



Management Tools 2003

An Executive's Guide

Darrell K. Rigby

BAIN & COMPANY

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Table of Contents

Preface	10
Activity-Based Management	12
Related Topics:	
• Activity-Based Costing (ABC)	
• Customer Profitability Analysis	
• Product Line Profitability	
Balanced Scorecard	14
Related Topics:	
• Management by Objectives (MBO)	
• Mission and Vision Statements	
• Pay-for-Performance	
• Strategic Balance Sheet	
Benchmarking	16
Related Topics:	
• Best Demonstrated Practices	
• Competitor Profiles	
Change Management Programs	18
Related Topics:	
• Cultural Transformation	
• Managing Innovation	
• Organizational Change	
• Process Redesign	
Contingency Planning	20
Related Topics:	
• Groupthink	
• Real Options Analysis	
• Scenario Planning	
• Simulation Models	
Core Competencies	22
Related Topics:	
• Core Capabilities	
• Key Success Factors	

Corporate Codes of Ethics 24
Related Topics:
• Corporate Values Statements
• Mission and Vision Statements

Corporate Venturing 26
Related Topics:
• Business Incubation
• Corporate Entrepreneurship
• Direct Investing

Customer Relationship Management 28
Related Topics:
• Collaborative Commerce
• Customer Retention
• Customer Segmentation
• Loyalty-Based Management

Customer Segmentation 30
Related Topics:
• Factor/Cluster Analysis
• Market Segmentation
• One-to-One Marketing

Customer Surveys 32
Related Topics:
• Customer Relationship Management
• Customer Retention
• Customer Satisfaction Measurement

Downsizing 34
Related Topics:
• Organizational Change
• Reengineering
• Rightsizing

Economic Value-Added Analysis 36
Related Topics:
• Discounted and Free Cash-Flow Analyses
• ROA, RONA, ROI Techniques
• Shareholder Value Analysis

Table of Contents *continued*

Growth Strategies	38
Related Topics:	
• Adjacency Expansion	
• Managing Innovation	
• Market Migration Analysis	
Knowledge Management	40
Related Topics:	
• Groupware	
• Intellectual Capital Management	
• Learning Organization	
• Managing Innovation	
Merger Integration Teams	42
Related Topics:	
• Mergers and Acquisitions	
• Strategic Alliances	
Mission and Vision Statements	44
Related Topics:	
• Corporate Values Statements	
• Cultural Transformation	
• Strategic Planning	
Outsourcing	46
Related Topics:	
• Collaborative Commerce	
• Core Capabilities	
• Strategic Alliances	
• Value Chain Analysis	
Pay-for-Performance	48
Related Topics:	
• Gain Sharing	
• Management by Objectives (MBO)	
• Performance Appraisals	
• Stock Option Plans	

Reengineering	50
Related Topics:	
• Cycle Time Reduction	
• Horizontal Organizations	
• Overhead Value Analysis	
• Process Redesign	
Stock Buybacks	52
Related Topics:	
• Share Repurchase Programs	
Strategic Alliances	54
Related Topics:	
• Corporate Venturing	
• Joint Ventures	
• Value-Managed Relationships	
• Virtual Organizations	
Strategic Planning	56
Related Topics:	
• Contingency Planning	
• Core Competencies	
• Mission and Vision Statements	
• Scenario Planning	
Supply Chain Integration	58
Related Topics:	
• Borderless Corporation	
• Collaborative Commerce	
• Value Chain Analysis	
• Virtual Organizations	
Total Quality Management	60
Related Topics:	
• Continuous Improvement	
• Malcolm Baldrige National Quality Award	
• Quality Assurance	
• Six Sigma	
Subject Index	62
Author Index	65

Preface

Over the past decade, executives have witnessed an explosion of management tools such as Supply Chain Integration, Knowledge Management, and the Balanced Scorecard. Demands of increasing competition in the global marketplace are driving the explosion, while accelerated, lower-cost delivery systems for ideas and information have enabled it. Today the sheer volume of ideas can overwhelm a management team.

As a result, executives must be increasingly sophisticated in their selection of tools. They must seize on the tools essential to increasing their company's performance and use such tools creatively to spur better business decisions. Improved decisions in turn lead to enhanced processes, products, and services that better allocate resources and serve customer needs. This creates competitive advantage, the key to superior performance and profits.

Each tool carries a set of strengths and weaknesses. Successful use of tools requires an understanding of both their effects and side effects, as well as an ability to creatively integrate the right tools, in the right way, at the right time. The secret is not in discovering one magic tool, but in learning which tools to use, how, and when.

In the absence of objective data, groundless hype makes choosing and using management tools a dangerous game of chance. In 1993, Bain & Company launched a multi-year research project to gather facts about the use and performance of management tools. Our objectives remain to provide managers with:

- an understanding of how their current application of these tools and subsequent results compare with those of other organizations across industries and around the globe.
- information they need to identify, select, implement, and integrate the right tools to improve their own company's performance.

Each year we interview senior managers and conduct literature searches to identify 25 of the most popular and pertinent management tools. We define the tools in this guide and conduct detailed surveys to examine managers' use of tools and success rates. We also conduct one-on-one follow-up interviews to further probe the circumstances under which tools are most likely to produce desired results.

The research to date has provided a number of important insights:

- Senior managers' overwhelming priority is to improve financial performance.
- Financial performance is driven by a company's ability to: 1) discover unmet customer opportunities, 2) build distinctive capabilities, 3) exploit competitive vulnerabilities, and 4) promote creative collaboration within and between organizations.
- Executives believe that management tools can improve their performance along these four dimensions.
- A correlation exists between financial performance and the way in which organizations use management tools.
- Overall, satisfaction with tools is mildly positive, but their rates of use, ease of implementation, effectiveness, strengths, and weaknesses vary widely.
- Managers have learned that no tool is a silver bullet.

Detailed results from the 2001 Management Tools survey are available at www.bain.com/bainweb/expertise/tools.

Our efforts at understanding the changes in tools being used by management have led us to add four new tools to this year's guide—Change Management Programs, Corporate Codes of Ethics, Downsizing and Stock Buybacks. While not one is a brand new tool to the business world, the use of each seems to be increasing in today's business environment.

We hope you will find this reference guide a useful tool in itself. The insights from this year's global survey and field interviews will be published separately, and survey results and additional copies of this guide may be purchased by calling or writing to:

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Activity-Based Management

Related Topics

- Activity-Based Costing (ABC)
- Customer Profitability Analysis
- Product Line Profitability

Description

Activity-Based Management (ABM) uses detailed economic analyses of important business activities to improve strategic and operational decisions. Activity-Based Management increases the accuracy of cost information by more precisely linking overhead and other indirect costs to products or customer segments. Traditional accounting systems distribute indirect costs using bases such as direct labor hours, machine hours, or material dollars. ABM tracks overhead and other indirect costs by activity, which can then be traced to products or customers.

Methodology

ABM systems can replace traditional accounting systems or operate as stand-alone supplements. They require a strong commitment from both top management and line employees in order to succeed. To build a system that will support ABM, companies should:

- Determine key activities performed;
- Determine cost drivers by activity;
- Group overhead and other indirect costs by activity using clearly identified cost drivers;
- Collect data on activity demands (by product and customer);
- Assign costs to products and customers (based on activity usage).

Common Uses

Companies use Activity-Based Management to:

Re-price products and optimize new product design. Managers can more accurately analyze product profitability by combining activity-based cost data with price information. This can result in the re-pricing or elimination of unprofitable products. This information also is used to accurately estimate new product costs. By understanding cost drivers managers can design new products more efficiently.

Selected References

Reduce costs. Activity-based costing identifies the components of overhead costs and the drivers of cost variability. Managers can reduce costs by decreasing the cost of an activity or the number of activities per unit.

Influence strategic and operational planning. Implications for action from an ABM study include target costing, performance measurement for continuous improvement, and resource allocation based on projected demand by product, customer, and facility. ABM can also assist a company in considering a new business opportunity or venture.

