The Process-based View of A Company -
Principles and Applications

Grzegorz B. Gruchman, Ph.D.

Strategies and Competitive Advantage

Competitive Advantage. Probably every executive on Earth dreams about market leadership for his or her company that will last half of eternity or at least as long as his or her job lasts. But for most of them, it can only be a dream, because the number of companies known for their superior business performance is very small.

To be a leader, a company must have consistently better results than its competitors for a reasonably long period of time. Most experts agree that period to be at least a decade. But why do the leaders maintain their leadership positions for such an extended period of time? The answer is they have gained and sustained a competitive advantage over their rivals.

The concept of competitive advantage is elusive, and researchers are still trying to offer a clear definition. Most agree, however, that a company has a competitive advantage over others in the same industry, because it offers something valued by Customers that they cannot find in competing products or services. This is expressed by the so-called value proposition, a promise to deliver a particular set of values to Customers. Obviously, when Customers buy a product or a service, value accrues to the company as well.

Value Propositions. Within a given market segment, there are of course numerous companies offering essentially the same value propositions or similar ones, at least on the surface. Leaders however attract more Customers, because Customers perceive the value related to leader’s products or services as significantly greater than that of the competition. To put it slightly differently, leaders satisfy Customers’ expectations better than their competitors do.

Value propositions fall into three basic categories - best total cost, best product, and best total solution. Customers expect a different value in each case. To offer the best total cost, a company commits to a combination of low price, good quality, ease of purchase and good basic service. The best product proposition necessitates a continuous delivery of innovative products with an increasingly improved performance and better functional features. The best total solution places emphasis on excellent Customer relationships and on combining products with services to satisfy a Customer’s unique needs. Partnership and image are also extremely important in this case.

Sustainable Competitive Advantage. Competitive advantage is therefore based on continuous delivery of higher value to Customers. Unfortunately, a competitive advantage does not last forever, no matter how significant it may seem to be. Competitors are constantly seeking to improve their market position and are often only a few steps behind the market leader. To sustain their position, leaders must strive to maintain the value proposition that has given them their competitive advantage.

Customers can change their minds at any time for a variety of reasons. Therefore, to sustain their competitive advantage, leaders must anticipate changes in the market and must be poised to alter their structures and processes to accommodate those changes. Through alertness and flexibility, the leader must make the distance between it and its rivals impossible to overcome.

Strategic Focus. Leaders apparently do certain right things and do them right, while competitors are less successful in doing so. Comprehensive research reveals that above everything else, leaders define, communicate, refine and generally stick to a well-articulated, clear and focused strategy, based on a thorough understanding of target Customers’ expectations. Their value proposition is also based on realistic appraisal of product or service delivery potential.
Once selected, the value proposition is kept constantly in focus. and exceptional value is
delivered in its corresponding area, be it price, product features or Customer service. At the same
time, value has to be maintained on acceptable levels in other areas of Customer expectations. x
Low price must be accompanied by satisfactory quality. The most innovative products on the
market cannot have deterrent prices. A solution cannot be configured out of outdated, obsolete
products. Therefore, all value areas require attention, but in one particular area, embedded within
the selected value proposition, management’s attention must be doubled.

**Strategy execution.** Strategy defines market position and related value proposition. It is a great
but general idea where a company should go or stay. However, even the most brilliant strategy is
not worth much if it’s not well-executed. Similarly, flawless execution of a misguided strategy is
not worth much either. It is better to execute a good strategy well than to fail in implementation of
an excellent one. But that raises another set of questions.

- Why can’t competitors successfully imitate what the leaders do?
- Why are some companies able to execute a popular strategy better than others?
- Why are some companies able to pursue unique strategies unattainable by others?
- Why doesn’t the competitive advantage of some companies erode over time?

Few would disagree that a good strategy is necessary for success. Sound strategy as a first
condition to become a leader and a first step towards success is a given. Therefore, to discover
the secrets of a long lasting business performance, we must look beyond the obvious and peer
into the interior of a company.

