



# LUNDS UNIVERSITET

## Lunds Tekniska Högskola

Division of Production Management  
Faculty of Engineering  
Lund University.

Strategic factors supporting improved profitability

A theoretical study and framework for identification of factors that aid companies in creating sustainable superior performance.

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## Abstract

**Title:** Strategic factors supporting improved profitability.

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**Background:** A common indicator of company long time survival and performance is its profitability. What then lies behind a company's profits is a popular field of study, although more prescriptive than inquisitive literature has been published. One of the main reasons is that identification of what has led to an increase in profitability is extremely complex, as companies work in different micro and macro environments and that these change over time. Studies are usually performed in retrospective, and what was applicable to one company at one time, might not be so to a different company at a different time and in a different environment. Few studies have been conducted summing up the current knowledge base within the field of Strategic Management in an accessible manner.

**Purpose:** The purpose of this thesis was to identify strategic factors in companies that had improved their profitability and evaluate their impact and difficulty to change, combining them into a theoretical framework displaying their perceived relative importance in a presentation possible to use as a foundation for a more practically useful model.

**Method:** Qualitative studies of Strategic management literature, both of an academic and popular nature. Identification of relevant sources was done mainly through meta-studies. Sources and findings were summarised and analysed, with regard to concepts and their connections.

**Conclusions:** Through study Strategic Management literature, 13 concepts, split into four main categories were singled out as being most important in affecting profitability. The categories and respective concepts are:

- Current operation – Control measures, Evaluation, Rewards and Motivation

- Organization – Focus on competencies and Strategic organisation
- Foundation – Culture, Purpose, Communication and Leadership
- Forward operation – Flexibility, Creativity and Learning

Furthermore it was concluded that in-between the many sources studied, there was no major contradictory ideas found. Some contradictory views of academics and practitioners brought value to the end result.

**Keywords:** Improved profitability, Strategic management, Strategy, Sustained superior performance, Organisational theory, Control measures, Evaluation, Rewards, Motivation, Organization competencies, Strategic organisation, Culture, Purpose, Communication , Leadership, Flexibility, Creativity, Learning.

# Sammanfattning

**Titel:** Strategiska faktorer som stödjer ökad lönsamhet.

**Författare:** Nils Axiö, Industriell ekonomi 2007, LTH.

Jonas Lidén, Industriell ekonomi 2007, LTH.

**Handledare:** Ola Alexanderson, institutionen för teknisk ekonomi och logistik, LTH

Ingela Elofsson, institutionen för teknisk ekonomi och logistik, LTH

**Problem :** Hur skulle man kunna sammanfatta de viktigaste faktorerna för att nå ökad lönsamhet?

**Syfte:** Att ta fram ett enklare ramverk, byggt på tillgänglig teori inom strategisk management, där faktorer som påverkar företags lönsamhet summeras, deras inbördes uppfattade viktighet och relation samt sammanfatta detta i på ett sätt som skulle kunna nyttjas som grund för fortsatt ramverks- eller modellbyggande.

**Metod:** Kvalitativa studier av strategisk managementlitteratur, både av akademisk och populär karaktär. Relevant litteratur och källor identifierades mestadels genom metastudier. Litteratur och källor studerades, analyserades och sammanfattades tillsammans med viss diskussion och analys.

**Slutsats:** Genom en studie i litteratur inom strategisk management identifierades 13 koncept, inom fyra huvudkategorier, som de viktigaste inom påverkan av lönsamhet. Kategorierna och koncepten är:

- Current operation – Control measures, Evaluation, Rewards and Motivation
- Organization – Focus on competencies and Strategic organisation
- Foundation – Culture, Purpose, Communication and Leadership
- Forward operation – Flexibility, Creativity and Learning

Vidare konkluderades det att mellan de olika studerande källorna fanns det inga större motstridigheter, samt att de ibland olika synsätten emellan akademiska och yrkesverksamma källor ger ett stort mervärde till slutresultatet.

**Nyckelord:** Ökad lönsamhet, strategisk management, strategi, hållbar prestanda, prestation, organisationsteori, kontroll, utvärdering, belöningar, motivation, strategisk organisation, kultur, syfte, kommunikation, ledarskap, flexibilitet, kreativitet, lärande



## Preface

This paper was conducted during the first half of 2012 as a thesis for a Master of Science in Industrial Engineering and Management at Lund University, Faculty of Engineering.

The idea for the thesis was conceived by Avanture, an innovation management consultant firm, in order to get some input upon the subject.

This thesis has been a challenging and intense but also interesting and worthwhile part of our time at Lund University, and a very apt culmination of five years of studies.

We would like to express our gratitude to those who supported us in this endeavour.

We would like to thank our supervisors for your constructive input and guidance: Ola Alexanderson and Ingela Elofsson, both at the Department of Industrial Management and Logistics, Production Management.

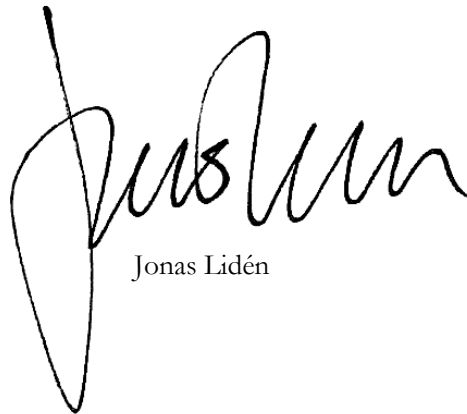
Thank you Bengt-Arne Vedin, Professor emeritus in Innovation management at the Royal Institute of Technology, Stockholm and Board member of Avanture, for your constructive thoughts and material.

Thank you Daniel Katzenellenbogen, CEO at Avanture, for our interesting discussions and your valuable input.

Stockholm, December 2012

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end.

Nils Axiö

A handwritten signature in black ink, featuring a large initial 'J' followed by several loops and a long horizontal stroke at the end.

Jonas Lidén



# Table of Contents

Abstract .....	2
Sammanfattning .....	4
Preface .....	6
Table of Contents .....	8
1. Introduction .....	1
1.1 Background and problem discussion.....	1
1.2 Purpose.....	4
1.3 Objectives .....	4
1.4 Outline of the paper.....	4
2. Methodology .....	7
2.1 Approach .....	7
2.2 Startup .....	7
2.3 Research .....	8
2.4 Modelling .....	15
2.5 Conclusions .....	15
3. Theoretical background.....	17
3.1 Groundwork.....	18
3.2 Conceptualization .....	18
3.3 Maturing period .....	19
3.4 Modern strategic management .....	19
3.5 Concluding background.....	20
4. Concepts .....	23
4.1 Introduction.....	23
4.2 Focus on current operations.....	23
4.3 Focus on strategy.....	28
4.4 Focus on the intangible foundation.....	36
4.5 Focus on coping with an unstable world.....	43
4.6 Concluding Concepts.....	49
5. Analysis .....	51



5.1 Introduction.....	51
5.2 Current operation .....	51
5.3 Organisation – the strategic organisation and focus on competencies.....	57
5.4 Foundation – Culture, Purpose, Communication and Leadership.....	61
5.5 Forward operation.....	68
5.6 Concluding analysis .....	74
6. Results .....	79
6.1 Concepts .....	79
6.2 Analysis.....	79
6.3 Theoretical framework.....	81
6.4 Purpose and objectives .....	81
Purpose.....	82
Objectives.....	82
6.5 Methodology.....	82
6.6 Conclusions .....	82
7. Discussion .....	85
7.1 Contribution.....	85
7.2 Further research.....	86
7.3 Implementation and usage .....	86
8. References.....	91
8.1 Books.....	91
8.2 Articles.....	92
8.3 Electronic Resources.....	95
8.4 Interviews.....	95

# 1. Introduction

The first chapter intends to introduce the reader to the project and provide a clear basic understanding of themes discussed. First a background is given and the problem is discussed, leading to the definition of the purpose and objectives of the project. Finally, the outline of this report is given.

## 1.1 Background and problem discussion

Whereas a company's long time survival and performance can be measured in several ways, perhaps the most common would be its profitability. Milton Friedman has, although disputably so, been attributed the quote "*the business of business is business*". And even though a company today might have pressure from various stakeholders for other pursuits, it is certain that it will not be sustainable without long-term profitability. No wonder then that the question *What leads to profitability?* has been asked as long as modern firms have existed.

What then lies behind a company's profits is a popular field of study, although more prescriptive than inquisitive literature has been published. One of the main reasons is that identification of what has led to an increase in profitability is extremely complex, as companies work in different micro and macro environments and that these change over time. Studies are usually performed in retrospective, and what was applicable to one company at one time, might not be so to a different company at a different time and in a different environment. This complexity also manifests itself as *causal ambiguity*: often not even the firm in which the changes take place can often for certain say which aspects actually affected the outcome.

Company leaders, academics, and more recently consultants, are the ones who have found these questions the most intriguing. Plenty has been written on the subject: from inside stories by former CEOs, to consultants' tips and tricks, to academic papers. The reason for this interest is the obvious fact that profitable companies are successful companies. People want to work for successful companies, CEOs want to run successful companies, and academics often want to study the success stories. The ideas and models of the hard-interpreted and the ever-changing reality have put the literature to the test, but not only has its popularity remained constant: it has grown. As economics has expanded into the mainstream, the business books have invaded the bookshelves.

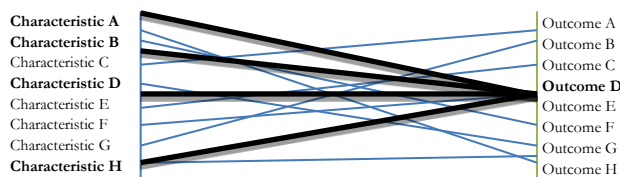
One of the most sold business books is *Good to Great* by Jim Collins. Collins and a team of co-workers evaluated past stock performance data and identified 11 "great" companies, which were then dissected to see what made them tick. The idea for this

thesis was using *Good to Great* as a starting point, setting out to investigate what had been done in the study of the reasons behind profitability, both in business books, but also more academic literature. The idea was to see what different conclusions had been made and how they changed over time. Perhaps it was possible to conclude what had been done in a common framework.

Thus, the potential and interested reader of this thesis would be an individual holding knowledge of or working with strategic and profitability issues, interested in deepening or expanding his or her knowledge of what has been concluded throughout the years. Given this, the language, nomenclature and content of the thesis assumes the reader has some knowledge of strategic decision making and basic business, management and economic theory.

The idea was to look at the underlying factors and not so much a market strategy and directly measurable level. A database called PIMS, Profit Impact of Marketing Strategy, is an example: it measures factors that possibly could, more or less indirectly, be affected by management. However, its measurements are quite concrete, such as sales volume and market share, and while perhaps the outcome of a specific strategy can be measured, they do not tell much of the underlying strengths and weaknesses of a particular company. The idea was instead to dig deeper into the company and see what the theories said about these underlying strategic factors, enabling companies to reach their favourable positions.

To delimit the above-mentioned problems and fulfil the purpose, choices in selection and scope were made. The main idea was to use the resulting increased profitability as a fixed factor, and the “changing” factors with a possible influence as variable. If the lines in the figure below symbolise different characteristics on the left axis and different outcomes on the right axis the procedure could be illustrated as pictured in Figure 1. The idea would then be to extrapolate backwards and see which characteristics could lead to a favourable outcome.



**Figure 1. Path from characteristic to outcome.**

### 1.1.1 Possibility to affect and potential impact

Desiring to have an end result of the thesis that was useful in business, this aspect of the problem discussion was very important. It was decided that the sought-after

factors had to be possible to affect by the firm, especially by company management. Factors outside management’s control, but still possible to react to and capture their potential impact on profitability, were also considered. Factors were considered more or less easily affected, and thus the factors that were deemed very hard to affect, or possible to affect only in the very long run, were omitted. One example of such a separation is Anderson and Paine’s (1978) examination of the PIMS model, where variables are separated by the management’s ability to affect: directly controllable (e.g. market position, vertical integration), partially controllable (e.g. change in market share, corporate size) or largely uncontrollable (e.g. industry growth).

Furthermore, the impact of a change in a factor was also considered important. Granted a factor could be affected by management, the actual impact of a change was of relevance to the result and the impact a changing factor had to profitability was noted. This could be summed up as only allowing factors that were strategic in their nature.

### 1.1.2 External and internal factors

In general, internal factors are more easily influenced, but external factors can also to a varying extent be affected. Hence both internal and external factors were included in the study. The figure below depicts an imagined relationship between these two aspects and some potential factors are plotted.

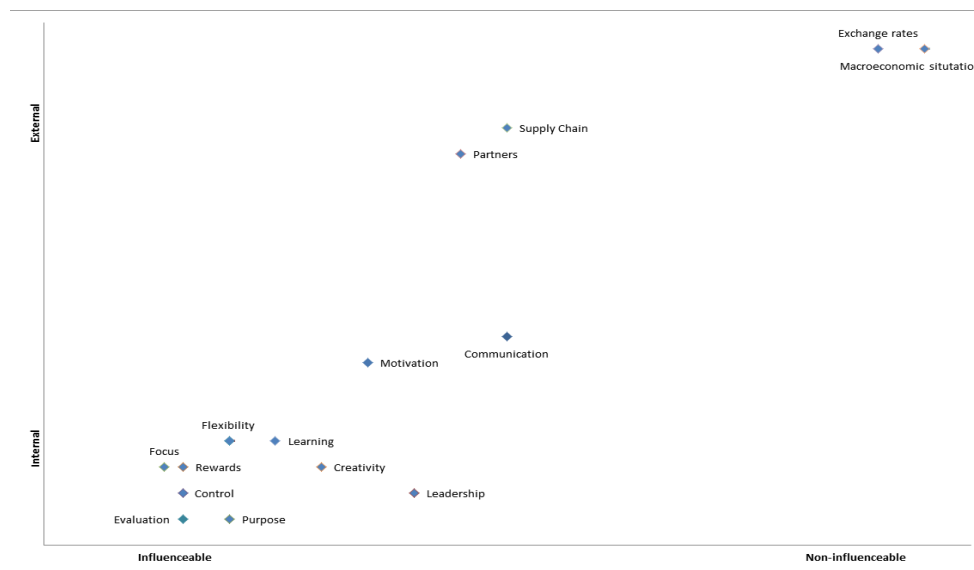


Figure 2. An example of how internal/external and influenceable/non-fluenceable factors *could* relate.

### 1.1.3 Improved and sustained profitability

Barney (1986) discusses firms with *superior financial performance*, meaning having returns above normal and prospering, and that this performance can either be *temporary* or *sustained*. This temporary performance boost could be described through competitive dynamics: a firm that is able to, for some reason, obtain a superior position is typically not able to sustain it, since other firms will imitate any progress, thus raising the bar of the *normal* performance. To escape this position, one Harari (2007) apocalyptically calls Commodity Hell, a firm has to create sustainable advantages; benefits that cannot easily be imitated (e.g. Barney 1986, 1991).

That the profitability had to be *sustainable* and *superior*, would then filter out factors that were:

- temporary, as discussed above, as well as for reasons such as financial or auditing "tricks" and
- dependent on business, market or industry cycles (which would partly fall under 1.1.1 and 1.1.2)

The factors also had to be of a strategic nature, dealing with major decisions on a top level to enhance the performance.

Together, this laid the foundation for the purpose and objectives.

## 1.2 Purpose

To identify strategic factors in companies that improved their profitability.

## 1.3 Objectives

The objectives were summarized as follows:

- A. Investigate prior works within the field of Strategic Management to identify factors that could improve profitability and were considered possible to influence by company management.
- B. Evaluate the found concepts' perceived level of difficulty to change and impact on profitability.
- C. Compile these factors into a theoretical framework.

## 1.4 Outline of the paper

Chapter 1, *Introduction*, includes the basic background of the project and its purpose and objectives.

Chapter 2, *Methodology*, describes the process and methodology used, methods for gathering data and analysis as well as source material and validity discussions.

Chapter 3, *Theoretical Background*, describes relevant theoretical background.

Chapter 4, *Concepts*, presents identified theoretical concepts for strategic profitability improvements.

Chapter 5, *Analysis*, summarises the concepts into an original research framework for classifying and identifying factors that may have affected profitability improvement within companies.

Chapter 6, *Results*, summarises the results drawn in previous chapters.

Chapter 7, *Discussion*, holds a discussion on the themes in the thesis as well as ideas for further research.



## 2. Methodology

This chapter describes chosen processes and methods used during the elaboration of this thesis. Various research approaches and data collection methods are discussed. The chapter is concluded with a discussion of validity, reliability and credibility.

### 2.1 Approach

This thesis was elaborated in four main steps, and several sub processes, as depicted in Figure 3. Description and discussion on the different steps follow in the paragraphs below.

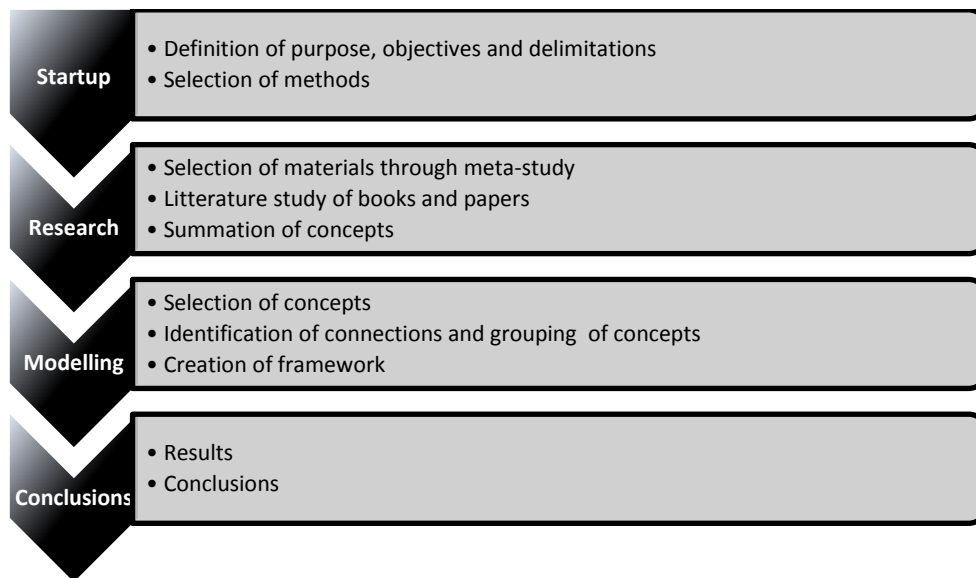


Figure 3. The process of carrying out the thesis.

### 2.2 Startup

First, the purpose and objectives were decided and available methods were studied and selected. The purpose of this thesis was to construct a framework or draft to a model; there were several ways to accomplish this, as depicted in Figure 3. A theory-based research was chosen since a case-based was thought to be either non-generalizable (a small selection of companies) or too superficial (a larger selection of companies, but less in-depth analysis) due to the limited amount of time available. In the limited time scope, a thorough theoretical literature study was thought to bring more usable results.

Due to the limited amount of time, a case validation of constructed framework was decided against: the validation would bring little support to a constructed framework.



A small scale in-depth interview approach would prove nothing, and might even give unrepresentative results (e.g. disprove “true” results) because of the limitation in the population and differences between firms in different markets, sizes and ages. A large scale survey approach might, on the other hand, solve the problem with population selection and size, but because the limitation in time would need questions to narrow to give proper support to the framework.

Everything being taken into account, the amount of time available was thought to be best put to use by summarising current and past knowledge into one framework. By using thorough source selection and criticism as well as triangulation of sources, it was believed that this would bring sufficient support for the conclusions.

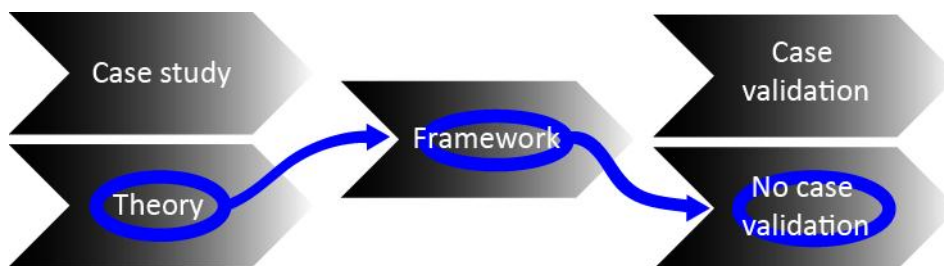


Figure 4 - Possible method paths with selected path highlighted in blue.

## 2.3 Research

### 2.3.1 Sources for finding factors

The concepts found and presented here, were drawn from different methods presented by several of the studied authors. As an initial starting point, a so-called “excellence” book (Collins 2001) was used to get a broad perspective of what factors some practitioners considered important. Further “excellence” books were studied to check that the factors Collins suggested were not unique in his works.

The practitioner books were generally in agreement of what factors were important, but phrased their findings and concepts somewhat different. Therefore, the factors were generalised to ensure that they covered the full concept, and not only aspects suggested by a specific author. To ensure theoretical depth and coherence, the factors were then cross-studied with academic papers. Academic papers were considered to be aimed at covering and describing a wider theory or situation, but also in more depth. As discussed below in Source material, academic papers also are considered having a different inherent weight. Thus, the concepts supported in academic papers were kept, and the others discarded.