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Balanced Scorecard

Related Topics

- Management by Objectives (MBO)
- Mission and Vision Statements
- Pay-for-Performance
- Strategic Balance Sheet

Description

A Balanced Scorecard defines what management means by “performance” and measures whether management is achieving desired results. The Balanced Scorecard translates Mission and Vision Statements into a comprehensive set of objectives and performance measures that can be quantified and appraised. These measures typically include the following categories of performance:

- Financial performance (revenues, earnings, return on capital, cash flow);
- Customer value performance (market share, customer satisfaction measures, customer loyalty);
- Internal business process performance (productivity rates, quality measures, timeliness);
- Innovation performance (percent of revenue from new products, employee suggestions, rate of improvement index);
- Employee performance (morale, knowledge, turnover, use of best demonstrated practices).

Methodology

To construct and implement a Balanced Scorecard, managers should:

- Articulate the business’s vision and strategy;
- Identify the performance categories that best link the business’s vision and strategy to its results (e.g., financial performance, operations, innovation, employee performance);
- Establish objectives that support the business’s vision and strategy;
- Develop effective measures and meaningful standards, establishing both short-term milestones and long-term targets;
- Ensure company-wide acceptance of the measures;
- Create appropriate budgeting, tracking, communication, and reward systems;
- Collect and analyze performance data and compare actual results to desired performance;
- Take action to close unfavorable gaps.

Common Uses

A Balanced Scorecard is used to:

- Clarify or update a business's strategy;
- Link strategic objectives to long-term targets and annual budgets;
- Track the key elements of the business strategy;
- Incorporate strategic objectives into resource allocation processes;
- Facilitate organizational change;
- Compare performance of geographically diverse business units;
- Increase company-wide understanding of the corporate vision and strategy.

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Benchmarking

Related Topics

- Best Demonstrated Practices
- Competitor Profiles

Description

Benchmarking improves performance by identifying and applying best demonstrated practices to operations and sales. Managers compare the performance of their products or processes externally to those of competitors and best-in-class companies and internally to other operations within their own firms that perform similar activities. The objective of Benchmarking is to find examples of superior performance and to understand the processes and practices driving that performance. Companies then improve their performance by tailoring and incorporating these best practices into their own operations—not by imitating, but by innovating.

Methodology

Benchmarking involves the following steps:

- Select a product, service, or process to benchmark;
- Identify the key performance metrics;
- Choose companies or internal areas to benchmark;
- Collect data on performance and practices;
- Analyze the data and identify opportunities for improvement;
- Adapt and implement the best practices, setting reasonable goals and ensuring company-wide acceptance.

Common Uses

Companies use Benchmarking to:

Improve performance. Benchmarking identifies methods of improving operational efficiency and product design.

Understand relative cost position. Benchmarking reveals a company's relative cost position and identifies opportunities for improvement.

Gain strategic advantage. Benchmarking helps companies focus on capabilities critical to building strategic advantage.

Increase the rate of organizational learning. Benchmarking brings new ideas into the company and facilitates experience sharing.

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Change Management Programs

Related Topics

- Cultural Transformation
- Managing Innovation
- Organizational Change
- Process Redesign

Description

Change is a necessity for most companies if they are to grow and prosper. However, a recent study found that 70% of change programs fail. Change Management Programs are special processes executives deploy to infuse change initiatives into an organization. These programs involve devising change initiatives, generating organizational buy-in, and implementing the initiatives as seamlessly as possible. Even armed with the brightest ideas for change, managers can experience difficulty convincing others of the value of embracing new ways of thinking and operating. Executives must rally firm-wide support for their initiatives and create an environment where employees can efficiently drive the new ideas to fruition.

Methodology

Change Management Programs require managers to:

- *Focus on results, not process.* Maintain a goal-oriented mindset by establishing clear, non-negotiable goals and designing incentives to ensure these goals are met.
- *Identify and overcome barriers to change.* Anticipate reactions by identifying potential barriers to change and developing formal (organizational structures, incentive systems, etc.) and informal (personal persuasion, etc.) initiatives to overcome those barriers.
- *Repeatedly communicate a simple and powerful message to employees.* Any individual's first reaction to change will be one of doubt, and managers must work to overcome this initial obstacle. Change Management Programs should identify the key influencers within an organization and educate them about the change.
- *Create champions and change out senior managers who will inhibit change.* In most success stories, significant changes in senior management were required. For the broader employee base, involvement tends to increase support for change—employee participation in committees, town meetings or work-out sessions ameliorates the acceptance process.
- *Continuously monitor progress.* Take care to follow through and monitor the progress of change initiatives. Create and carefully track measurements of success to ensure a positive outcome.

Common Uses

Companies can use change management programs to:

- Implement major strategic initiatives to adapt to changes in markets, customer preferences, technologies, and the competition's strategic plans;
- Align and focus an organization when going through a major turnaround;
- Implement new process initiatives;
- Make internal improvements in the absence of external change.

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Contingency Planning

Related Topics

- Groupthink
- Real Options Analysis
- Scenario Planning
- Simulation Models

Description

Contingency Planning allows users to explore, and prepare for, the implications of several alternative futures. This avoids the dangers of single-point forecasts. By surfacing, challenging, and altering beliefs, managers can test their assumptions in a non-threatening environment. Having examined the full range of possible futures, the company can more rapidly modify its strategic direction as actual events unfold.

Methodology

The key steps in the Contingency Planning process are to:

- Determine the model's scope and time frame;
- Identify the current assumptions and mental models of the individuals who influence these decisions;
- Create divergent, yet plausible, scenarios with underlying assumptions of how the future might evolve;
- Test the impact of key variables in each scenario;
- Develop action plans based on either the solutions that play most robustly across scenarios, or the most desirable outcome toward which a company can direct its efforts;
- Monitor events as they unfold to test the corporate direction;
- Be prepared to modify it as required.

Common Uses

Through the use of the Contingency Planning methodology, a company can:

- Achieve a higher degree of organizational learning;
- Surface and challenge both implicit and widely held beliefs and assumptions about the business and its likely future;
- Identify key levers that can impact the company's future;
- Turn long-range planning into a vital, shared experience;
- Develop a distinctive, farsighted view of the future;
- Incorporate globalization and change management into strategic analysis;
- Establish plans to respond purposefully to changes in the environment.

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Core Competencies

Related Topics

- Core Capabilities
- Key Success Factors

Description

A Core Competency is a special skill or technology that creates unique customer value. A company's specialized capabilities are largely embodied in the collective knowledge of its people and the organizational procedures that shape the way employees interact. Over time, investments in facilities, people, and knowledge that strengthen Core Competencies can create sustainable sources of competitive advantage.

Methodology

A Core Competency should:

- Provide significant and appreciable value to customers relative to competitor offerings;
- Be difficult for competitors to imitate or procure in the market, thereby creating competitive barriers to entry;
- Enable a company to access a wide variety of unrelated markets by combining skills and technologies across traditional business units.

To develop Core Competencies a company must isolate its key abilities and hone these to embody the organization's unique strengths. By comparing itself to other companies with the same skills, a company can ensure that it is developing unique capabilities. Companies can also develop an understanding of what capabilities their customers truly value and invest accordingly to develop and sustain valued strengths. Such strengths need to be preserved even as management expands and redefines the business.

Common Uses

Core Competencies capture the collective learning in an organization. They can be used to:

- Design competitive positions and strategies that capitalize on corporate strengths;
- Create links across businesses and functional units;
- Integrate the use of technology in carrying out business processes;

Selected References

- Encourage communication and involvement and place a strong value on communicating across organizational boundaries;
- Make outsourcing, divestment, and partnering decisions;
- Spawn new business development opportunities;
- Make decisions about which new technologies or capabilities must be acquired.

