the change?
• Readiness	Are staff ready and committed to making the necessary changes?
• Power	Who is empowered to implement the necessary changes?

Blockages and levers of change

Blockages or barriers to change can arise for many reasons and include:¹⁰⁴

- Lack of clarity.
- Ineffective change communication.
- Strategic shortcoming.
- Change resistant culture.
- Lack of organizational buy-in.
- Change fatigue (when too much change is being attempted at once).
- Lack of governance.
- Inadequate training and support.
- Unrealistic expectations or timelines.

The following approaches can be used to overcome these barriers and turn them into levers of change:¹⁰⁵

Figure 94: Addressing Barriers to Change

Barrier	Ways to address obstacle
Lack of clarity	Set and communicate a clear project scope supported by a compelling narrative addressing these questions: <ul style="list-style-type: none">• Why is the change needed?• How will it affect our current state?• How do you expect to get there?
Ineffective change communication	<ul style="list-style-type: none">• Establish an effective communication strategy at the outset.• Maintain a two-way dialogue.• Nurture a positive and inclusive atmosphere.

¹⁰⁴ "7 Barriers to Organizational Change (And How to Overcome Them)," Whatfix, 2024.

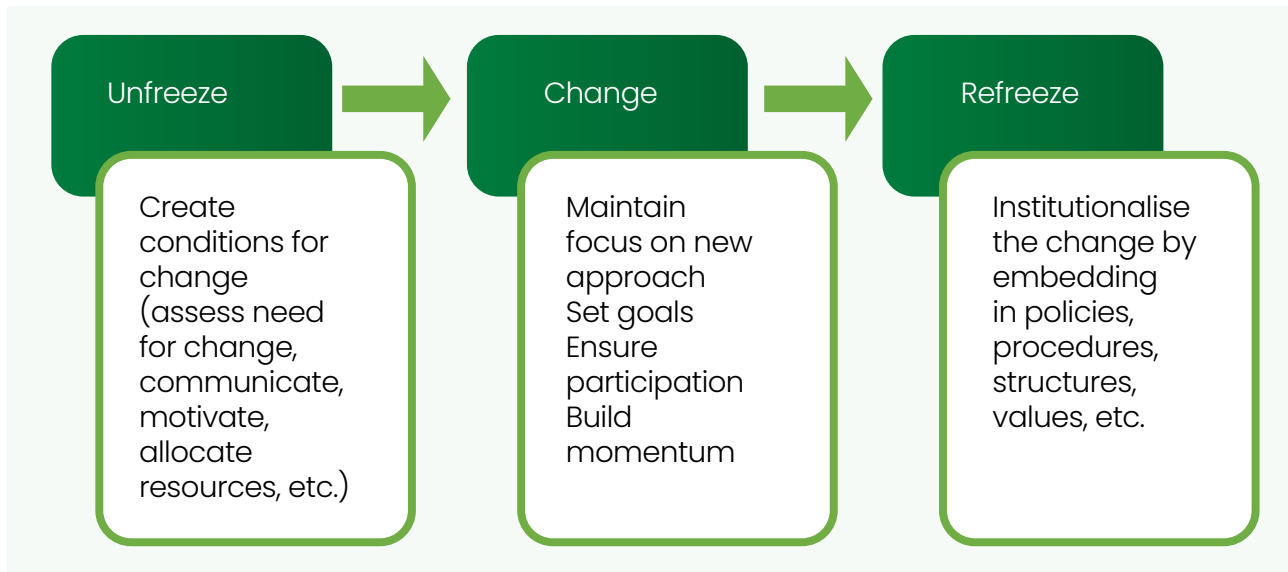
¹⁰⁵ Adapted from "7 Barriers to Organizational Change (And How to Overcome Them)," Whatfix, 2024.

Barrier	Ways to address obstacle
Strategic shortcoming	<p>Establish clear objectives and well-defined success metrics and ensure there is adequate resource allocation to get the job done.</p> <p>The change plan must address:</p> <ul style="list-style-type: none"> • The need for change. • Resources needed for change management. • Leadership support throughout the change process. • Risks associated with the change. • Realistic timelines. • Training and support. • Measurable KPIs. • Feedback.
Change resistant culture.	<ul style="list-style-type: none"> • Map the stakeholders impacted by the change. • Involve them in the change initiative process. • Focus on individual transition. • Ensure the environment is conducive to change.
Lack of organizational buy-in	Earn buy-in from all levels of the organisation.
Change fatigue	Ensure appropriate prioritisation of change management.
Lack of governance	Establish effective oversight and control functions to manage the change from both a micro and macro level.
Inadequate training and support	Identify training and development needs and ensure these are addressed as a matter of priority.
Unrealistic expectations or timelines	Set achievable goals and realistic timelines.

Lewin's three stage model

Lewin's three stage model provides a simple overview of the change process which emphasises the importance of (i) creating the right conditions for change, (ii) making the change and finally (iii) stabilising the change so that the organisation does not slide back to its former practices. This is illustrated below.

Figure 95: Lewin's Three Stage Model



G.2 Leading and managing projects

- Discuss the relationship between organisational strategy and project management.
- Determine the distinguishing features of projects and programmes.
- Discuss the implications of the triple constraint of scope, time and cost.
- Assess a business case document and a project initiation document.
- Analyse, assess and classify the costs and benefits of a project investment.
- Establish the role and responsibilities of the project manager and the project sponsor.
- Assess the importance of developing a project plan and its key elements.
- Identify and describe problems encountered during a project.
- Monitor and control projects risks and slippages and recommend improvements.
- Explain the value of a post-implementation and a post-project review.

Organisational strategy and project management

There are similarities between strategy plan management and project management. To some extent we can regard strategic change as a series of projects, but this would be an incomplete view of strategy planning. There are major differences between strategy plan management and project management in terms of scale and scope. The focus of the former is on the long-term future whereas the latter likely has a nearer horizon. Projecting further into the future brings challenges to strategising as we increase the potential for uncertainty and the unexpected. Strategic plans have visions that we keep refining so that

we never really arrive. The vision acts as a focus for direction for the whole organisation but as we get closer, we set ourselves even greater ambition. And while the execution of strategy may be achieved through a series of projects, the vision, mission, goals, values, and strategy must be built first. Projects exist within that framework to accomplish some specific aspect of a wider picture.

The key differences can be summarised as follows:¹⁰⁶

Figure 96: Strategy Plan Management vs. Project Management

Strategy plan management	Project management
<ul style="list-style-type: none"> • Future goal. • Outcome-based. • “Visioning.” • Whole-company approach. • Broad. • Has many dependencies. • Harder to claim victory. • Less satisfying = less popular. 	<ul style="list-style-type: none"> • Shorter-term goal. • Deadline-based. • “Doing.” • Functionally positioned. • Specific. • May not have dependencies. • Easier to claim victory. • More satisfying = more popular.

Projects and programmes

Project management is a highly developed professional field with recognised standards and a body of knowledge which reflects its importance to organisational success. A project typically has a single focus and is geared towards delivering a tangible result. A programme comprises multiple projects. The following definitions come from the PRINCE2 terminology:¹⁰⁷

Project: a temporary organisation that is created for the purpose of delivering one or more business products according to a specified business case.

Programme: a group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually.

The main differences can be represented as follows:¹⁰⁸

Figure 97: Comparison of Projects and Programmes

Attribute	Project	Programme
Focus	Content	Context

¹⁰⁶ “Strategy Plan Management vs. Project Management: The Difference and Why It Matters,” MPOWR, 2024.

¹⁰⁷ “Projects vs Programmes: The Difference between a project and a programme,” PRINCE2, 2019.

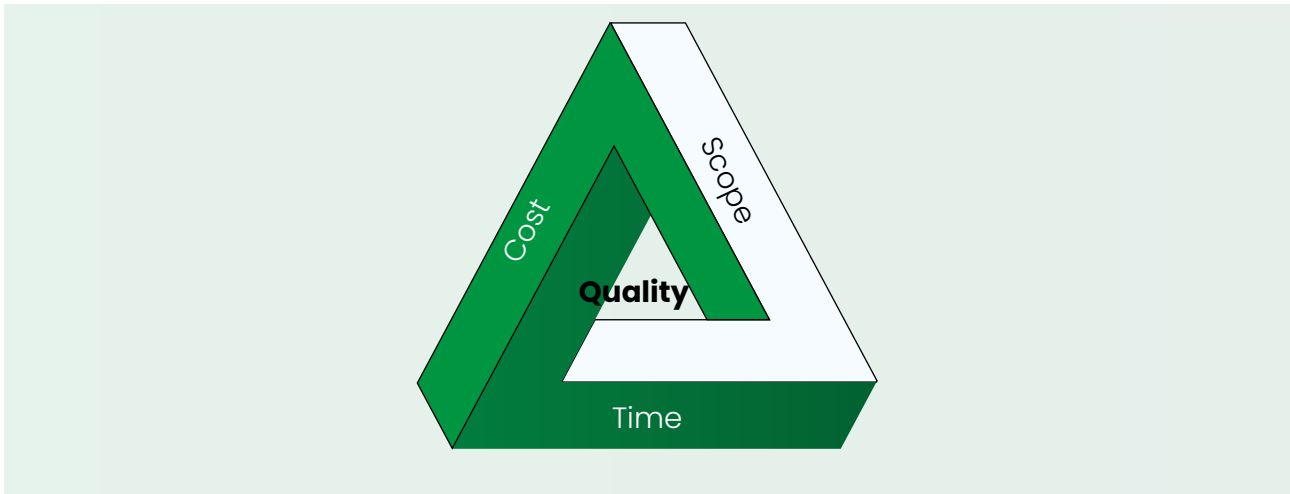
¹⁰⁸ “Projects vs Programmes: The Difference between a project and a programme,” PRINCE2, 2019.

Attribute	Project	Programme
Scope	Well-defined, limited to an output	Broad and adjustable
Timeframe	Short term	Long term
Components	Small tasks	Projects
Functional units	Single	Multiple
Tasks	Technical	Strategic
Results	Output	Outcome
Deadlines	Strict	Flexible
Designers	Mid-level staff	Top-level staff
Success	Product quality, timeliness, cost, effectiveness, compliance and customer satisfaction	Long-term benefits to the organisation, return on investment and/or new capabilities

Triple constraint

In a perfect universe, there would be no constraints on time, scope and cost and this would allow projects to deliver outputs of the highest possible quality. However, these features are invariably constrained and project managers must manage the situation accordingly. This so-called triple constraint is commonly represented as a project triangle, illustrated below, to demonstrate that when one dimension is constricted it inevitably constricts at least one of the others. For example, if the deadline is squeezed then the project manager can address this either by spending more money to get it completed on time or by reducing the scope and limiting what or how much is done. This is often summarised as follows: “good, fast, cheap – choose two.” This suggests it is impossible to have all three as one dimension at least must be compromised.

