



**LUND UNIVERSITY**  
School of Economics and Management

# **The Decay and Rise of a New Strategy: A Case Study of the Effect of Financial Crisis on a Company's Strategy**

Supervisor: Per-Hugo Skärvad  
Authors: Marcus da Costa  
Markus Nilsson

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## Abstract

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- Title:** The decay and rise of a new strategy: A case study of a recession's effect on a company
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- Author:** Marcus da Costa, Markus Nilsson, *Strategic Management*
- Supervisor:** Per-Hugo Skärvad
- Course:** Master thesis in business administration, 15 ECTS
- Major:** Strategic Management
- Problem:** More information is needed on how a company can overcome hardship during stormy business cycles. Appropriate management strategies on how to get the business going as the dust settles is essential in order for a company to sustain on the market. Management in any recession is difficult, especially in today's turmoil. Nonetheless, corporate strategic renewal is needed to mitigate the risk of default and optimize management of the company. The question is what should the company do in order to keep the resilience up?
- Purpose:** To explain the factors of corporate renewal that will affect the strategy in a positive way, from a theoretical and empirical point of view. This is done by identifying the factors affecting a company's strategy during the process of renewing the strategy.
- Methodology:** This thesis utilizes the abductive research method with a positivistic philosophical approach.
- Conclusion:** The factors; uncertainty, leadership, change, adaption and information, are essential while renewing a strategy in a company's crisis.
- Key words** Strategy, recession, credit crunch, crisis, renewal.

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Marcus da Costa

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Markus Nilsson

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## Prologue

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Philosophy of history, understanding truths, investigating the mechanism that generates them is nothing but a platonic thought dealing with the genesis of human knowledge. Reduced and conceptualized to what we now call epistemology (Taleb, 2008).

Standing with one foot in the academic work, and another foot on the labour market provides a balanced perspective on how the current credit crunch has left entire nations with deep holes in their pockets. In this dissertation we take a step back into the academic world to find explanations and plausible solutions to the financial problems puzzling our minds, and the companies at the present time.

As we step into the academic world of research to dedicate ourselves to a certain topic, we are given great motivation by the managers involved at the company in our case. Their willingness and involvement has increased our motivation to develop our capabilities as we conducted the research of adapting a new strategy under a financial crisis. Their time has been greatly appreciated and their patience admirable. In this dark age of financial crisis it is encouraging to see a glimpse of optimism in the eyes of corporate managers.

# Chapter 1

## Introduction

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*This chapter will give the reader an introduction to the topic. The chapter starts with background and continues to describe the problem and research questions, addressed in this dissertation. The chapter will end in a disposition of the research.*

---

### 1.1 Background

Strategy is a subject that during our education has been one of the most interesting, the learning curve has increased for every course past together with the intensity. Today's macroeconomic difficulties and uncertainty are filled with drastically decreasing revenues together with a sense of fearfulness from consumers. Thereby consumers' unwillingness to spend money during the crisis is getting steeper. As a result of this situation, companies are required to adjust and change their mindset as well as their strategy. Concerning this current topic we wanted to make a contribution, by conducting research on how to change a strategy in a crisis. Therefore a framework will be presented connecting theories.

Strategies are affected by the impact of highly improbable and unexpected events; black swans. These events let us see our blindness to uncertainty, in particularly deviations to the ordinary (Taleb, 2008). Uncertainty challenges everything with economical ties from politics, terrorism and war to the global economical system per se. The greatest hurdle for business leaders today is to relinquish themselves from the paralysis that can take over the company, and start shaping a future that embraces the black swans, instead of fearing them (Bryan & Farrell, 2008).

#### 1.1.1 *Financial crisis*

The year 2008 was marked by a slight dip of the building boom, a down slope of consumers purchasing behaviour and a plunge of the stock market, all contributing to the predestined down turn. Although recessions are predestined to occur and expected at the peak of a boom, the current economic recession was



presumed to last a short period. Effects such as reduced activity of trade and industry that would result in a temporary economic decline, was predicted. However, the current economic recession dug deeper into the nations of the world due to the deregulations of sub-prime loans. This caused a ubiquitous credit crunch that ended in a worldwide depression, leaving no alternative but for crippled countries to turn to the ruling nations of the world to save their economies. The only way out of this crisis was the implementation of rescuing packages that consisted of millions of dollars. (Reinhart & Rogoff, 2009)

### *1.1.2 Strategic renewal*

Collis (2008) claims in his article “Can you say what your strategy is?” that a strategy is to be thought of as long-term. This means that when a macroeconomic shock arrives, a strategy must be defined so it can then be redefined. The discussion is basically about being proactive by knowing and providing market strategic tools in the hands of managers. Furthermore, it is also about the ability to be reactive when a market disturbance arrives. Day (1997) continues to describe the ultimate winner in this game of survive or default, where the key in his argument is to adapt to a slower-growth market.

## **1.2 Problem Discussion**

Few industries are left out from the ghastly confrontation of sudden failures and shrinking expectations. When it comes to the strategic outplacements, industries face two distinct concerns which are referred by Day (1997), in his article “*Strategies for Surviving a Shakeout*”, to as the seismic shift and boom-and-bust. Nevertheless, in this thesis it is solely the boom-and-bust that is of interest.

A boom-and-bust occurrence puts pressure on margins through intensified competition with falling process as a result. This is normal for emerging markets, or in highly cyclical businesses (Day, 1997). As the rising problems are discussed, so is the need for information about how to handle the stormy business cycles, and how to get the business going as the dust settles (Anonymous, 2009).

Managing in any recession is difficult, though the current one is especially since so much of today’s turmoil is different from the previous ones, one cannot seek

guidance just by looking at history (Colvin, 2009). Nevertheless, during an economic recession such as this one, corporate change is needed to mitigate the risk of default and optimize management of the company (O'Kelly, McWilliams, Nimesh, 2009). The question is really what should the company do to keep the resilience up? (Hamel & Välinkangas, 2003).

All sectors in the market have been hit hard, and Hodges (2009) argues that when a recession arrives, companies need to be prepared for the worst, since there is no guidebook helping one through. The corporate dilemma comes when the recession arrives. In the *The Economist March 14<sup>th</sup> (2009)* several articles discuss the impediment of the current credit crunch and its effects on the worldwide recession. The red thread through all articles is about the agility of the companies; how they should act to transform themselves quickly to meet change head on.

Many articles, books, columnists and authors discuss the problem of a recession which affects the company. However, only a fraction of these focus on how to actually deal with it. This thesis will briefly explain the problem and then focus on how a company should renew its original strategy and then adapt to effectively meet the crisis. This thesis will focus on the point in business cycle illustrated below, (see figure 1.1) which can only be researched at the actual time in the cycle. Figure 1.1 is an illustration of where all cyclical companies currently are, and the intended focus arose since the case company is an economically cyclical company (Businesscycle.com, 2009).

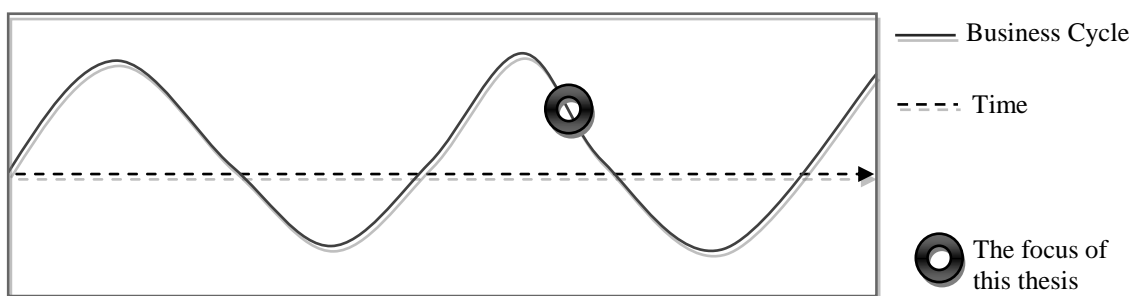


Figure 1.1 The business cycle, illustrating the emphasis of this thesis.

### **1.3 Research questions & objective**

- ☞ Question 1: How does a financial crisis affect the strategy of a company?
- ☞ Question 2: How does the process of renewing a company's strategy work?
  
- ☞ Objective: To identify the factors that needs renewal in the company's original strategy. Classify the factors and explain the significance of each factor moving a company toward a positive direction in the process of reconstructing the strategy for a beneficial renewal.

### **1.4 Purpose**

Few theories discuss the change of a company due to external effects, and amongst them even such as recession. Though, none was found to actually discuss the process of how to handle a strategic renewal during a financial crisis. Our intention is to fill this void in research.

The purpose of this research is to explain how managers should affect the structure of a company's strategy during a recession. This is done with a combination of a general theoretical discussion together with a case study which will result in a model that can be applied when facing external changes.

The aim of this research is to develop an understanding through theory and empirics. The expectations are to understand the effects on a strategy, and create a model which converge our understandings into a concept. The factors that will be more elaborated on are; uncertainty, change, adaption, leadership and information.

The intention of this thesis will be to better understand how to handle the current financial crisis during a renewal of strategy. This research will focus on a specific point in time and the strategy will be in a short term perspective. The contribution of this thesis will be an up-to-date and relevant study of how a company should handle their strategy. This will add the angle of a single case study to the research field. To guide the reader in this research the above mentioned research question and objective was created, and for clarifications limitations are provided.

## **1.5 Limitations**

Restrictions have to be made when writing a scientific research since it allows you to capture the essence of the information which is to be presented.

The limitations of this dissertation are the following:

- The theoretical focus will be emphasized on strategic renewal from the management's view.
- The crisis perspective in this research is limited to a viewpoint in which a company has no ability to affect the crisis, such as macroeconomic effects.

## **1.6 Disposition**

To facilitate comprehension for the reader, an outline of how this dissertation is structured is provided. The outline is described, as well as illustrated in figure 1.1 below.

*Chapter one - Introduction:* Gives the reader an introduction to the topic and describes the background. The dissertation is guided by the research question and objective provided in the end of this chapter.

*Chapter two - Methodology of research:* Presents the scientific approach and strategy which this research is based upon.

*Chapter three - Theoretical Framework:* Chapter three is a literature review, presenting concepts related to the financial crisis and company strategy. This chapter will result in an illustrative model based upon the described theories.

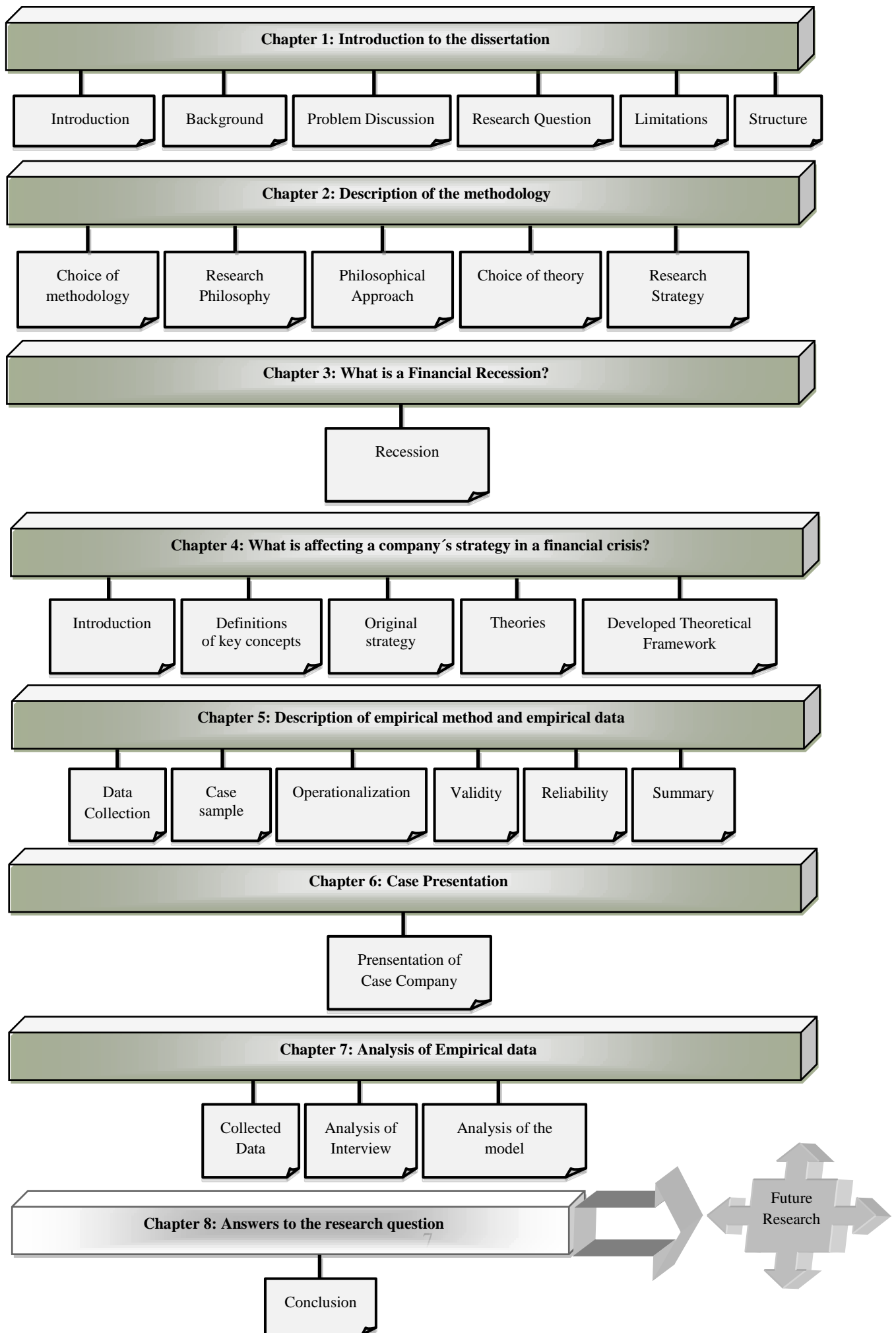
*Chapter four - Empirical Method:* Includes a description of the empirical data and analysis method used in this dissertation.

*Chapter five – Case presentation:* This chapter presents the studied case by informing the reader of the company's background and current strategy.

*Chapter six - Analysis:* Presents an analysis of the data collected.

*Chapter seven - Conclusion:* Provides answers to the research question and sums up the findings. This chapter brings the paper to an end by summarizing the thesis.

**Figure 1.2**                      **Disposition**



## Chapter 2

### Methodology of research

*This chapter discusses the Methodology which is the type of research philosophy this dissertation is being shaped by. This is followed by a short explanation of the philosophical approach and the choice of theory.*

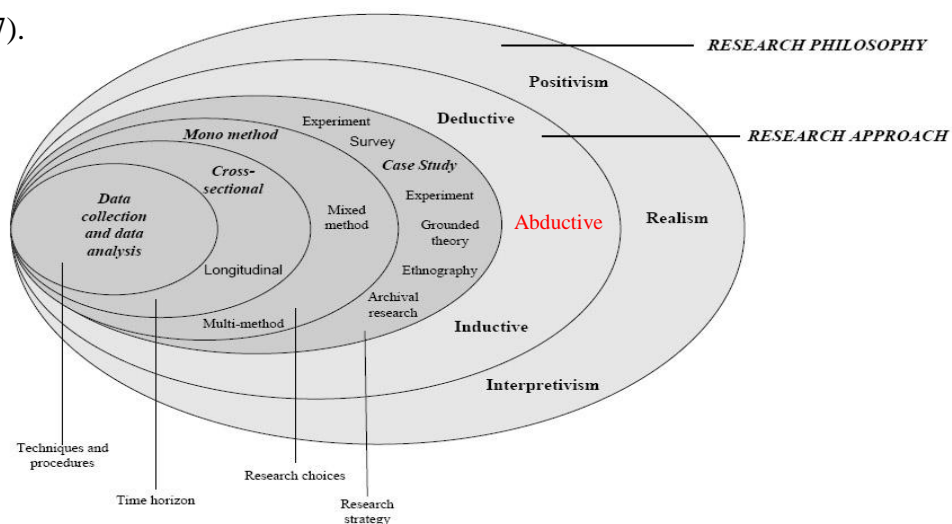
#### 2.1 Scientific pathway

It is important to clarify what type of scientific pathway is chosen early in a paper when conducting a scientific research. This will ease the process of designing questions and give the reader a red thread (Saunders *et al.*, 2007). This dissertation will begin by presenting what research approach is to be used to attain answers to the research questions, and to provide understanding of the work.

#### 2.2 Scientific philosophy

Research philosophy is a broad term which intends to reflect the development and nature of knowledge. By studying the research philosophy one can increase the understanding of this field, and attain the goal of the research (Saunders *et al.*, 2007). Saunders *et al.* (2007) states that there are three types of philosophical approaches: Positivism, Realism and Interpretivism.

A positivistic philosophy is described as the occasion when the researcher is an objective viewer who can draw general conclusions of the reality. Realism tries to explain the truth of what it perceived, and describes reality by making sense of it. Interpretivism is based upon the fact that culture and behavior could be identified by studying the actual knowledge, thinking and ideals of people. (Saunders *et al.* 2007).



**Figure 2.1** “The research onion”. The illustration above depicts the research philosophy’s structure (Saunders *et al.* 2007, p 102).

