AGSM MBA Programs 2016

MNGT7491
STRATEGIC MANAGEMENT 1
DETECTING AND SELECTING BUSINESS OPPORTUNITIES

Session 1, 2016

AGSM @ UNSW Business School

Never Stand Still  Business School
We welcome ideas to improve these course materials. Please email suggestions to coursematerials@agsm.edu.au.
Introduction

The Strategic Management (SM) Year differs from the MBA (Executive) in a number of significant ways. In terms of the course materials you are not provided with weekly units of work as in the MBA (Executive). Rather you receive in the coursepack a selection of key readings with a brief introduction. You are expected to have read and reflected on these readings by the time you come to the residential. The reason for this approach to reading materials is that the problems of the general manager are typically different from, for example, the problems of an engineer, who can look into a textbook for a precise answer to the problem he or she faces in building, say, a bridge. Students in the SM Year are able to make sense of complicated and changing management problems independently. Frequently you will have to develop your own answers. This is why the readings are less directive than readings in the MBA (Executive).

In this section you will find a guide on ‘Working with the Course Material’. Next you will find advice on how to write a learning journal. In the final section we provide a guide for ‘Thinking and Writing in the Strategic Management Year’. Skills we are aiming for you to develop during the SM Year are communication skills (both written and oral). You will find this guide an invaluable help in crafting your written work. Our expectations of your ability to communicate effectively are higher in this part of the program, so it is important that you read this section, and focus on the development of these skills.

The following notes are aimed at supporting you in this new learning environment.

Please read this material before you move on to the individual readings.
SM1 Course Leader

Professor Peter Murmann

Peter has taught in the SMY for more than 10 years. As the Academic Director of the Strategic Management Year from 2006 to 2011, Peter Murmann led the development of the entire SMY. After taking on the course leadership of SM4 from 2010 to 2015, he has now returned to the course leadership of SM 1.

Before joining the AGSM in January 2006, he was on the faculty of Northwestern University’s Kellogg School of Management for eight years. In 2009, he was a visiting scholar at the Harvard Business School and he recently also served as Visiting Professor at the Wharton School, University of Pennsylvania, teaching strategy implementation.

Peter’s research is focused on the long-term development of firms and industries in different countries, investigating systematically how firms gain and lose competitive advantage. He conducted a comparative study of the early history of the synthetic dye industry, which was published by Cambridge University Press (2003) under the title Knowledge and Competitive Advantage: The Coevolution of Firms, Technology and National Institutions. The book won the Schumpeter prize and Kellogg School of Management Research prize. Peter is presently engaged in studying the evolution of service industries such as advertising and venture capital.

Born in Germany and raised in Austria, Peter completed his university studies in the U.S, receiving a BA in Philosophy from the University of California at Berkeley and then Masters and PhD degrees in Management and Organizations (1998) from Columbia University. He is a member of many scholarly societies and edits www.Economic-Evolution.net.

Peter periodically takes on consulting engagements in the for-profit (e.g. Boral) and not-for profit sectors (e.g. NSW Department of State and Regional Development).
# Pre-Residential Activities List

<table>
<thead>
<tr>
<th><strong>Strategic Management 1 – Pre-Residential Checklist</strong></th>
<th><strong>Done</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Read the overview and the appendices for Strategic Management 1 (Strategic Management 1 Course Material).</td>
<td>□</td>
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</tbody>
</table>
| 2. Check if you have been scheduled to present your Book Review during this Residential  
   1. You will find a Book Review allocation list on eLearning. If your book review is scheduled for this Residential, read the assessment instructions in your Course Materials carefully and prepare prior to residential.  
   2. Also study the guidelines, the example book review and the example book review videos on eLearning in the pre-residential activity section. | □ |
| 3. Read the instruction to each reading (in the ‘Strategic Management 1 (SM1) Materials’ section). We encourage you to complete all the readings, if you can but to benefit fully from the residential you need to have read at least the following readings before the residential:  
   1, 2, 3, 5, 6, 7, 8, 12 and 13.  
   Reading 13 is a case study of Dell which you need to have mastered in detail. | □ |
| 4. Complete the activities and reflection exercises for these readings. Some exercises will take some time and effort, for example for Reading 12 you are required to do a valuation of a fictional company. | □ |
| 5. Bring to Residential 1 a half-page written outline of the best of the five business ideas that you were asked to come up with as part of the activities for Reading 2. You will share this outline during the residential with other students. | □ |
| 6. Complete the self-assessment for Corporate Finance and Accounting & Finance. You will find these and the Refresher Course Material on eLearning under pre-residential activity section. | □ |
Web-based Support

In the SM we use an online environment called eLearning. We hope this online environment will stimulate the sharing of ideas and understandings around the content of this course.

All your assessment work (individual/group assessments, one-page outline and course evaluations) will be submitted through the eLearning website.

You will have access to introductory videos to the SM Year from the Academic Director and to the individual courses from the Course Leaders.

The eLearning website contains information about your Residential (e.g. timetable, book review allocation, pre-residential activities) as well as your course materials and Residential slides which will be posted online after each Residential.

The MBA (Executive) current students’ website (http://agsm.edu.au) also provides administrative and academic information. On this website you will find assessment and examination policies, the SM Year student handbook, confidentiality agreements, etc.

eLearning

To access eLearning@AGSM MBA, go to http://telt.unsw.edu.au and select Login to UNSW Moodle.

Login to the web Single Sign On (wSSO) using these details:

Username: zNumber
Password: zPass

Should you have any difficulties accessing your course online, please contact the eLearning support below:

For login issues

UNSW IT Service Centre

Hours: Monday to Friday: 8.00 am to 8.00 pm
Saturday and Sunday: 11.00 am to 2.00 pm

Email: ITServiceCentre@unsw.edu.au
Phone: Internal – x51333
      External – +61 2 9385 1333
For assistance in using Moodle, including how to upload assessments.

The AGSM eLearning Coordinator

Hours: Monday to Friday: 9.00 am to 5.00 pm
Email: elearning@agsm.edu.au
Phone: Internal – x19541
       External – 02 9931 9541
       International – +61 2 9931 9541

For help with technical issues and problems

External TELT Service Centre.

Hours: Monday to Friday: 7.30 am to 9.30 pm
       Saturday and Sunday: 8.30 am to 4.30 pm
Email: externalteltsupport@unsw.edu.au
Phone: Internal – x53331
       External – 02 9385 3331
       International – +61 2 9385 3331

AGSM MBA Programs contact details

Student Experience
If you have any administrative queries, they should be addressed to Student Experience.

Student Experience
AGSM MBA Programs
UNSW Business School
Sydney NSW 2052
Tel: +61 (02) 9931 9400
Fax: +61 (02) 9931 9205
Email: studentexperience@agsm.edu.au
Additional student resources and support

The University and the UNSW Business School provide a wide range of support services for students, including:

- **UNSW Business School – Education Development Unit (EDU) ([www.business.unsw.edu.au/edu](http://www.business.unsw.edu.au/edu))**
  Academic writing, study skills and maths support specifically for UNSW Business School, AGSM and MBT students. Services include workshops, online and printed resources, and individual consultations.
  EDU Office: Room GO7, Ground Floor, UNSW Business School Building (opposite Student Centre); Ph: 9385 5584; Email: edu@unsw.edu.au

- **UNSW Learning Centre ([www.lc.unsw.edu.au](http://www.lc.unsw.edu.au))**
  Academic skills support services, including workshops and resources, for all UNSW students. See website for details.

- **Library training and search support services**
  [http://info.library.unsw.edu.au](http://info.library.unsw.edu.au)

- **UNSW IT Service Desk** Technical support for problems logging in to websites, downloading documents etc. Library, Level 2; Ph: 9385 1333. Website [www.its.unsw.edu.au/support/support_home.html](http://www.its.unsw.edu.au/support/support_home.html)

- **UNSW Counselling Service ([www.counselling.unsw.edu.au](http://www.counselling.unsw.edu.au))**
  Free, confidential service for problems of a personal or academic nature; and workshops on study issues such as ‘Coping With Stress’ and ‘Procrastination’.
  Office: Level 2, Quadrangle East Wing; Ph: 9385 5418

- **Student Equity & Disabilities Unit ([http://www.studentequity.unsw.edu.au](http://www.studentequity.unsw.edu.au))** Advice regarding equity and diversity issues, and support for students who have a disability or disadvantage that interferes with their learning. Office: Ground Floor, John Goodsell Building; Ph: 9385 4734
### Course Structure

#### SM1 Calendar Dates Cohort A

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Activity</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>18 January</td>
<td>Pre-reading and eLearning orientation</td>
<td></td>
</tr>
<tr>
<td>Week 2</td>
<td>25 January</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 3</td>
<td>1 February</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 4</td>
<td>8 February</td>
<td>Residential 5 days (10 – 14 February)</td>
<td>Book review (10 – 14 February)</td>
</tr>
<tr>
<td>Week 5</td>
<td>15 February</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 6</td>
<td>22 February</td>
<td>Residential problem analysis paper (26 February – Friday)</td>
<td></td>
</tr>
<tr>
<td>Week 7</td>
<td>29 February</td>
<td>Strategy formulation outline on eLearning (Friday, week 7)</td>
<td>Review your team’s strategy formulation paper outline (weekend, week 7)</td>
</tr>
<tr>
<td>Week 8</td>
<td>7 March</td>
<td>Teleconference</td>
<td></td>
</tr>
<tr>
<td>Week 9</td>
<td>14 March</td>
<td>Written report on interview with a general manager or entrepreneur (15 March – Tuesday)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Peer feedback due (22 March)</td>
<td></td>
</tr>
<tr>
<td>Week 10</td>
<td>21 March</td>
<td>Strategy formulation paper (22 March – Tuesday)</td>
<td></td>
</tr>
</tbody>
</table>

All assessment submissions, unless otherwise stated, are via eLearning and due at 3pm EST on the due date.

*Australia Day holiday – Tuesday, 26 January 2016.*
## SM1 Calendar Dates Cohort B

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Activity</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>25 January</td>
<td>Pre-reading and eLearning orientation</td>
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</tr>
<tr>
<td>Week 2</td>
<td>1 February</td>
<td></td>
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</tr>
<tr>
<td>Week 3</td>
<td>8 February</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 4</td>
<td>15 February</td>
<td>Residential 5 days (16 – 20 February)</td>
<td>Book review (16 – 20 February)</td>
</tr>
<tr>
<td>Week 5</td>
<td>22 February</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Week 6</td>
<td>29 February</td>
<td>Residential problem analysis paper (4 March – Friday)</td>
<td></td>
</tr>
<tr>
<td>Week 7</td>
<td>7 March</td>
<td>Strategy formulation outline on eLearning (Friday, week 7)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Review your team’s strategy formulation paper outline (weekend, week 7)</td>
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<tr>
<td>Week 8</td>
<td>14 March</td>
<td>Teleconference</td>
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<tr>
<td>Week 9</td>
<td>21 March</td>
<td>Written report on interview with manager or entrepreneur (22 March –</td>
<td>Peer feedback due (29 March)</td>
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<td></td>
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<td>Tuesday)</td>
<td>Strategy formulation paper (29 March – Tuesday)</td>
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<tr>
<td>Week 10</td>
<td>28 March</td>
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</table>

All assessment submissions, unless otherwise stated, are via eLearning and due at 3pm EST on the due date.

*Australia Day holiday – Tuesday, 26 January 2016.*
Program Agenda

Goals

The SM Year is the capstone program of the MBA (Executive). It prepares you to become the general manager of a large established organisation as well as the leader of a small entrepreneurial start-up. General managers are responsible for formulating and implementing a strategy that will lead to success. To support this, the program develops skills to help you to respond to the fundamental issues of positioning an organisation within a dynamic environment and aligning it, both externally and internally, to generate value. Even if you do not become a general manager, you need to understand the issues they grapple with, not least so that you can frame enquiries in a way that will resonate with general managers and help you to secure the support you need to get your job done.

The design of the SM Year is organised around the general manager’s fundamental problems. Unlike heads of particular functions (R&D, production, sales, marketing, finance, etc.), general managers always need to consider an action’s implications for the entire organisation. For this reason, the SM Year seeks to develop holistic and integrative thinkers who are readily able to take a cross-functional perspective.

The program is structured on the organisational life cycle, including the start-up, growth, and decline phases. The response to a decline in performance will determine whether the organisation is rejuvenated or ceases to exist.

The SM Year is divided into four courses that reflect the different stages of the organisational life cycle.

- **Strategic Management 1**: Detecting and Selecting Business Opportunities (SM1)
- **Strategic Management 2**: Developing Business Opportunities (SM2)
- **Strategic Management 3**: Growing Businesses (SM3)
- **Strategic Management 4**: Transforming Businesses (SM4)
The following table provides an outline of these courses.

<table>
<thead>
<tr>
<th>Critical overarching question</th>
<th>SM1</th>
<th>SM2</th>
<th>SM3</th>
<th>SM4</th>
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</thead>
<tbody>
<tr>
<td><strong>How do I detect and select business opportunities?</strong></td>
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<tr>
<td><strong>How do I develop business opportunities?</strong></td>
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<tr>
<td><strong>How do I grow a business?</strong></td>
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<tr>
<td><strong>How do I transform a business?</strong></td>
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**Specific problems**

| How do I formulate a successful strategy? | How do I design the organisation to deliver the required capabilities? | | | |
| How do I position the organisation to compete? | How do I implement a growth option? | | | |
| How do I sell a business plan to potential investors? | How do I sell a growth plan to internal and external stakeholders? | | | |
| How do I evaluate the level of risks associated with a proposed business? | How do I evaluate and manage the risks associated with a proposed organisational architecture? | | | |
| How do I evaluate and manage the risks associated with a proposed growth option? | How do I evaluate and manage the risks associated with a proposed transformational change? | | | |

**Questions for the entire SM Year**

1. How do I evaluate my competencies as a general manager and how do I improve them?
2. How do I learn as a manager? How can I use the learning to be a better manager?
3. How do I learn about my team working skills and how do I improve them?