Figure 98: Project Triangle



Assessing a business case and project initiation

A business case is prepared to provide justification for a project or programme. It must consider costs, benefits and risks and make a case for the proposed approach at the exclusion of other options. A business case has five elements according to the Association of Project Management:¹⁰⁹

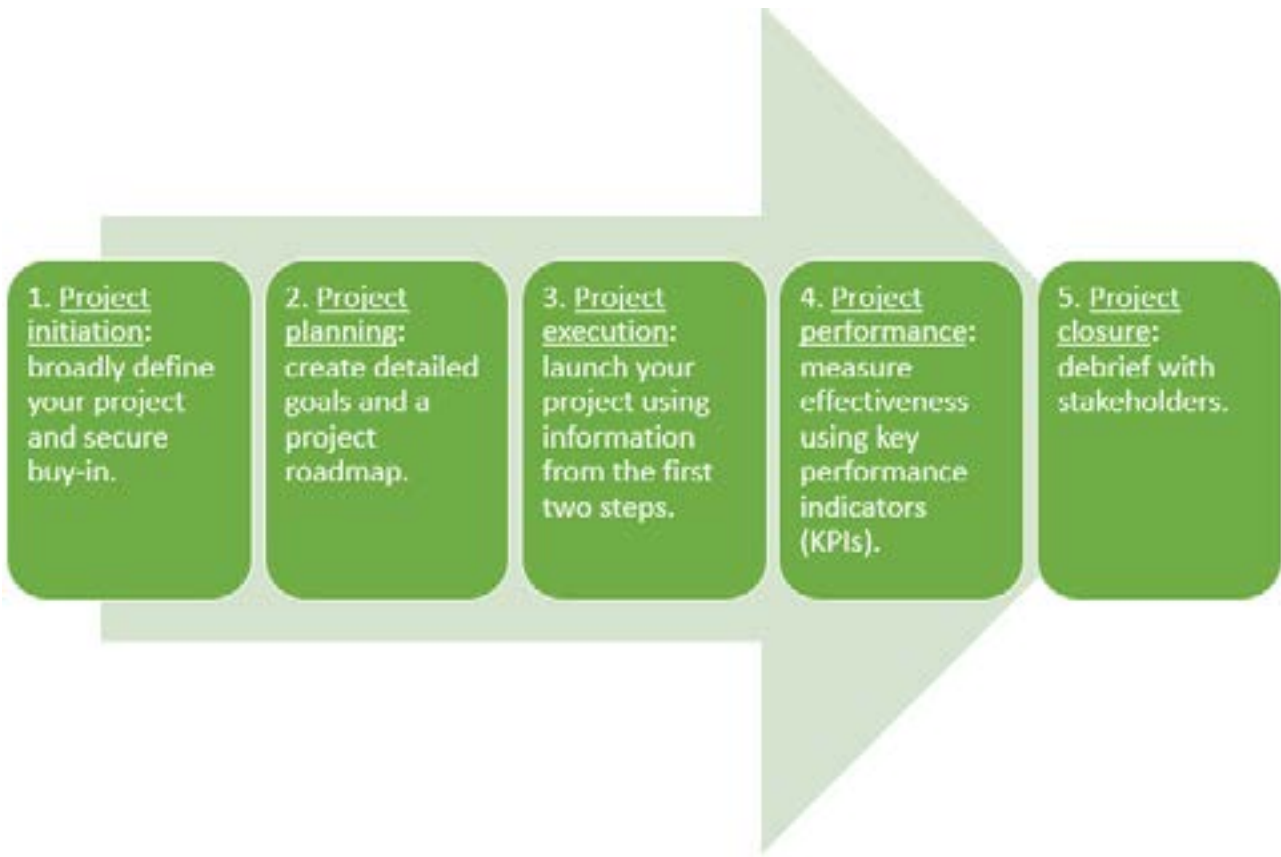
1. Strategic context: the compelling case for change.
2. Economic analysis: return on investment based on investment appraisal of options.
3. Commercial approach: derived from the sourcing strategy and procurement strategy.
4. Financial case: affordability to the organisation in the timeframe.
5. Management approach: roles, governance structure, life cycle choice, etc.

The business case is evaluated pending approval of the project or programme.

Approval of the business case marks the startup of the project or programme. Project initiation is the first of five phases according to the Project Management Institute:

¹⁰⁹ "What is a business case?" Association of Project Management.

Figure 99: Phases of a Project



The initiation phase is used to define the project at a high level. This will help secure the necessary buy-in from stakeholders. The business case is considered part of the initiation. The four phases of project initiation are given as follows:

Figure 100: Stages of Project Initiation



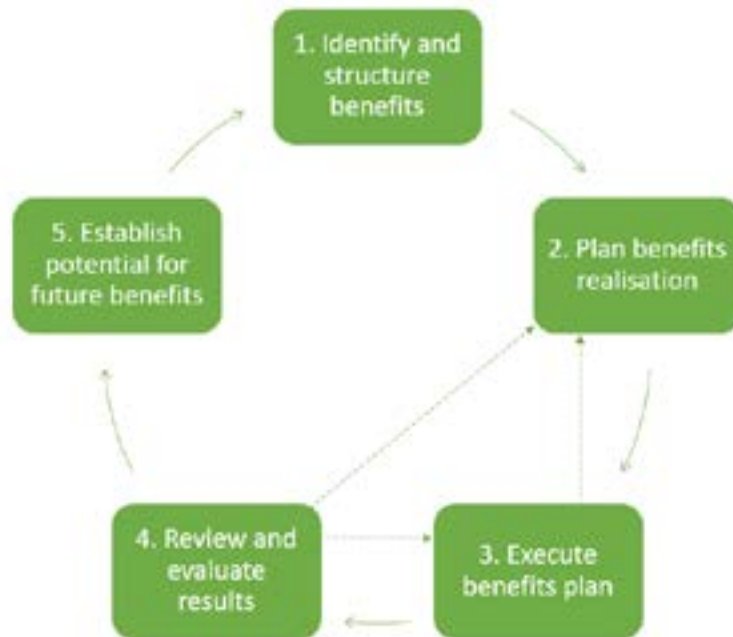
An important way of approaching change management programmes is to focus on the benefits to be delivered. Often major transformations are achieved through a well-managed project and yet the desired benefits do not materialise. The attention can be too much on efficient project management at the expense of focuses on the intended impact of the change once implemented. A model of benefits management has been developed (due to Ward and Daniel) to try to overcome this issue. Its five-stage process map closely to the project management process but rather than concentrate on how well the project was managed they focus on benefits realisation.¹¹⁰

- Stage one: focuses on the identification of intended benefits as well as interdependencies (i.e., other conditions needed internally or externally to ensure the benefits are delivered).
- Stage two: focuses on benefits realisation planning by allocating owners to each intended benefit and planning accordingly.
- Stage three: focuses on the execution of the benefits realisation plan.
- Stage four: focuses on review and evaluation of the actual benefits achieved throughout the project lifecycle.
- Stage five: focuses on potential future benefits.

¹¹⁰ "Benefits management: Transformation Assurance," KPMG, 2017..

The model is illustrated below.

Figure 101: Benefits Management (Ward and Daniel)



Project investment costs and benefits

Cost-benefit analysis is a structured and systematic process used to estimate costs and benefits of a proposed project or investment. (In fact, we can regard a project as an investment – and the term project investment is used – because an organisation must decide which projects it will apply its finite resources to. This is usually determined by evaluating potential initiatives that satisfy minimum requirements for return on investment and alignment with priorities, and funding the highest-ranking options until the available project pool of funds is exhausted.)

Figure 102: Project Costs and Benefits¹¹¹

Costs	Benefits
<ul style="list-style-type: none"> • Direct costs (also known as variable costs). • Indirect costs (also known as fixed costs or overheads). • Intangible costs (such as damage to customer loyalty or brand, erosion of goodwill and a reduction in staff morale). 	<ul style="list-style-type: none"> • Direct benefits (financial and other). • Indirect benefits (financial and other). • Total benefits.

¹¹¹ Based on “Cost-Benefit Analysis: A Quick Guide with Examples and Templates,” ProjectManager, 2023.

Costs	Benefits
<ul style="list-style-type: none"> • Opportunity costs (i.e., the cost of not using the same funds to do something else, including funding other projects or investing the money externally). • Cost of potential impacts arising from risks. 	

These costs and benefits are assigned a monetary value (even though some intangible or indirect items may be hard to estimate) to calculate a cost to benefit ratio. Other project appraisal metrics may also be calculated, such as return on investment, internal rate of return, net present value and payback.

Project manager and project sponsor

In addition to other support assigned to a project, it is usual to identify two key players, namely:

- Project manager.
- Project sponsor.

The project manager is responsible for overseeing all aspects of the project including managing and directing the team, establishing workflows and timelines, allocating budget and other resources and reporting progress.

The project sponsor is usually a senior manager who provides the resources and also oversees the project, receiving reports from the project manager and providing guidance. The sponsor is accountable to the senior team for the success of the project while the manager is delegated the task of executing actions to deliver the intended outputs.

The primary responsibilities of project manager and sponsor can be described as follows:¹¹²

Figure 103: Project Sponsor vs Project Manager

Project manager	Project sponsor
<ul style="list-style-type: none"> • Preparing reports and other paperwork. • Analysing the risks and creating solutions. • Managing timelines for milestones. • Keeping team members motivated. 	<ul style="list-style-type: none"> • Negotiating funding and acting as a spokesperson to the senior management. • Providing guidance and direction for project empowerment, initiatives and key business strategies. • Identifying, qualifying and managing project benefits.

¹¹² "Project Sponsor vs. Project Manager: Key Differences," Indeed, 2022.

Project manager	Project sponsor
<ul style="list-style-type: none"> • Acting as a liaison among stakeholders. • Overseeing or executing each phase of the project plan. • Creating and managing each project's budget. • Planning projects with team members and higher-level professionals 	<ul style="list-style-type: none"> • Participating in initial project planning, including developing the project scope and chart. • Identifying members of the steering committee. • Reviewing adjustments to the environment, including priorities, schedules and tasks. • Identifying critical success factors and approving deliverables. • Negotiating with stakeholders to gain consensus when there are differences in opinions. • Evaluating the project's success on completion.

Project planning

Once a project has been approved and initiated, the next phase is project planning. The project plan will include key details of the project, including:

- How the inputs (people, resources, time) will be organised.
- The processes and actions to be followed.
- The interdependencies among the planned actions.
- External dependencies and critical success factors.
- Project deliverables and planned delivery dates.
- Key performance indicators.
- Project risks.
- Reporting and communication protocols, including meetings with the project sponsor.

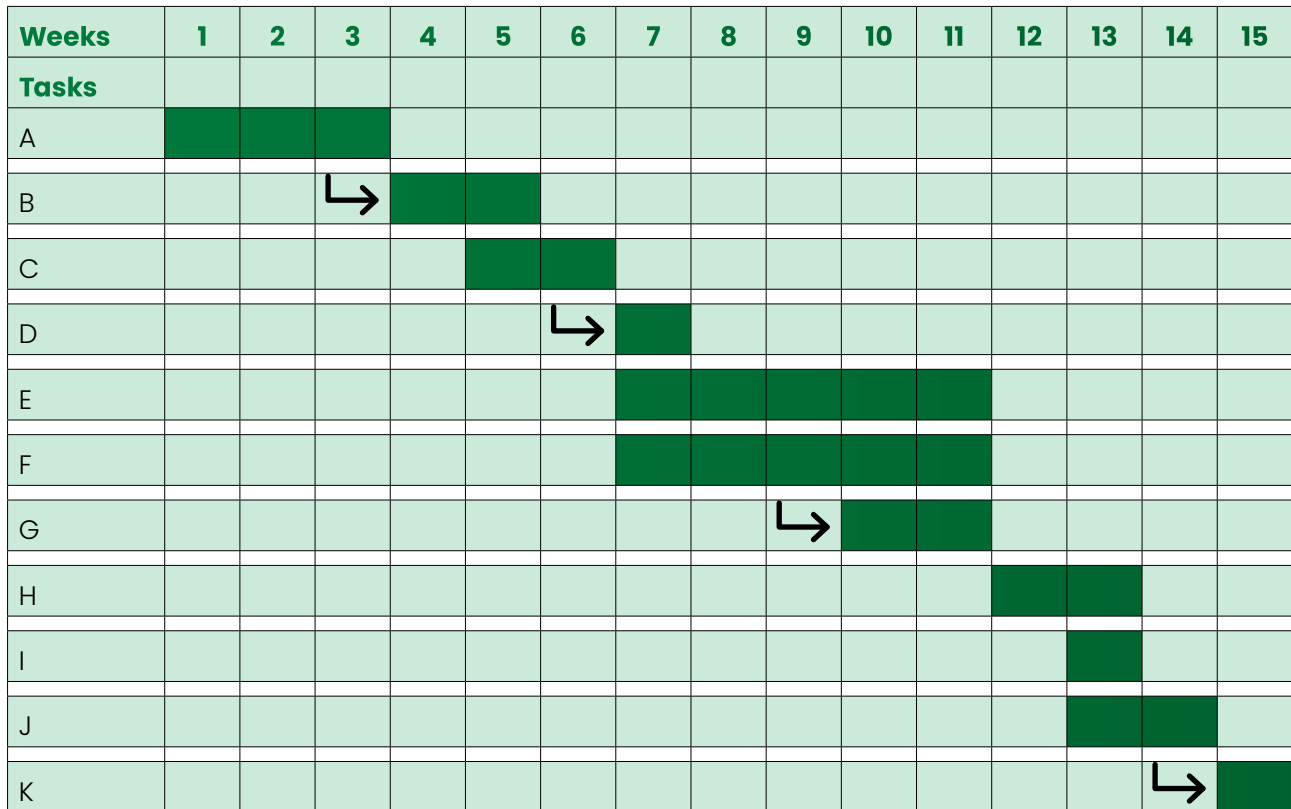
They say planning is essential and plans are useless, meaning the process and discipline of planning is far more valuable than the document it generates. If a structured approach is followed, it forces the project manager to consider the important elements for successful project completion. However, the plan itself is also important and serves several functions:

- It acts as a guide to the project manager against which progress can be measured.
- It helps galvanise the team and allows them to focus on their roles within the project.
- It sets expectations for the project sponsor and forms a basis for monitoring.