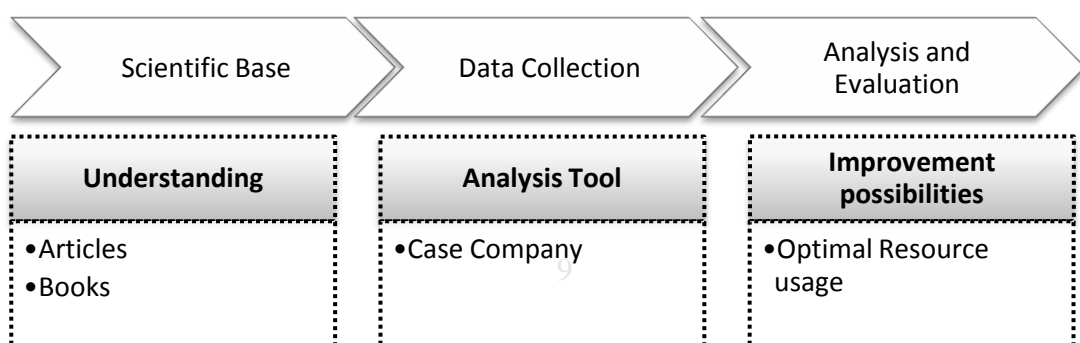
The research philosophy of this thesis will be more inclined towards Positivism, as in this approach the truth is the observed surroundings, but also because this paper uses propositions to build an examinable model (Saunders *et al.*, 2007). Saunders *et al.* (2007) concurs as he states that in this approach the researcher does not have the control to affect or be affected by the research subject. This philosophy is usually used when existing applicable theories can be connected to build propositions with a supportive research strategy. This will be done in this thesis through a literature review and presented in chapter three. These propositions will end up in a theoretical framework which will be tested by having semi structured interviews, which will be closer explained in chapter 4. The data gained from the interviews will later on be analyzed and confirm or disprove the propositions which may result in a revised framework for strategy renewal.

### 2.3 Research strategy

This thesis will have an explanatory study, since it is beneficial for its research aims as it attempts to trace causalities between factors in a case study. The choice of conducting a case study came natural since it tries to illuminate a decision, how it was implemented and with what result. Furthermore, a case study focuses on contemporary events without requiring control of the behavior of events, in contrary to other research strategies. (Saunders *et al.*, 2007)

### 2.4 Choice of Approach

This dissertation puts focus on the field of strategic management. The field has a large quantity of literatures and articles so the logical course of action became to begin the research by reviewing the existing information. Since this dissertation aims to examine and explain the process of strategic renewal, the purpose of the research is logically of explanatory nature. The explanatory purpose is also thought of to be most suitable since it tries to find connections between factors (Saunders *et al.* 2007).



**Figure 2.2** The Structure of this research. The illustration above depicts this thesis approach ( Own figure).

## **2.5 Choice of theory**

To capture the adaption process of strategy in a certain time period one has to start at the beginning of basic strategy theory, by going through the existing strategies at hand and building further, selecting the factors affecting towards renewal.

As an introduction to the topic, *the turnaround strategy* model was used to start with and further built on. This was done by discussing up-to-date literature and articles to conceptualize the current narrow topic of strategic renewal in a financial recession.

The thesis will begin by defining key concepts in this dissertation, namely, recession and strategy. This is then followed by explanations of relevant theories connecting the subjects together in a theoretically value creating synergy.

## **2.6 Concept usage**

Throughout this thesis the current recession will be referred to as financial recession, recession, credit crunch, crisis and financial crisis. This is to facilitate for the reader and keep the dissertation with a varying flow of words, but the meaning of the words are within the same concept.

## **2.7 Summary**

This dissertation aims to explain a company's process of adapting a new strategy during a financial crisis. The research will be conducted using a positivistic philosophy. This in order to attempt to explain the causality effects between a recession and an optimal renewal strategy by qualitatively identify the factors having a beneficial response on the company manner.



## Chapter 3

### Financial Recession

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*This chapter is presented in order to give the reader an understanding of the current state companies are situated. This chapter will foremost discuss the crisis' during the 1930s as well as during the 1990s as they are commonly addressed to in media today.*

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#### 3.1 Recessions

##### *Financial Recession*

*It did not even feel eerie. It felt like Lebanon, with a twist: having seen both I was struck that the financial distress could be more demoralizing than war.*

(Taleb, 2007, P.18, Talking about the recession in 1987)

The following quotation identifies the important factor affecting the company during the current time and situation. The focus in this thesis will be on strategy adaption in a financial recession which is why clear definitions are needed:

*Period of general economic decline, defined usually as a contraction in the GDP for six months (two consecutive quarters) or longer. Marked by high unemployment, stagnant wages, and fall in retail sales, a recession generally does not last longer than one year and is much milder than a depression. Although recessions are considered a normal part of a capitalist economy, there is no unanimity of economists on its causes.*

(Business Dictionary, 2009, A)

It is important to give you, the reader of this dissertation, an understanding of the impact the present crisis is having. Only then can you relate to the extent of how the crisis is affecting companies and on our society. We will start by presenting two earlier crises that affected us heavily.

The previous explanation together with the quotation provides the necessary setting to continue a discussion with the background of previous financial depressions. The two crises that will be described briefly are the 1930s depression

and the crisis starting 1990. The 1930s crisis is described because there are often parallels taken between today's financial crisis and the crisis in the 1930s. The crisis 1990 is described because it is the latest crisis we have had which also affected us in the Nordic quiet heavily. Thereafter we will have a more extensive description of the present financial crisis, what started it and what affects the financial crisis has on companies today. These historical statements, as earlier stated, provide the reader with a better understanding of the current crisis.

### *1930s depression*

The so called 1930s depression actually started already 1929. The day most people refer to is the start of it called "the black Thursday", which is in reality the 24<sup>th</sup> of October 1929 when the New York Stock Exchange crashed. Already since 1926 the stocks had raised and met their peak in 1929. During this time people started to believe in a constantly raising stock market without end. The expression "prosperity forever" was coined. (Ljungren, 2000)

Even today it is not certain what caused the big depression. Researchers that studied the depression, both at the time it occurred and afterwards, do not agree with each other. Some say that the crisis started because there was a big fall in raw-material prices which affected companies in a larger scale than they expected. Other claim it was because of difficulties with maintaining international collaboration and the lack of a financial centralized government. The third theory discussed that could have started the crisis is the restrictive monetary policy in the U.S. Those who advocate this theory says that the crisis started in the U.S. and later spread over to other continents through the gold-exchange standard. The major discussion in the subject lies between U.S based researchers, who advocate the second theory and thereby claim that it was not the U.S fault that the depression started, and other researchers that believe the U.S were responsible for the start of the depression. (Ljungren, 2000)

The affects of the 1930s depression was huge with mass unemployment in many countries, among these, the U.S, Germany, Great Britain, Sweden and Denmark who all suffered from unemployment rates between 25-35%. Other affects were a large protectionism among many countries with high customs, especially towards

American goods. Banks, particularly in the U.S, also suffered heavily and during the bank run a lot of small banks filed bankruptcy. (Ljungren, 2000)

### *Crisis in the beginning of 1990*

The crisis which had its crucial parts from 1990-1993 mostly affected the Nordic countries. As we in this case study will be closing in on the Nordic region this crisis is of relevance. There was no single factor that caused this crisis, but rather a number of smaller crashes independent of each other evolving into a major crisis. These smaller events caused a drop in GDP between 1990 and 1993 with about 5% in the Nordic countries which was the largest fall since the 1930 depression. (Perbo, 1999)

A recession in the economy were at this time expected because of less private spending, higher savings, a real interest increase, overvalued exchange rate and downturn in house prices. However, the Nordic countries did not only experience a recession but rather a large crisis. One of the factors leading to the crisis where that house investments during 1990-1993 fell with 39% which lead to a collapse in house building. Another important factor was how the government handled the taxation of houses. When they changed the taxation rules it implied that houses became taxed twice, both with consumption taxes and capital taxes. (Perbo, 1999).

In the end of 1993 the economy had started to turn, and in 1995 GDP were up 2% compare to 1990. With this in regard you could say that the 1990 crisis lasted for about three years which is considered a short time. The reasons for the fast turnaround were that the crisis was handled quickly, resolutely and in a transparent way. These three factors are all very important when handling a crisis both from a governmental point and from corporate level. The way it turned out could be seen as an important lesson learnt for future crises. (Moe, *et al.* 2004)

### *Financial crisis 2008*

The crisis that we currently are experiencing is being investigated heavily by researchers all over the world. Some researchers, there among Nouriel Roubini and Peter Schiff, have several years ago written about a future crisis that would

come upon us. However when the crisis came, it had such a heavy impact it was thought of as an event of unexpectedly high scope. (Schifferes, 2008)

#### *What started the crisis?*

Already in the beginning of the 21<sup>st</sup> century the house prices started to rise and Americans borrowed more and more money. There were greedy lenders and money hungry Wall-Streeters who saw opportunities to make big money from the loans. Banks and other financial firms saw cash-flow and made huge profits from these loans by repacking them and selling them to others. Besides greedy lenders and enthusiastic loaners also the government pushed the loan market by urging banks to be more generous with the lending. This resulted in an even higher extent of granted loans to poor citizens. All of these factors drove the house prices sky high, which in turn lead to Americans having risky mortgages they could not afford. In 2007 the financial market collapsed like a deck of cards resulting in dropped house prices, this was due to insufficient underlying value of the mortgage-backed securities. People were forced to sell their houses because they were not able to pay their mortgage and the prices dropped even lower. Since the repacked loans were sold to other banks and financial institutions around the world the financial crisis followed the trace (Holmes, 2009).

#### *The dignity of the crisis*

Altman (2008) describes the current crisis as the worst economical setback in over 75 years. The crisis has lead to a collapse and credibility loss of the financial systems, especially in the western world. This in turn has lead to the fact that the western government has been seriously questioned. The recovery tools usually used in recessions, such as monetary and fiscal stimuli, will be ineffective and other means will be needed. To solve the crisis joint forces from all countries around the world will be needed, and to lead this work some countries will need to take on global leadership. However, since the western governments are questioned, this opens up for a power shift towards eastern authorities, with China and Japan in front. (Altman, 2009)

The impacts of today's crisis are so heavy that Martin Wolf has, in his book "Fixing global finance", questioned globalization and raises the question if we are going towards an anti globalization. Further on, the crisis has deeply frightened both customers and businesses, which in turn enhance the problems we are dealing with today. One outcome that already can be seen today is that the role of the state increases in most countries around the world, while the public sector decreases (R.C. Altman, 2009). The Down Jones index fell more during one year subsequent to the peak in 2007, compared to the 12 months that followed the collapse in 1929. This gives a good indication of how great the impact of the current crisis is (Hodges, 2009).

This chapter summarizes the current and historical macro economical causes and effects in order to fully comprehend the extent of the financial recession's effects. These events results in companies having to reevaluate their strategies. The next chapter will attempt to explain the strategic problem by discussing the theoretical view on corporate strategy and how it can aid companies renewing their strategies in financial recession.

## Chapter 4

### Theoretical framework

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*This chapter will discuss the theoretical issues of what factors are important when changing a strategy, based on scientific literature. The chapter will start by an introduction, followed by some general definitions of key concepts. Further on, a brief presentation of what factors other researchers believes are important will be presented, which then are categorized and elaborated on with our thoughts. The Chapter will end by presenting a model by merging the propositions into an illustrative process.*

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#### 4.1 Introduction

How do we handle this financial crisis? This is the thought that is going through every manager's head daily all over the world. Companies have started to reduce cost in order to optimize production into a lean producing machine. In *The Economist November 22<sup>nd</sup> (2008)* one of the leader columns the author states that; "what was once seen as evidence of corporate fitness for the moment looks like anorexia".

The real paradox problem is what John Maynard Keynes referred to as the paradox of thrift. The paradox states that by cutting a firm's spending it slows down the descending economy even more and in the end hurt itself (Schiffes, 2008). The need for reinforcement of the monetary means becomes more evident. Nevertheless, a down turn such as the current one is sometimes considered an opportunity as big companies abandon growth opportunities rapidly. An example of this could be seen in both Microsoft and Oracle, which were both born in a down turn like the current one (The economist, 2008, The Leader). Hodges (2009) continues by arguing that when a recession arrives, companies need to be prepared for the worst.

#### 4.2 General Definitions

Following a short explanation will be given to the subjects which are to be handled throughout this chapter as an introduction for the reader to the topic.

#### 4.2.1 *Strategy*

Following a definition of Strategy will be presented, in order to give the reader the basic idea of what is being elaborated in a more complex and specific approach.

##### *Definition 1*

*Alternative chosen to make happen a desired future, such as achievement of a goal or solution to a problem.*

(Business Dictionary, 2009, B)

##### *Definition 2*

*Art and science of planning and marshalling resources for their most efficient and effective use. The term is derived from the Greek word for generalship or leading an army.*

(Business Dictionary, 2009, B)

Strategy is the organizational plan for the environment it operates in. This plan helps the firm in many different situations to decide the best way of creating value with the specifications of the firm's competitive advantage (Roberts, 2004).

#### 4.2.2 *Theory*

To give the reader a complete picture a description of a good theory will also be presented.

*A theory is a statement predicting which actions will lead to what results and why.*

(Christensen & Raynor, 2003, P 73)

Christensen and Raynor (2003) explain in their article, "Why hardnosed executives should care about theory", that a good theory is valuable for two reasons. First it helps us make predictions, a statement of cause and effect and secondly theory helps us interpret and understand what is happening and why. A construction of a theory has three stages: Firstly, one has to describe the phenomenon that he/she wishes to understand. Secondly, one has to classify

aspects into categories and see what has been conducted before. Finally, the last step includes formulation of hypotheses of what causes the phenomenon and why. Another important aspect brought up in this article is that a company should not solely review success theories, since there is no universal remedy; because what has been helpful for other companies in the past might not help your company (Christensen & Raynor, 2003).

### 4.3 A Turnaround Strategy

There are many different types of strategic changes, and whilst many corporate change programs require both cultural and strategic transformation, the emphasis has to be on rapid renewal. This rapid renewal is generally referred to as a *turnaround strategy*. The first issue to focus on is to increase revenue and reduce costs, according to table 3.1. (Johnson, Scholes & Whittington, 2005)

Increase Revenue	Reduce Costs
<ul style="list-style-type: none"> <li>• Ensure marketing mix is tailored to key market segment</li> <li>• Review pricing strategy to maximize revenue</li> <li>• Focus organization activities on needs of target market sector customers</li> <li>• Invest funds from reduction of costs in new growth areas</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce Labour costs and reduce costs of senior management</li> <li>• Focus on productivity improvement</li> <li>• Tighten financial controls</li> <li>• Tighten Controls on cash expenses</li> <li>• Establish competitive bidding for suppliers; defer creditor payment; speed up debtor payment</li> <li>• Reduce Inventory</li> <li>• Eliminate non-profitable products/ services</li> </ul>

Table 3.1. Turnaround: revenue generation and cost reduction (Johnson, Scholes & Whittington, 2005, P. 523)

Whilst the above mentioned action is only short term, the turnaround strategy provides more steps to take. *Management* requires change, especially at top level,



and often this means providing new people in the operating management. One of the reasons is that stakeholders may see the old management as responsible for the corporate problems, since they were accountable when the problems arose. Then the company must gain *stakeholder support* by increasing transparency in disclosure to shareholders, and to employees as it is essential that they are aware of the company's situation as the improving changes are being made. Following, the company needs to *clarify the key target market* which will provide focus to the revenue generating activities. This is a central issue in a turnaround strategy and could involve better customer relations and market information. Nevertheless, this is not enough as the company also needs to *re-focus* its product and/or service line, as well as disengage products and projects stealing time and resources from key target segments. Simultaneously the financial division needs to see over the *financial structure* by renegotiating credit agreements and leverage capital. To be able to activate and implement a turnaround strategy when the occasion rises to require a change due to unexpected events, there is fundamental need for the company to have ability to prioritize critical improvement areas. This means management requires having the characteristics of a firm and decisive individual being able to make quick significant decisions. (Johnson, Scholes & Whittington, 2005)

The turnaround strategy is a general model on corporate strategic change, that puts emphasis on how to keep the strategic goals and aims during times when growth can be volatile and wiggly (see figure 3.1). Whilst it covers many parts of how to change a deteriorating operating strategy, our thesis will take a different approach, by looking at the factors which are of importance when changing a strategy due to a crisis, which the management in the company cannot affect.

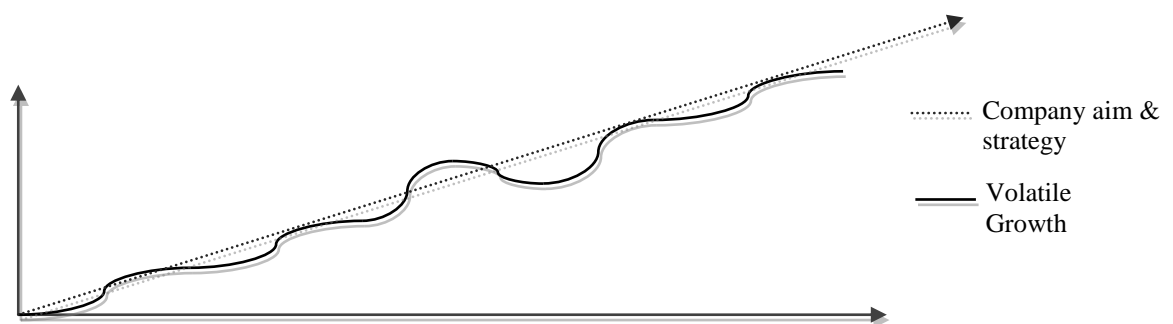


Figure 4.1 Wiggly growth (own figure inspired by the turnover strategy)

Nevertheless, the turnaround strategy will be used as a template during this theoretical chapter. Although, we believe that there may be other factors of importance when adapting a strategy to a crisis. In the next section a discussion about the previous research within this narrow field will be made to mold the strategy which will be more elaborated on forth.

#### **4.4 Previous research**

There has already been research conducted in this area. Since it is a very up to date subject there are probably lots still in the research and writing stage. Nevertheless, in this chapter we will take into account what factors other researchers up until now have stated as important and divide them into categories, whilst having the turnaround strategy in the back of our minds. These arguments will then be closer elaborated on throughout this chapter.

