Strategy-Train	Small Enterprise Strategic Development Training
Module III	Strategic Diagnosis
Unit 3	Internal Environment
Authors	Rupert Beinhauer, René Wenzel (FHJ)
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Keywords
Business structure, operational structure, resources, cost-benefit analysis, break-even analysis, benchmarking, SWOT analysis, balanced scorecard, core skills, knowledge management, leadership styles, X-, Y- and Z-theory of leadership

Learning Objective
The objective of this unit is to analyse an SME's strengths and weaknesses and areas of specialization. Financial, strategic and operational factors and resources are considered and cost is calculated. The opportunities open to the SME are diagnosed and their growth potential assessed. The critical information - business structure and operations, company history, major products and services, key skills, knowledge and abilities and executive biographies are addressed. The suitability of an SME's strategy is examined and is benchmarked against competitors. Finally a very short overview of motivation and leadership strategies is given.

Estimated Time

It should take you around **120 minutes** to complete this unit.

Introduction

It is important that you not only know the internal environment of your company extremely well, but that you are also able to analyse the business processes and the organizational and hierarchical structure of your company, as analysis is the first step towards improvement. Break-even analysis and cost-benefit analysis are techniques that focus on your company, your suppliers and your customers, while benchmarking and SWOT analysis techniques give you insight into your competitors. An early warning system that can help you identify weaknesses in your company is the so called balanced scorecard. This system operates through observing key figures. Another integral part of a company is management. A company depends mainly on its staff and most importantly on its management and its leadership style.

3.1 Business Structure and Company Resources

Keywords
Organizational structure, operational structure, process, material resources, immaterial resources, tradable resources, non-tradable resources

Introduction

There are two different ways of looking at your business structure; organizational structure and operational structure. While the organizational structure viewpoint offers a static view of your resources, the operational structure provides insight into the structure of a process.

Company resources are classified as material resources (e.g. machines, employees) and immaterial resources (licenses, know-how, corporate culture etc). Material resources can only be used in one location at one time, while immaterial resources can be used simultaneously in various locations. Machines, employees, raw materials etc. are counted among material resources, while licenses, company culture etc. are counted among immaterial resources.

3.1.1 What is a Business Operational Structure and what Type of Resources does a Company have at its Disposal?

When considering business structure there are two different approaches, namely the organizational structure and the operational structure. In this module we focus on the operational structure of a company. While the organisational structure depicts the structures and human resources, the operational structure illustrates the processes of a company. Normally, these processes are focused on output (i.e. the organization's outputs from products and services).

An operational structure describes a logical and chronological structure of an operation of single sequences and events in processes. A symbolic illustration of sequences and events over an absolute or relative timeline is typical for an operational structure. The composition of the elements is based upon the relations between them with applied classification principles. Location must also be considered.

Resources are described as all elements that a company needs as input for the production process. You can distinguish between financial (e.g. capital resources), physical (e.g. machinery), human (e.g. skills of employees and managers) and organizational (e.g. logistic systems) resources. Furthermore it is possible to distinguish between material (tangible) and immaterial (intangible) resources. The first category includes for example machinery and the employees. Immaterial resources are elements such as licenses, expert know-how, ideas, innovation competences, scientific and R&D skills, corporate culture and reputation of the company.

Material resources have the characteristics that they can only be used in one location at a given time. Therefore their contribution is limited regarding the creation of a competitive advantage. Immaterial resources however have multiple effects, as they can not only be used simultaneously in different location but can also contribute to an increase in value by their multiple usages. (Grant 2002)

3.1.2 Why are Company Resources decisive Factors for Business Success?

Identifying your most important processes for the production of your goods and services and ordering them systematically is a crucial process, which should be done really carefully. In order to have a clear illustration of the routines and also their environment and objectives, it is useful to adopt models which make these processes visible. Material and immaterial resources have a

decisive role in the creation of competitive advantages because they are a source of development of unique skills. These competitive advantages are the result of the knowledge base that exists in the company. The creation of optimal prerequisites for knowledge creation and knowledge transfer in the company constitutes an important prerequisite for the constitution of unique skills. (Anwander 2002)

3.1.3 How to identify Business Processes?

Every business process is build upon a chain of single activities. A detailed illustration of every key process as well as important support processes is necessary to analyse your company and if necessary improve your processes. Do not underestimate the importance of your support processes, as they can influence your key processes as well. A way to illustrate them systematically in chronological and logical course of action is the so called business process map. (Daschmann 1996)

3.1.4 Identifying Company Resources

You should be aware, which resources your company possesses and how you can make use of them. For this purpose you can draw a table, and classify your resources not only as immaterial and material ones, but also as tradable and non tradable resources. This classification of resources can be done, using the following matrix as a guide:

	Material Resources	Immaterial resources
Tradable resources	• Machines • Employees • Standard software	• Licenses • Individual expert knowledge
Non tradable resources	• Self-constructed facilities (e.g. a special machine to produce bakery products) • Self-programmed facilities (e.g. a special software)	• Corporate culture • Unique relations to stakeholders • Company-specific training • Implicit knowledge

Figure 1: Classification of Resources.

This matrix can give you a brief overview over your resources and will indicate how you can use them in an efficient way.

EXERCISE: Use this type of matrix to list and classify your company resources.

The business process map

The business process map is one of the most important tools in illustrating operational structure. For this purpose it is necessary to depict all activities and sequences in one process. Thereby you have to decompose every single production step by writing down the input, the activity that is undertaken and the output of the activity. For example it is useful for a production company to decompose the production process into detailed activities such as procurement, processing of raw material, construction of elements, assembly and quality control.

