

# Human Resource Management in Context

## LEARNING OUTCOMES

By the end of this chapter, readers should be able to understand, explain and critically evaluate:

- the distinction between the general and the task environment
- the relationships between the environment, organisations and strategy
- the STEEPLE model of environmental analysis
- the difference between placid, dynamic and turbulent environments, and their impact on organisations
- the identification of key environmental factors
- the use of SWOT analysis
- models of organisational structure – bureaucracy, divisionalisation, matrix organisations, networks and virtual organisations
- the use and limitations of strategic alliances
- the advantages and disadvantages of HR outsourcing and shared service centres
- stakeholder analysis
- E-V-R analysis.



## VIETNAM, IRAQ AND AFGHANISTAN

### CASE STUDY 1.1

In the early 1960s, the US intervened in the civil war in Vietnam. The North Vietnamese, under the political leadership of Ho Chi Minh, and the military leadership of Vo Nguyen Giap, had driven the French colonial government out of Vietnam in the 1950s, and the country had been divided in two – North Vietnam, under communist control, and South Vietnam,

with a pro-Western government. The Northerners and their South Vietnamese communist allies, the Vietcong, had started a guerrilla civil war in the south against the South Vietnamese Government.

The Americans had overwhelming military superiority and won every pitched battle between the two sides, including the North's biggest attack,

the Tet Offensive in 1968, when Vietcong soldiers infiltrated into the South Vietnamese capital, Saigon, and even penetrated the US embassy.

Even so, in the end it was the North Vietnamese and the Vietcong who won the war. The Americans lost over 50,000 dead (compared with more than a million Vietnamese dead) and in 1975 they finally pulled out of Saigon. The next day, 30 April 1975, the North Vietnamese army took the presidential palace in Saigon and the unified communist republic of Vietnam was born.

Why did the Americans lose? First, the North Vietnamese understood that ultimately the war was political, not military. If they could pin down the Americans for long enough, public opinion in the US would turn against the war and the loss of American life, and political pressure at home would force the Americans to pull out. Ho also had a clear aim: to unify Vietnam under the communist banner. The Americans did not. Were they supporting the South Vietnamese Government, fighting the Vietcong, seeking to defeat North Vietnam, or to stop the advance of world communism? An example of their ambivalence was the decision not to invade North Vietnam with a ground force, but to bomb the country, including its capital, Hanoi.

Second, the Americans had no clear strategy for fighting a guerrilla war. Their strategy was based on their overwhelming advantage in firepower, but this was of little use when every Vietnamese could be a potential guerrilla fighter. Typical was the way the Americans could do nothing to prevent the infiltration of fighters and equipment into Saigon in 1968. The 'overkill' approach used by the Americans also caused hundreds of thousands of civilian casualties, which helped to turn public opinion in the US, and throughout the West, against the war.

In 2001, after the Al-Qaeda attacks on New York and Washington on 11 September, a US-led coalition invaded Afghanistan, ostensibly to capture the Al-Qaeda leader Osama bin Laden, who was based there. Afghanistan looms over nineteenth-century British military history. In 1842, in the First Anglo-Afghan War, a British army was wiped out almost to a man, after conquering the country with little difficulty. In the Second Anglo-Afghan war of 1878–80, the British learned the lesson that it was very easy to intervene militarily in Afghanistan, but very difficult to withdraw. The British army went in with overwhelming military force, won the war, imposed political terms, and then quickly withdrew without attempting an occupation. The Russian intervention in the 1980s followed much the pattern of the 1840s. After suffering heavy losses from guerrilla action, they were forced into a humiliating withdrawal.

The American-led invasion followed much the same pattern again. The Taliban Government was quickly overthrown, although Osama bin Laden evaded capture. However, the Taliban then led a long and very effective guerrilla war, which tied down thousands of US and British troops. The war became increasingly intelligence-led, as the guerrillas merged into the civilian population. The Americans also developed the tactic of using pilotless drone aircraft to attack Taliban bases, both in Afghanistan and Pakistan. Failures of intelligence led to many cases of innocent civilians being killed in drone raids.

In 2003, a US-led coalition invaded Iraq. Again, there was a backdrop to the action. In 1990, Iraq, under Saddam Hussein, had invaded and occupied its neighbour Kuwait. A massive widely based but US-led coalition had expelled him from Kuwait in a brilliant military campaign. This operation had clear limited objectives – to liberate Kuwait – and commanded a high level of world

support. The 2003 war was different. This time, the Americans had much less world support, did not have the clear endorsement of the UN, and were unable to make it clear to the world exactly why the invasion was happening. Was it to depose Saddam Hussein (regime change)? Was it because Saddam was alleged (incorrectly) to possess chemical and biological weapons (the so-called 'weapons of mass destruction')? Was it to protect ethnic and religious elements in the Iraqi population who had been persecuted by Saddam – the Kurds in the north and the Shi'ites in the south? Was it to fight world terrorism and, in particular, Al-Qaeda? Was it a desire on the part of the US president, George W. Bush, to complete the job which his father, George Bush Sr, had started as president in 1991? Or, as many observers cynically suggested, was it to seize control of Iraq's huge reserves of oil?

The Americans believed that they would be welcomed as liberators, and for a brief period there was relief among many Iraqis at the overthrow of Saddam, particularly among the Kurds, but also to some extent among the Shia in the British-occupied southern part of the country. However, the Americans had underestimated the underlying religious and political divisions in the country. Iraq was an artificial country, invented after the First World War from the wreckage of the Turkish empire. The Shia had close links with their co-

religionists in Iran, while the Kurds had much more in common with the Kurdish minority in eastern Turkey than with the rest of Iraq.

Although the Shia were the majority in the country, the Saddam Government had been dominated by the minority Sunni, who were strong in Baghdad and central Iraq. The Sunni population was generally hostile to the Americans because they had overthrown Saddam, and they quickly started a guerrilla campaign against the Americans. The Shia sought revenge on the Sunni, while Al-Qaeda, which had previously had no influence in Iraq, took advantage of the chaos to move into the country.

The Americans were again involved in a guerrilla war, just as in Vietnam, and again they reacted in a heavy-handed fashion, launching punitive operations against guerrilla-controlled towns and making little effort to reconstruct the country or to win hearts and minds. American casualties rose into the thousands and Iraqi casualties into the hundreds of thousands.

Again, just as in Vietnam, the war was increasingly unpopular in the US and the guerrillas realised that in order to win, all they had to do was to outlast the Americans. In 2009, the US announced that its troops would cease to play a combat role, although 150,000 US troops remained in the country.

What has an account of wars in Vietnam and Iraq got to do with business? What lessons can we learn from the wars that are relevant to business environment and strategy? A surprising amount.

- *The need for clear objectives* – if a business does not know what it wants to achieve, any amount of strategic planning is irrelevant. There is a clear contrast between the totally clear objectives of Ho and Giap, and the confused objectives of the Americans in both Vietnam and Iraq.
- *An understanding of the environment* – the guerrillas in both Iraq and Vietnam were totally at ease in their local environments. The Americans, on the other hand, did not understand the motivation of their enemies in Vietnam, or the complex political environment in Iraq. The Vietnamese also understood and exploited the political environment in the US.

- *Understand the competition* – the Americans did not understand the strengths and motivations of their enemies in either Vietnam or Iraq.
- *An understanding of one's own resources* – the Vietnamese made the most of their limited military resources, while the Americans were hamstrung when the enemy in both Vietnam and Iraq neutralised their key resource, their overwhelming firepower.
- *The importance of organisational structure* – the difference in structure is epitomised by Robert McNamara, the US Secretary of Defense in the mid-1960s and one of the main architects of US strategy in Vietnam (Jackson 2009). As a young man, McNamara was involved in planning the US bombing offensive on Germany, an example of detailed logistical planning. After 1945 he rose to be president of the Ford Motor Company. Ford was a classic huge, bureaucratic, hierarchical US corporation which had given its name to a scientific approach to organisational structure ('Fordism'). The US Army under McNamara in Vietnam was equally rigid and bureaucratic. In contrast, the Vietcong was organised on a highly flexible cell basis and thus able to react much more quickly to changing tactical situations.
- *The importance of HR* – the North Vietnamese and Vietcong were highly motivated. The US Army, on the other hand, was largely a conscript army, most of whom did not want to be in Vietnam. To make matters worse, there were extensive exemptions from conscription (the draft), which made those who could not avoid the draft even more bitter about their fate. The alienation of the rank and file US soldier expressed itself in a contempt for the Vietnamese and also in occasional atrocities against civilians.
- *The importance of values and culture* – the communist beliefs of the Vietnamese gave them a motivation and a will to win that the Americans could not match. At a tactical level, the gung-ho, macho culture of the US Marine Corps made them ideal for spearheading the invasion of Iraq, but totally unsuitable for any campaign to win hearts and minds.
- *The importance of stakeholders* – businesses, like countries, have external stakeholders – third parties who can affect their actions. In Iraq, the key external stakeholders are Iran, with considerable influence over the Iraqi Shi'ites, and Turkey, the sworn enemy of the Kurds. In addition, a key stakeholder was US public opinion, which eventually turned strongly against both wars. The views of stakeholders must be taken into account in strategic management.
- *The importance of intelligence* – this is particularly crucial in a guerrilla war, where it is hard to identify who is the enemy and who is an innocent civilian. In business, intelligence-gathering involves general techniques such as environmental scanning as well as function-specific techniques such as wage surveys.
- *The importance of competences* – the key competence of the US Marine Corps was to be a killing machine, whereas totally different competences were needed for an army of occupation. Similarly, very different competences are needed to operate a drone over Afghanistan from a base in the US. War becomes a computer game.
- *The importance of an exit strategy* – businesses, like armies, need to know how to abandon a strategy at minimum cost. The Americans in Vietnam were forced to make a humiliating exit, while they have been heavily criticised over Afghanistan and Iraq for their seeming failure to have a clear exit strategy.

All of these themes will be explored later in this book.

## HRM IN CONTEXT

The theme of this chapter, and indeed of the book as a whole, is the interaction between human resource management, the environment and the organisation. The theoretical underpinning for this approach is the best fit or contingency model of human resource strategy, particularly associated in the UK with John Purcell (Boxall and Purcell 2008).

This model argues that there is no one model of human resource strategy which suits all circumstances. Instead, different strategies are appropriate in different environmental and organisational settings.

You should bear in mind that the best fit model is not the only model of HR strategy. Other models include the best practice model, which argues that there is one approach to HR strategy, the high performance workplace model, which is suitable in nearly all organisational and environmental settings, and the resource-based model, which argues that resources, particularly human capital and core competencies, are much more important for HR strategy than the environment. All of these models will be explored in much more depth in Chapter 11.

The next sections will explore in more detail the relationships between the environment, the organisation and HR strategy. This will also be explored at greater length in Chapter 11.

### WHAT IS THE ENVIRONMENT?

At its simplest, the environment is anything outside an organisation which may affect an organisation's present or future activities. Thus the environment is situational – it is unique to each organisation. As a result, we must always bear in mind the interaction between a particular organisation and its particular environment.

It is useful to think of the environment on two levels. One is the general environment (also known as the societal environment, the far environment or the macro environment). The other is the task environment (or the specific environment, the near environment or the micro environment).

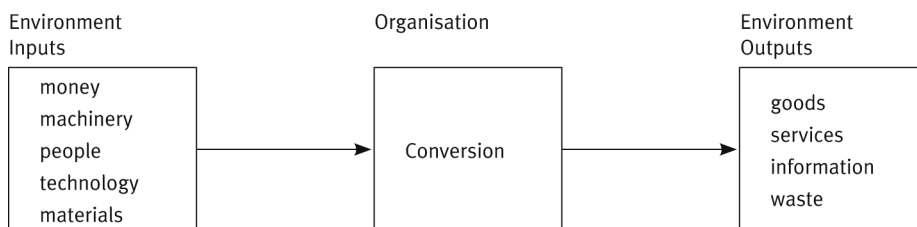
Forces in the general environment have a major impact at the level of the industry. These forces include national culture, including historical background, ideologies and values; scientific and technological developments; the level of education; legal and political processes; demographic factors; available resources; the international environment; and the general economic, social and industrial structure of the country.

The task environment covers the forces relevant to an individual organisation within an industry. These include customers, suppliers, competitors, regulators, the local labour market and specific technologies.

The distinction between general and task environments is not a static one. Elements in the general environment are continually breaking through to the task environment and impacting on individual organisations.

A different but complementary approach is to see the organisation as an open system, which interacts in two main ways with its task environment. It takes in resources from the environment, converts them into goods and/or services and returns outputs to the environment in order to satisfy some need (Figure 1.1).