Throughout the SM Year you will be challenged and encouraged to develop critical skills for becoming an effective general manager, including:

- **Cognitive** skills required to diagnose current organisational performance and to develop recommendations for future action;
- **Communication** skills (both written and oral) required to influence others and persuade them of appropriate courses of action;
- **Self-reflective and action planning** skills required to assess and implement leadership development needs;
- **Team working** skills required to work effectively with others in making decisions and implementing strategies.
In addition, the SM Year will explore a set of themes across the four courses. These are:

- **Economic Logic Evaluation**: Is the economic logic of the proposed or existing venture compelling? How does the venture make money? In the case of a not-for-profit organisation, how does it achieve its objective? Can the business idea be converted into a strategic position that allows the organisation to create and capture value for the stakeholders? How can a strategy be changed to fund growth? What happens to the economic logic of a business when the environment changes radically?

- **Entrepreneurship**: How do the problems faced by the general manager of an established business differ from the problems faced by the entrepreneur? How would our approach to strategic management be different when dealing with the problems in a large existing organisation versus an entrepreneurial start-up?

- **Leadership**: What role do leaders play in building organisations that possess a sustainable competitive advantage? How do leaders engage people to make the right decisions and to take appropriate actions?

- **Decision Making**: What decision-making processes can be used to help make key decisions, for example, resource allocation, selecting business opportunities and new products, designing organisational systems?

**Key SM Year Concepts**

A successful entrepreneur or general manager is one who is able to implement. Implementation depends on good communication, which, in turn, depends on clarity. To help you create clarity in your strategic thinking, verbal communication and writing, this section is devoted to defining some of the key concepts used throughout the SM Year.

**Strategy**

In this program, ‘strategy’ means an integrated plan of how to achieve an organisation’s fundamental objective. At the highest level of generality, all organisations have a fundamental objective, whether it is clearly articulated or not. Managers then develop strategies to achieve this objective.

There is an argument that the fundamental objective of any listed, for-profit organisation is to make a profit for its shareholders. If it does not do so, it cannot survive. But this does not mean that all listed organisations have been created simply to generate the highest profits possible in their chosen industries. Many successful for-profit organisations have been created by a visionary founder to achieve their own personal goals. For example, Ingvar Kamprad founded IKEA with the explicit goal to ‘think creatively to
make innovative, affordable products’. This philosophy informs everything that IKEA does: the way it is organised, the type of people it employs, the way its products are designed and manufactured, etc. But this does not negate the fact that the founder’s vision could not have been achieved by a bankrupt organisation. To continue to survive and serve its customers, IKEA must make a profit.

Any fundamental objective will have multiple strategies that can be used to achieve it. As a result, a key task for general managers is to choose, among the many available strategies, the ones that will most likely succeed for their organisation. It is common for organisations to have the same or similar objectives, but to seek to achieve them in different ways.

In essence, a strategy is a statement about the means (how) of achieving the desired ends (fundamental objective). Working down from the top of an organisation, the strategies for achieving the fundamental objective become goals for the next level down, creating a hierarchy of goals and strategies. For example, a multidivisional corporation’s fundamental objective may be to provide satisfactory returns to shareholders. To achieve this it could, for example, have a strategy of owning only businesses that return greater than 18% on assets employed. This corporate strategy translates into a goal for the different business units, namely to achieve greater than 18% ROA. These business units then develop strategies they believe will enable them to achieve this goal.

The term ‘strategy’ was first used in the military literature that advised would-be generals. A strategy in that context is a statement about how to prevent an enemy from imposing his or her will on you. How do I win, how do I avoid defeat, how do I maintain the territorial integrity of our country, how do I maintain peace? To gain control is the fundamental objective. A general may decide that a strategy (the means) to defeat the opposing army is to send half of the troops to attack the enemy head on and the other half to attack the enemy from behind. This strategy statement (the means) becomes a goal (the end) for the lower-level commanders who have to implement the strategy. The commander, for example, who is to lead half of the troops around the enemy without being detected needs to come up with a lower-level strategy to do this (e.g. to move at night when it is dark). The even lower-level leader needs to examine the terrain for the best route and come up with a strategy for how his small team can work all night (e.g. have the exploratory platoon sleep during the day so they are alert and thus reduce the risk of detection). The danger is that the soldiers become so focused on what is a lower-level goal that they may lose sight of what is the fundamental objective of the military as a whole: to gain control.
In most organisations, there can be confusion between lower level sub-goals (e.g. launch a new product, hire quality people) and the fundamental objective. If you ask business leaders what the fundamental objective for the organisation is, more often than not they articulate a high-profile problem (e.g. reduce turnover of staff).

To do a strategic analysis, you need to help the business leader articulate the fundamental objective. In the above example, if you take them at their word and construe reduction of staff turnover as the fundamental objective, a recommendation of simply paying every staff member 300% more will solve the problem but also generate a response: ‘You are crazy, that would destroy the firm’s profitability!’ Now you have exposed what is probably the fundamental objective: to achieve high profits. If you had given every staff member a 300% rise you may have achieved the goal of reducing staff turnover, but you wouldn’t have achieved the fundamental objective of high profits. The choice of what product or service to sell, or how to manage staff, is a choice about the strategy (the means or the how) to achieve the fundamental objective.

It is always easier to develop a strategy if there is one fundamental objective, such as making a profit. However, entrepreneurs typically have more fundamental objectives than simply to make money. They generally want to be in a business that they find meaningful, as the example of IKEA’s founder illustrates. Whether you are starting a business or taking a job as a general manager, you need to determine for yourself what fundamental objective(s) you will pursue with the organisation and if you pursue multiple fundamental objectives, you have to decide the relative importance of each.
Corporate scandals such as the Enron fiasco have rekindled the debate about the role a public corporation should play in society and hence the fundamental objectives it should pursue. A view commonly associated with the Nobel Prize-winning economist Milton Friedman (1970) argues that the only social responsibility the corporation has is to increase its profits and serve its shareholders. At the other end of the spectrum, commentators argue that the fundamental objective of a corporation is to serve its employees, its customers, its suppliers and the societies it operates in. Shareholders are the least important stakeholders in this view. For example, when past CEO, Solomon Trujillo argued that Telstra should only make investments that benefit its shareholders, his view was clearly more aligned with that of Friedman.

In the residential of SM1 we will debate what the fundamental objective of a corporation should be and to what extent a general manager’s actions should be driven by notions of corporate social responsibility. But always keep in mind that strategy is not about the fundamental objective of the corporation. Strategy is choosing the best way to achieve the fundamental objective(s) of the organisation, whatever they may be.

At the business unit level, ‘strategy’ refers to how the unit will reach its overarching goals. Here the strategy will include statements about the market positioning, the economic logic underlying the venture, and the organisational strategy, namely how the organisation will be configured to deliver its market position in a way that will satisfy its owners or primary stakeholders. The organisational strategy involves the acquisition of key resources, the development of critical capabilities and the design of the organisational architecture that will support its activities.

A good strategy creates and captures value for the organisation. This is true for business organisations as well as not-for-profits. If an organisation fails to create and capture adequate value, it will not be able to afford the resources required to run the organisation.

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**Video:** What is strategy?
Congruence/Alignment

A central framework that will be used throughout the entire SM Year is the **Congruence Model**. The model suggests that organisations perform well – that is, they create and capture value – when (1) the positioning strategy of the organisation fits the environment in which it operates (**external fit**), and (2) every element of the organisational strategy is mutually consistent and fits the chosen positioning strategy (**internal fit**). Conversely, poor organisational performance results when the chosen positioning strategy does not fit the environment and/or the organisational strategy does not fit the chosen positioning strategy. You will use the Congruence Model to diagnose both poor performance and organisational problems, and to generate recommendations for how to solve those problems.

External Fit

The reason why organisations find it difficult to design a positioning strategy that is well adapted to the environment is that the environment is made up of many different factors that are often changing. The external environment includes everything that lies beyond the organisation’s boundary and can never be controlled fully by top management: the industry (composed of suppliers, customers, competitors, substitute products), the larger economy, governments, society, technology, and nature all are part of the external environment. Organisations need to adapt to the external environment if they want to be successful.

Starting in the 1990s, independent mortgage brokers such as Aussie Home Loans captured a large share of the Australian residential-mortgage market. Unlike traditional deposit banks, these companies obtained their capital by reselling their mortgage portfolios to international investors. In early 2008, this funding strategy became no longer viable because the crisis in the sub-prime market in the U.S. spread all over the globe. This crisis makes it virtually impossible to obtain capital by selling loan portfolios. Traditional banks, which obtain much of their capital from deposits, can now reclaim lost market share.

The above example illustrates that whether a positioning strategy leads to success or failure depends on environmental conditions. Changes in the environment require organisations to realign with the new conditions. Think about the financial challenges traditional newspapers are facing now that websites are attracting a larger share of advertising dollars, which were previously spent on print media. Traditional newspaper companies need to find new ways to make money.
So the organisation needs to design a positioning strategy that fits with the multiple environmental factors. Figure 1 illustrates this notion of fit. On the left-hand side, the positioning strategy (represented by a circle) does not fit with the environment, for example, as a mortgage broker’s reselling strategy is not aligned with new economic environmental conditions. On the right-hand side, the positioning strategy (represented by a diamond) does fit.

**Figure 1  Degree of Fit Between Positioning Strategy and Environment**

![Figure 1](image)

**Internal Fit**

Even if an organisation has an excellent positioning strategy that fits the external environment, it will not be able to leverage this unless its organisational strategy is aligned with its position. Part of the organisational strategy is the **architecture** used to manage the organisation’s resources.

Anyone who has ever tried to create or change an organisation realises that organisations are complex entities made up of many elements that need to be designed appropriately to create and capture value from delivering a product or service. Together they make up the organisation’s architecture. Throughout the SM Year we will use the following labels for the major components of an organisational architecture:

- Structure
- People
- Systems
- Culture
- Leadership.
**Structure:** The division of labour, the assignment of roles and responsibilities, and the informal networks within the organisation. Formal organisational structures group individuals into units with a shared common purpose, for example, by function, geography or customer. Informal structures also emerge, making individuals form patterns of association that are not captured by the organisation chart. Social networks and shared interest groups are examples of such informal structures. Organisational structures attempt to differentiate groups from one another so that responsibilities are clear and resources can be assigned. They also attempt to integrate groups to achieve coordinated action and informed decision-making. Common integration mechanisms are dotted-line reporting, cross-functional task forces, job rotation and information transfer. Some organisations have very clear boundaries between differentiated units, while others have extensive interactions and porous unit boundaries. Organisational structures also determine where decisions are made (whether centrally or dispersed), and who has decision rights over what.

**People:** The skills, attitudes, and personal goals of the organisational workforce. These characteristics determine the organisation’s ability to implement key tasks and achieve organisational objectives. For example, staff may have technical or professional expertise, they may be diverse in culture, age and gender, and they may have skills in many different areas (e.g. creativity, entrepreneurship, customer service, critical thinking). The goals of employees might include long tenure, personal development, job satisfaction or financial reward. Employees are selected, developed, protected and allocated using organisational systems (defined in the next paragraph) and structures.

**Systems:** The collection of activities that include targets, measures, policies and standard operating procedures. Organisational systems guide behaviour and decision-making in the organisation by providing direction and incentive. These systems require staff members to follow routines and procedures, and to meet budgets, plans and targets. These plans and targets are not necessarily financial; they also include targets around customer service and retention, quality, employee satisfaction and organisational processes. Staff are incentivised to act appropriately through rewards, recognition and opportunities. Managers use systems to monitor performance and processes, to diagnose organisational problems, and to discuss business plans and operational procedures. Information technology is an effective way of communicating targets and policies, gathering information on measures, and analysing data to inform decision-making.
Culture: The pattern of values, expectations, norms and rules that are shared by the members of an organisation or business unit. Values reflect beliefs about what is important for individuals and the organisation. Norms are the widely shared and strongly held social expectations about appropriate attitudes and behaviour. Compliance with the norm is seen as right and appropriate, and non-compliance is penalised in some way, and so individuals refer to norms in determining their work behaviours. Often seen as the ‘social glue that binds the organisation together’, corporate culture explains why and how people work together. Organisations with widely shared norms show great consistency in attitudes and behaviours. However, there are often differences between the espoused values and norms, and the enacted values and norms. These differences create weaker cultures and manifest in uncoordinated behaviours and decisions.

Leadership: The characteristics and activities of key managers. Organisational leaders ‘set the scene’ for staff and stimulate action through the things they say and do, and the things they pay attention to. The stories leaders tell inform staff about what is important to the organisation, and the things leaders do demonstrate what is important. Leaders control behaviour in different ways: some leaders are directive, some empowering, some consultative and some laissez-faire. Leadership is distributed throughout the organisation, that is, not only those at the very top influence action and guide behaviour. Followers pay close attention not only to the words, but also to the behaviour of leaders, to get an understanding of what leaders expect. Maintaining a consistency between words and actions is one of the great challenges of leadership.

It is important to keep in mind that these elements of organisational architecture are interdependent. The structure of the organisation has some impact on culture, organisational systems influence the way people are managed, the characteristics and preferences of key leaders often shape the structure of the organisation, and so on. For example, organisations with many hierarchical layers tend to have cultures characterised by high power-distance and formality. As another example, the way people are selected is a function of the selection system. That system also contributes to the composition of people within the organisation. The messages candidates receive when being recruited exhibit the values and norms of the corporate culture. The second key idea of the Congruence Model is that organisations perform well when each element of the organisational architecture fits the chosen positioning strategy and when each element fits with other elements. The report on Sydney Ferries (30 October 2006) is a good example of an organisation with internal architectural elements (systems, structure, culture, staff, leadership) that do not fit with a positioning strategy of safety.
Staff churn blamed for ferry crashes

Jordan Baker
Transport Reporter

A high turnover of executives, and front-line workers who thought Sydney Ferries could run itself, contributed to a string of collisions involving Manly ferries last year, a report has found.