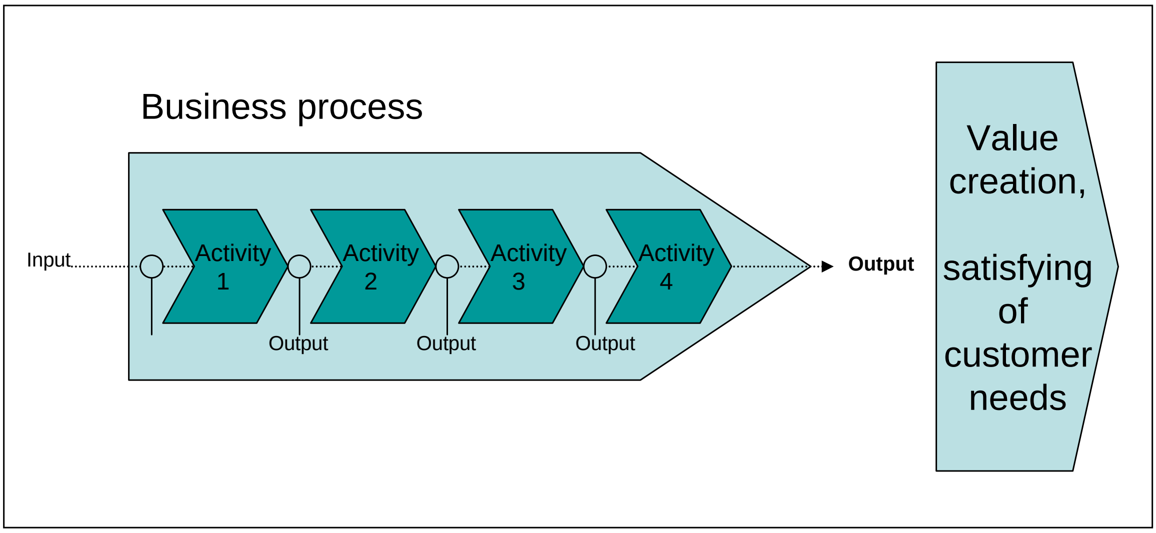

Figure 2: Business Process Map (Hinterhuber 1996).

When you design a process map, you should be as precise as possible. Every activity – even the smallest one – should be listed with its respective output.

EXERCISE: Which are your key processes? Can you draw a business process map of them?

3.1.5 Case Study – X-treme ltd.

The business process map gives an overview of the most important processes of the X-treme ltd[1]. The employees who are responsible for the process are also noted in the map. This is important, because everyone should know which person is responsible for each process. The areas of responsibilities and activities of X-treme ltd. are pictured in the following diagram.

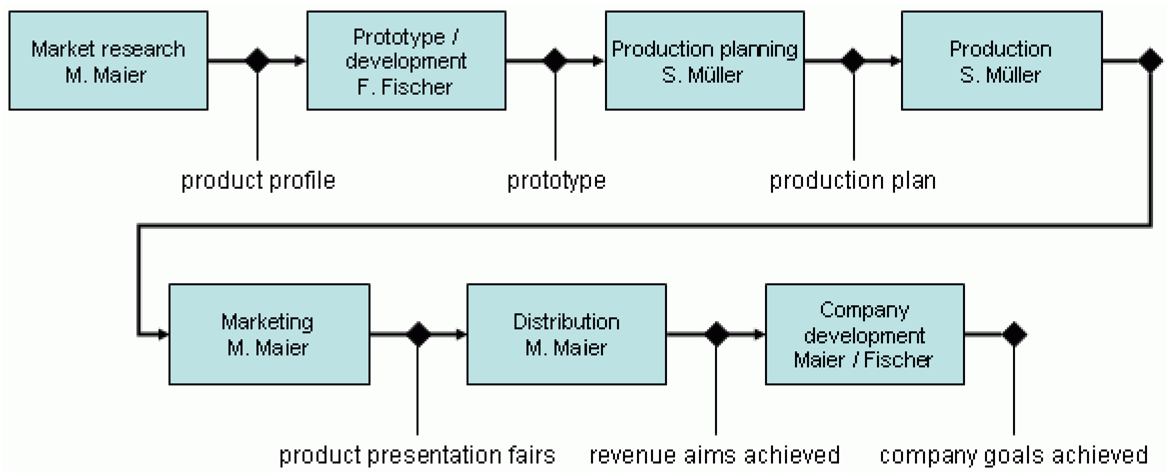

Figure 3: Business process map of X-treme ltd.

[1] The case is taken from Schmalzer, Schweiger, Wenzel (2008).

The most important processes and tasks are put in a uniform administration by forming departments. In the sales and distribution department you can find the processes distribution support and market research and the important tasks of marketing and sponsorship. The person responsible for the department and for the process is Mr. Maier.

Each process should be separately illustrated in a more detailed way. For this purpose it is important to write down the activity, and the output that is produced by this activity. This output is the input of the consecutive activity. For example the business process company development is pictured.