Figure 1.1 A systems model of the organisation and its environment



In order to function effectively in such a system, the organisation must fully understand both its input and its output environments.

A more complex variation is to add a third element – that of regulations which control the conversion process. The three elements (inputs, outputs and regulations) provide the organisation with both opportunities and constraints. All three elements are also subject to the influences of the general environment.



## REFLECTIVE ACTIVITY 1.1

### The systems approach

Identify inputs, outputs, regulators and the conversion process in:

- a manufacturer of baked beans
- a trade union
- your own organisation.

## ORGANISATIONS AND STRATEGY

The simple systems model used above takes us only so far. It treats the organisation as a 'black box' and does not analyse what goes on inside the organisation. We now have to build further elements into our model – HR, strategy and organisational structure.

In the Case Study 1.1 we identified that the environment had an impact on HR. The political environment in the US, where the country was only 20 years away from the Second World War, led the US to rely on a conscript rather than a volunteer army to fight the Vietnam War. At the same time, HR had an impact on the environment – the alienation created by the draft affected the way in which the rank and file soldiers fought the war.

This gives us a two-way model of the relationship between the environment and HR (Figure 1.2).

Figure 1.2 The environment and HR



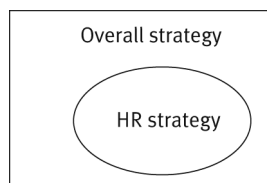
The next stage is to distinguish between HR strategy and HR practice. Here we assume that HR practice flows from HR strategy (Figure 1.3).

Figure 1.3 HR strategy and HR practice



The next stage is to put HR strategy in the context of the organisation's overall strategy. Here we see HR strategy as an integral part of overall strategy (Figure 1.4).

Figure 1.4 HR strategy and overall strategy

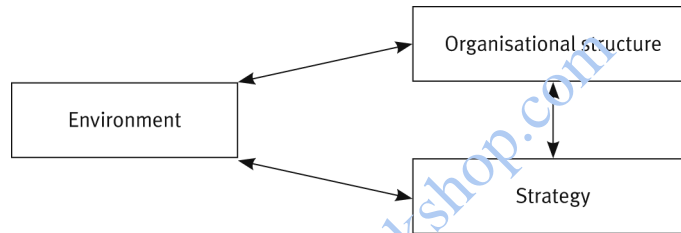


Finally, we need to add the organisation.

The great organisational theorist of the 1960s, Alfred Chandler, argued that ‘structure follows strategy’ (Chandler 1962). A more nuanced approach would suggest that there is a two-way flow between strategy and organisational structure, and similarly, that there is a two-way relationship between the environment and both structure and strategy, although the stronger flow would go from environment to structure and strategy, rather than the other way.

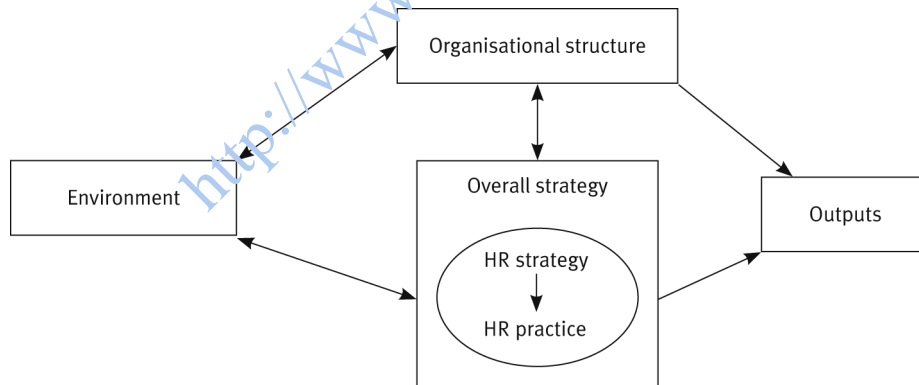
An example of strategy following structure was discussed in the *Harvard Business Review* (Slywotsky and Nadler 2004). The French producer of industrial gases, Air Liquide, was producing gases in small plants at customers’ factories. An unrelated company reorganisation suddenly gave the on-site teams involved greater autonomy. They seized the new opportunities, developing new lines of business, which now make up 25 per cent of Air Liquide’s revenue, compared with 7 per cent previously.

Figure 1.5 The environment, strategy and structure



Putting everything together, we arrive at the following comprehensive model (Figure 1.6).

Figure 1.6 The comprehensive model



## ANALYSING THE ENVIRONMENT

Most organisations will not have a great deal of problems in analysing their task environment. They know who their customers, suppliers, competitors, etc. are. Analysing the general environment is rather more complex. The first step will probably be to brainstorm a list of various environmental factors which seem to impact on the organisation. This is a start, but to progress further it will be necessary to classify these influences.

One widely used tool for classification is PEST analysis and its derivatives. PEST analysis breaks down environmental influences into four categories:

Political/Legal	taxation policy, European Union directives, trade regulations, geopolitical factors such as the 'war on terror', government stability, employment law, contract law, competition law, etc.
Economic	business cycles, economic growth, interest rates, supply and demand factors, competition factors, public spending, money supply, inflation, unemployment, disposable income.
Socio-cultural	demographic trends, income distribution, social mobility, lifestyle, attitudes to work and leisure, levels of education.
Technological	research and development, new inventions or innovations, speed of technology transfer, rates of obsolescence, development of systems.

PEST analysis was widely used during the 1980s and early 1990s. By the mid-1990s, it was becoming more common to talk of PESTLE analysis. Political and Legal were split from each other, and an extra factor, Environment, was added. This reflected a growing awareness of environmental factors and the first concerns about global warming.

By the early 2000s, PESTLE had evolved into STEEPLE, with the addition of Ethics, reflecting the development of concern for corporate social responsibility and business ethics.

The classification currently used is thus:

S	Social
T	Technological
E	Economic
E	Environmental
P	Political
L	Legal
E	Ethical

The STEEPLE model forms the structure of this book. We will be examining each of the STEEPLE elements in turn (although not in this order) and we will conclude by bringing everything together in an analysis of strategy formation.

The next stage in a STEEPLE analysis would be to identify what impact each identified factor would have on the organisation.

#### WHY DO WE NEED TO UNDERSTAND AND MANAGE THE ENVIRONMENT?

Organisations have a choice in how they manage their relationships with their environment. They can sit back and wait for the environment to change, without attempting to predict its behaviour, and then react to changes as they happen. Here they are being reactive – constantly fire-fighting immediate problems. Or they can identify and foresee changes in the environment and plan their responses before these changes happen. They are being proactive – planning for the future. A few organisations are in the fortunate position of being able to go even further and manage the environment in their own interests – at different times since 1900, Ford, IBM, Sony, McDonald's and Microsoft have done this.

The nature of the environment is also significant. Some organisations have static or placid environments, where it is reasonable to suppose that the future will be a continuation of the past. For example, this was true of many UK nationalised industries before privatisation. An organisation in this happy situation can afford to limit its analysis of its environment to past history. However, such an organisation is likely to be caught totally unawares if the nature of its environment does change rapidly. For example, many airlines in continental Europe were either owned by, or heavily protected by, their home governments. This cosy relationship was totally disrupted by the events of 11 September

2001, with the resultant rapid collapse of two national airlines, Swissair and Sabena, while, to add insult to injury, American Airlines received massive subsidies from the US Government.

Other organisations face turbulent environments, either because the environment is dynamic or in a state of rapid change, for example the pharmaceutical industry or the defence industry; or because the environment is complex, and thus difficult to analyse, for example a multinational company with interests in many countries or industries. Turbulent environments are uncertain.

Igor Ansoff (1987) argued that the extent to which an environment is turbulent depends on:

- changeability of the market environment
- speed of change
- intensity of competition
- fertility of technology
- discrimination by customers
- pressure from government and influence groups.

In order to cope with a turbulent environment, the organisation must be aggressively ready to change.



#### VIDEO BLUES – A TURBULENT ENVIRONMENT

##### CASE STUDY 1.2

On 18 June 2007 the BBC2 business programme, *Working Lunch*, highlighted the plight of Peter Citrine, owner of a video rental store on the Wirral. His turnover has fallen by 70 per cent in the last five years, even though several rival stores in his area have gone out of business. He is not alone. In June 2007, the rental chain Global DVD, with 47 stores, went into liquidation, following the third largest retail group, Apollo Video Film Hire, which failed in April, with the closure of 100 stores. In five years, the number of stores nationally has halved to less than a thousand.

The retail video rental market has been the victim of a whole series of hammer blows from changes in its turbulent environment.

Nobody rents or buys videos any more. The VHS format has been totally superseded by DVD, which means that store owners have had to replace a lot of worthless VHS stock.

DVDs are one of many markets in which supermarkets fight their price wars. The typical price of a DVD in a supermarket is £11, while some DVDs are imported from Jersey and sold for as little as £3.93, virtually the same as a rental fee. Since 2000, DVD sales have grown from 16 million to 227 million a year, while rentals have fallen from 200 million to 116 million.

Small stores like Peter Citrine's are hit by the dual pricing policy of the major film studios. DVDs for rental are charged at a much higher price – £25 rather than the £11 in a supermarket. This is permitted under the EU's Rental Rights Directive of 1992.

Until 2002, video stores benefited from a rental window of up to a year, during which the only sales allowed were to rental stores. This gave the rental stores the opportunity to recoup the higher price that they were charged before they faced competition from supermarkets. In 2002, Warner Home Video abolished

the rental window, but still kept its dual pricing, followed by other suppliers.

The structure of the industry has changed. The Amazon model of orders placed through the Internet being met centrally from an enormous backlist of titles has been applied to the DVD market, by Amazon itself, by Blockbuster and, most successfully, by Lovefilm. Lovefilm has 400,000 subscribers, who in 2006 rented 2 million DVDs each month, 20 per cent of the UK market. The company owns 1.5 million DVDs, covering 75,000 titles, far more than a local store could stock. Through analysis of orders and customer feedback, it has a huge database of customers' hirings and preferences.

The online rental sector also has a different pricing structure. Customers pay a monthly fee, typically £9.99 a month, for which they can rent one DVD at a time, up to £14.99 for three DVDs at a time. Orders are placed by Internet and delivered by post. There are no limits on the total number that can be rented each month and no late fees. The online suppliers also have the

opportunity to earn more revenue by including junk mail in the post with the DVDs.

As broadband speeds improve, it becomes easier to download films over the Internet. In May 2007, Tiscali started to offer legal downloads, charging between 99p and £3.49.

DVD rentals are also being hit by social changes. With the proliferation of TV channels available via satellite or Freeview, many showing films, competition for the DVD rental industry is constantly increasing and the market is also being hit by the increasing range and sophistication of games consoles.

In April 2007, Choices, the second biggest rental chain, issued a profits warning and its CEO, Anthony Skitt, said that it was unlikely that any retail video/DVD rental stores would survive the next five years. He was not far wrong. By January 2013, the market leader, Lovefilm, was wholly owned by Amazon and concentrated on online downloads, while Blockbuster was in administration (Halliday 2011; Garside 2013).



### CASE STUDY 1.3

## A CATASTROPHIC ENVIRONMENT – ARMENIA IN THE EARLY 1990s

Sometimes an individual, an organisation or a country faces an environment which can only be described as catastrophic. This was true of Armenia in the early 1990s. Modern Armenia, in the Caucasus, has only existed as an independent state since 1991, but both the causes of its crisis in the early 1990s, and some of the solutions, date back to the early twentieth century. At the outbreak of the First World War, Armenia was in two parts, Eastern Armenia, which was part of the Russian Empire, and Western Armenia, which was part of the Turkish

Empire. During the War, from 1915 onwards, Turkey carried out extensive pogroms against the Western Armenian population, resulting in 1.5 million dead and the effective extinction of Armenian culture in Western Armenia. The remnants of the population emigrated to Eastern Armenia, Russia or, most importantly, the US, forming the worldwide Armenian diaspora, which is much bigger than the population of Armenia itself.

In 1921, Armenia became a republic within the USSR, and another of the

defining events took place. On the borders of Armenia and Azerbaijan is an area known as Nagorno-Karabakh, mainly inhabited by Armenians. However, the area was awarded by Stalin to Azerbaijan.

By the late 1980s, events in the Caucasus were moving towards catastrophe for Armenia. In 1988, guerrilla warfare broke out in Nagorno-Karabakh between Armenian Karabakh nationalists and the Azerbaijan SSR. Also in 1988, there was a devastating earthquake in Northern Armenia, killing 25,000 and leaving hundreds of thousands homeless. This was a devastating blow for a country with a population of only 4 million. The earthquake also forced the closure of Armenia's only nuclear power station, which supplied 40 per cent of the country's energy, for checks and strengthening.