A common way of representing a project plan graphically is by using a Gantt chart. It shows the relationship between tasks, especially when they are running concurrently or in sequence. The left hand side is used to list the tasks and the bulk of the chart has a timeline

and horizontal bars displaying when those tasks begin and end. The tasks are arranged vertically in order of earliest start first. Tasks with a dependency are connected with arrows. The timeline may show days, weeks, months or years depending on the duration of activities. A simple example is illustrated below.

Figure 104: Gantt Chart



The Gantt help identify critical points in the workflow and dependencies. It can also be used to monitor progress. Adjustments may be needed if some tasks are delayed.

Trouble shooting

Project plans should identify risks and build contingencies to allow for possible delays and disruptions. Risk identification and controls are included in the plan to reduce likelihood and impacts. However, it is not possible either to anticipate every potential event or have sufficient time and resource to accommodate them within the plan. Project management includes trouble shooting. Therefore, it is important to identify problems early and deal with them promptly. Tools like Gantt charts show where the “crunch points” are – high pressure points where there is little room for deviation from the plan without disruption further down the line – requiring close monitoring.

Trouble shooting involves measures to:¹¹³

- Achieve project objectives.
- Address obstacles before they arise

¹¹³ “What Is Problem Solving in project Management? Here’s Everything You Need to Know,” UMass Amherst, 2023.

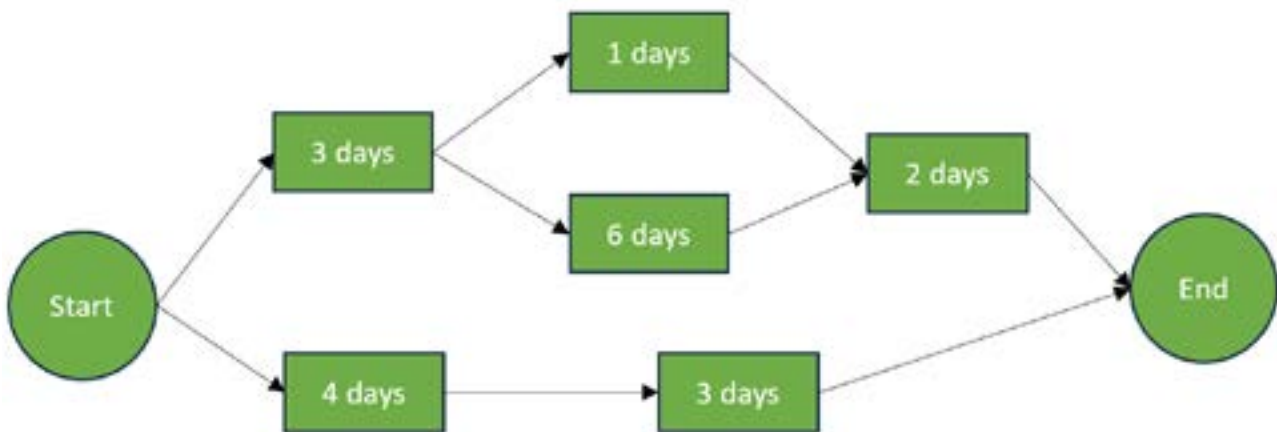
- Manage project risks and contingency plans.
- Manage communication and collaboration.
- Provide a framework for time and cost management.
- Provide a pathway for continuous improvement.

A recommended process for dealing with issues in project management when they do arise is given below.¹¹⁴

1. Define the problem.
2. Analyse root causes.
3. Brainstorm potential solutions.
4. Evaluate potential solutions.
5. Decide on a plan of action.
6. Implement plan of action.
7. Monitor and track results.

Another technique similar to the Gantt chart is critical path analysis. Tasks and sub-tasks are mapped with branching and time required for each sub-task. This is represented graphically to help identify critical paths. Consider the example below.

Figure 105: Critical Path Analysis



This may be a more detailed breakdown of a single bar illustrate in the Gantt chart. It shows that for completion of this task there are two activities that must be completed and can be done simultaneously. The lower path will take seven days. The upper path branches again and before the final step can be completed both paths must be completed. The path of 3 + 6 + 2 is the critical path as it is the longest. The lower path has four “spare” days in comparison. Delays on shorter paths will not result in an overall delay. The longest path are the critical paths as delays on these will result in an overall delay in completion of the task.

¹¹⁴See “What Is Problem Solving in project Management? Here’s Everything You Need to Know,” UMass Amherst, 2023.

Project monitoring

The third and fourth stages of project management in the diagram above (execution and performance) require the project manager to monitor activities closely. This is a critical component of control. It is needed to maintain momentum to completion, manage the budget and resources, detect problems early, deal with unexpected issues as they arise, avoid mission creep. Change requests may be necessary to adjust the plan and timelines and, if necessary, the budget. The project manager must manage the expectations of the project sponsor and provide a realistic assessment of status and likely completion date.

Project management software can be used to assist with all stages of planning and delivery of projects including monitoring and reporting. Once the plan has been formulated and tasks have been scheduled, the following steps can be used to support the monitoring process:¹¹⁵

- Create a project scope baseline. This defines the expectations and requirements of the stakeholders and can serve as metrics to monitor progress.
- Make a project schedule baseline. From the approved scope the schedule documents the intended deliverables over time.
- Estimate project costs and define a project budget.
- Use a risk log showing potential impacts, controls, responsibilities and protocols for communication and escalation when controls are breached.
- Use a change log listing changes made during implementation, noting reasons and ensuring they are managed and communicated.
- Establish quality control procedures.
- Use project monitoring tools including dashboards.

The following list summarises some key terminology and concepts related to project management:

- A gateway is a project review point at which certain criteria must be met before for the project can pass through the gateway and proceed to the next stage.
- Scope creep relates to uncontrolled changes in the scope of a project.
- A progress report shows the status of the project, usually in relation to the planned status.
- A milestone is a significant event in the life of the project, usually completion of a major deliverable. This may include a milestone slip chart—compares the actual progress towards project milestones.
- Slippage takes place when a project is running behind schedule.

Slippage is a potential issue for any project and can occur for many reasons. When slippages occur along a critical path, we know it will lead to delays further on. There are several strategies a project manager can adopt to deal with slippages, including:

- Do nothing and allow things to run the way they are. This may be appropriate for a step that is not on the critical path.

¹¹⁵ "Project Monitoring and Control: Tools & Steps," *ProjectManager*, 2023.

- Add resources (people, time, money).
- Work smarter to resolve the delay and catch up.
- Replan and reschedule expected completion dates.
- Hold briefings with key personnel and introduce incentives to help accelerate progress.
- Change the specification of the deliverable so that the original timeline can still be achieved.

Post-implementation and project review

At the completion of a project, it is tempting to move on to the next assignment. However, there is significant value to be attained from a post implementation review. As the name suggests, this is an evaluation of the project following its conclusion. Firstly, it helps to demonstrate all aspects of the project are in fact complete and results can be reported. Secondly, it helps to identify lessons that can be learned – both good and bad – for future projects. Different inputs and methods can be used to conduct a post-implementation review, including the following.¹¹⁶

- Gap analysis. How did the plan compare with actual progress and completion?
- Review of project goals. Were they completed? Were they completed on time? Do the results align with expectations?
- Stakeholders. How satisfied are they? Interviews and surveys can be extremely useful.
- Costs. Did the project operate within the expected budget?
- Benefits. Have the benefits been achieved (although this may not be clear immediately)? Are there additional opportunities?
- Lessons. How can project management be improved?
- Report. It is recommended that the documentation from the project is retained for future reference, especially for conducting performance evaluation after a more extended period and to capture lessons learned.

¹¹⁶ "What Is Post-Implementation Review in Project Management?" ProjectManager, 2018.

Unit G key terms

Balogun and Hope Hailey Change Kaleidoscope G.1

Balogun and Hope Hailey's contextual features model G.1

Business case G.2

Cost-benefit analysis G.2

Critical path analysis G.2

Gantt chart G.2

Leadership style G.1

Lewin's three stage model G.1

Post-implementation review

Programme G.2

Project G.2

Project initiation G.2

Project investment G.2

Project manager G.2

Project plan G.2

Project sponsor G.2

Project triangle (scope (or quality), time, cost) G.2

Strategic change G.1

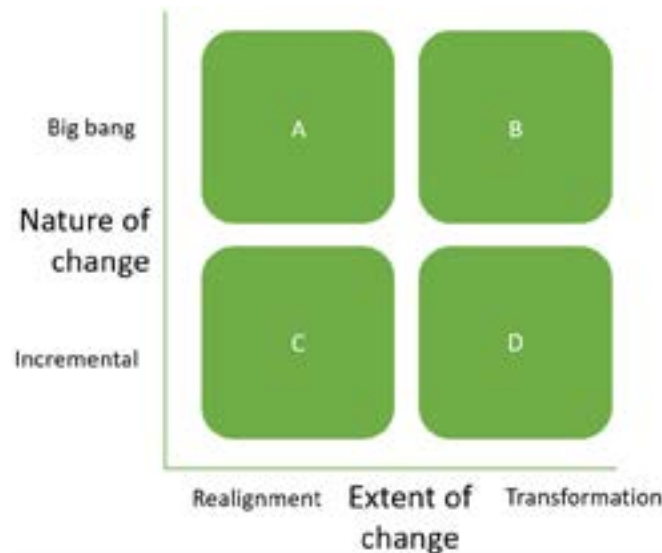
Triple constraint G.2

Summary of Unit G and key learning outcomes

Learning outcomes	Summary
Managing strategic change.	<p>We can characterise strategy implementation as change management. Certainly change plays a major part. Returning to one of the first topics, we explored how appropriate leadership styles are needed to support strategic change. This led us to consider different types of change and the extent to which it is evolutionary or revolutionary. The model developed by Balogun and Hope Hailey was provided to help in this analysis. A further model of the change kaleidoscope is another great tool for planning and implementing change, recognising levers and overcoming barriers. Lewin's Three Stage Model is very simple but a useful reminder that before change can be effected, we first must create the right conditions, and then after change has been achieved we must bake it into the organisation.</p>
Leading and managing projects.	<p>Project management is a formalised way of achieving the elements of strategic change although we noted the differences between organisational strategy and project management. We also distinguished between programmes and projects. Project management is a very well-defined undertaking with professional standards and guidance. We started our consideration by looking at the triple constraint which set the scene for the processes of project management. We identified five key phases and looked at how projects are initiated through a business case. Projects inevitably has costs and benefits and so these are part of our appraisal process. Tools like Gantt charts and critical path analysis help with the planning, monitoring, troubleshooting and reporting of projects. The final stage of post implementation review is often neglected but important for organisational learning.</p>

Quiz questions

1. Consider the Balogun and Hope Hailey Contextual Features Model for organisational change given below:



Match the quadrants of the graph with the following descriptions (select each item once):

- I. Adaptation.
 - II. Evolution.
 - III. Reconstruction.
 - IV. Revolution.
2. What is the correct sequence of organisational change in Lewin's three stage model? (Select one.)
 - A. Change, freeze, adjust.
 - B. Unfreeze, adapt, change.
 - C. Unfreeze, change, refreeze.
 - D. Freeze, unfreeze, refreeze.
 3. In Kotter's 8 steps for leading change, which of the following is the first step? (Select one.)
 - A. Create a sense of urgency and inspire people to act.
 - B. Generate and celebrate short-term wins.
 - C. Sustain acceleration.
 - D. Institutionalise changes.