In medieval times and later, alchemists looked for the Philosopher’s Stone, which would change a
base substance into pure gold. As we all know, it has not been found yet. The quest for origins of
business success has a shorter history, but it also did not reach a safe shore yet. There are many
diverse answers to the questions above, depending on who gives the advice. In fact, there are
too many answers and managers looking for guidance must inevitably feel an embarrassment of
riches. xi

The question of why some companies are more successful than others is at the center of
strategic management research. In general, two competing answers are offered, relating to the
sources of competitive advantage and superior business performance. They both explain the
reasons why some companies are doing better than the others, but here is where similarities end.
Some contend that successful companies do something differently or do something different from
other companies. This is what business process professionals were saying all along for quite
some time. But not everyone is convinced about that. Others say successful companies are
successful not because of what they are doing and how they are doing it, but because they have
something others do not. The first group of experts subscribe to the Activity-based View, the
other, to the Resource-based View of companies.
Activities and Competitive Advantage

The Activity-based View. Michael E. Porter developed the activity-based perspective as a supplement to his theory of competitive strategy. From the activity-based point of view, a company is perceived as a network of activities. Business success depends on what the company does and how it does it.

The basic building blocks of competitive advantage are activities, in much the same way as atoms are building blocks of all physical substances and bodies. A single activity is a discrete unit of work performed within a company, usually within one department or by one team, with a defined objective of its execution. Technologies, know-how and other similar factors are not explicitly taken into account.

From the activity-based point of view, competitive advantage is based either on lower costs or differentiation. The cost advantage is achieved, if a company performs the same activities more efficiently and generally better than competitors. In this case, the value added by activities allows a company to offer products or services of comparable quality at a price lower than its competitors. The differentiation advantage is achieved, if the company performs activities different from its competitors or performs the same activities in different ways. In that case, the value added by activities allows a company to offer unique products or services, possessing significant value for Customers, regardless of the price, within reasonable limits of course.

Core Activities. Activities can be classified in a variety of ways. The one advocated here is based on the different roles activities play as relates to value creation. Specifically, the activity based perspective distinguishes between core and background activities.

Core activities create current value for the company, that is, they are involved in the creation of current profit flows. Without core activities, a company would produce or deliver nothing. In a manufacturing company, core activities are involved in the actual transformation of inputs into outputs delivered to its Customers inside the company. Some of the core activities, such as Create Purchase Orders, deal with company's material inputs and aim at reducing costs. Other core activities, such as Issue Raw Materials and Components or Produce and Test Product, convert input flows into output flows, that is, they create products and thus generate most of the value for Customers. The remaining core activities, such as Enter and Validate Sales Orders, capture value for the company to realize the revenues from the outputs of production activities. Those activities aim at maximizing the revenue flows.

In a service company, core activities rely mostly on interactions with Customers, on handling their requests and on related information processing. For example, in a bank, such activities as Open Account for a New Customer, Check Customer Credibility, Issue Check Book and Distribute Account Statements are performed. In a hotel, Make Booking, Guest Check-in, Provide Room Service and Guest Check-out represent archetypes of corresponding activities.

Background Activities. The core activities are to a large degree industry specific. Activities such as Schedule Production and Manage Work-in-progress Inventory can be found in manufacturing companies, but not in the service sector. Conversely, one would not find banking activities, like Handle Overdrawn Account or Prepare Account Statements, in a manufacturing company.

The background activities are more generic and can be found in any company. Further, whereas core activities create value, background activities do not. In fact, they reduce current profit flows and value for the company, since their costs are not offset by revenue generation. Nevertheless, without background activities, a company would simply stop and go bankrupt sooner or later, no matter how good its activities.