In 1991, with the break-up of the Soviet Union, Armenia became independent, but its troubles continued to mount. The USSR did not only break up politically, it also broke up as an integrated planned economy. This had two major effects for Armenia. Its heavy industry lost its markets elsewhere in the USSR and was unable to compete on a world scale. This led to massive unemployment. At the same time, supplies of gas to Armenia from Kazakhstan were disrupted and contacts had to be renegotiated. With the loss of nuclear power, this now meant that 70 per cent of Armenia's energy supplies had vanished. The

country was subject to power cuts for 22 hours a day and had to deplete its already small supplies of woodland for heating fuel. At the same time, the war in Nagorno-Karabakh escalated into an all-out war between Armenia and Azerbaijan in 1992.

The potential was there for Armenia to become a failed state as desperate as Somalia or Haiti. However, this did not happen. Armenians are proud of their heritage and culture, and rallied round to cope with the shortages. By 1994, the nuclear power station was back in operation and the gas contracts renegotiated. A ceasefire was agreed in the Karabakh war in 1994, although a Cold War stand-off between Armenia and Azerbaijan has continued until the present. Economic production was redirected towards agriculture and a start was made on reforestation. Russia and the Armenian diaspora provided massive aid for the earthquake victims, while the diaspora invested heavily in rebuilding Armenia's infrastructure – the Armenian-American hedge fund billionaire Kerk Kerkorian, for example, has paid for much of the modernisation of Armenia's road system. Finally, a quarter of Armenia's population emigrated in the 1990s, reducing short-term pressure on resources but building up longer-term social problems, as those who emigrated were predominantly young men with skills which could be utilised in the US or Russia.

Source: The author's own experiences in Armenia in June 2011.

## ENVIRONMENTAL SCANNING

Environmental scanning is defined by Choo (2001) as 'the acquisition and use of information about events, trends and relationships in an organisation's external environment, the knowledge of which would assist management in planning the organisation's future course of action'. Scanning can be as simple as reading the business press or as complex as a market research survey. The more uncertain the environment, the more likely an organisation is to scan. Choo quotes a number of studies which suggest that scanning tends to improve organisational performance.

Choo puts forward a two-dimensional model of environmental scanning based on the two dimensions of environmental analysability (can we analyse what is happening in the environment) and organisational intrusiveness (do we intrude actively into the environment to collect information). His model is illustrated in Figure 1.7.

Figure 1.7 Models of environmental scanning

		Organisational intrusiveness	
		Passive	Active
Assumption about environment	Unanalysable	Undirected viewing	Enacting
	Analysable	Conditioned viewing	Searching

Source: adapted from Choo (2001)

Undirected viewing depends on casual information often obtained informally from personal contacts. Information builds up in an unstructured way and may or may not reach a critical mass where it triggers a reaction from the organisation. It is cheap, but runs the risk that the organisation may be taken by surprise by events which could have been predicted.

Conditioned viewing organisations believe that the environment can be analysed, but put little effort into doing so. Sources of information which are used are those generally available in the industry. This runs the risk that disruptive new changes in the environment (new technologies for example) will not be spotted.


Enacting organisations actively seek information which they can use for experimentation and testing the environment. For example, an organisation might introduce a new product based on its own gut feelings rather than market research and watch to see what happens. This is consistent with the view put forward by Schlesinger et al in a *Harvard Business Review* article in 2012, which advocates the use of small-scale, loss-limited experiments as the best way to cope with an unpredictable environment (Schlesinger et al 2012), and with James Quinn's logical incrementalism approach to strategic management, again based on small experimental steps (Quinn 1980), which is discussed further in Chapter 10.

In the searching mode, information-seeking is broad, open and based on a willingness to revise or update existing knowledge. The emphasis is on rigorous, systematic analysis. An example quoted by Choo is the US technology company Motorola, which is one of the few US companies which systematically monitors technology developments in Japan.

However good an organisation's environmental scanning, three issues must constantly be borne in mind. First, it is easy to be overwhelmed by an excess amount of information about the environment, leading to 'paralysis by analysis'. Second, the most serious threats are those which are 'over the horizon' and so most difficult to spot. Similarly, the best opportunities are those which nobody else has spotted and which are difficult to pick up with environmental scanning – what Kim and Mauborgne call 'Blue Ocean Strategy' opportunities (Kim and Mauborgne 2004). If all firms in an industry use the same environmental scanning approaches, they are likely to concentrate on the same obvious opportunities. The result will be intense competition for these overcrowded 'mountain-tops' (Gavetti 2011).

Finally, if the environment facing an organisation is dynamic, the organisation will need to have procedures for sensing future environmental changes, and contingency plans for dealing with a range of possible changes. This involves the technique known as

scenario-building. This increases managerial awareness by examining what-if situations – if x happens, what will its impact be on us and what can we do about it? The technique was first developed by Shell in the early 1970s, when it correctly forecast the 1973 oil crisis and so was ready to deal with it. Schwartz (2003) argues that although most scenarios will be wrong, the mere fact of having been through the scenario-building process will make managers more able to cope with change.



### WILD GARDENS

CASE STUDY 1.4

In the mid-1990s, British Airways carried out a scenario-planning exercise for 2005. Two scenarios were developed. One (called Wild Gardens) predicted:

- 1 rapid growth in Asia
- 2 a US recession
- 3 EU enlargement into eastern Europe
- 4 no single currency
- 5 a Tory election win in 1997
- 6 an EU-US open skies agreement, which partially opened up European routes to US competition, and vice versa.

They were right on three of the six – numbers 1, 3 and 6 – partially right on one (number 2), and wrong on the other two. However, what is more important is what they didn't foresee – the two most traumatic events to hit world aviation for many years, namely 9/11 and the Iraq war.

An organisation with a complex environment may need to break down the complexity, so that environmental analysis is decentralised to product groups or countries within the organisation.

The most difficult situation of all, of course, is where the environment is both dynamic and complex. Here the organisation may have to recognise that it cannot predict its environment and what is important is to foster a culture in the organisation that welcomes and is able to cope with radical change. The organisation must learn to live with chaos. One definition of a learning organisation is an organisation which has developed systematic procedures to ensure that it can learn from its environment.



## REFLECTIVE ACTIVITY 1.2

### Turbulent environments

In what ways have the environments of local authorities become more turbulent in recent years?

### HOW TO ANALYSE THE ENVIRONMENT

Johnson et al (2011) propose a five-stage model in analysing the environment, as follows:

- Stage 1 Audit of environmental influences
- Stage 2 Assessment of nature of the environment
- Stage 3 Identification of key environmental factors
- Stage 4 Identification of the competitive position
- Stage 5 Identification of the principal opportunities and threats.

Stage 1 involves the preparation of a STEEPLE analysis. Stage 2 builds on the placid/dynamic/turbulent classification of environments discussed above. Stage 3 involves a more sophisticated analysis, which may include:

- identifying a smaller number of key environmental influences – for example, for the NHS these might be demographic trends (ageing population), technological developments in healthcare, and implementation of government policy (public–private partnerships)
- identifying long-term drivers of change – for example, the increasing globalisation of markets for some products, eg consumer electronics, cars and pharmaceuticals.

The key principle here is that not all environmental influences are equally important. The analysis in Stage 3 involves identifying those that are most important.

Stage 4 (identifying the organisation's competitive position) will be tackled in the next chapter, using techniques such as Porter's Five Forces (Porter 1980).

Stage 5 (identifying principal opportunities and threats), involves another well-known technique, SWOT analysis.

SWOT stands for:

Strengths

Weaknesses

Opportunities

Threats

Strengths and weaknesses are inward-looking and particularly concerned with the resources of the organisation. Opportunities and threats are outward-looking and involve the analysis of environmental factors. The organisation should ensure that its strengths (or core competencies) are appropriate ones to exploit opportunities or to counter threats.

The CIPD suggests that opportunities and threats (the external environment) will emerge through a STEEPLE analysis, while strengths and weaknesses (the internal environment) can be analysed through a PRIMO-F framework:

- People – what do they do, do they have the appropriate skills?
- Resources – does the organisation have the right and adequate resources?
- Innovation – what new ideas are important to us?
- Marketing – how do they know what the organisation does?
- Operations – how is all this managed?
- Finance – prices, costs and investments (CIPD 2010).

However, the use of such a framework could encourage 'smokestack' thinking. Analysis of strengths and weaknesses requires that a holistic view is taken of the organisation as a whole.

Both opportunities and threats can be analysed using matrices. Opportunities can be assessed according to their attractiveness and the organisation's probability of success (Figure 1.8).

Figure 1.8 An attractiveness/probability of success matrix

		Probability of success	
		High	Low
Attractiveness	High	1	2
	Low	3	4

Opportunities in cell 1 offer the greatest scope and organisations should concentrate on these. Cell 4 represents opportunities which in practice can be ignored. Cells 2 and 3 may be worth investigating further.

Threats can be assessed on the basis of their seriousness and their probability of occurrence (Figure 1.9).

Figure 1.9 An impact/probability of success matrix

		Impact	
		High	Low
Probability of occurrence	High	1	2
	Low	3	4

A threat which has a high probability of happening, and the likelihood of a considerable impact on the organisation (cell 1), will be a key factor which must be a driver of the organisation's strategy and for which detailed contingency plans must be prepared. At the other extreme (cell 4), a threat which has little likelihood of happening and little impact if it does happen, can be largely ignored. The threats in cells 2 and 3 should be carefully monitored in case they become critical.

It should be remembered that opportunities and threats are rarely mutually exclusive. Many factors can be both – indeed, the Chinese characters for 'threat' and 'opportunity' are identical (Nathan 2000). For example, the technological development of EFTPOS (Electronic Funds Transfer at Point of Sale) money transfer systems (using debit and credit cards) can be a threat to small retailers, as their use by competitors may give the latter a competitive edge, but can also be an opportunity, because they lessen the amount of cash likely to be in tills and so make the shop less attractive to thieves.



### REFLECTIVE ACTIVITY 1.3

#### The hospital

How would you classify the following factors on a probability/seriousness matrix for a hospital trust? What contingency planning should the trust make?

- a serious accident on the local railway line, causing scores of deaths and injuries
- an ageing local population
- a leakage of radioactive material at a nuclear power station 200 miles downwind away.

### SWOT AND STRATEGY

Wehrich (1982) argues that SWOT is misnamed. He suggests renaming it TOWS. His argument is that SWOT implies that strengths and weaknesses come first, but that this is mistaken. The only logical starting point for analysis is with opportunities and threats. They are outside the organisation, largely beyond its control and must be managed using the organisation's strengths and weaknesses. He thus argues that SWOT should be used as a contingency model.

Four combinations of opportunities, threats, strengths and weaknesses are possible, and each suggests a possible strategy:

- Strengths–opportunities (maxi–maxi) – the organisation should pursue strategies which make most use of its strengths to capitalise on opportunities.
- Strengths–threats (maxi–mini) – the organisation should use its strengths to minimise or neutralise threats.
- Weaknesses–opportunities (mini–maxi) – make the most of any new opportunities to overcome weaknesses.
- Weaknesses–threats (mini–mini) – this combination calls for a defensive strategy, to minimise internal weaknesses and avoid external threats.

#### CRITICISMS OF SWOT

As an analytical technique, SWOT has many strengths. It is simple, easy to understand and (at least at a superficial level) easy to use, and it does encourage managers to think about both the internal and external aspects of their business.

However, both Hill and Westbrook (1997) and Koch (2000) are very critical about how SWOT is used. Hill and Westbrook surveyed 50 companies and found that 20 carried out SWOT analysis. What they had in common was the generation of long lists, general descriptions, failure to prioritise, and no attempt to verify the points which were made. Most damning of all, no company actually used the results in later strategic analysis.

Koch takes a more analytical approach. He argues that the main weaknesses are:

- It generates strategies based on the past or present, not on the future.
- It cannot ensure the necessary rigour.
- In practice it is rarely deployed below corporate level, although the strategic positions of strategic business units (SBUs) will vary.
- The company needs to know (but will not know) the relevant performance levels of all of its competitors.
- It also needs to know (but does not know) future performance levels for competitors. It requires 'benchtracking' rather than benchmarking of competitors.
- The SWOT is rarely modified for different strategies. Something that may be a strength for one strategy will be a weakness for another.
- It is too broad.
- It is too vague.

All this suggests that SWOT is well past its sell-by date. However, Koch does suggest ways in which the technique can be made more effective:

- The boundaries and structure of the market, and anticipated changes, should be clearly defined.
- All changes in the environment capable of influencing future performance should be included.
- The corporate environment, structure, form, scope and intensity of competition should be properly examined and presented.
- There should be clear reference to anticipated changes in the environment.
- There should be clear reference to future objectives and strategies.
- There should be a SWOT for each SBU.
- There should be a SWOT for each proposed strategy.
- The SWOT should be constantly updated.