Figure 5. The process of finding concepts.

### 2.3.2 Clustering of concepts into groups

The concepts or factors found were grouped together within four main groups ordered by a rough chronological order of appearance and focus in management practice. These four groups were the basis for Concepts chapter. In Analysis, the main four categories for grouping the concepts were still used, although with a different focus and naming: according to their function and usage instead of their chronological appearance. Thus, both foci were found to match the same clustering of the concepts, although a different criterion was used.

### 2.3.3 Limitations in identifying factors

The main limitation in selection was the criteria, described in 1.1. Sometimes judging whether factors were, for example, internal or external, affectable or non-affectable was hard.

The second limitation in finding and selecting the concepts was the choice of literature. Naturally, not all literature could be studied, but studying various types of literature (academic papers, white papers, articles, “excellence” books, text books, online sources such as blogs) ensured a breadth. The risk of missing important concepts or theories was apparent, and to ensure that findings were sound, a thorough reference check was done and interesting references were further investigated.

When pursuing breadth, many side-tracks were encountered and to some extent studied. For example some theories and concepts found in for instance innovation management could be regarded as closely connected to strategic management. Some

concepts could thus be further supported, as they were apparent in other management theory schools. The predominant theory encountered was Change management, as it strives to explain how change is to be implemented. Thus, a possible limitation could be the problem of mixing theoretical aspects and concepts together. This was tackled by using only concepts found in other areas that were prevalent in strategic management theories as well.

The “Excellence” authors rarely had clear boundaries between theories and sometimes mix various schools of thought. An example could be having a new strategy outline for an innovating company. In an “excellence” book this could be stated as some prerequisites, some important factors to identify, some important factors to focus on and change, and some important factors to solidify after change has been carried out; all in one model following the main idea of the book. From an academic point-of-view, this could be seen as requiring at least three management theories: strategic management for identification and ratification, innovation management to manage the innovation process, and change management to implement the suggested new strategy. Thus, a clear limitation in using “excellence” books is that factors have to be taken from their context and analysed, aligned and perhaps rephrased or generalised to be considered belonging to a certain theoretical school. On the other hand, a limitation in using academic papers would be that they are too focused, not covering all aspects. However, the choice of strategic management as point-of-view ensures that theories not supported or non-relevant by this school were omitted.

Another limitation was the process of selection of academic papers. Naturally, not all academic papers within the school of strategic management could be studied. The selection was based on the purpose of trying to cover the whole field, chronologically from inception as a theoretical area of study to more recently suggested theories. Thus, there was an apparent chance of missing some specific and relevant theory. To ensure that main theories or sub-schools in strategic management were covered, papers studying the school of strategic management were used to ensure the most important and most cited authors and theories were covered. Notably, the papers by Teece *et al.* (1997), Hoskinsson *et al.* (1999), Hitt (2005), Nag *et al.* (2007) and Furrer *et al.* (2008) were used.

#### **2.3.4 Source material**

The source material includes a range of articles and books, written by academic scholars as well as experienced practitioners; several of the authors could be considered both. To some extent textbooks were used with the purpose of getting a good overview. The more academic sources were mainly from well-known, peer-reviewed management journals, while the practitioners’ sources were mostly “excellence” books, a more personal and “gut-feeling” manifestation of the author’s

experience. This type of book, such as *In Search of Excellence* (Peters and Waterman 1982), *Good to Great* (Collins 2001), *Break from the Pack* (Harari 2006) or *Blue Ocean Strategy* (Kim and Mauborgne 2005), has a more graspable and slick appearance to appeal to a more general public. Some are backed by own research, while others seem to be more the author's conclusions from practical experience in the field.

There is, however, a good reason to use these sources although academics might argue with their scientific foundation: some broad and intangible qualities and characteristics in firms might be hard to prove by academic standards, or have not yet received enough academic attention. There is support to this difficulty of measurement and general conceptualization from the academia: Hoskisson *et al.* (1999) argue both that it is more difficult to measure intangible resources in general, and that when done, it is usually through the means of proxies<sup>1</sup>, further impairing the connection between theory and reality.

A study by Barley *et al.* (1988) suggest that academic and practical writings have narrowed their gap in conceptualization, but almost entirely because academic writings had been influenced by the more practical, and not the other way around. A more recent study concludes that there is “*a gap between the research perceived as quality by academicians and the relevance of that research as perceived by practitioners.*” (Hitt 2005, p. 372). Bryson *et al.* (2010) follow these thoughts of “nonvalidated” or unstructured knowledge among practitioners and request models that more accurately address the nature of practice. The same papers also discuss the general applicability and documentation of current models and approaches, and request further research in this field.

Possibly partly because of this, there seems to be a need for practising academics to free themselves of the “shackles” of academic thoroughness. Kotter, for example, does so in his book *Leading Change* (1996), where he opens his book by stating that it is based solely on his experience and that it does not draw any major ideas or examples from other published sources.

Whereas the more academic literature has a seemingly factual backup, the “excellence” books have far less. Either there is no actual study reinforcing the book (e.g. Kotter 1996; Harari 2007) or the underpinning structure or academic validity is, at best, weak (e.g. Peters and Waterman 1982; Kim and Mauborgne 2005; Collins 2001). Peters (2001), for example, admits in an article on the 20-year anniversary of *In Search Excellence* that their selected companies were in fact just chosen by namedropping

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<sup>1</sup> A measurable variable connected to a desired variable that is intangible and difficult to measure.

from business consultants, and only motivated in retrospect to some extent by some quantitative measures.

A study by Resnick and Smunt (2008) found that only one of the 11 companies in *Good to Great* (Collins 2001) still showed superior stock market performance only a few years after the book's publication and Filbeck *et al.* (2010) showed that they were not better than several other selections of companies (e.g. Fortune's *Best corporate citizens* or *Most admired*). A similar study by Clayman (1987) on *In Search of Excellence* (Peters and Waterman 1982) concluded that only five years after publication, only 11 out of the original 29 "excellent" companies still beat the S&P 500, and that 25 out of the 39 companies at the bottom of the original comparison were now outperforming the market.

Several faults have been noted in the methods used in *Good to Great*: for instance that it is a classic example of data mining, i.e. selecting data to fit the desired outcome (e.g. Resnick and Smunt 2008; Niendorf and Beck 2008); that it suffers from *post hoc* fallacy, i.e. mixing causality and correlation (e.g. Filbeck *et al.* 2010; Niendorf and Beck 2008) and survivorship bias, i.e. only companies that survive the entire study are included (e.g. Filbeck *et al.* 2010).

Raynor *et al.* (2009) did a study on 287 companies mentioned in 13 "success" studies and compared them with a broad sample of publicly traded companies. Using that data they learned how unexceptional companies performed better or worse over the years simply from systemic variation. They compared these random data with the success companies, reaching the conclusion that only one in four of the companies in the studies actually had results distinguishable from those of pure luck.

There are a few other problems associated with most management books, other than their weak theoretical base. An article by Bowman (2008) sums them up well: neither the general applicability of the factors (i.e. *does this apply to all firms?*), nor the weighting of them, nor the interaction effects between them are discussed to much extent.

However, this "experience in the field" may incorporate important experience and knowledge; these factors are by their very nature hard to prove, as several authors has noted (see discussion above). Although they contain important experience, they should be taken with a pinch of salt. Peters (2001) himself admits that his books should not be read by the letter, and that his principles should be taken as a negative, not a positive guarantee: ignore the postulated principles and you will definitely fail, follow them and you might have a chance.

The academic papers, on the other hand, are mostly affected by the changing nature of the firms' environment and the applicability/transferability (e.g. what worked in the

USA might not do so in the EU, or differences between a small sized companies and larger firms). Another problem could be academic inertia: recent studies might reflect, for example, the period of 1980-2000, a period possibly characterized by a quite different business environment than the one of the 2010s. Below some of these strengths and weaknesses are summed up.

**Table 1 - Some of the strengths and weaknesses of different types of literature.**

	Scholars	Practitioners
Strengths	<ul style="list-style-type: none"> <li>• Statistically validated</li> <li>• Peer-reviewed</li> </ul>	<ul style="list-style-type: none"> <li>• Easily digestible</li> <li>• Includes abstract, hard-to-prove concepts</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>• Lag in time between studies and changing environment</li> <li>• Generalisations sometimes not valid</li> <li>• Sometimes not relevant for business</li> </ul>	<ul style="list-style-type: none"> <li>• Weak theoretical foundation</li> <li>• Weak concepts</li> <li>• Sometimes hard to apply because of weakness in descriptions</li> </ul>

A discretionary examination of the sources according to Denscombe's (2011) checklist was performed and the following assessments were made:

**Authenticity.** All sources are either published books from reliable publishers (i.e. universities or well-known firms), or from academic journals retrieved from reliable online journal databases, such as business Source Complete<sup>2</sup> or JSTOR<sup>3</sup>. The authenticity of the source material is considered very good.

**Credibility.** The sources are either:

(1) **Academic articles**, with an estimated very high credibility: written with the purpose of open-mindedly investigating a subject, with few preconceptions and within a social and professional context of rigorous academic standards and appreciation of objectivity.

(2) **Text books**, with an estimated high credibility: by the same general ideas as above, although somewhat more personal and summarizing, thus necessarily avoiding some academic thoroughness.

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<sup>2</sup> <https://www.ebscohost.com/academic/business-source-complete>

<sup>3</sup> <http://www.jstor.org/>

(3) **“Excellence” books**, with a slightly lower credibility: the authors usually (although more or less clearly so) open from a personal and experience-based point-of-view. The purpose of the book is less clear (i.e. is it to spread knowledge or gain personal reputation?). However, the authors are generally both well-known and well regarded.

**Representativeness.** The sources are perceived to have good representativeness and exceptions are noted and discussed. Some of the “excellence” books have typically overestimated their representativeness, as discussed above. The specific papers and books studied were selected by book and article citations and meta-articles referring to other articles or summarising the field. The journals were well-reputed, peer-reviewed management journals and considered representative within the field.

**Meaning.** All sources are considered clear in their meaning and the language generally permitted few interpretations.

It would have been possible to be more selective considering chosen sources, for example by choosing only academic papers. The authors of this thesis believed this would damage the usefulness of the results: either too rigorous and hard to apply with only academic sources; or too fuzzy, ambiguous and non-factual, and therefore also hard to apply if only “excellence” books or similar management books would have been used. A middle way was therefore chosen.

### **2.3.5 Selection of theoretical framework**

To confront the described problem, different frameworks could be used as a lens through which to analyse the situation. There are several different management theories, or schools, that are different in some aspects. The *first* being point-of-view: some schools of thought are based from a stakeholder or even shareholder view while others are based from the viewpoint of the top or middle management of a company. The *second*, methods: some theories are concerned with the actual application of successful strategic change, not the decisions. *Third*, some theories focus on different aims or end results.

To address the formulated problem, a broad management decision theory available to the management of the firm and with focus to improve the performance of the company was needed. Schools such as innovation, knowledge, operations and human resource management were discarded due to their scope being too narrow or focused. Their usage could lead to higher profits; however, their focus is on a specific aspect, while the problem at hand needed a framework that elaborated with a bigger picture in mind.

Change management and Turnaround management were both discarded. The former since its focus is on the actual *application of* and *process of* change and not the strategic decisions behind it (e.g. Kotter 1996; Senge 1999; Cameron and Green 2009) and the latter since its aim is not to achieve sustained profitability, but to “*prevent a corporate death*” (Grinyer *et al.* 1990, p. 120).

Since Strategic management deals with the *major decisions on a top level to enhance the performance* of the firm (Nag *et al.* 2007), it was decided as the most suitable school to use as a theoretical base; see Theoretical background for further discussion on the subject. Several related theories were also partly explored, being close or even intertwined in theoretical approach, to compare and strengthen theory and analysis.

## 2.4 Modelling

Having found concepts an analysis was conducted. The analysis used researched sources to identify connections between concepts, their potential for impact on profitability, level of difficulty in evaluating a concept and difficulty in changing a concept. Having done this study, a summarising table was created from the analysis. The aspects considered most important and interesting (i.e. difficulty in changing a concept and potential for impact on profitability) was further evaluated. The result was an estimation of levels, which was presented in graphs.

After the summary was conducted, a schematic framework was created, intended to explain connections, support and levels of the concepts in an organisation.

## 2.5 Conclusions

### 2.5.1 Justifying the methods and conclusions.

On the basis of the guidelines of Denscombe (2011, p. 378), this thesis could be considered mostly qualitative, with some quantitative elements. The distinction is not crystal clear, as Denscombe himself notes – especially in a more theoretic paper. Because of the methods used, triangulation has been mostly used from a selection point-of-view, especially in the context of using both articles and books, but also as by using sources from both practitioners and academics.

**Objectivity.** The idea was attacking the question at hand with an open mind, and the authors had arguably few preconceptions, since prior knowledge in the field was limited. There was no specific agenda or aim, but knowledge-seeking.

**Reliability.** *Would someone else have gotten the same results performing the same study?* Since the selection of concepts and the grouping and structuring of them were made from the authors’ conceptions of proximity and closeness, even though supported by research, it is possible and even probable that the results would differ in certain



aspects of connections and grouping. However, the general categories, and their importance have wide support in research and similar results would be the likely outcome of another study. The aim of the study was to investigate the relations and summarise current trends and knowledge. Thus a specific purpose of the study was objectivity. The research was undertaken by clearly described methods believed to scan a large and representative portion of the material available on the subject.

**Validity.** Some areas and connections have likely been slightly oversimplified for the sake of scope of the thesis. It is possible that there was a limited ability and time to gain insight in the field, something that was thought to be countered by using several meta-studies to identify the most important works and aspects. The general theories seem to fit with existing knowledge, and this was a specific aim of the thesis. Thus the external validity is good. Triangulation has been used in the selection to gain a width in source material, reducing bias from, for instance, a particular author.

**Generalisability.** Since the method of the thesis was mostly collecting and compiling available knowledge, the generalizability is considered more or less the same as the sources; generally good.

### 3. Theoretical background

The purpose of this chapter is to present a theoretical baseline for the project as well as a brief historical overview of Strategic Management. This should give the reader a background on the theory and some basic knowledge on the subject.

The Merriam-Webster dictionary defines strategy as *the art of devising or employing plans or stratagems toward a goal* and management as *judicious use of means to accomplish an end*; these definitions could however be applied to several fields of research. A study tried to come to terms with this problem of definitions, and concluded from earlier studies that an academic field exists only if “*a critical mass of scholars believe it to exist and adopt a shared conception of its essential meaning*” (Astley, 1985 and Cole, 1983 cited in Nag *et al.* 2007, p. 935), and therefore investigated what the academic society’s definition of Strategic management would be. By performing a survey within a panel of strategic management authors they reached the following definition:

“The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments.” (Nag *et al.* 2007, p. 944)

This definition motivate why strategic management served the purpose of this thesis: it deals with *major decisions, on a top level to enhance the performance*. Here, enhanced performance was seen as an enabler of improved profitability.

Furrer *et al.* (2008) argue that there are four periods in the history of strategic management: the foundation by precursors, the birth of strategic management as concept in the 1960s, the transition to research orientation in the 1970s and a post-1980 period characterised by an internal focus.

An article by Hoskisson *et al.* (1999) largely agrees with these four epochs and view the field of strategic management as a pendulum: starting off as a mostly inside-looking theory (e.g. “best practice”), through an outside perspective (e.g. industrial organisation economics), back into a more internal focus through the resourced-based view, finally resting in a more balanced midpoint with recent organisational economics.

The following paragraphs will give a basic overview based on these four periods, as depicted in Figure 6.



**Figure 6.** The development of Strategic management (adapted from Hoskisson *et al.* 1999 and Furrer *et al.* 2008)

### 3.1 Groundwork

This initial period was deterministic and concerned with identifying “best practices”. These years saw the groundwork for coming authors to build upon; several authors, such as Teece *et al.* (1997) and Hoskisson *et al.* (1999), identify the most prominent theory as the structure-conduct-performance framework by Mason (1949) and Bain (1959). According to this framework, the market’s *structure* (e.g. demand, technology) sets the basic conditions for the *conduct* of the firms, which in turn forms the industry’s *performance*. The same papers also highlight other important areas of work during the period, such as the roles and functions of the managers by Barnard (1938), strategic choice by Taylor (1947), administration by Simon (1947), firms’ distinctive competences by Selznick (1957) and Penrose’s (1959) discourse on how growth and diversification of firms stem from “inherited” resources such as managerial capabilities.

### 3.2 Conceptualization

During the 1960s, when strategic management as a concept really emerged, the focus was mainly on the managers and the internal processes of the organisations and by its nature mostly prescriptive and normative, trying to identify and develop best practices (Furrer *et al.* 2008). Most of the studies were case-based and not particularly generalizable; something argued unavoidable at the time. According to Furrer *et al.* (2008), a few main authors affected both their own time and works to come in this genre: Chandler (1962), on how large enterprises handle growth and how their strategic change leads to structural change; Ansoff’s (1965) view on strategy as the “common thread” between a company’s activities and product-markets and Andrews’ (1965) idea of strategy as the “pattern” of the goals and a tool to achieve them. Hoskisson *et al.* (1999) concur and add Thompson’s (1967) work on cooperative and competitive strategies, for instance forming of coalitions and alliances. Hoskisson *et al.* (1999) also agree with the statement of Rumfelt *et al.* (1994), that almost all ideas within the field of strategic management by the turn of the century were present in these key writings in the 1960s in at least embryotic forms. Some tools devised in this period, such as Albert Humphrey’s SWOT-analysis and Francis J. Aguilar’s (1967) ETPS (more recently often referred to as PESTEL), are still used today.

### 3.3 Maturing period

During the next period the field took a more external view and moved closer to economics in both theory and method, frequently with big statistical analyses and models, something that led to a greater generalizability. Furrer *et al.* (2008) identify two main perspectives of research during this time period: a “process approach” with descriptive studies of strategies and a category that investigated the relationship between strategy and performance. The process approach mainly reaches conclusions on strategies as emerging, and sometimes even unintentional. The same paper points out Quinn’s (1980) “logical incrementalism” as well as Mintzberg and Waters’ (1978, 1985) “emergent strategy” as important theories within this perspective. Revolutionary in the second category was Porter’s (1980) *Generic strategies*, based on industrial organisation economics (e.g. the structure-conduct-performance framework). He emphasised the environment and its relationship with the firm with the segmentation/differentiation/cost leadership strategies. During this period Porter (1979) also published his Five Forces framework, reaching popularity among company management. Hoskisson *et al.* (1999) also stress the importance of strategic groups (focusing on the structure within industries) worked upon by Hunt (1972), Newman (1978) and Porter (1980) as well as competitive dynamics (where strategies are seen as dynamic, and for example one firm’s action might trigger actions within other firms) by Bettis and Hitt (1995) and D’Aveni (1994).

### 3.4 Modern strategic management

From the 1980s onwards, Furrer *et al.* (2008) identify two different main categories of strategic management: the first, following the path paved by industrial economics, includes transaction cost economics and agency theory, the second being the resourced-based view. Transaction cost economics, founded by Williamson (1975, 1985, from Furrer *et al.* 2008), initially tried to explain why firms exist and later investigated how their costs created multidivisional structures and hybrid forms, such as joint ventures. Agency theory deals with problems stemming from the separation of ownership and control in modern companies, for instance managers maximizing own interests.

The resource-based view focuses on the relationship between a firm’s resources and its performance. It was coined by Wernerfelt (1984) but also built upon by others (Teece *et al.* 1997 mention Rumfelt, 1984, Chandler, 1966 and Teece 1980, 1982). Furrer *et al.* (2008) also include dynamic capabilities and the knowledge based approach within the resource-based theory (Hoskisson *et al.* 1999 attribute it to Kogut and Zander 1992; Spender and Grant 1996). These later theories shift the focus from the firm’s environment to its internal resources, i.e. the valuable, rare, inimitable and non-substitutable resources devised by Barney (1991). Some important models designed during this period that are still frequently used by company management was

Porter's (1985) Value Chain, which illustrate the generic parts within the company and how they add value; Kaplan and Norton's (1992; 1996; Kaplan 2005) Balanced Scorecard method, a performance management and control tool as well as McKinsey's 7-S framework, an internal change assessment and monitor tool, made famous by Waterman, Peters and Phillips (1980).

Other important ideas according to Furrer *et al.* (2008) include the invisible assets, i.e. intangible and information-based, such as brand name or management skills, by Itami (1987), and competence based theories, i.e. company diversification and the sharing of tangible assets across businesses, by Prahalad and his colleagues (Prahalad and Bettis 1986; Prahalad and Hamel 1990). An evolutionary theory also saw its rise in the 1990s and builds upon theories such as economic efficiency, market power, organizational learning, structural interaction and transaction costs according to Hoskisson *et al.* (1999).

Building on these more internal-looking perspectives, a more balanced view emerged. One good example is a summary of more recent strategic management models by Teece's *et al.* (1997). They incorporate both external strategy models exploiting the market: competitive forces (e.g. Porter 1980) and strategic conflict (e.g. Shapiro's (1989) discussion on game theory and irreversible choices, creating advantage through strategic choices), as well as models emphasising internal efficiencies: the resource-based perspective (e.g. Wernerfelt 1984) and their own dynamic capabilities (e.g. Teece *et al.* 1997). These dynamic capabilities can be explained as the firm's ability to continuously renew its resources, competences and organisational skills to outperform its competitors and the expectations of the market.