The Office of Transport Safety Investigations says human error was behind six of 11 collisions involving the Freshwater class ferries in 12 months – including several in which boats crashed into wharves.

The report, published yesterday, says organisational problems, such as inadequate maintenance and training and poor communication, led to many of the factors behind the collisions.

The assistant minister for Transport, Eric Roozendaal, said the number of crashes was unacceptable but Sydney Ferries had taken big steps towards improving safety and training. “Safety is our highest priority,” he said.

However, the report warns: “Despite a number of reviews and reports, Sydney Ferries has experienced difficulty in implementing a comprehensive program of safety remediation.”

Investigators found that high turnover in senior management ranks had hampered the management of daily operations and the ability to bring about change in the organisation. Sydney Ferries has had 11 chief executives in 15 years, four operations general managers in two years, six engineering general managers in six years and three chief finance officers in a year.

The present chief executive, Rear Admiral Geoff Smith, is the third this year. The first, Sue Sinclair, resigned after a series of breakdowns, maintenance problems and accidents.

The report says the workforce is highly unionised, with eight unions looking after 600 employees. However, unions said any suggestion that membership affected safety measures was offensive.

Sydney Ferries was found to be harried by employees – many of them third-generation – who were attached to the status quo and had “a firmly held opinion” that the company could run itself.

“This opinion has been reinforced by the continual change of senior managers,” the report says. “It manifests itself in a lack of regard for formal procedures and has complicated the management of change.”

Maintenance was also “suboptimal”, the report says, with immature and inadequate processes, often incomplete documentation and poor monitoring of work and performance.

Crew resource management was below best practice and had been affected by inadequate training, poor communication procedures, ill-defined roles and rostering problems.

Mr Roozendaal said the report noted there had been no collisions in the past 11 months. “This shows that the changes to practices at Sydney Ferries … have been taking effect,” he said.

The Opposition transport spokesman, Barry O’Farrell, said he was not convinced that ferries were safe and called on the Government to ensure there was enough money to tackle safety concerns.

“Having the assistant minister – the equivalent of the ministerial water boy – give such an assurance after we’ve had full-time ministers in the past who have not delivered … fills me with no confidence at all,” he said. “Until Labor starts to address the systemic problems plaguing Sydney Ferries, commuters will continue to be put at risk and endure an unsafe public transport system.”
This lack of internal fit is illustrated in Figure 2. The positioning strategy (diamond shape) of safety fits with Sydney Ferries’ environmental factors, but the elements of organisational architecture do not fit with this positioning strategy.

Figure 2 Lack of Internal Fit

Alternatively, an organisation may have good internal fit between the architectural elements, but the organisational strategy might not be appropriate for a given positioning strategy. For example, when Qantas wanted to position a low-fare airline-travel product in the marketplace to compete with its new rival Virgin Blue, it realised that its existing organisational architecture was designed to deliver a premium-service product. Qantas’s existing organisational architecture (particularly its systems, people and labour relations) was not congruent with a low-fare product offering (illustrated by the image on the left of Figure 3), so Qantas decided to set up a separate organisation, JetStar, whose organisational architecture could be designed to deliver a low-fare product profitably (illustrated by the image on the right of Figure 3).

Figure 3 Internally fit organisational architectures with different degrees of fit with environment
The challenge for the entrepreneur and general manager is not simply to design a strategy for positioning a product or service that can be successful (this is the focus of SMI), but also to develop the organisational capabilities to implement the positioning strategy (this is the focus of SM2). The second challenge is to design an appropriate organisational architecture and obtain the key resources to run the organisation. Financiers and potential employees are much more willing to join an organisation if they are convinced that the positioning strategy is likely to work and if the general manager or entrepreneur has developed a compelling organisational strategy for implementing the business idea.

When the external environment changes, the positioning has to be redefined to maintain external fit. It is almost certain that the organisational strategy will have to change also to maintain internal fit. The concept of fit is a dynamic one and different strategies will be appropriate at different stages of the organisation’s life cycle.

Life Cycle of the Organisation

One of the hard facts of business is that most start-ups fail. Studies have shown time and again that the failure rate across different industries lies between 50 and 90 per cent (Liss 2000). Most ventures fail within the first five years. If an organisation lives for decades, you are witnessing – given the odds of failure – a genuine success story. Entrepreneurs who have created successful organisations time and again emphasise the difficulty in getting someone to pay for a new product or service. Potential customers tell market researchers that they would like to have product X, but when it comes on the market they don’t buy it. Financiers know that most business ideas don’t work, and therefore require a convincing business plan to open their wallets. An entrepreneur or a general manager faces different challenges in the different phases of the organisational life cycle: Start-up, Growth and Decline.

Start-up: To improve the odds that the business idea will be successful, the entrepreneur or the intrapreneur (if the person is a general manager on the payroll of an existing organisation) needs to do a systematic analysis of the market and the proposed product or service to establish that the venture will create and capture value. An entrepreneur needs to sell a business plan to potential investors. The ‘bar’ professional investors place on funding a business plan is a lot higher than that which family members (who finance most new start-ups) would place. But even family members need to be convinced there is some hope that the venture will eventually make money. For intrapreneurs, obtaining the resources necessary to launch a new business is often a lot easier than for entrepreneurs.
Intrapreneurs, however, need to convince other members of the organisation that launching a new product, process or service is in the organisation’s best interests. Intrapreneurs are often unsuccessful in this quest and are forced to leave their firms and become entrepreneurs to pursue the rejected business idea. A famous case in point is Gordon E. Moore (a chemist and physicist) and Robert Noyce (a physicist and co-inventor of the integrated circuit) who worked at Fairchild Semiconductor and formed Intel when Fairchild did not want to commercialise integrated circuits. SM1: Detecting and Selecting Business Opportunities, focuses on how entrepreneurs and intrapreneurs can detect and select good business opportunities and reject unpromising ones.

The second phase of the start-up process is covered in SM2: Developing Business Opportunities. Entrepreneurs need to design the beginnings of the organisational architecture (see above) to implement the business idea. Small start-ups with only a few people don’t require elaborate formal structures. But the founding team needs to specify a rudimentary division of labour and lay out formal systems to move the venture forward. Either by design or by default, any new organisation will acquire a culture and the founder(s) will have a leadership style that may or may not be suitable for a particular positioning strategy.

Growth: SM3: Growing Businesses, will be devoted to all the different growth options available to the general manager, ranging from organic growth through innovation, geographic expansion, and diversification as well as mergers and acquisition. While SM1: Detecting and Selecting Business Opportunities, and SM2: Developing Business Opportunities, will focus on a single business, SM3: Growing Business, will focus on running different businesses under the same corporate hierarchy. Corporate-level strategy poses opportunities and challenges for the general manager that are not encountered in business-level strategy.

Large organisations such as Wesfarmers are diversified and compete in several (sometimes quite unrelated) environments. In SM3, the central questions faced by corporate strategists are: ‘Where should we compete; that is, what specific business activities should we be involved in?’ Since the fundamental goal of strategy-making is to create and capture value, we need to ask: ‘How does corporate HQ add value to a particular business to justify that the corporation should own the business rather than letting the business operate as an independent entity?’

If you want everyone to know and talk to everyone else in the organisation, n(n – 1)/2 interactions need to take place (n equals the number of people in the organisation). This means that a group of five people require 10 interactions for everyone to know everyone else; a group of 25 requires 300 interactions; and a group of 150 requires 11,000 interactions. Imagine you do nothing else but meet people during a 40-hour working week, spending five minutes with each person. How many people could you interact with if you took no break? Four hundred and eighty people – you get the drift.
As more people are added to an organisation, you cannot have everyone report to you directly because you don’t have enough time to check in with them regularly. You make big money by building a large business. But organisational growth is a huge challenge for a new venture. A start-up made up of five people can function effectively without much of a formal structure and system. Walmart, the largest private employer in the world with 2.1 million employees, needs to have many different layers of formal hierarchy to coordinate effectively the work of all people. Going from five to 2.1 million employees requires radical changes to all five elements of the organisational architecture. Walmart started out with a few stores in rural America (Arkansas) and now operates different businesses in many countries. The international expansion strategy worked in some countries (Britain) but failed miserably in Germany where Walmart had to exit.

**Decline:** Unlike humans, organisations, although they are made up of human beings, don’t need to die. New people can replenish the organisation. In principle, an organisation could live eternally. Yet the organisational world is surprisingly like the biological world. As mentioned earlier, most organisations go out of existence within the first couple of years. Although the risk of death declines with age, staying in existence is no trivial feat for organisations.

The chief reason why organisations decline is that the specific environment they exist in changes. New technologies, for example, word-processing software, make old technologies, in this case typewriters, obsolete, and the market for the old technology shrinks dramatically or disappears entirely. You may be the general manager of the best organisation in the typewriter industry, but when the market disappears before your eyes, your organisation will be in trouble. Can you name a single typewriter manufacturer that has survived the invention of word processing?

When an industry shrinks, firms in the industry quickly start losing money because their cost structure was adapted to a higher volume of sales. SM4: Transforming Businesses, focuses on how to manage a business that is in decline. You only have two options. Turn the organisation around to reverse the decline or slide toward extinction. We mentioned earlier the organisational challenges you face in growing a business. Managing a business in decline poses a number of different challenges. (Note that SM4 is concerned with business-level strategy. A corporation owning a declining business among its portfolio of businesses can simply sell or close down the business without endangering the corporation as a whole.)

When the business is losing money, you don’t have the financial resources to fund solutions to the problem. Your organisational architecture does not fit the current environment. You need to redesign the architecture with few resources and with time against you. Where are you going to make the cuts to stop the bleeding? When the organisation is growing, you have plenty of opportunities to promote people because new jobs are being created.
Now you have to let people go. Whom do you keep? How do you focus the organisation on a new path?

To complete this section where key concepts used throughout the SM Year are being defined, we look at two features of a strategic analysis that have to be identified explicitly to ensure clarity: **Unit of Analysis** and **Level of Abstraction**.

**Unit of Analysis**

**Unit of Analysis:** Large organisations have many different levels in the formal structure. Figure 4 shows four levels of aggregation: the functional level, the business level, the corporate level and the network level. In the SM Year we are focusing on the business and corporate level. When you conduct a strategic analysis, the first thing you need to do is identify the unit that you are analysing. A strategy recommendation that improves the performance of Business Unit A would not help the higher corporate level if the new strategy you propose for Business Unit A simply takes sales away from Business Unit B. The relevant environment into which the organisational unit has to fit changes, depending on which unit of analysis you pick.

**Level of Abstraction:** The level of abstraction (granularity, resolution) refers to the amount of detail you provide in a strategy statement. Think about maps. A map always is an abstraction of the physical region it represents. A fully detailed map of Sydney, for example, would be as big as Sydney itself. If you want to draw a useful map of the entire globe it cannot have the same amount of detail as a map of Sydney. A map of Sydney can show every road, but if you showed every road in a map of the globe you would not be able to see anything because the map would be so cluttered. Similarly, a compelling strategy statement for a diversified corporation such as Wesfarmers cannot be as detailed as a strategy statement for one of its business units – Bunnings, for example.

One of the key communication challenges for general managers is to articulate a strategy that is neither so abstract and general that it becomes vacuous (‘our strategy is to create value for our customers by delivering them high quality, cost-effective products’) nor too specific and detailed by listing every single action each staff member is supposed to undertake. Imagine that the CEO of Walmart decided to provide a comprehensive strategy statement by asking each of the 2.1 million employees to state their goals for the year and formulate a one-page plan for how they will achieve them. The resulting 2.1 million pages will provide a detailed plan for the organisation, but they are useless because everyone would drown in the detail. You need to choose the right level of abstraction for the particular strategic problem you are addressing.
Figure 4  The Levels of Strategy

Learning Outcomes

By the end of the SM Year you will be able to:

Across the whole program

• Evaluate your competencies as a general manager and develop ways to improve them
• Evaluate your team-working skills and develop ways to improve them

*Strategic Management 1: Detecting and Selecting Business Opportunities*

• Formulate a business strategy
• Identify and develop organisational competitiveness
• Design a communication strategy to support a business plan to potential investors
• Evaluate and manage risks with a proposed business

*Strategic Management 2: Developing Business Opportunities*

• Evaluate business capabilities
• Select an appropriate organisational architecture
• Identify and demonstrate ways to engage internal stakeholders with the strategy
• Evaluate and manage risks associated with a given organisational architecture

*Strategic Management 3: Growing Businesses*

• Analyse options for growth
• Implement a growth strategy
• Gain support for the recommended growth option(s) from internal and external stakeholders
• Evaluate and manage risks associated with a growth option
**Strategic Management 4: Transforming Businesses**

- Develop skills to identify and interpret weak signals about possible threats to performance
- Identify a range of strategies for addressing a threat to organisational performance
- Develop a plan for leading an organisation through transformational change
- Evaluate and manage the risks associated with a proposed transformational change
- Develop skills in incorporating feedback to generate a more compelling plan
Summary of Assessment Requirements for the Strategic Management Year

Assessment of your progress is an important component of the learning process. The MBA (Executive) approach is to provide a wide variety of assessment opportunities while maintaining a level of scholarship consistent with postgraduate study. Assessment in the SM Year comprises a combination of individual and team assignments, written and oral presentations, and both self-reflective and analytical tasks. These assignments have been designed with the learning objectives of the SM Year in mind. The assessment schedule is paced such that you have adequate time to prepare each piece of assessment.