4. We can distinguish between two different types of management:
- A. Strategy plan management.
 - B. Project management.

Consider the features listed below and categorise them according to the two types of management.

- I. The focus is broad and far reaching.
 - II. There are many dependencies on the activity.
 - III. It focuses on visioning.
 - IV. It has a clear-cut end point.
5. At which stage is the business case for a project created and presented? (Select one.)
- A. Project initiation.
 - B. Project planning.
 - C. Project closure.
 - D. Post-implementation review.
6. Which of the following would be included in a cost-benefit analysis to support a business case? (Select all that apply.)
- A. Direct costs.
 - B. Indirect benefits.
 - C. Opportunity costs.
 - D. Sunk costs prior to project initiation.

Resources

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Unit H: Strategy and People

Learning outcomes

H.1 Staff development

Introduction to Unit H

Organisations are fundamentally human endeavours. We have discovered that through collaboration and specialisation we can achieve a lot more than by each of us working in isolation. This is the basis of society. The implementation of strategy, unsurprisingly, relies very heavily on people. It is often said glibly that people are an organisation's most important asset, but this is objectively true. Organisations would not exist or function or have much of a purpose with people.

Organisations must align their human resources with strategic priorities. Competitive advantage can be supported by having the right people in the right positions working within an environment that allows them to contribute the most value. Supported by human resource functions, managers are charged with the recruitment, onboarding, deployment, direction, development, monitoring, encouragement, discipline, recognition, reward, promotion and retention of their team members, and to do so in a way that enables the achievement of strategic goals. In this unit we will explore the relationship between managing people and implementing strategy. We will examine the importance of learning and development at the individual and the organisational levels. Competitors may fight over the most talented employees and so organisations must decide how they will attract and retain the people they need.

H.1 Strategy and people

- Discuss human resource development and succession planning, and their relationship to the strategy of the organisation.
- Advise on the contribution of competency frameworks to human resource development.
- Discuss the meaning and contribution of workplace learning, the learning organisation, organisation learning and knowledge management.
- Discuss how talent management can contribute to supporting organisation strategy.
- Assess how an organisation can be empowered to reach its strategic goals.

Human resources and organisational strategy

Human resource management concerns all aspects of an organisation's relationship with its employees. More specifically, strategic human resource management connects the management and administration of people with the strategic priorities of the organisation. As an approach to coordinating the utilisation of human capital it adds value by:¹¹⁷

- Connecting employees with organisational goals.
- Gaining a competitive advantage.
- Adapting change.
- Enhancing employee performance.
- Driving business growth.
- Improving operational workflow.

Human resource management supports an employee through all stages of the employment illustrated in the diagram below.

Figure 106: Human Resource Management



Unless the recruitment process is flawed, organisations will wish to retain employees for as long as they add value. At some point, an employee will leave an organisation (by taking another job elsewhere, resigning, getting fired, being made redundant, retiring or dying). Unless the position is closed, the organisation will need to replace the individual and the cycle begins again.

¹¹⁷ "Strategic Human Resource Management 101: Your Essential Guide," AIHR.

The loss of an employee from an organisation can be very disruptive, especially if they possess hard-to-replace skills and knowledge or hold an influential position. Given the possibility of someone's exit from a company always exists then this is a foreseeable risk. It is typically more expensive to recruit a new person than retain an existing employee. The likelihood can be mitigated through strategies designed to increase retention while the impact can be addressed through succession planning.

Figure 107: Strategies for Mitigating Risks Associated with Key Staff Members Leaving

Strategies to reduce the likelihood of key staff members leaving	Strategies to reduce the impact of key staff members leaving
<ul style="list-style-type: none"> • Remuneration and benefits (salary, bonus, healthcare, pension, etc. benchmarked against industry expectations). • Encouragement of internal promotion or transfers when vacancies arise. • Culture (e.g., positive work environment, fair treatment, collaborative ethos). • Status and recognition (e.g., job title, privileges such as parking and office, awards, celebration of achievements). • Opportunities for training and personal and professional development. • Nonfinancial rewards (e.g., vacation, sabbaticals, paternity/maternity leave, sick leave, compassionate leave). • Working conditions (e.g., working hours, décor, resources needed to do the job, dining and recreational facilities, job enhancement and rotation). 	<ul style="list-style-type: none"> • Identify potential successors (immediate, short-term, and permanent) and provide opportunities for them to develop knowledge and expertise to assume responsibilities. • Create opportunities for work shadowing and secondments. • Keep job descriptions up to date for rapid recruitment. • Monitor the job market. • Establish and maintain relationships with recruitment agencies specialising in critical or hard-to-find skills and expertise. • Consider head hunting.

Competency frameworks

A competency is a personal attribute combining knowledge, skills, attitudes, mindsets and behaviours. Organisations define the necessary competencies to perform at a satisfactory level according to the requirements of the job. A competency framework provides a systematic and structured model for organising competencies. It may include:

- Generic competencies related to multiple roles (such as problem solving, communication and IT).
- Technical competencies related to the demands of specific roles.
- Managerial and leadership competencies for employees in such positions.

Competencies provide a useful framework to help draft job descriptions, confirm boundaries for pay grades, evaluate applicants' aptitude for a role, conduct a skills audit,

identify training and development needs, establish goals for improvement and set clear expectations for bonuses and promotions. Competency framework may be used for the following purposes:

- To provide an analysis of the behaviour needed to achieve a given strategy.
- To support recruitment by serving as a basis for a person specification and for comparison of applicants during selection.
- To identify training and development needs and develop people to a level of performance expected at work.
- To manage performance by focusing on what employees do and how well they do it, often as a basis for appraisal systems, such as a behaviourally anchored rating.

They may be developed by an organisation. There are also many competency frameworks available for organisations to adopt and adapt by integrating within a company-wide model. Most organisations rely on competency frameworks defined by professional associations for technical roles, confident such frameworks represent recognised best practice.

Sometimes competence is deemed to be binary – either an individual is considered competent or they are not. There is a minimum threshold that must be met or exceeded. Otherwise, some competency frameworks include levels of competency according to a defined scale ranging for basic to expert or mastery. As competency increases it generally means the individual can perform tasks:

- More accurately.
- More quickly.
- With greater autonomy.
- In more complex and unfamiliar situations.

It may also mean they are able to train and guide others in completion of those tasks.

Learning and knowledge

Employees bring desirable competencies with them to the workplace. They also need to continue to learn as they increase their expertise and adapt to change and new opportunities. As they aspire to promotion to other roles in the organisation, they will seek to professional development in preparation.

They also take valuable competencies away when they leave and so it is important, as part of succession planning, to ensure there is effective knowledge management to retain as much of that as possible. Knowledge management is a concerted process for gathering, creating, sharing, using, storing and managing information in an organisation. As an intangible asset knowledge can be extremely valuable but often neglected when it is taken for granted. In many organisations knowledge forms part of their competitive advantage and at the very least is an essential commodity for maintaining operations. In A.6 we noted the difference between tacit, explicit and implicit knowledge. Knowledge management must recognise where knowledge is needed and how it is obtained as well as weaknesses in the supply and distribution of knowledge across the organisation. Documenting processes and encouraging knowledge sharing (perhaps as part of succession planning) are strategies for capturing and retaining knowledge.

Workplace learning takes place as individuals acquire and develop the competencies needed to do their job. It may be differentiated as:

- Formal, structured learning such as courses taken in person or online.
- Informal, unstructured learning using resources and tools such as podcasts, blogs and videos.

Often these two approaches are blended. An individual may learn on the job through supervision, direction, training, mentoring and coaching as well as off the job where time is taken away from completing work-related tasks to focus on learning. Employers can encourage learning by experience through job expansion (increasing the scope of the role), job rotation (having experience of multiple roles), work shadowing (by observing others) and secondments (temporary assignment to a different position. These can form useful strategies to support knowledge management.

We can also define a learning organisation as one that prioritises the importance of learning and development. Knowledge transfer nurtures and sustains personal and organisational growth and protects against the unexpected departure of a key individual. Learning organisations are the results of five inter-related disciplines:

- Team learning.
- Shared vision.
- Mental models.
- Personal mastery.
- Systems thinking.

These are described below.¹¹⁸

Figure 108: Learning Organisation

Discipline	Descriptions
Team learning	Collective growth and development enabled by humility and acceptance of alternative viewpoints and ideas.
Shared vision	A common, shared goal established through trust and collaboration by which employees are encouraged to take risks.
Mental models	Conceptual frameworks based on reflection that are the basis for true mutual understanding.
Personal mastery	The capacity to accomplish personal goals made possible through a culture that encourages reflection and personal growth.
Systems thinking	Participation in a collective, interrelated system in which individuals recognise and respond to their connectedness.

¹¹⁸See "Building a Learning Organization." ELM Learning, 2022.

Talent management

Talent management is an approach to recruitment and development to ensure optimal productivity and increase retention. Talent acquisition can be a lengthy and expensive process and introduces the potential for making a weak appointment. When talent management is executed effectively it support strategic implementation and helps build competitive advantage.

An effective talent management strategy:

- Aligns HR with strategic priorities.
- Improves employee motivation and morale.
- Is data-led to ensure sound decision-making.
- Emphasises the importance of recruiting the right people, retaining them, and nurturing them to reach their full potential.

Empowering an organisation

Employers can empower employees – i.e., enable them to perform in a supportive environment – by several means. For example:¹¹⁹

- Fostering an environment of trust and psychological safety.
- Building employee confidence with recognition and incentives.
- Offering flexibility in work arrangements.
- Asking employees for feedback and actioning it.
- Supporting professional growth with coaching and delegation.

This can lead to greater employee satisfaction, motivation, loyalty, retention and performance. It can also lead to greater customer satisfaction and a stronger organisational reputation. Others will want to come and work for the same organisation and there is more likely to be a positive, trusting culture.

Empowering employees has a cumulative effect of empowering the organisation. If managers feel empowered, they will have greater confidence to make decisions and take risks (within established boundaries). Decisions made by those closer to operations and the customer are likely to be faster and better informed. When managers are managing, it frees leaders up to lead, focus on strategy and the mac environment, which is also a more efficient use of resources.

¹¹⁹ "Employee empowerment: Definition, benefits, and tips," Achievers, 2023.

Unit H key terms

Competence H.1

Competency H.1

Competency framework H.1

Empower H.1

Human resource management H.1

Knowledge management H.1

Learning organisation H.1

Succession planning H.1

Talent management H.1

Workplace learning H.1

Summary of Unit H and key learning outcomes

Learning outcomes	Summary
Staff development.	Human resources are essential for strategic implementation. In this unit we explored human resource management and all stages and employee's time with an organisation from recruitment to resignation, redundancy or retirement. We noted some organisations have a separate HR strategy and manage the risks associated with people. Competency frameworks are a useful resource for HR management. Learning is important at the individual and organisational levels. Lastly, we considered the importance of talent management.

Quiz questions

1. There are five features of a learning organisation. Which of the following is a description of mental models? (Select one.)
 - A. The capacity to accomplish personal goals made possible through a culture that encourages reflection and personal growth.
 - B. Collective growth and development enabled by humility and acceptance of alternative viewpoints and ideas.
 - C. Participation in a collective, interrelated system in which individuals recognise and respond to their connectedness.
 - D. Conceptual frameworks based on reflection that are the basis for true mutual understanding.
2. What kind of knowledge can be readily stored and communicated? (Select one.)
 - A. Tacit knowledge
 - B. Implicit knowledge.
 - C. Explicit knowledge.
 - D. Complicit knowledge.
3. Controls can be adopted to mitigate the risk of a key member of staff leaving an organisation. Which of the following would be effective in reducing the risk of a key member of staff leaving? (Select all that apply.)
 - A. Providing superior working conditions.
 - B. Offering favourable remuneration rates.
 - C. Developing succession planning.
 - D. Head hunting.