To summarise, SWOT must be made a forward-looking technique in order to be effective. A good analogy is with the due diligence process carried out when a company is contemplating a takeover. At its best, this is rigorous and ruthless subjecting all elements of the potential target to forensic analysis.

Bridgepoint, a European private equity company, assembles a team of six managers to carry out a due diligence, each of whom represents one of four viewpoints. One is the

prosecutor, who plays the role of devil's advocate. The second is the less-experienced manager, whose involvement is a key part of his or her training. The third is a senior managing director, who no longer has any hierarchical function at the company and who therefore cannot be undermined by corporate politics. The final members of the panel are managing directors who still have operational roles. The team's goal is to provide a thorough, balanced and unbiased examination of the acquisition candidate (Cullinan et al 2004). A similar approach should be taken to SWOT.

In essence, SWOT is a simple framework and a potentially valuable tool which is often badly used by managers as an alternative to undertaking the grind of detailed internal and external analysis.

## MODELS OF ORGANISATIONAL STRUCTURE

In this section we concentrate on the organisation and examine different models of organisational structure and their attendant strengths and weaknesses.

### BUREAUCRACY

Formalisation of the bureaucratic form of organisation dates back to the sociologist Max Weber's work on government departments in the 1890s (Weber 1964) and the form reached its peak in the US of the 1950s and 1960s.

Weber identified three central principles of bureaucratic organisation:

- specialisation
- hierarchy
- impersonal rationality.

#### Specialisation

Labour tasks are highly divided and workers are recruited with specific skills to carry out specific roles. Tasks are functionally separated and organised into rigid departments ('smokestack management'). Movement from department to department would be unusual. Some departments, such as production, would carry out the core tasks of the organisation, while others, such as finance or HR, would provide technical or physical support for the core activities. This was identified by Fayol as the distinction between line and staff activities (Fayol 1916/1949). Parallels with Frederick Taylor's minute definition of tasks and Henry Ford's Model T production line should be obvious (Taylor 1947).

#### Hierarchy

Along with a rigid definition of tasks came a rigid definition of power and authority. The result was a hierarchical structure, with only those higher in the organisational hierarchy able to give instructions to those lower down. Promotion up the hierarchy was possible on the basis of either merit or seniority.

#### Impersonal rationality

In a bureaucracy, power belongs to the office, not to the office-holder. Power was based on rules, which provided precedents for action. Behaviour was rational, based on logical principles, not on individual whim or prejudice. Remember that it was not long before Weber that reforms were enacted in the UK to eliminate corruption and nepotism in the civil service and the army. Impersonal rationality at least in theory made corruption and nepotism impossible. Impersonal rules also form the basis for our present-day anti-discrimination legislation – the right to be judged on your own merit, not on your sex, gender, skin colour, nationality, religion, disability or sexual orientation.

As a form of organisation, bureaucracy had many strengths:

- It provided predictable and secure career paths for those who worked in them – the civil service ‘job for life’.
- Rules provided a number of protections. They guaranteed fair treatment within the rules and avoided the arbitrary exercise of power, and they protected civil liberties, because everyone was subject to the rules.

However, there were also weaknesses:

- The rules could become so complex that the worker or the client of the organisation could feel helpless, confused and trapped. See, for example, Franz Kafka’s *The Trial* (Kafka 1964) or the labyrinthine regulations surrounding present-day tax credits.
- Minute definition and sub-division of tasks could produce an alienated workforce, particularly as the hierarchical structure did not easily permit worker empowerment.
- Rigid adherence to rules could produce a ‘jobsworth’ mentality – ‘no you can’t do X, it’s not in the rules’ (Clegg et al 2008). Perhaps most crucially, its very rigidity, which is in some ways its greatest strength, is also its greatest weakness. A pure bureaucracy can only operate successfully in a placid environment and it becomes progressively less able to cope effectively as the environment becomes more turbulent.

Despite the weaknesses of the model, there are still strong bureaucratic elements in virtually all organisational forms today.

#### DIVISIONALISATION, OR M-FORM

This is a development of the bureaucratic organisation. As the organisation becomes larger, it becomes more difficult to manage everything from the centre. As a result, some decision-making is decentralised. The divisionalised organisation sets up a number of separate product, market or geographic divisions, each responsible for operational decisions, which will usually include production, marketing and some elements of HR (although US companies are more reluctant to delegate HR to divisions). Each division will thus be a mini-bureaucracy, competing against the other divisions. Strategic decisions will be taken at headquarters, including, crucially, investment decisions and allocation of capital, and setting and monitoring of targets (Boxall and Purcell 2008).

Divisionalisation was effectively invented by Alfred Sloan at General Motors in the 1920s. Here the motive was not so much to give more autonomy to operating divisions – Chevrolet, Buick or Cadillac – but to centralise authority over subsidiaries which had previously been independent businesses (Hales 2001). The divisional structure is particularly common among multinational corporations, with divisions usually organised on a country or regional basis.

The divisional form is more flexible than the pure bureaucracy, but as noted above, there is a tendency for the divisions themselves to become highly bureaucratised, which then limits their flexibility. There is also a tendency for US or UK divisional organisations to impose mainly short-term targets on their operating divisions – in contrast to the longer-term goals favoured by the Japanese.

A more extreme form of divisionalisation operates through strategic business units (SBUs). The typical SBU is smaller than the classic division and is based on a niche product, service or unit. Specialist services, such as IT or training, will often themselves be supplied by SBUs, which are profit centres in their own right. These may not just provide services within the organisation, but compete for outside business. An extreme example of this was the internal market in the BBC under John Birt in the 1990s. Here, under a programme called Producer Choice, programme makers were given budgets which they could spend either on in-house facilities or on external contractors. If the in-house facilities could not attract enough work, they were closed (Hales 2001). The intention was

to increase efficiency, but the internal market process was so expensive that any benefits were more than cancelled out. Producer Choice was abandoned by the next director-general of the BBC, Greg Dyke.



## GENERAL MOTORS, DIVISIONALISATION AND CHAPTER 11

### CASE STUDY 1.5

On 1 June 2009, General Motors filed for Chapter 11 bankruptcy, the third biggest bankruptcy ever, after Lehman Brothers and WorldCom, and the biggest industrial bankruptcy. A month before, the third-biggest US carmaker, Chrysler, had also gone into bankruptcy (Clark 2009a). Was GM's failure, which followed losses of \$81 billion over the previous four years, purely the result of the credit crunch, or were more deep-seated factors at play, and did they have anything to do with the way the company was structured?

In the 1950s, Charles Wilson, the then head of GM, declared: 'For years I thought that what was good for our country was good for General Motors, and vice versa' (Noyes 2009), while the management guru Peter Drucker said that it was General Motors who 'won the war for America' (Chakraborty 2009). At its peak in 1953, GM's share of the US market was 54 per cent – now it is 19 per cent and falling, and GM has been overtaken by Toyota as the world's biggest carmaker.

General Motors was founded in 1908 in Flint, Michigan, when William Durant acquired the Buick Motor Company, still one of the core GM brands. By 1909, he had also bought Oldsmobile and Cadillac, as well as four other brands. The pattern for GM's strategy had already been set – growth through acquisition, a stark contrast to Henry Ford's strategy of organic growth. In the 1920s, the company moved into Europe, acquiring Vauxhall in 1923 and Opel in 1929 (Wearden 2009).

By the late 1920s, GM was under the control of the legendary management pioneer Alfred Sloan, much admired by

Peter Drucker, who pulled together the sprawling GM empire and divisionalised its organisational structure. Each division targeted a social market niche – Chevrolet the entry-level blue-collar worker, Pontiac the sporty market, Buick established professionals and Cadillac top professionals. Each division introduced a new model every year, with the emphasis on styling rather than engineering (Desjardins 2007).

The strategy was successful. Ford, which struck with its organic growth and its centralised bureaucratic organisational structure, was soon overtaken, and by 1954 GM had made its 50 millionth car. However, life became more difficult in the 1960s, as competition from Europe increased, while after 1973, GM, and the whole American car industry, was hit by the aftermath of the oil crisis. Suddenly, big, over-styled US gas guzzlers were yesterday's cars and the future lay with smaller, more economical and better-quality Japanese models. GM tried hard to introduce Japanese production methods and culture, but the fit with the traditional GM culture was too hard to achieve.

By the 1980s GM was making losses. Market share shrank and the CEO at the time, Roger Smith, made tens of thousands of redundancies. Smith was recently ranked 13th in a list of worst American CEOs of all time. Redundancies and loss of market share continued through the 1990s and 2000s. GM did try to escape from the spiral of decline. It formed a joint venture with Toyota in the 1980s, called NUMMI, in order to learn more about

Japanese techniques, and it simplified its organisational structure, concentrating its car models into two divisions, Midsize and Luxury Car Group, and Small Car Group (Grant 2008, p188) but it was already too late. By 2005, GM was making US losses of \$1 billion and was crippled by falling market share, an unpopular product mix, rising raw material prices and the deadweight cost of US health insurance, which amounted to \$1,500 per car (Worthington and Britton 2006). The collapse in 2009 had become inevitable. The last symbolic touch came in August 2009, when Toyota announced that the NUMMI plant was to close, the first plant closure in Toyota's history, and the end of its 25-year partnership with GM (McCurry 2009).

So what went wrong? Why did GM go bust, while its nearest rivals, Ford and Toyota, survived relatively unscathed?

Ford's bureaucratic and centralised organisational culture ensured that it could share parts between models, and Ford was also famous, or notorious, for its savage cost controls. Toyota was probably the most efficient of the Japanese car companies, brilliant at both lean production and quality management, and was famous for its flexibility and its innovation. GM had the advantages of neither. The duplication of facilities through its divisional structure cost money, and it did not exploit cost-saving opportunities to the same extent as its rivals. Chrysler suffered from the same disadvantages and was also crippled by its failed merger with Daimler.

Compared with its main rivals, GM was too US-centric. The UN agency UNCTAD produces a Transnationality Index. This

measures the extent of globalisation of a company through three ratios – foreign sales as a percentage of total sales, foreign assets as a percentage of total assets, and foreign employment as a percentage of total employment. Aggregating these three figures gives the firm's Transnationality Index. In 2002, for Ford this was 47.7 per cent, for Toyota 45.7 per cent, but for GM only 27.9 per cent (Worthington and Britton 2006, p396). GM was thus much more dependent on the US market, while its rivals could spread their risks worldwide.

GM's period in bankruptcy was short. Unlike UK or European bankruptcy, US Chapter 11 bankruptcy is more of a technical device. It gives a corporation time to recover while shielding it from its creditors. A deal was quickly reached and GM's bankruptcy lasted only 40 days. The new GM was radically different from the old one. In future it would focus on only four brands – Chevrolet, Cadillac, Buick and GMC. Its blue-collar workforce would fall from 113,000 in 2006 to 38,000 in 2011. The number of US plants would fall from 47 to 31 and top management would be cut by 35 per cent. More radical still, the US Government now owns 60.8 per cent of GM, the Canadian Government 11.7 per cent, and a union-controlled pension fund 17.5 per cent. Creditors of the old company get 10 per cent and the old shareholders get nothing (Clark 2009b).

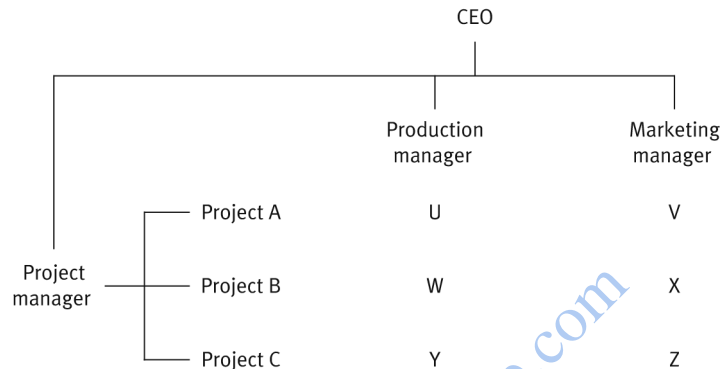
The rescue was successful. In 2010 the US Treasury sold 28 per cent of the company at a profit and, by May 2012, the company had posted nine consecutive quarters of profit (Higgins 2012).

## THE MATRIX ORGANISATION

The matrix model of organisation was first developed in the US aerospace industry in the 1960s. Here the organisation is involved in a series of short- or medium-term projects,

each of which has a finite life. Each project will require the services of a number of functional specialists, drawn from functional departments. Who is going to control these functional specialists – their departmental manager or the project manager? The solution offered in a matrix organisation is that he or she will be answerable to both the departmental and the project manager (Figure 1.10).