One group of background activities includes the ones necessary to conduct the business, but which do not contribute directly to Customer value creation. Instead, they enable execution and continuous performance of other activities. Some background activities support the company as a whole and focus on its infrastructure and common resources, while others are associated with specific clusters of core activities. Examples of such background activities are the following:
Another group of background activities includes the ones directed at the creation of value for the company in the future and thus crucial to its long-term survival and growth. Their costs are absorbed in the present to preserve or increase value creation in the future. Activities required to design and develop new products or services, or activities required to develop company’s strategy and ensure its successful implementation exemplify this category. Examples of such background activities are:

- Research Customer Needs
- Generate New Product or Service Ideas
- Develop New Product or Service Specifications
- Analyze Competition
- Develop Strategic Initiatives

**Activity Drivers.** To facilitate analysis of activities and the implementation of low cost or differentiation strategy, Michael E. Porter introduced the famous Value Chain framework, as a generic classification template. Originally, it was to support activity decomposition down to the elementary level and the subsequent analysis of the competitive contribution each activity makes or can potentially make.\(^{xvii}\)

The costs or differentiation generated by an isolated activity depends on its drivers. Activity drivers are generic, structural factors, more or less under management control, which have an impact on the cost incurred or uniqueness embedded within an activity.\(^{xviii}\) Activity drivers represent abstract, relative or relational properties of activities, both in the context of the firm and in the context of its industry.\(^{xix}\)

Collectively, activity drivers explain why the whole activity set of a company generates less or more costs than its competitors, the same also applies to differentiation created by the whole activity system. The cost behavior and uniqueness of activities is influenced by essentially the same factors:

- Activity scale (volume)
- Improvements in ways activity is performed and in related know-how
- Links between activities (within the company and with its Suppliers/Customers)
- Activity sharing with business units within a company
- Vertical integration (in-house or outsourced)
- Geographic location of an activity
- Discretionary decisions reflecting strategy, on products, inputs, technology, human resource policies and the like (at the company and activity levels)\(^{xx}\)

**Activity Links.** Competitive advantage requires that there is a fit between each individual activity and the selected strategy. In general however, competitive advantage depends less on individual
activities, than on how the activities are combined to form the whole system, i.e., their relationship to one another. A competitive advantage grows out of the entire system of activities.

All core and background activities within a company are associated with and dependent on each other as a result of explicit and implicit links. For example, performance of a Customer support activity depends on the quality of products delivered to the Customer. The quality depends in turn on product quality control, as well as on production and supplier selection activities, among others. But quality also depends on the product design, the quality of raw materials, as well as on the skills and dedication of the employees involved in the production process. Employee performance in turn is the result of employment and quality policies, training activities and many peripheral but crucial activities related to teamwork and the organizational culture.

Inherent direct and indirect links enable activities to complement and reinforce one another. One activity's cost is lowered because of the way others are performed. One activity's value to Customers can be enhanced by a company's other activities. However, the highest level of fit is achieved when dependencies of activities are optimized, using coordination or information flows. Managing dependencies, i.e. links, between activities is a much more complicated skill than simply managing activities. It is a much more rewarding skill as well. While individual activities can reduce costs or increase differentiation, it is the fit between them that has the greatest overall impact. The fit is crucial to competitive advantage, but it is also crucial to the sustainability of this advantage. Competitors can replicate technologies or product features, but it would be very hard for them to recognize, understand and imitate the dependencies, coordination and management of linked activities.

The Bottom Line. In short, from the activity-based point of view, the performance of a company is determined by the configuration of activities and the fit among them. To put it in process-oriented way terms, the performance of a company depends on the way activities are performed, as well as on the organization and management of its processes.

Is the activity-based view right? Yes, its basic assumption on the overriding impact of activities on competitive advantage is supported by studies of successful companies. Companies with superior business performance successfully execute their strategies as a result of flawless operational execution of their activities. They consistently do what they have to do to deliver products or services to fulfill their value proposition. Depending on the selected strategy, the quality of their products or services is either exceptional or comparable, but never poor. Excellent or satisfactory Customer care is also always assured, largely as a result of empowering employees who deal with Customers. At the same time, the processes and activities related to the main value area are streamlined and continuously improved to lower costs and increase productivity.