In the article, “Firms going bust” by Anonymous (2009), managers and PhDs’ from different companies and universities presents their thoughts on what is important for companies to prevent a downfall, or even bankruptcy during a crisis. To summarize their ideas, there are four main objectives they believe are important. The mentioned main objectives are; strong leadership, good communication skills, ability to tackle stress and a positive mindset. Another research conducted by D’addario (2009) focuses on cash management and states that companies main focus should be on the Treasury department. Further on, McWilliams III *et al.* (2009) stresses the importance of diversity when handling an economical downturn. They present five steps a firm should follow to minimize risks through diversity and thereby handle the downturn. The five steps are; 1. Manage restructuring proactively to minimize risk. 2. Identify and evaluate risk factors. 3. Minimize risk exposure by impact and probability. 4. Monitor and assess restructuring and risk mitigation process. 5. Review all communication about the restructuring process.

Peter Lorange (2009), former president of International Institute for Management Development for 15 years, discusses four success factors of handling leadership in a crisis which has worked on IMD. The four factors are spoken of as critical during times of high turbulence and stated to be; 1. Open a dialogue through

creation of meeting places 2. Learning from failure by allowing people to try, and by such, give speed to the company 3. Work proactive with human resource in order to become less bureaucratic, and more strategy oriented which allows putting the right person on the right place 4. Encourage initiative and entrepreneurship. Further on, Colvin (2009) brings up more interesting thoughts in his article, “How to manage your business in a Recession”, as he talks about resetting priorities, keeping investments in the core of a business, the importance of communication and providing customers with new types of solutions. Finally, in an article in *Dagens Industri February 9<sup>th</sup> (2009)* Karlsson gives seven advices for companies to manage the current crisis. The factors he talks about in the article are following; accommodate your costs and resources directly, have the right people in management, keep projects with futuristic aims, make management more visible, make management available for media, give information frequently and finally do not loose long-term perspective.

Globalization has taken a whole different meaning as it creates vulnerability in the same time as it gives the appearance of a holistic stability. Most economies and banks are interconnected, making the world full of domino bricks. Bank institutions such as Fannie Mae take more risks than is defensible, making the first domino wobbly and exposed to the risk of falling. Taleb (2008) believes that most people ignore these uncertainties since we are not comfortable watching the world as something unstructured and chaotic. Taleb (2008) refers to this blindness to uncertainty as *the Platonic fallacy*, and argues that it can lead to the illusion of understanding, overestimation of actual knowledge (Taleb, 2008).

With the aid of the previous discussions and definitions, we selected the theoretical factors found to be most appropriate and applicable in accordance to above mentioned authors, and their discussion on the renewal of a strategy. As earlier stated the turnaround strategy will be the template. The most important factors in the turnaround strategy connected to corporate strategic renewal are identified as: *change*, *adaption*, and *leadership*. However, we believe that when renewing a strategy the two factors *uncertainty* and *information* should be considered as well due to revising of above mentioned studies. For the next part, the different aspects brought up by other researchers will be further elaborated on.

## 4.5 Uncertainty

*During periods of uncertainty, the danger is not the lack of strategy, it is the opposite.*

(Mintzberg, Ahlstrand & Lampel, 2005, P. 36)

Even when uncertainty is low, there is still a certain degree of danger related to communicating strategies. The main reason being, when uttering the strategy to someone else, one tends to lock in to that way of reasoning, which leads to a certain resistance of change (Mintzberg, Ahlstrand & Lampel, 2005).

In times of recession, several macroeconomic factors are shaky in comparison to their normative levels, but they are also exacerbated by volatility, creating a “when it rains it pours” mechanism, making the negative shocks amplify and people aversive to the visible risks (Ebell, 2000, P. 26). Although we are experiencing a volatile and highly uncertain world economy, strategic decisions still have to be made. Since, no one can never really predict the future, strategic decisions are relentlessly unclear in all situations. Nevertheless, these strategic decisions usually involve change as the environment is highly dynamic. The uncertainty of market environment can be resembled to a game of chess, where the outcome of the opponents moves are unpredictable, and therefore one has to limit oneself to probabilities that are not too far ahead. (Johnson, Scholes & Whittington, 2005)

Proposition 1a: Realising the level of uncertainty will determine the extent of change of a strategy.

Before the discovery of Australia, the world believed all swans were white. This was confirmed by empirical evidence. Then something happened, Australia was no longer unknown land and the first black swan was sighted which puzzled ornithologists. The fact that a single observation can throw down a generic statement derived from millennia of observations is astonishing, all that was needed was one big black bird (Taleb, 2008).

Proposition 1b: A crisis triggers a drive to finding black swans.

Uncertainty will be the first step to look upon as it is described to be determining the extent of change which has to be made in a company strategy. Change will be dealt with in the upcoming section.

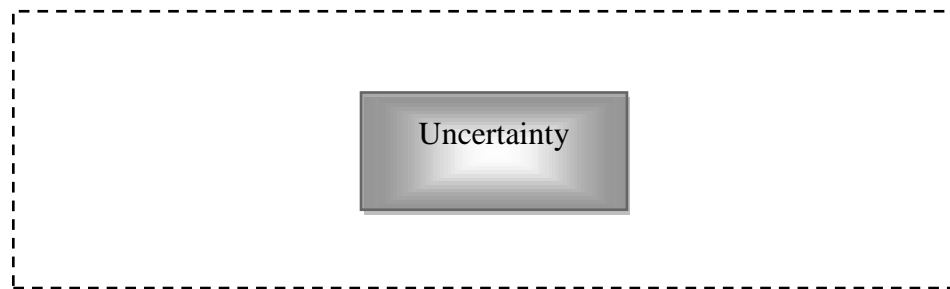


Figure 4.2 Uncertainty

#### **4.6 Change**

*Competing in a flat world requires businesses to quickly grasp the impact of the changing business world and respond to its threats and harness its opportunities.*

(Infosys, 2006, P. 4)

In a changing environment a company has to oversee its strategic aims, one cannot continue with the same high growth targets or be spending as much when a crisis comes. During this chapter different viewpoint on change will be stated from today's leading researchers, such as how to consider cost savings and the importance of overlooking your vendors when a crisis does occur.

First, a description will be provided as to why changes need to be made to company's strategies in the beginning of a crisis. In the article, "Skate to where the money will be," by Christensen *et. al.*,(2008) they highlight the very essence of why companies need to change their strategic goals. As the surroundings of companies' change, which they most certainly do during a crisis, so must their strategic goals. In different times, profit flows within an industry may shift which can lead to power shifts in companies. When a crisis arises, customers' needs change as well and therefore companies strategies also need to change. (Christensen, Raynor & Verlinden, 2008)

Harris and Ogbonna, in the book *Exploring Corporate Strategy*, describe the potential pitfalls of change as they identified some unexpected outcomes of corporate change: The ritualisation of change, hijacked process of change, erosion, reinvention, ivory tower and inattention to symbols. *The ritualisation of change* is when the change programme is seen by people as having little significance. *The hijacked process of change* is when other people in the same organisation benefits from the change in one part of the company. *Erosion* is when the original change programme erodes due to unexpected event within the organisation, and purpose of change disappears in the crowd of unsolved upcoming issues. *Reinvention* is when an attempt to change fails as a company's culture takes over, leading to sole concept rename, such as customer service turning into service quality. *Ivory tower* is when top managers loose creditability due to the fact that they are not seen on the ground by the blue-and white collars behind production. The last potential pitfall in change programs is the *inattention to symbols*, which is related to the last one. As the change in a company is being executed, the big message and intentions have to be communicated even down to the blue collars to make the changes reality. (Johnson, Scholes & Whittington, 2005)

In the aspect of change, a glance at the disruptive technologies model could give some enhanced insight to why change is important. The model shows how companies' offerings often overshoot what customers are willing to pay for. A parallel can be drawn with the state of crisis, which we are in today, where customers demand lowers in time with their spending decreases. Therefore companies' have to change their strategies and think in more disruptive ways. (Christensen, Raynor & Verlinden, 2008)

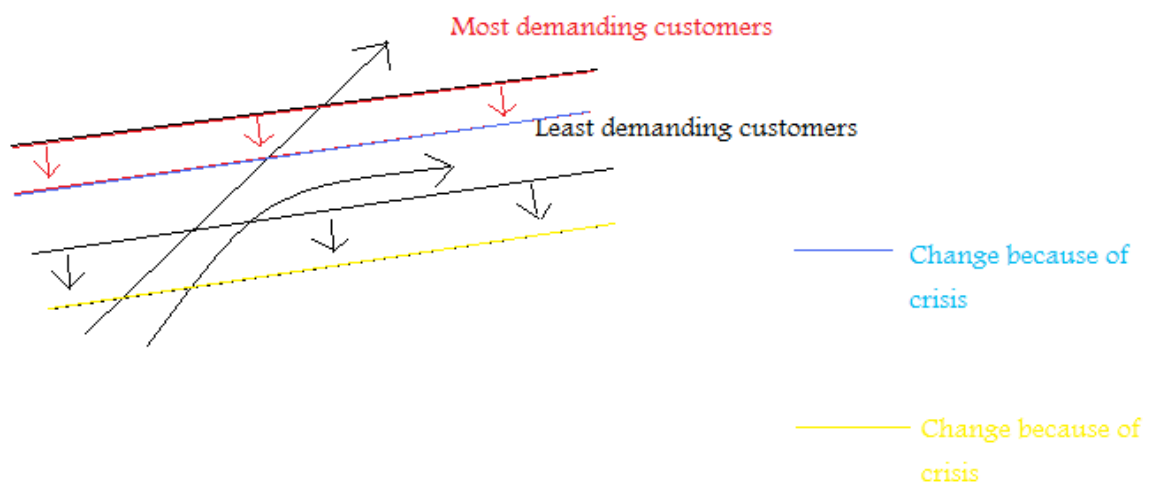


Figure 3.3 Disruptive ways (Christensen, Raynor and Verlinden, 2008)

Henceforth, in this chapter some statements of general terms about change will be given by different researchers, followed by a more in depth analyses on what aspects are important in the name of changing a company's strategy.

When facing a recession the first thing to do, according to Colvin (2009), is to reset priorities to face the new reality. During a lecture on Harvard Business school, Jamie Dimon, CEO of J.P. Morgan Chase one of the nation's few remaining strong major banks, told the students that J.P Morgan had cancelled all of their original thoughts on strategy for 2009 to focus on the fact that they are in the middle of a crisis. What they have to do is reset their priorities with a new reality as base. Whole Foods Market CEO John Mackey says; "We have to manage the business differently." Economic growth used to be a tail wind that the company built into its business plans. Now, Mackey says; "one of the leadership challenges I have is that that assumption is no longer true." The new era "requires a different mindset--we have to be more frugal, to think about every expense, every capital investment--because we won't be bailed out by growth." (Colvin, 2009)

According to Rochet *et al.* (2008) the public sector has, in general, a strong resistance towards change. The authors state that a crisis is a way to get companies to change. Because in their research, they conducted four case studies on companies witnessing a crisis and the result of their study gave them the insight that a crisis can radically change public organizations. There are three important outcomes from this study, which are; 1. Crises' must be managed and the common factor in each of the scenarios is making the crisis, triggered by a very wide range of factors, the momentum for organizational change; 2. In each case, a key success factor was the prior existence in managers' thinking of a new strategic model; 3. Although 'what' is an essential question in relation to the strategic objective, 'how' is far less so. (Rochet, Keramidas & Bout, 2008)

In the article *Staying Up in Down Times: Change Now or Be Eaten* written by Malody (2009), more specific strategies are discussed, starting with the importance for companies to monitor their vendors. Because, in a crisis situation with a changing strategy, new or other vendors could be better suited for the company's new strategic aims. What also is important in this aspect are how the

company's vendors are affected of the crisis; will their products lose quality because of cost savings or are they even in the risk of bankruptcy? Henceforth Malody explains a problem that Mark Simpson, marketing director of Ford of Britain, witnessed during last recession which implied that they reduced funding on new products. This gave complications for the company when the business cycle turned and implicated that the company were left behind their competitors. Therefore Simpsons states the importance of always investing in future products no matter where companies are in the business cycle. However, he does not detract the importance of cost savings but rather to evaluate where focus should be, on what products. This also gets support from Colvin who wrote "Yet it's remarkable how many businesses cut training and development in a downturn. The best never do". When discussing specific strategies, for example of how to change your pricing strategy in a recession a thoughtful study was made by Colvin (2009) which resulted in the following; in a typical S&P 1500 company, a price cut of 5% would have to generate increased sales volume of 19% in order to pay for itself. (Malody, 2009; Colvin, 2009)

Proposition 2a: When changing a strategy, it is important to overlook all suppliers to see which are best suitable for the company considering the new circumstances.

When retaining focus on a long term plan it is important to change your mind set with a focal point on how to get there. In this process, steps such as considering embedded versus shared services, moving towards more process thinking and working towards strategic goals are important aspects of transformation that have to be considered. In the theme of change, centralizing is the lead word to be effective *i.e.* it is important to central allocation of recourses. (*Staying strategic in a changing environment*, Anonymous, 2009). There are also discussions by today's leading researchers on different approaches for companies to survive the current crisis. One important aspect is the importance of changing the cost structure and the use of resources. In this aspect the essential focus should be to make the strategic change onto cost savings in the very beginning of a crisis or even just before the crisis started because it is difficult to start a change in the middle of a crisis. What also is beneficial if a company manages to anticipate a coming crisis and start cost savings before the recession; they have the



opportunity to save money in order to expand, through acquisition, during the recession when potential targets are cheaper. However, there are also arguments that are gainsaying, arguing for the importance of keeping a long term perspective and having projects in the pipeline with futuristic aims which should not be changed. (Karlsson, 2009; Castaldo, 2008)

In an increasingly uncertain economic outlook there are requirements for strategy shifts and planning for a downturn. A downturn is not the time to hunker down, pull back and hope to come out unharmed. Times like this could actually be good for companies', it gives opportunities to improve their position in relation to competitors and the only way to exploit that opportunity is through extensive planning. Further on, there are discussions of the importance with reinvestments during a crisis to be able to get through best way possible. A possible way of implementing a strategic change and a shift of focus is the "cut two, invest one" strategy. This strategy means that a company can change focus by reducing, for example employees, in one unprofitable segment and hiring other in more profitable segments. (Castaldo, 2008)

When discussing the factor change in this context, we consider it as the need for changing a company's strategic aims, when witnessing a crisis. Further on, we believe the factor, change, to be one of the most important and most likely the factor a company needs to take on first of all, after the company is aware of the uncertainties surrounding them.

Proposition 2b: There is a need for changing your strategic aims or the strategic way of reaching your aims when entering a crisis.

Change will be considered when uncertainty is dealt with. Change will formalize the important issues that can affect the company from a strategic perspective. Leadership will be dealt with in the upcoming section.

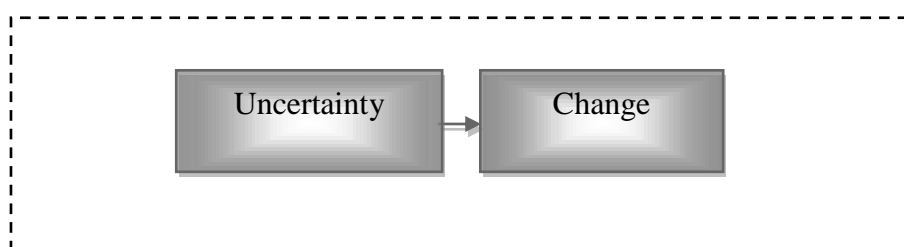


Figure 4.4 Change

## 4.7 Leadership

*Leadership is the process of influencing an organisation (or group within an organisation) in its effort towards achieving an aim or goal.*

(Johnson, Scholes & Whittington, 2005, P. 519)

Traditional leadership is done by using economic instruments such as strategic planning and budgeting, and then controlled by performance measurements and follow-up meetings. In business there is need for a leader. According to Mintzberg a leader creates meaning by enthusing and motivating people into making work worthwhile. The leader has a central function in the company as he/she takes on ten roles, namely; 1. Formal authority and Status, 2. Top figure, 3. Driver, 4. Intermediary node, 5. Information seeker and receiver, 6. Information transmitter & Spokes person, 7. Initiative person, 8. Crisis solver, 9. Resource allocator, and 10. Negotiator (Bakka *et al.*, 2006).

In contrary to Mintzberg, Stewart believes there is just three different managerial jobs that together make up an analyzing model, clarifying whether the leader is reactive or proactive in his/her work. The model consists of following variables; *demand* of work and obligations, *constraints* to available resources to which the leader has on hand and *choices* that the leader has to make when selecting where to allocate the time and effort (Bakka *et al. et al*, 2006).

Johnson, Scholes & Whittington, (2005) state that leadership does not necessarily involve a hierarchy, but more an activity of individuals ending in a coagency between several people. They discuss leadership as more than the personal and professional characteristics included in the leadership role. They define leadership as a person utilizing leadership behaviour through coagency to solve a problem, by emphasising on the consolidated force (Bakka *et al.*, 2006).

According to Bakka *et al.* (2006) there are three types of leadership approaches, all three with their own quid pro quos; Autocratic leader, democratic leader and laissez-faire leader. The autocratic leader is best used in quantity production companies, democratic optimally used in quality performance companies and laissez-faire has only negative effects as the team loses sense of satisfaction and

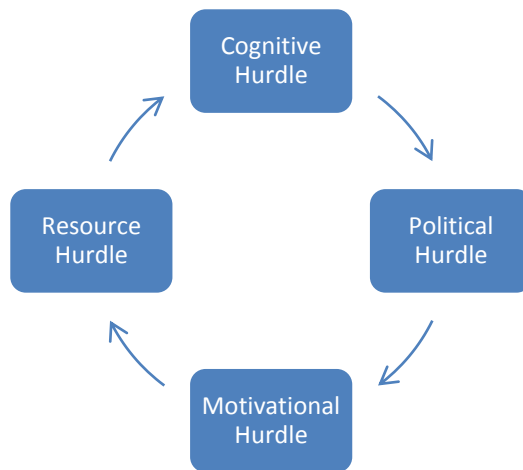
group belonging with a laid-back leader (Bakka *et al.*, 2006).