Figure 1.10 A matrix organisational structure



Production specialist U will report to his functional manager, the production manager, but while he is working on project A, he will be answerable to the project manager in charge of project A. He will also be working on project A alongside his colleague from marketing V.

The matrix structure has a number of advantages:

- Communication within the organisation is improved and as a result decisions can be made more speedily and effectively.
- Use of human and capital resources becomes more flexible.
- The use of project teams increases motivation, job satisfaction and personal development.

However, there can also be disadvantages:

- As each individual is answerable to at least two bosses, there can be problems of loyalty and feelings of insecurity.
- Power struggles are likely over decision-making and the allocation of resources between the functional and project managers.
- Although communication and decision-making should be improved, decisions may be more difficult to make as decision-making authority is diffused.
- The structure is particularly threatening to functional managers, who can see their power base eroded.

#### THE NETWORK ORGANISATION, OR N-FORM

The network organisation is a less formal version of the matrix organisation. The aim is to build up networks and connections between different parts of the organisation in order to break down rigid departmental smokestacks and to ensure the faster diffusion of ideas throughout the organisation.

This can be done in several ways. Unilever, for example, works hard to build up lateral relationships between managers in different divisions. Career development is carefully planned on a multiple spiral, with managers progressing between functions, divisions and countries (Boxall and Purcell 2008, p264).

Another approach is to use network managers, with several roles:

- boundary-spanners between levels and functions
- initiators of networks
- co-ordinators of information transfer
- conveyors of corporate vision downwards and advocates of decentralised initiatives upwards (Child 2005, p255).

A third approach is to use communities of practice. These are informal networks of people with common interests within an organisation (and often pulling in people from outside the organisation). Often run on the Internet or a company intranet, they enable quick informal communication of information and knowledge. All students know that you learn at least as much from your fellow students as from formal tuition, and communities of practice operate on the same principle of social learning (Clegg et al 2008). CIPD professional communities (a form of community of practice) had 88,480 participants on 20 August 2009, taking part in 12,310 discussions ([www.cipd.co.uk/communities](http://www.cipd.co.uk/communities), accessed on 20 August 2009).

One key element in ensuring the success of any N-form organisation is culture. As Whittington and Mayer (2000) said, 'N-form works best with Eastern appreciation of the tacit, the embedded and the ambiguous, rather than the explicit, tightly specified knowledge systems of the West.'

Networks can operate outside as well as inside the organisation. Hansen and von Oetinger (2001) identified the concept of the T-shaped manager, with the vertical part of the T representing the manager's role within the organisation and the horizontal part of the T the role of networking outside the organisation.

The key resource in an N-form organisation is knowledge. Bettis (1991) argues that with the development of N-form, the M-form organisation is now an 'organisational fossil'. In the M-form, Chandler argued that 'structure follows strategy'. In the N-form, structure *is* strategy (Purcell 2005).

#### VIRTUAL ORGANISATIONS

In a virtual organisation, physical assets – buildings, machinery, etc – are replaced by computer networks. Warner and Witzel (2003, ch1) identify six characteristics of virtual organisations:

- *Lack of physical structure* – they have fewer physical assets and ultimately might exist solely in cyberspace.
- *Reliance on communications technology* – virtual organisations use communication networks supported by the Internet.
- *Mobile work* – members of teams no longer have to be in physical contact. They can work anywhere and communicate through ICT.
- *Hybrid forms* – some virtual organisations are brought together for short-term projects, such as producing a film or a book. Others are longer term, such as a virtual supply chain.
- *Boundaryless and inclusive* – virtual organisations often closely involve suppliers (through partnership sourcing) or customers (through customer relationship management). The fashion accessories company Topsy Tail, for example, had revenues of \$80 million in 1998, but only three employees. It outsources everything and never touches its product (Child 2005).
- *Flexible and responsive*.

Perhaps the best example of a virtual organisation is Dell Computer Corporation. The key to Dell's business model is its direct sales strategy, which relies on demand pull. A computer is only produced against a firm customer order. The company therefore has no

finished goods inventory or warehouses. It operates with half the staff and one-tenth the inventory of its competitors. On average it carries six days' work in progress stock, all held against firm orders. In 2000, 50 per cent of orders were received online (Gillespie 2000). The ordering system permits the customer to write their own specification (mass customisation). In theory, each computer sold is unique. When it receives an order, it sends electronic orders for components to its suppliers worldwide. These components are then assembled in a Dell factory and despatched direct to the customer. In some cases the process is totally virtual – for example, when Dell receives an order for a computer monitor, it is despatched direct to the customer from a supplier such as Sony (Child 2005).

### STRATEGIC ALLIANCES

Strategic alliances are any medium- to long-term co-operative relationships between firms which involve joint working. They can variously be called alliances, partnerships or joint ventures. They have become increasingly common. Between 1996 and 2001, US companies formed 57,000 alliances (Dyer et al 2004). The average US corporation manages more than 30 alliances, while many have several hundred. By 2001, they already accounted for up to 15 per cent of the market value of the typical US company. However, it has been estimated that 60 per cent have been outright failures (Parkhe 2001).

Alliances can take many legal and contractual forms. These are illustrated and discussed in Child (2005, pp223–5). Contractor and Lorange (1998) identify six main objectives for alliances:

- reduction of risk
- achievement of economies of scale
- technology exchange
- countering competition
- overcoming government trade or investment barriers
- vertical quasi-integration advantages – linking the complementary contributions of partners in a value chain.

Dussauge and Garrette (1999) identified six different types, three between non-competing firms and three between competing firms.

#### Non-competing

- International expansion joint ventures – until the late 1990s, Western firms seeking to invest in China could only do so through a joint venture with a local firm.
- Vertical partnerships, between firms at different stages in the same value chain – for example Intel and Hewlett-Packard set up a joint venture to develop a new microprocessor.
- Cross-industry agreements – American Airlines and SNCF (French Railways) set up a joint venture to develop a computerised ticketing system.

#### Competing

- Shared supply alliances – these are common in the car industry.
- Quasi-concentration alliances, designed to counter competition – an example is Airbus Industrie, formed between competing European aircraft manufacturers to counter the threat from Boeing.
- Complementary alliances, designed to reduce risk and achieve synergy – these are common in the pharmaceutical industry. For example, in 1996, Pfizer used its superior marketing expertise to collaborate in the marketing of Lipitor, a cholesterol-reducing drug developed by a rival company, Warner-Lambert. By 1999, Lipitor had achieved sales of \$3 billion a year (Dyer et al 2004).

Why do so many alliances fail? Many reasons have been put forward:

- *Communication problems* – a US–UK joint venture had to appear before a crucial British government hearing. The US firm asked the UK firm to ‘table’ several key points at the meeting. To the horror of the Americans, the British firm brought up these very issues at the hearing, leading to disaster. The Americans had forgotten that ‘to table’ in UK English means to ‘place on the table’, whereas in US English it means ‘hide under the table’.
- *Culture clashes* – in the 1990s, Siemens, Toshiba and IBM were working together to develop a new memory chip. Siemens representatives were horrified when the Toshiba scientists appeared to go to sleep in meetings – a common practice among Japanese when the discussion does not directly concern them. The Japanese found it difficult to work in mixed-nationality groups speaking English. The Americans felt the Germans planned too much and the Japanese would not take decisions (Parkhe 2001).
- *Diverging strategic directions* – alliances which might have made perfect strategic sense at the time may diverge over time.
- *Failure to protect strategic knowledge* – in the early 1980s, Macintosh used Microsoft to develop software applications for the Apple Mac. As a result, Microsoft acquired crucial knowledge about Apple’s mouse-based graphical user interface, which it then used to develop the Windows operating system. Eventually Apple brought an unsuccessful lawsuit against Microsoft to try to protect its intellectual property (Norman 2001).
- *Uneven benefits* – in 2001, Coca-Cola and Procter & Gamble formed a \$4 billion joint venture that would control more than 40 brands contributed by the parent companies. However, the markets felt that P&G would get more out of the alliance than Coke. P&G’s share price immediately rose 2 per cent, while Coca-Cola’s fell 6 per cent. Predictably, the alliance lasted only six months (Dyer et al 2004). The same thing may well happen with the Internet search technology joint venture announced by Microsoft and Yahoo in July 2009, intended as a defensive alliance against the market leader, Google. Here the share price disparity has been even more marked. Microsoft shares rose 2 per cent, while Yahoo’s fell 15 per cent. Both sides moved fast to defend the alliance. Steve Ballmer, CEO of Microsoft, described the Yahoo share price fall as ‘sort of unbelievable’, while Tim Morse, Yahoo’s chief finance officer, said, ‘It’s a perfect fit for our strategy’ (Waters and Menn 2009). The market’s scepticism seems to have been justified. In the third quarter of 2011, Yahoo reported a fall in revenue of 5 per cent and attributed this to the search alliance with Microsoft (Crum 2011).
- *Exit problems* – Daimler Benz had a long-standing alliance with ABB called Adtranz. The alliance had been losing money and after Daimler-Benz merged with Chrysler, an ex-Chrysler executive suggested putting it into liquidation. The Daimler reaction was horror – ‘You don’t understand. This is Europe. Bankruptcy is not good over here.’ Eventually ABB was bought out. In another example, Suzuki wanted to make redundancies at a joint venture in Spain. The result was riots outside the Japanese embassy in Madrid (Inkpen and Ross 2001).



## REFLECTIVE ACTIVITY 1.4

### Successful and unsuccessful partnerships – Galanz and Swissair

#### Galanz

Guangdong Galanz is the global leader in microwave manufacture, producing over 18 million units in 2004, 40 per cent of the global

market. It is one of the largest home appliance manufacturers in China, employing 20,000 people and with 2004 revenues exceeding \$1 billion.

This is a far cry from the first incarnation of the company, as the GuizhouDown Product Factory,

a township enterprise set up by Quingde Leung in 1978, when the Chinese Government set up its first Special Enterprise Zones in Guangdong in southern China. The company washed and processed goose feathers for clothing companies such as Yves St Laurent. By 1992, the company had sales of \$19 million and ranked in the top 100 village and township enterprises in China.

However, Leung was worried that intense competition would kill the textiles business and he took the momentous decision to diversify into microwaves, at that time a luxury item in China. He changed the name of the company to the Galanz Group of Guangdong, recruited experts from a radio factory in Shanghai and licensed microwave technology from Toshiba. In 1993, the company produced a trial run of 10,000 microwaves and persuaded the Shanghai No 1 Department Store to stock them.

In 1994 Chinese government policy changed and township enterprises were required to sell two-thirds of each enterprise to management. The result was a broad base of middle managers with a stake in the company's success.

Galanz was faced with fierce competition from the market leader SMC. However, ironically, SMC was crippled by its partnership agreement with the huge American white goods manufacturer Whirlpool. Whirlpool put in its own management team and required that all major decisions were cleared first through regional headquarters in Hong Kong and ultimately through corporate headquarters in Michigan. By 1995 Galanz had a 25 per cent share of the Chinese market, passing SMC, and by 1998 this had grown to half the market. Clearly further growth in the domestic market would be difficult.

In 1997, one result of the Asian financial crisis was that South Korean microwave manufacturers, including Samsung and LG, were accused of dumping microwaves on the European market. European manufacturers felt that they were unable to compete.

In a novel deal, Galanz offered to make their microwaves in China for half the European cost. European manufacturers shipped their

whole production lines to Guangdong, where they could take advantage of Galanz's lower labour costs and efficient supply chain. The microwaves would then be exported back to Europe to be sold under the European companies' brand names. Galanz also secured permission from its partners to use their production facilities to produce Galanz-branded goods in China. Galanz signed up 200 European partners and its microwave production grew from 1 million in 1996 to 12 million in 2001.

The deal was a win-win. The European partners obtained product at a much lower cost than they could have produced themselves, while Galanz was able to expand and become a global presence without having to make heavy capital investments itself.

Source: Sull (2007)

#### *Swissair*

In the 1990s, Swissair was one of the most successful and respected airlines in the world, noted for its high quality, which permitted it to charge high prices. In 1998 it made a profit of SFr400million (around £200 million). Yet by 2000, the company was losing SFr 2.9 billion, and in October 2001 it went into receivership.

What went wrong? The immediate cause of the collapse was the world crisis in the airline industry following the terrorist attacks on 11 September 2001, but a more fundamental cause was Swissair's failed alliance strategy.