Each course within the SM Year has its own assessment requirements. In addition, students are required to complete two assessments (peer feedback and a book review) that run throughout the year. The assessment requirements for the whole year are listed overleaf. The details for SM1 assignments follow this.

Please note that all assessments throughout the SM Year must abide by AGSM guidelines, which you can find detailed here:

https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations

Please pay particular attention to the specific requirements for page count and margins (which are wider than the default in Word), line spacing and font. These are detailed in the sub-section, entitled ‘Document Formatting Requirements’.

You should expect that these requirements will be strictly enforced and that penalties are likely to be imposed if they are not followed.
# Strategic Management Year Assessment Schedule

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<th>Strategic Management 1</th>
<th>Strategic Management 2</th>
<th>Strategic Management 3</th>
<th>Strategic Management 4</th>
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<tr>
<td>Strategy formulation paper (individual submission)</td>
<td>Strategy implementation paper (individual submission)</td>
<td>Strategy paper for growing the business (individual submission)</td>
<td>Final project (individual submission)</td>
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<td>Report on interview with a leader who is a general manager or entrepreneur (course team submission)</td>
<td>Leadership development plan</td>
<td>Leadership development progress paper (individual submission)</td>
<td>Transformation strategy paper (individual submission)</td>
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**Strategic Management 1 assessments**

- **Strategy formulation paper (individual submission).** In this assignment you formulate a competitive strategy for an organisation, using course concepts. You have the choice of using your own organisation, or any other organisation or proposed business venture you will benefit from analysing.

- **Residential problem analysis (course team submission).** During the Strategic Management 1 residential you will be presented with a live problem faced by an entrepreneur or general manager. After the residential each team is required to submit an analysis of the problem and develop a recommendation.

- **Peer feedback.** You will provide feedback to your team peers on their contribution to the course team, including both competencies for taskwork (e.g. knowledge and analysis of course content) and teamwork (e.g. distributed leadership through goal formulation, coordinating action, and managing interpersonal processes).

- **Report on interview with a leader who is a general manager or entrepreneur (course team submission).** The purpose of this assessment is to identify the similarities and differences between strategic roles (i.e. general manager or entrepreneur) and functional manager roles, as well as how these roles work together towards achieving the organisation’s fundamental objective. Working in your course team, you will design and conduct an interview with a general manager or entrepreneur then combine these insights with SM1 concepts in a written report.

**Strategic Management 2 assessments**

- **Strategy implementation paper (individual submission).** In this assignment you develop a recommendation for the design of an organisation, using course concepts. You have the choice of using your own organisation or any other organisation or proposed business venture. You should use the same organisation as you analysed in the strategy formulation paper in SM1.

- **Residential problem analysis (course team submission).** At the beginning of the Strategic Management 2 residential you will be presented with a live problem from a general manager or entrepreneur. After the residential each team is required to submit an analysis of the problem and develop a recommendation.

- **Peer feedback.** You will provide feedback to your team peers on their contribution to the course team, including both competencies for taskwork (e.g. knowledge and analysis of course content) and teamwork (e.g. distributed leadership through goal formulation, coordinating action, and managing interpersonal processes).
• *Leadership development action plan.* Details will be provided in your SM2 course overview.

• *Assurance of learning exam (individual submission).* As part of AGSM’s efforts to assure that our courses achieve the learning goals that we have set out for the MBA (Executive) program, you are required to participate in a short multiple choice test. We require you to answer the questions as best you can so that we can evaluate the program and overall student learning. The questions test your knowledge from Stage One courses. Your performance in the test will assist you to identify bodies of knowledge that you may wish to revisit as you progress through SMY. The time set for the text is 60 minutes, and you must complete the test in one sitting. The results of this examination are kept confidential and are only used by the Program Director and Faculty Assurance of Learning Staff. You will receive the full 10% mark as long as you complete this assessment, regardless of your actual score on the test.

**Strategic Management 3 assessments**

• *Strategy paper for growing the business (individual submission).* In this assignment you provide a rationale for growing a business, and develop a recommendation for how to grow the business. You have the choice of using your own organisation (preferably the same one you analysed in Strategic Management 1 and Strategic Management 2) or any other organisation you would benefit from analysing.

• *Residential problem analysis (course team submission).* At the beginning of the Strategic Management 3 residential you will be presented with a live problem from a real company. After the residential each team is required to submit an analysis of the problem and develop a recommendation.

• *Peer feedback.* You will provide feedback to your team peers on their contribution to the course team, including both competencies for taskwork (e.g. knowledge and analysis of course content) and teamwork (e.g. distributed leadership through goal formulation, coordinating action, and managing interpersonal processes).

• *Leadership development progress paper (individual submission).* Details will be provided in your SM3 course overview.
Strategic Management 4 assessments

- **Transformation strategy paper (individual assignment).** You will write a paper that provides an analysis and recommendations on transforming an organisation whose performance has deteriorated.

- **Final project (individual submission).** Using feedback from the individual assessments in SM1 and SM2 you will develop a paper that both formulates a strategy and designs an organisation through which to implement the strategy. (This assessment must be passed to pass the course.)

- **Residential problem analysis (course team submission).** At the beginning of the Strategic Management 4 residential you will be presented with a live problem from a real company. After the residential each student team is required to submit an analysis of the problem and develop a recommendation.

- **Peer feedback.** You will provide feedback to your team peers on their contribution to the course team, including both competencies for taskwork (e.g. knowledge and analysis of course content) and teamwork (e.g. distributed leadership through goal formulation, coordinating action, and managing interpersonal processes).

- **Book review (oral presentation).** Each student will have presented a review of a book or an article that has extended their thinking about Strategic Management. The article or book should not be a core management text that most students would already be familiar with. New insights often come from another domain. For this reason we encourage you to look far afield for texts that provide you with some insight into the problems of the general manager. This is a Pass/Fail assignment only. All students who satisfactorily complete a review will pass.
Assessment Guidelines: Strategic Management 1

All assessments, essays and project reports should conform to the standard assessment format detailed in the course overview and on the AGSM website. Inadequate documentation or careless presentation of assessment items may result in marks being deducted. Assessments must meet prescribed details of length, submission dates and any special provisions.

Assessment Policy

The assessment process plays two roles: it provides feedback to you on your progress, and is a means of testing and grading your performance. More information on assessment is provided on the AGSM website.

In order to pass this course, you must:

• Achieve an aggregate (overall) mark of at least 50; and
• Make a satisfactory attempt at the Strategy Formulation paper.

Assessment 1: Book review (individual submission)

Due: You will be provided with a time during one of the residential when you will be expected to present the book review. Before Residential 1 you will be informed which residential you will need to present at.

Weight: Pass/Fail

Length: Oral presentation no longer than 2.5 minutes followed by 2.5 minutes of feedback.

Each student will present a review of a book or an article that has extended their thinking about Strategic Management. The article or book should not be a core management text with which most students would be already familiar. New insights often come from another domain. For this reason we encourage you to look far afield for texts that provide you with some insight into the problems of the general manager. For example, It’s Only a Game, by John O’Neill (former CEO of the Australian Rugby Union and the Football Federation of Australia) is a good insight into managing a complex organisation.

This is a Pass/Fail assignment only. All students who satisfactorily complete a review will pass.
Assessment 2: Residential problem analysis

*(course team submission)*

**Due:** Check SM1 calendar for exact due date at the beginning of this document

**Weight:** 35%

**Maximum length:** 12 pages

You will work in small course teams on this assessment. At the beginning of the first residential you will be presented with a live problem faced by an entrepreneur or general manager. After the residential, each course team is required to submit an analysis of the problem and develop a recommendation.

For details on formatting the assignment, go to: https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations

Assessment 3: Written report on interview with a leader who is a general manager or entrepreneur *(course team submission)*

**Due:** Week 9

**Weight:** 20%

**Maximum length:** 4 page report and 2 page interview tool, total 6 pages

Working in course teams, you will design and conduct an interview with a leader who is a general manager or entrepreneur about what they perceive to be their role in an organisation, and the skills and competencies they require, or need to acquire, to support this role. Your course team will then prepare a report that combines insights from your interview with SM1 concepts. The purpose of the report is to identify the similarities and differences between strategic roles (i.e. general manager or entrepreneur) and lower-level functional manager roles, as well as how these roles work together towards achieving the organisation’s fundamental objective.

For details on formatting the assignment, go to: https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations
Assessment 4: Peer feedback *(individual submission)*

**Due:** Week 9  
**Weight:** Pass/Fail

You are required to give feedback on your own and individual team members' contributions to teamwork on SM1 via iPeer, the online peer feedback tool. The feedback survey will be available in Week 9. Rate the level of skill you have observed in each team member by using the behavioural descriptors for each team competency. Be as honest and objective as you can. Please also provide observations of behaviours in the written-comments spaces provided.

You and each individual team member will get a summary of the feedback others in the team have given. The SM2 leadership development self-reflection paper builds on this feedback, as you will integrate this SMY peer feedback with work and other sources, in order to identify a comprehensive set of leadership-development goals that you are committed to work on in SMY and beyond.

This assignment is Pass/Fail only. To pass the assignment you need to successfully complete feedback for each member of your team, upload your one-page outline of the Strategy Formulation paper in Week 7, and actively participate in the teleconference in Week 8.

Assessment 5: Strategy formulation paper *(individual submission)*

**Due:** Week 10  
**Weight:** 45%  
**Maximum length:** 15 pages

In this assignment you formulate a competitive strategy for an organisation, using course concepts. You have the choice of using your own organisation, or any other organisation or proposed business venture you will benefit from analysing.

For details on formatting the assignment, go to:  
https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations
Instructions for Book Review Presentation (individual assignment)

During the SM Year, you will present a review of a book or an article that has extended your thinking about strategic management. The article or book should not be a core management text that most students would be familiar with. New insights often come from another domain. For this reason we encourage you to look far afield for texts that provide you with some insight into the problems of the general manager or entrepreneur. For example, *It's Only a Game* by John O'Neill (former CEO of the Australian Rugby Union and the Football Federation of Australia) is a good insight into managing a complex organisation. We have posted an example of a book review and tips for preparing it on the eLearning website along with some background information on the value of this assignment.

Prepare a 2 ½ minute presentation on your book or article review. After your presentation (which will be stopped after 2 ½ minutes whether you have finished or not) there will be 2 ½ minutes of feedback with members of your cohort and the residential leader.

This assignment is graded Pass/Fail only. The following criteria will be used to judge your oral presentation:

- Is it well-organised and clearly presented?
- Does it engage the audience?
- Does it provide insight for the general manager or entrepreneur?
- Does it articulate lessons for you or your organisation?

Please make sure that you visit the pre-residential activities sections of the eLearning website where we have published more specific advice on how to prepare this review. We have also put there good examples, both in written and video format. The assessment criteria for this assignment are provided on the following page. Please read them carefully.
<table>
<thead>
<tr>
<th>Marking grid: Book review</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>25% Organisation and clarity of oral presentation</strong></td>
</tr>
<tr>
<td><strong>25% Engaging the audience</strong></td>
</tr>
<tr>
<td><strong>25% Insight for the GM or entrepreneur</strong></td>
</tr>
<tr>
<td><strong>25% Application to you or your organisation</strong></td>
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</tbody>
</table>
Instructions for 12-page Residential 1 Problem Analysis (course team assignment)

Early in the first residential you will be presented with one or more real business opportunities. Drawing on SM1 course ideas, your task is to evaluate each opportunity, recommend concrete steps for improving the likelihood of meeting the business owner’s fundamental objective and argue why it should or should not be pursued, given its next best alternative. If you are presented with more than one opportunity, each should be evaluated independently. While you may recommend that none, one or all be pursued, you need to specify which of the alternatives considered is superior and explain why.

In the SMY, we want students to learn how to write for a business audience of senior decision makers. Hence, the audience for this report is the senior business person or investor, who has to decide which course of action to follow. When editing this and your other assignments, it is useful to ask, “would both my boss and a new hire, from outside our industry, understand, find compelling, and be able to implement our recommendations?” Be sure to (re-)read the appendix in this coursepack, entitled “Thinking and Writing in the Strategic Management Year,” as you develop your arguments. This document has many useful tips (you will also find it in the learning technology section on Moodle).

For instructions on referencing refer to Assignment 1 and for details on formatting the assignment go to: https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations

**Note on referencing:** You are expected to reference the source of all data used in your assessments. In the MBA (Executive), we expected you to know the authors of major frameworks and concepts and to reference these appropriately. However, in the SM Year we place more emphasis on your ability to apply these frameworks and concepts. This means that we expect you to justify your arguments and to present them in a way that would persuade an audience of managers and/or investors. The assignments in the SM Year are designed not for you to describe, or even just to demonstrate your ability to analyse with, a given framework, but to apply multiple course frameworks and concepts to make managerial analyses and recommendations. There is no need to reference frameworks or concepts covered in your current course readings or class materials for assignments in your current course.
All other frameworks or concepts you use in reports should be referenced appropriately using the Harvard Referencing system (this includes frameworks or concepts covered in previous MBA (Executive) courses). In addition, you should meticulously reference all data sources (for all types of data including numerical, interview, quotes from news articles, etc.) in your reports so that readers understand the basis for assumptions in your analyses.