Resources and Competitive Advantage

The Resource-based View. A company acquires various resources such as electricity, fuel, raw materials or even yellow pads from its environment. Such consumable resources are utilized in various ways as input flows to activities, but once utilized are gone. A company also obtains other resources, such as labor or capital goods from its environment. Unlike the consumable resources, these resources stay with the company permanently or for an extended period of time.

From the resource-based perspective, a company is perceived as a bundle of resident, stationary and strategically relevant resources. Put another way, it is perceived as a bundle of assets or factors necessary for the company to execute its strategy. From this perspective, the basic building blocks of a competitive advantage are strategically relevant resources owned, controlled or occupied by the company. Consequently, a company’s performance is determined by its ownership or control of the unique, strategically relevant resources needed to achieve its competitive advantage. Activities performed with the help of resident resources, are not explicitly taken into account.
The strategic relevance of resources depends on their properties. To enable companies to achieve a competitive advantage and ultimately, a superior business performance, resources must be valuable, rare, imperfectly imitable and non-substitutable. Valuable and rare resources create a competitive advantage. Resources that are difficult to imitate and non-substitutable create a sustained competitive advantage. Valuable properties can, however, change over time. Moreover, the same resource can be strategically relevant in one company, while in another would be treated as a commodity. Therefore, strategic resources have to be generally identified separately by each company. This does not preclude, of course, some resources becoming common success factors, as we shall see soon.

Tangibles and Intangibles. Resources are either tangible or intangible. Tangible resources are the easiest to identify— one has only to ask for a balance sheet. Tangible resources have physical properties, therefore can be seen, touched and measured. They are also fully owned and controlled by the company. They are recorded on the company’s financial statements as assets and include:

- Physical assets, such as buildings, equipment and real estate
- Financial assets, such as cash, equity, financial loans, marketable securities and company shares

Intangible resources are non-physical, elusive and can be neither seen nor touched. Further, they are either hard to measure or not measurable at all. Some are included on financial statements, but these are rare exceptions. There are also other differences between tangible and intangible resources. Tangible resources are more readily accessible and are generally categorized by experts as commodities nowadays. Conversely, intangible resources are difficult for competitors to obtain or duplicate. Seen in this light, intangibles are much more likely to facilitate superior business results than physical and financial assets.

Types of Intangibles. Intangible resources are grouped into human know-how, organizational and relational ones. Obviously, managers and employees have a physical form but they are neither owned nor fully controlled by the company. They are hired to deliver services to the company in return for salaries and perquisites. To be more precise, managers and employees are hired because they possess know-how, i.e. knowledge and skills, valuable for the company. Some of the know-how, such as communication skills, creativity, teamwork abilities or learning capacity, is generally applicable. Other know-how is job-specific, such as the knowledge and skills required to expertly operate particular equipment or software application. Managers can also possess experience and skills unique to the particular industry or market, like the capacity to sense market demand and Customer needs.

The second group of intangible resources is broad and diverse in scope. In general, this category consists of resources that provide an efficient structure for day-to-day operations and facilitate achievement of goals and objectives. They also help the company to protect and expand existing markets or create new market opportunities. Included in this category is data residing within the company’s files and databases. Codified knowledge on the company’s organizational structure and on its operational and management systems is another element in this category. Such knowledge usually resides within the company’s policy and procedure manuals, files and electronic repositories. The concept of organizational resources also includes intellectual property assets, legally owned by the company. Intellectual property includes patents, registered designs, trademarks and copyrights, as well as proprietary or held-in-secret technologies - if the company is lucky enough to have them.

Organizational culture is the final resource in this category. It is largely implicit, almost metaphysical and slow to change. While involving human beings, corporate culture is decidedly a
A particular capability refers to the capacity of an organization to perform a coordinated set of tasks, utilizing organizational resources, for the purpose of achieving a particular end result. Examined closely, capabilities are combinations of complementary skills and knowledge utilized to deliver anticipated results. In essence, capabilities constitute a collective know-how and are special resources in and of themselves. Specifically, they determine what the company can potentially do, not what it really does.