Resources

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Unit I: Digital Strategy

Learning outcomes

- I.1 Benefits and risks of technology
- I.2 Big data and organisational strategy
- I.3 Machine learning, AI and robotics
- I.4 Disruptive technology
- I.5 Principles of e-business
- I.6 E-Business and the value chain

Introduction to Unit I

Technology is major tool for implementing strategy. An organisation may develop a specific digital strategy to take advantage of moving activities online. While the digital environment can mimic traditional aspects of business operations – online stores and checkouts, advertising, promotions and helpdesks, for example – there are many important differences. This unit explores the key benefits and potential risks of adopting a digital strategy. The I in IT stands for information, and the computing revolution is based on the ability to create, store and transmit huge amounts of data quickly and cheaply. It is the existence of big data that has enabled machine learning and artificial intelligence (AI). AI and other technologies can undermine well-established industries very rapidly. We will examine the ways in which an e-business differs from traditional operations, particularly in the way it manages its value chain.

I.1 Benefits and risks of technology

- Discuss the opportunity for adopting new technologies such as cloud, mobile and smart technology within an organisation.
- Discuss key benefits and risks of cloud, mobile and smart technology.

New technologies

The word “technology” refers to tools, machinery and equipment as well as the application of scientific knowledge used to develop and apply them to solve problems, especially in engineering. Its contemporary use is primarily associated with electronics, computers (hardware and software), and digital tools. Some have described our present era as the information (or computer) age, and certainly the origin, evolution and widespread

adoption of computer technology has been driven by the need (or desire) to capture, store, process and transmit information in volumes and at a rate that would previously have been inconceivable. Moore's Law tells us that the capacity of technology based on the number of components on a single microchip is expected to double every two years, and since 1965 that prediction has largely held true.¹²⁰

The information age really came to life with the advent of the personal computer and the internet, further facilitated by innovations like fibre optic cables. The digitalisation of information has enabled incredible applications for business, healthcare, communications, social networking, education, entertainment, travel – indeed, it is hard to think of some aspect of modern living that has not been impacted.

When we explored the PESTLE model in A.3 to help organisations analyse threats and opportunities, we noted that T stands for technology. Arguably, it has been the single biggest driver of innovation (i.e., “the systematic practice of developing and marketing breakthrough products and services for adoption by customers”) and disruption (i.e., “innovation that transforms expensive or highly sophisticated products or service – previously accessible to a high-end or more-skilled segment of consumers – to those that are more affordable and accessible to a broader population”) over the last 50 years.^{121, 122} This may be set to continue unless the E for Environmental in PESTLE takes over due to the impacts of climate change.

Some relatively recent technological innovations are worth considering due to their impact.

- Smart technology: the Harvard Business Review described smart connected products in 2014 as “complex systems that combine hardware, sensors, data storage, microprocessors, software, and connectivity in myriad ways.”¹²³ SMART was originally defined as an acronym (self-monitoring, analysis, and reporting technology), although we tend to think of it as just being clever.¹²⁴ It is the combination of innovations such as artificial intelligence, machine learning and big data with previously “ordinary” objects. Examples include:¹²⁵
 - The Internet of Things, enabling smart cities, smart homes, and smart factories.
 - Smart connected devices via the internet, wireless cellular network (via 5G) or Bluetooth such as smart cameras, smart lightbulbs and smartphones.
 - Smart devices without internet connectivity such as smart coffee makers.
- Mobile technology: the advent of laptops, tablets and smartphones has put smart technology literally in our hands and can be taken anywhere, significantly increasing our access to the internet, information, analytical tools, and each other at any time. Online marketing and shopping have been hugely influential in the evolution of businesses.
- Cloud: the cloud is a global network of remote servers accessible via the internet, enabling easy storage and access to data, especially from mobile devices. It allows

¹²⁰ See “What Is Moore's Law and Is It Still true?” Investopedia, 2024.

¹²¹ “What is innovation?” McKinsey and Company, 2022.

¹²² “Disruptive Innovation: Meaning and Examples,” Investopedia, 2023.

¹²³ “How Smart, Connected Products Are Transforming Competition,” Harvard Business Review, 2014.

¹²⁴ See “Smart tech,” netlingo, 2024. <https://www.netlingo.com/word/smart-tech.php>

¹²⁵ See “What is Smart Technology and what are its Benefits?” Rezaid.

business and individuals to store and access data remotely without the need to maintain their own servers or save data on hard drives and memory sticks. It greatly increases capacity and reduces risks associated with loss of data.

New technologies introduce considerable benefits to organisations. Innovations like automation, artificial intelligence, machine learning, robotics, and natural language processing (see I.3 below) greatly increase efficiency, effectiveness, convenience, capacity and security. Technology may also be instrumental in addressing the factors responsible for climate change by reducing energy consumption and helping us away from fossil fuels.

Emerging technology (i.e., the most recent forms and applications of technology, like artificial intelligence, augmented reality, quantum computing, blockchain, biotechnology and nanotechnology) can represent both opportunities and threats to organisations. Understanding them better will enable organisations to make better decisions about their adoption and enable them to prepare for their impact. There are also ethical considerations to be made in respect of the social and psychological impacts, the intrusion into privacy and the changes to our way of life.

The benefits of emerging technology include the following:¹²⁶

- Improved efficiency and productivity from the automation of tasks and processes.
- Enhanced quality of life for society and employees with respect to working conditions, healthcare, communication, training, telecommuting and remote working opportunities. Employers can more readily make adjustments in respect of employees' physical, learning, social and emotional needs and well-being. The same opportunities enable employers to enhance employee monitoring and performance evaluation.
- Solving complex problems by being able to access and process considerable volumes of data very quickly and identify novel solutions that can build core competence and competitive advantage.
- Enhanced education and training via accessible, interactive, augmented resources.
- Easier and more extensive communication and collaboration across the organisation and with other stakeholders globally.
- Improved sustainability of operations.

However, the risks of emerging technology include the following:¹²⁷

- Threats to privacy and security.
- Economic disruption.
- Ethical concerns, including the potential for bias and discrimination in AI systems, the use of biometric data and synthetic biology.
- Environmental impacts through the mining and consumption of scarce resources in the production of microchips, batteries and other components, and the release of artificially engineered species into the environment.
- Dependency and an increased vulnerability to technology failures and attacks.

¹²⁶ See "Emerging Technology – Benefits and Risk," *Emerging Technology Hub*, 2022.

¹²⁷ See "Emerging Technology – Benefits and Risk," *Emerging Technology Hub*, 2022.

1.2 Big data and organisational strategy

- Describe Big Data and discuss the opportunities and threats Big Data presents to organisations.
- Discuss how data analytics can be used to inform organisational strategy.
- Identify and analyse relevant data for strategic decisions about new product developments, marketing and pricing.

Big data

Big data refers to large and diverse sets of information to which organisations (and individuals) now have unprecedented access. Big data is notable for its volume, velocity by which it is created and variety, and is often accessed via data mining (“the process of searching and analysing a large batch of raw data in order to identify patterns and extract useful information.”)¹²⁸

Big data can be structured or unstructured. Structured data is organised, held in databases and spreadsheets, and usually numerical. Unstructured data is unorganised, not standardised or formatted, and frequently includes text-based information. Big data can be obtained from internal and external sources and much of it is created automatically (with appropriate permissions) as customers and the public search the internet, access webpages, fill out surveys, complete transactions and communicate (our digital footprint).

Big data provides huge potential benefits to organisations, including the following.¹²⁹

- Expanding business intelligence.
- Enhancing user targeting.
- Improving customer service through applications like chatbots using machine learning and artificial intelligence based on data drawn from similar situations and previous interactions.
- Increasing efficiency and reducing costs.
- Influencing customer behaviour by providing suggestions and adverts based on previous purchases and browsing history and the habits of similar customers.
- Protecting against operational risk caused by error, fraud and cyberattacks.

Data analytics

Big data creates a huge opportunity for organisations to learn with great precision about the habits, lifestyles, preferences, opinions, choices, plans, etc. of their current or prospective customers. It can also be used to study other dimensions so useful to maintaining and building competitive advantage, including competitors, markets, and social and economic trends.

¹²⁸ “What Is Data Mining? How It Works, Benefits, techniques, and Examples,” Investopedia, 2024.

¹²⁹ “Big data examples: 6 ways it’s transforming business,” University of Massachusetts Global.

With the availability of large data sets comes the question of how to use it. Previously business may have taken samples of transactions or customer feedback. Now they can use total sets and supplement it with external data. Fortunately, data analytics – itself enabled by technology – is available as a science of interpreting data through the processes of aggregation, summarising, modelling and extrapolation. Digital tools allow us to do this with large data very quickly and in real time and create visually appealing graphs, dashboards and reports. There are many techniques employed within the science of data analytics. Some common ones are described below.¹³⁰

Figure 109: Data Analytics – Common Techniques

Technique	Description
Regression analysis	Estimates the relationship (correlation) between variables, showing how one (the dependent variable) is likely to change with changes in the other (independent variable). Used to inform decision-making, such as product development and marketing campaigns.
Monte Carlo simulation	Considers the likelihood (probability distributions) of a range of possible outcomes. Used to inform risk analysis and forecasting.
Factor analysis	Reduces a large number of variables to a smaller number of factors to help condense data and identify underlying patterns. Used to evaluate customer preferences and behaviour.
Cohort	Organises data based on shared characteristics of users to identify trends and patterns of behaviour. Used for target marketing and building competitive advantage in niche segments.
Cluster analysis	Sorts different data points into groups to identify underlying structures. Used for analysis of events (e.g., in insurance or crime) and market segmentation.
Time series analysis	Identifies patterns over time, distinguishing underlying trends, cyclical fluctuations, seasonal patterns and random variation. Used for forecasting to support purchasing and sales decisions as well as marketing.
Sentiment analysis	Analyses qualitative data to summarise common sentiments (polarity, emotion and aspect-based).

Regardless of the technique and the software applications used, there are common steps in most data analytics methods:¹³¹

¹³⁰ "The 7 Most Useful Data Analysis Methods and Techniques," Career Foundry, 2023. <https://careerfoundry.com/en/blog/data-analytics/data-analysis-techniques/>

¹³¹ "The 7 Most Useful Data Analysis Methods and Techniques," Career Foundry, 2023.

- Define the question of interest, the problem to resolve, the objective of the analysis.
- Collect the data.
- Clean the data:
 - Removing major errors, duplicates, and outliers.
 - Removing unwanted data points.
 - Structuring the data—that is, fixing typos, layout issues, etc.
 - Filling in major gaps in data.
- Analysing the data. This may be categorised as:
 - Descriptive analysis, which identifies what has already happened.
 - Diagnostic analysis, which focuses on understanding why something has happened.
 - Predictive analysis, which identifies future trends based on historical data.
 - Prescriptive analysis, which allows you to make recommendations for the future.
- Visualising the results.

New product developments, marketing and pricing

The analysis of big data can be used to gain actionable insights related to current and future demands. This can be used to inform product and market development (Ansoff Matrix) and adjust any aspects of the 7Ps (see D.3). Rather than making speculative adjustments and seeing if they work, data analytics creates greater confidence in the likely response to changes made – which is good news since product and market development and marketing represent significant investments.

Often organisations will develop prototypes, conduct tests and pilots, and conduct beta testing before fully launching a new product or expanding to a new market. This allows them to collect feedback and make adjustments to improve the product even further. In some cases, it may result in the decision not to launch. Testing takes time and resources but can save more money further down the line.

As products approach the end of their lifecycle and sales as well as market share begin to decline, it is common to search for ways to extend their life by introducing improvements and new features. Computer modelling tools based on big data allow companies to optimise their strategies and create the most effective marketing mix.

1.3 Machine learning, AI and robotics

- Explain the benefits of using artificial intelligence (AI), robotics and other forms of machine learning to support strategic decisions.
- Assess the risk, control and ethical implications of using AI, robotics and other forms of machine learning.

New technology assists with business decision making. Let us consider some important definitions.