Whilst there are many discussions about the attributes of a good manager and leadership styles, the emphasis now and at all times should be on how managers lever rapid strategic change. This is generally referred to as a *turnaround strategy*, where manager's ultimate characteristic is the ability to rapidly prioritize the things that give quick significant improvements. (Johnson, Scholes & Whittington, 2005).

Lorange (2009) states that in order to manage the current financial crisis there is a need for *meeting places*. Meeting places to create teams that do their very best efforts as every individual's unique capabilities and energy are key success factors. Lorange asks himself what sort of leadership is demanded to create meeting places. His answer consists of four fundamental aspects that are particularly critical during occasions such as these super-turbulent times; the leader needs to have high degree of integrity to be trusted, be focused and positive to keep momentum, keep the stakeholders in to keep focus on the customers in order to stabilize the revenue flow, but also to keep realistic optimism by gaining a better understanding of the business cycles. The business cycles tend to go up and down, rather than going only up, as is the optimistic view of managers (Lorange, 2009).

The above mentioned leadership factors illustrate how the meeting place could function. But the four critical leadership issues can take on different values as they themselves are dilemmas. These so called dilemmas give the team angles of how the "meeting place" might function, as it is up to each and every leader as well as team to decide how to respond to each dilemma (Lorange, 2009).

In tipping point leadership, Kim and Mauborgne (2003) claim that in order to adapt a new strategy a leader needs to go through a four step process to handle a rapid and dramatic change with limited amount of resources. This process consists of four hurdles that need to be tackled; Cognitive hurdle, Motivational hurdle, Political hurdle and Resource hurdle.



(Figure 4.5 , The four hurdles, Kim & Mauborgne, 2003, P. 64)

The *cognitive* hurdle is about making the problem in the organization visible and facing it by realizing it and communicating it. The *resource* hurdle is about allocating resources to the right place at the right time, where they are used most efficiently. The *motivational* deals with the problem of getting all onboard of the change the organization is facing, this is done by choosing key individuals within the working groups, often a senior colleague, which could after being convinced can sway all the others onboard with ease . Last but not least, one has to deal with the *political* hurdle, which in reality means dealing with the resistance that could appear from the crowd; this could prevent the cog of change from moving forward. This is dealt with by isolating the opponent causing the problem, and silences him. These are all issues to be handled by a leader, put in a dramatic situation where rapid change is of highest priority (Kim & Mauborgne, 2003).

Up until now there have been different opinions on how to manage leadership, but the above mentioned authors mostly discuss how the leader is the alpha male of the pack. Sun Tzu (2005) writes in his book “*The art of war,*” in a very contemporary and business applicable way, how a leader deals with strategy. The main idea is as a leader must be well informed about his enemy, and in this case the competitors in the industry. Sun Tzu also identifies the generic strategies to meet the enemy at war; 1. If you are greater than enemy then divide and conquer, but if the enemy if greater than you prepare to elude him 2. The one that waits for his enemy on the field is rested and at ease, the one rushing to engage the enemy is already weary. (Tzu, 2005) In order to win one must know the enemy by

calculating and measuring the enemy and space upon which the battle is fought. These strategic factors should be considered by leaders as business suffers from unexpected events in the competitive market (Tzu, 2005). This discussion leads to the following proposition:

Proposition 3a: It is important to have leaders with the right qualities, or change their leading style to fit the new situation.

*...As water has no constant form, war has no constant conditions.*

(Tzu, 2005, P 94)

Another issue discussed by several authors above is the Principal-agent-problem where the Manager (agent) and the Shareholder (Principal) has different views on how to run the company. The Principal is in the business for the long-run, while the agent is in the business for the short-run. This means that during the business cycles, the principal seeks a stable stream of revenue, while the agent seeks wealth in momentum Bakka *et al.*, 2006; Johnson, Scholes & Whittington, 2005; Mintzberg, Ahlstrand & Lampel, 2005).

Proposition 3b: During a financial recession the principal and agent tends to keep their original views.

Through an elaborate discussion about the factor leadership during the renewal process of a corporate strategy, it was put in relation to the other previous mentioned factors to build up an understanding.

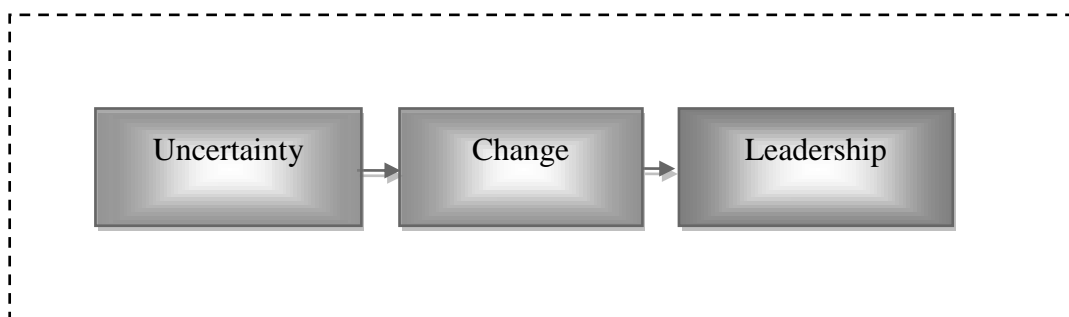


Figure 4.6 Leadership

## 4.8 Information

*The messy world of gossip, inference, impression and fact must be reduced to firm data, hardened and aggregated so that they can be supplied in a digestive form.*

(Mintzberg, Ahlstrand & Lampel, 2005, P. 69)

Information is scarcely spoken of in connection to strategic corporate management. Though information is the pillar upon which we stand upon when doing business, it is rarely seen as a unique competitive resource of a company which is going to be discussed throughout this section.

Information has a bigger impact on competitive advantage than many may believe and the strategic role of information changes depending on which type of market position the company has, which means having focus on products or services. When it comes to information in the form of competence, there are three approaches towards keeping a competitive edge. Firstly, one has to figure out what makes your unique competence. Whilst products are mostly thought of as rare, in service companies, i.e. IT companies, information is in fact a competitive advantage. Secondly, the complexity of the information has to be considered, as it can consist of different sets of activities and skills, i.e. mastery of software and hardware. The third and last approach of information processing capability is the casual ambiguity. Many companies do not have a clear sense of organization, which makes it hard for others to copy their seemingly successful working approach. Whilst many things are codified and explicit, tacit knowledge such as intuition and experience are hard to copy into an organization (Johnson, Scholes & Whittington, 2005).

The failure of strategic planning is the failure of formalization. Formalizing knowledge is very hard since it is difficult to process, aggregate and consolidate all the information to convert it into hard data. Yet, if formalization is not done, much vital knowledge and information will never be passed on, internalized, comprehended and synthesized for the next person. Mintzberg, Ahlstrand and Lampel mention capital budgeting as an example, as they continue to emphasize on the importance of formalizing information. A study of three companies showed that their use of capital budgeting had caused several kinds of problems. Some of

the issues mentioned were that the procedure to others was perceived as complex, hard to understand and inconsistent. Capital budgeting is in fact a way of informing senior management about capital structure and project activities. Having a proper formalization would drive the planning strategy forward as information stream would flow go quicker and smoother (Mintzberg, Ahlstrand & Lampel, 2005).

Proposition 4a: In a turnaround event such as the current financial crisis formalizing knowledge is even more important as recessions are connected to company streamlining which could lead to loss of knowledge.

Epistemology, the philosophy of knowledge, seeks to explain the truth by investigating mechanisms at the roots of the subject at hand. Nassim Taleb provides an illustrative epistemological example as he tells the story of Umberto Eco's library. Umberto is a professor in an insightful group of scholars who has the privilege to own a private library. Umberto meets two kinds of people visiting his library; the first being the "wow, how many books have you read" people, and the second being the people actually realizing it's a research instrument. But even the latter needs to be told that "read books are far less valuable than unread ones" (Taleb, 2008, P. 1). This is the occasion when the problem arises, as information appear stochastic. This is described by Shiller and Taleb as randomness in knowledge creating what we call incomplete information. Shiller describes random information as causing factors to the volatile market, and Taleb continues his description by giving an example of incomplete information; when you see a pregnant woman the sex of her baby is random chance, but for her doctor it is pure science and fact. This randomness or incomplete information is basically lack of knowledge (Taleb, 2008; Shiller, 1985; Bernasek, 2001)

With today's increasingly developed IT functions there are numerous new ways companies can use information. Information can be used, in new ways, both within the company for informing employees and outside the company collected from the web and useful within the organization. There are also great hopes on the future with new information tools that will compete with today's giants Google and Yahoo (Hane, 2009). However, for this thesis the most interesting part of

information is the one going on within the company, together with the importance of formalizing knowledge into information. How the way of informing within the organization changes and needs to be renewed because of macroeconomic changes.

Proposition 4b: Increasing the flow of information within a company is more important during a crisis.

Information is important from different aspects. Information has to be considered as a tacit property which has to formalize internally to be able to pass it on through the company. This is especially important as people are being laid off during a recession and vital information in form of experience and know-how may be lost. Also the way of informing the employees has to be changed during times of crisis. These are times when transparency in disclosure is most needed.

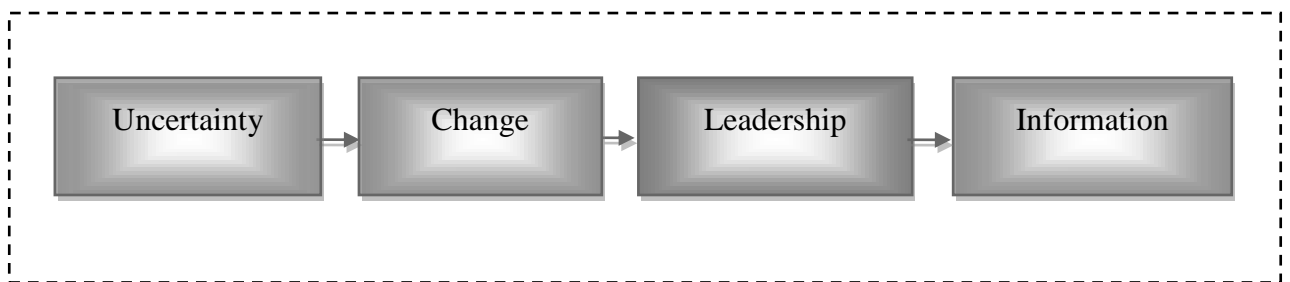


Figure 4.7 Information

## 4.9 Adaption

*In a turbulent age, the only dependable advantage is superior capacity for reinventing your business model before circumstances force you*

(Hamel & Välinkangas, 2003, P. 53)

As a short introduction to why adaption is important when thinking of strategy can be made from a statement by Hamel and Väililangas article *Quest for resilience*, “Business strategies decay in four ways – by being replicated, supplanted exhausted, or eviscerated. And across the board, the pace of strategy decay is accelerating.”( Hamel & Väililangas, 2003, P 58). The question is then what a company should do to reduce or even eliminate the risk of strategy decay



and one answer to this can be adaption. If a company constantly adapts their strategic thinking and acting, the possibility to use their current strategy for a longer time increases. (Hamel & Välinkangas, 2003)

In the beginning of this chapter which is describing adaption's importance when renewing a strategy the focus will be on resilience continuing further on with other aspects affecting adaption such as diversity and cash management.

As stated by Somers the first and fundamental question to ask is whether an organizations should try to anticipate disasters and create comprehensive plans for mitigating loss or implement measures that enhance the ability to respond to disasters by increasing resilience. Somers writes in his article that the former preferred way to act was to make a step-by-step plan of how to handle a crisis. However, in this research he recommends that companies instead should develop planning methods that create internal processes and organizational structures that build latent resilience within the organization that enables the company to have positive adaptive behaviours when they are under pressure. Further on, Somers present six factors which positively affects organizational resilience potential, the six factors are; (1) perception of environmental risk by department managers, (2) the extent to which management seeks information about environmental risks, (3) the structure of the organization, (4) the extent of participation in community planning activities, (5) the level of compliance with continuity of operations (COOP) planning, and (6) whether the department has professional accreditation. (Somers, 2009)

In the article *Small business resilience* written by Berman, a case study was conducted, examining how Steve, CEO of an American car dealership, has to adapt to current crisis. Steve describes that his experience is of importance when handling his business during current crisis and he states that "Unusual times require unusual solutions and I learned a long time ago that every problem has a solution". Further on, Berman writes that, the way to handle problems in a crisis is to sit down with the entire staff (if it is a fairly small business) and together involve the employees in the problems the company are facing and together find a solution. Other aspects of importance according to Berman are to be open-minded and adaptive. (Berman, 2009)

Rochet *et, al.*, further elaborates on the same topic as Berman when stating that organization has no other choice than to be resilient in the face of a crisis. In the article the authors also state that resilience and the urge for learning are closely linked together. The adaption process includes a learning phase, a phase during which the organization can restructure itself and acquire and implement new competences. Therefore companies that are adaptive will come out of a crisis strong with new knowledge and which makes them better prepared for future crises. To the authors' adaption is the factor that makes companies bent of track during a shock to bounce back and return to a new stable state. (Rochet, Keramidas & Bout, 2008.)

Proposition 5a: When renewing a strategy, adaption to the changing surroundings is essential.

Apart from earlier discussions where adaption are the direct solution to a crisis, there are other aspects such as diversity, worst case scenarios and how a company handles adaption with customer and employees which will be further elaborated on in this coming sections. Diversity is an aspect affecting crisis management involving how a company should restructure their business, when facing an economic downturn. Because in an economic downturn a company has to restructure its business, to be able to survive, and the restructuring can be conducted in different ways. The question of importance is how a company should include diversity into its portfolio which gives opportunities to adapt to changes and to minimize risks and thereby diminishing the effects of the downturn. Further on, in the article *Checklist for survival*, Hodges urges companies to make worst case scenarios and most important to have answers for each and one of the outcomes in case they occur. This will enable companies to be prepared and quickly adapt to the changing surrounding (McWilliams III *et, al.*, 2009; P. Hodges, 2009).

Proposition 5b: A company should be prepared for different scenarios and be able to fast adapt to them when they occur.

When thinking of your customers, in a crisis, it is important to be flexible and adaptive to be able to change focus from your original important customers to the

customers with greatest spending possibility in the changing environment. To prove this point a case was described in the article *Markets 2008: Recession management* written by Castaldo conducted on Singapore Airlines. During last recession Singapore Airlines reevaluated their customer stock and found first-class travellers flying transcontinental routes to be the most profitable customers. Therefore they changed their strategy and invested 300 US\$ to improve business and first class service in order to exploit the new customer group. When the Asian crisis struck in 1997, Singapore Airlines stayed profitable. (J. Castaldo, 2008)

During a crisis, shifts of different kinds will occur, meanwhile it is important for companies to reevaluate their staff and find the most important employees. Criteria's for an important employee should not only be performance but also the slope of the learning curve. Talents are important for a company's future, but holding onto talents could be difficult in a recession as "the people who don't have a lot of options stick around, and the ones you want to stay will leave as soon as they get the opportunity" (J. Castaldo, 2008). As companies have to evaluate who are qualified to take responsibility during a recession, career opportunities may arise which is important to discuss with talents that the firm wants to keep.

The importance of adaption when handling a crisis is further verified in the article *Strategies for surviving a shakeout* (Day, 1997). As described earlier in the problem discussion, the crisis can be seen as a boom and bust shakeout and companies surviving this shakeout are often called adaptive survivors. Adaptive survivors are described as having superior discipline in operations, greater sensitivity to customers' needs and greater responsiveness to competitors' threats. There are also a number of pitfalls that adaptive survivors need to overcome, in areas such as leadership and management style, resources and controls. However, companies surviving a boom and bust have been able to adapt to these pitfalls which are a major reason for their survival. (Day, 1997)

In conclusion one could state that adaption is an important factor when changing a strategy and it has good support from today's leading researchers. We see adaption as a factor that has to be considered during the whole process when dealing with a financial crisis. Adaption is not something a company only should decide on once but rather lie in the back of managers' head to use whenever small

changes in the surroundings occur. As also can be seen from other researchers adaption is important in many different fields of strategies from a company's main strategy down to how to deal with customers' creditworthiness.

Adaption is an important factor to consider during the whole renewal process. It implies that a company constantly makes small adjustments to minor changes that constantly occur during a time of crisis.

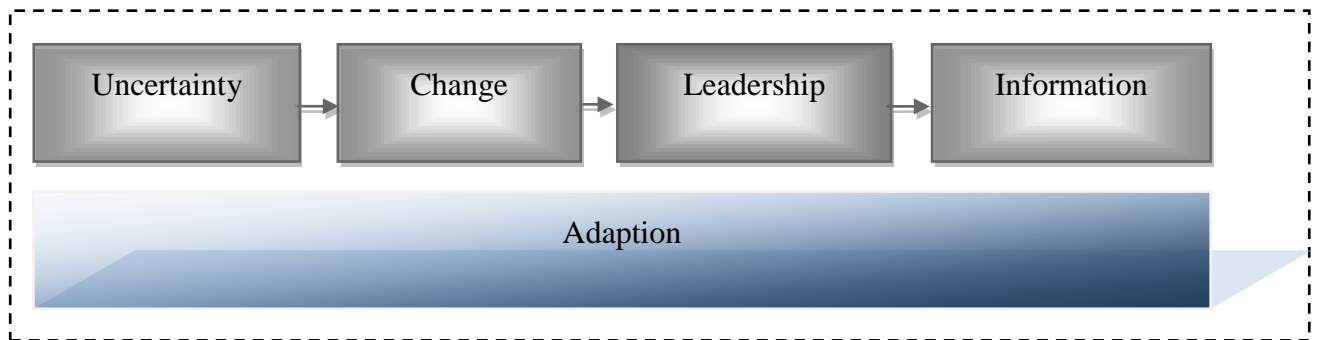


Figure 4.8 Adaption

Proposition 6: The arrangement of the factors should be as in “The crisis renewal strategy”

The next section will present a framework, derived from the literature review and statements creating an illustrative picture of how it handles a company's strategy in company, through the process of renewing a current decaying strategy.