### **3.5 Concluding background**

Strategic management as a series of writings moved from a more practical viewpoint to a more scientific, having started as a mostly practitioner school of thought and slowly being accepted by the scientific community as more research was made available. There is, however, also a trend of popularisation of management and economics in general, something that has led to multitude of more easily digestible best-selling strategic management books.

As discussed above, Nag *et al.* (2007) conclude that strategic management is a field that attempts to improve the performance in an internal ("*utilization of resources*") as well as external ("*in their external environments*") context. They acknowledge the width of the school, with its subject of interest overlapping those of for example economics, sociology, marketing, finance and psychology and its members trained in for example organizational behaviour, marketing and economics.

Bryson (2010) acknowledge that every model needs to be applied carefully and that therefore, there are only hybrids and no pure forms in practice. He requests more studies on how to apply the models, and implications on applying them, or even better, a “meta-framework”, suggesting when to use which framework, why, and how they should be combined.



## 4. Concepts

This chapter presents the important concepts for strategic profitability improvement. The concepts are based from theory studied. Having read this chapter, the reader should have knowledge of strategic concepts from theoretic sources connected to enhanced performance and profitability.

### 4.1 Introduction

The concepts were selected in accordance with the process presented in the Methodology chapter. The presented order of the factors tries to follow their first appearance as management tools in companies, stemming from contemporary management theories. Early management theory did not include the field of Strategic management as it was not until academics turned to more abstract concepts such as strategy and purpose that Strategic management as a concept emerged, with its roots in for example organisational economics.

Within these major groups, concepts were grouped together dependent on their apparent function or usage in a company. Sometimes a concept within a group was developed as a theoretical management tool later than the others, but still fit within the group, and thus was presented in the group.

The first group deals with the continuous operations of the company within a rather short time frame, e.g. optimisation of processes through control and evaluation. The second group evolved during the 1960s, when Strategic management also emerged as a concept, and deals with the strategic and formal organisation of the company and what the focus of the company should be. The next period saw a renaissance, with relabeling and extended research on the basis of the groundwork created in the early days of Strategic management. The purpose of the organisation, the importance of communication and leadership, and the idea of corporate culture as something essential and valuable for any company was further developed. The last era deals more with abstract organisational traits, such as creativity and flexibility, as a response to cope with the pressures of a highly competitive and globalised corporate landscape.

Each group starts with an introduction covering the complete group and how the Strategic Management research field has evolved considering the group and concepts. The important theoretical aspects of each concept are presented, and each concept's connection to profitability is discussed.

### 4.2 Focus on current operations

Since the birth of modern companies there has been a continuous effort to improve the everyday operation of the company, and to control and evaluate the processes.



Here four concepts from the Strategic management literature that fit within this category are presented: Control measures, Evaluation, Rewards and Motivation. The name implies that these strategic concepts are current in time, and current in usage; they are used at this moment, trying to obtain a picture of current operations and what needs to be done to strengthen it. They are also considered current in goal, i.e. their desired effect is considered more of a short-run nature, aiming at creating rather swift changes or benefits.

Control measures and Evaluation are tightly connected, the latter considered more abstract, and they are most efficiently used together. Rewards and Motivation are inherently also close, although motivational traits are more abstract and can be found in other aspects of the organisation aside from the actual reward systems.

The group connects to increased profitability by means of optimising and strengthening operations and employees. By aiming at making for example employees more motivated by means of good evaluation, rewards and control, profitability can be realised due to increased efficiency.

#### **4.2.1 Historical development of the concepts**

Some studies of these factors precede Strategic Management as a theoretical school, and was early used as a more hands-on tool by company management.

Barnard (1938) created some of the groundwork for Strategic management, and discussed participation and authoritative communication, for example noting that a worker will only follow command if it is generally compatible with his personal interests (referred to by Teece *et al.* 1997).

There were two important works in the area of motivation in this period, notes Bruzelius and Skärvad (2004): Selsnick's (1957) notation that there was need to motivate the worker, for example working for a higher cause, to enhance their performance and McGregor's (1960) theory X and Y, and how a leader could motivate by compulsion or responsibility and engagement to create meaning.

Within the study of motivation, Bruzelius and Skärvad (2004) point out one important work in 1975 by psychologist Mihály Chikszentmihalyi, claiming that one's work can be a genuine and strong source of joy, something he called "flow", characterised by meaningful and challenging tasks, a good work environment, clear goals and feedback.

A later view on the motivation of particularly leaders emerged with Maccoby's (1976) ideas of the craftsman (motivated by producing), the jungle fighter (motivated by power), the company man (wanting to belong to a powerful organisation) and the gamesman (motivated by winning). Later (1982) he identified a fifth type, the

developer, which is flexible yet of principles, takes advice yet strong in decisions (Bruzelius and Skärvad 2004).

There has been a more recent development in theory of improvement, with advocates such as Cohen and Levinthal (1990), Bettis and Hitt (1995) and Lei, Hitt and Bettis (1996); all well described by Teece *et al.*'s (1997) dynamic capabilities and the idea of continual improvement as the only sustainable competitive advantage. Comparing with the framework presented, these could fit both within control, evaluation, and learning.

#### **4.2.2 Control measures and Evaluation**

These two combined concepts cover how control is implemented to gain information from operations, and how this information is evaluated and acted upon. Control measures are first a way of gaining information, and second a tool for ensuring the “right” things gets done and carries several inherited notions. For example, Bruzelius and Skärvad (2012) argue that strategic control is carried out by the formulation of Purpose (mission, vision, goals and business idea). The operational control is done by formal systems (e.g. planning, evaluation or reward) and informal systems (e.g. education, business culture). They provide a definition of Management control as “...the process by which managers influence other members of the organisation to complement the organisation's strategies” (Bruzelius and Skärvad (2012) citing Anthony and Govindarajan (2007), p. 155).

Other scholars see control as one of the most important tools and measurements to realise and effectuate an organisation's goals and profits (e.g. Foster and Kaplan 2001; Foster 2012). Control is not only considered financial control, but can also encompass operational controls and social controls, such as making sure managers have as good information about their organisation as possible (Foster 2012). Simons (1994) argues that control systems are vital for using innovation strategies and Perry (1993) argues that human resource management is an important control tool for realising strategic management goals.

Following the above arguments, evaluation can be seen as a necessary subset of control. Barney (1995) and several “excellence” authors (mainly Collins 2001; Peters and Waterman 1982) stress the importance of managers using evaluation as a tool of understanding their organisation. Evaluating performance of employees and processes, as well as whether or not core competencies and processes are (still) ensuring value creation is vital to make sure the organisation remains competitive.

Johansson (2012) argues that the concept of *Kaizen*<sup>4</sup> is important in many successful firms and their change processes. Succeeding in connecting Control measures, Evaluation and a *Kaizen* mind-set, results in a lean and fast organisation where small efficiency gains and loss reductions will lead to increased profitability. Johansson further argues that, compared to competitors not pursuing a *Kaizen* approach, the differences in gains due to a more efficient process will be considerable, exemplifying with AstraZeneca's change from 300 to 30 days from in to out of the factory in one year. An important aspect of this approach is the empowerment and increased understanding of the performance: not only does the efficiency increase, but it also widely affects the motivation. Thus to be able to compete at "the top level" and realise above average profits, the *Kaizen* approach is vital.

### **Control measures, Evaluation and increased profitability**

Control can be an effective instrument for improving competitive advantage if it is aligned with the purpose of control. Having good control and information over the organisation can help management realise synergy effects, and thus optimise the organisation. Connected to the above arguments of for example Kaizen, control can both in the short-run and long-run bring about great efficiency gains.

However, there is a great downside: "control for control's sake", when the measures are used for checking up on employees, and not to gain information or discover faults in the organisation. When this occurs, control measures run the risk of employees feeling monitored instead of being supportive and effective. Over-zealous control can also result in increased bureaucracy.

Evaluation is in itself not vital for profitability. However, evaluation is seen as key to stay competitive in a changing environment. Evaluation without actions or reactions is more a tool of control. Combining evaluation with actions, such as rewards, can ensure that the results are being acted upon, and hopefully result in for example increased efficiency, and hence increased competitiveness and profitability. Evaluation could therefore be seen as an enabler for increasing profitability.

### **4.2.3 Rewards and Motivation**

Rewards tries to cover how often rewards are given out, what nature they are of (e.g. financial or non-financial) and whether or not they are consistent with their criteria. Maintaining consistency with criteria is hard when a company carries out reward programs. First, perceived rewards and their effect, is different to each recipient.

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<sup>4</sup> *Kaizen* stems from Japanese management theories, and is the process of constant improvement – by constantly evaluating and improving processes, small gains can be realised at all levels, creating a very efficient and lean organisation.

Second, different people prefer different kinds of rewards, and experience different motivational pushes from different rewards.

Motivation is a wider term, and can be found in for example the values or the culture of a company: the reason an employee works for a company and not its competitor can be due to the fact that the perceived values and culture is motivational by itself. The result of the work actually carried out, the colleagues or other everyday aspects of work can also be rewarding and motivational. Most basically, the salary level can also act motivational – do employees feel that they are paid enough for the work carried out?

Rewards are seen as a mean of strengthening employees in their daily work. Both Peters and Waterman (1982) and Kotter (1996) emphasise the importance of “small wins”, where small, tangible but still challenging goals are set up and subsequently rewarded. The idea is to ensure that people have goals to work towards, achieving them, and rewarded thereafter. Cameron and Green (2009) raise the difficulty with rewards and goals, as a paradox where one aspect is sought after by management (and management theorists) but another is rewarded, due to the fact that the sought after aspects are much more intangible and harder to evaluate, control and measure. This dilemma is not something new: Kerr (1975) was among the first to explore it. A major cause of the reward dilemma according to Kerr is the “fixation” with quantifiable goals, while more abstract traits are the ones desired. Below is an exemplifying overview.

**Table 2 - Reward Dilemma, adapted from Cameron and Green (2009), p. 58.**

We hope for	We reward
Teamwork and collaboration	The best team members
Innovative thinking and risk taking	Proven methods and no mistakes
Development of people skills	Technical achievements
Employee involvement and empowerment	Tight control over operations
High achievement	Another year’s effort

Peters and Waterman (1982) and Collins (2001) strongly argue for motivation, and there are two main aspects of motivation discussed, the first being *deployed motivation*, meaning it is instilled in employees by deliberate action from management, through for example rewards (such as *small wins*), or by engaging employees in demanding tasks that are rewarding in themselves. The second aspect of motivation discussed is the *intrinsic motivation*: finding, hiring and make sure to keep employees that are motivated by their work. Osterloth and Frey (2000) argue that both intrinsic and extrinsic motivations are important, especially if sought-after knowledge creation and transfer is to be experienced.

### **Rewards, Motivation and increased profitability**

Rewards are not directly affecting profitability, but can when employed correctly act as an enabler, motivating employees to work as efficiently and effectively as possible. It can also be argued that rewards for a certain company can act as competitive advantage, as some companies attract employees with reward systems, and their competitors do not, as the perceived difference in rewards act as a motivator for applications to the first company (e.g. a certain bonus system at one company not found at their main competitor).

Motivation is connected to profitability in the sense that (intrinsically) motivated employees are expected to outperform employees not motivated by their tasks or rewards (Collins 2001; Peters and Waterman 1982). Barney (1995) exemplifies that both motivation and rewards can be seen as a part of a company's competitive resources, ensuring competitive advantage. As discussed under Focus on competencies, Barney sees the organisation of reward and motivation systems as very important aspects of mobilising the complementary resources for competitive advantage. Teece *et al.* (1997) agree, stating that motivation and compensation policies (complementary resources) can be seen as important parts in their suggested dynamic capabilities framework, strengthening competitive advantage of the firm.

### **4.3 Focus on strategy**

Around 1960 the idea of an organisation as neither a completely technical nor social system but a combination, a sociotechnological system, emerged (Emery and Trist 1960, from Bruzelius and Skärvad 2004). This meant more needs and demands needed to be addressed both from the technological and social/psychological part of the organisation.

Two concepts within Strategic management were identified that deal with the organisation: the Strategic Organisation and Focus on Competencies. The Strategic organisation covers how and why an organisation is set up. This organisation can be, and most often is (as the name implies), strongly connected to the desired strategic goals of management. Focus on Competencies is rather abstract, covering how well a company is focusing on what it actually is good at doing opposed to carrying out actions or operations not considered strengths of the company.

#### **4.3.1 Historical development of the concepts**

The contingency theory, coined by Lawrence and Lorsch (1969, referred to by Bruzelius and Skärvad 2004) acknowledged that different types of organisational structures were not necessarily "good" or "bad" but more or less suiting for different types of organisations. This was further built upon by Mintzberg (1983), who stated

that not only did the situation form the organisation, but the organisation also formed the situation.

The 1970s, according to Bruzelius and Skärvad (2004), saw the transformation of organisational theory towards divisionalisation, decentralisation, democratisation (smaller more self-governing entities within the organisation) and renewal and change within the organisations – a pace which picked up in the 1980s, with more process and network oriented structures.

Mintzberg systematized what had been written on this subject in his 1979 book *The Structuring of Organizations*, where he identified six different organisational forms, built upon five basic organizational subunits (strategic, technostructure, support, middle line, operating core). These six different *configurations* would then use the subunits in different way; Machine bureaucracy would for instance focus on the technostructure while in an Adhocracy the support units are the most important.

From an earlier view that structure follows strategy, i.e. the organisation is created in the image portrayed by its strategy (e.g. Chandler 1962), later studies have suggested that the opposite is more commonly true (e.g. Normann 1975, Mintzberg 1988, 1998 according to Bruzelius and Skärvad 2004). The field thus changed into a view concerned with aligning the company with external factors, to later turn back to the resource based view. The 1970s and 1980s also saw the rise of Transaction Cost Economies, where hierarchies and firm's internal and external organisation and minimization of transaction costs provided reliable market signals when other pricing systems failed (Hoskisson *et al.* 1999).

Recent research is focused less on formal organisation, and instead on realising full gains from available resources *with the help of* good organisational measures. (e.g. Teece *et al.* 1997; Nag *et al.* 1999). Most of the recent research focus on organising more abstract resources, such as the innovation process or knowledge management (e.g. Prahalad and Hamel 1990; Nonaka 1991; Ahmed and Sheperd 2010). The importance of knowledge has its roots in Polany's 1966 assertion with a breakdown of knowledge into explicit and codified, further classified by Zander and Kogut (1992; 1995) and Nonaka (1994) according to Hoskisson *et al.* (1999).

The idea of the importance for a company to focus on its core competencies was conceived by Prahalad and Hamel (1990), but has been worked upon by several authors (e.g. Leonard-Barton 1992). One perspective on this focus was developed by Quinn *et al.* (1990), stressing the importance of a service-activity-based, as opposed to product-based, competitive analysis. Later Lei, Hitt and Bettis (1996) argued that core competencies only maintain their value through continuous improvement, stressing the ability to learn (Hoskisson *et al.* 1999).

### **4.3.2 Focus on competencies**

The concept of focus is when a company is being able to identify, define and concentrate their efforts on their competencies. Thus, a company with strong focus are aware of their strengths and are organising and operating to utilise them as efficiently as possible, and contrastingly a company with weak focus could be doing things not considered strengths and thus not necessarily adding to, or even damaging, the value of the company.

The idea of a focus concept mainly stems from the excellence books, but have strong support in strategic management theories, further clarifying focus as focus on competencies. It can easily be argued that the so-called resource based view (and in a sense, dynamic capabilities, e.g. Teece *et al.* 1997), is a way of identifying a company's competencies and trying to optimise operations around them (e.g. Wernerfelt 1984, 1995; Barney 1995; Prahalad and Hamel 1990). If the concept of Focus is connected to competencies, as suggested, the theoretical background for the concept turns very sound and strong. Hagel (2012) connects focus on core competencies with core processes, and argues that using three core processes, customer relationship management, product innovation and commercialization as well as infrastructure operations, the company is able to optimise usage and leverage of its core competencies.

### **Focus on competencies and increased profitability**

Connecting focus and profitability is not straightforward, as for example two different companies ability to focus and utilise competencies cannot easily be compared, as they most likely not are identical, and probably not even very similar. A company can be strong in their ability having identified their competencies as well as supporting and using them. By further strengthening operations around competencies, and for example scaling down operations not considered strong competencies (by means of for example outsourcing), increased profitability *can* be realised, as the company turns more streamlined, minimising inefficient operations.

### **4.3.3 Strategic organisation**

This concept covers how the company is organised, how operations are carried out, and the positions and relations within the value chain of the company. A very wide concept, where for example organisational management theories could easily be applied, this concept tries to evaluate how well a company is connecting its strategy and organisation to reach set goals.

Barney (1995) argues in his well-cited paper, that for a company to realise its full potential and gain strong competitive advantage, the organisation of the company needs to be aligned with core competencies. The important *complementary resources* (e.g. reporting structure, management control systems, and compensation policies) are

considered important in combination with the organisation's core competencies. However, such complementary resources do not bring value by themselves, but need to be aligned and strengthened by an organisation that makes sure that they are utilised where they are most fruitful. This very idea extends to the concepts found in the Operation groups.

Bowman and Carter (1995) argue that due to (constant) changing environments of companies, grounds for competitive advantage are constantly turning scarcer. By effectively and efficiently organising, companies can adapt to changes and innovate, to be able to sustain their competitive advantage.

### Strategic management analysis tool – the Value Chain concept

The value chain, a concept made popular by Porter (Porter and Millar 1985; Porter 1985) is by many practitioners considered a powerful strategic management tool. The idea is to first analyse the main functions and support functions in a company, and how they add value to the final offering. Second, the value added is compared to the rest of the chain from for example raw material to end user consumption. By these measures a company can see how much value they add at a certain stage in the production process, and where the most value is added. By knowing this, issues such as where in the value chain it is most profitable to operate can be found, and subsequent strategies can be formed. See Figure 7 and Figure 8 for a schematic explanation.

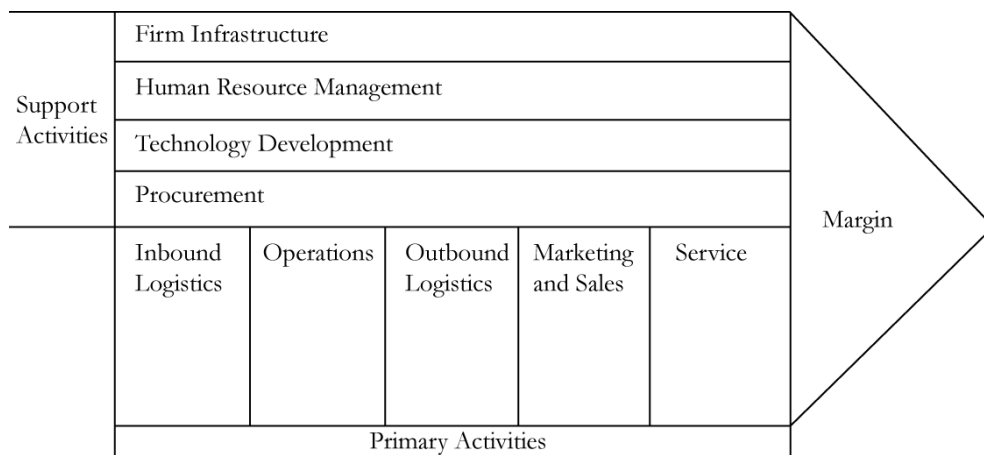
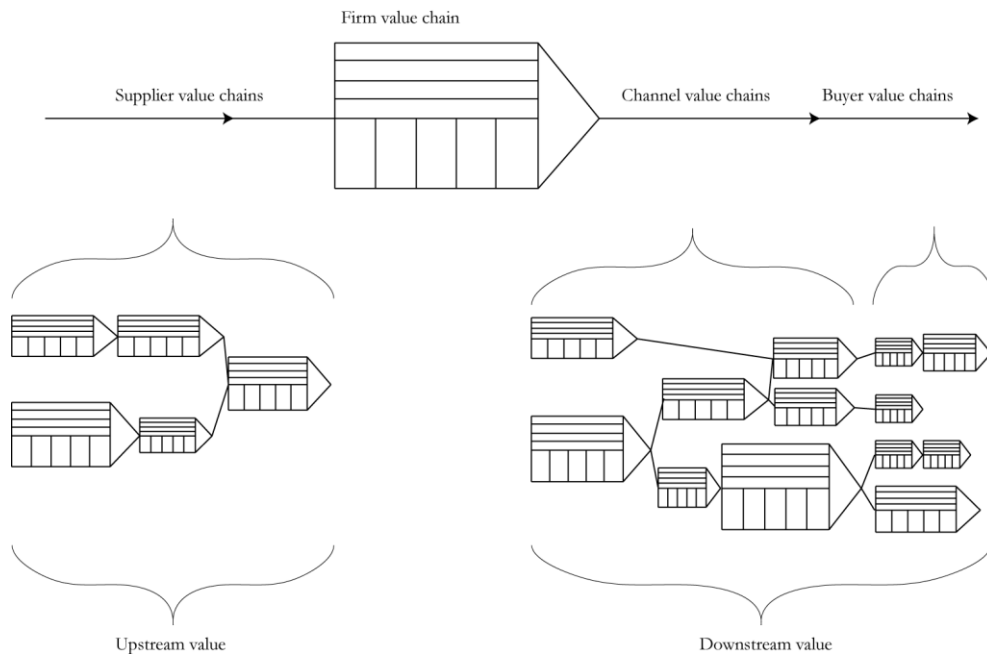


Figure 7 - A company's value adding activities (adapted from Porter and Millar 1985)

Figure 7 Shows the different support and primary activities a company undertakes, and the added margin, showing how a company adds value to an offering.