The assessment criteria for this assignment are provided on the following page. Please read them carefully.
<table>
<thead>
<tr>
<th></th>
<th>HIGH DISTINCTION</th>
<th>DISTINCTION</th>
<th>CREDIT</th>
<th>PASS</th>
<th>FAIL</th>
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</thead>
<tbody>
<tr>
<td>15% Appropriateness of the recommendation</td>
<td>Recommendation would clearly deliver the fundamental objective and is original</td>
<td>Recommendation would clearly deliver fundamental objective and addressed</td>
<td>Fundamental objective, major issues and opportunities identified and addressed</td>
<td>Generic recommendation given which could be made for any business venture</td>
<td>Recommendation inappropriate</td>
</tr>
<tr>
<td>20% Realistic recommendation</td>
<td>Consideration made of the downsides of the recommendation, and strategies to overcome downsides are identified</td>
<td>Recommendation is feasible and realistic and feasibility of recommendation is outlined</td>
<td>Recommendation is feasible and realistic</td>
<td>Recommendation is feasible but unrealistic given resource constraints</td>
<td>Recommendation completely unrealistic</td>
</tr>
<tr>
<td>30% Quality of arguments: logic and integration</td>
<td>Strong logical arguments with excellent evidence that support a consistent, coherent overall strategy</td>
<td>Coherent logical arguments which are strongly justified by evidence</td>
<td>Logical argument with some evidence (data, theory, benchmarking or comparison to alternatives) given to justify the argument</td>
<td>Arguments are logical but evidence to support arguments is weak</td>
<td>Arguments aren't logical, justified or integrated</td>
</tr>
<tr>
<td>20% Organisation, clarity of expression</td>
<td>Shows a polished and imaginative approach to the report with compelling clarity of expression</td>
<td>Carefully and logically organised and written clearly</td>
<td>Good organisation and coherence and mostly written clearly</td>
<td>Little attempt to organise in a logical manner, or lacking clarity of expression</td>
<td>Disorganised/ incoherent</td>
</tr>
<tr>
<td>15% Use of conceptual tools and frameworks to support analysis</td>
<td>Clear conclusions that apply concepts in an insightful and compelling way. Good choice of concepts for the strategic problem</td>
<td>Good choice and application of concepts for the strategic problem</td>
<td>Appropriate application of concepts, but poor choice, limited range or too many concepts chosen</td>
<td>Inappropriate application or interpretation of the concepts</td>
<td>No concepts used in analysis</td>
</tr>
</tbody>
</table>
Details on the evaluation criteria

1. **Appropriateness of the recommendation**
   Does the report consider the fundamental objective of the key investor? Does it state and rank order the alternative opportunities considered, in terms of their likelihood of achieving this objective? Are the causal steps that lead from recommendation to the fundamental objective spelled out? Are the arguments specific? Do they avoid boilerplate statements, like ‘x is a better opportunity than y’, made without providing evidence to support the assertion? Does the recommendation take a clear, strong position and argue for it?

2. **Realistic recommendation**
   Is it possible to implement the recommendation? Is the recommendation feasible, given the resource constraints of the entrepreneur or organisation? Are the downsides of the recommendation identified and strategies to overcome them identified? Are the assumptions made explicit?

3. **Quality of arguments: logic and integration**
   Are the arguments logical? Is there a clear link between the fundamental objective of the investor and the recommendation? Are the recommendations clearly linked to the analysis? Does the report justify the preferred business proposal (e.g. with theory, data, benchmarking, comparison to alternatives)? Do the arguments support a consistent, coherent overall strategy? Are data sources and explicit concepts referenced? Is data not just presented but are the implications of the data drawn out?

4. **Organisation and clarity of expression**
   Is the report well organised and structured? Can the reader easily understand the recommendation and arguments behind it? Is the report written clearly?

5. **Use of conceptual tools and frameworks to support analysis**
   Does the analysis show that the authors have mastered the different tools and frameworks studied in the course? Can the authors selectively draw on the most relevant concepts for the strategic problem faced by the entrepreneur, manager or VC? Have the authors applied the concepts in a competent, insightful, and compelling way (i.e. that offers rigorous analysis rather than just common sense and spells out concrete ways for creating & capturing value)?
Instructions for 4-page Report on Interview with a Leader Who is a General Manager or Entrepreneur (course team assignment)

Between Residential 1 and the end of SM1, your course team will conduct an interview with a general manager (GM) or entrepreneur and prepare a written report on the role and responsibilities of your chosen interviewee. The purpose of the report is to identify the similarities and differences between strategic roles (i.e. GM or entrepreneur) and lower-level functional manager roles, as well as how these roles work together towards achieving the organisation’s fundamental objective. To become an effective GM or entrepreneur, or to work effectively with either, it is important to understand these differences.

The interview and an instrument designed to act as a guide during the interview (see below) will focus on what the GM or entrepreneur perceives to be their key role in an organisation, and the competencies s/he requires, or needs to acquire, to support this role. Be sure to balance your interview instrument and interview by addressing both the roles/responsibilities (i.e. content-related elements of the roles such as strategic versus functional/discipline tasks) and the appropriate leadership style(s) (i.e. how they influence others to achieve work outcomes).

In your 4-page report:

- Provide a short rationale for why you selected this interviewee and a brief description of how your interviewee perceives his/her role, including why they advocate certain competencies are required. Explore with your interviewee how they influence others to achieve work outcomes, what ethical dilemmas emerge, and how they deal with these dilemmas.

- Analyse the interviewee’s perceptions by comparing them with the key ideas of SM1 and other descriptions of the role of the GM or entrepreneur (e.g. from books/articles on the role and your own experiences/observations). This evaluation needs to comprise a major component of the paper. Evaluate the interviewee’s perception of his/her role against SMY concepts and the wider literature rather than focusing on their career or perceptions; this is an important point as it will move your paper from description to analysis.
• Explore the key insights your team took away from the interview and the above evaluation. These insights comprise another major component of the paper. Compare and contrast the roles and competencies required for the GM/entrepreneur and functional manager. How can you apply these insights to your own careers? Why are these actions important at your career stage? Make your insights concrete and personal by articulating them in a short action plan for the course team as a whole (you will have an opportunity in SM2 and SM3 papers to explore insights individually).

• Include an appendix containing an annotated “interview instrument”. After using the instrument to guide the interview questioning process, annotate it to indicate both the questions you intended to ask and those you did ask in your interview. Then provide a brief explanation of the rationale for any changes in interview direction. A summary of the interviewee’s responses is not needed in the appendix. Note: The appendix is not part of your 4-page limit for the assignment but is part of the evaluation. The appendix is to be a maximum of two pages, double-spaced. Be succinct and organise the structure and presentation of the appendix accordingly.

• Frameworks or concepts covered in SMY course readings or class materials do not need to be referenced. However, all other frameworks or concepts you use in papers should be referenced appropriately using the Harvard referencing system (this includes frameworks or concepts covered in previous MBA (Executive) courses).

Be sure to re-read ‘Thinking and writing in the Strategic Management Year’ as you are working on this assignment. This document has many useful tips. You will find it in the learning technology section of your SM1 course pack (and in the resources section on eLearning). You should follow the standard SMY guidelines for referencing and formatting that every other SMY assignment follows. For instructions on referencing and formatting, please consult the AGSM web pages.

The assessment criteria for this assignment are provided on the following page. Please read them carefully.
<table>
<thead>
<tr>
<th></th>
<th>HIGH DISTINCTION</th>
<th>DISTINCTION</th>
<th>CREDIT</th>
<th>PASS</th>
<th>FAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% Effectiveness of interview questions</td>
<td>Comprehensive, analytical, insightful and original questions asked, relevant to assignment</td>
<td>Comprehensive, analytical questions asked, relevant to assignment</td>
<td>Some good questions asked, though mainly descriptive</td>
<td>General and broad ranging questions asked, or poor choice of interviewee</td>
<td>Nothing learnt from interview</td>
</tr>
<tr>
<td>25% Understanding of role of the GM or entrepreneur</td>
<td>Clear articulation of the role of the GM or entrepreneur based on interviewee’s perceptions and other sources, including your own experiences and an analytical evaluation</td>
<td>Clear articulation of the role of the GM or entrepreneur, based on interviewee’s perceptions and other sources, including your own experiences</td>
<td>Some comparison of interviewee’s perceptions of role with other sources, including your own experiences</td>
<td>Description of interviewee’s perception of the GM or entrepreneur role only</td>
<td>No discussion of the role of the GM or entrepreneur</td>
</tr>
<tr>
<td>20% Understanding of SMY frameworks and theory about general management / entrepreneurial competencies</td>
<td>Good choice of ideas for the assignment. Clear conclusions which apply ideas in an insightful and analytical way</td>
<td>Good choice and application of ideas throughout the paper</td>
<td>Appropriate application of ideas</td>
<td>Appropriate application of ideas, but poor choice, limited range or too many ideas chosen</td>
<td>No SM1 ideas used in the report or inappropriate application or interpretation of SM1 ideas</td>
</tr>
<tr>
<td>25% Insights from interview &amp; career implications</td>
<td>Clear comparison of GM or entrepreneur and functional manager made, plus insightful and analytical articulation of what this means for your career</td>
<td>Clear comparison of GM or entrepreneur and functional manager made, plus clear articulation of what this means for your career</td>
<td>Clear comparison of GM or entrepreneur and functional manager made and broad statements of what this means for your career</td>
<td>Some insights about the difference between the GM or entrepreneur and functional manager role</td>
<td>No insights into the role of the GM or entrepreneur</td>
</tr>
<tr>
<td>15% Organisation and clarity of expression</td>
<td>Shows a polished and imaginative approach to the report with compelling clarity of expression</td>
<td>Carefully and logically organised and written clearly</td>
<td>Good organisation and coherence and mostly written clearly</td>
<td>Little attempt to organise in a logical manner, or lacking clarity of expression</td>
<td>Disorganised/ incoherent</td>
</tr>
</tbody>
</table>
Instructions for 15-page Strategy Formulation Paper (individual Assignment)

In this assignment you will formulate a competitive strategy for an organisation, using course concepts. You have the choice of using your own organisation, or any other organisation or proposed business venture that you could benefit from analysing. It is crucial that you pick an appropriate business or venture for your SM1 assignment.

Attention!

Take care in choosing the business or venture you will focus on. Please note:

• In SM2 and again in SM4 you will analyse the same venture or company as in SM1.

• In SM3 you will work with tools for evaluating opportunities that may involve one or more of the following: a merger, acquisition or divestiture, or an expansion into other countries. Hence, please do not consider any of these options as possible recommendations for SM1. Rather, defer such consideration for SM3.

Here are two tips to guide your selection:

• You need to be able to design a strategy for a business that does not depend on being part of a larger corporation. For example, an organisational unit that is an integral part of a larger company (including one that provides a support function) should be avoided. The reason to stay away from such a unit is that it is not likely to be practical to set a different strategy, and implement a different organisation strategy, from the rest of the organisation.

• The business needs to have at least 15 people. If the business is a start-up it should be feasible that it will have 15 people within five years of start-up. In SM2 you will be asked to design an organisation for this business and in SM4 you will be expected to integrate your SM1 and SM2 papers into one coherent report that addresses key feedback you will have received.

If you are analysing an existing business, assume that top management would like you to develop a recommended medium to long-term strategy to improve the business in a more competitive and changing market. Advise top management on positioning the business for sustainable improvement in performance over the next five years and provide actionable recommendations as the primary focus. In supporting your new strategy recommendations you should identify and refute any negatives and explain why the recommended strategy is better than the current strategy.
If you conclude that the organisation should continue to pursue its current strategy, explain why it is better than the viable alternative you have developed. Your recommendation must still include actions that would enhance this current strategy further and you need to explain why your recommendation is superior to the viable alternative you have developed.

If you are analysing a proposed strategy for a new entrepreneurial venture, your target audience should be the entrepreneur or potential investors. Aside from your preferred strategy for the venture, you also should develop a second-best alternative strategy and refute it.

Make sure that you take advantage of the analytic tools from SM1 in your analysis. Remember, however, that while you are writing a strategy recommendation for the organisation’s top management, your arguments need to be rigorous and defensible, should you be queried on your proposal.

This means that you use the SM1 tools to analyse the strategy problem and to arrive at conclusions. A strong argument involves spelling out why your conclusions are important and how they are supported. Simply namedropping tools adds no value. Your writing should be in non-technical English.

In justifying your recommendation, ensure the recommended strategy:

- is clearly justified with a structured set of logical supporting arguments
- gives a sustainable competitive advantage
- meets the key objectives and addresses the main threats and opportunities
- is supported by evidence
- is feasible.

The assessment criteria for this assignment are provided on the following page. Please read them carefully.

For details on formatting the assignment, go to:
https://www.business.unsw.edu.au/agsm/students/resources/assessments-and-examinations
<table>
<thead>
<tr>
<th>High Distinction</th>
<th>Distinction</th>
<th>Credit</th>
<th>Pass</th>
<th>Fail</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Appropriateness of the recommendation</strong></td>
<td>Recommendation clearly achieves the organization's objectives, helps sustain this level of performance &amp; is original</td>
<td>Recommendation is feasible and realistic, but doesn't achieve the organization's objectives</td>
<td>Recommendation is feasible and realistic, but doesn't achieve the organization's objectives</td>
<td>Recommendation is completely unrealistic</td>
</tr>
<tr>
<td><strong>Realism</strong></td>
<td>Consideration made of the downsides of the recommendation, and strategies to overcome these are identified &amp; are sustainable</td>
<td>Coherent logical argument with some evidence (data), and strong evidence that supports a consistent, coherent overall strategy</td>
<td>Coherent logical argument with strong evidence, justified by an insightful approach to the problem</td>
<td>Argument is not logical or justified, and not supported by evidence</td>
</tr>
<tr>
<td><strong>Quality of arguments, logic and integration</strong></td>
<td>Strong logical arguments, evidence that supports a consistent, coherent overall strategy</td>
<td>Argued logically with strong evidence</td>
<td>Arguments are logical but evidence to support them is weak</td>
<td>Arguments aren't logical, justified or integrated</td>
</tr>
<tr>
<td><strong>Organisation, clarity of expression</strong></td>
<td>Shows a poised and imaginative approach to the report, and clarity of expression is compelling</td>
<td>Carefully and logically organised and written clearly</td>
<td>Good organisation and coherence, mostly written clearly</td>
<td>Little attempt to organise in a logical manner, or lacking clarity of expression</td>
</tr>
<tr>
<td><strong>Use of conceptual tools and frameworks to support analysis</strong></td>
<td>Appropriate application of concepts, but poor choice, limited range or too many concepts chosen</td>
<td>Good choice and application of concepts for the strategic problem</td>
<td>Good choice and application of concepts for the strategic problem</td>
<td>No concepts used in analysis</td>
</tr>
</tbody>
</table>

**Overview:** Detecting and Selecting Business Opportunities

47
Details on the assessment criteria

1. ** Appropriateness of the recommendation**
   
   Does the report address the entrepreneur’s or organisation’s goals, major issues and opportunities? Is the recommendation likely to create sustained competitive advantage? Is the recommendation original?