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Corporate Codes of Ethics

Related Topics

- Corporate Values Statements
- Mission and Vision Statements

Description

As corporate conduct has come under increased scrutiny from shareholders and other stakeholders, the pressure to create exemplary codes of conduct has been growing. These codes seek to promote good conduct by setting a common standard for acceptable behavior. A Corporate Code of Ethics will define a company's core set of values and guiding principles. A code may be a short description of a company's overall mission and values, or it may be more detailed and describe, at length, the manner in which employees are expected to behave. Through the creation, promotion, and constant modification of a Corporate Code of Ethics, managers can actively manage a company's values in a similar fashion to how they manage other aspects of their business. Most importantly, by publicly displaying a firm's commitment to high standards of moral excellence, a Code of Ethics signals that the firm has a concrete and substantial commitment to ethical behavior.

Methodology

To be effective, a Code of Ethics should be written by senior managers in cooperation with Human Resources personnel. The creation of a Corporate Code of Ethics requires managers to:

- *Clearly identify and communicate the corporation's values and overall mission.* This requires gathering comprehensive input from managers, employees, and customers, identifying the proper level of specificity and detail for the Code of Ethics and drafting the Code in clear and definitive language easily understood by those inside and outside the firm;
- *Increase awareness and understanding of the code.* Senior managers should create ethics programs to introduce employees to the code and to facilitate common understanding of the importance and meaning of the code.
- *Ensure adherence to the code.* Most successful Codes of Ethics are enforced through the creation of a corporate ethics office, committee or taskforce. This individual or group is given responsibility for ensuring the code is adhered to, adjudicating possible ethical violations, and revising and updating the Code of Ethics if needed.

Common Uses

Companies use Corporate Codes of Ethics to:

- Establish and promote a framework for ethical behavior;
- Shape employee decision making and deter employees from acting unethically;
- Build customer and investor confidence;
- Provide better overall service and results for customers;
- Serve as a public relations tool.

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Corporate Venturing

Related Topics

- Business Incubation
- Corporate Entrepreneurship
- Direct Investing

Description

Corporate Venturing provides an alternative to traditional methods of growing a company. A company invests in new products or technologies by funding businesses that have a reasonably autonomous management team and separate human resource policies. The goals can be to develop products to expand the core business, to enter new industries or markets, or to develop “breakthrough technologies” that could substantially change the industry. Corporate Venturing can be done in one of four ways: by taking a passive, minority position in outside businesses (corporate venture capital), by taking an active interest in an outside company, by building a new business as a stand-alone unit, or by building a new business inside the existing firm with a structure allowing for management independence.

Methodology

Corporate ventures require managers to:

- *Establish strategic objectives.* Venturing requires companies to create and screen new ideas identified in-house. It is best used for long-term projects that develop knowledge key to the core business. Managers should evaluate ventures based on strategic needs and ensure that they fit with overall strategy.
- *Develop the correct approach.* Managers must then decide which method to use to pursue the new idea. Corporate venture capital, which provides access (through investments) to breakthrough technologies being investigated by start-ups, can be an effective prelude to a decision to acquire or build a stand-alone business. In some instances, however, firms will want to build the new business themselves to either lock in the value created or leverage close linkages with an existing part of the business;
- *Establish a team.* Once the approach is selected, a team can be created with the capabilities, resources, and sufficient independence to manage the program;
- *Create processes to monitor progress and incorporate knowledge.* Develop strict metrics and timetables to monitor the development process. In some instances, employ staged funding to ensure progress is on schedule. In all cases, look for means to transfer knowledge from the venture into the broader organization.

Common Uses

Corporate Venturing may be initiated to:

- Diversify;
- Foster relationships with companies key to a firm's growth;
- Access new technology, experts, and research;
- Build businesses adjacent to the core.

Business building may be initiated to:

- Strengthen the core business;
- Provide new avenues for growth, or build adjacent businesses;
- Enter new and emerging markets;
- Shorten development cycles;
- Motivate employees to take calculated risks.

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Customer Relationship Management

Related Topics

- Collaborative Commerce
- Customer Retention
- Customer Segmentation
- Loyalty-Based Management

Description

Customer Relationship Management (CRM) is the process companies use to understand their customer groups and to develop strategies to manage them in the most profitable way. CRM technology allows firms to manage large amounts of customer data and provides mechanisms for companies to carry out strategies based on the data. Data collected through CRM enables firms to differentially serve target segments by tailoring products to closely match customers' needs. CRM also provides data to educate employees, align their incentives, and position a company strategically to profit from evolving market needs.

Methodology

CRM requires managers to:

- *Start with an effective customer strategy and segmentation.* First, identify discrete and actionable groups of customers and understand the profitability of each group. Then custom-tailor products to deliver value to and build relationships with the most profitable customers.
- *Ensure that organizational alignment and employee incentives support the program.* Adopting a CRM system requires a large investment of time on the part of many front-line employees. Design incentive programs to ensure that sales and marketing personnel are encouraged to participate in the CRM program. Many companies have discovered that re-aligning the organization away from product groups and toward a customer-centered structure improves the success of CRM.
- *Select the appropriate technology platform.* Only after setting strategic goals and aligning the organization should firms select a technology to collect and monitor customer data. In doing so, they must make sure the technology is aligned with strategic goals and integrated across all functions.
- *Measure CRM progress and impact.* Aggressively monitor participation by key personnel in the CRM program. In addition, put measurement systems in place to track the improvement in customer profitability with the use of CRM. Once this data is collected, share it widely with employees to further encourage participation in the program.

Common Uses

Customer Relationship Management increases profits by:

- Improving customer retention;
- Offering differentiated products based on customer needs;
- Targeting customer acquisition and reward programs;
- Designing effective customer service programs;
- Developing one-to-one marketing campaigns.

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Customer Segmentation

Related Topics

- Factor/Cluster Analysis
- Market Segmentation
- One-to-One Marketing

Description

Customer Segmentation is the subdivision of a market into discrete customer groups that share similar characteristics. Customer Segmentation can be a powerful means to identify unmet customer needs. Companies that identify underserved segments can then outperform the competition by developing uniquely appealing products and services. Customer Segmentation is most effective when a company tailors offerings to segments that are the most profitable and serves them with distinct competitive advantages. This prioritization can help companies develop marketing campaigns and pricing strategies to extract maximum value from both high- and low- profit customers. company can use Customer Segmentation as the principal basis for allocating resources to product development, marketing, service, and delivery programs.

Methodology

Customer Segmentation requires managers to:

- Divide the market into meaningful and measurable segments according to customers' needs, their past behaviors or their demographic profiles;
- Determine the profit potential of each segment by analyzing the revenue and cost impacts of serving each segment;
- Target segments according to their profit potential and the company's ability to serve them in a proprietary way;
- Invest resources to tailor product, service, marketing, and distribution programs to match the needs of each target segment;
- Measure performance of each segment and adjust the segmentation approach over time as market conditions change decision making throughout the organization.

Common Uses

Companies can use Customer Segmentation to:

- Prioritize new product development efforts;
- Develop customized marketing programs;
- Choose specific product features;
- Establish appropriate service options;
- Design an optimal distribution strategy;
- Determine appropriate product pricing.

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Customer Surveys

Related Topics

- Customer Relationship Management
- Customer Retention
- Customer Satisfaction Measurement

Description

Customer Surveys help to determine customer requirements and identify better ways to anticipate and fulfill them. It is important for companies to collect input from customers and potential customers on a regular basis to prioritize their needs and understand how to successfully meet these needs. Through these actions companies can develop new products, improve their current product and service offerings and understand how to correctly price these offerings. Companies should use information from Customer Surveys to identify and eliminate the roadblocks to achieving desired levels of satisfaction and loyalty. Surveys can be used to target attractive customer segments and fulfill critical customer needs while increasing sales and building strong customer relationships. The overall goal of a customer survey should be to understand the most highly leveraged opportunities for improvement.

Methodology

Firms can use Customer Surveys to better align their capabilities and resources with customer wants and needs. To effectively use Customer Surveys:

- Interview current and potential customers to determine critical dimensions of performance;
- Actively solicit customer satisfaction feedback through written or online assessments, phone calls, focus groups, and on-site visits;
- Analyze the results of customer feedback to determine opportunities for improvement;
- Disseminate these results across the company;
- Design and implement changes to improve satisfaction levels and target unmet customer needs.