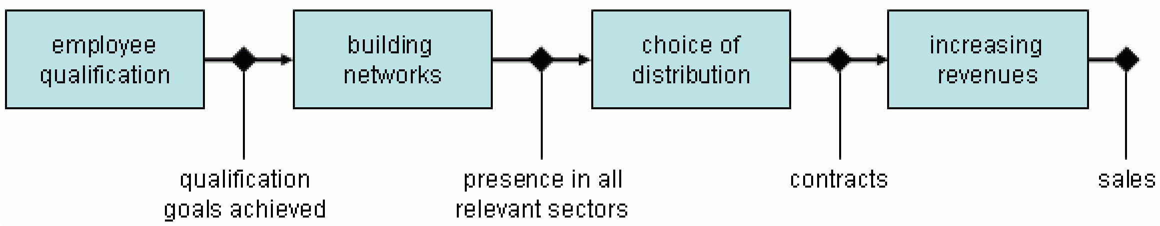

Figure 4: Business development as a process.

Summary of Key Points

This section deals with the operational structure of a company. An operational structure describes a logical and chronological structure of your company processes. One way of depicting your operational structure is the business process map.
The resources used in your company can be distinguished between material and immaterial resources. Material resources can only be used in one location at any given time. Immaterial resources can be used in parallel in different locations.

3.2 Analysing the Internal Environment

Keywords
Benchmarking, SWOT analysis, internal process, environment, strategy, strategic management, cost-benefit analysis, break-even analysis, balanced scorecard, utility, profit margins

Introduction
This subsection presents different methods to help you analyse the internal environment of your company. You do not need to include all of them, but each of them is helpful in providing a detailed picture of your company.
Benchmarking helps you learn from other companies or organisations.
SWOT deals with strengths and weaknesses of your company as well as with opportunities and threats posed by the external environment and it analyses the internal processes of company as well as external factors.
The Balanced Scorecard allows managers to have a wider overview of an organization since it contains financial and non-financial measurements in a single report.

The cost-benefit analysis considers and quantifies future benefits that are not only of a monetary character. It is a rather strong method which can deduce the value of investment alternatives.

A break-even analysis is a mathematical method to determine the quantity of production and sale that is necessary to gain profits. All of these methods have their advantages and are described briefly.

3.2.1 Which are the most important Analysis Methods?

Analysing your company's internal environment is crucial for your business success. There are different methods with different objectives which can help you analyse the internal environment of your company. Using only one of these methods is often not enough. This section deals with the following methods: Benchmarking, Balanced scorecard, cost-benefit analysis, break even analysis and SWOT-analysis.

Benchmarking

There are numerous definitions for benchmarking. One of the most popular definitions, established by the pioneer in benchmarking, Robert C. Camp, describes benchmarking as "the search for the best industry practices which will lead to exceptional performance through the implementation of these best practices" (Camp, 1989). Camp considers benchmarking as a good tool for organizations aiming to improve their processes. (Daschmann 1996)

Cost-benefit analysis

Cost-benefit analysis helps you to evaluate potential investments. Costs incurred can be calculated easily and precisely, but there are not many good methods available to assess future effects. In addition, these effects are subject to high levels of risk. Cost-benefit analysis closes the gap between the current costs and future benefits of a project or an investment. (Anwander 2002)

Break-even analysis

Break-even analysis on the other hand is an instrument used to calculate the amount of products, which you have to sell in order to gain profits. With the aid of the break-even analysis you can find the break-even point which is determined as the point that separates profit from losses. (Anwander 2002)

SWOT analysis

The SWOT analysis displays important external and internal influence factors. It helps you to identify a multitude of strategic options. A SWOT analysis contains a strengths-weaknesses (S-W) analysis as well as an opportunities-threat (O-T) analysis. It summarizes the main results of research into internal processes as well as research into influencing factors of the environment. (Müller-Stewens 2005)

Balanced Scorecard

Robert Kaplan and David Norton proposed the concept of a balanced scorecard (BSC) as a methodology for measuring an organization's performance beyond profit margins and dividend yields.(Rivenbark & Peterson 2008) The balanced scorecard measures four dimensions of an organization—financial, internal business, innovation and learning, and customer. For each of these dimensions the scorecard demand managers to develop metrics, performance targets and at the end of each period collect and analyze the data gathered.

3.2.2 Why employ these techniques in my company and why not?

The key idea behind benchmarking is that companies (competing or non-competing) shall improve business processes by comparing performance measures and learning about best practices. Benchmarking takes place within the company, against competitors and against companies from other sectors. The following table presents advantages and disadvantages of benchmarking:

Type	Advantages	Disadvantages
Internal benchmarking	• Data collection relatively easy • Good results for diversified, "excellent" companies	• Limited view • Internal prejudice
Competitor benchmarking	• Business relevant information • Products/processes comparable • Relatively high acceptance • Well-defined positioning in the competition	• Difficult to gather data gathering • Risk of just copying a competitor
Functional benchmarking	• Relatively high potential of finding innovative solutions • Broadening of spectrum of ideas	• Relatively difficult transformation of structures and processes • Comparability in question • Time-consuming analysis

Figure 5: Advantages and disadvantages of different benchmarking types.

While the cost-benefit analysis employs hard facts (costs) and soft facts (expected benefits), break-even analysis is a mathematical tool used in strategic planning. As mentioned before, both tools are simple to use. The advantage of the cost-benefit analysis is that you can quantify (expected) benefits. The main advantage of the break-even analysis is that you can illustrate it easily by drawing a diagram.

Figure 6: Balanced Scorecard: Rivenbark & Peterson (2008)

The figure above shows the different perspectives that you have to consider when developing a balanced scorecard. The balanced scorecard has helped managers to recognize and understand that measurements supported only by numbers are not sufficient to explain the entire performance of an organization. “As much an art as a science, the balanced scorecard is a living process that must be adaptive to constantly changing external forces and internal course corrections. You learn as you go” (Buytendijk).