2. ** Realistic recommendation**
   
   Is it possible to implement the recommendation? Is the recommendation feasible, given the resource constraints of the entrepreneur or organisation?

3. ** Quality of arguments: logic and integration**
   
   Are the arguments logical? Are the recommendations clearly linked to the analysis? Does the report justify the proposed strategy (e.g. with theory, data, benchmarking, comparison to alternatives)? Do the arguments support a consistent, coherent overall strategy? Are data sources and explicit concepts referenced?

4. ** Organisation and clarity of expression**
   
   Is the report well organised and structured? Can the reader easily understand the recommendation and arguments behind it? Is the report written clearly?

5. ** Use of conceptual tools and frameworks to support analysis**
   
   Does the analysis show that the author has mastered the different tools and frameworks studied in the course? Can the author selectively draw on the most relevant concepts for the strategic problem faced by the entrepreneur or organisation? Has the author applied the concepts in a competent, insightful, and compelling way?

For details on formatting the assignment go to the AGSM web pages.

**Note on referencing:** We repeat here what we said in the context of your first assessment. You are expected to reference the source of all data used in your assessments. In the MBA (Executive) we expected you to know the authors of major frameworks and concepts and to reference these appropriately. However, in the SM Year we place more emphasis on your ability to apply these frameworks and concepts.
We expect you to justify your arguments to persuade an audience of managers. The assignments in the SM Year are designed not for you to analyse and describe frameworks but to apply course frameworks and concepts to make managerial analyses and recommendations. There is no need to reference frameworks or concepts covered in your current course readings or class materials for assignments in your current course. All other frameworks or concepts you use in reports should be referenced appropriately using the Harvard Referencing system (this includes frameworks or concepts covered in previous MBA (Executive) courses). In addition, you should meticulously reference all data sources (for all types of data including numerical, interview, quotes from news articles, etc.) in your strategy reports so that readers understand the basis for assumptions in your analyses.

**Progress feedback on assignment**

In order to receive feedback on your progress in this assignment, you should upload a one-page outline of the paper on eLearning by Friday of Week 7 for your team to review. In the one-page outline you should do the following:

1. Identify the organisation or new business venture you are analysing. Specify whether you are analysing the entire organisation or a business unit and who is the audience of your report (i.e. their position(s) not their names and their relationship to you).

2. Define the environment it is operating in (i.e. the industry, if it is a business; and/or the organisation it is a part of).

3. State the fundamental objective of the organisation or new venture you are analysing.

4. Articulate in 100 words or less the current strategy of the organisation (this does not apply to a new venture).

5. Articulate a viable and mutually exclusive alternative strategy (you can change this later if you find a better one).

6. Nominate either the current or alternative strategy as the recommended strategy. State why the recommended strategy is the superior option for achieving the fundamental objective. Please provide some sense of how the risk-return trade-off required to meet your objective is likely to vary across your two alternatives. Your reasons should be listed in order of their importance.
During the weekend of Week 7 you should review the submissions of the rest of your team and prepare feedback for them. At the start of Week 8 you will participate in a teleconference with your team and the residential leader to discuss the outlines submitted and provide feedback. You will receive instructions for booking the teleconference via eLearning.

Submission of your one-page outline and participation in a teleconference are a required part of the course, and will contribute to the Peer Feedback assessment. To pass the Peer Feedback assessment you must complete the online iPeer Team Feedback survey (which will be accessible at the end of SM1), upload your one-page outline of the Strategy Formulation paper, actively participate in the teleconference.
## Appendices

<table>
<thead>
<tr>
<th>Appendix 1</th>
<th>Working with the Course Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appendix 1a</td>
<td>Reading for Understanding: The SQW3R Method of Study</td>
</tr>
<tr>
<td>Appendix 2</td>
<td>Writing a Learning Journal</td>
</tr>
<tr>
<td>Appendix 3</td>
<td>Thinking and Writing in the Strategic Management Year</td>
</tr>
<tr>
<td>Appendix 3b</td>
<td>Detecting and Selecting Business Opportunities: Structuring the Process</td>
</tr>
<tr>
<td>Appendix 3c</td>
<td>Additional Selected Information from McKinsey (Rasiel, 1998)</td>
</tr>
<tr>
<td>Appendix 3d</td>
<td>Additional Information Regarding Structured Analyses</td>
</tr>
</tbody>
</table>
Appendix 1: Working with the Course Material

The course materials in the SM Year consist of key readings with a brief introduction to each reading. A detailed commentary on the materials is not provided as you are encouraged to develop and use your own skills of critical reflection to make sense of the reading and find relevance for your own organisation and your role as a manager. You will also need to organise your time in order to complete the reading and pre-residential activities before the residential.

While you are reading you may find it useful to think of real life situations to which the material could apply, and to consider the relationship with concepts that you are already familiar with from the MBA (Executive). You will want to form your own point of view and may seek further reading to clarify and expand your understanding.

To help you with this activity you may like to use the SQW3R method of study. It is explained fully in the reading that follows.

• **S = Survey**, before you start, survey the material to gain an overview of the content
• **Q = Question**, your reading will be more memorable if you write down your questions about the material.
• **R1 = Read**, the material without taking notes
• **W (Read) + Write** = on your second reading take notes
• **R2 = Recall**, straight after you take notes
• **R3 = Review**, what you have read

*Source: The Learning Centre, UNSW.*
The SQW3R Method of Study

Reading is one of the core activities of study. You need to be able to understand what you read and to be able to recall the main ideas when you need them. You can use the SQW3R method to improve your comprehension, to remember a reading for tutorials, seminars or to revise for exams.

**S = Survey**

Before you start to read, SURVEY the material to gain an overview of the contents.

Look through the whole reading/ chapter to preview it. Approach it by scanning:

- title(s) and subheadings
- summaries or abstracts
- the introduction and conclusion
- visual materials (pictures, charts, graphs or tables) and their captions
- the first and last sentences in paragraphs
- the conclusion
- any focus questions

Note how the reading has been structured and look for the author’s plan. This will give you an idea of the main thesis.

**Q = Question**

Your reading will be more memorable if you QUESTION the material. As you are surveying, note down your questions. Writing down questions keeps you alert and focused on your work.

1. **Ask yourself:**
   - What is this chapter/ article about?
   - What did my lecturer/ tutor say about this chapter or subject?
   - What do I already know about this subject?
   - How does this reading relate to what I already know/ have read?

2. **Devise questions that will guide your reading:**
   - Think about specific questions that you need to, or would like to, find answers for.
   - Read any focus questions at the end of the reading.
   - Turn the title, headings and subheadings into questions. For example, if the heading is Qualitative and Quantitative Research, your question might be: ‘What is the difference between these two types of research?’

3. **Make a list of your questions for consideration.**
   You will use them during revision to help you remember what you have read.

**R1 = Read**

Be prepared to READ material twice. First, read without making notes:

1. Decrease your pace and read actively. Active reading requires concentration, so take your time and find a quiet place where you can read and focus.

2. As you read, look for answers to the questions you noted down earlier.

3. Question the author’s reasoning. Is each point justified? Is there enough evidence? What is the evidence?

4. Compare diagrams and illustrations with the written text. Often you will understand more from them.
5. Make sure you understand what you are reading. Reduce your reading speed for difficult passages. Stop and reread parts which are not clear.

6. If you have difficulty understanding a text, look up difficult words in the dictionary or glossary of terms and reread. If the meaning of a word or passage still evades you, leave it and read on. Perhaps after more reading you will find it more accessible and the meaning will become clear. Speak to your tutor if your difficulty continues.

7. Use reflection to increase your understanding of what you read. When the author makes a claim, reflect on your prior knowledge to support or disprove it. If this raises more questions, note them down. This will help you remember and understand. But keep in mind that you are using personal reflection only as a learning tool—it is not sufficient to prove or refute a research finding.

**W • (R e a d) + W r i t e**

On your second reading, begin to take notes:

1. Take notes from the text, but write information in your own words.
2. Read one section at a time (a section might be divided up by headings or subheadings).
3. After you read a section, try to sum up the main point in one sentence.
4. Note down the main idea(s) of each paragraph in a section. They are often found in the first or last sentence.
5. Examples and illustrations can further your understanding and be good cues for memory. Look for important details (supporting evidence, written illustrations of points, provisions or alternatives).
6. In your notes, underline or highlight the important points. This will be useful for later revision.
7. Refer to the list of questions you made earlier and try to answer them.

**R 2 = R e c a l l**

RECALL straight after you finish taking notes.

You should have an outline of the reading in note form. You should now try to RECALL and write your thinking about what you have read.

1. Close the book and cover your notes.
2. Make notes of what you remember about the main thesis and points of the reading.
3. Check their accuracy against the notes you made during your reading.
4. Return to the reading. Read one section at a time and try to RECALL what you have read. If you were unable to recall one of the major points, then reread that section of the reading to clarify it further.
5. It can also be helpful to RECITE ideas aloud to help you remember. Sum up the main points verbally—reciting can help you put ideas into your own words.

**R 3 = R e v i e w**

Now REVIEW what you have read.

At the end of your study period: Check the accuracy of your notes against the original material (if you have underlined the main points, this should be simple). This is an important part of the process because it can really help you clarify and remember what you have read.

The next day:

1. Read through your notes to reacquaint yourself with the main thesis and key points.
2. Now read through the questions you noted down and try to answer them from memory.
3. Try doing the same thing after a few days.

If you are reading for a course, periodically reviewing notes will help you at exam time. The more you revise throughout semester, the less you will need to cram during exam study periods.

Prepared by The Learning Centre, The University of New South Wales. May be distributed for educational purposes and adapted with proper acknowledgement.
Appendix 2: Writing a Learning Journal

Two of the broad questions that you will be asking yourself during the SM Year are:

- How do I evaluate my competencies as a general manager and how do I improve them?
- How do I learn as a manager? How can I use the learning to be a better manager?

You are required to set yourself personal learning goals for the SM Year that will contribute to your leadership development. At the start of each residential day, time will be allocated for an individual reflection exercise using a learning journal. You will use the journal activity to focus on the previous day’s content and activities and how you can apply your learning, to reflect on achievement of personal development goals, to identify areas for more focused effort, and to identify obstacles to achieving development goals.

We have included the learning journal exercise to encourage you to reflect on both process and content, and to practise this skill in order to incorporate it into your practice as a manager. The ability to reflect on action, then use this information to reshape and refine future action is a critical element to professional practice. You are encouraged to discuss your reflections with a learning partner.

The learning journal reflections and distillations will form part of the content for your final leadership development progress & action plan paper due in the SM3 course. Some descriptors of different levels of critical thinking are presented below.

Smith and Hatton (1994) identify a set of criteria for levels of critical reflection:

Descriptive writing
- this is not reflective, but describes events that occurred, reports on the literature; no attempt to provide reasons/justification for events

Descriptive reflection
- reflective not only as a description of events, but some attempt to provide reasons/justification for events or actions, but in a reportive or descriptive way
  - a. Reflection is based generally on one perspective/factor as rationale
  - b. Reflection is based generally on multiple perspectives/factor as rationale
Dialogic reflection demonstrates a ‘stepping back’ from the events/actions leading to a different level of mulling about, discourse with self and exploring the experience, events and actions using qualities of judgement and possible alternatives for explaining and hypothesising. Such reflection is analytical or/and integrative of factors and perspectives, and may recognise inconsistencies in attempting to provide rationales and critique two forms as in a) and b) above.

Critical reflection demonstrates awareness that actions and events are not only located in and explicable by reference to multiple perspectives, but are located in, and influenced by, multiple organisational, historical and socio-political contexts.' (Hatton & Smith 1994).
Appendix 3: Thinking and Writing in the Strategic Management Year

A Guide for Becoming an Effective Communicator

‘If I had more time, I would have written a shorter letter.’

– Marcus Tullius Cicero.

Resource material for the projects in the Strategic Management Year compiled by Geoff Eagleson, Shayne Gary, Peter Murmann and Rose Trevelyan (April 2008).

This reading is a compendium of advice, collected over the years, usually in response to students’ queries. It need not be read at one sitting. Rather, it is a resource that can be dipped into, read and reread when working on a particular project.

We have written this reading to help and not to prescribe. While reading past projects, we have been struck by the diversity of approaches and presentation styles. We would be disappointed if this reading resulted in restricting your creativity. On the other hand, the skills we describe are essential as the building blocks for the effective communication of a strategic proposal.

Your contribution to improving this reading for future cohorts would be welcome. Any suggestions, comments or queries you have about this material should be discussed with your Residential Leader.