Figure 110: New Technology – Definitions

Term	Definition
Automation	“Automation is the application of technology, programs, robotics or processes to achieve outcomes with minimal human input.” ¹³²
Artificial intelligence (AI)	Refers to the ability of a system (computer, robot) to perform tasks intelligently. The development of AI has focused on learning, reasoning, problem solving, perception and using language. ¹³³ Popular applications of AI like ChatGPT rely on large language models (LLM) to generate content and process tasks.
Robotics	“Robots are programmed machines that can automatically carry out complex series of actions. People control them with external devices, or their control systems can be embedded within themselves.” ¹³⁴
Machine learning	“Machine learning uses algorithms and data to copy how humans learn, in order to improve its accuracy. It’s a vital component of data science, as algorithms are trained through statistical methods in order to make predictions or classifications, helping to discover key insights.” ¹³⁵ The learning system can be considered as comprising: <ul style="list-style-type: none"> • Decision process. • Error function. • Model optimisation process.
Natural language processing	“Natural language processing allows computers to understand both text and spoken words like humans can. Combining machine learning, linguistics, and deep learning models, computers can process human language in voice or text data to understand the full meaning, intent, and sentiment.” ¹³⁶

AI is being used in the following areas of business activity:¹³⁷

- Business process automation and efficiency.
- Data intelligence.

¹³² “What is automation?” IBM.

¹³³ See “Artificial intelligence,” Britannica, 2024.

¹³⁴ “What are the top 7 branches of artificial intelligence?” AI Accelerator Institute, 2023.

¹³⁵ “Your guide to machine learning,” AI Accelerator Institute, 2022.

¹³⁶ “What are the top 7 branches of artificial intelligence?” AI Accelerator Institute, 2023.

¹³⁷ “Establishing a human governance framework for artificial intelligence: AI’s rapid adoption and elevated risks require a thorough governance approach,” RSM, 2023.

- Supply chain optimisation.
- Predictive maintenance.
- Customer service and support.
- Fraud detection and risk management.

Some of the advantages and disadvantages of using AI are shown in the table below.

Figure 111: Pros and Cons of Artificial Intelligence¹³⁸

Advantages	Disadvantages
<ul style="list-style-type: none"> • Reduction in human error in the performance of repetitive tasks accurately and consistently. • Reduction in safety risks to humans (for example in defusing a bomb, going into space and ocean exploration). • 24x7 availability. • Improved customer experience through digital assistance (chatbots). • Development of new inventions. • Improved, unbiased decision-making. • Availability of AI-power applications (apps) for computers and mobile devices. 	<ul style="list-style-type: none"> • High costs of development and training. • Blind spots in creativity, emotion and ethics. • Can create unemployment and workforce disruption. • Possible lack of accountability and transparency for actions by or based on the results of AI. • Potential for unintended consequences and losing human control over AI as it evolves and makes decisions.

The applications for using artificial intelligence in the implementation of strategy include the following:¹³⁹

- Improving decision-making by analysing large amounts of data and identifying patterns that would be invisible to humans.
- Reducing strategist burnout and overwhelm by automating mundane tasks that inhibit more creative and critical thinking.
- Personalising customer experiences by tailoring products and services to individual needs.
- Achieving operational efficiency by streamlining processes and reducing costs.
- Creating more room for innovation so your company can remain cutting-edge.

¹³⁸ See "Advantages and Disadvantages of Artificial Intelligence (AI), simplilearn, 2024.

¹³⁹ "How to Use AI for Business Strategy (+ A Step-by-Step Guide), Leantime, 2023.

Risks and controls of using AI

AI is a way to help organisations do things better. It can also be both a source of additional risks as well as a tool to help organisation manage risks.

Risks of using AI include the following:¹⁴⁰

- Overdependence and reliance on the outcomes from AI. However, the results from AI are not always reliable due to the following:
 - Algorithmic bias. When AI identifies patterns in data, it may reinforce or introduce bias by relying on negative stereotypes, discriminatory practices and prejudice it has learned without having the ethical and cultural filters humans do.
 - Overestimating the capabilities of AI. There is a danger we read too much into results generated by AI assuming it to be reliable. Human judgement is still needed to determine the quality of the work of AI and conduct due diligence to validate it by reference to other sources.
 - Programmatic errors. If AI has been poorly designed, it will operate as directed and yet the results may be entirely misleading.
- Risk of cyber-attacks. AI systems are increasingly becoming a target for hackers looking to block, steal or corrupt personal and business-sensitive data or disrupt operations.
- Legal risks and liabilities. Laws and regulations are catching up with AI and organisations may be unaware they are not in compliance with possible consequences for punitive remedies.
- Reputational risks. AI introduces new data management, privacy and security, and compliance challenges. The more we rely on AI for large amounts of sensitive data and important decisions, the greater the opportunities for significant failures and resulting reputational damage.

The remedies for AI risks should follow the same processes we have already described for risk identification, analysis and response in the context of a system of internal control (see E.3).

- Control environment. Effective control begins with a culture of awareness and a structured, methodical approach. Policies, structures, resources, roles and responsibilities should be revised in response to the ways in which AI is being utilised. Education and training are crucial elements of this. When expertise is lacking it should be acquired.
- Risk assessment. Regular scrutiny of the internal and external environments is needed to identify and evaluate risks associated with AI. As an emerging risk, it is a rapidly evolving situation with a high degree of uncertainty. Close vigilance is essential. New information on AI is being generated and shared continuously. Risk managers need to stay abreast of the latest insights to assist with the process of assessment and control.

¹⁴⁰ "Why AI is both a risk and a way to manage risk," EY, 2018, and "Establishing a human governance framework for artificial intelligence: AI's rapid adoption and elevated risks require a thorough governance approach," RSM, 2023.

- Control activities. Principles, standards, frameworks and guidance for authoritative bodies such as NIST, the EU and OECD are available to organisations to help manage AI risks. For example, the NIST model is based on five key elements:
 - Identify.
 - Protect,
 - Detect.
 - Respond.
 - Recover.
- Monitoring. Oversight, regular review, inspection and audit all provide monitoring of the adequacy and effectiveness of controls. Gaps and deficiencies can be corrected in a timely manner to avoid exposures above risk appetite.
- Information and communication. The sharing of information, including logging risks and control errors, is key to the success of a system of internal control.

I.4 Disruptive technology

- Assess the potential impact of disruptive technologies such as Fintech, including cryptocurrencies and blockchain.
- Assess the impact of innovation in supporting organisation strategy.

Disruptive technologies

We defined disruption in I.1 above as “innovation that transforms expensive or highly sophisticated products or service – previously accessible to a high-end or more-skilled segment of consumers – to those that are more affordable and accessible to a broader population.” Specifically in relation to disruptive technology we can say it is “an innovation that significantly alters the way that consumers, industries, or businesses operate. A disruptive technology sweeps away the systems or habits it replaces because it has attributes that are recognisably superior.”¹⁴¹ We can include as recent examples ride-sharing apps (like Uber and Lyft), online news sites, GPS (maps on your phone and in your car) and e-commerce (e.g., Amazon). The ability to dramatically change the current market is a key characteristic.

Two notable examples of disruptive technologies are described below.

- Fintech. Fintech is financial technology used to support digital banking. Money apps on your mobile device are examples. These apps allow users to do all the things they would previously have done at a bank. They also allow shoppers to fund their purchases with short term loans (like digital credit cards) including microloans for those with poor credit. Users can secure mortgages and home improvement loans online. You can trade stocks and shares and set up a funding page for startup projects or community assistance. Cloud service, machine learning and artificial intelligence make all this possible.

¹⁴¹ “Disruptive Technology: Definition, Example, and How to Invest,” Investopedia, 2022.

- **Blockchain.** Blockchain is the technology that makes bitcoin and other digital currencies (cryptocurrencies) possible (these are also part of fintech). It allows for the online transfer of digital currencies from peer to peer without a bank as an intermediary and without the need for manual verification of transactions. The potential for reducing costs by removing intermediaries (like tellers and clearinghouses) is considerable and results in much faster transaction times.

Impact of innovation

Disruptive technologies raise two prospects for organisations: they can be the leader of disruption or the victim. In many cases, organisational strategy should seek to anticipate the potential for disruption in their markets, manage those risks with appropriate strategies and identify opportunities to use proactively. Many organisations develop an innovation strategy as a facet of their overall approach. Innovation may happen and can flourish under the right conditions but is likely to require some nurturing through a systematic approach.

Innovation as a part of strategy offers an organisation many strategic benefits, including the following:¹⁴²

- **Focus and prioritisation.** Creative energies can be targeted at the most important projects.
- **Risk mitigation.** While innovation introduces risks (as it is new), it can also be applied to risk management and control processes.
- **Alignment with market trends.** As markets and preferences evolve rapidly, organisations need to respond rapidly and continue to build their competitive advantage. Innovative solutions can help with differentiation on cost and features.
- **Resource optimisation.** An innovation strategy can ensure resources are appropriately targeted to where they may have the most impact.
- **Cultural transformation.** An innovation strategy supports a positive, open, nurturing culture like that of a learning organisation where individuals are encouraged to experiment and allowed to fail.
- **Sustainable growth.** Sustainable organisations are those that embrace change and are ready to innovate and diversify.

Innovative change (like any kind of change) can be organic (incremental) or revolutionary (as we discussed in Unit G). Innovation can be applied to product development, service delivery, operational processes, risk management, marketing and to the thinking and approach that support strategy. Radical, out-of-the-box ideas should be aired and explored.

¹⁴² "Innovation Strategy: Unleashing Growth through Strategic Ingenuity," MJV, 2023.

1.5 Principles of e-business

- Discuss the meaning and scope of e-business.
- Advise on the benefits and risks of the adoption of e-business.
- Evaluate how e-business changes the relationships between organisations and their customers.
- Define e-government and discuss how it is implemented.

What is e-business?

E-business (also known as e-commerce) is a broad term covering organisational processes conducted online. By 2025 the prediction is that 25% of all global sales will be made online.¹⁴³

E-businesses have the following features:

- They challenge traditional business models by replacing intermediaries (vendors, agents, service providers and other specialists) between the organisation and its customers.
- They are likely to have access to global markets even if they are a small organisation.
- They take advantage of the vast amount of information available, much of it free.
- They enjoy rapid communications, interactions and transactions.
- They can provide customised product offerings to precisely defined target segments.
- Their work is often independent of location.
- They establish new business partnerships.

Primarily e-business comprises the following:¹⁴⁴

- E-procurement (supplier exchange), the acquisition of goods and services through an online transaction. May be B2B, B2C or peer to peer.
- Online stores (electronic sourcing) as a point of promotion, information and sales of products and services.
- Online marketplace, the commerce that connects buyers to sellers providing the transaction facility.
- Online communities of like-minded interested people who may communicate with each other, represent the interests of the group and influence other parties.
- Online companies that exist entirely in hyperspace using the internet to connect the employer with employees, suppliers, customers and other stakeholders.

The goods traded may themselves be digital commodities, such as e-books, electronic

¹⁴³ "E-commerce as percentage of total retail sales worldwide from 2021 to 2027," statista, 2024.

¹⁴⁴ "What is E-Business: Meaning, Types, Components, Model and Features, Temok, 2022.

documents, digital art (known as NFTs or non-fungible tokens) and downloadable games and software.

The typical stages of development of an e-business have been described as illustrated in following diagram:

Figure 112: Stages of E-Commerce Development (Rao et al)



Benefits and risks of e-business

E-commerce may be a source of competitive advantage by reducing overheads and enabling customers to buy with limited fuss (a few clicks of a mouse). E-businesses can often have a much larger inventory than a conventional store and fulfil orders much more quickly. Pull supply chain management means online stores can often order products from their suppliers when they are needed without the need to keep them in stock. One significant advantage is the ability to reach a global audience. Small organisations can compete in the same market segment as much larger ones.

However, moving operations online creates new risks for an organisation.¹⁴⁵

- Threats to data privacy and security.
- Increased likelihood of requests for returns and refunds. Online shops are more likely to expect easy returns and refunds (as Amazon does). If you can buy in confidence, you can purchase even if you are unsure because you know you can send it back. This can be an advantage to the e-business because customers often keep something they ordered on a whim. However, the volume of returns and refunds creates additional processing and administration.
- Intellectual property violation may occur as the organisation must make a lot of data available online (product catalogue and details, images, taglines, suppliers' details and so on) all of which can be copied quite easily. Moreover, an e-business may accidentally infringement the property rights of others in their enthusiasm to create their online profile and store.
- Low SEO ranking (search engine optimisation). If webpages are not well designed, competitors may appear higher in lists from searches.