The SWOT analysis technique can help you find out if your strategy has potential for success under certain circumstances. Furthermore, your company-specific strengths and weaknesses are tested, to see if they can react to transformations of your company’s environment.

In business situations you are often confronted with more than one option. In this case a cost-benefit analysis is very helpful in evaluating different alternatives such as potential investments. Furthermore with the help of cost-benefit analysis it is possible to estimate, if an investment is profitable.
Break-even analysis is often used to help plan your production and purchasing, as it is simple to use. It is also used to find the minimum amount of sales needed in order to make a profit.
“With the scorecard, top managers can keep a close eye on different aspects of their organization and its environment in much the same way that a pilot would view different instrument panels when flying an airplane”. (Martison)

3.2.3 How can I implement Analysing Methods in my Company?

Strategic benchmarking

Strategic benchmarking involves 7 steps, and several of these steps can be run simultaneously:

- Step 1: Identification of the benchmarking object: Companies, structures, working places, products, components, individual parts, core processes and supporting processes can be subject to the benchmarking process.
- Step 2: Formation of a benchmarking team: A project leader is designated and team of 5 to 6 people is formed. The team members need certain preparation and training.
- Step 3: Intern (Internal / interim) analysis of the benchmarking object: The benchmarking team defines the key data required (time, financial, quality and input/output).
- Step 4: Determination of the benchmark best practice case/company: Best practice cases/companies can be found within the company (Intern benchmarking) as well as within (competitor benchmarking) and outside your sector (functional benchmarking). It is your task to find an appropriate benchmarking partner.
- Step 5: Analyses of the best practice case/company: This step is the most difficult and time-consuming one in the benchmarking process. The analysis of best practice cases/companies happens on two levels. First of all the "What" (key data, objectives) will be determined, secondly the "how" (proven, good practice processes). The focus of the questionnaire deals with question of "How". The best way of data collection is to have a personal conversation with the benchmarking partner.
- Step 6: Evaluation of results and analysis of outcomes: You have to consider structural differences between the best practice case/company and your own company in the evaluation. The main task here is to find out how the results are affected by internal and external conditions. The more both companies are alike regarding size, complexity, structure, life expectancy of the products, ownership structure etc, the easier it is to implement successful benchmarked processes.
- Step 7: Determination of new goals and processes and implementation of recommendations: Based on the results of the previous steps, the benchmarking team sets goals with the management. The team proposes measures (action plans, communication, controlling etc.) and is also responsible for their implementation.

Benchmarking against a competitor is difficult and will take a lot of resources, when the competitor does not cooperate. Indeed cooperation will happen quite rarely.

Cost-benefit analysis

Cost-benefit analyses tries to give information as to what extent investments or projects of your company are promising. For this reason the costs of one alternative are compared with the expected utility of it.

The following four steps will help you successfully undertake a cost-benefit analysis:

1. <u>Recording of costs</u>: At first you have to collect all costs that result from all possible project / investment alternatives and write them down. Here you should also include follow-up costs and impacts on all departments of your company.
2. <u>Assessment of Benefits</u>: In a second step you should consider all arguments in favour of each alternative. You should be able to derive the future benefit of the alternatives from the listed factors.
3. <u>Comparison of costs and benefits</u>: In this step costs are contrasted with the benefits. If it is possible, assign a financial value to the benefits.
4. <u>Comparison of the alternatives</u>: Depending on the results of the third step you have to estimate costs and justify the benefits by using 1 to 3 arguments. Thereafter you have to decide which one of the measures you will select

With the aid of **break-even analysis** you can find the point which separates the profit zone from the deficit zone. This point is called break-even point. For the break-even analysis you need the revenue, variable costs, the profit margin, fixed costs and the profits. Now you can calculate:

- profit margin = revenue – variable costs
- Profit = profit margin – fixed costs

Now it is possible to draw a diagram:

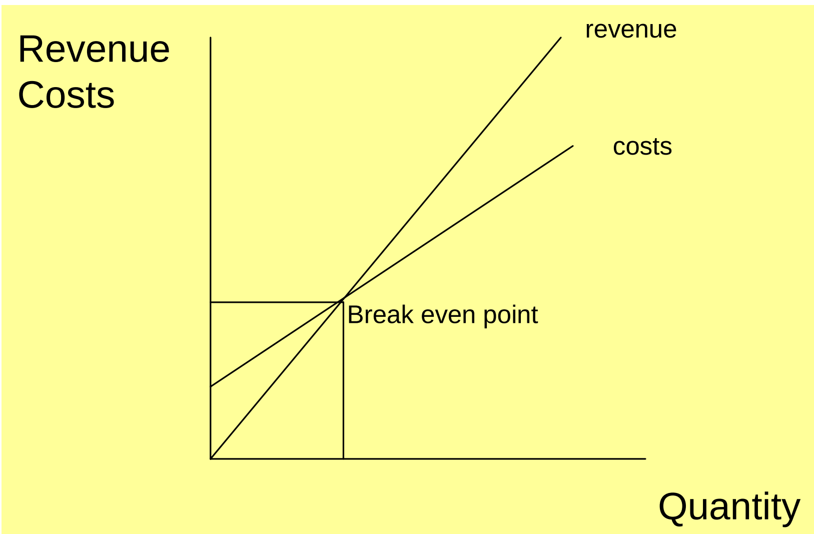

Figure 7: Break-even analysis: Graphically Determination of break-even point.