Introduction

Successful general managers and entrepreneurs communicate well. Each of you will have multiple opportunities during your career to carry out a strategic analysis and present the results. The Strategic Management Year has been designed not only to turn you into more competent strategists but also into more powerful communicators. You will be asked to give presentations during the residential and you will write several papers proposing a solution to a strategic problem. Our experience is that there is enormous variability in the quality of strategic analyses and presentations whether done for a course assessment or for an organisation. Some are brilliant; others are very poor. Writing a powerful strategy paper is not an innate ability – we all have to learn to do it well. This reading will help you learn to write compellingly about proposed solutions to strategic issues.
Admittedly business people talk more than they write. Most presentations are verbal, often accompanied by PowerPoint. But even with verbal communications you need to make sure your arguments are strong and can withstand constructive criticism. One way of ensuring this is to learn to develop your arguments in a systematic way and to subject them to the discipline of writing them out. To convince an organisation to adopt your proposed strategy you need to create rigorous and revealing arguments.

The projects in the Strategic Management Year are designed to test your understanding of the course concepts, to test your ability to carry out an analysis using those concepts and to construct cogent arguments to support your analysis and recommendations. While the imaginary audience of the papers you will write during the year should always be senior managers or members of an organisation’s board, you will need to convince the markers of the validity of the result of your analysis. We have found that those papers judged to be compelling by managers are the same papers that receive high marks in the Strategic Management Year.

The project markers will focus on the quality of your analysis and of your presentation. A strong analysis gives comfort that the issue has been well framed, that the recommendation is appropriate and likely to provide a solution. Hence there will be a strong emphasis on the justification of your conclusions. Clearly presenting your arguments will expose the logic and process of the analysis, helping the reader to understand the structure quickly and strengthening the assessment’s veracity.

The two main sections of this reading will discuss ‘Presentation’ and ‘Strategy Development’ skills. First, we will address presentation, as the need for clarity when explaining your arguments to others forces you to specify the structure of your strategy development process.

**Presentation: Clarity through Structure**

The essence of a good presentation is to create an appropriate structure, one that will lead a reader through the argument. A good structure helps the writer as well as the reader and is one way in which the mind can quickly understand and remember an argument.

The key rule for the presentation of a strategic project is always to begin with the ‘takeaway’, the recommendation. This sets the scene for what follows so that the reader knows the conclusions and can follow the logic of the argument supporting it. It is true that the presentation will work best if told as a story. But the aim of a project is to inform about a specific concern. As a result, the issue needs to be explained at the beginning so that the reason for the story will be clear.
This approach is counterintuitive. It is not the way an argument is set out in an analysis, nor is it the way we provide oral information. The temptation is to discuss the context at length before getting to the point. To ensure your presentation is easy to follow, start with the conclusion and then give the arguments supporting it. This rule applies at all levels: to the project as a whole, to sections and, finally, to individual paragraphs.

The first paragraph in a section should describe the takeaway of that section. The last paragraph should provide the link to the next section. A practical test of whether the argument in a given section is clear is to check that reading only the first sentence of each paragraph exposes the logic. The section headings should be informative by signalling ideas rather than being a list of generic categories such as: Introduction, Analysis, Recommendation, etc. Section headings are signposts and logically link the various sections to those that come before and after it.

Each paragraph should follow the same logic as above, with the takeaway as the first sentence. The rest of the paragraph then provides the supporting argument and the final sentence provides a link to the next paragraph.

**How to create a good project structure**

One way of creating a good structure for a project is to visualise the argument by using the ‘Pyramid Principle’. The Pyramid Principle graphs the argument and its supporting logic in a sequence of cascading levels, each one more detailed than the one above. The apex of the pyramid is the overall takeaway or recommendation that the reader needs to find convincing (see Figure 1). The level below represents the high-level argument that justifies the takeaway, usually these are conclusion from your analysis that are then used as section headings in report. The claim in each section heading is then supported by more detailed findings.

![A proper logic pyramid](image)

*Source:* Minto 1998a, p. 35.
The Pyramid Principle has been codified by Barbara Minto in her book *The Pyramid Principle* (1996). This is an excellent resource for those wishing to increase the effectiveness of their presentations. In Appendix 2, we have provided a paper (Minto 1998a) that summarises the book’s key ideas. Read that paper now and summarise its content. Take an argument that you have already made or one that you wish to make and go through the discipline of putting it into pyramidal form.

Minto’s article lambasts the habit of structuring presentations around standard headings. She makes the point that such headings can be useful in indicating stages that an analysis must go through but they do not facilitate communication and understanding. To do that, the writer has to expose the underlying relationships between ideas. That necessitates the separation of ideas into levels of abstraction. The Pyramid Principle asserts that clarity for a reader is greatest when the ideas are presented in descending order of abstraction. The high-level takeaway is presented first, followed by the next level of argument and so on.

If your presentation is based on the Pyramid Principle, the logic will be easy to comprehend and assess. Following are two examples that illustrate this.

Read the following article by Tom Peters (available from his website). You will find it engaging and easy to read. But can you articulate to someone else exactly what his argument is? When the argument is spelt out in pyramidal form it becomes clear that the evidence provided for the takeaway is far from compelling.

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**The Design Opportunity**

**Posted on August 31, 1987**

Tom Peters

I wrote this column with an $18 black Cross pen. The ink flow is superior, but on that score I find a 35-cent Bic more than adequate. My addiction to Cross is due to the pen’s design – its heavy weight, smooth feel, sleek look.

As markets become ever more fragmented and as product offerings proliferate, the search for differentiating features grows ever more frenetic. One arena that doesn’t receive enough attention is design.

Design has long been the secret weapon of many successful companies, from furniture maker Herman-Miller, whose whole strategy is design-centered, to Black & Decker, Sony, Mercedes and IBM.

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*continued*
IBM’s Tom Watson Jr. was a design fanatic. Despite occasional fiascos, such as the first PCjr’s too-soft-touch keyboard, design has permeated the firm’s approach for decades – not just the shape and styling of products, but also the look of its offices, the graphics in its logo and even the format for its order forms.

This pervasive approach is described by American industrial design consultant Michael Shannon, ‘Design is the company’s strategic objective made buyable, made REAL in customer terms. It is how the company looks, feels, tastes, wears, rides – what the company is that customers care about.’

Another computer maker, Apple, made design its premier strategic weapon from the start. An unintimidating look and numerous ‘user-friendly’ features have been the cornerstones of its effort to gain widespread acceptance of the computer. And once more, Apple’s concern with design is reflected in every aspect of the firm’s operations.

London Financial Times management expert Christopher Lorenz forcefully argues in a thoughtful book, The Design Dimension, that design must routinely become a principal strategic tool. He asserts that an ‘industrial-design vision’ must drive product development as much as the ‘marketing vision’ (spearheaded by market research, advertising, etc.) and the ‘engineering vision’ (which concerns technical specifications). Shannon convincingly makes a similar case, and suggests that most firms create a role ‘Vice President of Design, reporting to the CEO.’

Such positions do exist, but, unfortunately, not in most American firms. This is one more element of growing importance that we are neglecting, which keeps American firms at a disadvantage vis-a-vis our most important competitors – such as the Japanese, Germans and Swiss. Sony has a senior design position and, of course, a remarkable history of design-led innovation. Sony’s industrial designers usually set the parameters for new products, which the engineers then follow. This is the opposite of the norm in most U.S. firms, where designers are handed the job only after the engineers have done their thing.

One major U.S. exception is the smashing success of Ford’s Taurus and Sable, which provides the most visible example of design’s importance in recent years. The cars’ distinction goes well beyond their aerodynamic look. Ford concertedly attempted to outdo the best car makers in the world on hundreds of small details – from an easy-to-remove gas cap to an owner’s manual that readily flips open the first time you use it. Detroit’s more usual failure to consider such fits and finishes has been a major contributor to its downfall relative to both the Europeans and Asians. (The Japanese have not slackened, to be sure. Honda’s Acura is a monument, even by its high standards, to such considerations. First-year model acceptance has been unprecedented.)

Last summer I was in Norway, far north of the Arctic Circle for a couple of days. While wandering through a small-town hardware store, I picked up a hammer, which was heavy and which I did not especially need. Nonetheless, I instinctively shelled out the $8.95 to purchase it and carried it home 6,000 miles, in my already over-loaded suitcase. Today, when I’m not using the tool, I keep it on a bookshelf in full view, instead of storing it in my tool chest. The reason for my odd behavior: design. The hammer is beautiful to look at, feels good and works.

Several days after I brought the tool home, I got a flat tire. While changing it, I cut my finger on a metal burr on the surface of the lugwrench. When thinking about the hammer, it occurred to me that the lugwrench need not be ugly (which it is) nor have such rough surfaces. The maker can’t use production costs as an excuse (I’ve inquired); it simply did not pay attention to design.

continued
Cross (which, by the way, is very successful in design-conscious Japan), Apple, Sony and the maker of my tool from Norway understand the strategic influence of design. Whether a company opts to add a Vice President of Design to its staff or not, there is no question that the design dimension -- style, fits and finishes, including manuals and forms, and the overall image of the company to customers -- presents an enormous opportunity. It’s one more element of the quality and management revolution that Americans must learn to value and to implement.

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One representation of the pyramidal structure behind the above paper is given below. It is not necessarily the only such structure. At least it allows someone interested in the strength of the logic to make an informed assessment.

Figure 2 Example of pyramidal structure behind ‘The Design Opportunity’ by Tom Peters (1987)

U.S firms can improve performance through using design as a strategic weapon

Design is a critical success factor

On the whole, U.S firms do not pay attention to design

Yet there are many examples of firms that compete on design

Experts say so
  • Shannon
  • Lorentz

Customers (i.e. Tom Peters) react to design both good & bad
  • Pen
  • Hammer
  • Lugwrench

No designer appointed at top

Examples of poor design are plentiful
  • Lugwrench

U.S
  • IBM
  • Apple
  • Ford
  • Cross
  • B&D

Others
  • Sony
  • Honda
  • Mercedes
What becomes clear from this graphical representation is that the argument presented is far from compelling. Is it true that ‘Design is a critical success factor’? The claim is based on biased sampling: two experts who agree and Tom Peters as a representative of customers. The arguments supporting the claim that ‘On the whole US firms do not pay attention to design’ are weak. They could have been strengthened if it was shown that all the firms listed both had a designer at the top and had produced no examples of poor design. Finally, while examples of firms that compete through design are given, it is not shown that doing so always generates success.

All of the above does not mean that the argument cannot be strengthened, or, for that matter, that a more convincing pyramid cannot be drawn. The point of this example is to show you how difficult it can be for a reader to assess an argument if it is not presented in pyramidal form.

When a project’s arguments have been developed and shown in pyramidal form, they then have to be turned into prose. In our second example, Minto (1998a) considers a printing company that has been having difficulty attracting and retaining compositors with a consequent dependence on excessive overtime – a situation that is unsustainable. One of the possible solutions is to increase the compositors’ wages. The argument for doing this is shown below in pyramidal form.

![Figure 3: An example of a first-level argument](source: Minto 1998a, p. 34.)

Minto translates this argument in the following way:

“**Raising Wages**

The company’s first step should be to raise wages to competitive levels. It pays lower wages than other printers in the area and is consequently finding it difficult to get and retain composition. Indeed, two compositors just quit, leaving the department with fewer people than budgeted. As a result, most jobs are running behind schedule, and overtime hours exceed budget by more than 50 percent.”
The best way to translate a structured argument into a story will depend on the aspect of the problem being considered. For example, Minto (1999) suggests that the story told in an introduction should consist of three parts: a **Description** of the situation that will not be contested, a **Complication** that has arisen, leading to a **Question** that needs to be answered.

Story telling will be a continuing theme throughout the Strategic Management Year. Business models are essentially stories that explain how a business will make money (Margetta 2002); the need for substantive change is best communicated through story telling (Phoel 2006). For extra details about writing a presentation and the power of story telling, see Minto’s (1996) book.

Structuring an argument to conform to the Pyramid Principle is very difficult. But the clarity that ensues makes the effort well worthwhile. Finally, to complete this section on presentation, we provide some useful tips for writing a project.

**Tips for writing a project**

**Structure and style:**

• The project is to be written as a paper and not as a slide presentation. It is to be a rigorous piece of writing where the emphasis is on the argument’s validity and strength rather than the applicability to a particular business. It should be written as prose though, of course, sometimes it may be efficient to order things in bullet points or summarise information in graphs and tables.

• Be focused in your presentation. Projects are not showcases for all that you have learnt, nor do they need to include all analysis that you have made. They represent an opportunity to apply concepts and frameworks selectively.

• Use terminology that any outsider would understand. Avoid acronyms.

• Remain emotionally detached. Provide signposts. Remember that the reader does not know what is in your mind.

• Logically link the paragraphs within a section to each other.

• Avoid presenting analysis that does not support your recommendation.

• Use footnotes sparingly. The worst projects use footnotes for several different purposes within the one project. Don’t hide material that is crucial to the argument of the paper in footnotes.

• Leave out all tables, exhibits, appendices and diagrams unless the text refers to them and they support the argument presented in the text. Put crucial information in the body of the paper. Tables, exhibits, appendices and diagrams are for supporting material.
• Short sentences are always clear. Clear writing is more credible than sloppy writing.

• Devote most space to explicit justification of your claims by presenting evidence and arguments that support them.

Composing and editing:

• Editing is an interactive process. First you should aim to get all your information on paper. You can then polish each paragraph so that it satisfies the rules above. Then you can check the flow and re-order the paragraphs as necessary.

• Check that the main point is in the first sentence of a paragraph.

• Check the flow by reading only the first sentences of each paragraph.

• Spelling mistakes, grammatical errors, erratic punctuation and inconsistent layout irritate the reader. The most convincing projects are carefully polished.

• Use one standard system for referencing materials from other authors – the Harvard (author-date) system is required for all Strategic Management Year projects – and apply it consistently.