Until the late 1980s, the European airline industry was dominated by national carriers with effective monopolies in their home markets. This kept competition low and prices and profits high. However, the first steps towards liberalisation of the world airline industry came in 1988. This represented a threat to Swissair, with its small home market. In 1993, talks (codenamed Alcazar) were opened between Swissair, SAS (Scandinavian Airlines), KLM (the Netherlands) and Austrian Airlines. A new company was proposed, with Swissair, SAS and KLM each holding 30 per cent, and Austrian 10 per cent. However, Swiss public opinion was hostile to the idea of

Swissair losing its name and the talks broke down.

In 1994, Swissair hired McKinsey to develop a new strategy. Three options were put forward:

- Go it alone. Given the small size of the Swiss home market, this was not seen as viable.
- Develop a new business alliance (in effect a repeat of the Alcazar strategy). This was seen as high risk, but the most politically acceptable.
- Ally with one of the large European airlines (BA, Lufthansa or Air France). This was seen as the safest option, but politically unacceptable, as Swissair would inevitably be a very junior partner.

As a first step, in 1994 Swissair acquired a 49.5 per cent stake in the Belgian airline Sabena, which had only made a profit once in its 75-year history. Meanwhile, the world aviation industry was changing rapidly. In 1996, BA, American Airlines, Cathay Pacific and Qantas formed a new global alliance called Oneworld. Two other alliances followed – Skyteam, led by Air France, and Star, including United Airlines, Lufthansa and SAS.

Swissair decided to go for a strategy of forming a fourth alliance. It acquired minority stakes in the Polish airline LOT, the French company Air Littoral, the Italian airlines Air Europe and

Volare, and South African Airways (SAA), in addition to its existing holding in Sabena and Austrian Airlines. None of the partners, with the possible exception of SAA, was known as a strong airline.

Swissair already had long-standing alliance relationships with Delta and Singapore Airlines, both strong companies. However, Delta decided to join Skyteam in 1999, while Singapore Airlines joined Star. In 2000, an aggressive attempt to increase Swissair's stake in Austria led to that airline also defecting to Star. Meanwhile, the European market was increasingly being penetrated by the low-cost airlines Ryanair and easyJet. The latter set up a hub in Geneva, directly threatening Swissair on its home ground.

By mid-July 2001, Swissair had debts of SFr7.8 billion, six times the value of its equity, and its share price was a fifth of its peak in 1998. Given this weakness, 9/11 was merely the last straw. Both Swissair and its partner Sabena were doomed.

Source: Ruigrok (2004)

#### Question

Why do you think that Galanz was successful in its alliances and Swissair unsuccessful?



### CASE STUDY 1.6

#### PARTNERSHIP FAILURE – THE HATFIELD TRAIN CRASH

In the mid-1990s, Britain's rail system was privatised. A single company, British Rail, was replaced with a network of partnerships, as the rail system was fragmented. Railtrack was made responsible for operating, developing and maintaining the physical track network, but did not operate trains. This was done by train operating companies (TOCs), which obtained medium-term contracts from the Government to operate particular lines. They then paid access charges to Railtrack for use of the track. Tensions inevitably built up between Railtrack and the operating companies. Railtrack

needed access to the track to carry out maintenance, but this prevented the operating companies from running trains. There were several high-profile rows over the West Coast Main Line, when Christmas maintenance over-ran, causing vociferous complaints from the TOC, Richard Branson's Virgin.

In addition Railtrack took the decision not to carry out its own maintenance, as British Rail had. Instead, maintenance was outsourced to seven main contractors, who in turn outsourced particular aspects to 2,000 sub-contractors. This meant that

Railtrack was dependent on sub-contractors over whom they had no control. Maintenance policy was also changed from planned replacement to replacement when required.

On 17 October 2000, a serious accident happened on the East Coast Main Line at Hatfield, when a rail broke under the wheels of a GNER express from London to Leeds. Four people died and 70 were injured.

Any fatal rail crash is a tragedy, but subsequent investigations proved that the accident was a disaster waiting to happen and that it was directly attributable to the breakdown in the relationships between the various players involved in the post-privatisation railway system.

In the winter of 1999, a routine inspection by Balfour Beatty, the main contractor, spotted cracks in a rail near Hatfield and recommended that the rail should be ground to get rid of the cracks. This would be carried out by a sub-contractor, Serco. Before this could be done, Balfour Beatty recommended that the rail should be replaced – by another sub-contractor, Jarvis. In March 2000, Railtrack agreed that the rail should be replaced as a 'priority #1', which meant that the work should be completed within a month.

The replacement was booked to be done on 19 March, but before this could be done, replacement rails had to be delivered to the site. However, the train delivering the new rails – owned by Railtrack and manned by Jarvis – was late, and the rails could not be delivered. The replacement slot was

lost. After three more attempts, the rails were finally delivered at the end of April 2000.

Four months then passed while Railtrack attempted to negotiate a rail replacement date with Jarvis (which also had to be acceptable to the TOC, GNER). Eventually a date was set for the last week of November – a year after the original problem was spotted. Meanwhile, Railtrack was still worried about the deteriorating state of the rail and ordered it to be reground by Serco. This was done in September, though some experts think that the rail was already so damaged that regrounding may have made the problem worse.

Before the rails could be replaced, the Hatfield accident happened. As a result of the accident, crippling speed restrictions were placed on the whole railway network – a classic example of the stable door being shut after the horse has bolted. As an indirect result of the crash, Railtrack was taken into administration by the Government in October 2001 and replaced by the not-for-profit organisation Network Rail, which speedily brought its major engineering maintenance contracts back in-house.

The lessons for partnerships – the key need to agree on priorities (in this case, that passenger safety is paramount) and the crucial role of communication. It may also be significant that the partnerships in the rail industry were in effect imposed by the Government as part of rail privatisation, rather than being voluntary.

Sources: Child (2005), Jowit (2001)

## STRUCTURAL CHOICE

Goold and Campbell (2002) propose nine design tests against which choice of structure can be evaluated:

- 1 The market-advantage test – if co-ordination between two steps in a production process is important to market advantage, they should be placed in the same structural unit.

- 2 The parenting-advantage test – if the centre aims to promote synergy, integration specialisms should be placed at the centre.
- 3 The people test – the structure must fit the skills of the people available.
- 4 The feasibility test – the structure must fit legal, stakeholder and other constraints.
- 5 The specialised culture test – a structure scores poorly if it breaks up important specialist cultures.
- 6 The difficult links test – does the structure set up links between parts of the organisation that are important but bound to be strained?
- 7 The redundant hierarchy test – too many layers of management cause undue blockages and expense.
- 8 The accountability test – there should be clear lines of accountability, often a problem with matrix organisations.
- 9 The flexibility test – is the structure flexible enough to cope with future change?

#### DOES STRUCTURE FOLLOW STRATEGY?

Alfred Chandler, one of the pioneers of strategic management, argued strongly that structure follows strategy. He quotes the example of Du Pont, which at the end of the First World War undertook a diversification strategy that initially was unsuccessful, mainly because the company kept its old functional structure, which was unable to cope with increased diversity. Once Du Pont switched to a divisional structure, its strategy thrived.

Hall and Saias (1980) argue that the causality can go the other way – strategy can follow structure. A decentralised multidivisional structure can quickly take up new diversification strategies, but finds it much more difficult to follow a strategy which is dependent on knowledge-sharing.

Amburgey and Dacin (1994) found that structure followed strategy, but only most of the time. Finally, Mintzberg (1998) concluded that ‘structure follows strategy as the left foot follows the right’, ie, that the two are linked and neither consistently leads the other.



#### REFLECTIVE ACTIVITY 1.5

##### Henry Mintzberg and organisational structure

Henry Mintzberg has put forward a number of hypotheses about how situational factors affect the structure and functioning of organisations:

- The older the organisation, the more formalised its behaviour.
- The larger the organisation, the more formalised its behaviour.
- The larger the organisation, the more elaborate its structure.
- The more dynamic an organisation’s environment, the more organic its structure.
- The more complex an organisation’s environment, the more centralised its structure.

- The more diversified an organisation’s markets, the greater the propensity to split into market-based units or divisions.
- Extreme hostility in the environment drives any organisation to centralise its structure temporarily.

##### Question

- 1 From your knowledge of your own organisation, or any other organisations with which you are familiar, how far do you think these hypotheses are valid?

Source: Mintzberg (1998)

## HR OUTSOURCING

Case Study 1.7 illustrates how outsourcing can be a key element of a partnership strategy. One popular candidate for outsourcing is HR. HR outsourcing can cover a wide spectrum of activities, from a small business using a local personnel freelancer to handle its HR on a part-time basis to a joint venture formed between a multinational company and an HR services company to handle all of the former's HR function. Here we are more concerned with the latter end of the spectrum, where control over significant elements of the outsourcer's HR function is outsourced to a partner organisation.

A 2009 CIPD survey found that 29 per cent of organisations sampled were using HR outsourcing, with 64 per cent increasing their use of outsourcing in the previous five years, and only 11 per cent reducing it (CIPD 2009). The top drivers for HR outsourcing were access to skills and knowledge not available within the organisation (71 per cent), improving quality (64 per cent) and cost reduction (61 per cent). Outsourcers seem to have achieved these objectives. Ninety-one per cent claimed to have accessed knowledge and skills, 83 per cent to have improved quality and 90 per cent to have reduced costs.

The most common functions to have been outsourced were legal, payroll, pensions, training and recruitment. Least likely to have been outsourced were resource planning, appraisal, strategy and policy. There seems to be a clear trend to outsource operational parts of the HR function and to keep more strategic elements in-house.

Also interesting are reasons given for not using HR outsourcing, even when the organisation involved outsources other significant functions. The three most commonly given reasons for not outsourcing HR were:

- effective, well-resourced HR team within the organisation (52 per cent)
- remain unconvinced of the benefits of HR outsourcing (35 per cent)
- already use effective shared service model (24 per cent).

Shared service centres are a common alternative to HR outsourcing, which will be discussed below.

In practice, HR outsourcing does not always go smoothly. BP, for example, was the first major company to sign a large HR outsourcing deal, with Exult in 1998. Exult was taken over by Hewitt in 2004, and the deal started to run into trouble. By 2006, Hewitt was losing \$166 million, citing problems in HR outsourcing, while BP took back expatriate administration in-house and also gave two years' notice that it intended to end the contract with Hewitt. However, in February 2009, it signed a new contract, extending the scope of the contract worldwide (rather than just the UK and US), but taking most aspects of recruitment back in-house (Pickard 2009).

Another of the major HR outsourcing deals was BT's with Accenture. Initially, in 2000, the two companies set up a joint venture to run BP's HR function, but Accenture then bought out BT's share. Again, there were problems with the contract, mainly put down to a lack of effective communication. Some BT line managers were not even aware that HR had been outsourced and were surprised to receive bills from Accenture when they requested extra services. After extensive negotiations, the outsourcing contract was renewed for ten years in 2005, at a cost of £ 306 million (Pickard 2004; hrnguide 2005).

In 2006, Cable & Wireless, another of Accenture's clients, announced that it was not renewing its five-year contract, originally placed with the BT–Accenture joint venture. The main reason given was that Cable & Wireless had drastically downsized following the dot-com crash in 2001, from 57,000 staff to 14,000, and as a result could more easily do its own HR in-house. However, Ian Muir, the international HR director, admitted that some valuable tacit knowledge had been lost through outsourcing (Pickard 2006).

An alternative to HR outsourcing is a shared service centre. This involves the use of a call centre to give HR advice to line managers and, often, individual employees (Marchington and Wilkinson 2008). Three models are common:

- an in-house function
- an in-house function which also offers services on the open market to other organisations seeking to outsource their HR
- a specialist unit offering HR services for a number of employers in a network – this model is common among schools and in the NHS; an NHS example is discussed by Marchington and Wilkinson (2008, pp197–8).



## REFLECTIVE ACTIVITY 1.6

### Managing an HR outsourcing contract

You are responsible for managing an HR outsourcing contract in your organisation. What

steps do you need to take to ensure that this contract is managed effectively?



## REFLECTIVE ACTIVITY 1.7

### Semco

Semco is a Brazilian manufacturing company, based in Sao Paulo and owned by Ricardo Semler. It is run like no other company. Its basic rule is that there are no rules:

- Workers make decisions.
- Management sets its own salaries and bonuses.
- Everyone has access to the company books.
- Shop floor workers set their own productivity targets and work flexi-time.
- Workers negotiate with management the level of profit-sharing and then decide among themselves who gets it.
- Before anyone is hired or promoted to a management position, they are interviewed, evaluated and approved by all the people who will work for them.
- Every six months, Semco managers are appraised by all their subordinates and the results are published for all to see.
- Workers have the option of taking 75 per cent of their basic pay and receiving a supplement taking it up to 125 per cent, but only if the company has a good year.
- Workers are encouraged to set up their own satellite companies to supply Semco.