Common Uses

Managers use Customer Surveys on an ongoing basis to understand how well they are meeting customer needs. By gaining this understanding, companies are able to:

- Enhance product performance or develop new products;
- Improve service offerings;
- Develop optimal pricing strategies;

Selected References

- Target marketing efforts towards specific customer segments or towards specific customer preferences;
 - Improve brand equity.
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Downsizing

Related Topics

- Organizational Development
- Reengineering
- Rightsizing

Description

In the face of slowing or declining sales, companies often Downsize their employee base as a means of cutting costs to boost profitability. Throughout 2002, large and mid-size businesses laid off 2,000,000 workers (an average of 100 workers in approximately 20,000 separate events.)¹ Although Downsizing is effective for significant cost reduction, it often produces unintended side effects such as damaged employee morale, poor public relations and future rightsizing costs. Creative efforts to avoid Downsizing include hiring freezes, salary cuts or freezes, shortened workweeks, restricted overtime hours, unpaid vacations, and temporary plant closures. When Downsizing proves unavoidable, the ultimate goal should be to eliminate non-essential company resources while minimizing the negative impact upon the remaining organization.

Methodology

Downsizing can be an effective tool if used correctly. However, firms must be careful to avoid sending the wrong messages to employees, clients, shareholders, and the media. Successful Downsizing requires managers to:

- *Evaluate the overall impact of Downsizing.* To evaluate the total cost of downsizing, both financial and non-financial factors must be taken into account. Managers must calculate the present value of all costs and benefits associated with the cuts—including severance packages, lower employee productivity due to disorder or talent loss, eventual rehiring expenses and future rightsizing costs. The value created should exceed the effects of lower employee morale and the potential damage to the firm's reputation.
- *Develop a smooth Downsizing process.* It is crucial that managers aggressively invest in upfront planning of the job cuts. Firms typically form committees to determine the appropriate level of Downsizing and to create a process that takes into account the firm's and the shareholders' best interests. Other important activities are training managers how to conduct layoffs and assisting ex-employees in their job searches.

¹ US Department of Labor, Bureau of Labor Statistics, Mass Layoff Statistics.

Common Uses

- *Strengthen the remaining firm.* Communicate to remaining employees, clients, shareholders, and the media the extent of, and the reasoning for, the Downsizing. Additionally, take steps to ensure that remaining employees feel a sense of job security and have the training necessary to take on any new responsibilities resulting from the Downsizing.

Companies use downsizing to:

- Reduce costs;
- Rightsize resources in relation to market demand;
- Signal that the company is taking proactive steps to adjust to changing business needs;
- Take advantage of cost synergies after a merger;
- Release least productive resources.

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Economic Value-Added Analysis

Related Topics

- Discounted and Free Cash-Flow Analyses
- ROA, RONA, ROI Techniques
- Shareholder Value Analysis

Description

Economic Value-Added Analysis measures the value creation to shareholders by a company or business unit. The analysis measures a company's or business unit's ability to earn more than its total cost of capital. Economic Value-Added Analysis provides a framework for firms to assess options for increasing value to shareholders. The framework measures tradeoffs among reinvesting in existing businesses, investing in new businesses, and returning cash to stockholders. By making the cost of capital visible to executives, Economic Value-Added Analysis also focuses investment on projects in the best interests of shareholders and encourages managers to dispose of or improve underutilized assets.

Methodology

Economic Value-Added Analysis consists of three primary analyses. A manager should:

- *Determine the income generated by a business.* The first step is usually the most straightforward. A manager must first determine how much value is being created by a firm or business unit or will be created by a potential investment.
- *Estimate the return required by investors.* This calculation requires two inputs. First, identify the dollars invested in the firm or business unit. Then calculate the cost of capital. For some businesses one cost of capital is sufficient; however, if business units have vastly different situations or levels of risk, separate costs of capital may need to be calculated.
- *Determine the Economic Value-Added of each business.* Do this by subtracting the expected return to shareholders from the value created by the firm or business unit. Firms with positive Economic Value-Added generate profits above and beyond the level expected or required by shareholders.

Common Uses

Economic Value-Added Analysis is used not only to aid in one-time major decisions (such as acquisitions, large capital investments or division breakup values) but also to guide everyday decision making throughout the organization. Economic Value-Added Analysis can be used to:

Selected References

Assess the performance of the business or portfolio of businesses
Since Economic Value-Added Analysis accounts for the cost of capital used to invest in businesses and the cash flows generated by the businesses, it provides a clear understanding of value creation or degradation over time within each business unit. This information also can be linked to management compensation plans.

Test the hypotheses behind business plans

By understanding the fundamental drivers of value in each business, management can test assumptions used in the business plans. This provides a common framework to discuss the soundness of each plan.

Determine priorities to meet each business's full potential

This analysis illustrates which options have the greatest impact on value creation, relative to the investments and risks associated with each option. With these options clearly understood and priorities set, management has a foundation for developing a practical plan to implement change.

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Growth Strategies

Related Topics

- Adjacency Expansion
- Managing Innovation
- Market Migration Analysis

Description

Growth Strategies focus resources on seizing opportunities for profitable growth. Evidence suggests that profit grown through increasing revenues can boost stock price 25 to 100 percent higher than profit grown by reducing costs. Growth Strategies assert that profitable growth is the result of more than good luck—it can be actively targeted and managed. Growth Strategies alter a company's goals and business processes to challenge conventional wisdom, identify emerging trends, and build or acquire profitable new businesses adjacent to the core business. In some cases these strategies involve redefining the core. They typically require increased R&D investments, reallocation of resources, greater emphasis on recruiting and retaining extraordinary employees, additional incentives for innovation, and greater risk tolerance.

Methodology

Growth Strategies search for expansion opportunities through:

Internal (“organic”) growth, including:

- Greater share of the profit pool for existing products and services in existing markets and channels;
- New products and services;
- New markets and channels;
- Increased customer retention.

External growth (through alliances and acquisitions):

- In existing products, services, markets, and channels;
- In adjacent businesses surrounding the core;
- In noncore businesses.

Common Uses

Successful implementation of Growth Strategies requires managers to:

- Communicate the importance of growth;
- Strengthen the creation and circulation of new ideas;
- Screen and nurture profitable ventures effectively;
- Create capabilities that will differentiate the company in the marketplace of the future.

Selected References

Managers employ Growth Strategies to improve both the strategic and financial performance of a business. By strengthening and expanding the company's market position, Growth Strategies improve both top-line and bottom-line results. Growth Strategies also may be used to counteract (or avoid) the adverse effects of repeated downsizing and cost-cutting programs.

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Knowledge Management

Related Topics

- Groupware
- Intellectual Capital Management
- Learning Organization
- Managing Innovation

Description

Knowledge Management develops systems and processes to acquire and share intellectual assets. It increases the generation of useful, actionable, and meaningful information and seeks to increase both individual and team learning. In addition, it can maximize the value of an organization's intellectual base across diverse functions and disparate locations. Knowledge Management maintains that successful businesses are not a collection of products, but of distinctive knowledge bases. This intellectual capital is the key that will give the company a competitive advantage with its targeted customers. Knowledge Management seeks to accumulate intellectual capital that will create unique core competencies and lead to superior results.

Methodology

Knowledge Management requires managers to:

- Catalog and evaluate the organization's current knowledge base;
- Determine which competencies will be key to future success and what base of knowledge is needed to build a sustainable leadership position therein;
- Invest in systems and processes to accelerate the accumulation of knowledge;
- Assess the impact of such systems on leadership, culture, and hiring practices;
- Codify new knowledge and turn it into tools and information that will improve both product innovation and overall profitability.