**Figure 8 - The company's value adding activities together with other companies linked activities, creating a value chain (adapted from Porter and Millar 1985). The relative size of a company should be portraying their relative added value.**

Figure 8 shows the company's position in the value chain, and other companies, where relative size shows relative value in the chain, inserted as examples.

The value chain approach is important for the concept of strategic organisation, as it provides a measure of analysing what functions a company is undertaking and what value functions are actually adding. In a broader scope, the chain concept helps explain why a company operates in its position in the value chain, and hopefully these two analyses coincide with for instance Purpose and Culture as well as Focus on competencies. The value chain concept extends to the discussion on focus, as a company can evaluate what parts of their business is adding value, and what parts of the business that could be considered weaker and could possibly be outsourced.

This analysis also gives rise to strategic decisions covering mergers and acquisitions or partnerships: is the company to invest in other profitable actors up- or downstream, or if not possible, create partnerships to be able to tap into the value added by them.

### **Organisational forms**

A company can be organised in a variety of ways, and which structure that is chosen is an important strategic decision. There are three common forms described in organisational theory, the first being the divisional or multidivisional organisation form, where the company is organised after its activities, so that for example a

business unit producing a certain good has control of all relevant functions. Second, the functional organisation structure organises the company after functions: each function is a unit interacting with each other. The last of the three forms is the matrix structure, that combines functional and divisional organisation – a much more complex structure where each function is a unit, overlapping the divisions. See Figure 9, Figure 10 and Figure 11 for a simple overview.

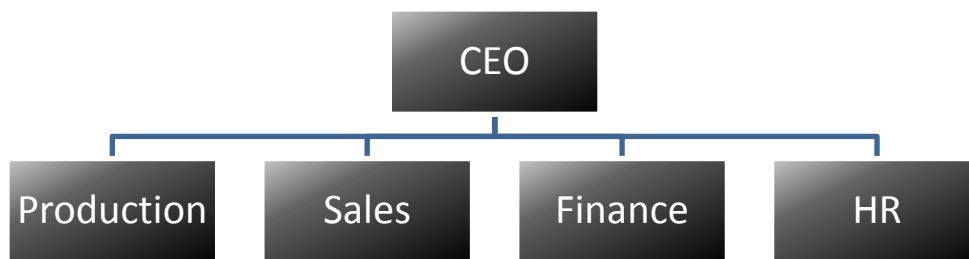


Figure 9 - A Functional organisation structure (Adapted from Bruzelius and Skärvad 2004; Johnson *et al.* 2008).

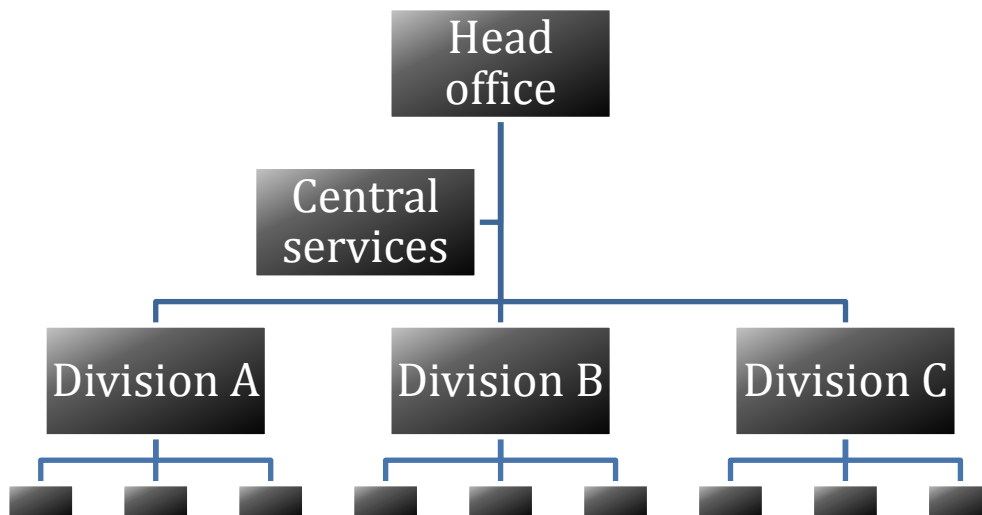


Figure 10 - A Divisional organisation structure (Adapted from Bruzelius and Skärvad 2004; Johnson *et al.* 2008).

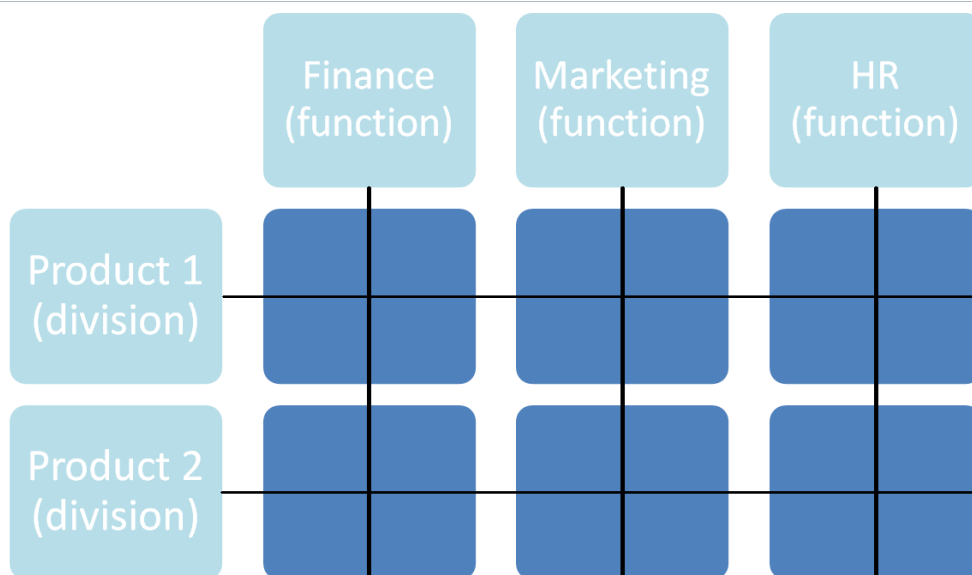


Figure 11 - A Matrix organisation structure (Adapted from Bruzelius and Skärvad 2004; Johnson *et al.* 2008).

There are other ways of organising, such as the transnational organisation, which tries to organise and optimise after the international geographical setting of larger international companies, and the project-based organisational form, which

encompasses smaller more temporary organisations aimed at carrying out a project (Johnson *et al.* 2008).

Adapting a certain organisational form is an important strategic decision, and each form has certain strengths and weaknesses. The main trade-offs are in-between control, information and speed of communication. The functional form grants each function (e.g. a finance or IT department) some independence and some optimisation, as they can be rather slim. However, in the functional setting these functions run the risk of being detached from other functions, such as production, resulting in slower and more inert communication, information flow and control. In the divisional form, each function is aligned for that very division, yet as opposed to the above example, runs the risk of inefficiency and overlapping work, as each division needs their own financial or IT function. The matrix structure tries to overcome these issues by connecting divisional benefits with more tightly and overlapping functions. However, there are two main issues with the matrix structure: the first being the very complex nature of organising and operating the chosen organisation. Second, there is a large risk of overlapping work and inconsistencies, as a number of managers “double” – for example an employee working in production has both an operational divisional manager that manages work done, and a HR or financial manager responsible for further education, evaluation and salaries. Thus the matrix structure runs the risk of creating lack of clarity in task and cost responsibilities (Bruzelius and Skärvad 2004; Johnson *et al.* 2008).

There is also an issue of the degree of centralisation, concerning the geographical location of functions of the company. There are two different implications, the first being only decisional – the decision-making functions such as CEO, senior management or finance are either centralised or decentralised: decision making is found at the same geographical location, or spread out to various locations. The second is the degree of decentralisation of functions: it is for example very common to have the R&D function, which often is both financially and strategically important, centralised, while a retail company might benefit from being spread out to be close to relevant suppliers or customers.

Regardless of whether the question of centralisation implies only the decision-making functions or concerns larger parts of the organisation, the same issues arise. Centralised functions can have the benefit of being more efficient and reducing overlapping work. Major drawbacks are the issues arising with distance – communication is harder, insight into operations in other geographical areas is more difficult, and cultural differences are harder to tackle over international distances (Bruzelius and Skärvad 2004).

The chosen organisational form as well as what functions to centralise or not, is of great strategic importance. It is not the intention of this paper to go into all the aspects and details of these issues, and instead effort is put in the strategic relevance the organisational form holds for the company as well as the other strategic concepts suggested. The above discussions – value chain, organisational form and centralisation/decentralisation issues, are mentioned to exemplify and highlight the main strategic decisions found within the concept of the strategic organisation.

### **Strategic Organisation and increased profitability**

Profitability is strongly connected to the organisation. A suboptimal organisation (either on a fine scale: not the right workers in the right positions; or a larger scale: not carrying out operations concerned with core competencies and purposes) likely has weak profits. Following this argument, profitability is affected by both the concrete and abstract factors of the organisation (e.g. Bowman and Carter 1995), such as the organisational structure or the success of focus on competencies.

The chosen organisational form also results in costs of various forms, and thus having the “right” organisational form compared to for instance culture, focus or leadership, can result in efficiency gains and reduced costs. At the same time, the current strategic positioning in the value chain might not be the position that creates the most value considering core competencies or purpose. Hence, by evaluating and perhaps changing the organisational form, or strategic positioning in the value chain, increased profitability can be realised.

## **4.4 Focus on the intangible foundation**

This group, as the name implies, is the underlying base for a company. Culture is considered a very important concept, underlying, permeating and shaping many aspects of an organisation, and thus the concept is covered in great detail. Purpose is the desired future of the company, acting as a goal setter, unifying efforts throughout the organisation, and a statement of the *raison d'être*. Communication encompassed all aspects of communication in a company and how these are affecting the rest of the suggested concepts. Leadership covers how and to what ends leadership is used and evaluated, to achieve strategic goals and strengthen aspects and operations of the organisation.

### **4.4.1 Historical development of the concepts**

One of the earliest and most important work on culture, organisation and management was Barnard's 1938 (noted by Teece *et al.* 1997; Hoskisson *et al.* 1999) talks of the forming of an organisation, and states that this requires communication, participation and common goals. The role and function of the executive should then be to uphold these criteria. Although not being specifically mentioned, the

participation part could be seen as an embryo of what later was defined as *corporate culture*. Thus, already in 1938 there was some support to the idea of what lies as the very foundation of a company. Barnard also noted that authoritative communication will only be followed if it is believed to follow the purpose of the organisation.

The idea of something intangible within the organisation was further worked upon by Selsnick in 1957, discussing the importance of creating a "myth" about the organisation and its products, and to create some form of organisational glue: the workers must feel that they are working for a bigger cause (Bruzelius and Skärvad 2004). He also talks about institutional and responsible leadership: a leader must be understanding, feel responsible and engaged by his tasks, and always be balanced: neither too authoritarian or controlling, nor too optimistic or weak. Penrose (1959) related a firm's growth to internal characteristics and stressed the importance of managerial capabilities. Hoskisson *et al.* (1999) also identify Simon (1945) and Cuert and March (1963) as early champions for the importance of internal characteristics, such as decision-making, communication and hierarchical structure.

In 1960 Douglas McGregor developed the idea of theory X and theory Y, two different aspects of how a leader thinks: theory X seeing people as lazy and unwilling to work, thus requiring compulsion, in contrast to theory Y leaders, which see people as willing to take responsibility and engage in the work, since this makes it meaningful (Bruzelius and Skärvad 2004).

Mintzberg's (1979) view on leadership was a view of management and leadership as very tightly connected, bordering indistinguishable. This clearly contrasts with Kotter's (1996) later view that leadership is something mostly concerned with the process of change: formulating vision and strategies, as well as inspiring and motivating, whereas management is more about planning, budgeting and controlling to enhance efficiency.

Bruzelius and Skärvad (2004) further note a transformation in leadership during the eighties and nineties from a behaviour science perspective to a more strategic and management perspective. Before the turn of the millennia, however, there was a revival of the older perspective on the role of a leader as *leading people*, connected to the newer idea of the leader as a *strategist*.

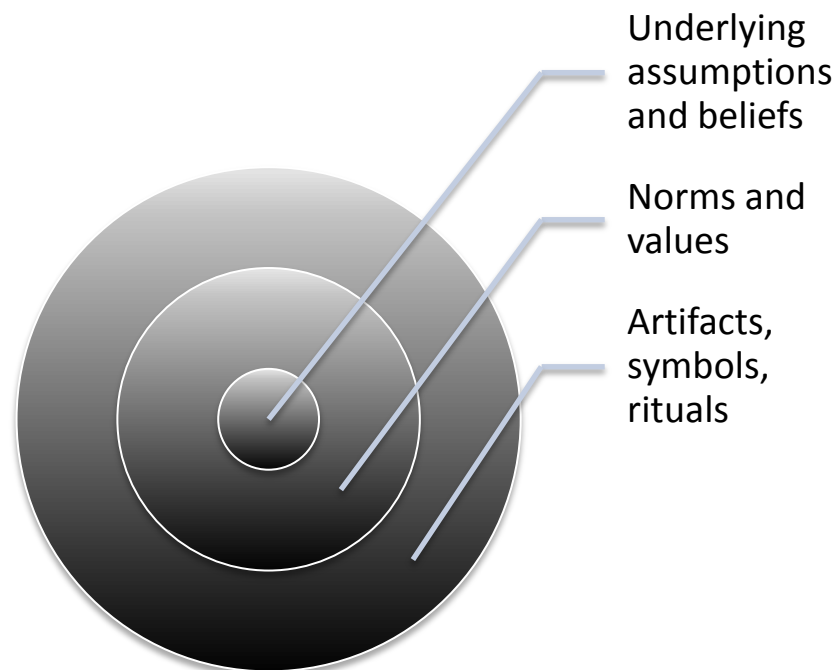
A later view by Mintzberg and Van der Heyden (1999) identifies four types of organisations, each with certain leadership roles: the set, where managers allocate resources; the chain where managers control; the hub, where managers coordinate; and the web, where managers energize.

#### **4.4.2 Culture**

Culture is seen as the basic assumptions and beliefs of an organisation, the base from which its decisions are made. It can be evaluated as the spread of a common culture and value basis throughout a company. Culture encompasses everything from day-to-day doings to how major decisions are made.

Schein (2004) argues that culture develops in a company due to two reasons: internal integration and external adaption. The creation of a culture according to Schein is found at all levels of an organisation – from the top to the individual level. While every member of a culture is part in creating it, the culture also constrains, stabilises and provides structure and meaning for the group members (Schein 2004, p. 1).

Culture is seen as a three-layered concept. The first layer, artifacts, is the most visible layer and can be tangible, such as verbal, behavioural and physical manifestations of the organisational culture. Rituals is an important part at the artefact level, showing how “things are done here” in the culture, and can be observed from the outside, but usually hard to understand for an outsider. The second, espoused believes and values, are the sometimes stated and codified cornerstones of a corporation’s culture. They can be manifested in for example customer approach or loyalty, or portray the perceived level of trustworthiness within an organisation. The last, underlying assumptions, is the core of the culture, and are often so deeply rooted that they not are cognitively realised by the cultures’ members and can be considered taboo to speak of within the organisation, although it is present.



**Figure 12 - Levels of culture, adapted from Hofstede (1991) and Schein (2004)**

Bruzelius and Skärvad (2004) state that there is no unified definition of culture. However, by citing Hofstede *et al.* (1990) and Alvesson (2003) they are able to draw some conclusions describing what an organisational culture is (adapted from Bruzelius and Skärvad 2004, p. 318):

- Culture is holistic, a collective phenomenon that cannot be attributed to the single individual
- Culture is formed and decided by history
- Anthropological terms such as customs, rituals and codes are important to be able to illustrate cultural phenomenon
- The culture is a social construct, i.e. a creation by people, and is supported by a group of people who act as a collective
- The culture is “soft” and truly qualitative, and cannot easily be measured and classified
- Culture is inert and hard to change

Culture as a strategic management concept strengthening competitive advantage is found in the resource-based view (RBV), where a company’s culture can be seen as a complex resource (e.g. Barney 1995, 2001). The same argument is applied by Itami



(1987), who argues that corporate culture can be considered an invisible asset<sup>5</sup> strengthening competitive advantage.

Extending RBV into the more recent knowledge-based view (KBV), culture can be seen as a bearer and enabler of knowledge creation and sharing, allowing for sustained advantage as summarised by Hoskinsson *et al.* (1999) and Osterloth and Frey (2000).

Klein (2011) argues that culture matters, and that there is some support for the cliché “culture eats strategy for lunch”. Culture should be considered a strategic resource, and supported by establishing flexible, adaptive, and constructive cultural norms. This should be done regardless of the chosen and implemented strategy. Whether a company is pursuing strategic fit<sup>6</sup> or universalistic strategies<sup>7</sup> culture is important, as the company’s cultural setting easily could obstruct and even completely disrupt the chosen strategy’s realisation.

### **Culture and increased profitability**

Based on these above mentioned sources; culture is indeed seen as an important factor regardless of industry, organisation size or chosen strategy. Culture is considered to be a factor underlying, enabling and either enhancing or hindering more or less all aspects of an organisation. Culture also creates the setting and values underlying the actions and behaviour taken by employees in the organisation.

Barney (1986) argues that if a culture holds three attributes it will allow for sustained superior financial performance. First, a culture has to be valuable – it enables a firm to do things in ways that lead to high sales, low costs or high margins. Second, it needs to be rare – the culture holds attributes and characteristics that are uncommon for a large number of firms. Last, the culture needs to be imperfectly imitable – competitors without these cultures cannot embark on changing their cultures to include the required characteristics, and if they do they will be at a disadvantage (Barney 1986, p. 658).

Amongst the “excellence” books, Peters and Waterman (1982) and Collins (2001) for example, discuss culture as a strong underlying factor for competitive advantage. Culture is argued to be a decisive factor; a consistent culture, affirmed by management through both action and words, and permeating through all levels of the company, creates an “us”-notion in the company. This could result in various advantages hard to imitate by competition. Pascale *et al.* (2001) elaborate, stating that how employees

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<sup>5</sup> An invisible asset is an information based intangible asset

<sup>6</sup> Strategic fit: aligning strategy to organisation, culture, core competencies etc.

<sup>7</sup> Universalistic strategies: a chosen strategy suitable regardless of organisation or cultural setting

identify with their company is important: either identifying with their profession or their company. Are employees working for their salary, or the greater good of the company, going the extra mile.

In the context of this paper, Culture is a factor hard to affect and change for increased profitability, but considered possible to change. However, culture likely needs to change to ease a transition or change in the other concepts, when striving for increased profitability. Deriving an increase in profitability straight to a change in the corporate culture is most likely very hard, but a change in culture, either intentional or unintentional (sometimes referred to as evolutionary) is considered very likely to have effect on profitability.

#### **4.4.3 Purpose – goals, mission and vision**

Purpose encompasses the three terms goals, mission and vision. These three statements can be seen as codifying the very *raison d'être* of a company. It can be evaluated on the ground of to what level the organisation is reflected in its stated purpose and how the purpose is fulfilled in the organisation's daily operations.

Strategic management is tightly connected to purpose, as one of strategic management's objectives is to fulfil the mission of a company (e.g. Whipp and Pettigrew 1992; Bryson *et al.* 2010). Purpose is deemed important to be communicated (Peters and Waterman 1982) and connected to culture (Collins 2001). The connection of communication and purpose with rewarding is considered to be important, as this could to be a strong factor with high potential for aligning employees with organisation strategy and purpose and creating unified goals (e.g. Peters and Waterman 1982; Whipp and Pettigrew 1992; Kotter 1996; Collins 2001).

#### **Purpose and increased profitability**

Purpose is a very difficult concept to link directly to increased profitability. However, the benefit of having a clear purpose of the company is obvious, as it sets a goal and aligns efforts. It should be derived from the organisation's core competencies, and can help strengthening focus on these. In connection with the other concepts it is seen as a strong influencer and enabler, underlying potentially increased profits. For example, Grinyer *et al.* (1990) state that subjects in their study often saw the ability by management to communicate the purpose as an important factor enabling the described change in profitability. The role of Purpose is to create a unified vision and goal. If successfully done, this enables employees and the company to focus their efforts and unify and align towards a common direction.