- When a job opening occurs, a Semco employee who meets 70 per cent of its requirements is given preference over an outsider.
- Semco doesn't have an organisation chart. Only the respect of the led creates a leader.
- Ricardo Semler takes two months' holiday a year, leaves no contact number and does not himself contact the company. When he had a serious car accident in 2005, spending months in intensive care with a broken neck, the company maintained its 25 per cent-plus growth rate and ran seamlessly without him.
- The guiding rule on everything is common sense.

Semco is one of Latin America's fastest-growing companies, acknowledged to be the best in Brazil to work for and has a waiting list of thousands of applicants waiting to join it.

### Question

- 1 Would you feel comfortable working for Semco?

Sources: Semler (1993), Fisher (2005).

## STAKEHOLDERS

Stakeholders are ‘those individuals or groups who depend on the organisation to fulfil their own goals and on whom, in turn, the organisation depends’ (Johnson et al 2011). Stakeholders can be inside the organisation, such as shareholders or employees, or outside, such as customers or suppliers. In some cases, the relationship is legal, as with statutory regulatory bodies or lenders, or moral, as with the local community, or a mixture of the two, as with employees (to meet the requirements of the contract of employment and to respect legal employment rights (legal), and to fulfil the expectations of the psychological contract (moral)). In the case of the public sector, there are no shareholders, but a wide range of client stakeholders.

Note that the CIPD has a narrower definition of stakeholder. It includes only those parties who have a legal or financial relationship with the organisation. All others are defined as ‘other interested parties’ – the CIPD specifically mentions the media and the local community (CIPD 2003, pp6, 30). However, this narrow definition ignores the moral and ethical dimensions of stakeholder theory. For example, a local community may have no legal claim on a company that routinely but legally pollutes its environment, but few would deny its moral claim on the company.

Stakeholder theory states that organisations have responsibilities to a wide range of stakeholders. This can be contrasted with the stockholder theory of corporate governance, which states that the organisation’s only responsibility is to its shareholders (stockholders in America). Stockholder theory has been defended from several different angles. One is the agency approach associated with Milton Friedman. He argues that managers are legally the agents of the organisation’s owners (its shareholders), and under agency law are thus legally obliged to serve only their interests, as long as they keep within the law. Another is the logical argument put forward by John Argenti, who argues that it is logically impossible for an organisation to pursue multiple objectives – that is, it cannot simultaneously serve the interests of a range of stakeholders. In times of prosperity, the organisation might be able to deal out rewards in such a way as to keep all the stakeholders quiet, but in hard times, shareholders will take priority, if only because in the last resort, shareholders can sack the board of directors (Argenti 1993).



OXFORD BUS

CASE STUDY 1.7

The Oxford Bus Company, a subsidiary of the transport group Go-Ahead, has a ‘stakeholder board’. This consists of representatives of customers, a local pressure group representative, nominated by the National Federation of Bus Users, and the transport strategy officer of a local NHS trust, representing large employers, as well as company employees and managers. The board meets quarterly to discuss

company performance and other matters of concern. Although purely advisory, it has been involved in vehicle design, ticketing and customer care issues. In future the company intends that one meeting a year will be held as an open meeting, to which members of the public will be invited.

Source: Weldon (2003)

Not all stakeholders are equal. Some are much more important to the organisation than others. The relative importance of stakeholders can be analysed using stakeholder mapping (Johnson and Scholes 1997, pp197–203). Stakeholder mapping classifies

stakeholders by the power which they have over the organisation and the degree of interest which they have in it. These can be plotted on a two-by-two matrix (Figure 1.11).

Figure 1.11 Stakeholder matrix

		Level of interest	
		Low	High
Power	Low	A Don't bother	B Inform
	High	C Satisfy	D Crucial

Source: adapted from Johnson and Scholes (1997)

Stakeholders of type A can effectively be ignored. They are not interested in the organisation and have little power to affect it anyway. Conversely, type D are critical and their interests must be taken into account at all times. Type B are interested in the organisation, but do not have the power to affect it significantly. They need to be kept informed, particularly as they may in turn be able to influence other stakeholders. Type C are passive stakeholders. They have great potential to influence the organisation, but at present little interest in doing so. They need to be kept quiet, so that they do not suddenly take an adverse interest in the organisation and shift into type D.

The implication is that stakeholders have to be actively managed. They can be crucial in mobilising support for the organisation or, if things go badly, they can cripple it.

#### CONNECTIONS BETWEEN THE ENVIRONMENT, STRATEGY AND ORGANISATIONAL DESIGN

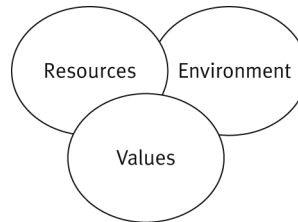
In this section, we will examine Thompson's model of E-V-R congruence.

##### E-V-R CONGRUENCE

Thompson (2005) developed the concept of E-V-R congruence as a measure of how well an organisation is attuned to its environment. He develops the idea of SWOT analysis to incorporate values. In his model E represents the environment (the opportunities and threats part of a SWOT analysis), while R represents resources and V values, both of which are traditionally subsumed within the strengths and weaknesses sections of a SWOT. To Thompson, resources would be physical, while values represent the human strengths and weaknesses of the organisation, specifically its leadership and culture, as well as the underlying values which it holds.

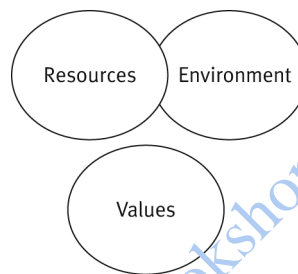
More important than the mere idea of E-V-R is the concept of congruence. An organisation will achieve congruence when its environment, resources and values are mutually reinforcing. Its strategic position will be strong. A congruent organisation is illustrated in Figure 1.12.

Figure 1.12 The congruent organisation



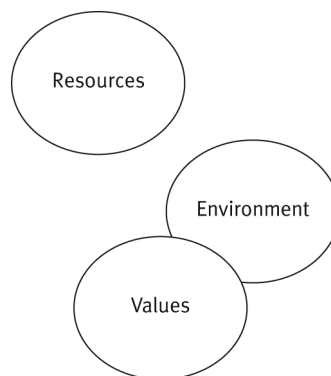
Thompson then identifies types of organisation where the three elements are not congruent (Figure 1.13).

Figure 1.13 The unconsciously competent organisation



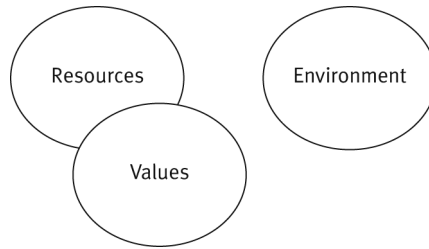
Here the values of the organisation are out of line with its environment and resources, but because environment and resources are still aligned, the organisation still works, at least on a superficial level. This type of organisation is likely to be complacent and runs the risk of serious trouble if its environment and resources start to drift out of line. The strategic imperative here is for a change in leadership style and a redefinition of values and culture.

Figure 1.14 The consciously incompetent organisation



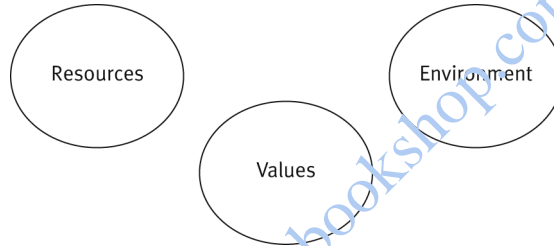
In the consciously incompetent organisation (Figure 1.14), the organisation is aware that there is a resource mismatch but tends to see it as a series of short-term problems. The organisation will tend to be reactive and to fight fires while being unable to take a long-term strategic view of resources.

Figure 1.15 Strategic drift



With strategic drift (Figure 1.15), the organisation has lost touch with its environment, perhaps because of complacency, perhaps because of failure to scan the environment effectively. It must either find a way to change its environment or to bring its resources and values back in line with changes in the environment.

Figure 1.16 The lost organisation



Unless the lost organisation (Figure 1.16) takes swift and drastic action to re-achieve congruence, in the long run it is doomed.



## REFLECTIVE ACTIVITY 1.8

### The National Trust and E-V-R

The National Trust has as its core aim to 'look after special places, for ever, for everyone'. It is the largest private landowner in Britain, owning 640,000 acres, mostly rented out to tenants on commercial terms. It also owns 600 miles of Britain's coastlines, guaranteeing free public access to the coast, and around 300 houses and gardens, which are open free to members, and at a small charge to others. In 2005–06, there were 13.7 million visits to NT properties, of which 2.9 million, or around 20 per cent, were paying visits, while the rest were visits by members (National Trust 2006).

Clearly the National Trust estate is a hugely valuable asset, which on an open market valuation would be worth billions of pounds.

However, remember the words 'for ever' in the core purpose. The Trust is legally prohibited from selling property and the result is that in many ways the estate must be seen as a liability rather than an asset, which must be maintained at ever-growing expense (Legg 2005).

More conventional physical resources include National Trust gift shops at most sites and also extensive catering facilities (which earned £25 million in 2005–06, twice as much as admissions).

A key resource of the Trust is its membership. This has increased from 152,000 in 1971 to 3.4 million in 2006. Over the same period income has risen from £2.4 million to £337 million (Clover 2003). The Trust makes a healthy

surplus of around £20 million a year, or about 6 per cent of turnover. In addition, the National Trust has 6,000 staff, many of them highly qualified in conservation, property management or gardening, and tens of thousands of active volunteers.

However, the membership is overwhelmingly white, middle aged and middle class, with little penetration in the inner cities, and it is thought that most members join solely to get free access to Trust properties. The activists, the volunteers, who to visitors are the public face of the NT, are older and more middle class than the membership – seen by many as representatives of the ‘green welly’ county set.

By the 1990s, the National Trust, though growing rapidly, was seen as increasingly out of touch – reactionary, elitist and part of the establishment, not interested in promoting social inclusion. Operation Neptune, a populist campaign begun in the 1960s to improve access to the coastline, has run out of steam.

Just as it was out of touch with modern urban society, it also antagonised many of its county-based members by getting involved in the hunting dispute. In 1997 it banned stag hunting on its property and was split over fox hunting, with each side accusing the other of dirty tricks. Part of the problem was the Trust’s system of governance. It was controlled by a 52-member council, mostly nominated by interest groups like the RSPB and the Open Space Society, which met only four times a year. The council was widely seen as a self-perpetuating old boy network (Houlder 2003). The system also gave great power to the chairman, who controlled proxy votes which he could use at his discretion. The pro-hunting lobby complained that the proxy voting system was frequently used against them.

A turning point came with the appointment of a new director-general, Fiona Reynolds, in 2001. She had previously headed the Cabinet Office’s women’s unit, was close to New Labour, and talked of shedding the Trust’s ‘remote and elitist’ image. She appointed Lord Blakenham, sometime chairman of the *Financial Times* and the RSPB, to review the National Trust’s system of governance.

Blakenham reported in April 2003. He recommended that in future the governing body should be a 12-member board of trustees (effectively a board of directors). The council would remain and would in effect become a supervisory board on the German model. The proxy voting system should be replaced by postal voting. The board of trustees formally took control in 2005. The Blakenham report seems to have turned the tide. The national ban on foxhunting has also helped, defusing the main internal bone of contention. Reynolds has increased the educational role of the Trust, expanded family memberships, bringing younger people into membership, and has spearheaded a move into the inner cities, preserving back-to-back working-class houses in Birmingham and John Lennon and Paul McCartney’s boyhood homes in Liverpool (Proby 2005).

In 2007, the National Trust published a new strategy document, covering the period to 2012 and beyond. This demonstrates an extension of the new thinking in the Trust.

The key future role of the Trust was to be an environmental education group, engaging with government and society in a quest to find ways of tackling climate change. Fiona Reynolds stressed that this represented a return to the original aims of the Trust’s founders, which emphasised social philanthropy and mutual benefit. As Reynolds said, ‘This is going back to our roots. We are a cause. It’s a profound moment of recognition’ (Vidal 2007). Whether she can carry the more diehard and reactionary elements among the Trust’s volunteers is another issue.

By 2012, the National Trust seemed to have taken on a more campaigning stance. In February, along with the Council for the Preservation of Rural England and the Royal Society for the Protection of Birds, it criticised government proposals for reform of the planning system, saying that the proposals were likely to have little or no positive impact on economic growth and could undermine public well-being (National Trust 2012a). In August it was announced that Dame Helen Ghosh, formerly permanent secretary at the Home Office, would replace

Fiona Reynolds as director-general (National Trust 2012b). It will be interesting to see whether this will lead to a change in Reynolds' populist policies.