There are several types of capabilities, each with a distinctive role to play. Operational capabilities are required to produce products or deliver services and constitute a "must have" set of know-how. Put differently, operational capabilities are necessary for a company to exist. Mere existence on a market would be of course short-lived. Because the environment changes all the time, companies need to be flexible and adaptable to change.

To expand and to adapt to environmental change, companies need dynamic capabilities. Such capabilities enable a company to improve or extend its existing strategy, resource base and processes. They are used to improve a product, modify an existing application system, introduce a new department or open a new subsidiary, to name just a few examples. Different capabilities are needed to create new products, enter new markets, perform mergers and acquisitions, or transform a company from its bottom to its top. Such invaluable capabilities are used to gain or maintain a competitive advantage.

The Bottom Line. The array of factors that have a potential to significantly affect business performance is considerable. But how does it really look in practice? Is it really that some of the resources a company owns and controls contribute to, if not determine, its competitive advantage and market success?

Studies support the key role of resources, particularly intangible ones, in contributing substantially to a company’s success. Leaders have simplified and flexible organizational structures. It seems like it really does not matter what type of structure is used - functional, geographical, product-oriented or customer-oriented - as long as it facilitates work, instead of inhibiting it. Such a structure is first of all flat, to make vertical information flows short and thereby fast. Besides, the number of management levels is minimized.

As far as rules and procedures are concerned, such a structure is formalized to the least extent necessary. Interestingly, business performance is also supported by a horizontal exchange of information across organizational units and teamwork. Last but not least, a simplified structure is being maintained all the time, to avoid a yo-yo effect which apparently bedevils not only humans trying to lose weight, but companies as well.
Leaders also have a performance oriented organizational culture. Successful companies develop and cultivate a performance focused, action-oriented and risk-taking culture, which encourages teams and individuals to do their best. Naturally, focus on performance is but one of the necessary ingredients. A culture which promotes performance must be built around clear values that employees can easily embrace and that create a sense of identity. But values alone cannot perform miracles. The desired culture is developed, maintained and reinforced by a proper performance management and motivation system, with a balanced mix of financial and psychological rewards. Performance achievements are rewarded by salaries, bonuses, fringe benefits and sometimes shares, as well as by praise and other non-material rewards. In general, leaders nurture a culture that promotes high levels of individual and team performance.

Summary

Market leaders have superior business results due to competitive advantage. A company has a competitive advantage over its rivals, if it offers a product or service with more Customer value than anything else available on the market.

The essence of what Customers value most is captured in three value propositions - best total cost, best product and best total solution. Delivery of superior value is a must for a company to be a market leader, but that alone is not sufficient. A leader must also continue to deliver superior value for an extended period of time, despite ongoing efforts by competitors to replace them at the top.

There are two competing, albeit not necessarily contradictory, explanations for this phenomenon. From the activity-based perspective, leaders do something differently or different from competitors. Sustainable competitive advantage is based either on lower costs or differentiation and is a result of a unique activity system. In the first case, an activity system allows a company to produce at a lower cost than competitors, while maintaining average quality and prices. Such a company performs the same activities as competitors, but more efficiently and with better results. In the second case, an activity system allows a company to encourage its Customers to pay more, without a significant increase of its costs. Such a company performs different activities from its competitors, or performs the same activities in different ways.

The alternative explanation uses a resource-based perspective. It emphasizes a key role of resident, strategically relevant resources in obtaining and maintaining a competitive advantage. In other words, leaders have resources others do not. While physical and financial assets are important, the most valuable resources are intangible assets, such as human know-how, organizational structure and management systems, as well as organizational culture. Capabilities as a collective capacity to do something exceptionally well constitute another important source of a sustainable competitive advantage. Operational capabilities are required to produce products and deliver services. Dynamic capabilities, which represent a company’s collective know-how in adapting to change, are, in the final analysis, the most important in meeting the challenges of a competitive market place.