#### **4.4.4 Communication**

Communication is considered to be the level, speed, formality and hierarchical direction of communication within a company. Level implies what measures are used

for communication (written, telephone, online, face-to-face etcetera). Speed shows how quick communication happens (e.g. how soon after or before a certain event) and how much time communication consumes (e.g. communication is presumed to take longer time in a highly bureaucratic organisation). Formality measures how formal communication is considered to be (ranging from for example simply walking up to a superior for a discussion, to having to apply for a meeting to be able to talk to a superior). Hierarchical direction is connected to formality in a sense, and depicts which channels communication takes; is it one-way, top-down communication, or is communication from lower echelons upwards encouraged and supported.

Many authors have pointed out communication as an important aspect of business success. However, the type, degree and commitment to communication greatly vary. This variation is most likely due to the abstract term communication, and the various definitions it receives from different authors.

Kaplan and Norton's (1996) Balanced Scorecard, a classic strategic management tool, is by its constructors seen as a mean of communicating strategy and status of a company. Grinyer *et al.* (1990) point out that many companies fail due to "bad" communication of strategy, for example communication not working as intended, or not working at all. Their argument of failure due to non-working communication is supported by many authors (e.g. Collins 2001; Peters and Waterman 1982; Kotter 1996).

Hamel and Prahalad (1993) point out that to fully utilise a firm's resources (tangible or intangible), communicating how they are best put to use is vital. A good example is the idea of "recycling"; where a company good at combining a core competence and technology easily can apply this technology to other relevant products (e.g. LCD-screens from calculators to laptop computers). This is only possible through communication between business units and employee teams. Other authors have similar arguments of using communication as a mean of spreading knowledge. Day (2006) exemplifies by stating that without communication, a company cannot spread knowledge and react to events initially only visible to or affecting a small part of the company, but with a potential to become crucial for the whole organisation.

Kaplan and Beinhocker discuss Mintzberg and Lampel's (1999) ideas that "*planning is an oxymoron*" (Kaplan and Beinhocker 2003, p. 71), and that the informal communication is often what sets the resulting plans and strategies for a company. Being able and allowed to communicate informally thus greatly aligns ideas and improves the ability to create decisions during formal meetings.

### **Communication and increased profitability**

Communication is without a doubt an important factor in day-to-day business. Dependent on the definition used authors have varying usage and thoughts on communication. To connect profitability (or for example comparative advantage) communication is often seen as a strong enabler – without good communication working as intended, a company cannot function, be creative, be dynamic, realise its goals etcetera. Strong communication with customers is thought of as a good way of ensuring not only sales, but also good relations and possibility for mutually beneficial joint projects (e.g. Peters and Waterman 1982; Collins 2001; Christensen 2000).

#### **4.4.5 Leadership**

The concept leadership encompasses the efficiency and style of leadership in the organisation, as well as the notion of having the right leaders at the right positions. Leadership is hard to evaluate, as it can be seen as a characteristic of individuals. Leaders' superiors, colleagues and subordinates can do evaluation through for example peer reviews.

Leadership is in itself a complete theoretical school. Strategic leadership theory has sprung out as an offshoot from strategic management theory (e.g. Westley and Mintzberg 1989; Hoskinsson *et al.* 1999) and thus holds relevance within the field of strategic management. Bryson *et al.* (2010) argue that leadership is not a theoretical art, but needs to be more researched from a more practical approach, so as findings could be more applicable.

Practitioner books are often keen on discussing the value of leadership, claiming that the leaders and their personalities are key to the success the authors have witnessed. Both Collins (2001) and Peters and Waterman (1982) discuss the somewhat paradoxical trait of leadership they have observed: successful leaders need to be both autocratic and induce discipline, while at the same time being able to encourage and allow autonomy in the workforce while having a humble approach to employees.

### **Leadership and increased profitability**

Leadership is an enabler for profitability – without good leadership carried out in a suitable way for the organisation at hand, profits will be suffering. Fitting leadership will optimise worker output and efficiency, and hence allowing for greater competitive advantage. Leadership is also responsible for gearing the organisation and its operations as well as strategic measures (such as these suggested concepts) towards the “right” market, and hence realising greater profitability.

## **4.5 Focus on coping with an unstable world**

Found in this group are the three rather abstract concepts Flexibility, Creativity and Learning. This group is concerned with operations on a longer time horizon

compared to Focus on current operations. First, these strategic concepts are used to map or try to obtain a desired end state in the (near) future. Second, the effect of trying to affect any of these concepts is first seen after some time has passed.

As they are rather abstract strategic concepts, as well as not having a visible effect in the short-run, their connection to immediate profitability increases is vague. However, if a longer timeframe is used, profitability can be strengthened by these aspects, as for example enhanced creativity enables for more and better innovation, increasing sales; learning enables more knowledge and the spread of it to be generated; flexibility enables the organisation to more quickly adapt to both internal and external changes, allowing for quicker realisations of gains from market opportunities.

#### **4.5.1 Historical development of the concepts**

Bruzelius and Skärvad (2004) identify a couple of important steps in the theory of the learning organisation: early works by Donald Schön (1969, 1971), Richard Normann's (1975) idea of business development as a learning process, Argyris and Schön's (1975) identification of single and double loop learning<sup>8</sup> as well as Peter Senge's work (1990, 1995). Peter Senge acknowledged in 1990 that individual learning enables, but does not guarantee, that organisations learn, and that without individual learning, there is no organisational learning. They also point out Charles Handy (1989), who believed that organisational learning is stimulated as the workers are, for instance, given great acting space, mentorship, projects and creative time, and that it is imperative to create a culture of learning. Also important was Charles M. Savage's (1995) view of us being in the third wave of socio-economic development, the *knowledge era*, in which organisational learning becomes imperative.

Several of the control-evaluation aspects discussed in 4.2.2 are related to the learning aspects, as evaluation and continual learning are closely connected.

As noted in several places above, several theoretical disciplines have increasingly been mixed, such as behavioural science, economics, organizational theory, into a general strategic management theory; this more balanced view is bound to help understanding of more socially complex resources, such as creativity and motivation (Furrer *et al.* 2007).

#### **4.5.2 Flexibility**

Flexibility covers the ability of the organisation, culture and employees to change and adapt to new situations, as well as the level of perceived reluctance to change and

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<sup>8</sup> Single loop learning could be described as a more of an improvement of the current state (i.e. a minor flaw), whereas double loop is more advanced form with more drastic changes.

adapt. Flexibility can be seen as a trait tightly connected to change management, as it is rooted in the notion of adapting to change. However, as a factor, flexibility can be estimated and evaluated, when considering strategic changes at hand.

The main strategic management theories of flexibility and dynamics are found within the so-called *dynamic capabilities* framework, arguably a sub-set of the resource-based view (e.g. Teece *et al.* 1997; Eisenhart and Martin 2000). The idea is that a company's sustained competitive advantage is found within the ever-changing (internal) processes that make the company unique, such as innovation or strategic processes. Acknowledging companies' ability to dynamically change their operations, the dynamic capabilities lift the importance of internally adapting the company to changing environmental settings. In addition to these arguments, Hamel and Prahalad (1993) argue that flexibility is involved and important when trying to combine and complement critical resources in the company with other supporting resources, or by exploring for example technological synergies (such as the before mentioned transition of LCD-technology from calculators to television).

Shapiro (2001) argues that flexibility should be supported and built-in into the organisation and culture, to allow for change and foster innovation. Senge (1999) and Day (2006) argue that change (connected to innovation and creativity) is more about being alert than predicting and planning. One cannot predict the future, but stay alert and flexible to be able to adapt to a changing future. Planning is important, but not an ultimate goal in itself, as even though planning is done extremely well and thoroughly, things might not go according to plan and challenges should be expected.

“Excellence” authors such as Collins (2001), Peters and Waterman (1982) and Harari (2006) are also strongly arguing for the case of being flexible and dynamic. The ability for a company to adapt and change to changing settings is seen as vital, and these authors stress the importance of the flexible employee. Employees need to be allowed and encouraged to be dynamic, so as they are able to change with a changing organisation, as well as able to pick up for example new knowledge or information. The company is in the end consisting of and relying on its employees, and cannot change without employees changing with it.

Peters and Waterman (1982) connect flexibility with the notion of disruptive change (e.g. a disruptive technology completely changing the “rules” of the market). The argument is that even though large companies exist, they rarely are the ones exploring, finding, or creating new markets from new technologies. The reason for this is that as companies grow, they are rendered less flexible, less inventive, and more bureaucratic. Harari (2006) agrees, explaining that to be as dynamic as possible, and to realise full potential and continuous growth, companies need to be willing to regularly challenge what made them successful in the past. Christensen (2000) has a similar argument,

claiming that larger corporations rarely are at the forefront of innovation and market change, as they have grown too large and bureaucratic.

A notion within Flexibility was lifted by Johansson (2012), stressing the importance and need of speed to be competitive. When pursuing strategic performance and profitability above competition, being fast (or even the fastest) to for example deliver was considered very important. For example, having a high precision on deliveries, but a long delivery time is less important for most customers than having a short, flexible, delivery time. This aspect of business was considered a part of Flexibility, as it is strongly connected to responsiveness to change. By being flexible and quick to respond, Johansson argued that more orders would be won than competitors, and thus improving profitability. Moreover, more flexible processes often bring positive side effects: actually increasing precision, quickening learning et cetera.

### **Flexibility and increased profitability**

Having dynamic employees or processes are not generating profit nor increasing it, but rather an enabler of being able to keep up and adapt and optimise to an ever-changing surrounding. The level of responsiveness to change will in itself not bring about increased profitability, but by actively improving the responsiveness, reactions to external and internal changes can happen quicker, and new market opportunities can be exploited, resulting in increased short-run profitability. Considering the company being able to stay flexible over time thus makes it able to time over time reap these short-run profitability increases, and can thus be considered to profit from its overall flexibility. Very “stiff” companies, path and history dependent<sup>9</sup>, are more likely to go under by not accepting and adapting to change (e.g. Beinhocker, 1999).

### **4.5.3 Creativity**

A rather abstract concept, Creativity concerns the level of acceptance for trial and error and the ability and support of new ideas and their creation within the company. Creativity is mainly found within individuals, but can be evaluated at the company level within the cultural aspects, such as ability to tolerate failures.

The main argument for creativity within strategic management theory is found when addressing the issue of resources and their utilisation. Creativity is considered important when trying to explore and establish the company’s critical resources, and combining them with complementary resources or other support areas (Hamel and Prahalad 1993).

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<sup>9</sup> History and path dependency: the notion that the decisions and actions taken now are greatly influenced by historical events in the company and the path set out previously, resulting in limited freedom trying to take new decisions.

The creative organisation, as in one allowing for employees to be creative and explorative and tolerating failure, is a common term among management authors. Christensen (2000) argues that disruptive technological changes cannot be foreseen, and creativity is vital for being able to adapt to changes. The idea of trial and error in adaption to changes is supported by several other authors (e.g. Peters and Waterman 1982; Day 2006). Harari (2007) goes one step further, claiming that creativity is an underlying strength for business success and without creativity and change, competitors will catch up and “commoditise” the business. This suffering level of innovation then results in incrementalism: only slow incremental change.

#### **Creativity and increased profitability**

One of the most important aspects of Creativity is the idea that it fosters innovation, be it in product development, problem solving or new offers to the market. Hence, without creativity, it is considered very hard for a company to stay competitive. An understanding and support of creative processes in a company is bound to both ease capturing of new value, as well as increase efficiency in problem solving. To be able become and stay a market leader in today’s business environment, both flexibility and creativity must be supported; if not, competitors will catch up (Harari 2007), and because of this a company must constantly innovate and be responsive to change.

Once again the importance of trial and error is stressed: without allowing and supporting employees to try new things, less innovative solutions will spring, flexibility is hindered, and learning is reduced.

Following these arguments, creativity can be seen as an enabler for increased and sustained profitability given that it both allows for innovation and new value propositions to the market as well as allowing and supporting change efforts within the company to ensure that external change forces are acted upon.

#### **4.5.4 Learning**

Learning is considered to be the ability to gain and transfer new knowledge, both on an individual and organisational level. As a concept controlled by management it also includes the support and encouragement of learning and creating new (organisational) knowledge.

Knowledge has an entire dedicated management theory field, called knowledge management, which covers how knowledge and learning within a company should be managed. Within strategic management, the knowledge based view (KBV) covers how a company can utilise its knowledge to gain competitive advantage. KBV can be seen as a sub-set of the resource based view, and thus knowledge is considered an advantageous, hard-to-obtain asset important for core capabilities and competitive advantage (e.g. Itami 1987; Hamel and Prahalad 1993; Teece *et al.* 1997; Eisenhart and



Martin 2000). Liebeskind (1996) extends the line of argument by stating that learning, i.e. the process of gaining knowledge, is hard, uncertain and costly. When new vital knowledge is gained, it is likely that it is unevenly distributed between actors in the market, and thus learning and knowledge can easily result in supernatural profits (Liebskind 1996, p. 94). The importance of knowledge creation and transferring is supported by Osterloth and Frey (2000), and they state that not only is it an important part in competitive advantage, but also a strong factor to consider when motivating employees. This due to the fact that learning on an individual level often is considered beneficial for the organisation as a whole (smarter, better, more knowledgeable employees) as well as on an individual level (people are encouraged and motivated by the ability to learn more about their field).

Learning is strongly connected to trial and error; for example small failures, more often than success or major failures, contribute to effective learning (Eisenhart and Martin 2000, p. 1114, referring to Sitkin 1992). This argument of tolerating and learning from failures, as discussed under Creativity, has strong support in other material (e.g. Peters and Waterman 1982; Christensen 2000; Day 2006). Accepting and tolerating failure results in two main effects: people dare to try new things; and by trying things, and failing, people and the organisation learn from these failures. Both individual learning and organisational learning is key, as both need to develop and adapt to new knowledge and settings.

#### **Learning and increased profitability**

Learning is considered to be present and important in the daily running of a company, and learning is seen as a continuous process. If learning is not supported and done on a day-to-day basis, efficiency cannot be achieved, and the results of daily operations cannot be put to use and enhanced. This leads to the idea of learning economies, where learning and skill enhancement turn production more efficient. Once again, trial and error is stressed, and without learning strategies or systems, results and experience from trial and error cannot be captured.

Following the above arguments, learning and profitability is linked due to the fact that without learning, new knowledge cannot be gained. Without new knowledge the company cannot adapt to a changing environment, or strengthen its core capabilities. Knowledge can also result in the situation that a company has the ability to for example utilise its resources more efficiently (such as their production machinery) and thus earning higher profits than the competition, so-called Richardian rents (Liebskind 1996, p. 94, referring to Winter 1988).

## 4.6 Concluding Concepts

Above, various factors are presented in a rough chronological order of appearance in management practice. The concepts were grouped from a more intentional perspective, i.e. what are the grouped concepts used for within an organisation. The table below presents these groups, their perceived chronological appearance in management theory, their perceived operational level, as well as the concepts found within them.

**Table 3 - Groups of concepts.**

Group	Time for appearance as management theory/tool	Operational level	Concepts
Current operations	-1960	Operational, day-to-day, internal	<ul style="list-style-type: none"> <li>• Control measures</li> <li>• Evaluation,</li> <li>• Rewards</li> <li>• Motivation</li> </ul>
Organisation	1950~1970	Organisational, organisation compared to external world	<ul style="list-style-type: none"> <li>• Focus on competencies</li> <li>• Strategic organisation</li> </ul>
Foundation	1960~1990	Abstract, underlying, internal	<ul style="list-style-type: none"> <li>• Culture</li> <li>• Purpose</li> <li>• Communication</li> <li>• Leadership</li> </ul>
Forward operations	1980-	Operational, forward looking, hybrid between internal and external views	<ul style="list-style-type: none"> <li>• Flexibility</li> <li>• Creativity</li> <li>• Learning</li> </ul>

The groups were named on the basis of their perceived level within the organisation, and to some extent the dominating management theory trends apparent when the concepts started to appear in research. Current operation thus stems from the notion of using the concepts to examine the current business. Organisation covers the organisational aspects of the company. Foundation is based from the underlying concepts permeating the entire organisation. Last, Forward operation examines the company both internally and externally to be able to construct strategic value with a longer time-frame in mind. On an operational level, Current operations thus deals with the more concrete and here-and-now factors, whereas Forward operations has a more forward-looking and abstract nature.



## 5. Analysis

This chapter intends to present an analysis of each concept identified in the previous chapter. The reader should after this chapter be aware of important aspects of each concept, their perceived strengths, connection to profitability, and dependencies between concepts. Relationships between the groups are also presented and analysed.

### 5.1 Introduction

Having identified the concepts, an evaluation and analysis of them was carried out, and is presented in this chapter. Each concept was analysed in terms of strength and importance, as well as to what extent they were possible to affect by management. Discussions on how to measure and evaluate each concept are also presented, with a potential operationalization in mind. Each concept was also analysed in terms of impact on profitability. Within each group, the perceived connections and influences in-between concepts are also presented. The analysis was based on the studied sources, and tried to synthesise and collect all information found throughout the examination of theories behind the found concepts.

As noted in Methodology, the grouping of the factors identified in Concepts and Analysis coincides, although the basis of the grouping was somewhat different: in Concepts according to their rough chronological appearance, and in this chapter according to their strategic level and content. To reflect this change of focus the naming of the concepts was revised: in the Concepts chapter reflecting their era, in the Analysis chapter their strategic nature.

### 5.2 Current operation

The concepts found within Current operations are here analysed and presented, ending with a discussion of the connections within the group. The group Current operation mainly contains concepts that are current in time – both in effect and usage.

#### 5.2.1 Analysis of Control Measures and Evaluation

The main reason for Control being considered important is that without relevant and current information gained through control measures, it is hard to evaluate, and act or decide upon problems. The processes of gaining control and information needs to be clear, just as the information produced itself. The information can then be thoroughly examined and evaluated, and strong and sound decisions can then rest on a good foundation. In a sense, control measures can be seen as connecting communication and information with purpose – what gets measured also gets done. Moreover, faults, inefficiency or inconsistencies in the organisation are much harder to discover without control measures and subsequent evaluation.

Control measures can be seen as quite hands-on and operational, and thus the level of control should be easy to change by management – it could for example be possible to go from a bureaucratic codified form of control to a more simple, informal and relaxed “management by walking around”<sup>10</sup> type of control over night. The effects of controls (as in the previous example, less formal controls) however, are a bit harder to realise as quick.

Evaluation as a hands-on tool is easy to influence by managers. The hard part of evaluation is to make sure it is as unbiased as possible, and that the results are put to good use.

First, to evaluate control measures, a company need to realize whether it is trying to control “the right things”, i.e. are relevant and important aspects of the business being measured. A comparison of what is measured to for example core competencies and purpose should be aligned, otherwise the information obtained from controls is more relevant to other parts of the business. There is also an underlying importance of continuity – if control measures are not continuous, there is little relevance of the results and information obtained from them.

When examining control systems, the usage of the obtained information is also of relevance: does it end up in “the right hands” and is it put to good use?

More concretely, the existing control measures and systems can be evaluated by examining their speed and efficiency, their target and where the information ends up, and if controls are exhaustive: is the information gained complete, or are vital parts missed?

A cultural aspect that should be evaluated as well is the origin of the control system. There is a risk of control systems being “bureaucratic relics”, something existing in previous organisational and cultural settings that still exist, but fills little or no purpose. Connected to this is also the risk of control systems being extensions of “power play”, managers’ control for the sake of control, and not with the intention of making good use of the information. These aspects should be considered when evaluating control measures in a company.

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<sup>10</sup> A management style conceptualized at Hewlett-Packard, where managers were expected to manage with a informal style of walking around and being present in the company, “living” with their employees, being both visible and accessible. (Sieloff 1999, p. 48)

The usage of control measures extends into the Evaluation concept. When evaluating control measures Evaluation methods should also be examined. First, are results used to their best extent, and are the results coming to use? It is rather unfortunate if evaluation is done without using the results. Small continuous improvements build on constant evaluation in an organisation, such as the Kaizen concept discussed under Control measures and Evaluation.

There is a strong cultural aspect of evaluation that needs to be examined as well: is the company and its employees, especially if working with evaluation, proficient in self-criticism, and is criticism internally accepted and used, or just “brushed off”. Is evaluation and information used in a constructive manner?

There is also importance in the continuity of evaluation. If a company is not continuous and consistent in their use of evaluation tools, they are probably not making good use of evaluation measures, and to a certain extent control measures and the information presented by them.

### **Profitability impact**

Control measures are considered to have potential for profitability gains, especially if successfully employed to gain and use information. The effect on profitability by control measures can be seen as more direct, i.e. changes in control measures aimed at improving profitability can have a direct effect, such as realising faults in production through means of new control tools, resulting in potential for cost reduction due to lesser faults.

The impact of evaluation on profitability compared to Control measures is smaller, as evaluation is not an action resulting in for example cost cutting, but instead in need of good relevant information to be effective. However, in combination with good control or similar measures, the effects on profitability are direct: evaluation, if successful and effective, can for example result in constant improvements, such as the Kaizen method.

### **5.2.2 Analysis of Rewards and Motivation**

The underlying reason for rewarding is to strengthen the “right” behaviour, i.e. in line with the company purpose. By ensuring that employees are rewarded when doing right, and hopefully motivated by these rewards, the aim is to ensure motivated employees are working efficiently, delivering what is considered strengths of the company. In the end this results in self-reinforcing behaviour, which in turn can lead to improved profitability, aligning the interests of the organisation with those of the individual.