Common Uses

Companies use Knowledge Management to:

- Improve the cost and quality of existing products or services;
- Strengthen and extend current competencies through intellectual asset management;
- Improve and accelerate the dissemination of knowledge throughout the organization;
- Apply new knowledge to improve behaviors;
- Encourage faster and even more profitable innovation of new products.

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Merger Integration Teams

Related Topics

- Mergers and Acquisitions
- Strategic Alliances

Description

A Merger Integration Team is a group of senior managers from two merged companies charged with delivering on sales and operating synergies identified during the deal's due diligence. The team's composition should represent both companies, and the team's role is critical: acquisitions most often fail because merged companies fail to successfully integrate. The Merger Integration Team should bring together champions with long-term prospects at the new company. The team doesn't do everything but does make sure that everything gets done; individual sub-teams perform the detailed integration work. Beyond driving the integration, the Merger Integration Team ensures that core line managers remain focused on running the base business.

Methodology

Establish Merger Integration Teams quickly (ideally before a deal closes), and set up an integrated organizational structure before the work of capturing synergies begins. To capture synergies, a Merger Integration Team should:

- Build the master schedule of what is to be done and when;
- Determine the required economic performance for the combined entity;
- Establish sub-teams to work out how each function and business unit will be combined (e.g., structure, job design, staffing levels, locations, downsizing);
- Focus the organization on meeting ongoing business commitments and operational performance targets throughout the integration process;
- Create an early warning system of performance measures to ensure that both the integration and base business stay on track;
- Monitor and expedite key decisions;
- Establish a rigorous communication campaign to aggressively and repeatedly support the integration roadmap, addressing internal and external constituencies.

Common Uses

Merger Integration Teams help companies:

Focus on key sources of value for the merged organization. An effective transition team can ensure the right integration decisions and tradeoffs are made to focus attention on underlying strategic issues. Rather than getting mired in details, the team focuses on key concerns such as drivers of long-term profit, performance targets, cost management, and competitive, product, and customer strategy.

Maintain performance of the base business. Allocating dedicated resources to the integration effort clarifies non-team-members' roles and enables day-to-day operations to continue at pre-merger intensity. As part of the integration process, the Merger Integration Team should develop and monitor a set of key performance measures that track underlying profit drivers. Such monitoring constitutes an early-warning system for unfavorable trends.

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Mission and Vision Statements

Related Topics

- Corporate Values Statements
- Cultural Transformation
- Strategic Planning

Description

A Mission Statement defines the company's business, its objectives, and its approach to reach those objectives. A Vision Statement describes the desired future position of the company. Elements of Mission and Vision Statements are often combined to provide a statement of the company's purposes, goals, and values. However, sometimes the two terms are used interchangeably.

Methodology

Typically, senior managers will write the company's overall Mission and Vision Statements. Other managers at different levels may write statements for their particular divisions or business units. The development process requires managers to:

- Clearly identify the corporate culture, values, strategy, and view of the future by interviewing employees, suppliers, and customers;
- Address the commitment the firm has to its key stakeholders, including customers, employees, shareholders, and communities;
- Ensure that the objectives are measurable, the approach is actionable, and the vision is achievable;
- Communicate the message in clear, simple, and precise language;
- Develop buy-in and support throughout the organization.

Common Uses

Mission and Vision Statements are commonly used to:

Internally

- Guide management's thinking on strategic issues, especially during times of significant change;
- Help define performance standards;
- Inspire employees to work more productively by providing focus and common goals;
- Guide employee decision making;
- Help establish a framework for ethical behavior.

Externally

- Enlist external support;
- Create closer linkages and better communication with customers, suppliers, and alliance partners;
- Serve as a public relations tool.

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Outsourcing

Related Topics

- Collaborative Commerce
- Core Capabilities
- Strategic Alliances
- Value Chain Analysis

Description

When Outsourcing, a company uses third parties to perform non-core business activities. Contracting third parties enables a company to focus its efforts on its core competencies. Many companies find that outsourcing reduces cost and improves performance of the activity. Third parties that specialize in an activity are likely to be lower cost and more effective, given their focus and scale. Through Outsourcing, a company can access the state of the art in all of its business activities without having to master each one internally.

Methodology

When outsourcing, take the following steps:

Determine whether the activity to outsource is a core competency. In most cases, it is unwise to outsource something that creates unique competitive advantage.

Evaluate the financial impact of outsourcing. Outsourcing likely offers cost advantages if a vendor can realize economies of scale. A complete financial analysis should include the impact of increased flexibility and productivity or decreased time-to-market.

Assess the non-financial costs and advantages of outsourcing. Managers will also want to qualitatively assess the benefits and risks of outsourcing. Benefits include the ability to leverage the outside expertise of a specialized outsourcer and the freeing up of resources devoted to non-core business activities. A key risk is the growing dependence a company might place on an outsourcer, thus limiting future flexibility.

Choose an outsourcing partner and contract the relationship. Candidates should be qualified and selected according to both their demonstrated effectiveness and their ability to work collaboratively. The contract should include clearly established performance guidelines and measures.

Common Uses

Companies use Outsourcing to:

- Reduce operating costs;
- Instill operational discipline;
- Increase manufacturing productivity and flexibility;
- Leverage the expertise and innovation of specialized firms;
- Encourage use of best demonstrated practices for internal activities;
- Avoid capital investment, particularly under uncertainty;
- Release resources—people, capital, and time—to focus on core competencies.

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Pay-for-Performance

Related Topics

- Gain Sharing
- Management by Objectives (MBO)
- Performance Appraisals
- Stock Option Plans

Description

Pay-for-Performance systems tie compensation directly to specific business goals and management objectives. These systems try to improve individual accountability, align shareholder, management, and employee interests, and enhance performance throughout the organization. To achieve the latter, they match measurable and controllable performance targets and appraisal mechanisms to corporate objectives.

Methodology

Pay-for-Performance systems consist of two components:

Performance measurement systems

For this tool to be effective, a system must be developed that ties a company's short- and long-term strategic objectives to its performance measures. These measures are classified into categories that focus employees on the most important activities. They include financial indicators (such as ROS, ROA and ROE) and non-financial indicators (such as customer retention, product quality, development speed and cost reduction). They also establish the importance of individual versus group performance. Group performance is measured at the team, facility, divisional, or corporate level. There are many permutations of performance systems that can be used; the optimum choice depends on the corporate culture, company strategy, and industry characteristics.

Compensation methods

In Pay-for-Performance systems, an employee's compensation is composed of a fixed base salary and a variable pay component. The most commonly used variable pay methods are:

- *Stock options*—distribution of rights to purchase a set number of shares of the company's stock at a given strike price;
- *Bonuses*—one-time cash awards for extraordinary accomplishments or other profit-related distributions;
- *Gain sharing*—distribution of a portion of profits to employees based on performance versus plan.

Common Uses

These systems are designed to retain top-performing employees, motivate the desired performance, and control costs. They can be applied to many levels within an organization, from executives to plant operators. Depending on the level of the employee within the company, different approaches are appropriate.

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Reengineering

Related Topics

- Cycle Time Reduction
- Horizontal Organizations
- Overhead Value Analysis
- Process Redesign

Description

Business Process Reengineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times, and quality. In Business Process Reengineering, companies start with a blank sheet of paper and rethink existing processes to deliver more value to the customer. They typically adopt a new value system that places increased emphasis on customer needs. Companies reduce organizational layers and eliminate unproductive activities in two key areas. First, they redesign functional organizations into cross-functional teams. Second, they use technology to improve data dissemination and decision making.

Methodology

Business Process Reengineering is a dramatic change initiative that contains five major steps. Managers should:

- Refocus company values on customer needs;
- Redesign core processes, often using information technology to enable improvements;
- Reorganize a business into cross-functional teams with end-to-end responsibility for a process;
- Rethink basic organizational and people issues;
- Improve business processes across the organization.

Common Uses

Companies use Business Process Reengineering to substantially improve performance on key processes that impact customers. Business Process Reengineering can:

Reduce cost and cycle time. Business Process Reengineering reduces cost and cycle times by eliminating unproductive activities and the employees who perform them. Reorganization by teams decreases the need for management layers, accelerates information flows, and eliminates the errors and rework caused by multiple hand offs.