EXERCISE: You have variable costs of €5 per product. The fixed costs are given as € 2.000. You sell your products at a price of € 8. Calculate the break-even point and profit, when selling 1,000 pieces of the product.

SWOT analysis

The following five steps will help you to use SWOT analysis in your company and to decide on the best course of action based on the results. (Lombriser & Abplanap 2005). The table below provides an outline of how to implement strategies when considering your strengths, weaknesses, opportunities and threats.

	Strengths	Weaknesses
Oppor-tunities	**SO-strategies:** Placing emphasis on strengths to use opportunities	**WO-strategies:** Overcome weaknesses to use opportunities
Threats	**ST-strategies:** Placing emphasis on strengths to avoid threats	**WT-strategies:** Minimize weaknesses and avoid threats

Figure 8: SWOT analysis: Ten Have et al. (2003)

Key rules for SWOT analysis

Identification of decisive success factors: It is very helpful for the strengths-weaknesses analysis to identify decisive success factors. This is an important task, but normally you know them and you can easily sketch them.

1. Determination of strengths and weaknesses: In a strengths-weaknesses analysis the competitive position of your company in relation to the strongest competitor(s) is identified. In considering comparable factors you should only take into account those points that are really comparable (is such data really available?). Consider that all identified strengths and weaknesses are relative. As they are relative they gain informative value only through benchmarking (see previous subsection).
2. Determination of opportunities and risks: This part of the SWOT analysis discovers opportunities and threats that result from new trends and changes in your environment. Factors that do not influence your company directly are considered to be external factors in the SWOT analysis. E.g. high customer loyalty can be classified as an internal strength, but can turn into a threat, if traditional customer ties become less important.
3. Processing of the questionnaire and answering of key questions: In this step you should answer questions that mostly relate to the sector in which you are engaged.

4. Deduction of strategic conclusions: If you can anticipate and react to present and future changes, you have achieved one of the major goals of a SWOT analysis.

EXERCISE: Can you identify the success factors in your sector? Which are your strengths and weaknesses, opportunities and threats?

Balanced Scorecard

The balanced scorecard offers a holistic and detailed view of the performance of any organization by framing strategic objectives within specific dimensions, which should be aligned with the business vision of the organization. Consequently, the card "emphasizes vision, strategy, competitive demands, and the need to keep the organizations both looking and moving forwards –rather than the more traditional focus on control".[2]

The following steps will help you to develop a balanced scorecard:

- Ask yourself, what your visions and strategies are.
- Consider the success factors that can be identified and realized by using this strategy.
- Based on the success factors goals are formulated.
- These goals need to be measurable. For this purpose indicators (key figures) are identified. E.g. your profit.
- The last step is the most important one. You have to implement measures to achieve the target value of the key figure.

3.2.4 Case Study

X-treme ltd. [3] implemented several analysis methods in relation to their internal environment. One of these methods – the Balanced Scorecard for X-treme ltd – is presented. Based on the strategy and the strategic objectives described in Chapter 2.3.5 further objectives were derived from the perspective of finances, customers, business process and learning and development. X-treme ltd has focussed on just a few objectives and key figures to guarantee an efficient company.

Financial Perspective

Strategic Objective	Key figure	Target value of the key figure	Measures for achievement
Expansion of a niche segment	Revenue	+ 50% in two years	Pushing customer marketing
Expansion of a niche segment	Profit	Positive (>0) in 2 years	Pursue a high price policy
Pushing customer marketing	Marketing expenditures as a % of the revenue	+ 50% with immediate effect	Engaging a marketing agency

[2] Brander Brown, Jackie; McDonell, Brenda. (1995). The Balance Scorecard: Short-term guest or long-term resident?. In: International Journal of Contemporary Hospitality Management, Vol 7, N° 2/3 1995.
[3] The case is taken from Schmalzer, Schweiger, Wenzel (2008)

Brand management and image consoloditation	Sponsorships in % of the revenue	+50% with immediate effect	Engaging a marketing agency

Figure 9: Balanced scorecard: financial perspective

Customer perspective

Strategic Objective	Key figure	Target value of the key figure	Measures for achievement
Reliable distributors	Delay in delivery schedule	Max. 5 days	Improvement in production
Distributor satisfaction	Satisfaction on a scale from 1 to 3	Scale 1 for all distributors	Periodical surveys and measurement
Customer loyalty through distributors	Contract renewal	80%	Expansion of distribution network by improving the communication policy

Figure 10: Balanced scorecard: customer perspective.

Business processes

Strategic Objective	Key figure	Target value of the key figure	Measures for achievement
Improvement of the production process	Processing time	< 3 days	Optimizing of the process structure
Improvement of quality	Control time for Reworking	3 min per piece	Optimizing quality control

Figure 11: Balanced scorecard: Business process perspective.

Learning and Development

Strategic Objective	Key figure	Target value of the key figure	Measures for achievement
Composition of a learning and development team	Number of high-skilled employees	7 in one year	Development of an individual trainee programme
Composition of a learning and development team	Expenditures on training for employees	+ 30% with immediate effect	Development of an individual trainee programme

Figure 12: Balanced scorecard: learning and development perspective.

Summary of Key Points

Benchmarking is a very helpful tool for organizations who wish to improve their processes. Benchmarking takes place within the company, with competitors and with companies from other sectors.
With cost-benefit analysis you can quantify (expected) benefits.