Motivation is considered very important, as keeping employees motivated hopefully entails efficiency. This also leads to satisfied employees, keen on working for and staying at the company. Thus, strengthening motivational levels in a company can lead to increased efficiency, and also lower employee turnover. Lower turnover results in lower costs for hiring and firing, and can act as a way of making sure the company attracts and retains “the right people”, i.e. people that are motivated by the organisation’s complete culture, and thus performs well in that context (for a more elaborate discussion on “the right people”, i.e. people motivated by their work at hand, Collins 2001 is recommended).

Rewards are easy to change. All things considered, even going from very “easy” rewards, such as financial rewards, less tangible rewards such as paid education or extra vacation, is rather simple to carry out. However, the difficulty with rewards is their effect, as the rewards carried out might not have the intended motivational effect.

Motivation is likely to be very hard to affect, especially intrinsic motivation. The effect of rewards on motivation is hard to predict and can be very individual. However, ensuring clearly communicated intentions with rewards can enable management to make sure intended rewards are motivating the right people. By allowing, supporting and sustaining more abstract motivation such as challenging, but in themselves rewarding, tasks or relevant education for employees, managers can make sure motivation is *en par* with what is sought after by their employees. Different organisational forms allow for different kinds of motivation, enabling both knowledge creation and competitive advantage (Osterloth and Frey 2000).

Evaluating and measuring Rewards and Motivation is rather hard, as the desired effect is quite individual. To estimate the success of Rewards and Motivation, perceived employee motivation can be examined by for example interviews, and the success of a reward program can be examined in efficiency gains, such as increased production levels.

The important factor to consider when examining and evaluating Rewards is whether “the right things” are rewarded. As argued, the reason for rewarding is seen as strengthening the “right behaviours”, i.e. the desired objectives should be rewarded when accomplished. This extends rewards and the evaluation of it into Purpose and Focus on competencies – are rewards carried out to ensure purposes are fulfilled, and aimed at strengthening or enhancing focuses. This connects to the issue raised in Concepts, and illustrated by Table 2.

An important trait of a reward systems that should not be overlooked is to what extent they are graspable and understandable by employees – are employees realising

what they are rewarded for? Transparency and fairness are also two important characteristics that a reward system should carry in the perception of the employees.

Again, the notion of “small wins” should be mentioned. If goals are relatively small and reachable, they should be rewarded to create a drive for reaching goals. This trait is easily examined in a company: to what extent and “size” goals are set, and subsequently rewarded when reached.

The important realisation that has to be done when evaluating motivational efforts in a company is what actually is motivating for employees. If the motivational system does not cover what is found to be motivating for employees, it is surely not working. Extending this argument, the motivational system should be examined on grounds of what employees are motivated by, and if this motivates “the right behaviours” – most efficient motivation is the intrinsic motivation found when the task at hand is in itself motivating, and thus such tasks should be preferred. By ensuring that the motivational system is motivating employees that show desired behaviours two effects can be realised. First, current motivated employees stay, and hopefully retain efficiency. Second, the ones not experiencing motivation by their work tasks might leave giving room for hiring new employees optimally also motivated by their work tasks. Third, the culture can be strengthened; employees motivated by the same things are staying and others are leaving, creating a “culture of motivation”.

### **Profitability impact**

Changing and using reward tools as an instrument for improved profitability has a limited impact, as it is not the actual rewards that result in change. The effect of rewards on profitability is indirect, as changes in the reward system brings about for example motivation and hopefully increased efficiency.

The impact of Motivation on profitability is larger than Rewards, as if successful, increased motivation brings about increased efficiency and thus for instance higher productivity. As Rewards, Motivation acts indirectly on profitability.

### **5.2.3 Connections within the group**

The connection within the group are in a sense already stated – Control measures and Evaluation are connected, and should be used simultaneously, and Rewards and Motivation are connected, and one should be strongly considered when dealing with the other.

Apart from this, the strongest connection within the group is the connection of Motivation with the rest. Any concept used in an appropriate way can act motivational to the right recipient. Some employees can be motivated by control measures, other by getting constructive criticism. Hence, it is very important to consider the



motivational effect any change in the others have, and ensure motivation and its connection to the other concepts is considered and examined when evaluating the others.

#### 5.2.4 Summary of Current operation

The table below shows a brief summary of the concepts from the group Current operation.

**Table 4 - Summary of Current operation.**

Concept	Difficulty in evaluating/measuring	Difficulty to change	Potential for impact on profit	Effect on profitability
Control Measures	Easy	Easy	Medium	Direct (e.g. cost reductions)
Evaluation	Easy to medium	Easy	Limited	Direct (e.g. through Kaizen)
Rewards	Medium	Easy	Limited	Indirect
Motivation	Hard	Hard	Medium	Indirect

### **5.3 Organisation – the strategic organisation and focus on competencies**

Here the analyses of the Organisation group's concepts are presented, followed by a discussion of internal group connections. This group contains two concepts strongly connected to the organisation of a company.

#### **5.3.1 Analysis of Focus on competencies**

Focus is considered a central concept, as without identifying, using and supporting a company's strengths, inefficiency will arise. In a sense, the focus is a creator or identifier of Purpose, and deals with the company's strengths.

It is also important to note that with the help of Focus on competencies, a company can make sure they are acting in a market where their strengths are valuable. Having a strong sense of focus on competencies enables connections with other aspects of the organisation. When a sense of organisational focus is achieved and realised, other strategic aspects (as the ones found in the Organisational group) are more naturally aligned with strengths and competencies.

An important notion is to realise that a company should have sound profitability connected to what is considered strengths and important parts of the organisation. Given that there are no strong external forces (such as a strong recession), and a company is not realising profits from the activities they consider strong competencies, most likely these activities are not the current strengths of the company. This implies that given strategic overview and insight, getting rid of laggard business units is a necessity. Even though these might be deeply culturally rooted, these activities can be essential to downscale or discard.

Focus is not easily influenced in the short run. It is hard to define if a company is successful in using their strengths. It is also hard to define what the actual focus on these strengths is; is it enough to simply run the business around the perceived strengths, or should they be strongly promoted as vital and very important within the company? Thus, changing the focus on competencies is hard. However, scaling down after identifying and communicating what is considered competencies is easier, such as outsourcing or selling a business unit. In summary: identifying what is considered strong competencies and actually working with them is considered difficult, while after having successfully done this, scaling down or changing operations and the organisation is considered less difficult. Beinhocker (1999), for example, argues that a business needs to be adaptive in the ever-changing environment, and be prepared to streamline their core competencies, without straying from them.

Focus is most easily measured and evaluated by means of comparing profitability to what a company considers to be their strengths. If a company assumes a certain activity is their strength, yet it is not very efficient or profitable compared to the market or competition, a strategic shift might be needed. Having a strong focus implies that the company is well aware of their strengths and limitations, and are actively working towards boosting their strong business units, while scaling down or outsourcing other activities not considered main competencies or core activities.

An easy way to evaluate focus is to simply count and evaluate the perceived strengths of a company. If they are very numerous and unconnected, they are not likely very focused, nor aligned with the Purpose, strengthening the focus. Having done this, a decrease in the competencies not deemed as important can be necessary, and compensation for the lost or downscaled competencies must be done, through for example outsourcing, joint ventures, and using consultants to gain new knowledge or partnerships.

#### **Profitability impact**

Focus on competencies has a large impact on profitability. Having a “bad” focus, and effectively changing it to a better one, results in large profitability gains, as for example old inefficient non-core functions are discarded. Thus, Focus on competencies acts indirectly on profitability – it is not the “level” of focus resulting in changes in profitability, but rather the effects of changes in focus.

#### **5.3.2 Analysis of the Strategic organisation**

First, the importance of the Strategic organisation as a concept lies within the idea that without reflecting over why and how a certain organisational form is chosen, efficiency cannot be achieved intentionally. By examining and evaluating the organisational form, both where in the value chain the organisation is, what form it has, and whether certain functions are centralised or not, a lot of information important both for the organisation and other concepts can surface. The idea is to organise as efficiently as possible around the competencies and strengths that brings value to the company, and to connect underlying strategic notions with operations. Thus, the organisation acts as a connector between the Foundation, Focus on competencies and more operational traits. The organisation is considered the connector that binds together abstract strategic concepts with both the strategic ones suggested in the Operations section in this paper, and more common operations found in day-to-day business such as production, sales and service. The organisational structure can also be used to explain and clarify the company. For example, the management or purpose of an organisation is not a single person or entity. By structuring the organisation and its function, it can be more easily explained to, and graspable for, the single employee.

Below two summarizing tables are presented, that shows what influence organisational form and centralisation or decentralisation have connected to strategy and the suggested concepts in this paper.

**Table 5 - Effects of organisational forms (adapted from Bruzelius and Skärvad 2004; Johnson *et al.* 2008).**

	Strengthens	Weakens
Functional organisation	<ul style="list-style-type: none"> <li>• Communication</li> <li>• Leadership (in touch with all operations)</li> <li>• Control measures simplified</li> <li>• Clarity in senior leadership</li> </ul>	<ul style="list-style-type: none"> <li>• (Routine) operations</li> <li>• Flexibility</li> <li>• Focus</li> <li>• Rewards</li> </ul>
Divisional organisation	<ul style="list-style-type: none"> <li>• Flexibility</li> <li>• Control measures based on performance</li> <li>• Focus on competencies</li> <li>• Clarity in business unit/operational leadership</li> <li>• Evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of duplication</li> <li>• Fragmentation, non-cooperation</li> <li>• (Central) control measures</li> <li>• Organisational learning</li> <li>• Culture</li> </ul>
Matrix organisation	<ul style="list-style-type: none"> <li>• Knowledge sharing and learning</li> <li>• Flexibility</li> <li>• Organisation-wide Culture</li> <li>• Rewards</li> </ul>	<ul style="list-style-type: none"> <li>• Decision time</li> <li>• Reduced clarity – task and cost responsibilities</li> <li>• Risk of conflict</li> </ul>

**Table 6 - Effects of centralisation and decentralisation (adapted from Bruzelius and Skärvad 2004; Johnson *et al.* 2008).**

	Strengthens	Weakens
Decentralised functions	<ul style="list-style-type: none"> <li>• Business unit efficiency</li> <li>• Business unit learning</li> <li>• Business unit focus</li> <li>• Motivation</li> <li>• Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Central leadership authority</li> <li>• Organisation wide learning, knowledge sharing</li> </ul>
Centralised functions	<ul style="list-style-type: none"> <li>• Central leadership</li> <li>• Organisation-wide focus</li> <li>• Economies of scale (e.g. management efficiency, less overlap)</li> </ul>	<ul style="list-style-type: none"> <li>• Business unit efficiency due to more inert decision process</li> <li>• Creativity</li> </ul>

The effect of organisational change is hard to predict by management, as suggested changes often result in friction (e.g. due to layoffs). Due to the difficulty in predicting results and having “political” stability when changing an organisation, the actual transition from inception to finished change is considered hard. However, organisational changes are quite common, and an efficient way of realising new sources of cost cutting. The strategic organisation is thus seen to be possible to affect, and completely change, although not swiftly.

It is complicated to measure and evaluate a formal organisation, its efficiency or the suitability to the tasks it is intended to perform. Assessing suitability between the success and efficiency of the structure connected to the perceived core competencies can result in an idea of how well the strategic organisation is fulfilling its purpose. Where certain competencies and resources are located and utilised in connection to their perceived optimum usage can also provide measurement over what success the organisational structure carries. In essence, the organisational structure should be evaluated on grounds of comparison with both purpose and focus on competencies, and how well the organisation is supporting them.

The organisation can also be evaluated by how well it is supporting communication and leadership. For a company to function, these three needs to be aligned and work in unison. If the organisational structure for example obstructs communication or distances leaders from employees, most likely cultural differences will occur and inefficiency will rise.

### **Profitability impact**

Having realised that a change in organisation is necessary, and evaluated that it would prove valuable and result in profits, it can have large potential for profitability

increases. The Strategic organisation acts in both direct and indirect ways: direct as a change in for instance the value chain position can result in reduction in less profitable operations and increases in more profitable operations; indirect due to for example that an organisational change can bring about synergy effects over functions or business units, creating more efficiency.

### 5.3.3 Connections within the group

As mentioned, Focus on competencies and Strategic organisation is tightly connected, as the organisation is most efficient if is structured around and supporting the competencies and strengths creating the most value for the company. One strongly influences the other: a strong and sound Focus ensures that management is aware of competencies, and able to act according with their strengths. The organisational setting enables employees to work more efficiently with what is considered important and strengths of the company and subsequently further strengthening these factors as learning and experience is improved.

It can be argued that the two should be seen as one, since they are so tightly connected. However, Focus is considered to be more abstract, and found on many more levels, such as the individual level of a single employee, or the organisational level, forming the organisational structure around the core strengths of the company, while the Strategic organisation deals with the formation and structure of the company.

### 5.3.4 Summary of Organisation

The table below shows a brief summary of the concepts from the group Organisation.

**Table 7 - Summary of Organisation**

Concept	Difficulty in evaluating/measuring	Difficulty to change	Potential for impact on profit	Effect on profitability
Focus on competencies	Medium	Medium to hard	Large	Indirect
Strategic Organisation	Hard	Medium to hard	Large	Both indirect and direct

## 5.4 Foundation – Culture, Purpose, Communication and Leadership

Here the analysis of the Foundation group is presented. First each concept is analysed, and last a group wide analysis and discussion over connections is held. Underlying concepts important for companies is found in this group.

#### **5.4.1 Analysis of Culture**

Although not done overnight, corporate culture can be affected and changed by management. A way of doing this is for example by “leading by example” (e.g. Peters and Waterman 1982; Kotter 1996). This way, leaders are shown to clearly be involved in the suggested changes, as it is hard to expect changes from a management perspective if management itself is not changing.

As culture is rather abstract, it is hard to measure. However, one can examine whether culture is acting as an enabler or hinderer of success: is the culture making employees feeling empowered, strengthened, trusted and motivated, and thus for example resulting in the outperforming of competition; or is the culture an obstacle, making employees feel insecure, “watching their backs”, allowing suboptimal profitability, or even supporting unethical behaviour. A culture should be assessed on as many levels as possible, from perceived level of the single employee, to a holistic overview and observation of the various aspects of a culture. Using partners, customers, or joint ventures to gain information and opinions of a company’s culture is also a viable tool. A culture is very hard to compare to other cultures (and perhaps not even possible!) and thus using competitors for comparison can prove inefficient. However, using the idea of benchmarking might be a good approach, by identifying and incorporating cultural traits in other organisations that, if successfully adopted, could prove beneficiary (e.g. Barney 1986).

As a culture is composed of many building blocks, some might overshadow others, and to get a good picture of a culture as many aspects as possible and their perceived qualities must be discovered. Thus it is important to evaluate keeping these cultural traits and aspects in mind, and what their effects, positions and qualities are: are they strong, good, beneficiary, or weak, bad or deteriorating aspects. If subcultures are found, these should be thoroughly reviewed as they quite possibly are affecting the over-all culture.

When dissecting and evaluating culture in this regard, other aspects of the company should be evaluated in parallel: both the suggested important strategic concepts presented here, but also “ordinary” day-to-day aspects such as customer interaction or production staff meetings. As culture is to a certain extent considered an integral part of every aspect and operation, the culture both forms and is formed by every other aspect of the company, and thus these linkages, both strong and building, and weak and hindering, should be identified and analysed. What is making this culture work or not work, does it need to be changed, and how can we use and change it to strengthen our competitive advantage and profitability?

### **Profitability impact**

The potential impact Culture has on profitability is varying from medium to large, dependent on the initial setting, and the end result of the change effort. The effect Culture has on profitability is indirect, as culture can act as for example a competitive resource, and thus the impact on profitability is varying.

### **5.4.2 Analysis of Purpose**

Considering the weight purpose has within Strategic Management research it could not be discarded. However, as a concept meant to be used to increase profitability, it is somewhat peripheral, and should rather be seen as a complement for realising increased profitability by manipulating other aspects of strategy. This is similar to Culture, a concept most likely not in itself making the company realising increased profits. However, Purpose and Culture differ greatly in other aspects. Culture acts “in the dark” with underlying assumptions forming the way employees act. Culture also has great potential for creating competitive advantage. Purpose on the other hand, is stated, communicated and strived for, something to focus on and aim at. Culture is difficult and slow to change. Purpose can to some extent be changed overnight, by simply restating and changing the codified purpose of the company. With this said, it is important to consider that purpose is easily stated and pursued, but harder to actually realise, and should act as motivator for the collective of employees working towards a unified goal.

Purpose is communicated to the external world of the company and within it, and forms the culture, as well as it is formed and affected by the company’s core competencies and culture. Purpose is more considered a deal-breaker – having the “right” purpose can be beneficial in pursuing increased profitability, while having the “wrong” purpose, i.e. doing something not in line with what the purpose proclaims, can have detrimental effects on employees, operations and profitability.

Purpose is possible to change by management on two main levels; the codified level – the stated purpose by management – and the perceived level – what is the real purpose experienced by co-workers within the company. Both are important, the first to give a picture of unification, dedication and alignment, the second to give employees the feeling that they actually are working for what the organisation is claiming it stands for.

Evaluating and measuring the success of Purpose is difficult. One possible way would be to compare the two sides of purpose noted above. If the stated Purpose is found to be the same throughout the organisation, experienced and shared by employees, then the communication and spreading could be considered successful and thus helps the strategic implications of working towards and with the purpose.



A good way to evaluate the actual purpose is to examine its connections to Focus on competencies – is the purpose stated to strengthen actual competences, or more a “buzzword” found in the organisational description because it is “supposed to be there”. In short: is the purpose helping in strengthening the work with realising gains from the organisation’s competencies?

### **Profitability impact**

Purpose’s potential impact on profitability is limited. Purpose, acting as goal with the hope of aligning staff and efforts, thus acts indirect on profitability if successful. Due to this, the impact also is limited, as a change in profitability can be very hard if even possible to link to a change effort of the purpose.

### **5.4.3 Analysis of Communication**

Communication in itself is most likely not something that will earn profits, but rather a strong enabler making sure other aspects are working to their fullest. Communication as a concept is also quite vague and hard to define, yet still a very important aspect to consider when striving for strategic success through management. Communication, just as Leadership and Culture, permeates the entire organisation, and thus affect business in many ways. Being able to communicate efficiently and effectively, with a suitable level of informality, is believed to be very beneficial. It could for example speed up processes such as the innovation process (and thus product-to-market time) or communication between business units realising synergy effects. Communication is also seen as a strong connector between the more underlying concepts Leadership and Purpose and the other more operational concepts.

Partly due to the difficulty in defining communication, the ability to influence it is limited. However, it is possible to influence it by supporting it, and for example encouraging face-to-face interaction, or allowing more informal communication with superiors. “Change-through-action” is considered to be important, as for example management aiming at creating, allowing, utilising and sustaining quicker and more informal communication have to act accordingly to create a suiting setting.

Measuring Communication is quite difficult. Qualitatively, employees and management can easily state the experienced level and formality of the Communication culture in the company. The direct effect this has on profitability is harder to derive, and Communication is as argued more of an enabler of improved processes geared at increased profitability.

Communication can easily be experimented with, through for instance messages and information spreading tests in an organisation. Hopefully such test can reveal speed (e.g. how long for complete information to reach recipient) and to some extent

formality (e.g. is information “moving upwards” or not). Efficiency of communication is much harder to evaluate, as the recipient of information adds a level of interpretation, and thus intentions with information and messages can be skewed while viewed and interpreted by the recipient.

Within communication lies a lot of knowledge, both direct and indirect. Thus, evaluating learning efficiency and knowledge transfer and spread within the company can reveal information of how communication is working. Testing “who knows what”, both in terms of information and organisational wide knowledge, can show how well the communication is working.

A simple tool for ensuring fitting communication for the intended organisation and strategy is to create communication guidelines and to enact them in the culture. Leadership and culture are as argued strong formers of communication, and hence important for realising successful communication.

#### **Profitability impact**

Communication has a limited to at best medium potential impact on profitability, as improved communications most likely is not resulting in for example increased sales or larger efficiency gains. Acting indirectly on profit improvements, communication and changes in communication culture can in the long run have larger effects on improved profitability through more efficient information exchange and innovation. Communication is also thought of having a direct influence on profit, in the sense that changes in communication can enable improved customer relations and hopefully improve sales as a result.

#### **5.4.4 Analysis of Leadership**

Leadership was considered a very important concept, as it in connection with Culture was thought of as the “glue of the concepts”. Leadership and its actions connect and control all other concepts in connection to the rest of the organisation; its strategy, employees, customers, resources, etcetera. Moreover, it is considered to be one of the strongest connectors between the underlying Foundation concepts and the more organisational and operational concepts. Leadership was also thought of as the enhancer and promoter of efficiency – leadership and management by the use of various techniques, such as these suggested concepts, is acting to create efficiency in the organisation. Leadership is through these actions responsible for the realisation of the Purpose.

Concerning the ability to influence, leadership is somewhat complex. The cultural leadership styles of an organisation can be hard to change in the short run. Replacing a non-functioning manager on the other hand is easy, but results are hard to predict.