Actually, research of key long-term success factors supports both views. Successful companies select strategies based on a deep knowledge of Customers’ expectations and their own potential to meet them (see picture below). Subsequently, they focus on effective and efficient operational execution of the selected strategy and continuously introduce improvements in their processes. This insight is evidently compatible with the activity-based point of view. Brilliant execution is facilitated by a flexible and simplified organizational structure. It is also facilitated by a performance oriented organizational culture and management systems. This conclusion is also consistent with assumptions made by proponents of the resource based perspective.
Figure 1. Key factors for business success

To be continued …

References


ii To pinpoint and measure competitive advantage, industry averages are usually used. For example, Richard J. Arend states that a company has competitive advantage if some measure of the firm’s appropriation of economic rents, for example Return on Assets (RoA) is above the industry average. See Richard J. Arend, Tests of the resource-based view: do the empirics have any clothes?, Strategic Organization, Vol. 4, No. 4, 2006, pp. 409-421. Other researchers recommend profit or shareholder value indicators.


iv See Umit S. Bititci, Veronica Martinez, Pavel Albores and Joniarto Parung, Creating and managing value in collaborative networks, International Journal of Physical Distribution & Logistics Management, Vol. 34 No. 3/4, 2004, pp. 251-268. The value proposition is defined as “… an implicit promise a company makes to its customers to deliver a particular combination of values. Each proposition searches for a unique value that can be delivered to a chosen market.” See ibid.


viii There are many definitions of strategy, but the most pervasive and popular are the ones that treat strategy as a position or as a plan. For a given company, strategy as a position defines its customers and products or services offered and this definition is applied here. Strategy as a plan describes general actions to be taken in a certain direction and intermediate results on this way. See Henry Mintzberg, Bruce W. Ahlstrand, and Joseph Lampel, Strategy Safari: A Guided Tour Through The Wilds Of Strategic Management, Free Press, 2005.

ix William Joyce, Nitin Nohria and Bruce Roberson, What Really Works: The 4+2 Formula for Sustained Business Success, Collins 2007. The key success factors referenced in this paper are based on results of the Evergreen Project, begun in 1996 and ended in 2001. Exactly 160 companies were meticulously studied in 40 industries.

x See Michael Treacy, Fred Wiersema, ibid. See also Umit S. Bititci et. al., ibid.

xi See Julia Kirby, ibid, for a review of various guidelines, offered over a span of 20 years. For a review of results extracted from 91 studies, see also André A. de Waal, The characteristics of a high performance organization, Business Strategy Series, 2007/3, pp. 179-185.


xv The most widely known classification, introduced originally by Michael E. Porter, distinguishes between primary and support activities. However, in this case, strategic management activities also belong to support ones and that is not particularly comfortable. The concept of a background activity is more flexible and capacious. Activity classification used here is generally based on classification proposed by Cliff Bowman and Veronique Ambrosini, in: Firm value creation and levels of strategy, Management Decision, Vol. 45 No. 3, 2007, pp. 360-371.

xvi Cliff Bowman and Veronique Ambrosini, ibid.

xvii Value Chain was probably the first Enterprise Process Map, used now commonly at the first level of business process architectures. It must be stressed again however, that its original use was to facilitate hierarchical activity decomposition.

xviii Michael E. Porter, Competitive Advantage, ibid.
Cost drivers reduce activity cost by decreasing the cost of the inputs or reducing the amount of input required to produce the same output. On the other hand, differentiation drivers influence the customer’s willingness to pay by increasing the value of the product or related services. See T. Sheehan, Nicolai J. Foss, *ibid*.

See Michael E. Porter, *Competitive Advantage*, *ibid*. The ones specified here are the most relevant ones. The remaining activity drivers are (1) Institutional factors, such as government regulations, (2) Patterns of capacity utilization and (3) Timing (when a company began performing an activity). Obviously, the drivers work differently depending on context, their importance also changes, depending on whether a basic factor plays a role of a cost or differentiation driver. For example, activity scale is the top cost driver, while discretionary decisions on its configuration are the most important differentiation drivers.