#### 4.10 Theoretically developed model

The theoretically developed model is an own model which derives from the previous discussed factors in the above mentioned literature. These factors which have been discussed upon until now are theoretically important and whilst three of the mentioned factors are derived from the turnover strategy, two more were added to fit the purpose of this thesis. Below, a summary of the imperative parts will be presented, and thereafter be depicted through an illustrative model we will now refer to as the Crisis Renewal Strategy. The model will then, in the empirical chapter, be tested for its relevance in one particular case study.

#### *4.10.1 The turnover strategy*

There are many different types of strategic changes that cover many parts of how to adapt a deteriorating operating strategy. This strategy put emphasis on both cultural and strategic transformation to be on rapid renewal will take a different approach, by looking at the factors which are of importance when changing a strategy due to a crisis. Whilst many corporate change programs require both cultural and strategic transformation, the emphasis has to be on rapid renewal (Johnson, Scholes & Whittington, 2005). Nevertheless, the turnaround strategy will be used as a template during this thesis.

#### *4.10.2 The original strategy*

The original strategy is the strategic framework set by management that aids the company to run towards different goals such as growth, efficiency, capital structure, etc. It is either these strategic goals that needs renewal in the beginning of a crisis, when presumptions change, or the whole strategy itself. An example of an original strategy from an actual company will be presented in chapter five when describing the Case Company's strategic framework and how it has been renewed.

#### *4.10.3 The affecting crisis*

The affecting crisis is what changes the game rules for companies, and as described in the limitations, we only consider macroeconomic disturbances or other turbulence that companies cannot affect. It is because of the changes in the company's environmental prerequisites that the decaying original strategy needs to be abandoned and renewed to fit the new settings.

#### *4.10.4 Uncertainty*

The first factor that is needed to be considered in this framework is uncertainty. The company needs to know how uncertain their environment is in order to know how to renew their strategy. In a very uncertain environment it is difficult to set any precise strategic targets that the company should reach. It is therefore

important to know the amount of uncertainty surrounding the company to know how to change the strategic goals.

#### *4.10.5 Change*

For the next factor in the framework, change, there are two different approaches a company should consider. Either; the company's strategic aims need to be changed when the company has more or less the same strategic approach, or, the strategic aims are the same but the strategic approach needs to be changed to be able to reach the goals. However, it does not matter which approach a company uses because both of them requires a strategic change of some sort.

#### *4.10.6 Leadership*

Leadership is, in the context of this thesis, considered as how a leadership style needs to be changed because of changes in the company's surroundings. There are other qualifications that are needed when leading in a downturn then during upswings. Further on, the leadership issue focuses on the relation agents and principals has towards short term and long term perspective, and whether the perspective changes when a company are affected of a crisis.

#### *4.10.7 Information*

The factor in the end of the *Crisis renewal strategy*, information, concerns two parts. First how knowledge inside the organization is dealt with and secondly the way of informing within the organization during a time of crisis. This is the last step in the model due to the importance of knowing how to deal with the other factors in the model. Especially for the issue of handling the knowledge in the human capital it is important to know if there is a need for streamlining the business.

#### *4.10.8 Adaption*

The factor adaption lies quite near the factor change. However, the difference is that adaptation considers how a company should react to the constantly small changes in the environment and make adjustments within their organization that

increases performance. As can be seen in the framework below, adaption is placed throughout the process which means that companies should constantly adapt to small changes in the environment.

#### *4.10.9 Crisis renewal strategy*

The crisis renewal model below illustrates clearly how the original strategy, affected by a crisis such as the current financial crisis, needs renewal. A company that feels that their current strategy has decayed, then goes through the different steps; uncertainty, change, leadership, information and adaption to renew and optimize the strategy to the new circumstances. Under each factor above, a description is given of how companies should think when overcoming crisis and in what aspects they could need renewal due to changing circumstances. The model is thought as a framework that companies could use as guide when they are in need of strategic renewal. Further on, the model is general in the perspective that it can be used for any kind of strategic renewal process, whether it is a marketing strategy, a sales strategy or the general strategy for a company.

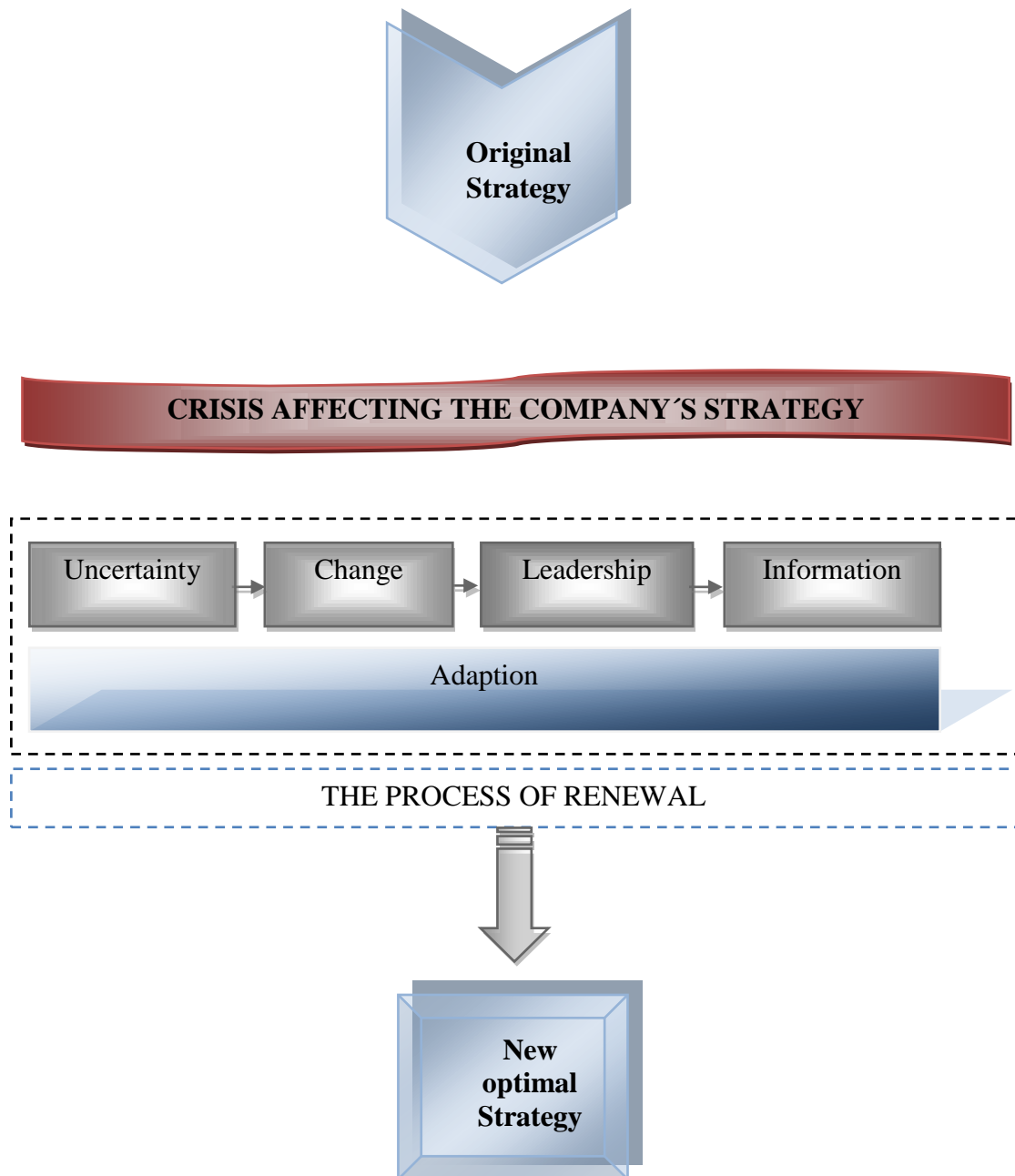


Figure 4.9 Theoretically developed model (Own figure)

The Crisis Renewal Model above illustrates clearly how the original strategy, affected by a crisis such as the current financial crisis, needs renewal. The model then goes through the different steps; uncertainty, change, leadership, information and adaption to renew and optimize the strategy to the new circumstances.



## **4.11 Summary of propositions**

### Uncertainty

Proposition 1a: Realising the level of uncertainty will determine the extent of change of a strategy.

Proposition 1b: A crisis triggers a drive to finding black swans.

### Change

Proposition 2a: When changing a strategy, it is important to overlook all suppliers to see which are best suitable for the company considering the new circumstances.

Proposition 2b: There is a need for changing your strategic aims or the strategic way of reaching your aims when entering a crisis.

### Leadership

Proposition 3a: It is important to find leaders with the right qualities, or change their leading style to fit the new situation.

Proposition 3b: During a financial recession the principal and agent tends to keep their original views.

### Information

Proposition 4a: In a turnaround event such as the current financial crisis formalizing information, within the human capital, is even more important as recessions are connected to company streamlining which could lead to loss of information.

Proposition 4b: Increasing the flow of information within a company is more important during a crisis.

### Adaption

Proposition 5a: When renewing a strategy, adaption to the changing surroundings is essential.

Proposition 5b: A company should be prepared for different scenarios and be able to adapt quickly to them when they occur.

### Factor placement

Proposition 6: The arrangement of the factors should be as in “The crisis renewal strategy”

These propositions are an outcome of the theoretical review, and will be the source of inspiration when making the interview questions in the empirical section of this thesis. The next chapter will explain the empirical approach and how the crisis renewal strategy is planned to be tested for its relevance in one specific case.

## Chapter 5

### Empirical method

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*This chapter begins by describing the way of conducting empirical studies, and data collection. Subsequent an explanation will be presented on how data is collected for this dissertation. This chapter is concluded by a discussion about the validity, reliability and generalisability of this thesis.*

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#### 5.1 Data collection and method

##### 5.1.1 Primary data

In some research there exists a scarce amount of information available concerning the topic. This suggests that a new collection of information is desirable. It will bring the dissertation the essential knowledge to accomplish a deeper understanding of the selected field of research (Christensen *et al.*, 2001).

##### 5.1.2 Secondary data

Secondary data is the data collected and accrued by others in different contexts and purposes. For this paper, secondary data has been the key essences since strategy is built on effective planning of business leaders. This thesis will utilize the secondary data to support the research. Also, great amounts of secondary data will be used to prepare interviews with the company to improve the quality of response. The preparations are mainly made by information from the company's homepage and annual report; which are good sources of information about who they are, what they do, where they are. Together with the theoretical review linear causalities were drawn and questions arose (*ibid.*).

##### 5.1.3 Data collection methods

For this type of case study it is preferable to begin collecting secondary data in order to get an understanding of the phenomena and draw linear causality effects to historical recessions. This sort of pre-understanding is important to handle a strategy adaption during the current financial recession. Subsequently primary

data is required since a case study means investigating the subject at hand within its real-life context. Collecting primary data is of great importance when finding the proper information to answer the research question. This sequential method of starting with secondary data to continue with primary data in form of interviews is important, since obtaining a holistic understanding provides us with the tools of investigating the process at hand, as well as assures the reader that the information is up-to-date (Christensen *et al.* 2001; Yin, 2003).

#### 5.1.4 *Response rate*

The empirical findings are based on three semi-structured interviews with three of the company's key employees, together composing the top management in the Nordic region. All individuals were first contacted by phone, and then an email containing the interview questions was sent. Since they all agreed upon having an interview, this resulted in a 100% response rate giving the thesis quality assurance and enhanced the understanding of the strategic decisions and implementation which is the process of renewal.

## 5.2 **Interviews**

An interview could be shaped in a more or less structured manner, directing the conversation in the field of the topic. There are mainly three types namely; structured interview, semi-structured interview and unstructured interview (Saunders *et al.*, 2007).

Structured interview uses a questionnaire with questions which are predetermined. In a semi-structured interview, the interviewer will use a so-called "interview guideline" consisting of questions which have to be mentioned during the interview. An unstructured interview, also called in-depth interview, has the advantage that it offers the respondent an informal environment to talk freely (Christensen *et al.*, 2001).

For this qualitative research the most suitable method was a semi-structured interview, as the aim of this thesis is to explain and attain deeper understanding for renewal of strategic management.

### **5.3 Data analysis**

Analysing qualitative data instead of quantitative data requires a set of rules. Previous to the analysis a consolidation of the retrieved data must be made to assure the validity of the information. The analysis has to be compared with the perception of the respondents. The guideline which has been used during the data retrieval will be presented later in this chapter (Saunders *et al.*, 2007). In this study there are two interviewers, which decrease bias effects in analysis of the propositions. During the analysis both the conclusive outcome of each proposition and factor will be presented in chapter six.

### **5.4 Modus Operandi**

Modus operandi is also referred to as operationalization by others. Modus operandi is the section of the thesis where the thesis makes a synergy, between theory and empirics (Saunders *et al.*, 2007). In this thesis the affecting factors; uncertainty, change, leadership, information and adaptation will be analyzed and explained by the semi-structured questions. This research aspires to explain how certain variables will influence the process of renewing a strategy, in a positive way, during a financial crisis. According to Saunders *et al.* (2007) the traditional way of performing the modus operandi is measuring the research in numbers. However, this thesis has replaced numbers with letters to facilitate the overview of the answers.

The modus operandi was created to gain primary data about strategic renewal from the Case Company. This was achieved by interviewing the CFO, the CEO and the project portfolio manager in the Nordic division of the Case Company. To gain saturated answers, semi-structured interviews were chosen as way of conducting the interviews in order to give a more holistic response, and receive more saturated answers. The interviews with the key individuals were conducted in Swedish since the respondents are Scandinavian. Nevertheless, to ensure the reader the accuracy of the translation from Swedish into English, an objective individual with a Ph.C. in English language aided us in the translation.

Furthermore, the questions which are based upon the propositions will be presented together with the expected outcome of the questions from the different strategic factors; uncertainty, adaption process; growth, change and adaption.

#### *5.4.1 Interview guide*

To start the interview a warm up question was made to make the respondents comfortable, but also to provide information about the respondents' position. The interview begins with question 1 and 2 discussing the company's original strategy and their approach to renewal due to the recession.

Though the interview guide is formed as a questionnaire, the interview, per se, is semi-structured and the following question connected to the specific may transcend to answer other propositions. This is a deliberate action to receive saturated answers in this topic.

#### *5.4.2 Uncertainty*

Johnson, Scholes and Whittington (2005) discusses strategic decisions as they claim it generally involve change as the environment is highly dynamic. They also make the resemblance to a game of chess. Taleb (2008) provides the impression that uncertainty can change radically through one a single observation. The arguments about uncertainty gave the following assumptions:

Proposition 1a: Realising the level of uncertainty will determine the extent of change of a strategy.

Proposition 1b: A crisis triggers a drive to finding black swans.

To analyze the above mentioned propositions question 3 and question 4 were created to discuss the topic uncertainty during these market environmental circumstances. The questions are formed in a way which intends to give a discussion as well as answer to how the management of the company looks upon uncertainty by discussing the topic from the perspective of their position.

### 5.4.3 *Change*

In *Staying strategic in a changing environment*, Anonymous (2009) explains how it is important to retain long term focus on the plan when changing your mind set due to external circumstances (Anonymous, 2009). Castaldo (2008) continues the discussion by saying that a possible way of implementing a strategic change and a shift of focus. These discussions lead to the following propositions:

Proposition 2a: When changing a strategy, it is important to overlook all suppliers to see which are best suitable for the company considering the new circumstances. entering a crisis.

Proposition 2b: There is a need for changing your strategic aims or the strategic way of reaching your aims when

Analyses of these propositions were made by discussing questions 5 and 6. The questions were created to discuss major corporate strategic changes within the company. It is believed that change in strategy or its aims is vital for a company when affected by a downturn. Questions 5 and 6 attempts to give answers to whether or not the statements are true and discuss its significance for renewing the current strategy.

### 5.4.4 *Leadership*

In strategic leadership Johnson, Scholes and Whittington (2005) emphasise how managers need to think about and lever rapid strategic change. Tzu (2005) argues that the main idea in leadership is the ability to be well informed about his opponent on the market. Mintzberg opinion is that the leaders' main function is enthusing and motivating people into making work worthwhile (Bakka *et al.*, 2006). All authors emphasize on the significance of the leader, even in the time of crisis, which lead to the following statements:

Proposition 3a: It is important to find leaders with the right qualities, or change their leading style to fit the new situation.

Proposition 3b: During a financial recession the principal and agent tends to keep their original views.

To analyze the propositions, questions 7 and 8 were formed. These questions were shaped to discuss the significance of leadership qualities and whether or not the perspective of the top management changes during a recession. Further on, the questions were also created to give a discussion about how to handle eventual leaders that do not have the right qualifications.

#### 5.4.5 *Information*

The strategic role of information is explained by Johnson, Scholes and Whittington (2005) vital in changes, and whilst many things are codified and explicit, tacit knowledge such as intuition and experience are hard to copy into an organization. Yet, if formalization is not done, much vital knowledge and information will never be passed on (Mintzberg, Ahlstrand & Lampel, 2005)

Proposition 4a: In a turnaround event such as the current financial crisis formalizing information, within the human capital, is even more important as recessions are connected to company streamlining which could lead to loss of information.