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Improve quality. Business Process Reengineering improves quality by reducing the fragmentation of work and establishing clear ownership of processes. Workers gain responsibility for their output and can measure their performance based on prompt feedback.

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Stock Buybacks

Related Topics

- Share Repurchase Programs

Description

Companies typically use Stock Buybacks to reduce dilution of their earnings. When a company buys back its own shares, it reduces the amount of stock in circulation. Future profits then are spread across fewer shares, potentially increasing a company's earnings per share and the value of its stock. Firms implementing a Stock Buyback program repurchase, on average, 5% of outstanding shares through several avenues. While open market trades account for 90% of repurchases, occasionally a company sees benefits in using alternative methods. Private trades allow a firm to buy out unwanted shareholders, self-tenders provide a method for repurchasing larger amounts of stock, and accelerated purchases allow a firm to immediately recognize the financial impact of the program. If successful, Stock Buybacks provide a more tax-efficient method of profit distribution to shareholders, as capital gains are often taxed at lower rates than dividend income. Additionally, Buybacks are less binding to a company in the long run—they do not require SEC disclosure and can be scaled back under much less analyst scrutiny than a dividend reduction.

Methodology

In order to execute a Stock Buyback, a manager must:

- *Assess whether funds should be returned to shareholders.* Typical reasons for Buybacks include the existence of excess profits, a lack of other attractive investment options, a favorable cost of capital or the desire to signal that the stock is undervalued.
- *Determine that a Buyback is the correct method to return funds.* The advantages of Buybacks versus dividends include tax advantages for long-term shareholders and less analyst scrutiny.
- *Carry out the transaction in the most suitable manner.* Possibilities include an open market trade, a private trade, self-tender or an accelerated purchase.
- *Manage shareholder and investor opinions.* Companies executing Buybacks should take care to develop a coherent rationale that convinces interested parties in the merit of the Buyback program.

Common Uses

Companies use Stock Buybacks to:

- Build investor confidence and shareholder loyalty;
- Increase earnings per share and return on equity;
- Obtain company assets at bargain values;
- Boost share price by signaling that the stock is undervalued;
- Increase the company's debt-equity ratio through shifts in financing structure;
- Offset dilution effects that are caused by the exercising of employee stock options.

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Strategic Alliances

Related Topics

- Corporate Venturing
- Joint Ventures
- Value-Managed Relationships
- Virtual Organizations

Description

Strategic Alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form Strategic Alliances with a wide variety of players: customers, suppliers, competitors, universities or divisions of government. Through Strategic Alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills, and share the risk or cost of major development projects.

Methodology

To form a Strategic Alliance, companies should:

- Define their business vision and strategy in order to understand how an alliance fits their objectives;
- Evaluate and select potential partners based on the level of synergy and the ability of the firms to work together;
- Develop a working relationship and mutual recognition of opportunities with the prospective partner;
- Negotiate and implement a formal agreement that includes systems to monitor performance.

Common Uses

Strategic Alliances are formed to:

- Reduce costs through economies of scale or increased knowledge;
- Increase access to new technology;
- Inhibit competitors;
- Enter new markets;
- Reduce cycle time;
- Improve research and development efforts;
- Improve quality.

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Strategic Planning

Related Topics

- Contingency Planning
- Core Competencies
- Mission and Vision Statements
- Scenario Planning

Description

Strategic Planning is a comprehensive process for determining what a business should become and how it can best achieve that goal. It appraises the full potential of a business and explicitly links the business's objectives to the actions and resources required to achieve them. Strategic Planning offers a systematic process to ask and answer the most critical questions confronting a management team—especially large, irrevocable resource commitment decisions.

Methodology

A successful Strategic Planning process should:

- Describe the organization's mission, vision, and fundamental values;
- Target potential business arenas and explore each market for emerging threats and opportunities;
- Understand the current and future priorities of targeted customer segments;
- Analyze the company's strengths and weaknesses relative to competitors and determine which elements of the value chain the company should make versus buy;
- Identify and evaluate alternative strategies;
- Develop an advantageous business model that will profitably differentiate the company from its competitors;
- Define stakeholder expectations and establish clear and compelling objectives for the business;
- Prepare programs, policies, and plans to implement the strategy;
- Establish supportive organizational structures, decision processes, information and control systems, and hiring and training systems;
- Allocate resources to develop critical capabilities;
- Plan for and respond to contingencies or environmental changes;
- Monitor performance.

Common Uses

Strategic Planning processes are often implemented to:

- Change the direction and performance of a business;
- Encourage fact-based discussions of politically sensitive issues;
- Create a common framework for decision making in the organization;
- Set a proper context for budget decisions and performance evaluations;
- Train managers to develop better information to make better decisions;
- Increase confidence in the business's direction.

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Supply Chain Integration

Related Topics

- Borderless Corporation
- Collaborative Commerce
- Value Chain Analysis
- Virtual Organizations

Description

Supply Chain Integration synchronizes the efforts of all parties—suppliers, manufacturers, distributors, dealers, customers, etc.—involved in meeting a customer’s needs. The approach often relies on Internet technology to enable seamless exchanges of information, goods, and services across organizational boundaries. It forges much closer relationships among all links in the value chain in order to deliver the right products to the right places at the right times for the right costs. The goal is to establish such strong bonds of communication and trust among all parties that they can effectively function as one virtual corporation, fully aligned to streamline business processes and achieve total customer satisfaction.

Methodology

Companies typically implement Supply Chain Integration in four stages:

- Stage I seeks to increase the level of trust among vital links in the supply chain. Managers learn to treat former adversaries as valuable partners. This stage often leads to longer-term commitments with preferred partners.
- Stage II increases the exchange of information. It creates more accurate, up-to-date knowledge of demand forecasts, inventory levels, capacity utilization, production schedules, delivery dates, and other data that could help supply chain partners to improve performance.
- Stage III expands efforts to manage the supply chain as one overall process rather than dozens of independent functions. It leverages the core competencies of each player, automates information exchange, changes management processes and incentive systems, eliminates unproductive activities, improves forecasting, reduces inventory levels, cuts cycle times, and involves customers more deeply in the Supply Chain Integration process.
- Stage IV identifies and implements radical ideas to completely transform the supply chain and deliver customer value in unprecedented ways.

Common Uses

Recognizing that value is leaking out of the supply chain, but that only limited improvement can be achieved by any single company, managers turn to Supply Chain Integration to help them deliver products and services faster, better, and less expensively.

Supply Chain Integration capitalizes on many trends that are changing worldwide business practices, including just-in-time (JIT) inventories, electronic data interchange (EDI), outsourcing of non-core activities, supplier consolidation, and globalization. But it is really the Internet explosion that is making Supply Chain Integration feasible for companies of all sizes in almost all industries.

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Total Quality Management

Related Topics

- Continuous Improvement
- Malcolm Baldrige National Quality Award
- Quality Assurance
- Six Sigma

Description

Total Quality Management (TQM) is a systematic approach to quality improvement that marries product and service specifications to customer performance. TQM then aims to produce these specifications with zero defects. This creates a virtuous cycle of continuous improvement that boosts production, customer satisfaction, and profits.

Methodology

In order to succeed, TQM programs require managers to:

Assess customer requirements.

- Understand present and future customer needs;
- Design products and services that cost-effectively meet or exceed those needs.

Deliver quality.

- Identify the key problem areas in the process and work on them until they approach zero-defect levels;
- Train employees to use the new processes;
- Develop effective measures of product and service quality;
- Create incentives linked to quality goals;
- Promote a zero-defect philosophy across all activities;
- Encourage management to lead by example;
- Develop feedback mechanisms to ensure continuous improvement.

Common Uses

TQM improves profitability by focusing on quality improvement and addressing associated challenges within an organization. TQM can be used to:

- Increase productivity;
- Lower scrap and rework costs;
- Improve product reliability;
- Decrease time-to-market cycles;
- Decrease customer service problems;
- Increase competitive advantage.