Thus, the full spectrum from leadership culture to specific management positions can be changed, but with a varying time frame in mind.

Measuring leadership is very complex. However, following for example Collins' (2001) ideas, leaders and leadership in successful organisation have a certain skillset enabling them to strengthen their company. Finding what is considered important for the organisation in its leadership is a start, and subsequently analysing managers and leadership with these criteria is a good approach to evaluate leadership. The efficiency of leadership in connection with for example Communication or support of Creativity could also be a good measurement of how leadership is working compared to the desired level. Another method would be through the means of a proxy, for example employee turnover.

Looking at an organisational chart, and comparing distance and levels in the hierarchy, as well as perceived distance by both employers and employees, sheds some light on formality in an organisation. Using this information to evaluate whether this formality and hierarchy is suitable with for example competencies, purpose, size, or the external industry, gives insight into the efficiency of leadership in the organisation.

Purpose and the communication of it, as well as focus on competencies, are connected to leadership in the sense that leaders need not only to manage their businesses, but also to align effort and work towards the goals of the company. How well leaders are faring in these aspects can be evaluated by peer reviews, employee reviews or external reviews from for example customers or consultants.

The educational level and suitability of leadership is also an important aspect to consider when evaluating leadership. Although a company might be heavy in engineering knowledge and a high educational background among staff, the best and most suitable leaders could be found with different experience and educational backgrounds. Connected to this is the idea of successful companies having clearly stated strategies for hiring, firing, positioning and educating leaders. A leader good in one position might not be necessarily good if he or she "climbs" the positional ladder, as leadership traits can be connected to situational, work task, employee/staff, or personal motivation aspects.

### **Profitability impact**

Leadership has a potential for a medium impact on profitability. This due to for example the notion that leadership is stressed as important for companies, and the efficiency gains good, supporting and appropriate leadership can give raise to. Leadership would thus have an indirect effect on profitability, as it is not the leadership itself, but rather the efficiency gains from improved leadership.

#### **5.4.5 Group wide analysis of Foundation**

As mentioned throughout the above four concepts they are strongly connected. First, Culture is connected to every other concept in the group, as Culture forms and influences how communication is carried out, what is valued and stated in the mission, vision and goals, and forms and is formed by the leadership of a company.

The connection between Leadership and Culture is probably one of the most obvious. Various authors have argued for the strong connection, and Schein exemplifies:

“[The] dynamic processes of culture creation and management are the essence of leadership and make one realize that leadership and culture are two sides of the same coin” (Schein, 2004, p.1)

Further, Schein discusses how, during the initial start-up of a company and its culture, leadership creates the cultural setting when imposing assumptions, rituals or values onto the employee groups. Later, when the culture is considered set and taken for granted, new leaders are no longer the creators of culture, but rather following the existing culture. An interesting line of argument is when external factors change, for example during a crisis (e.g. an impending bankruptcy), and leaders have to “step up” to ascertain control, and subsequently change the culture to survive. Thus the loop starts over, with leaders shaping the new cultural setting; he states:

“This ability to perceive the limitations of one’s own culture and to evolve the culture adaptively is the essence and ultimate challenge of leadership” (Schein, 2004, p. 2)

Further, leadership is inefficient without suitable communication. Obviously, there is no “right” way of communicating, but rather for each company and organisational culture a suitable form of communication. Thus how communication is carried out and how it is perceived is strongly influenced by first the cultural setting, and second how management and leaders do. The notion of “leading through action” or “change through action” (see Culture and Communication) is considered important, as employees are more likely to follow and accept what management are doing opposed to following orders or rules enforced by management, but not followed by management itself. In conclusion, Communication is strongly connected to both leadership and culture, as culture creates the setting and norms for how communication is done, and leadership enacts it.

Communication is also important for the other concepts. Communication is vital when forming the Purpose, as without communication leadership is not able to realise the strengths and core competencies found throughout the company. Communication is used when trying to spread and strengthen both the Purpose and Culture through the employee ranks.

Purpose is as discussed one of the “weaker” concepts for profitability increases, but when it is employed and spread successfully act as a strong enabler. Having suitable communication and leadership for the organisation and using these to fulfil the purpose, creates a possibility to greatly align the effort of the organisation, and hopefully realise and achieve increased profitability. Combining leadership, communication and purpose also reinforce the setting and the creation and evolution of the culture.

#### 5.4.6 Summary of Foundation

The table below shows a brief summary of the concepts from the group Foundation.

**Table 8 - Summary of Foundation**

Concept	Difficulty in evaluating/measuring	Difficulty to change	Potential for impact on profit	Effect on profitability
Culture	Hard	Hard	Medium to large	Indirect
Purpose	Medium	Easy	Limited	Indirect
Communication	Medium to hard	Easy to hard	Limited to medium	Both direct and indirect
Leadership	Medium to hard	Medium to hard	Medium	Indirect

### 5.5 Forward operation

First, each concept within the Forward operation group is presented, and then, a discussion of group connections is held. This group contains concepts considered operational – used in day-to-day running of a company; however they are of a more forward-looking nature, aimed at producing results and benefits with a longer time-frame in mind.

#### 5.5.1 Analysis of Flexibility

Flexibility is very important, and increasingly so in an evolving business climate, as changes happen faster, much due to increased speed in communication and information flow through IT systems. Flexibility is considered to be the responsiveness to change, and how and how fast a company is reacting to external or internal signals. In the fast changing environment, the importance of adaptability and responsiveness to change cannot be understated. By quickly adapting, a company is readily prepared for reacting to new threats, needs or possibilities.

It is important to note though, that flexibility is not considered a scale where being at one end is bad, and the other good. Rather, the level of flexibility and responsiveness

to change should be suiting for the business, culture, products, chosen strategy, company size, and perhaps most importantly, the industry. The reason for the industry to be of such importance can be found in for example game theory: if company A is much more flexible and quicker than company B, the resulting game is not necessarily won by A, who runs the risk of maybe overreacting, or acting too fast.

On the other hand, there is an increasing market demand for increased flexibility – customers expect companies to deliver quicker, and to be up to date with the latest developments in for example technology. Thus, although a market sets the flexibility required of a company, increased flexibility overall is the norm.

To this, flexibility is considerably important in connection with innovation and innovation processes. It is believed that in a “slow moving”, rigid company, innovation is quite likely suffering, or at least performing worse than a more flexible competitor, as innovation is tightly connected with problem solving, which requires flexibility and adaptability to act on newly gained information and problems.

The notion of the organisation, its processes and its employees being dynamic or flexible has potential to be influenced by management. A good way is to make sure hiring is centred on finding, employing and keeping people with the right dynamic mind-set sought after by the company. Management might also try to influence the level of adaptability and flexibility by seeking to simplify bureaucratic processes, speeding up for example communication and knowledge transfer and making sure that the organisation is as efficient and adaptive as possible.

To evaluate to what extent a company is flexible is quite difficult. First, the responsiveness to new, both external and internal, information is important to examine. When something changes and results in new and different information being presented, a company most likely have to change to be able to stay competitive, and thus when examining flexibility of a company, a historical study of how fast the company has reacted to changes can be made.

The level of flexibility can also be evaluated in connection to other aspects of the company. Just as noted above, there is no one “right” level of flexibility, but instead a company needs to be able to adapt in appropriate ways to its employees, processes, market position, innovation efforts, purpose, etcetera.

Employee experience of flexibility is a good measure of a company’s flexibility. Employees are found within the organisation, and are the ones experiencing first-hand how efficient and quick transitions and adaptations within the company are. In certain industries flexibility is extremely important, and things need to be able to change quickly, while in others it is not as crucial – having the “right” organisational structure

and employees for these changes to happen at the desired pace is thus very important and can be examined.

Flexibility can also be assessed in a positional way – where in an organisation is flexibility relevant, experienced and important. Maybe it is enough for the leadership to be flexible and responsive to change and for the rest of the organisation just to follow. Or, the complete organisation down to individual level needs to be very adaptable, as changes are constant and drastic. As mentioned, the buzzword when examining flexibility is “responsiveness to change”, a term trying to describe how well different parts of an organisation are adapting to change.

### **Profitability impact**

The impact on profitability of improved flexibility is varying from medium to large. It varies, as the effects of changed responsiveness to change are also dependent on external factors such as the market the company resides in. Identifying and realising the “right” level of flexibility thus have a good potential of realising profitability gains. Flexibility works both direct and indirect on profitability improvements: direct as for instance improved flexibility can result in quicker gains of market shares in new markets, indirect as for instance improved flexibility could enable better Creativity and Learning, resulting in potential for new innovations.

### **5.5.2 Analysis of Creativity**

The level of creativity within the company is considered rather difficult to affect by management. The strongest tool for ensuring and enabling a creative culture and creative employees is to allow trial and error, and to make sure failure is something that is accepted and learnt from and not frowned upon.

First, to evaluate Creativity, it needs to be clear to what extent creativity is considered important. In essence, creativity can be considered important in all businesses, as some level of for example problem solving and adaptability to changing surroundings always is needed. However, some businesses, such as companies in R&D-intensive industries, have creativity and its results as core value propositions – creating new products and bringing them to the market. Thus, creativity first needs to be evaluated in terms of necessity in the company in connection with its markets, and second what relevance it holds within the company and the company’s organisation.

Next, creativity should be evaluated in terms of what support it has in the company, through for example leadership, flexibility, resources or the organisational structure. If creativity is key for profitability, the support for it should be strong. However, “forced” creativity should be considered as well: if employees experience pressure of being creative, the chance of them in the end being less creative exists.

Creativity is easily connected to Learning. It is important to examine whether creativity is natural and supported by learning; to what extent is “the wheel reinvented”, i.e. are processes for capturing results from creativity in place and learning occurs, or are these processes started over every time a new R&D project is instigated? As R&D, creativity and learning are expensive (in terms of for example costs, time and alternative costs) learning from doing is crucial when undertaking creative tasks to be able to reduce costs for the subsequent projects.

Actual measurement of creativity is quite varying and hard. In a R&D heavy company, easy measurement such as patents per year can be of use, but in for example service companies, where no actual product is created other measures and tools for evaluation needs to be created to capture the level of creativity both needed and found in the company.

### **Profitability impact**

Creativity holds an potential for a medium to a large impact on profitability, dependent on the applicability and aspects of the concept in the company setting. If Creativity is increasingly supported and made more efficient in a company working with R&D and subsequent production, potential for large profitability gains exists when bringing new products to market. In companies where the innovation process is not as vital, or even viable, Creativity can still impact on profitability, as it has the potential to for instance allow the creation of new (internal) solutions resulting in increased efficiency. Thus, Creativity is both direct and indirect in its effect on profitability.

### **5.5.3 Analysis of Learning**

Learning as a concept is important for an organisation, especially in connection with Flexibility and Creativity. The three are obviously linked, and learning is a strong factor in the success of the other. Having a strategy for learning allows efficient knowledge capture, spread and use; which in combination with creativity and flexibility enables organisations to advance and capture profits. A learning strategy must also enable capture of both internal and external knowledge, so that new information or technology is permeated into the company, and information from discoveries within the company are spread and put to use.

Management in a company can influence learning by actively encouraging and supporting it. The harder part is to ensure organisational learning. The organisational knowledge of a firm is very hard to codify, and rarely the knowledge of individuals. Organisational knowledge is rather the knowledge stemming from groups of people and their interaction. Over time, organisational learning can be supported, encouraged, and codified for better transferability.



The first and most straightforward way of examining learning is to evaluate to what extent learning is necessary for the business. If learning is crucial for realising profits, for example in a company acting on a rapidly changing and evolving market, learning should be considered a desired core competence and strongly supported by means of leadership, communication, the actual organisation, and found in traits such as culture, flexibility and motivational and reward systems.

Furthermore, the support of learning on an individual level is easily examined. Are employees encouraged, motivated, supported or even forced to take in new information and learn, or the contrary: is new information and knowledge something that “just appears” in the organisation.

The level of organisational learning is a bit tougher to evaluate, but connected to the individual learning. Is codifying and communicating new information and knowledge supported, or again, just “taken for granted” or not even considered? Are day-to-day operations evaluated to be able to learn and improve, or are suggested improvements coming from the top?

To gain new knowledge, and evaluate how and to what extent this is done in a company, the level and support of training and education cannot be understated. Evaluating the extent of this can show what desires management has with acquiring new knowledge and putting it to use. When evaluating these aspects, it is easy to see whether a company has strategies for learning or, on the contrary, simply takes it for granted. Learning and education can thus also be part of a motivational and rewarding system, where employees are given the chance to develop and learn when working; as part of, or combining motivation and rewarding.

Last, connected to the idea of a learning strategy, is the evaluation of the need of *learning economies*. Some companies can greatly benefit from learning and improving operations by means of furthering knowledge, and thus whether this is relevant and supported should be evaluated.

### **Profitability impact**

Learning has a direct impact on profitability, and the most classic example of such effects is the so called learning curve effect, where increased learning and repetition of a task results in increased efficiency (but still with diminishing returns). The impact Learning has on profitability is varying, with medium to large potential of profitability gains.

#### **5.5.4 Connections within the group**

The three concepts are connected and are considered to have several intended effects, as well as time frames in mind. The concepts are different in time affected; a change in

Flexibility can be more short-termed and quick, while Learning takes longer time to change. Moreover, effects of a change is not seen as quick in one as in another, the scale going from Flexibility being the shortest, and Learning being the longest.

First, Flexibility is seen as the concept with the shortest time frame of the three, used for adapting to variation and change. Being successful and quick in the responsiveness to change – being flexible – enables the “next step”, i.e. using the following two concepts more easily.

Second, Learning has a longer time frame Flexibility. Learning is used to learn and cope with change, both internal and external. Thus, it is operated with a longer time frame in mind, and the results are seen further from the point of for example a change decision.

Last, Creativity is accelerated by the previous two being implemented and successful. Creativity thus works with the longest time frame, both when trying to operationalize it and the desired effects stemming from it. Creativity in this connection setting is thus seen as a concept considered when trying to embrace, or even be in the lead of renewal and development.

As discussed above, the Forward Operation group consists of three co-dependent and intra-strengthening concepts. Arguably, using the concepts and constantly evaluating them are not vital for one’s success, but most likely the highest benefit is found when also considering the positive effects of interaction between them, and the other concepts studied.

### 5.5.5 Summary of Forward operation

The table below shows a brief summary of the concepts from the group Forward operation.

**Table 9 - Summary of Forward operation.**

Concept	Difficulty in evaluating/measuring	Difficulty to change	Potential for impact on profit	Effect on profitability
Flexibility	Medium to hard	Medium to hard	Medium to large	Both direct and indirect
Creativity	Easy to medium	Medium to hard	Medium to large	Both direct and indirect
Learning	Medium	Easy to medium	Medium to large	Indirect

## **5.6 Concluding analysis**

Having presented the above analysis of each group and concept, a holistic picture has emerged. First, Current operation is the basic operational group, covering day-to-day aspects of a firm. Second, Organisation covers the organisational form, the strengths and weaknesses connected to it, as well as the notion of having the right focus on the company's competencies. Third, Foundation is the underlying group where cultural aspects are found and rooted. Last, Forward operation is the group covering more long-term, but still operational issues.

As shown, concepts have different strengths and weaknesses, as well as different impact and effect on profitability were they to be changed. Below, a summarising table is presented, combining each group's summary table. Included is also on what level the concept is acting, and a brief overview of connections considered strong.

**Table 10 - Summary of all concepts.**

Concept	Level	Difficulty in evaluating	Difficulty to change	Potential for impact on profit	Effect on profitability	Influenced by / connected to
Control Measures	Operational	Easy	Easy	Medium	Direct (e.g. cost reductions)	Communication
Evaluation	Operational	Easy to medium	Easy	Limited	Direct (e.g. through Kaizen)	Culture, Communication
Rewards	Operational	Medium	Easy	Limited	Indirect	Culture
Motivation	Operational	Hard	Hard	Medium	Indirect	Culture, Leadership
Focus on competencies	Organisational	Medium	Medium to hard	Large	Indirect	Purpose
Strategic Organisation	Organisational	Hard	Medium to hard	Large	Both indirect and direct	Culture, Focus
Culture	Abstract/underlying	Hard	Hard	Medium to large	Indirect	Practically all
Purpose	Underlying	Medium	Easy	Limited	Indirect	Focus, Culture
Communication	Underlying, operational	Medium to hard	Easy to hard	Limited to medium	Both direct and indirect	Leadership, Culture
Leadership	Underlying, operational	Medium to hard	Medium to hard	Medium	Indirect	Culture
Flexibility	Operational	Medium to hard	Medium to hard	Medium to large	Both direct and indirect	Culture, Organisation
Creativity	Operational	Easy to medium	Medium to hard	Medium to large	Both direct and indirect	Culture, Leadership, Motivation
Learning	Operational	Medium	Easy to medium	Medium to large	Indirect	Culture, Organisati., Communication

To make the above table more comprehensible, a plot was created, picturing the perceived levels of potential impact on profitability and the difficulty to change a concept. It is important to note that the plots are not based on any quantitative survey, but rather are estimated from the studied material.

Figure 13 compares the perceived level of difficulty in changing a concept to the estimated level of impact a change in a concept has on profitability. As seen, Focus on competencies and Strategic organisation have the perceived highest impact on profitability, but are still much harder to change in order to increase profitability.

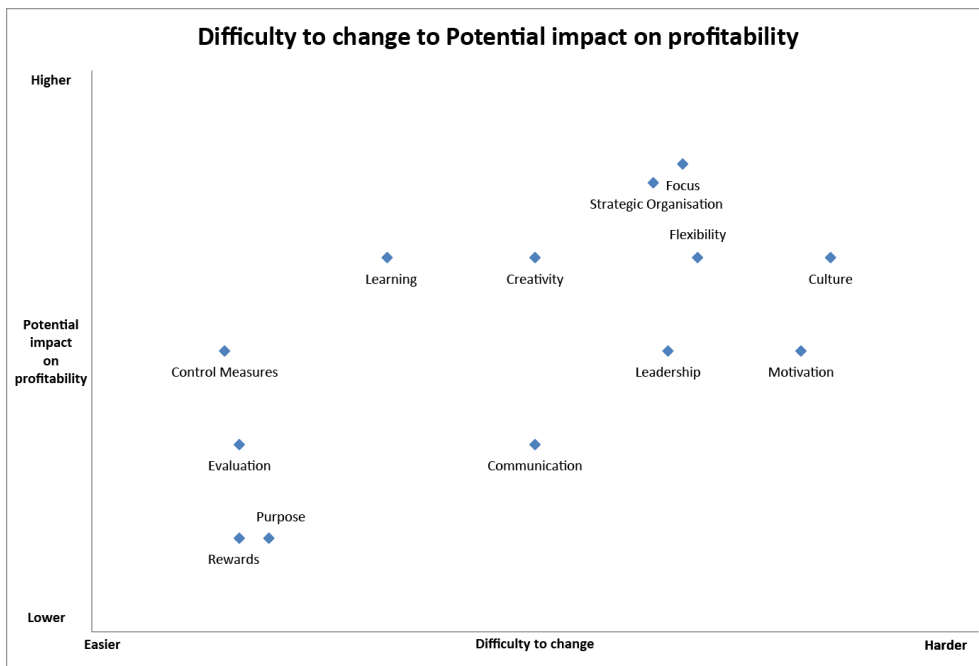


Figure 13 - Difficulty to change compared to Potential impact on profitability

As seen in Figure 14, the concepts are roughly grouped together, except for motivation that strays from the group.

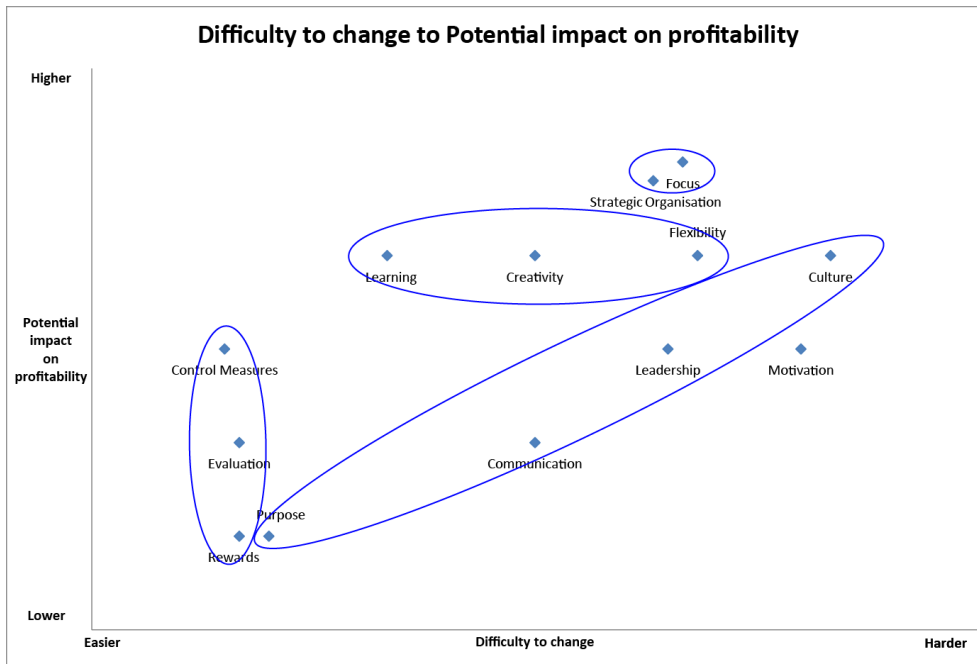


Figure 14 - Showing groups for Difficulty to change compared to Potential impact on profitability

Having presented theoretical background, found concepts, the analysis of each concept, and the connections between concepts, the suggested framework is presented below, in Figure 15. Foundation is at the bottom, supporting the next level, Organisation, which in turn is supporting the next level, Operation.