The concepts of explicit and implicit links are not present in the original view. These concepts will be formally introduced later.


See William Joyce, et. al., *ibid*. Michael E. Porter also claims that continuous improvement in operational effectiveness is necessary to achieve superior profitability. However, it is usually not sufficient. See Michael E. Porter, *Competitive Advantage*, *ibid*.

As quoted from Birger Wernerfelt by John Mills, Ken Platts and Michael Bourne, “… a firm’s resources at a given time could be defined as those (tangible and intangible) assets which are tied semi-permanently to the firm”. See John Mills, Ken Platts and Michael Bourne, Applying resource-based theory - Methods, outcomes and utility for managers, International Journal of Operations & Production Management, Vol. 23 No. 2, 2003, pp. 148-166.

The Resource-based View (RBV) was developed as an antidote to competitive strategy theory developed by Michael E. Porter. The concept was introduced in 1984 by Birger Wernerfelt. It is the dominating contemporary theory in the strategic management arena and its extensions include the so-called Competence-based View (CBV), as well as Knowledge-based View (KBV). RBV does not distinguish between consumable and resident resources, since its focus is only on resources that are stationary. As we shall see however, this distinction will be very handy in integration of the two views.

Jay B. Barney and Delwyn N. Clark, *ibid*.

There are many ways to classify resources and it is a rich topic in itself. In the end, it matters not too much which one is used, if the basic factors are encompassed. The general classification of resources follows the one proposed by John Fahy and Alan Smithee, *ibid*. Detailed categories are based on Jeremy Thomas Galbreath, Determinants of Firm’s Success: A Resource-Based Analysis, Unpublished Ph.D. Thesis, Graduate School of Business, Curtin Business School, December 2004, http://adt.curtin.edu.au/theses/available/adt-WCU20041217.094215/unrestricted..

Organizational structure is understood here as ways in which work is organized and coordinated. This includes the operating and reporting structure of the company, including positions, roles and responsibilities, decision-making and authority, division of labor and the like. Operational and management systems are ways in which employees perform their day-to-day activities, as well as ways in which managers plan, organize motivate and control those activities. See Eric Flamholz, Wei Hua, Strategic Organizational Development and the Bottom Line: Further Empirical Evidence, European Management Journal Vol. 20, No. 1, 2002, pp. 72–81.

See Kim S. Cameron and Robert E. Quinn, *Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework*, Jossey Bass, 2006. Shared values refer to the importance the company attaches to quality of its products or services, customer satisfaction and treatment of employees. Beliefs are the ideas that the employees in the company hold about themselves and the company. The norms are the

xxx A popular classification of resources distinguishes between physical capital, human capital and organizational capital. It emphasizes the role resources play in future value creation. See Jay Barney, *ibid*.


xxxii Operational capabilities are usually conceptualized on several levels as a hierarchy. Elementary capabilities are located at the bottom, built directly on top of specialized, operation, task or activity-specific knowledge and skills of individuals, working together as a team. Higher level capabilities are also needed for cross-functional integration and coordination of lower-level capabilities during execution of processes, at run-time, so to speak. See Robert Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications*, Blackwell Publishers, 2002.


xxxiv See Sidney G. Winter, *ibid*.


xxxvi William Joyce, et. al., *ibid*.

xxxvii William Joyce, et. al., *ibid*.

xxxviii Apart from the four primary key success factors, Evergreen Project research results revealed also four additional, secondary ones. These are in-house talent growth, delivery of industry-transforming innovations, committed leaders and finally growth via mergers and partnerships. The trick is that leaders excelled at all four primary areas, as well as on any two of secondary ones. Hence, results of the Evergreen Project are labeled as *4+2 Formula for Success*. See William Joyce, et. al., *ibid*.

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**Author**

Grzegorz B. Gruchman is Managing Director, IDS Scheer Saudi Arabia and can be reached at grzegorz.gruchman@ids-scheer.com.

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