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Subject Index

A

Activity-Based Costing (ABC)

See Activity-Based Management, 12

Activity-Based Management, 12

Adjacency Expansion

See Growth Strategies, 38

B

Balanced Scorecard, 14

Benchmarking, 16

Best Demonstrated Practices

See Benchmarking, 16

Borderless Corporation

See Supply Chain Integration, 58

Business Incubation

See Corporate Venturing, 26

C

Change Management Programs, 18

Collaborative Commerce

See Customer Relationship Management, 28

See Outsourcing, 46

See Supply Chain Integration, 58

Competitor Profiles

See Benchmarking, 16

Contingency Planning, 20

See Strategic Planning, 56

Continuous Improvement

See Total Quality Management, 60

Core Capabilities

See Core Competencies, 22

See Outsourcing, 46

Core Competencies, 22

See Strategic Planning, 56

Corporate Codes of Ethics, 24

Corporate Entrepreneurship

See Corporate Venturing, 26

Corporate Values Statements

See Corporate Codes of Ethics, 24

See Mission and Vision Statements, 44

Corporate Venturing, 26

See Strategic Alliances, 54

Cultural Transformation

See Change Management Programs, 18

See Mission and Vision Statements, 44

Customer Profitability Analysis

See Activity-Based Management, 12

Customer Relationship Management, 28

See Customer Surveys, 32

Customer Retention

See Customer Relationship Management, 28

See Customer Surveys, 32

Customer Satisfaction Measurement

See Customer Surveys, 32

Customer Segmentation, 30

See Customer Relationship Management, 28

Customer Surveys, 32

Cycle Time Reduction

See Reengineering, 50

D

Direct Investing

See Corporate Venturing, 26

Discounted and

Free Cash-Flow Analyses

See Economic Value-Added Analysis, 36

Downsizing, 34

E

Economic Value-Added Analysis, 36

F

Factor/Cluster Analysis

See Customer Segmentation, 30

G

Gain Sharing

See Pay-for-Performance, 48

Groupthink

See Contingency Planning, 20

Groupware

See Knowledge Management, 40

Growth Strategies, 38

H

Horizontal Organizations

See Reengineering, 50

I

Intellectual Capital Management

See Knowledge Management, 40

J

Joint Ventures

See Strategic Alliances, 54

K

Key Success Factors

See Core Competencies, 22

Knowledge Management, 40

L

Learning Organization

See Knowledge Management, 40

Loyalty-Based Management

See Customer Relationship Management, 28

M

Malcolm Baldrige National Quality Award

See Total Quality Management, 60

Management by Objectives (MBO)

See Balanced Scorecard, 14

See Pay-for-Performance, 48

Managing Innovation

See Change Management Programs, 18

See Growth Strategies, 38

See Knowledge Management, 40

Market Migration Analysis

See Growth Strategies, 38

Market Segmentation

See Customer Segmentation, 30

Merger Integration Teams, 42

Mergers and Acquisitions

See Merger Integration Teams, 42

Mission and Vision Statements, 44

See Balanced Scorecard, 14

See Corporate Codes of Ethics, 24

See Strategic Planning, 56

Subject Index *continued*

O

Organizational Change

See Change Management Programs, 18

See Downsizing, 34

One-to-One Marketing

See Customer Segmentation, 30

Outsourcing, 46

Overhead Value Analysis

See Reengineering, 50

P

Pay-for-Performance, 48

See Balanced Scorecard, 14

Performance Appraisals

See Pay-for-Performance, 48

Process Redesign

See Change Management Programs, 18

See Reengineering, 50

Product Line Profitability

See Activity-Based Management, 12

Q

Quality Assurance

See Total Quality Management, 60

R

Real Options Analysis

See Contingency Planning, 20

Reengineering, 50

See Downsizing, 34

Rightsizing

See Downsizing, 34

ROA, RONA, ROI Techniques

See Economic Value-Added Analysis, 36

S

Scenario Planning

See Contingency Planning, 20

See Strategic Planning, 56

Shareholder Value Analysis

See Economic Value-Added Analysis, 36

Share Repurchase Programs

See Stock Buybacks, 52

Simulation Models

See Contingency Planning, 20

Six Sigma

See Total Quality Management, 60

Stock Buybacks, 52

Stock Option Plans

See Pay-for-Performance, 48

Strategic Alliances, 54

See Merger Integration Teams, 42

See Outsourcing, 46

Strategic Balance Sheet

See Balanced Scorecard, 14

Strategic Planning, 56

See Mission and Vision Statements, 44

Supply Chain Integration, 58

T

Total Quality Management, 60

V

Value Chain Analysis

See Outsourcing, 46

See Supply Chain Integration, 58

Value-Managed Relationships

See Strategic Alliances, 54

Virtual Organizations

See Strategic Alliances, 54

See Supply Chain Integration, 58

Author Index

A

Abrahams, Jeffrey, 45
Alexander, Jim, 33
Alexander, Marcus, 57
Allen, James, 39
Amram, Martha, 39
Andersen, Arthur, 25
Andrews, Kenneth, 23, 25
Applehan, Wayne, 41
Armstrong, Arthur, 55
Armstrong, Michael, 49
Arthur, W. Brian, 39
Ashkenas, Ronald N., 43

B

Badaracco, Joseph L. Jr., 25, 55
Badrinath, Swaminathan, 53
Baird, Lloyd, 41
Baptista, João, 35
Barabba, Vincent P., 33
Barnes, James C., 21
Beer, Michael, 19
Behling, Orlando, 61
Berlet, Richard, 49
Besser, Jim, 31
Bhote, Keki R., 33
Birn, Robert, 33
Block, Zenas, 27
Bogan, Christopher E., 17
Bood, Robert, 21
Boone, Tonya, 59
Boxwell, Robert J., 17
Bragg, Steven M., 47
Brazas, M., 35
Brown, Duncan, 49
Buchanan, Robin W.T., 55

C

Camison, Cesar, 61
Camp, Robert C., 17
Campbell, Andrew, 15, 23, 57
Caplan, Gayle, 35
Carr, David K., 51

Carrol, John S., 19
Carter, Tony, 35
Cascio, Wayne F., 35
Cavanaugh, Roland, 61
Champy, James, 51
Charan, Ram, 39
Chesbrough, Henry, 27
Chingos, Peter T., 49
Choi, Thomas, 61
Christensen, Clayton M., 39
Clarkson, Russell, 43
Coers, Mardi, 17
Cohen, Morris A., 59
Cokins, Gary, 13
Collins, James C., 45
Collison, Chris, 41
Conger, Jay Alden, 19
Cooper, Kenneth Carlton, 29
Cooper, Robin, 13
Copeland, Tom, 37
Cortada, James W., 41
Cottell, Phillip G., 25
Cravens, Douglas, 49
Creech, Bill, 61
Cross, Rob, 41
Cull, Carl, 59
Czarnecki, Mark T., 17

D

Davenport, Thomas H., 41, 51
Davenport, Thomas O., 43
Davidow, William H., 33
Dell, Michael, 59
Deming, W. Edwards, 61
Dorf, Bob, 31
Doz, Yves L., 55
Drejer, Anders, 23
Drucker, Peter F., 57
Dube, Daniel, 13
Dyche, Jill, 29
Dyer, Jeffrey H., 55

Author Index *continued*

E

Eder, Mary Jane, 47
Ehrbar, El, 37
Eisenhardt, Kathleen, 57
English, Michael J., 17
Epstein, Marc, 15

F

Fahey, Liam, 21
Feigenbaum, Armand, 61
Ferling, Rhona, 53
Flannery, Thomas P., 49
Forrest, Edward, 13
Frame, J. Davidson, 51
Francis, Suzanne C., 43
Frazelle, Edward, 59
Fulmer, Robert M., 17