Proposition 4b: Increasing the flow of information within a company is more important during a crisis.

To analyze the previous mentioned propositions questions 9 and 10 were formed. In order to capture the significance of information in a company during a crisis, the thought of managers were considered as their opinions are of high interest. The questions aim to provide answers concerning how managers handle this vital topic during a recession and how they will prevent losing knowledge within the company.

#### 5.4.6 *Adaption*

Day (1997) argues the importance of adaption when handling a crisis. Rochet, Keramidas and Bout (2008) concur by stating that adaption is the factor that make companies bend of track during a shock to bounce back and return to a new stable state. Hamel and Välinkangas (2003) say that if a company constantly adapts their



strategic thinking and acting the possibility to use the same strategy for a longer time increases. This discussion has led to the below mentioned statements:

Proposition 5a: When renewing a strategy, adaption to the changing surroundings is essential.

Proposition 5b: A company should be prepared for different scenarios and be able to fast adapt to them when they occur.

An analysis of the above mentioned propositions are made by questions 11 and 12. These questions were created to elaborate on the importance of having an adaptive capability within the company. With these questions the purpose is to find out if the company considers different scenarios which could affect the company in a volatile competitive market, as this recession demonstrates and how they prepare for adapting to different scenarios.

#### 5.4.7 *Factor placement in the model*

The placement of the factors is made due to the literature review and the belief that this is the logical assessment of the factors. This proposition is directly connected to the theoretically developed model which was presented in chapter 3. The questions created due to this proposition have a direct connection to the accuracy of the factors importance of placement and stepwise design.

Proposition 6: The arrangement of the factors should be as in “The crisis renewal strategy”

Questions 13, 14, 15, 16 and 17 were created to discuss the above mentioned proposition after having a full discussion about all the theoretically affecting factors. The questions would look at how well the model corresponds to reality and provide insight of how the interviewees would assemble the factors in the model.

When all the factor related questions has been made a last discussion was made to assure the saturation of answers, which consisted of questions 18, 19 and 20. These questions are formed in the manner that the interviewee could bring up

things that are not directly related to the factors mentioned previously with the intention to see if other factors would be better suitable in the model.

#### 5.4.8 *Factor credibility*

Questions 18, 19, 20 and 21 were eventual follow up questions which were brought up to discussion to finalize the semi-conducted interviews, but also to support the theoretical credibility in the empirics, and reassure the saturation of the answers.

### 5.5 **Research Credibility**

Whilst conducting research it is evident that the work handles the research credibility. Problems such as “how trustworthy is this research?” can become important issues as the reader needs to be provided with credible data in the form of truthful information. To reduce inaccurate answers and explanations one needs to put some focus on the reliability and validity of the research (Saunders *et al.* 2007).

#### 5.5.1 *Validity*

Validity refers to the accuracy of the outcome, but also the causality of two variables (Saunders *et al.* 2007). Having validity means the outcome reflects the reality (Christensen *et al.* 2001). The validity risk of the interview is connected to the respondent’s perception of the question at hand, and during the interview explanations were made if necessary, which eliminates the need for pre interviews (Yin 2003). In this thesis it is believed that there is little threat to the validity, as the interview guide provided presumed and fulfilling answers. In the end the semi structured interviews are believed to have measured what they intended to measure and give saturated answers, even though the respondent occasionally went out of track in the researched field topic, the information was gained.

#### 5.5.2 *Reliability*

Reliability is, according to Yin (2003), in what extent the results of the research will be consistent. The interview questions need to be well structured and planned

accordingly for the analysis (Saunders *et al.* 2007). In this case the research was done as previously mentioned since the company was contacted at idea stage which helped them to prepare. The reliability seems to be accurate at current time. However, conducting the same research in the future could be difficult as it has to be done in an ongoing downturn in the business cycle on the same company. Nevertheless, if one would redo the study on the same phenomenon given that the same data, collection techniques and analysis procedures are used it is believed that the outcome would be the same.

### 5.5.3 *Generalisability*

In order to make quality generalisability it is required to have validity. This means that the outcome in one area has to be able to be applied to other areas or other organizations and still have the same outcome (Yin, 2003; Saunders *et al.* 2007). In this thesis there is not a high generalisability since it was made on a single company during times of recession which indicates special circumstances. The outcome may be applied in other scenarios and researches, but some adaptations are essentially necessary.

### 5.5.4 *Case Company Critique*

The Case Company was found through our personal network. This fact was only found to have positive inflictions on the thesis as it gave us, as researchers, access to information that in other case would not be accessible. No negative inflictions have been noted since there was no previous direct personal connection between us and the respondents. The respondents have been believed to have told the truth during the interviews since they were allowed to become anonymous in this paper and no reason was seen to distort the truth. Nevertheless, minor tendencies to embellish the truth have been considered.

## 5.6 **Summary**

Throughout this chapter the empirical approach of conducting the current thesis has been explained, discussed alongside the some of the choices of this thesis. The qualitative approach of collecting data is explained in an elaborate manner under the title *modus operandi*, which contains a presentation of the factor to be

researched, with which questions it is being researched and what the expected outcome is. Concluding chapter four, the empirical studies based on the literature review in the previous chapter will be performed accordingly as mentioned earlier in this chapter. Coming up is a presentation of the Case Company's original strategy, alongside with information of how the strategy has been renewed.

# Chapter 6

## Case presentation

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*In this part of the thesis a presentation of the company chosen for the case study will be given together with a presentation of the company and its original strategy and how it has been renewed because of changing circumstances.*

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### 6.1 Case Selection

The case which is studied is based upon the Case Company's strategic adaption in a financial crisis. The choice to conduct the research on one specific company provides the opportunity of obtaining narrow information about the topic, and enables deep understanding of how the company's strategy is affected of a financial crisis.

To find the company where the case study was going to be focused on and primary data collected, we first searched our personal network, where the willingness to participate is higher. The company was selected because it were believed to have the qualities needed for conducting this study, i.e. it were affected by the crisis, it had an ongoing strategy and we were able to get the information from employees high up in the organization, which was a prerequisite. When the company was selected, key interviewees was chosen from the company in order to get saturated answers. This was done by contacting the CEO, the CFO and the Project portfolio manager of the company. These three are key employees and all have different roles in the strategic work. Through interviews with these three key persons within the organization the aim is to get different views, and thereby a better understanding of how the company's strategy has been renewed as well as what still needs to be renewed. The CEO are responsible of the overall strategy of the company, the CFO are responsible of the company's financial strategies and the Project Portfolio Manager is responsible for the implementation of the Alba programme (the Alba programme is an operational implementation of the group's strategy, further explained in 5.2). Analyses and empirics of the interviews are presented in next chapter.

Below is an interview table which will present information about the samples that have been chosen.

Position	CEO	CFO	Project Portfolio Manager
Strategy	√	√	√
Financial	√	√	
Operational			√

Table 6.1 Sample Information

## 6.2 Company presentation

The company studied in this research prefers to be anonymous, hence it will be addressed simply as the Case Company throughout this thesis. The Case Company started back in 1902 on the initiative of the two founders S.G and P.D. Together, with their family and friends, adding up to a total of 24 shareholders, they were engaged in the first investment. In February 20th 1913 the company was listed on the Stock Exchange, and today they have approximately 410.000 individual shareholders. The Case Company was the current world leader in their field of production until mid 2000, but was then overruled by their main competitor. They have involvement in 75 countries around the world and with about 43.000 employees. Since the start they have remained with their core business. For this thesis it is solely the Nordic region of the company that studied. The Nordic region has operations in Sweden, Denmark, Norway and Finland. They have approximately 700 employees and could therefore be seen as a quiet small part of the company in total. However, regarding the strategic decisions the organizational culture is decentralized which means that the Nordic region can decide how to run their organization to a high degree. (Case Company, 2009)

### **6.3 Original Strategy**

In the beginning of the 21st century the Case Company was the largest producer within their field in the world. However, in mid 2000 their main competitor made a number of acquisitions, there among a Swedish Group and passed the Case Company in terms of revenue. This troubled the top management at the Case Company and they started on a strategic plan which would have as aim to regain and embattle the position as the largest producing company in the world. It took about a year to formalize the strategic plan that was named Alba and in February 2008, the strategy was implemented. The decision and the planning were decided at top level of the group and shipped out to be implemented in all regions that the company is operating in. The Alba program has a limited timetable and will end after five years in 2012 (ICIS, 2009)

The aim with the Alba programme is to be the recognized leader in their industry which means that they should open new markets, attract fresh talents, develop their activities by bringing new solutions to our customers, and acting in a socially responsible manner, together with increasing competitiveness. The way of reaching these aims goes through different themes, drivers and projects. The Alba programme has four major themes. The first is to build leadership positions in key markets and expanding its presence in emerging economies. The second theme is to drive innovation to offer its customers ground breaking and competitive solutions. The third theme is to deliver efficiency by capitalizing on its expertise in technology, acquisitions and logistics in all the regions where they operate. The final theme is to develop their talents to meet the needs of operational units and world business lines with competent and motivated teams, (Case Company, 2008).

Further on, the Alba programme has five driving fields and it is within these fields most progress will originate. The first driver, energy, has three objectives; where development will be achieved and they save energy by developing solutions for customers that are both effective and economize energy resources, developing new fuels as substitutes to oil and innovating with alternative energies by creating sustainable solutions for the future. The second driver is environment and aims to preserve our atmosphere. To be able to improve the environment the Case

Company will reduce its industrial emissions and produce energies that do not pollute. The third driver is emerging economies, of all the groups coming projects 50% will be invested in these emerging economies. For the fourth driver, health, the aim is to improve the quality of life which will be carried out through improvements of gas products in hospitals and for home treatment. The Case Company will also increase investments in research and development for healthcare. The last driver is high-tech, where the company will be pushing the frontline of progress through driving science forward and generating cutting-edge technological developments (Case Company, 2008).

On a more operational level there are three different projects which offer help to deliver performance, they are usually called delivery projects. These projects are the Growth project, the Goal project and the Capital project. Each of these projects has individual annual aims and the three together are the framework that will enable the company to reach the general aims of the group. Every one of the projects has a sponsor which is one specific member of top management that will help and push those in charge of the project. The delivery projects consist of a number of small projects that each and one contributes to the annual goals. The time period of the projects is from a couple of weeks up to a few years. About 10-15% of these smaller projects comes from group level and is implemented within all of the Case Company's divisions, the rest are local projects. Together with top management, all employees within the company can come up with ideas for new local projects. However, the projects initiated from group level are a little bit larger, than the locally originated projects, and they stand for about 20-25% of the impact. (Interview with Project Manager, 2009)

The themes and drivers are mainly objectives on group level and do not have as much focus on division level. Since this thesis will focus on the Nordic division, with interviews with key employees on Nordic level, the focal point and further explanation will be set on the three projects growth, goal and capital.



### 6.3.1 *Growth*

“Strategy aimed at winning larger market share, even at the expense of short-term earnings. Four broad growth strategies are diversification, product development, market penetration, and market development.

(Business dictionary, 2009, C)

According to Schön (2000) there are three main factors increasing productivity; investments in resources, innovation to use to resources more efficient and institutions. Innovation is the main ingredient for growth and is considered to be the materialistic investment for the future. Innovation is stated to be the immaterial investment for the future through formalized knowledge. Institutions support innovation and investment through rules, customs which controls the thoughts and acts of individuals of the society, i.e. property rights, products market and class structure (Schön, 2000).

The growth projects concerns the acceleration of development. As understood on the name, these projects are set to increase the company's growth. Most of the projects within this category are customer oriented and very specific. Their aim is often to increase the satisfaction of top customers in different ways, from quality of products to the delivery of new products. These projects are often initiated within a group consisting of sales people from the company and managers from the customer (Interview with Project Manager).

### 6.3.2 *Goal*

“Comparison of what is actually produced or performed with what can be achieved with the same consumption of resources (money, time, labour, etc.). It is an important factor in determination of productivity.”

(Business dictionary, 2009, E)

The goal project is set to enable continuous efforts in cost containment. These projects focus on efficiency and on reducing costs. The projects that are initiated on group level are often also driven from someone at the head quarter. However, when establishing the locally oriented projects they try to find new ways to be

more effective, the projects could consist of all from reducing transportation costs to optimize bottle management. Within each smaller project the work is often executed in smaller groups. (Interview with Project Manager)

### 6.3.3 *Capital*

“Measure of the accumulated financial strength of an individual firm, created by sacrificing present consumption in favour of investment to generate future returns above investment costs.”

(Business dictionary, 2009, D)

The capital project aims to reduce the capital intensity of investments. The aim is to increase the working capital which will reduce the need of lending money externally. Most of the smaller projects within this category have its focal point on the working capital. There are mainly two focuses with these projects, the first is to reduce the number of days before customers pay their invoices and the second is to increase the number of days before the company pays their vendors (Interview with Project Manager).

## 6.4 **Renewed strategy**

In this section the focus will be set on the Case Company's short term strategic change on a Nordic level. Already in the beginning of the crisis, almost before it had even started, top management in the Nordic division introduced restraints which implied cost savings in travels and reduction of vacation debts. However, this was just a start of what was about to come. When top management sat down and made the budget for 2009 in early autumn they first made a budget which based on continuous growth from 2008. In addition three different scenarios, A, B and C, were created. The first scenario A implied a drop in revenue of 5%, scenario B implied a drop in revenue of 15% and the last scenario C implied a drop in revenue of 25%. For each of these scenarios estimations were made on how much it would affect the result and in general how they should act if the scenarios occurred. In the end of autumn 2008, the company realized they were in the beginning of an eventual long crisis, yet, they were well prepared.

The Case Company states that their long term strategic aims still are the same. However, the strategic frameworks that will be used to take them to these aims have drastically changed, mainly through projects within the Alba programme. There have been three major shifts of focus in their short term strategy:

1. Instead of concentrating on top-line growth, they focus on reducing their costs. This implies a shift from equal focus on the three projects growth, goal and capital towards stricter focal point on the projects goal and capital. However, the growth project is not entirely put on hold but does not have the same importance as it was thought originally. The aim is to keep a constant gross marginal. To succeed with this they will try to keep personal expenditures on a 0% increase instead of usual 5%, they will also try to reduce transportation costs with 10% and finally reduce repair costs with 10%.

2. The focus shift is within working capital that has not been prioritised earlier. The Case Company intends to solely use own capital during this crisis and not be in need of using external capital. To increase their working capital they will increase due dates to vendors while they reduce due dates to customers.

3. The last focus shift is on capital expenditures where their aim is to reduce investments by 50%. A great deal of their investments is usually put on retaining new customers and the first focus shift has gone away from top-line growth these investments will decrease automatically. The investments that will be made will focus on efficiency investments that will lead to reduced costs.

A final short term strategic change, which goes outside the Alba programme, is focused on leadership which is an aspect that the company believe have top priority in the crisis. Managements roll is more important during this time both from an informative aspect and from follow through cost reductions. A time of crisis is very emotional where several difficult actions have to be made. Conclusively top management of the Case Company demands more from both their leaders and their employees.

## Chapter 7

### Empirical data and analysis

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*In this part of the thesis a summary will be presented of the collected data as well as an analysis of the empirics.*

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In the beginning of chapter four, a description of the method of approach was presented, when collecting the qualitative data for this dissertation. In the operationalization part, an in-depth description of how the interview was performed was presented. This chapter presents findings and analyses the data collected.

#### 7.1 Classification of response

To see if the selected and inserted factors in the model have any significance to the respondents, propositions were created as help for analyzing the importance of the factors. At a first stage to evaluate the importance of the propositions, classifications were made to clarify our interpretations of the questions related to the hypotheses. Subsequently, an analysis of the propositions was made to quality control the relevance of the factors and determines the significance.

Each and every one of the propositions are classified as supported, neutral or rejected. This type of three degree scale is thought to be the most suiting since it covers the whole spectra of situations without being to general or to complex. If a two degree scales, with only supported and rejected, were used, it would have been hard to classify proposition that have some influence on strategic change. On the other hand, a scale with six or seven steps, for example, is believed to be too complex for this research as it may confuse the reader by not giving clarity to the questions in the same manner, even though this research is of qualitative nature with only three respondents. A scale with more categories would be more suitable in a quantitative research with a larger number of respondents.

The respondents in this case study are informed of the purpose with the dissertation, *id est* that we are investigating factors of relevance in the process of adapting a strategy due to the impact of a financial crisis. The interviewed

managers will be consulted after the classification in order to determine whether or not the classification has been conducted in a fair and just manner.

Since we are two interviewers at place, each will make up our own classification, when the propositions are discussed, analyzed and compared to obtain a holistic result, the classifications will be reconsidered and finally determined. After the interview is finished our classification of the propositions are presented to the respondent, which gives the respondent the opportunity to comment, and influence any myopia that may have arisen within the group. If disagreement would arise a further discussion on the topic will be made until an agreement is met. With this approach the analytic work will be conducted by the two of us to give the subject a divided perspective during research stage and assure the reader that the information given is interpreted in an objective manner.

#### *Explanation to the classifications*

The propositions that are classified as ‘supported’ are mentioned by the respondent as having great relevance. To obtain the status of support the respondent has to agree with our statement, which is analyzed and interpreted as inclined towards our direction. The propositions that are classified as ‘neutral’ are to some extent, according to our analysis, relevant to a strategic renewal. The respondent is in this classification neither pro nor against our statement, which could mean that their opinion on the issue is somewhat in between. The propositions that are classified as rejected do not have any relevance to a strategic renewal, as empirics showed otherwise than previously stated. The rejected classifications, set by the analyses, of the respondents were clearly opposing our statement during the specific discussion concerning the proposition. Quotations are made to facilitate understanding of the result.