Level 3 Operation	Control Reward Evaluation Motivation	Flexibility Creativity Learning
Level 2 Organisation	Focus & Strategic organisation	
Level 1 Foundation	<div style="text-align: center;"> </div>	

Figure 15 - Suggested framework.

The concepts found within the Foundation group are the concepts considered harder to change, but definitely has a potential impact on profitability. Their name and having them at the bottom of the figure both implies that they are underlying. Having strong or “right” levels of these concepts ensures their strengthening effect on the rest of the company and hopefully supports further development towards increased profitability.

Organisation is found in the middle, since it acts as a connector between the abstract Foundation group, and the more operational groups on top. Also, Organisation has larger potential for supporting improved profitability gained from the groups above.

Last, the operational groups are separated into current and forward looking, as discussed earlier. They are positioned on top, as they are not supporting other groups, but rather act as vessels for the strengths of the other concepts. Moreover, the top two groups are seen as adding further value for stronger profitability. Using the operational groups, with firm support from the underlying groups is believed to be a good way of realising increased profitability.

Although motivation seems to stray from where the rest of the Current operation group lays, it was decided to be kept in the group due to two main reasons; first, it being an aged strategic issue, it was conceptualised and stated as early as the others, and hold as much relevance and research. Second, it was considered such a complex concept, that it could be positioned without trouble with all the other groups. Regardless, it was kept with Current operations as it was considered to mainly be affectable and affecting in the short run, delivering quick results on profitability when necessary.

The order is thus derived from perceived level of functionality within the company (the more abstract underlying at the bottom), from perceived level of impact on profitability (the more important with larger impact at the bottom) and from perceived support for each other (underlying at the bottom, connecting in the middle, and value adding at the top).

Each concept can by itself act as a realiser of increased profit, but it is believed that a more holistic view is more beneficial, and especially to consider connections of concepts and groups and their effects on each other within an organisation. To take a single concept and try to affect it while aiming for improved profitability, is thus possible, but a more smooth transition and better results are much more likely achieved if the chosen concept is put in relation to first its group members, and second the other groups.

## 6. Results

This chapter summarises the results drawn in previous chapters. A discussion connecting the results to Purpose and Objectives is held, as well a discussion connecting the results to the initial decisions and methodology.

### 6.1 Concepts

The first main result is the summarisation and collection of concepts. In Concepts the concepts are presented from a theoretical viewpoint, and in Analysis they are analysed. This process results in an overview and understating of available management theory concepts, insight into at which time they appeared and knowledge of how to use them. Table 3 - Groups of concepts. is here repeated to show groups and time of appearance.

**Table 11 - Repetition of Table 3 - Groups of concepts.**

Group	Time for appearance as management theory/tool	Operational level	Concepts
Current operations	-1960	Operational, day-to-day, internal	<ul style="list-style-type: none"> <li>• Control measures</li> <li>• Evaluation,</li> <li>• Rewards</li> <li>• Motivation</li> </ul>
Organisation	1950-1970	Organisational, organisation compared to external world	<ul style="list-style-type: none"> <li>• Focus on competencies</li> <li>• Strategic organisation</li> </ul>
Foundation	1960~1990	Abstract, underlying, internal	<ul style="list-style-type: none"> <li>• Culture</li> <li>• Purpose</li> <li>• Communication</li> <li>• Leadership</li> </ul>
Forward operations	1980-	Operational, forward looking, hybrid between internal and external views	<ul style="list-style-type: none"> <li>• Flexibility</li> <li>• Creativity</li> <li>• Learning</li> </ul>

### 6.2 Analysis

Furthermore, the concepts were analysed in terms of difficulty in evaluating, changing and their potential impact on profitability, summarised in Table 10 found in the Analysis chapter.



**Table 12 – Repetition of Table 10 - Summary of all concepts.**

Concept	Level	Difficulty in evaluating	Difficulty to change	Potential for impact on profit	Effect on profitability	Influenced by / connected to
Control Measures	Operational	Easy	Easy	Medium	Direct (e.g. cost reductions)	Communication
Evaluation	Operational	Easy to medium	Easy	Limited	Direct (e.g. through Kaizen)	Culture, Communication
Rewards	Operational	Medium	Easy	Limited	Indirect	Culture
Motivation	Operational	Hard	Hard	Medium	Indirect	Culture, Leadership
Focus on competencies	Organisational	Medium	Medium to hard	Large	Indirect	Purpose
Strategic Organisation	Organisational	Hard	Medium to hard	Large	Both indirect and direct	Culture, Focus
Culture	Abstract/underlying	Hard	Hard	Medium to large	Indirect	Practically all
Purpose	Underlying	Medium	Easy	Limited	Indirect	Focus, Culture
Communication	Underlying, operational	Medium to hard	Easy to hard	Limited to medium	Both direct and indirect	Leadership, Culture
Leadership	Underlying, operational	Medium to hard	Medium to hard	Medium	Indirect	Culture
Flexibility	Operational	Medium to hard	Medium to hard	Medium to large	Both direct and indirect	Culture, Organisation
Creativity	Operational	Easy to medium	Medium to hard	Medium to large	Both direct and indirect	Culture, Leadership, Motivation
Learning	Operational	Medium	Easy to medium	Medium to large	Indirect	Culture, Organis., Communication

### 6.3 Theoretical framework

The last result is the schematic overview of the perceived levels of the concepts, both in terms of where in a company and where in respect to each other, discussed above in the end of Analysis. The theoretical framework model is here once again presented in Figure 16.

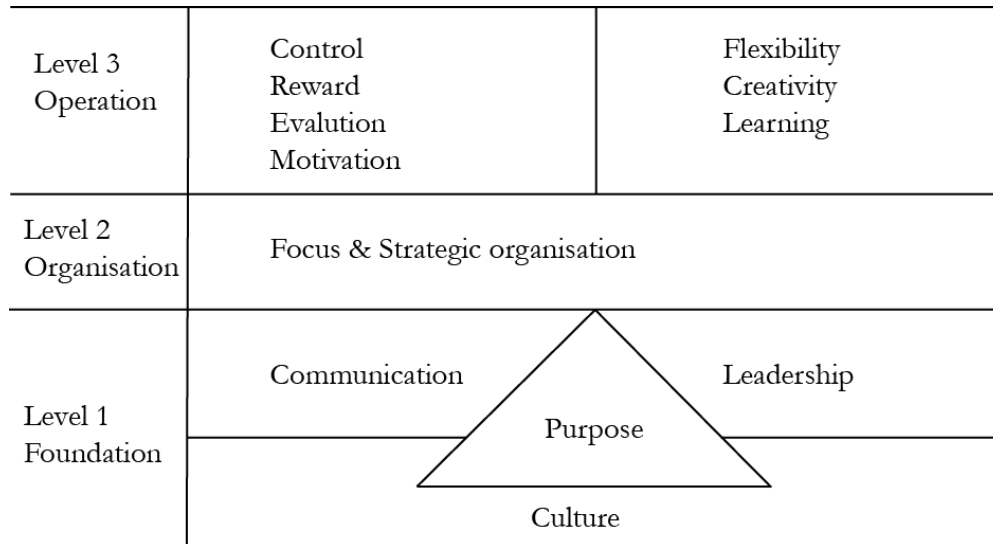


Figure 16 – Suggested theoretical framework

The *identification and grouping* of the concepts, *analysis* of the concepts, and a *simplified overview structure* of the concepts are considered the main results for this paper.

### 6.4 Purpose and objectives

Below are the purpose and objectives first stated in Introduction.

**Purpose**

To identify strategic factors in companies that improved their profitability.

**Objectives**

The objectives were summarized as follows:

- A. Investigate prior works within the field of Strategic Management to identify factors that could improve profitability and were considered possible to influence by company management.
- B. Evaluate the found concepts' perceived level of difficulty to change and impact on profitability.
- C. Compile these factors into a theoretical framework.

The purpose was fulfilled as strategic factors connected to improved profitability were identified. Objective A, investigation of prior works was performed in Theoretical background and Concepts. Objective B, evaluation of found concepts, was presented in Analysis, resulting in Table 10 above. Objective C was met in Analysis, and a simplified presentation can be found in Figure 16.

**6.5 Methodology**

The results and the way leading to them have all followed the steps planned and decided during the creation of the methodology chapter. According to the thorough discussions of for example source material, reliability and validity, the results thus carries weight within the frame set by these discussions. The initial discussion held in 2.5 thus holds true after the results were obtained.

**6.6 Conclusions**

Several conclusions were reached during the work of this study. Important strategic factors for profitability were identified, analysed, and summarised. This chapter recapitulates the results of the study and the analysis, and synthesises the framework consisting of the 13 important strategic factors found. The framework shows the conceptualised order of the concepts, and an overview of how to use the framework is presented. Moreover, the observations below were made.

*First*, different perspectives were found within the different types of literature (i.e. more academic or more practitioner); they all brought valuable insight into the field. The academic literature provided research-oriented proved facts and methods. Arguably these could be negatively affected by the very rigorous yet necessary academic methods due to the rapidly changing nature of a globalised market. The more practitioner based view brought more gut-feeling and experience-based insight

into the harder-to-prove concepts, such as culture. Arguably, the practitioner-based literature lacks in rigidity and research thoroughness.

*Second*, although there were many different views on the weighing of the different concepts, their presentation and nomenclature, there were no major contradictory ideas found. Thus, no important ambiguity should be affecting the results.

*Third*, the strategic concepts found could be ordered into different levels according to their level of abstractness, i.e. from more operational (e.g. Control) to more general and underlying (e.g. Culture).

*Fourth*, the concepts were generally found to be hard to measure, often needing an indirect metric.

*Fifth*, most of the concepts had parts that were deeply rooted in the organization and its culture, and the differences in how easily they could be affected were considerable.



## 7. Discussion

In this chapter, a discussion of the themes presented in the thesis is presented, followed by a discussion over some aspects to consider for an implementation of the framework, as well as suggested further research.

### 7.1 Contribution

Although there are several models for analysing certain aspects of a company's profitability, research done found none that was used to look at the company from a broad strategic view, and in which parts could be the focus of further attention. The framework built and presented in previous chapters is by no means a grand model for analysing a firm's entire profitability structure, nor does it give proper advice on the weighting of the factors or which models or methods to use for continued improvement efforts. However, it serves as an attempt to summarise and give a broad picture of factors considered important by practitioners and academics throughout the history of Strategic management. As far as this study could find, there was no good summary of current research, especially one considering both an academic and practitioner viewpoint.

The framework could thus be seen as a summary of current knowledge, or perhaps a very rough draft to a model that could measure and weigh the discussed factors. It could serve as a good starting-point for further research, synthesising strategic factors, their compared weight and their connections and influences. Furthermore, it could add insight and knowledge for practitioners of which important concepts should be examined when considering starting an improvement program or similar efforts. To ensure depth, other approaches and models are highly recommended, both hands-on models and theoretical oriented methods and theories, to identify possible improvements and correct them.

As noted in 2.3.3, Limitations in identifying factors, academics could take use of more applied, directly usable knowledge from the field, and of course, practitioners of more academic knowledge: perhaps this thesis could be of somewhat help in these processes.

Thus, for the professional or practitioner, this paper contributes with identification of important concepts and some guidelines and a framework for an evaluation process. The contribution for the academia include a new theoretical framework based on previous knowledge, crystallization of some new context knowledge and an attempt to categorise concepts from a new approach and viewpoint, as well as the assessment and evaluation during these processes.

## **7.2 Further research**

As noted above, the results of this study should only be seen as a very rough draft or guidelines for creating a proper operational model, providing interesting background for further research. The authors of this thesis would highly recommend further research in operationalization built on the basis of the framework, connecting it to available methods and models for measuring and weighing data, or perhaps creating some original research measuring and weighing model suited to be used in conjunction with this framework.

Validation of the concluded theory in this thesis could also prove very valuable. This could be done in several ways, through for example a few in-depth case verifications or large scale standardized questionnaires.

Performing the same study, but with different sources, either through case or theory (or a combination thereof), and comparing the results to those of this study would also be valuable and interesting. A more theoretical study could focus on a more specific range of literature (e.g. only published academic papers, or only practitioners' books) or from a more specific view (e.g. Change management, Innovation management).

Performing a similar study five or ten years later and comparing the results would also be interesting, as recent trends and newly available research would be more visible and available. It would also be beneficial to include further sources of more recent nature (i.e. 2005 and onwards) that was hard to identify and evaluate in this study because of the method used for collecting data (i.e. meta-studies, with an inherent time lag) and the imperfect insight into newer academic publications by the authors of this paper. Avoiding this lag on academic literature would allow using fresher theories.

## **7.3 Implementation and usage**

Although the purpose of this thesis was not to develop a proper operational model, the following paragraphs give some advice on using the framework as basis for further work and change processes.

The aspect of measurability is important, both the specific metric and the time frame. Perhaps it is possible to connect to an existing database (e.g. PIMS), or measuring tool or model, or through the means of a proxy to be able to measure and evaluate the concepts. Some sort of connection "table" between the framework and a database or model could then be constructed, both weighing the factors (see discussion below) and connecting suitable measuring values to the more abstract concepts in this framework. Further research would need to be put into finding suitable proxies for concepts that could not be connected more directly to a measurable metric. All these

connections would need to be adapted depending on the context of firm and its industry.

As discussed in Analysis, the factors identified that influences profitability could be of different types, each one different depending on the situation as well as the current state of the company, both in its macro and micro environment. When discussing these factors on a general level, as has been done in this paper, a weighting then becomes very inexact, and should as a result be something done according to the specific situation at hand. A couple of important weighting factors to consider might be:

- Impact: how much does this concept affect performance?
- Time: How long does the concept take to affect, and when can the effects be measured?
- Distance of influence: is the effect of the change direct or more indirect? Are the results of the change direct or more indirect?
- Difficulty in implementation: how easy would it be to improve this concept?
- Quality/quantity: how does it affect the firm? By means of more intangible results, such as increased motivation or more tangible results, such higher efficiency in production? Is the change of a more temporary nature (e.g. an economic boost), or is it more sustainable nature, changing what customers and partners perceive as important for longer relationships, adding long time value?

If a weighting of these factors according to a particular situation could be made, perhaps the most important concepts could be given more attention, through selection of for example a weighted decision table<sup>11</sup> or perhaps as plot charts similar to Figure 2. It should be possible to create a set of quite generic, but for example industry or company size specific, weighted tables as a starting point for further in-company weighting.

### **7.3.1 Order of analysis**

Considering Figure 13, it is suggested that to realise efficient insight when evaluating the concepts, one should start with Current operations, move into analysing Organisation, followed by evaluating Foundations and finishing by evaluation of Forward operation. Simultaneously, connections and influences will be discovered and

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<sup>11</sup> Weighted table, or decision matrix: each concept would be given a weight, allowing for different factors to be compared through a weighed score.



should be noted and analysed. See Figure 17 for an illustration of how the evaluation process “moves” through the framework.

By starting the evaluation with the less abstract, operational concepts and “digging deeper”, information of more underlying art should arise the people performing the evaluation should become better acquainted with the organisation. This way, connections will appear more obvious if better general idea and knowledge of the company is available from the analyses of previous groups.

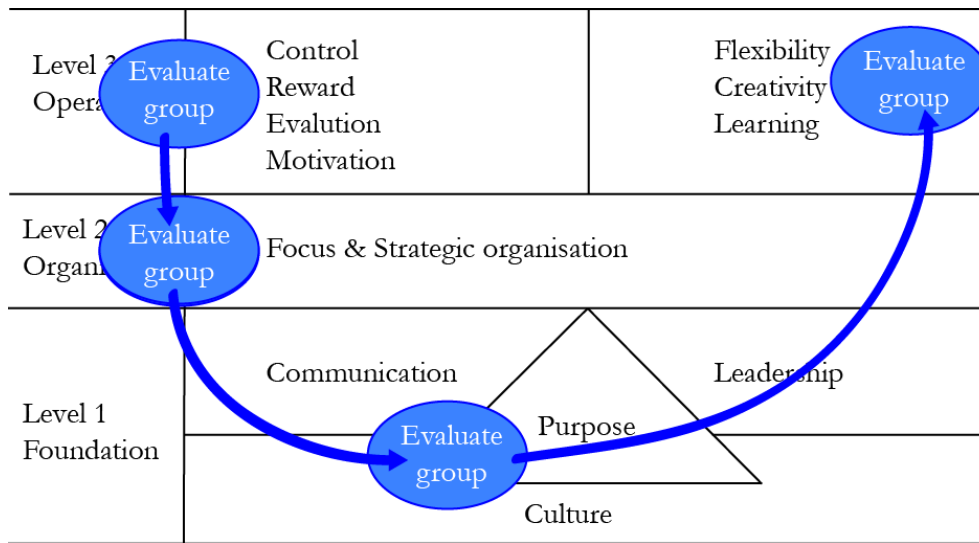


Figure 17 - Evaluation process.

### 7.3.2 Analysis of a concept

While analysing each concept or group, it is strongly recommended to use connected literature and theories. A good example could be motivation that has large psychological studies connected to it, or the leadership field that has books written by practitioners, management theorists, or researchers from other fields such as behavioural scientists.

Having the “right” level of something is naturally a very abstract notion, and to realise what is considered right, a lot of underlying work needs to be done. It is also important to note the connections of the company’s various concepts to profitability. As argued, all concept presented are connected to profitability. As the model tries to summarise concepts that have connections to increased profitability, there is a chance that in some cases a concept might not have a strong connection to profitability. Thus it is important to make sure that during the evaluation of a concept, its connection and influence to profitability in the company is thoroughly examined.

### 7.3.3 Time sequence of analysis

Below follows an example how the process of analysis of the concepts could manifest itself.

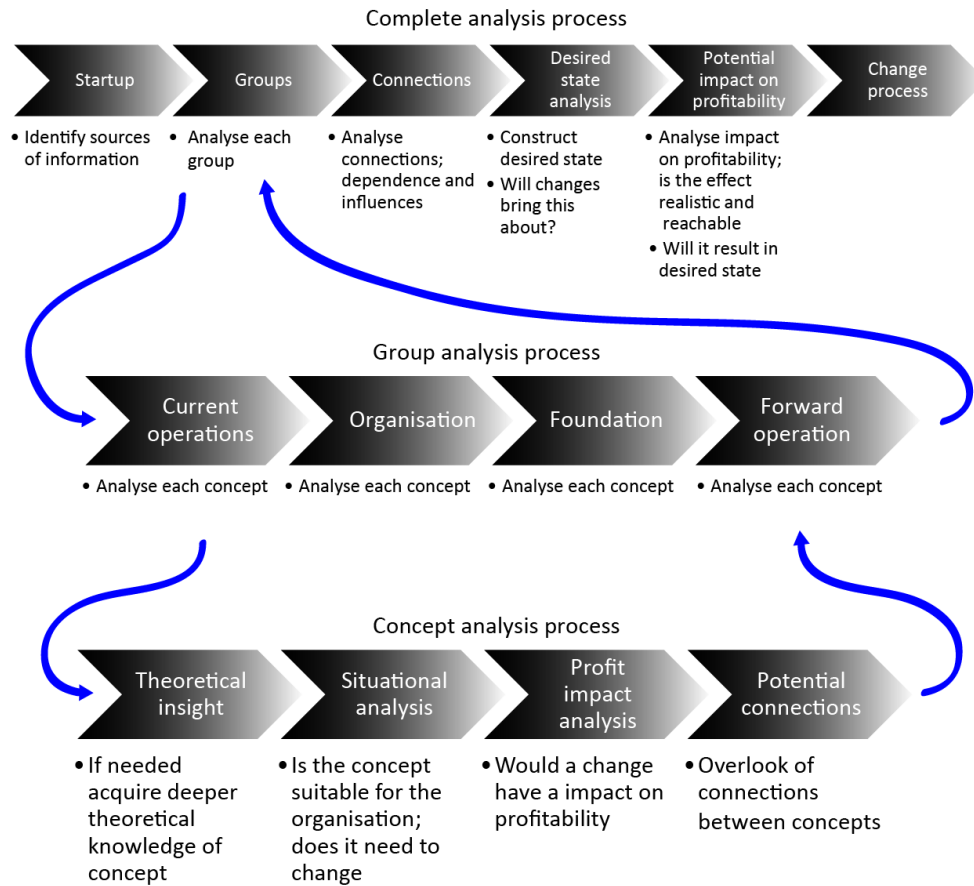


Figure 18 - The process of analysis

By using the suggested method of analysis, information regarding the current state of the concepts within the company is obtained. Subsequently, considering Figure 13, the concepts in need of change, possible to change, and resulting in an impact on profitability should be the ones in focus.



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