#### Question

- 1 How do you think that the National Trust rates in terms of E-V-R convergence?

## SUMMARY

This chapter has analysed the nature of environments and ways in which they can be analysed, the different types of organisational structure and the circumstances in which each is appropriate.



### KEY LEARNING POINTS

- The general environment consists of factors which impact at an industry-wide level, while the task environment is primarily concerned with the immediate environment which impacts on an individual organisation within an industry.
- Organisations can be seen as open systems which interact with their environments.
- The STEEPLE model lists and classifies the major general environmental factors which impact on organisations.
- The main point of STEEPLE analysis is to identify key environmental drivers.
- Opportunities and threats to the organisation can be classified according to probability of success and attractiveness and probability of occurrence and impact, respectively.
- There are a wide range of different organisational structures, including bureaucracy, divisionalisation, matrix, network and virtual.
- Strategic alliances are of growing importance.
- Stakeholder theory states that organisations have responsibilities to a wide range of stakeholders.



### QUESTIONS

- 1 What do you think are the main differences between the general and the task environments?
- 2 What do you understand by the best fit model of HR?
- 3 Why did Wehrich suggest that SWOT analysis should be renamed TOWS analysis? What criticisms have been made of the SWOT/TOWS approach?
- 4 Give examples where structure follows strategy.
- 5 What do you think are the main strengths and weaknesses of the bureaucratic form of organisation?
- 6 Can you see any disadvantages of the network form of organisation?
- 7 Why can strategic alliances fail?
- 8 Do you agree with the proposition that HR outsourcing is most suitable for very small or very large organisations?
- 9 Why do stakeholders require active management?



#### FURTHER READING

Mick Marchington and Adrian Wilkinson's book, *Human Resource Management at Work* 4th edition (2008), covers much of the material discussed in this chapter, particularly in Part 1 in general and Chapter 4 in particular.

#### USEFUL WEBSITES

A key website to assist your study is the CIPD site ([www.cipd.co.uk](http://www.cipd.co.uk)). If you are not a member of the CIPD, you will be able to access only part of the site, but you will have access to the latest HR news and to factsheets on a range of HR topics. If you are a member, you will have access to a much wider range of materials, including the library, company profiles, Employment Law at Work and, most usefully, online journals. The CIPD provides direct access to about 350 journals, including *The Economist*, the *Harvard Business Review* and *HR Magazine*, and also gives you entry to the EBSCO database, which provides access to 3,000 journals, including all the leading HRM and HRD journals, as well as the American equivalent of *The Economist*, *BusinessWeek*. The CIPD members' site also gives you access to the archive of *People Management*.

#### AUDIO AND VIDEO MATERIAL

The CIPD produces monthly podcasts on a range of HR-related issues, where experts discuss or debate key issues. Many of these are relevant to the subject matter of this book (although not of this chapter).

A wealth of video material is available on the Internet, much of it on YouTube. A lot of this is poor quality, but high-quality material is produced by the *Harvard Business Review* and also by the Chartered Institute of Management Accountants. Videos relevant to this chapter include:

*How to perform a SWOT analysis: a whiteboard video* (5 minutes):

[www.mystrategicpian.com/resources/how-to-perform-a-swot-analysis-a-whiteboardvideo](http://www.mystrategicpian.com/resources/how-to-perform-a-swot-analysis-a-whiteboardvideo)

Environmental scanning (4 minutes): [www.youtube.com/watch?v=LN03WRRHlwc](http://www.youtube.com/watch?v=LN03WRRHlwc)

CIMA E3 Lecture 3 – Environmental Analysis (6 minutes): [www.youtube.com/watch?v=7uA3Z7i69bO&feature=bf\\_next&list=UUdMKIWhxld2ffqbQUb60zg](http://www.youtube.com/watch?v=7uA3Z7i69bO&feature=bf_next&list=UUdMKIWhxld2ffqbQUb60zg)

CIMA E3 Lecture 4 – External Environment (9 minutes): [www.youtube.com/watch?v=XUhm0Wk9yLA&list=VVdbMKIWhxld2ffqbQUbGOzg&index=7&feature=plcp](http://www.youtube.com/watch?v=XUhm0Wk9yLA&list=VVdbMKIWhxld2ffqbQUbGOzg&index=7&feature=plcp)

CIMA E3 Lecture 11 – Organisational Structure (7 minutes): [www.youtube.com/watch?v=KfAR9vTaZiE&feature=related](http://www.youtube.com/watch?v=KfAR9vTaZiE&feature=related)



## ACTIVITY HOLIDAYS

### The holiday industry

The holiday industry is in a state of flux. The mainstay of the industry, the foreign package holiday – two weeks in the sun, with everything – flight, accommodation, food, transfers and so on – provided by the tour operator – is in slow decline. In the 1980s, package holidays had 60 per cent of the market, but in 2005 this had fallen to 45 per cent (*Daily Telegraph* 2006). In 2001, 20.6 million package holidays were sold and this had fallen to 19 million in 2006.

Looking more closely at market segments, the bottom of the package holiday market is relatively stable, although not very profitable. The top end is growing rapidly and has better profit margins. The segment which is really coming under pressure is the mainstream mid-market sector, which is in the most rapid decline and where the competition is fiercest, with wafer-thin margins.

The package holiday market as a whole is coming under increasing threat from the short break market, built around the budget airlines, particularly Ryanair and easyJet. Increasingly people take a number of short, often city-based, breaks, booking both their flight and their accommodation through the Internet. The other major growth area is the specialist package holiday segment, loosely described as activity holidays, about which more later.

At the same time as the traditional package holiday was declining, the method of selling them has been changing. In 1999, 61 per cent of package holidays were booked through a high street travel agent, but by 2003 this had fallen to 49 per cent. At the same time, the number of bookings made direct with a tour operator, or through the Internet, both rose.

The trend is even more stark when we look at all holidays, rather than just package holidays. In 2004, travel agents and the Internet each had a one-third share of bookings, with the other third shared between family and friends and direct booking with a tour operator (*Marketing* 2004).

Until 2007, there were four major players in the UK overseas travel industry. All are vertically integrated, operating retail travel agents as well as tour operations and an airline. The market leader, Thomson, is owned by the German company TUI, while Thomas Cook is also German owned. First Choice and the weakest company, My Travel, are UK plcs.

Different companies have adopted different strategies to cope with changes in the market. Thomson has concentrated on marketing different segments of its packages, rather than the complete traditional package holiday. If the customer wants to buy just a flight, or just accommodation, that is fine with Thomson. First Choice has gone for market segmentation. It is concentrating on two major segments, the bottom of the package market and the much more upmarket specialist (particularly activity) segment. In early 2007, it put its mainstream package operations up for sale, with both My Travel and Thomas Cook interested. However, these two companies decided to merge instead, leaving My Travel out in the cold. In response, in the spring of 2007, First Choice and Thomson/TUI agreed to merge.

### The activity holiday market

An activity holiday is broadly defined as a holiday in which some form of physical exertion is the main reason for the holiday. It covers a wide range of activities, including skiing, boating, golf, walking, cycling, fishing and

birdwatching, as well as multi-activity, which combines two or more activities.

Unlike mainstream package holidays, activity holidays are growing rapidly. Twenty-four per cent of the population claim to have taken an overseas activity holiday in the past five years, and a further 20 per cent say they are likely to in the future. Numbers of holidays sold (including UK holidays) are expected to almost double between 2001 and 2010, from around 5 million a year to around 10 million, with the value of holidays sold also doubling from around £4.5 billion to around £9 billion, or around 17 per cent of all holidays (*Keynote 2006*). At an average cost of nearly £1,000, activity holidays are also significantly more expensive than other packages, and much more profitable. In 2006 the operating profit of First Choice's activity holiday division made up half of all group profits (First Choice 2007).

This seminar activity will concentrate on two types of activity holiday, walking/trekking and multi-activity. Walking holidays are the most popular activity holiday, with 10 per cent of the population claiming to have taken a walking holiday in the past five years, while 9.5 per cent claim to have taken a multi-activity holiday.

However, the consumer profiles for the two types of holiday are different. Walking holidays are almost exactly split between male and female, and are more popular with the ABC1 social groups (broadly the middle class), people who live in the South, the Midlands and Wales, and single people. People are more likely to take a walking holiday as they get older, with penetration among the 45–54 age group (11.4 per cent) and 55–64 (10.8 per cent) higher than the penetration for the population as a whole (10 per cent). Multi-activity holidays are favoured by men (70 per cent) and the under-35s, but again have a bias towards ABC1s, the South and the single. Perhaps people who enjoy

activity holidays when they are young switch towards walking holidays as they get older.

### Companies

This activity will look at five companies in the walking/multi-activity segments of the market. Two (Exodus and Waymark) are owned by First Choice, one (Explore) is owned by the holiday group Holidaybreak plc, and two by member organisations (HF Holidays by the Holiday Fellowship and Ramblers Holidays by the Ramblers Association).

#### *Exodus*

Exodus is one of two leading companies in the 'soft adventure' sector. It provides walking-trekking holidays combined with sightseeing, white-water rafting, sailing and other activities. Founded in 1973, it was taken over by First Choice in 2002. The number of bookings is unknown, but is believed to be in the region of 30,000 a year. Most holidays are outside Europe, including many in exotic locations, operated in liaison with indigenous specialist companies/guides.

#### *Waymark*

Waymark is a specialist walking company. The company is small, with around 4,500 bookings a year, but a loyal clientele. Like Exodus, it was taken over by First Choice in 2002, with the remit to grow volumes and margins. In 2004, its managing director, Stuart Montgomery, admitted that clients 'have a problem' with being part of First Choice (although First Choice ownership is very much played down in the Waymark advertising material) (*Travel Weekly 2004*). Most holidays are in Europe, often using local agents. In 2006–07 Exodus and Waymark started to cross-promote each other, and by 2012 Waymark was totally subsumed within the Exodus brand.

#### *Explore Worldwide*

Founded in 1981, Explore uses a similar business model to Exodus. The average price of holidays is around £1,000,

often including a local payment paid at the start of the holiday. Holidays are usually offered on a bed and breakfast basis, with extensive use of local agents to guide tours. Explore was taken over by Holidaybreak in 2000 and forms about half of Holidaybreak's Adventure Travel division. The division had a turnover of £76 million in 2006 and operating profit of £5.6 million (Holidaybreak 2007). The average age of Explore clients is early 40s. About 30,000 holidays are sold each year and 45 per cent are repeat bookings. Like Exodus, most bookings are made direct, but the company also sells through local travel agents in Australia, Canada and the US.

#### *HF Holidays*

This is the oldest of the companies surveyed and also the biggest. Founded in 1913 and owned by the Holiday Fellowship, it has over 50,000 guests, over half in the UK. The company runs 17 country house hotels. It is noted for its 'English House party style of warm hospitality' (HF Holidays 2007) and has a very high degree of client loyalty. It claims that at least 80 per cent of customers come back again the next year. It explicitly aims at the 'grey' market and has the oldest client base of the companies surveyed.

#### *Ramblers Holidays*

Ramblers Holidays was founded by the Ramblers Association in 1946 and covenants its net profits to a charitable trust which supports environmental projects. Originally purely a walking company, in recent years it has expanded the proportion of sightseeing on many of its holidays and also runs a range of holidays concentrating on birds or flowers. More than half of the holidays are in Europe, but the proportion of long-haul (and more expensive) holidays has been increasing. In 2006 it introduced 'cruise and walk' holidays. It recently acquired

Countrywide Holidays to increase its UK holiday coverage and also offers a range of holidays aimed at the under-40s. Holidays are led by a volunteer leader from the UK, but on long-haul holidays, a local agency/guide is also used. In 2001, 17,000 holidays were sold, and in 2004 turnover was £14 million, giving a pre-tax profit of £1.1 million. Details are not available of the average age of clients, but from personal experience this seems to be mid-50s.

The recession appears to be accelerating the trend towards activity holidays, appealing as they do to an older and more affluent sector of the community. In particular, the 'active retired', many of whom retired early, seem to be largely unaffected by the recession.

#### Questions

- 1 Compile a STEEPLE analysis for the activity holiday industry.
- 2 Compile a SWOT analysis for Ramblers Holidays.
- 3 On long-haul holidays, Ramblers Holidays always uses a UK-based leader, directly employed by Ramblers, as well as a local guide, employed by their local partner organisation. Explore usually only uses a local guide. What do you think are the HR implications of this difference in policy?
- 4 How far do you feel that a tour operator like Ramblers or Explore is a virtual organisation?
- 5 What do you think has been the impact on Ramblers of the implementation of legislation against age discrimination? What about the impact on Club 18-30?

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