¹⁴⁵ Based on "10 key e-commerce business risks and how to solve them," Sana, 2022.

- Cyberattacks including distributed denial of service whereby customers are unable to access the online store. Attackers intentionally overload the site with web traffic causing it to crash.
- Credit card fraud as thieves use stolen cards or stolen credit card information to make purchases (and often subsequently request refunds).
- Poor customer service may occur as shoppers get stuck in the process or have a question and cannot find a solution or anyone to talk to about it. Alternatively, if they receive poor service (slow delivery, disappointing products) they are unlikely to use the same site again.
- Inadequate authentication leading to identity theft and fraudulent transactions.
- Currency exchange risks arising from buying and selling internationally.
- Customer expectations are high – even the smallest online business is expected to give their customers the Amazon experience where finding what you want and purchasing it are made simple, shipping is quick and often free, and there is no quibble about returns and refunds.

Impacts on relationships in e-business

The final bullet above is a reminder that the relationship between an organisation and an e-business is fundamentally changed. In the 7Ps of the marketing mix, the elements of place, process, people and physical environment are redefined. While this produces many advantages to both the customer and the business, it can also weaken the emotional association and undermine loyalty. If you can buy from any number of online stores, why stick with your favourite? The identity of the organisation is reduced to a website rather than a distinctive décor and ambience. Interaction with real people is eliminated.

If the business operates online, the branding and design of the website becomes a proxy for the in-store experience where ease of access and navigation are of paramount importance. Customers expect to be able to find what they want and make a purchase with the least amount of hassle. E-businesses can follow up with customers who got as far as providing their contact details but abandoned their purchase before checking out.

Shoppers can make ready comparisons among similar items and tend to be very price sensitive. E-businesses may choose to promote a headline price and add tax, shipping and other costs when the customer checks out by which time they may accept the additional fees, but it may also encourage the customer to abandon their cart. Psychological pricing strategies are commonly used because of the ease of comparison.

E-businesses attempt to overcome these issues through differentiation. For example, customers are prepared to pay a subscription for premium services (such as free delivery) and then are more inclined to keep using the same provider. Chatbots are used to answer questions and help users navigate the purchase process. Feedback can often be provided via an online form and email. Users can get frustrated when they cannot find the answers they are looking for and want to speak to a person. Many e-businesses have re-established the option to chat or speak with a representative.

What is e-government?

E-government is the corresponding move in the public sector to move services and other interactions with citizens online. According to the United Nations it is “the use of ICTs [information and communication technologies] to more effectively and efficiently deliver government services to citizens and businesses.”¹⁴⁶ Most government bodies have an internet presence to communicate information and provide portals and forms to access services. The aims of e-government are to improve the economy, efficiency and effectiveness of public administration by:

- Reducing costs.
- Increasing speed of response and delivery.
- Integrating workflows across public sector entities.
- Making better use of public resources.
- Improving transparency and accountability.
- Enhancing accessibility to services.
- Expanding engagement with citizens.
- Increasing inclusion and public participation in government.
- Delivering sustainable solutions.
- Growing public trust in government institutions.

E-government processes may be defined as:

- G2G (government-to-government) in the communication and exchange of information between public sector entities as well as the automation of routine tasks thus streamlining bureaucratic and administrative processes.
- G2B (government-to-business) in transactions such as payments, tendering and procurement, sales, purchases and registrations.
- G2C (government-to-consumer or citizen) including delivery of services, financial transactions, consultation and engagement in decision-making processes using polls and surveys.

While e-government has undoubtedly brought benefits, it is still evolving as the opportunities emerge from new technologies. However, the infrastructure is often lacking to support the ambitious goals of e-government. Some critics have suggested that while it leads to some improvements in administrative processes it also makes governments more susceptible to cybersecurity risks where typically the public sector is behind the private security in management those risks. Attacks on government entities could have far more grave consequences. Adversaries could influence elections, steal government secrets, disable national infrastructure and turn a nation’s military force against itself.

¹⁴⁶ “UN E-Government Knowledgebase, United Nations, 2024.

I.6 E-business and the value chain

- Discuss and evaluate the main business and marketplace models for delivering e-business.
- Explore e-marketing using the '6 Is' of Interactivity, Intelligence, Individualisation, Integration, Industry structure and Independence of location.
- Compare online branding in e-marketing with traditional branding.
- Assess how technology can support the restructure of the supply chain.
- Discuss the methods, benefits and risks of e-procurement.

Models of e-business

Transactions via the internet enable an expansion of traditional models.¹⁴⁷

- B2C (business-to-consumer) in which businesses sell directly products and services to the consumer enables a shorter purchase and sales cycle. This model is pre-eminent for the sale of relatively low value items. The consumer is not typically purchasing in bulk and the seller will have far more customers than a B2B model. Recurring orders are also less likely. B2C trading is frequently supported by mobile apps, native advertising (embedded within social media and other webpages and tailored to match the browsing and purchasing habits of the individuals) and remarketing.
- B2B (business-to-business) in which businesses sell to other businesses which may or may not be the end user. In comparison with B2C, B2B transactions tend to have longer cycles, be of higher value and include more recurring purchases. Where businesses would previously have sent printed catalogues, e-businesses can promote all products online with full details and prices and can target niche markets.
- B2B2C (business-to-business-to-consumer) in which one business sells the products and services of others by providing a convenient online store which acts as a window for multiple sellers. This is particularly effective for small businesses who benefit from being included among other products and services of a well-known retailer, such as Amazon.
- B2G (business-to-government) in which businesses sell products and services to public sector entities to fulfil government contracts. A common process is for businesses to bid for work by submitting a proposed solution in response to a request for proposal (RFP). There may be other requirements, including the need for all businesses tendering their services to be a designated "preferred supplier" by having been approved even before they bid for work. This and other features of public sector procurement can lead to lengthy and slow processes.
- C2B (consumer-to-business) in which individuals sell goods and services to companies. The dynamic is competitive pricing. The consumer is creating value for the business. Often freelancers promote their services via websites offering similar

¹⁴⁷ "Understanding the Different Types of Ecommerce Business Models," Big Commerce, 2024. See also "What Is Consumer to Business (C2B): Definition and Examples," Indeed, 2023.

types of work, such as video production, technical editing, web design, and so on. Businesses connect with them and negotiate price and completion dates for individual projects.

- D2C (direct-to-consumer) in which the consumer buys directly from the producer without any intermediary for wholesale or retail. The producer is able to engage directly with the end user. Sometimes this relates to customised products where the consumer provides design specifications or blueprints for the producer.
- C2C (consumer-to-consumer) in which consumers buy and exchange with each other in online marketplaces in which eBay is a prime example.

E-marketing

It makes sense that online businesses need e-marketing (also known as digital marketing) to access their market and promote their products and services to customers. However, e-marketing is also used by businesses that conduct their trade in a physical environment and face-to-face engagement with their customers. The aims of e-marketing are the same as for marketing generally, namely to attract attention, secure interest, translate that interest into desire and make a sale. E-marketing takes advantage of digital technology to access the target audience. The following techniques are commonly used:¹⁴⁸

- Search engine optimisation (SEO). Webpages can be found in the results of search engines and so web designers use SEO (search engine optimisation) to ensure the site is found when someone searches for appropriate words and phrases. Businesses can also pay for preferential listing in search engine results. A visitor to a website wants to navigate quickly to what they are interested in requiring intuitive, user-friendly design requiring the minimum number of clicks using tool bars and navigation bars. Chatbots may prompt visitors to ask for help.
- Emails. E-marketing enables businesses to personalise promotions based on known characteristics and browsing history. Emails based on subscriber lists and databases deliver messages to target segments.
- Influencers (individuals with a large social media following) are used to raise interest in products and services (usually for a fee or other benefit).
- Affiliate marketing involves three parties: the product owner, the affiliate marketer and the end user. The affiliate marketer promotes products on their own social media channels (usually for commission) and interested individuals can purchase by following a link given and often at a discounted rate.
- Reputation marketing utilises customer review platforms as a promotional tool. By giving star ratings and other feedback, customers are helping the business build their reputation. Consumers generally trust honest reviews from other consumers.
- Video marketing can be very effective in attracting attention when video content pops up in social media or other online interactions. They are usually short (otherwise the user will skip past them).
- Instant message marketing can also be a very direct and personal way of interacting with consumers through real-time chat platforms and is often more acceptable to users than phone messages (like robot calls).

¹⁴⁸ "11 Cost-Effective E-marketing Types," *Indeed*, 2023.

- Content marketing focuses on delivering free, relevant and interesting content to the target audience that they will want to read because it relates to their job or personal interests. This is useful for SEO but also builds a relationship between the user and the company's brand which can become the basis for promoting products and services.
- Conversion rate optimisation is important as businesses want to turn as many interested individuals into a customer as possible. Using cookies or by capturing contact details, businesses can track visitors to their website and follow up with related promotions and offers of assistance.
- Social media marketing can be a very cheap way of targeting audiences, building awareness, establishing brand identity and promoting products and services.
- Pay per click advertising is used by businesses who place ads and hyperlinks in third party websites or search engines and pay based on the number of users who click on it.

We can formalise the different opportunities for e-marketing by analysing their characteristics according to the 6Is model. This is shown below.

Figure 113: 6Is Model of E-Marketing

Factor	Description
Interactivity	The extent to which consumers interact with the marketing resources (versus passive consumption) by which the e-marketing "pulls" the user through clicking, chatting with a bot, and performing other actions which provide useful marketing data.
Intelligence	The amount of information gathered about the consumer (through cookies, browsing history, surveys, click boxes for consent, forms for providing contact details or creating an account, etc.).
Individualism (or individualisation)	The degree to which the marketing experience is tailored to suit the profile of the consumer.
Integration	The degree to which the promotion is integrated with other content and activities.
Industry structure	The degree to which interaction with the consumer is direct (versus via one or more intermediaries).
Independence of location	The geographical scope of the e-marketing which is potentially unlimited but may need to be restricted to match the availability or suitability of the product

This model can help marketers as they select and develop e-marketing options.

Online branding

A brand is a name, symbol, term, mark or design that enables customers to identify and distinguish the products of one supplier from those offered by competitors. Brand values are communicated within seconds via the experience of using the brand website. The domain name of an organisation's website is a vital element of the brand. Organisations may decide simply to move their brand into the digital environment. More commonly, organisations adapt their brand and style to suit how it appears on multiple devices (computers, laptops, tablets, smart phones, TVs). Sometimes they create a new image and logo – a new personality and image – for online interactions. They may also decide to partner with an existing digital brand.

The purpose of branding is to create a positive experience and association for the customer with the organisation and its products to encourage purchases and loyalty. The brand can communicate an image, lifestyle, fashion, attitude, set of values or quality to which the customer aspires. The brand can be part of the competitive advantage (commonly the case in the fashionable world of clothing, sportswear, perfume and electronics). Online branding uses electronic engagement with customers to establish an identity. An organisation's presence may exist solely online or extend beyond, in which case online branding must be consistent with its presence elsewhere.

Organisations create online branding by first defining their brand identity (based on market analysis, understanding of the target audience and the product's unique selling proposition, and linked closely with vision, mission, values and strategic priorities). From the conceptual identity a visual one is created, a logo, choice of fonts and colour schemes, and other design features that will appear on websites, ads, emails and elsewhere. Social media is used to build presence and communicate the brand. Market reaction to branding can be readily gauged by collecting customer data and improvements made as a result.

Supply chain and technology

The e-commerce supply chain connects the end user with their purchased sale or product. The chain may include the procurement of raw materials and manufacturing and/or the sourcing of finished items ready for sale. It also necessitates inventory management, warehousing, fulfilment and delivery. Information, value and money flow along the supply chain. Businesses want to get their goods to their customers promptly, reliably and efficiently. Delays can be caused waiting for suppliers to deliver and costs can be incurred by storing materials. Inventory management is necessary to minimise costs while balancing the possibility of running out of stock with the cost of holding too much for too long.