With the aid of break-even analysis you can find the point which separates profit from loss. This point is called break-even point.
A SWOT analysis contains a strengths-weaknesses (S-W) analysis as well as an opportunities-threat (O-T) analysis. It summarizes the essential results of research on internal processes and the consideration of influencing environmental factors.
The balanced scorecard can help an organization to articulate, understand and in-act its vision and strategy. The card facilitates communication within an organization and focuses employees in defined key goals and tasks ensuring the alignment with organizational objectives.

3.3 Core Skills, Knowledge and Knowledge Management

Keywords
Central skills, core competencies, value creation, knowledge management, knowledge, strategy

Introduction
An advantage can be gained on the competition by building up skills or competencies that only you have. They are then called central skills or core competencies of your company. Core skills have to be unique when compared to your competitors, they must ensure a benefit for the customer and your competitors should not be able to imitate them and they should provide you with access to a high number of markets. If you possess central skills, you are able to gain additional profits. Core skills however, are closely related to knowledge and knowledge management. Knowledge management has gradually become positioned as a strong methodology to support business viability, competitiveness and growth. Today knowledge is a key strategic resource for any company.

3.3.1 What are Core Skills, Knowledge and Knowledge Management

Core skills or core competencies are defined as systematically focused combinations of individual technologies and production skills that support a multitude of product lines of a company. In other definitions the whole value chain is included. A synthesis of both definitions would lead to following statement:
Core skills are integrated through organizational learning processes and are coordinated collectivity through the use of technologies, know-how, processes and attitude,

- that are of value for the customer,
- that are unique compared to your competitors,
- that are difficult to imitate
- and that have the potential to give you access to a multitude of markets.

Therefore core competences are the bundled skills, technologies and processes, which keep the value creation mechanism running and which are responsible for positioning your company among the leading companies.

Sustainable competitive advantages can be obtained, if a company's skills fulfill the following four criteria:

- The skills have to be valuable. The skills have to increase the efficiency and effectiveness of the company and lead to improved market performance.
- The skills have to be rare, because if your competitors also have the same skills, it is impossible to differentiate between them.
- They must be hard to imitate/ copy. If a competitor succeeds in recreating a similar resource, he can destroy the advantage of your company. In many industries it is hard to protect your products and applications for a long time, since your competitors are able to eliminate your advantages within a few months.
- It has to be hard to substitute them. If a competitor is able to offer an alternative to your capabilities, your competitive advantage will be eliminated.

Today, organisations are beginning to recognize that "in order to remain at the forefront and maintain a competitive edge, organisations must have a good capacity to retain, develop, organise, and utilise their employee competencies (GroÈnhaug and Nordhaug, 1992)". (Martensson 2000)

Essentially, "Kowledge Management (KM) is about creating, identifying, capturing and sharing knowledge. It is about getting the **right knowledge**, in the **right place**, at the **right time**, particularly in influencing an action or a decision." (Servin 2005) According to the Gartner Group "KM promotes an integrated approach to identifying, capturing, retrieving, sharing and evaluating an enterprise's information assets. These information assets may include databases, documents, policies and procedures, as well as the un-captured tacit expertise and experience stored in individual workers' heads. (Hicks et al. 2006)
In addition, although information is not knowledge, it is an important aspect of knowledge. As shown in the following figure, knowledge goes through several transformations where data is transformed into information, and information is transformed into knowledge. (Hicks et al. 2006)

3.3.2 Why are Company Resources and Knowledge Management important?

It is almost impossible to transfer or to buy a company's resources and skills, because the circumstances are always different. A competitor is therefore forced to run through an equivalent development process, which is time and resource consuming.
The benefits of implementing Knowledge Management strategies can be seen in terms of reducing costs and risks, improvement in the decision-making process and strategic planning, faster development of new technical approaches, and reduction of employee training costs amongst others.

3.3.3 Where are core Skills and Knowledge Management needed?

Core skills of a company are critical processes that are important criteria in terms of stakeholder satisfaction and which are important in ensuring that your company satisfies stakeholders better than your competitors or other reference companies. The primary objective of any corporate Knowledge Management (KM) program is to support the achievement of strategic business objectives. In other words, the "starting-point" for KM is to understand what the organization's business objectives are. (Hariharan 2002)

3.3.4 How do I identify core Skills and implement Knowledge Management in my Company?

Core Skills

The following four questions will help you diagnose core skills in your company:

1. Does your company possess technologies, know-how or processes that raise your competitiveness or the level of benefits to your customers to such a degree that is higher than that of your competitors?
2. Are your core skills protected so that it is difficult or impossible for your competitors to imitate them?
3. Do the core skills serve more than one business unit?
4. Do they establish a point of entry to new business segments for your company?

The higher the percentage of positive answers, the higher is the probability that your business actually possesses core skills.
Here are some tips to help identify your core skills:

- Ignore your beliefs about what your business is or could be.
- Explore and go beyond the borders of your business field.
- Don't be afraid of talking about things you do not understand.
- Paradoxes are good, paradigms are bad.
- Put yourself in the place of your customers.
- Do not think in terms of claims, but in terms of desires.

Knowledge Management

Actively managing knowledge is one way to conduct knowledge management (push strategy), while pull strategies take place on a more ad-hoc basis. Knowledge management strategies for companies can include:

- Rewards as a means of motivating for knowledge sharing.
- Storytelling as a means of transferring tacit knowledge. This happens in your company all the time. A low organisational hierarchy and good working climate facilitate this form of knowledge transfer.
- Cross-project learning deals with knowledge transfer from one project to another. In many companies this type of transfer take place in an informal way, but some companies establish formalized, standardized and conscious channels.