G

Galbraith, Jay, 57
Gale, Bradley T., 31, 61
Gardner, Chris, 17
Garvin, David A., 27
George, Michael, 61
Gertz, Dwight L., 35
Gibbs, Philip A., 17
Gibson, David G., 25
Godin, Seth, 31
Goldsmith, Marshall, 17
Goold, Michael, 57
Gorlin, Rena A., 25
Grant, James L., 37
Grant, Robert M., 61
Greaver, Maurice, 47
Grippio, Theodore, 53
Grossman, Wayne, 49
Grover, Varun, 51
Gustafsson, Anders, 33

H

Hafter, Matthew, 53
Hagel, John, III, 55
Hall, Brian, 49
Hall, Gene, 51
Hall, William D., 25
Hamel, Gary, 23, 39, 55, 57
Hammer, Michael, 51, 61
Hansen, Morten T., 41
Harder, Joseph, 47
Harrington, H. James, 17
Hatakenaka, Sachi, 19
Heifitz, Ronald A., 19
Heskett, James L., 29, 45
Hessan, Diane, 33
Hicks, Douglas T., 13
Higgins, Lisa, 17
Hill, Nigel, 33
Hilmer, Frederick G., 23
Hines, Peter, 59
Hirschborn, Larry, 19
Hofrichter, David A., 49
Hoisington, Steven H., 33
Hook, Jeff, 55
Horan, James T., 45
Horan, Jim, 45
Hoskisson, Robert E., 49
Hutchison, Dave, 53
Hutt, Michael D., 55

I

Imai, Masaaki, 61

J

Jackson, Sharon, 53
Janis, Irving L., 21
Jensen, Michael, 49
Johansson, Henry J., 51
Johnson, Michael D., 33
Johnson, Robert, 53
Jones, Patricia, 45
Jones, Wendell O., 47
Juran, J.M., 61

K

Kahaner, Larry, 45
Kahle, Kathleen M., 53
Kale, Prashant, 55
Kanter, Rosabeth M., 55
Kaplan, Robert S., 13, 15
Keen, Peter G.W., 51
Keil, Thomas, 27
Kerr, Steven, 49
Kleiner, Art, 19
Klepper, Robert, 47
Knight, James A., 37
Koller, Tim, 37
Kotler, Philip, 31
Kotter, John P., 19, 45
Kracher, Beverly, 53
Kuglin, Fred A., 55
Kumar, V., 31
Krishnan, R., 61

L

Lackey, Charles, 35
Lancourt, Joan, 19
Lajoux, Alexandra Reed, 43
Laughlin, Patrick, 31
Laurie, Donald L., 19, 27
Lawler, Edward E., III, 19
Lee, Dick, 29

Lee, Hau L., 59
Lencioni, Patrick M., 25
Leonard-Barton, Dorothy, 41
Levitt, Theodore, 31
Lewis, Jordan D., 55
Lorange, Peter, 55
Luehrman, Timothy A., 37

M

MacMillan, Ian C., 27
Malhotra, Manuj K., 51
Manzoni, Jean-François, 15
Marks, Mitchell, 35
Marshall, Jeffrey, 13
Mason, David H., 21
Mason, Heidi, 27
McDermott, Richard, 41
McQuarrie, Edward F., 33
Meyer, Christopher, 49
Milgate, Michael, 47
Mintzberg, Henry, 57
Mirvis, Philip H., 43
Mishra, Aneil K., 35
Mishra, Karen E., 35
Moffeit, Katherine, 53
Monster, Robert, 33
Morris, James R., 35
Morrison, David J., 39
Murphy, Patrick E., 25
Myers, James H., 31, 33

N

Nadler, David A., 19
Nadler, Mark B., 19
Nanus, Burt, 45
Naumann, Earl, 33
Nelson-Nesvig, Carleen, 47
Neuman, Robert, 61
Niven, Paul, 15

Author Index *continued*

Nohria, Nitin, 19, 41
Nonaka, Ikujiro, 41
Norton, David P., 15
Norton, Eric, 47

O

O'Hallaron, David, 45
O'Hallaron, Richard, 45
Ohmae, Kenichi, 57
Oliver, Joseph, 53
O'Reilly, Charles, 39
Oxman, Jeffrey, 49

P

Paine, Lynn Sharp, 25
Pande, Peter, 61
Parcell, Geoff, 41
Peppers, Don, 31
Perlin, Terry M., 25
Pettit, Justin, 53
Pettit, Raymond, 33
Platten, Paul, 49
Porras, Jerry I., 45
Porter, Michael E., 57
Postma, Theo, 21
Pralhalad, C.K., 23, 39, 57
Pritchett, Price, 43
Prusak, Laurence, 41
Pryor, Tom, 13

Q

Quinn, James Brian, 23, 41, 47
Quinn, Robert E., 19

R

Randall, Robert M., 21
Rangan, U. Srinivasa, 55
Rappaport, Alfred, 37
Raybourn, Cynthia, 17
Raynor, Michael A., 45
Rayport, Jeffrey, 59
Reichheld, Frederick F., 29
Reider, Rob, 17
Reider, Harry R., 17
Reinartz, Werner, 31
Reingen, Peter H., 55
Reputn, James, 53
Richter, Judith, 25
Rigby, Darrell, 29, 55
Ringland, Gill, 21
Roberts, Charlotte, 19
Robinson, Donald, 43
Rogers, Martha, 31
Rohner, Tim, 27
Roos, Johan, 55
Rosenthal, Jim, 51
Ross, Irwin, 37
Ross, Rick, 19
Roth, George, 19
Rothstein, Philip Jan, 21
Rubio, Janet, 31

S

Sandberg, Kirsten, 51
Sasser, W. Earl, Jr., 29
Schefter, Phil, 29
Schlesinger, Leonard A., 29
Schmenner, Roger, 35
Schoemaker, Paul J.H., 21, 23
Schriefer, Audrey, 21
Schwartz, Peter, 21
Schweiger, David M., 43

Senge, Peter M., 19, 41
Seybold, Patricia B., 29
Shani, Rami, 61
Shapiro, Carl, 57, 59
Sharma, Anurag, 27
Shiely, John S., 37
Singh, Harbir, 55
Slocum, Robert, 45
Slywotsky, Adrian J., 39
Smith, Bryan, 19
Smith, Douglas K., 19
Smith, Neil, 45
Snyder, William, 41
Sobol, Mark, 45
Sommers-Luch, Kathleen, 23
Spendolini, Michael J., 17
Spreitzer, Gretchen M., 19, 35
Stafford, Edwin R., 55
Stauffer, David, 47
Stern, Joel M., 37
Stewart, G. Bennett, 37
Stewart, Thomas A., 41
Stringer, Robert, 27
Sviokla, John, 59

T

Teal, Thomas, 29
Teese, Mary, 35
Tekeuchi, Hirotaka, 41
Tichy, Noel M., 39
Tierney, Thomas, 41
Tinkler, Michael, 13
Toffler, Barbara Ley, 25
Tregoe, Benjamin, 45
Trevino, Linda Klebb, 25
Tushman, Michael L., 39

U

Useem, Michael, 47
Uttal, Bro, 33

V

Vandermerwe, Sandra, 29
Varaiya, Nikhil, 53
Varian, Hal R., 57, 59
Van Der Heijden, Kees, 21
Vavra, Terry G., 33
Vollman, T., 35

W

Wack, Pierre, 21
Waddock, Sandra, 45
Wade, Judy, 51
Waite, Thomas J., 23
Walker, Beth A., 55
Wall, Bob, 45
Walton, Mary, 61
Watson, Gregory H., 17
Weaver, Gary R., 25
Wenger, Etienne, 41
Whiteley, Richard C., 33
Willen, Don, 59
Winer, Russell S., 29
Woods, John A., 41

Y

Yoshino, Michael Y., 55
Young, Clifford E., 35

Z

Zack, Michael H., 41
Zairi, Mohamed, 17
Zimmerman, John, 45
Zook, Chris, 23, 55

Notes

Notes

Notes

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