## 7.2 Analysis

P 1a	CEO	CFO	Project Manager
	Support	Support	Support
Realising the level of uncertainty will increase the willingness of renewing a strategy.			
<b>Quotes</b>			
<b>CEO</b>	“Uncertainty makes us focus more on customers payment ability”		
<b>CFO</b>	“The market is less transparent today”		
<b>Project manager</b>	“Uncertainty has increased the understanding of the Alba programme”		

**Table 7.1** Quotations in questions connected to proposition 1a

### *Analysis and explanation to classification:*

All three respondents said that they are affected by the increased uncertainty surrounding the company, due to the current crisis. Henceforth they all discussed the importance of reducing the risk taking and that focus shifts more towards cost reduction and efficiency. This has affected the smaller project within Alba which has been more focused on the goal project. As both the Project Manager (PM) and the CEO states the uncertainty makes the company more alert and prepared on the changing surroundings. These statements give support for all three respondents regarding proposition 1a.

The proposition gets further support as the CEO says that the increasing level of uncertainty also have led to more focus on customers' payment ability. The PM also states the he feels that the organization has got a better understanding of the importance of making the company more effective because of the uncertainty that the crisis has brought upon us. An aspect brought up by the CFO was the importance of having a good information system during uncertainty since revenue number are even more important to follow up on which makes it important to get the sales number as quickly as possible. Because of the uncertainty some numbers have gone from being analyzed monthly to being analyzed weekly.

P 1b	CEO	CFO	Project Manager
	Support	Neutral	Support
A crisis triggers a drive to finding black swans.			
Quotes			
CEO	“We have found new ways of reducing costs”		
CFO	“Innovation is always important not only in a crisis situation”		
Project manager	“We focus on cost reductions in a totally new way”		

**Table 7.2** Quotations in questions connected to proposition 1b

*Analysis and explanation to classification:*

All three respondents found innovation to be an important aspect. Both the CEO and PM explained how this difficult time has increased their innovational thinking. This also reflects the Alba programme where innovations have been an important aspect for finding new ways making the business more effective. However, the CFO does not neglect the importance of innovation but he says that it is an aspect that always is important not only during a crisis. He also believes that it is essential to keep focus on some key issues. Based on these two statements we interpreted the CFOs stand in this proposition as neutral.

According to Taleb (2008) a single phenomena can make you reconsider your standpoint in a subject. This can be seen in the Case Company, where an American macro economical issue makes industries go into a lower gear. They do this by breaking the world economy and putting companies, such as the Case Company, in a volatile position. We can see how a crisis triggers the company to find black swans by this new way of thinking. The managers describe this as new way of reaching the goal. The biggest reason is that there are a lot of new projects, within the Alba, that would probably not have been introduced without the crisis. The conclusive analysis of proposition 1b is therefore supportive.

P 2a	CEO	CFO	Project Manager
		Support	Support
When changing a strategy, it is important to overlook all suppliers to see which are best suitable for the company considering the new circumstances.			
<b>Quotes</b>			
<b>CEO</b>	“A change means a shift of focus in strategy”		
<b>CFO</b>	“A crisis implies overcapacity which makes it possible to get price reductions from vendors”		
<b>Project manager</b>	“Suppliers are overlooked, however we are in a high degree self producing and are not that tied to our suppliers”		

**Table 7.3** Quotations in questions connected to proposition 2a

*Analysis and explanation to classification:*

The CEO and CFO were supportive as they implied in their discussion that management needs to realize what is currently prioritized. This in order to optimize investments and look over the company’s procurement as costs and revenue does not increase in same velocity. What the project manager means to say, in the statement above is, that overlooking suppliers is generally a good idea, however, in their case it is not as vital due to the fact that they are not bound to their suppliers as other industries may be.

”*Change now or be eaten*” is stated by Malody (2009) which more specifically is about change in strategies, beginning with focusing on companies suppliers. In a crisis situation with a changing strategy other suppliers may be better suited for the company’s new strategic aims. The Case Company is itself a producer, which means that the few suppliers providing them must be cost and quality efficient so that the Case Company can provide their customers with high-quality products. Colvin (2009) claims that a price cut of 5% would have to generate and increase corresponding to sales increase of 19% for it to pay itself. Colvin emphasises only the importance of looking over the supply chain, which from our perspective is confirmed by the management as being a vital part of renewing the strategy in crisis. This discussion leads to an analysis supporting proposition 2a.



P 2b	CEO	CFO	Project Manager
	Support	Support	Neutral
There is a need for changing your strategic aims or the strategic way of reaching your aims when entering a crisis.			
<b>Quotes</b>			
<b>CEO</b>	“We have changed focus in three ways 1.Cost 2.Cash management 3.Capital expenditure”		
<b>CFO</b>	“What was priority number one last autumn is today priority fifteen” Speaking about the changing priority of growth.		
<b>Project manager</b>	“We focus more on cost”		

**Table 7.4** Quotations in questions connected to proposition 2b

*Analysis and explanation to classification:*

The general discussion was that the company’s long term strategic aims had not changed, but the way of reaching these aims had. All three respondents have the same opinion, that the short term strategy has changed and the focus had been shifted upon cost reduction and capital optimization. The CEO describes that in a crisis, a company cannot control its revenue stream but what they can do is focus on reducing its costs which is what the Case Company is doing. The PM says that some companies may not need to change their strategies and they can live with a downturn in gross margin which we interpreted that into a neutral stand in this proposition.

As a crisis arises customer needs changes meaning that companies’ strategies also require change (Christensen, Raynor & Verlinden, 2008). By looking back at the annual report and interviews we can conclude that changes had been made. These adjustments were to maintain and/or increase competitiveness of the company during the crisis, but also to overcome the crisis as powerfully as possible. This is seen through our eyes as a shift in strategic focus. Therefore, we believe the empirics have shown support for proposition 2b.

P 3a	CEO	CFO	Project Manager
	Support	Support	Support
It is important to have leaders with the right qualities, or change their leading style to fit the new situation.			
<b>Quotes</b>			
CEO	“We demand more both from our leaders and from the rest of our employees”		
CFO	“First we try to change their leadership style, but if that does not work we might have to fire them” Talking about what to do with leaders who are not suited to lead in a crisis.		
Project manager	“I feel that my leading style has changed”		

**Table 7.5** Quotations in questions connected to proposition 3a

*Analysis and explanation to classification:*

This fifth proposition met the strongest enthusiasm from the respondents and they all said that the qualities one strives for in a leader are different in a crisis compared to a boom. A common generator is that leaders stand for more difficult decisions during a crisis. The CEO said that the leaders’ roles are more important in a crisis situation. Both the CEO and the CFO said that if a leader does not have the qualifications to lead in a crisis, the first step is to support and help, if that is not enough they will have to replace them with someone more suited. The PM which is seen as one of the leaders in the organization feels that his role has changed due to the crisis and believes that a leader has to make a tuff decisions.

There are issues to be handled by a leader in turbulent situations where rapid change occur (Kim & Mauborgne, 2003). This came up as the role of leaders is under discussion, which appears to have a significantly greater role during the renewal of a strategy. Sun Tzu (2005) claims that the leader is the alpha male of the pack. His thoughts came to mind as the discussion continued towards the characteristics of a leader in crisis, which was stated by the management to be more firm, much like the alpha male of the group. This discussion provided us with a supportive decision for proposition 3a.

P 3b	CEO	CFO	Project Manager
		Reject	Neutral
During a financial recession the principal and agent tends to keep their original views.			
<b>Quotes</b>			
CEO	“During the crisis there have been a shift towards short term”		
CFO	“We must have a balance between short and long term”		
Project manager	“I do not believe my time perspective have had a change of focus”		

**Table 7.6** Quotations in questions connected to proposition 3b

*Analysis and explanation to classification:*

There is a general opinion according to the previous mentioned authors that the view on strategy shifts as the economy shifts, which is natural. Nevertheless, the actual original strategic long-term goal does not change. The CEO explains this in more detail as he means that the instruments to reaching the future goals has changed but not the goals per se. From this discussion it became clear that a change of view between principal and agent happens during a recession such as the current one. This is due to the fact that the short term sales and activities receive more attention.

The main idea is that whilst the agent is in for the short term, the principal seeks to stabilize the revenue stream and is in it for the long run (Johnson, Scholes & Whittington, 2005). The respondents claimed to not have changed their views in the start. However, as the discussion continued it became clear to us that the focus between the principal and agent became closer to each other during a crisis as they both emphasize on the current situation more. This provided us with the information that there was a shift in point of view that gave us a slight rejection to the current proposition.

P 4a	CEO	CFO	Project Manager
	Support	Support	Support
In a turnaround event such as the current financial crisis formalizing information, within the human capital, is even more important as recessions are connected to company streamlining which could lead to loss of information.			
<b>Quotes</b>			
CEO	“It is top managements job to keep the most important knowledge within the company”		
CFO	“We must find our key employees and make sure they stay”		
Project manager	“It is up to every part of the organization to be responsible for keeping the required knowledge”		

**Table 7.7** Quotations in questions connected to proposition 4a

*Analysis and explanation to classification:*

There was a consensus among the respondents that it is important to keep knowledge within the organization. All three discussed that, to keep information within the company the important issue is not to transfer knowledge from human capital into structure capital but rather to make sure employees with vital knowledge stays within the company. The CEO states that it is the knowledge about the core business that are most important to keep and it is top management’s job to ensure that this knowledge stays within the company. The PM emphasizes that they try not to discharge people as long as possible, because it is important to have the knowledge within the company when the economic situation starts looking better again.

Information has a bigger impact on competitive advantage than many may believe (Mintzberg, Ahlstrand & Lampel, 2005). Whilst many things are codified and explicit, tacit knowledge is hard to copy into an organization. The first one that has to be figured out is what makes your competence unique (Johnson, Scholes & Whittington, 2005). This was agreed upon by the management as they all wanted to keep the human resource capital. This led to a supportive outcome.

P 4b	CEO	CFO	Project Manager
		Support	Support
Increasing the flow of information within a company is more important during a crisis.			
<b>Quotes</b>			
<b>CEO</b>	“The information provided should be honest and as close to reality as possible”		
<b>CFO</b>	“The frequency has increased” Talking about the time period of giving information to employees.		
<b>Project manager</b>	“I am out nagging more on the people responsible for Alba projects”		

**Table 7.8** Quotations in questions connected to proposition 4b

*Analysis and explanation to classification:*

Keeping employees informed during a crisis is very important, both according to our opinion (i.e. the proposition) and due to the respondents. The CFO stated that it is very important that the information frequency is higher in a time of crisis, which it has been at the Case Company. He also said that, the way of informing had changed as all sites had got visits from at least one of the top management who had provided information on the current status and what was coming from within the company. Furthermore, the CEO said that the information frequency had increased and added to the importance of providing information that was honest and transparent.

Talbe (2008) states in one of his anecdotes that read books are far less valuable than unread ones. This could be interpreted as what people do not know is more valuable than what they actually do know. Taleb (2008) continues to discuss lack of information which leads to lack in knowledge. This is apparently more evident during a crisis as the company cannot afford to do mistakes. This is described by the PM as managed by personal meetings and intensification the information flow as well as follow ups. All employees appear to receive more information so all can aid the company in these volatile times. The conclusive analysis of this proposition is that the proposition gets support from the respondents.

P 5a	CEO	CFO	Project Manager
	Support	Neutral	Support
When renewing a strategy, adaption to the changing surroundings is essential.			
Quotes			
CEO	“We may need to shift from in house to outsourcing” Talking about moving from fixed costs to variable costs.		
CFO	“The culture within the company is to act slowly”		
Project manager	“We have been good at adjusting and we have been innovative when needed”		

**Table 7.9** Quotations in questions connected to proposition 5a

*Analysis and explanation to classification:*

Adaption is important during strategic decays in all forms. Both the PM and the CEO highlight the ability of being able to strongly adapt in a company, is a characteristic of great importance. The CFO was on the same track as the PM and CEO, although he seemed to be more cautious in his statements as he claimed the company should be cautious and instead, await and slowly adapt to a moving market.

Somers (2009) claims that an organisation should try to anticipate disasters and create comprehensive plans for mitigating loss by enhancing the ability to respond with increased resilience. A discussion with the managers led to the belief that this though exists but is not implemented within the company. A crisis is hard to anticipate and making scenarios even harder, though not impossible. Berman (2009) continues to explain how unusual times require unusual solutions and that every problem has a solution. The managers seem to understand the importance of adapting. However, they also seem to underestimate the significance of adaption as they have a culture of slow acting. This leads to the belief that this factor is of great importance and that the proposition gets support, through the analysis of the respondents answers.

P 5b	CEO	CFO	Project Manager
	Support	Support	Neutral
A company should be prepared for different scenarios and be able to fast adapt to them when they occur.			
<b>Quotes</b>			
<b>CEO</b>	“In the budgeting three additional scenarios were constructed A, B and C”		
<b>CFO</b>	“Already during the end of last year we made different scenarios”		
<b>Project manager</b>	“It comes automatically”		

**Table 7.10** Quotations in questions connected to proposition 5b

*Analysis and explanation to classification:*

The company sees adaption as the characteristic of being adaptable to change. This behavior is not something that is specific for a recession. However, the characteristic is more important to have during a recession. All three respondents were positive regarding this question even if the PM were more conservative and therefore analyzed as neutral.

The importance of adaption is emphasized by Day (1997), as he states that handling a crisis increases a company’s survival skills during booms and busts. McWilliams III *et al.* (2009), claims that in an economical recession a company needs to restructure its business, and to be able to survive needs to be able to do this in different ways. The question is really how a company should diversify itself to adapt to changes and to minimize risks and hence diminish the effects of the downturn. It is believed that this proposition is supported since the company has different scenarios painted up in forehand, with the right procedures to take when needed. This was discussed during the interview, but can also be seen in the annual report under the information about the Alba programme. This was specific for this situation, which adds to the conclusion of this analysis, being that this statement is supported.

P 6	CEO	CFO	Project Manager
	Reject	Reject	Neutral
The arrangement of the factors should be as in “The crisis renewal strategy”			
<b>Quotes</b>			
<b>CEO</b>	“Leadership is the most important factor” “Change and adaptation goes very much hand in hand” “Uncertainty does not have as high priority” “Information is not as important”		
<b>CFO</b>	“Leadership should be considered first” “Change should be considered second” “Uncertainty is an important factor” “The company culture is, that it does not react fast” “I place information in the end”		
<b>Project manager</b>	“it is the first thing we look at” Concerning uncertainty in Alba “How to adapt is a part of the initiation” “After the initiation stage change is considered” “It is up to the leaders to do it” “Information is placed in the end”		

**Table 7.11** Quotations in questions connected to proposition 6

*Analysis and explanation to classification:*

The project manager is responsible for the strategic project called Alba and is believed, by us, to have most insight in the shaping of its current strategy. However, he slightly disagreed with the order of occurrence of the factors. The CEO and CFO are believed to have rejected our statement since they also had a slightly different perspective. The project manager objectively explained during the discussion the natural course of action in general when considering a strategic implementation. Whereas, the other respondents held a more subjective opinion being that as leaders, their own role was more important. However, the answers were only slightly off track, comparing with the theoretically developed *crisis renewal strategy*, and actually provided empirical data of the significance concerning the order of arrangement. The theoretically developed model will be revised and rearranged according to the analysis in the conclusion.



### 7.3 Summary

	<b>CEO</b>	<b>CFO</b>	<b>Project Manager</b>	<b>Conclusive analysis</b>
<b>P1a</b>	S	S	S	<b>S</b>
<b>P1b</b>	S	N	S	<b>S</b>
<b>P2a</b>	S	S	N	<b>S</b>
<b>P2b</b>	S	S	N	<b>S</b>
<b>P3a</b>	S	S	S	<b>S</b>
<b>P3b</b>	R	N	N	<b>R</b>
<b>P4a</b>	S	S	S	<b>S</b>
<b>P4b</b>	S	S	N	<b>S</b>
<b>P5a</b>	S	N	S	<b>S</b>
<b>P5b</b>	S	S	N	<b>S</b>
<b>P6</b>	R	R	N	<b>R</b>

**Table 6.12** Summary of responses

The answers above are an interpretation of the answers in connection to the mentioned propositions. The answers are compressed to illuminate most important issues and explain our thoughts in the analysis. As seen in the table above, a summary of the responses from the interviews in connection to the propositions show that most of them were inclined to supported (S) our propositions.

The next chapter will highlight the important information in this dissertation, and conclude the study.

# Chapter 8

## Conclusion

*This chapter will summarize the thesis, present conclusions drawn from the findings, answers the research question as well as discuss the practical relevance of this dissertation, but also recommendations for further research.*

### 8.1 Summary of dissertation

During times of turbulence, such as the current crisis, one has to ask himself, Can you say what your strategy is? This is stated by Collis (2008), to be a long-term objective that has to be overlooked when a shock arrives. This dissertation looks at the ability to react when a recession arrives since the problem during turbulent times is often spoken of, but rarely the solution. This is done through reviewing scientific articles, books in the topic as well as current newspapers to obtain a holistic perception of how to renew a strategy in a time of crisis. Existing applicable theories was then linked to build propositions for examination. These propositions build up a model which is referred to as, *The Crisis Renewal Strategy* (figure 6.1). The examinations of the propositions were done by semi-constructed interviews allowing the respondent to freely speak around the questions to gain saturated answers. The answers were then analysed proposition by proposition to confirm the accuracy of the theoretically developed model, *The Crisis Renewal Strategy* (see below).