- De-brief processes for analyzing *what* happened, *why* it happened, and *how* it can be done better, by the participants and those responsible for a project.
- Knowledge mapping (a map of knowledge repositories within a company) is all about keeping a record of information and knowledge you need such as where you can get it from, who holds it, whose expertise is it, and so on.
- Communities of practice are groups of people who share a concern or a passion for something they do and they learn how to do it better as they interact regularly.
- Best practice transfer is often based on the results of benchmarking. The essence of best practice transfer is not to copy the best practice, but to adapt it for the circumstances of the business unit.
- Competence management (systematic evaluation and planning of competences of individual organization members) aims to identify present and future competence needs, facilitate comprehensive communication between business units regarding training, subsequently turning competence goals into business results.
- Proximity & architecture is an important point, which is often overseen by management. Proximity facilitates storytelling too.
- Master-apprentice relationship is a traditional way of knowledge transfer. Well-trained apprentices should be kept in your company to preserve knowledge in your company.
- By using collaborative technologies (groupware, etc) widely dispersed work teams can easily share information, whether they're located across the country or around the world.
- Knowledge repositories (databases) are computer systems that continuously capture and analyse the knowledge assets of an organization.
- Measuring and reporting intellectual capital is a way of making knowledge explicit for companies.
- Knowledge brokers are organizational members that take on responsibility for a specific "field" and act as first reference on whom to talk about a specific subject.
- Social software such as wikis, social bookmarking or blogs can easily be established in a company and serves as "database" of knowledge

3.3.5 Case Study

The manager of X-treme ltd. [4] is familiar with the advantages of knowledge management and decided to implement knowledge transfer on a formal and a non-formal basis. The first step was to formulate knowledge objectives. From then onwards, distribution of knowledge took place through various (formal and informal) channels:

- Storytelling
- Cross-project learning
- Best-practice transfer
- Master-apprentice relationship
- Databases

[4] The case is taken from Schmalzer, Schweiger, Wenzel (2008).

Knowledge preservation was achieved by implementing the following methods within X-treme ltd.:

- Databases
- Knowledge mapping
- In-house Wiki

To conduct a comparison between the initial objectives and the actual achievements, X-treme ltd. carried out an evaluation of their efforts with regards to competence management on an individual base and a knowledge assessment on company level.

Summary of Key Points

Central skills or key competences help your company to create a competitive advantage in your sector. When searching for key competences in your company you should dismiss preconceived opinions, look beyond the borders of your business and think of preferences instead of assumptions. Specific knowledge can be a central skill of your company. Knowledge management helps your company in distributing and preserving knowledge. You can establish formal structures or facilitate informal channels to promote knowledge transfer.

3.4 Leadership

Keywords
Leadership, motivation, management, theory X, theory Y, theory Z

Introduction
A leader is a person who is able to direct people towards the attainment of a certain goal. Consequently, the notion of leadership implies that people think outside the box in order to get things done, through leadership, managers affect the behavior of people in the business. Douglas McGregor's "X-Y theory" provided a fundamental distinction between management styles and has become the basis for further development of the subject of leadership.

3.4.1 What are the most important Leadership Theories?

Leadership and management are two opposite but complementary concepts. Leadership is the understanding of how tasks are done, how to develop a vision and help others understand it, be inspired by it and adjust it into their own work duties. Management entails day-to-day activity in the company, it focuses on processes and systems, organizing staff, taking control and solving problems. In a company, the manager should posses both leadership and management skills in order to succeed.

EXERCISE: It would be logical now to think about the leadership style you should adopt, with regards to the strategy within your enterprise.

According to Erven, “There is not a best leadership style. The same manager can effectively use a variety of leadership styles depending on the competence and commitment of individual employees”. Nowadays interest in the subject of leadership and its relationship to employee motivation is constantly increasing.

3.4.2 Why is Leadership an important Element of Success for your Company?

There is no doubt that a good leader can move mountains. A good manager might know the business and the company in detail, however, if he/she cannot inspire others failure could be around the corner. “Motivated employees are one of the most important results of effective leadership. Most successful managers are also successful leaders. They get people to help accomplish any goal. Accomplishing goals, however, is not enough to keep employees motivated. Helping employees accomplish their own personal and career goals is an important part of motivation. Leadership and motivation are interactive. The more motivated the followers, the more effective the leader; the more effective the leader, the more motivated the followers”.(Erven) For this, it is important to have certain knowledge about leadership and motivation and how both interact in the life cycle of any company.

3.4.3 Where can McGregor’s Leadership Theories be applied?

Finding the right approach to leadership in your company is an issue of critical importance. In the area of management there is an important concept of leadership, namely the X-Y- and Z-theory of leadership by McGregor. McGregor believed “that leadership strategies are influenced by a leader's assumptions about human nature”. As a result of his experience as a consultant, McGregor summarized two contrasting sets of assumptions made by managers in industry”. (Bolden & Gosling 2003)
Managers that believe in theory-X have an authoritarian leadership style. He/she is goal-orientated, but not employee-orientated, because employees are seen as means to an end. Y-theory-based managers on the other hand possess a cooperative and participative leadership style, and are therefore employee- and goal-orientated.