A simple e-commerce supply chain is described below.¹⁴⁹

Figure 114: E-Commerce Supply Chain



Procurement, inventory management, communication, sales, financial transactions and tracking may all be completed online. Algorithms and artificial intelligence can be used to manage the process, maintain economic stock levels, track goods and materials and minimise delivery times.

E-procurement

E-procurement refers to the buying and selling of supplies and services via the internet. there are many benefits of e-procurement, including:

- Cost reductions.
- Reduced inventory levels needed.
- Greater control.
- Wider choice of supplier.
- Improved manufacturing cycles.
- Intangible benefits – e.g., frees up the time of purchasing staff.

Typically, an organisation would need to be a registered buyer before being able to access the supplier's procurement system to place orders, track deliveries and make payments. Many organisations, especially those in the public sector, have stringent policies regarding procurement given the risks involved. These include the potential for the following:

- Items purchased being of a poor quality or unacceptably high price.
- Additional charges after purchase of which the buyer was unaware.
- Delays in delivery resulting in disruption to the buyer's operations.
- Cessation of trading by the supplier due to insolvency.
- Failure to deliver goods and refusal to return funds.
- Infringement of laws and regulations by the supplier, including copyrights and patents, data privacy and protection, health and safety regulations, and labour

¹⁴⁹ Based on "E-Commerce Supply Chain Management: A complete Guide," Choco Up, 2022.

laws, resulting in the buyer incurring third party liability, financial penalties and reputational damage.

- Acquisition of the supplier by a competitor.
- Fraud and corruption by the supplier.
- Fraud and corruption by employees of the buyer, possibly in collusion with the supplier.

The key components of e-procurement are as follows:¹⁵⁰

- Connection of the buyer and seller via a procurement platform, the supplier's closed system.
- E-sourcing: requirements definition and pre-qualifying potential suppliers.
- E-tendering: request for information, proposals and quotations.
- E-auctioning: evaluating suppliers, negotiation and contract management.
- E-ordering and payment: creating requisitions and purchase orders, and receiving ordered items.
- Analytics: view spends and take corrective measures as required.

¹⁵⁰ "E-procurement (supplier exchange)," TechTarget, 2024.

Unit 1 key terms

6 Is for e-marketing (interactivity, intelligence, individualism, integration, industry structure, independence of location) 1.6

Artificial intelligence 1.3

Automation 1.3

Big data 1.2

Blockchain 1.4

Cloud 1.1

Cryptocurrencies 1.4

Data analytics 1.2

Data mining 1.2

Disruption 1.1

Disruptive technology 1.4

e-business 1.5

e-government 1.5

e-marketing 1.6

e-procurement 1.6

Emerging technology 1.1

e-procurement 1.6

Fintech 1.4

Innovation 1.1

LLM Large language model 1.3

Machine learning 1.3

Mobile 1.1

Moore's Law 1.1

Native advertising 1.6

NLP Natural language processing 1.3

Non-fungible token (NFT) 1.5

Robotics 1.3

Search engine optimisation (SEO) 1.6

Smart 1.1

Structured data 1.2

Supply chain 1.6

Unstructured data 1.2

Summary of Unit I and key learning outcomes

Learning outcomes	Summary
Benefits and risks of technology	The T of PESTLE stands for Technology and is a major factor of both threats and opportunities for organisations and their strategies. Digital technology especially has revolutionised the way businesses operate. We looked at Smart and mobile technology and the cloud.
Big data and organisational strategy	Access to big data creates huge opportunities, especially for product development, positioning and marketing. The techniques of data analytics (themselves powered by technology) allow teams to harvest useful information and apply it to product development, risk management, targeted marketing and more. We explored some of the basic techniques used in data analytics and how they can be applied to strategic implementation.
Machine learning, AI and robotics	AI introduces incredible opportunities, although no-one knows for sure how we will be impacted. We reviewed the key components that collectively are part of AI and considered how they may be applied to business processes. Despite the uncertainty, the risks associated with AI should be identified (as far as possible), analysed and managed like other risks. We considered appropriate controls with reference to the COSO model for internal control.
Disruptive technology	We defined disruptive technology as innovation that can dramatically change the way a market operates. Uber, for example, used mobile apps to undercut the established taxi trade with a radically new business model. We explored fintech and focused on Blockchain as a very significant disruptive technology in the financial industry.

Learning outcomes	Summary
Principles of e-business	Organisations can readily move many of their processes online, including those involving customers and suppliers. E-business is a rapidly growing phenomenon and is increasingly a core element of strategic implementation. We considered some of the important opportunities and threats e-business represents to organisations. It can fundamentally change organisations interact with people. This is important for the public sector too and we explored e-government.
E-Business and the value chain	Lastly, we examined the different models of e-business enabled by technology, including the range of techniques available for e-marketing. We used the 4Is model to help analyse e-marketing opportunities and choices. Organisations with an online presence must consider their online branding. Finally, by exploring the impact of technology on supply chains, we considered how e-procurement works.

Quiz questions

1. Which of the following are features of disruptive technology? (Select all that apply.)
 - A. It transforms sophisticated or expensive products or services.
 - B. It makes products or services cheaper and/or more accessible.
 - C. It is only accessible by the high end and more skilled segment of consumers.
 - D. It is the result of innovation.
2. What does the acronym SMART mean in the context of describing complex systems combining hardware, sensors, data storage, microprocessors, software and connectivity? (Select one.)
 - A. Self-monitoring, analysis and reporting technology.
 - B. Sophisticated mobile analytical and responsive tool.
 - C. Superior machine and recording tablet.
 - D. Software-managed, automatic and remote technology.
3. What are the advantages to an organisation of using cloud technology? (Select all that apply.)
 - A. It reduces the dependency of companies on third party IT services.
 - B. It removes the need to maintain servers.
 - C. It enables easy access to data anywhere with reliable broadband.
 - D. It greatly increases capacity for data storage.
4. There are four main types of data analysis:
 - A. Descriptive analysis.
 - B. Diagnostic analysis.
 - C. Predictive analysis.
 - D. Prescriptive analysis.Match these types of data with the descriptions given below (select each item once):
 - I. Allows analysts to make recommendations for the future.
 - II. Focuses on understanding why something has happened.
 - III. Identifies future trends based on historical data.
 - IV. Identifies what has already happened.
5. Which of the following analytical techniques sorts different data points into groups to identify underlying structures? (Select one.)
 - A. Regression analysis.

- B. Factor analysis.
 - C. Cluster analysis.
 - D. Sentiment analysis.
6. What is the nature of Monte Carlo simulation as a data analytical technique? (Select one.)
- A. It considers the likelihood (probability distributions) of a range of possible outcomes.
 - B. It organises data based on shared characteristics of users to identify trends and patterns of behaviour.
 - C. It analyses qualitative data to summarise common sentiments (polarity, emotion and aspect-based).
 - D. It estimates the relationship between variables, showing how one is likely to change with changes in the other.
7. The NIST framework for control of cybersecurity comprises five steps the first of which is "Identify." Organise the remaining elements in the correct sequence.
- A. Detect.
 - B. Protect.
 - C. Recover.
 - D. Respond
8. One of the risks of using artificial intelligence is algorithmic bias. Which of the following is an example of algorithmic bias? (Select one.)
- A. Over-reliance on the results from AI.
 - B. Introducing bias when identifying patterns in data by relying on negative stereotypes learnt from observing prejudice.
 - C. Limited performance due to poor design.
 - D. Vulnerability to cyberattacks and theft of personal data.
9. Which of the following are features of blockchain? (Select all that apply.)
- A. The technology is needed for cryptocurrency transactions.
 - B. It removes the need for an intermediary in an online financial transaction.
 - C. It is a part of fintech.
 - D. It requires the two parties to the transaction to be clients of the same internet bank.
10. Which of the following techniques can be used to increase customer loyalty for an e-business? (Select all that apply.)
- A. Require customers to pay a subscription for premium services.
 - B. Offer discounts for repeat purchases.

- C. Introduce compulsory surveys at each visit to the e-store to gauge customer satisfaction.
- D. Reduce the visibility of the company logo on webpages.
11. In the world of e-commerce, by what is trading through which freelancers offer services to companies on a project basis known as? (Select one.)
- A. B2B2C.
- B. B2G.
- C. C2C.
- D. C2B.
12. Search engine optimisation (SEO) can be improved by which of the following approaches? (Select all that apply.)
- A. Engaging influencers to promote your products.
- B. Increasing conversion rate optimisation.
- C. Establishing pay by click advertising.
- D. Increasing the usage on the webpages of relevant and related terms and jargon likely to be of interest to the customer segment for whom the products and services are intended.
13. In the 6Is model of e-marketing, which of the following is a measure of how much information is gathered about the customer? (Select one.)
- A. Integration.
- B. Industry structure.
- C. Interactivity.
- D. Intelligence.
14. In an e-commerce supply chain, what is the role of the fulfilment centre? (Select one.)
- A. To hold inventory in anticipation of customer demand.
- B. To provide goods to the warehouse.
- C. To receive orders from the customer.
- D. To prepare goods for dispatch to the customer.
15. Which of the following are key characteristics of an e-procurement system. (Select all that apply.)
- A. The transaction takes place on the buyer's procurement platform.
- B. Access to the procurement platform is limited.
- C. There is usually a process of tendering in which the supplier responds to a request for information.
- D. Requisitions and purchase orders are processed in a separate environment.

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Quiz answers

Unit A

Question	Answers	Syllabus reference
	A, B, D	A.1
	A	A.1
	C	A.1
	I. A, II. B, III. B, IV. A	A.2
	C, D	A.2
	B, C	A.2
	B	A.3
	A	A.3
	A, B, D	A.3
	I. B, II. A, III. A, IV. B	A.4
	A, B	A.4
	I. D, II. B, III. A, IV. C	A.4
	A, C	A.5
	B, C, D	A.5
	B, C	A.5
	I. C, II. D, III. A, IV. B	A.6
	A	A.6
	B	A.6

Unit B

Question	Answers	Syllabus reference
	D	B.1
	A	B.1
	B	B.1
	A, B	B.2
	A, C	B.2
	A, B, D	B.2
	B, C	B.3
	B	B.3
	C, D	B.3

	I. C, II. A, III. B, IV. B	B.4
	B, C, D	B.4
	B	B.4
	A. B, C	B.5
	B, D	B.5
	C	B.5
	A	B.6
	B, D	B.6
	A	B.6

Unit C

Question	Answers	Syllabus reference
	B	C.1
	A, B, D	C.1
	A, C	C.1
	B	C.2
	D	C.2
	B, D, A, C	C.2
	A	C.3
	B, C, D	C.3
	A, D	C.3

Unit D

Question	Answers	Syllabus reference
	A, B	D.1
	C	D.1
	C	D.1
	C	D.2
	B, C	D.2
	A, D	D.2
	B	D.3
	D	D.3
	D	D.3

Unit E

Question	Answers	Syllabus reference
	A, D	E.1
	I. D, II. C, III. A, IV. B	E.1
	A	E.1
	A, C, D	E.2
	C	E.2
	B, D	E.2
	B	E.3
	A, D	E.3
	B, C, D	E.3

Unit F

Question	Answers	Syllabus reference
	A, C	F.1
	B	F.1
	B	F.1
	A, B	F.2
	C	F.2
	A, D	F.2

Unit G

Question	Answers	Syllabus reference
	I. C, II. D, III. A, IV. B	G.1
	C	G.1
	A	G.1
	I. A, II. A, III. A, IV. B	G.2
	A	G.2
	A, B, C	G.2

Unit H

Question	Answers	Syllabus reference
	D	H.1
	C	H.1
	A, B	H.1

Unit I

Question	Answers	Syllabus reference
	A, B, D	I.1
	A	I.1
	B, C, D	I.1
	I. D, II. B, III. C, IV. A	I.2
	C	I.2
	A	I.2
	B, A, D, C	I.3
	B	I.3
	A, B, C	I.4
	A, B	I.5
	D	I.6
	C, D	I.6
	D	I.6
	D	I.6
	B, C	I.6





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