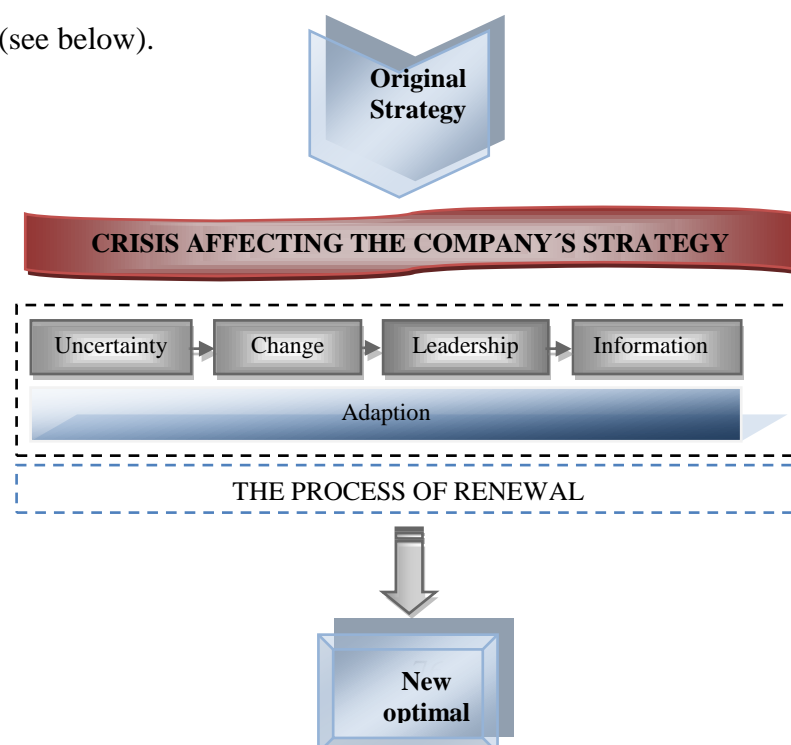


Figure 8.1 The theoretically developed model (Own figure)

## **8.2 Conclusion of “The renewal crisis strategy”**

### **Uncertainty**

The propositions made, after reviewing literature that supported the factor uncertainty to be relevant (Johnson, Scholes & Whittington, 2005; Ebell, 2000 and Taleb, 2008), were also given support in this empirical part. However, we have been given new insight in especially two aspects of this factor. The first aspect is the importance of having a good business system in times of uncertainty, because of the increase in analyzes of reports. The second aspect is, when we studied previous literature concerning innovation and uncertainty most articles discussed how to find new innovative ways of increasing revenue (Johnson, Scholes & Whittington, 2005). Nevertheless, throughout the interviews it was found that during a crisis, more focus is on cost reduction where innovations also are very important.

We conclude by stating that uncertainty definitely is a factor to take in consideration when renewing a strategy, based on the fact that both other researchers' gave this factor support as well as the empirics.

### **Change**

After reviewing the literature, our belief was that a company had to change either their strategic aims or their short term strategy to reach their aims. Further on, we believed a company had to overlook their vendors and see if there were needs for change in the supply chain (Christensen, Raynor & Verlinden, 2008; Johnson, Scholes & Whittington, 2005; Colvin, 2009; Rochet, Keramidas & Bout, 2008 and Malody 2009). For the overall change of strategy all three respondents stated that their long term strategic aims were unchanged, but the short term strategy had shifted focus more upon cost reductions. In the end, both the propositions within this factor were analyzed as having support from the respondents which of course implies that a change of strategy is needed when renewing a strategy. The interviews all focused upon cost reduction and one could easily notice that this shift, from focus on top-line growth to focus on cost reduction, had a heavy impact on the company.

To conclude, the factor change has got great support as being of importance when renewing a strategy, both from theory and from empirics, especially renewal of the short term strategic implementation but also in different parts of the company such as the supply chain.

### **Leadership**

Within the empirical research the factor leadership was considered as the most important one when facing a strategic renewal, especially by the CEO and the CFO. As the factor also had support from theory, (Tzu, 2005; Kim & Mauborgne, 2003; Lorange, 2009 and Bakka *et al.*, 2006) the fact that our second proposition for this factor (5b) was rejected are not believed to affect the importance leadership has on strategic renewal. However, the discussions leading to a rejection of the proposition gave us the insight that top management and middle management views have come closer together. The interviews gave indications that, especially top management are looking in a more short term perspective during the initiating stage of a crisis, which we believe can lead to a reduction of focus on the long term strategic goals. In general, our belief, after reviewing the literature, was that the leading style within a company would change but not the long term perspective from top management (Bakka *et al.*, 2006; Johnson, Scholes & Whittington, 2005 and Mintzberg, Ahlstrand & Lampel, 2005).

To conclude, the empirics have showed that a lot of changes in management leading styles are carried out when a crisis occurs. This means that changing a company's leadership is of the essence when going through a strategic renewal.

### **Information**

During the discussions about the propositions, especially concerning proposition 4a, new insight was given, in addition to what was learned while studying literature, such as Mintzberg, Ahlstrand & Lampel, (2005) and Taleb, (2008). This new insight was concerning the view of how to maintain knowledge within an organization in a crisis. Here focus was set on how to maintain knowledge within the organization from employees that had been laid off (Mintzberg, Ahlstrand & Lampel, 2005). When discussing this aspect with the respondents, a new aspect

was brought up which implied that a company should not focus on how to maintain the knowledge but rather how to maintain employees with key knowledge. We believe this is a good way to handle the issue, but at the same time it could be rather risky, since it is impossible to guarantee that the key employees will stay within the company.

In conclusion, the propositions within the factor information were supported both theoretically and in the empirical study, which indicates that it is a factor of importance to consider when renewing a strategy.

### **Adaption**

Within the factor adaptation, the propositions created implied that a company should regard the vastly changing surroundings and be able to adapt to the changes when they occur (Hamel & Välinkangas, 2003; Somers, 2009; Berman, 2009 and Rochet, Keramidas & Bout, 2008). As both of the propositions were supported, the empirics indicate that adaptation is of the essence. Even if the company studied was regarded by the management as slowly adaptive, they all stated the importance of being able to adapt when changes occur. However, even if the company was considered a slow adapter they had constructed different scenarios and were prepared with actions if the scenarios would occur, which McWilliams III *et. al.*, (2009) and Hodges, (2009) have stated as being very important. This further indicates on the importance adaptation has during a crisis, because these scenarios are nothing that would have been established in normal times.

To conclude, we can see that for this factor the empirical part of the study is very coherent with the literature and both of them support the factor. Thereby indications are established that adaptation is a factor of essence when renewing a strategy.

### **Factor placement**

The last proposition (6) concerns the placement of the factors in “The crisis renewal strategy” model, (figure 6.1). The factors arrangement was made after discussions between us, and then in the empirical study the respondents were

asked to place the factors in what they believed to be the correct order. The proposition were rejected which means that our original placement of the factors are incoherent with the respondents ideas. This leads to a rearrangement of the factors in the model. However, since all the factors within the model have been given support the new model will consist of the same factors but in a slightly different positioning. There are two changes between the model constructed from the theoretical part and this new model. First, leadership has shifted to second place and the second adaptation has been shifted from being a part of the whole renewal process to being placed after change. This also gives a shift of purpose of the factor adaption, from being a constant factor that managers should consider when smaller changes occur to having as purpose of adapting to the changes of strategy that have been made in the previous step.

**New model:**

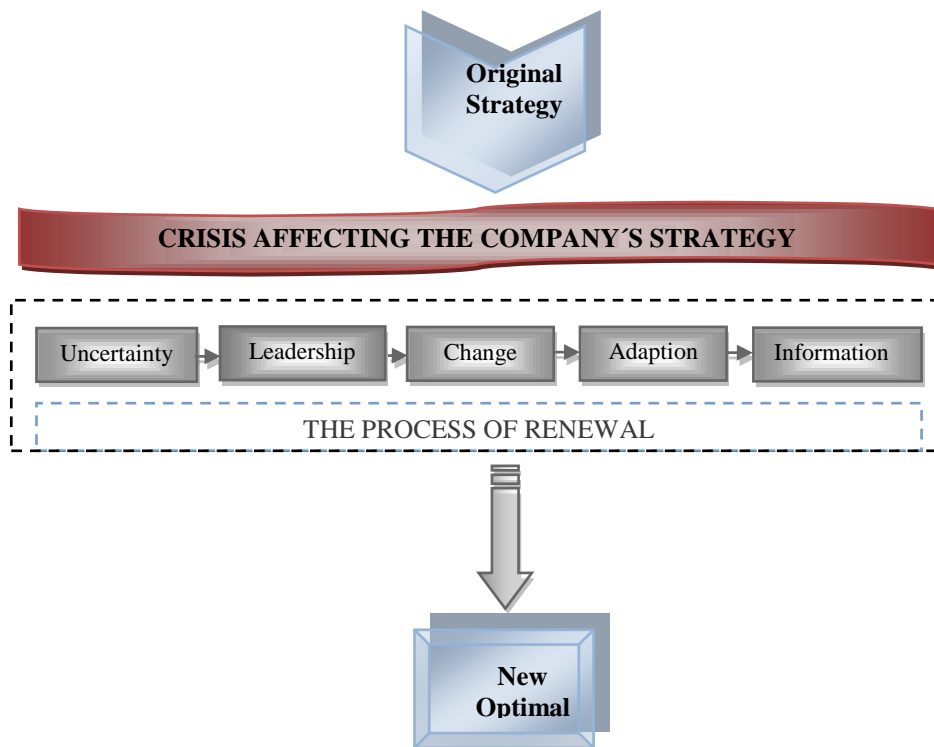


Figure 8.2 The crisis renewal strategy (Own figure)

### 8.3 Final conclusion

The decay of a company's strategy due to a crisis because of failures and shrinking expectations is an issue of severe concern (Day, 1997). This crisis is seen as a part of the expected business cycle. Nevertheless, although the problems of the crisis is widely spoken there is a current need for information concerning how to handle stormy business cycles and how to get the business going as the dust settles (Anonymous, 2009). The focus of this thesis is on how the process of renewing a company strategy looks like, including which factors to consider during the renewal. This was examined by first studying the effects of crisis on a company's strategy to enable identification of vital factors to handle during a renewal. We believe that by conducting this case study, we would fill a void in research and add value to the scarce information about effective problem solving for a company in crisis.

To begin our thesis, the well known *turnaround strategy* was reviewed and elaborated on as it is the strategy first looked upon by managers. The turnaround strategy focuses mainly on increasing revenue and decreasing costs when an unexpected event affects the company. However, it also brings forward the importance of strategically handling leadership, information and change. This part of the turnaround strategy became a benchmark for us in our dissertation as it gave us guidance.

As previous research was examined, leadership, good communication skills, the ability to tackle stress, a positive mindset, the ability to identify and mitigate risk, open a dialogue in the company and take care of the human resource capital (Anonymous, 2009; D'addaris, 2009; McWilliams III *et al*, 2009;) were all spoken of as factors to tackle reoccurring factors in different forms when conducting the literature review. This dissertation theoretically combined the emphasised factors in different literature and converged it into the developed model called *Crisis Renewal Strategy*.

This brings us down to the conclusion of this master thesis. *Crisis Renewal Strategy* was empirically examined by interviewing the management of the Case Company. The management confirmed the truthfulness of the factors in the

theoretically developed model. However, they rejected the positioning of the factors and changed the placement in the strategic process chain which made it a step-wise process (figure 6.1).

The process starts with investigating how the *uncertainty* affects the company in crisis, so that the company realises the extent of the problems they are facing. To be able to manage the crisis, it is important to have the right *leadership* in the company. This includes looking at the current leader as well as leadership styles. When the right leaders and styles of handling the situation have been acknowledged, they can begin by realizing the *changes* in the company and then *adapt* the strategy to the situation at hand. For the strategic adaption one has to keep in mind to guard and safe keep the key competence and knowledge within the company, but also to inform all personnel on current events. This is to make people realise the gravity of the crisis and give them the opportunity to be a part of the ongoing changes, resulting in a renewal of a company's strategy. The model could be used by managers to ask themselves five questions. These questions will give the managers food for thought during a recession, (see figure, 8.2)

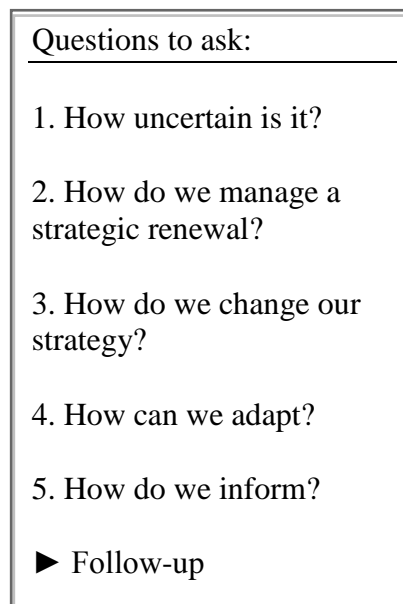


Figure 8.2 The five questions

It is important to remember that this model is a guiding tool and not an all curing medicine for companies with decaying strategies to follow to the point.



## **8.4 Implications**

The result of this research, which is drawn from theories and empirical analysis, attempts to make a theoretical contribution by adding a framework that could explain how to handle a company's strategy in decay. The theoretical implication is to add information to this scarcely discussed topic. This thesis combines factors that has been spoken of previously and combines them into a new concept which could be used in further research. This topic is of high priority right now according to authors Day (1997) and anonymous (2009) which speak about how the specific problems and not how to manage the solution in this time of crisis.

The practical implication is only directly applicable for the Case Company since it was based upon their strategy. However, it may give other companies some direction when renewing a corporate strategy. Also it could work as a source of origin in future research within the same field.

## **8.5 Critical reflections**

It is believed that this thesis has been insightful and resulted as presumed. However, since there was a scarce amount of literature about the problem solving issues it was more difficult to identify the problems than the answers.

If more companies were included, it would be possible to provide a generalization. There is a possibility that the validity of the collected data could decrease due to that the questions in the interview guide could have been difficult for the respondent to interpret. Would pre-interviews been conducted before the first interview the result may have been better since it would be possible to reformulate the questions to get more valid information from the interviews in the empirical study.

Interviewing the top managers of the company in the headquarters, placed in the land of company origin, would give a better result. However, the language barrier and availability of the top managers made this unfeasible. Also, combining the qualitative interview with a quantitative questionnaire would improve quality of this dissertation.

Nonetheless, the respondents gave satisfactory answers, as well as a 100% response rate, as all approached managers were interviewed. Finally, the classifications of the factors were made in coherence with the respondents. By doing this the reliability of the classifications strengthens, and to increase credibility. The quotations was placed in the analysis to give the reader an understanding of the interview interpretation while discussing the classifications, and the translation was quality ensured by a person with a Ph C in English.

## **8.6 Future research**

This research was done in a qualitative manner, which made sure we received sufficient data to indentify the affecting factors of this research. However, it would be interesting to conduct a study in a quantitative manner to strengthen the result, add credibility and to improve the model. The model was theoretically developed but empirically studied on a single case study. It would be interesting to conduct this study on more companies, but also to follow up upon this study, during a different time period since this study only focuses upon one specific point in time. Going back to the company to evaluate the result of their strategy would be rewarding for the academic world as it gives theoretical implications. Further on, in this study five factors were considered, but there could be other factors found to have importance when renewing a strategy. Therefore a study could be conducted with a focus on asking managers in different companies what factors they believe are important. A final suggestion is to conduct this study in different counties of Sweden, as there might be cultural and regional differences affecting the answers, as well as in other countries.

## **8.7 Final thoughts**

A decaying strategy does not necessarily mean that the end result will be default. However, not giving the strategy more effort would be careless. This thesis does not provide the answers of how to manage a decaying strategy, but rather assistance of how to handle the strategy. This could be useful for managers in other situations when company's strategies are strained. Furthermore, we encourage more research in this field.

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CEO, Malmö, Face-to-face interview, 2009-04-22

Project Manager, Face-to-face interview, 2009-04-23

## List of Abbreviations

*Ibid.*        Ibidem

Etc.         Et cetera

p.           Page

Pp.          Pages

*et al.*       et alii

I.e.         Id est

GDP         Gross Domestic Product

IMD         International Institute for Management Development

CFO         Chief Financial Officer

CEO         Chief Executive Office

PM          Project Manager



# Appendices

## Appendix 1:

### English Interview guideline

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Questionnaire

Opening question: Explain shortly your work and position in the company.

Question 1: Can you describe the company's original strategy (Alba), prior to 2007?

Question 2: How has the original strategy been renewed due to the new circumstances?

#### **Factor related:**

Question 3: How should a company consider uncertainty and how does it affect their strategy?

Question 4: Does a crisis prompt your innovative drive of increasing profit?

Question 5: When recessions occur should the strategy/strategic aims change and how?

Question 6: how should a company deal with their suppliers during a crisis? Should they be substituted or monitored differently?

Question 7: How do the characteristics of a leader change when entering a crisis? If any of the leaders do not have the right leadership style, how are they managed?

Question 8: How does your short term/long term perspective change when entering a recession?

Question 9: How does the importance of knowledge, within human capital, change in a recession?

Question 10: How does the way of informing the employees within the company change when entering a crisis?

Question 11: How do you consider adaption when renewing the company's strategy?

Question 12: How do you prepare for rapid changes?

**Final questions:**

Question 13: When should uncertainty be considered during strategic renewal?

Question 14: When should change be considered during strategic renewal?

Question 15: When should leadership be considered during strategic renewal?

Question 16: When should information be considered during strategic renewal?

Question 17: When should adaption be considered during strategic renewal?

**Eventual Follow up questions:**

Question 18: Describe with your own words how you experience the changes within the company due to the current crisis.

Question 19: Tell us about something good/bad unexpected event you have experienced during this renewal of.

Question 20: If there would be a vital factor affecting change which would it be?

Question 21: Is there something in particular one should consider when entering a recession?

Thank you kindly for the interview