3.4.4 How do X-, Y- and Z-Leaders perceive their Workers?

McGregor identified two major perspectives held by managers: Theory X and Theory Y. Generally speaking theory X is the assumption that employees are lazy, dislike work and responsibilities, and must be coerced to perform well. On the contrary, theory Y is the assumption that employees like their work, are creative, seek responsibility and can exercise self-direction. (Jeremiah 2009)
The work of McGregor was based on Maslow's hierarchy of needs. He grouped Maslow’s hierarchy into “lower order” needs (Theory X) and “higher order” needs (Theory Y). In the diagram below SA stands for self-actualisation.

Figure 13: Theory X and Y in the framework of Maslow's hierarchy of needs.

McGregor stated that a theory X trainer "will insist that the exercise be conducted strictly according to the rules, while a theory Y trainer will expect participants to stay within acceptable boundaries of behavior. The latter will also be willing to watch where the learning process takes the group". (Sleigh 2007)

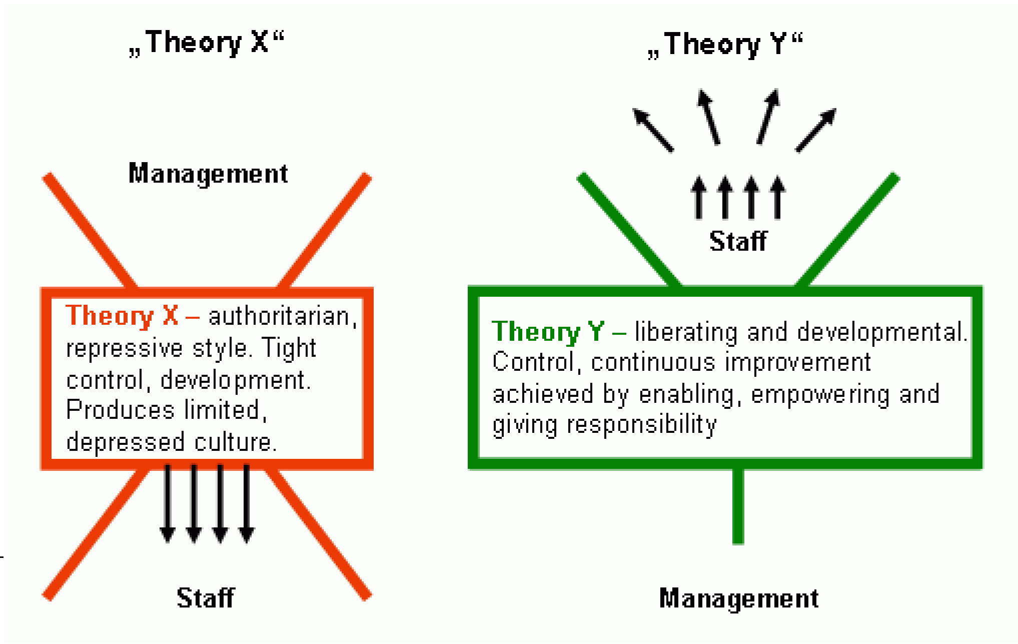

Figure 14: Theory X and Y in a company.

Theory Z is an extension of Theory Y from McGregor and was developed by William Ouchi. Ouchi based his work not only on McGregor arguments but also “built Theory A (American style) and Theory J (Japanese style) to build his hybrid Theory Z”.(Layson) One of the most striking differences between Theory X-Y and Theory Z is that the first two theories focus on personal leadership styles of individual managers, while Theory Z focuses on the culture of the entire organization and how it can affect the way in which the organization is managed.

Each manager should try to find a point of interaction with the company staff whereby staff opinion and feedback, will be highly appreciated and in this context task assignment and authority will be respected.

3.4.5 Example

The owner and manager of X-treme ltd. [5] is a very young person. He studied business administration and wrote his master thesis on obstacles in the foundation of young businesses.
Regarding his leadership style, it can be interpreted mainly as McGregors theory Y type, but it has also incorporated some traits of theory Z. As a consequence, the employees of the company are dedicated to their jobs and many of the tasks are executed independently by the employees due to the fact that they like their boss and hence they respect him.

Summary of Key Points

To summarise, a leader who wants to be effective, should:

- help others interpret situations and events
- build and maintain consensus on target objectives, priorities and strategies of the company
- foster trust and dialogue among the working team

In addition to the aforementioned traits, if the leader can motivate his/her colleagues, then they can all move towards the same direction and speak the same language. It does not really matter which theory of leadership or motivation will be applied, since no single theory is perfectly applicable to an organization. The most important issue is to understand the organizational culture and environment of the company, as well as the business and its employees in order to offer all of them something to gain from the process.

[5] The case is taken from Schmalzer, Schweiger, Wenzel (2008)

Summary of Learning Objectives

The internal environment of your company covers a huge area, which can leave much space for improvement. First we dealt with business structures, focusing on operational structures rather than organizational structures. Company resources were the next issue, where we distinguished different types of resources in your company. Cost-benefit analysis and break-even analysis are two tools that can help you improve your strategy. You should now be familiar with both tools. Benchmarking is a method that can help you learn from other firms, while the balanced scorecard and the SWOT analysis methods can help you refine your strategy according to company strengths and weaknesses. Thereafter, the concept of central skills or core competences was introduced, followed by the issue of Knowledge Management. The next two subtopics dealt with the issue of leadership. The differences between management and leadership were presented , as well as ways to motivate your employees. Lastly you were presented with the main principles of the X-Y-Z theory of leadership.

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