• Finally, you may have to delete material to achieve the page count. To do this, for every paragraph and every word, ask whether they add value. Adjectives can be the first to go; they often add little to the argument. Saying something is ‘very important’ or ‘extremely important’ is no better than saying it is ‘important’. Words are often wasted in phrases such as ‘restructure in order to achieve X’; ‘restructure to achieve X’ would serve the same purpose. Remember that you are not trying to tell the marker everything you know. You are demonstrating that you can tell a compelling, supported story.

• There is information about writing skills, academic styles and referencing in the ‘AGSM Learning Guide’ on Moodle.

• Before turning in your paper, ask other people who have not done the analysis and who are not MBA students to read your paper. Rewrite those parts of the paper they cannot easily understand.

We have emphasised the importance of clarity and suggested that structuring the presentation by the pyramidal thinking process will ensure that the project is easily understood and easy to assess. However, a project can be well presented but the arguments can be false or not compelling. The rigour of the arguments and the comfort provided about their validity will depend on the quality of the strategy development process that has been used.
Strategy Development: Rigour through Process

The strategy development process is the way you develop your off-line thinking and arguments (when you come to the presentation of the results you will need to use the Pyramid Principle). The main components of the process are:

- **framing** the problem to be solved or the question to be answered;
- **analysing** the environment (both internal and external);
- **synthesising** information and experience to generate options;
- **evaluating** the options; and
- **articulating a recommendation**.

While these activities are shown in a linear form (Figure 4), the reality is that a good strategy development process is dynamic and iterative. It should be a learning exercise with arguments that will be continually revisited as more information and insight becomes available.

Figure 4  *The strategy development process*

The desired outcome of a strategy development process is a recommendation to do something that will (it is argued) address the issue at hand. The analysis must be rigorous in order to persuade others that, on the balance of probabilities, if the recommendation is followed then the issue will be resolved. It is important that the argument for the action be as compelling as possible both from the point of view of the reader and that of the writer.
If you recommend a solution to a strategic problem you need to know that your recommendation is the one most likely to succeed, that its risks are articulated and mitigation strategies can be employed. For, if your suggestion is accepted, time, effort and money will be expended on its implementation. It is then not a good outcome if your solution does not solve the problem.

The success of a strategy, devised as a way of achieving certain objectives, is not certain because the strategist cannot control or predict all the factors that play a role in making it so. All strategies are bets in the sense that they assume that if you do something then an outcome will follow. As a particular strategy cannot be guaranteed to deliver the desired outcomes, the risks associated with it need to be spelt out and assessed. The strategy development process is a structured way of doing this.

Framing the issue – the question you ask determines the answer you get

It is critical to correctly frame the issue to be addressed. As an example, one of the authors was staying in a hotel in Rome and asked the reception staff where to find an Internet café. They were given instructions that involved a 15 minute walk but which did indeed lead to such a café. On return to the hotel, they noticed a VDU in the foyer which another guest was using to access the internet. The question you ask determines the answer you get.

In order to justify an analysis there must be a business issue. One of the first things you must do is to identify the issue that will drive your analysis. If you cannot articulate the issue clearly, the project will not be focused or coherent.

The issue you decide to analyse has to be seen in the context of the high-level objectives of the organisation. Those objectives will depend on the organisation’s industry, its governance structure and its major stakeholders. In the Strategic Management Year recommendations generally will be to pursue either an opportunity to generate new sources of returns or to change current practice to alleviate poor performance. In the first case the analysis leads to generating and assessing opportunities for growth. In the second case the analysis leads to the identification of root causes of the poor performance.

Identifying the issue

That having been said, identifying an issue is not that easy. When diagnosing poor performance, for example, there is always a temptation to provide a solution or a cause (which should be the outcome of the analysis) rather than an issue. Consider the following dialogue, teasing out the issue for an insurance company that was concerned about declining market share.
Student: Our issue is that the Underwriting function is out of fit with the Sales and Distribution functions.

Instructor: That sounds more like a cause than an issue. Even if it is true, so what?

Student: Well, the underwriters do not understand the market.

Instructor: So what?

Student: The underwriters are designing products that do not meet the customers’ needs.

Instructor: So what?

Student: The market sees our products as dogs and we are losing market share.

Instructor: Now, that’s an issue!

An issue is something that management would act to rectify – if they knew about it. An issue is something that would keep your manager awake at night. So think about phrasing an issue in a way that would grab the attention of senior managers in your organisation.

If the overarching issue is one of poor performance, the analysis will involve a diagnosis of the root causes. In this case, the process described above is a good way of making sure that you have arrived at an issue. If you can ask ‘so what?’, and get an answer, you still do not have an appropriate framing of an issue.

In all the major projects throughout the Strategic Management Year you will often have to make a decision about the level of generality or specificity used. The ‘so what?’ test can be taken to extremes. If pushed far enough, all issues, at least for organisations needing to generate a profit, seem to come down to one of three:

• we have lost money;
• we are losing money;
• we are about to lose money!

These bold statements will certainly attract management’s attention. They are, however, somewhat generic. The best framing of the issue for the project in the insurance example above was a more specific one: it identified the way that money was and will be lost.
We have devised a specificity test that some have found useful. When you have identified an issue ask how your issue is different from the issues facing other organisations. If you want to make a recommendation that will be meaningful to a particular business, you need to bring specificity to the issue you are analysing. By coming down a level from the generic loss of income we provide a level of detail to differentiate your organisation from others. After all, there are many ways to lose money!

Of course, money is not the only indicator of success, especially if the organisation in question is a not-for-profit or a government department. In these cases there will be other performance indicators and a well-framed issue could relate to the non-attainment of agreed targets for these indicators. The learning from the above example is that when poor performance is of concern, a process of querying the consequences of a particular articulation of the issue may lead to a higher-level issue that is better framed.

Finally, the issue you decide to investigate should be strategic. But what makes an issue strategic? Is the need to cut costs operational or strategic? It can be both, of course. It is strategic when it is critical to the delivery of some value proposition to some stakeholder. Thus the issue you study could relate to an inability to deliver the espoused value proposition in the market. Or it could relate to an inability to achieve growth targets. Or it could relate to the inability to deliver a profit. In the latter case the relevant stakeholders are the owners of the organisation for whom the value proposition is a reasonable return on investment.

**Specifying the unit of analysis**

A final aspect of framing the problem is the choice of ‘Unit of Analysis’. If this choice is not made explicit and kept fixed and clear, the consequent analysis will be confusing, if not wrong. Clarity in the analysis will come from choosing a unit of analysis that has a relatively homogeneous set of strategic imperatives. For example, if you are working in an oil production company, different well sites will have different strategic imperatives and so require different analyses. If you want to study a call centre, remember that not all call centres are the same; some are focused on transactions, some on sales and others on solutions and advice. The strategic imperatives for these different call centres will be different, as will the ways they should be managed.

In some circumstances students are (rightly) concerned about the confidentiality of their unit of analysis. The School covers this eventuality through a standard Confidentiality Agreement. If you are concerned about confidentiality, there are ways of disguising the organisation to protect confidentiality such as:
• label the organisation by the industry, such as, archico, for an architectural practice;
• label the organisation by a more general term, such as 'service company' or even more generic, 'Company Q';
• describe the products and work procedures by generic labels, for example, signature identification technology (used in banks) can be relabelled 'imaging technology';
• if necessary, alter the details of the case deliberately so that unimportant data are changed, but without the knowledge of the audience/reader. For example, ‘the company headquarters is located in Brisbane’, when in fact it is located in Adelaide; you can also make the company international, or change its size, if neither of these affects the context of the change;
• change the names of individuals and/or alter their role descriptions if it doesn’t impinge on their work;
• falsify insignificant data if necessary; and
• as a last resort, you can report on a strategic issue for an organisation that is not the one in which you work.

Strategy development analysis – acquiring deep domain knowledge

Strategy development analysis follows an iterative pattern of divergence followed by convergence; of analysis followed by synthesis. A divergent phase is necessary to collect all the information that may be required. The convergence phase filters that information to articulate hypotheses that could explain what has been observed. These hypotheses can then be tested, collecting new information as required. If the hypotheses are disproved, the data are revisited to find alternative explanations until insights are achieved that can form the basis of options for action.

The desired outcome of the analysis is the attainment of deep domain knowledge. Deep domain knowledge is one of the five traits of leaders of new growth opportunities as identified by GE. The five traits, all of which you will need when developing a strategy are (Stewart 2006):

• An external focus;
• Imagination and creativity;
• Decisiveness;
• Proactively seeking input from others;
• Deep domain expertise.
Collecting background information – know what you know and know what you don’t know

If you are looking for a new business opportunity, you will need to collect data about the market, about technological developments, about the critical success factors of the industry, about competitors, about your current capabilities etc. A critical skill in strategy development is the ability to understand the context in which the business operates. This requires the ability to scan the environment (both internal and external) with an open mind.

If you are looking to correct dysfunctional performance, you will need to collect data about current policies, about best practice in the industry, about the strategic trade-offs that have been made in the past, about performance metrics and data, about the key performance drivers of the business etc.

Most of us find this divergent phase of the analysis process unsettling as it is unstructured with no clear outcome. But avoiding it will result in ‘jumping to conclusions’. It is one way of mitigating the risks of not identifying the most appropriate solution available. It can be made less messy by structuring the mass of data in different ways.

A very powerful approach is to structure the entire problem solving process prior to your primary data collection and analysis efforts. The logic for evaluating an idea is no different than that used to tell the ‘story’ to sell the idea. More often than not, this logic can be fleshed out in advance and used to guide the data gathering and analysis process. More importantly, laying out the logic of the story explicitly and as early as possible will help you to ensure that no key issues are overlooked in your data collecting. At the same time, it will help you avoid boiling the ocean dry in the process. This is the classical consulting technique that Minto refers to in the article in Appendix 2 (Minto 1998a). The key features of this consulting technique include the concepts of issue trees and hypothesis trees. Both of these concepts are presented in summary form in Appendix 3. Read this paper and compare its key message to that of Minto’s article in Appendix 2. Then think about an idea for a new business. How would the insights from this paper help you to develop a strategy for pursuing the idea or to flesh out one or more fatal flaws?

Another way to structure the information collected is to use the tools that the course will introduce you to: The Congruence Framework, Porter’s Five Forces, Value Chains, Capabilities audit, etc. These tools are used to create simplicity in complex situations through segmenting the issue into homogeneous sub-components. They can be used as checklists to ensure that all the important aspects of a business have been considered. They are lenses that structure the issue from different points of view. The frameworks that are used should be those that are most relevant, where relevance is defined by the appropriateness of the framework’s assumptions.
An example of the use of Porter’s Five Forces framework to understand the industry environment, taken from a student’s project, is given in Figure 5. Here the company was providing maintenance and spare parts for the production lines of manufacturers. The recommendation was that it should leverage its capabilities and change its focus to production, supplying production components or sub-assemblies for use in finished products.

The choice of frameworks to use will determine the questions that can be asked and hence the answers that you will deduce. Using the frameworks to collect and organise contextual data is useful for three reasons: they provide a process to follow, they force objectivity and they will provide a link to the hypotheses generated.

The frameworks can generate further insight when the same framework is applied to two different organisations at the same time. For example, a Five Forces analysis of an industry could be carried out from the point of view of your organisation and also form the point of view of a competitor. Comparing and contrasting the outcomes could provide valuable insights. Or you could do an internal analysis of your business today and what you would like it to become, using the Congruence framework. This could identify the capability gaps between the two structures.
The next stage of a strategy development analysis is a convergent one: synthesising what has been observed into a series of hypotheses that will explain how the observed data have been generated.

**Generating plausible hypotheses – explaining what you have observed**

At this stage of the analysis process the critical skill is explaining what may be the causes behind the data you have observed by creating hypotheses: hypotheses about market needs, hypotheses about competitor reactions, hypotheses about industry dynamics, hypotheses about the root causes of poor performance, etc.

One way of generating ideas that can be framed as hypotheses is to create boundaries to confine the options. The argument is that free-wheeling brainstorming is, at best, inefficient, while the rehashing of existing data is likely to produce incremental improvements rather than breakthrough ideas. The idea of taking a middle course – thinking within a specially constructed set of constraints – has been described in a Harvard Business Review article (Coyne, Clifford & Dye 2007). The article reiterates the importance of asking the right question. Twenty-one ‘Great Questions for Developing New Products’ are provided, as is an example of how a simple logic-tree can be used to generate new questions and ideas.

This process of hypothesis generation to explain results that do not follow from existing theory is called Scientific Problem Solving or Abduction (to distinguish it from Deduction and Induction), (Dew 2007; Minto 1996 – Appendix 2). The process of generating an hypothesis that would, if true, explain the data observed, generates possible explanations that can be exploited later in the strategy development process. The hypotheses generated should be plausible, able to be disproved and central to the development of the analysis.

When hypotheses are articulated they allow the analyst the opportunity to disprove or confirm them by identifying outcomes that would follow from their validity and checking for those outcomes. The process is to shift our hypotheses from the realm of the possible to that of the probable. The hypotheses should have explanatory power, not simply be descriptions: “‘Naming something’, said Alice to the Red Queen, ‘isn’t the same as explaining it.’” (Lewis Carroll)

All explanations you hypothesise should be justified. Typically you can only disconfirm a hypothesis. You can show it to be invalid by showing that a logical consequence does not hold. You cannot prove a hypothesis. What you can do is show that, on the ‘balance of probabilities’, it is more likely to be valid than not.
If the hypothesis is about association or trends, it can be justified through the use of appropriate charts and graphs. But be aware that association does not imply causation. If the evidence is qualitative, the justification can be strengthened by using different sources of information (triangulation) and seeking ‘convergence of insight’ (Jick 1979; Eisenhardt 1989).

Some other ways of arguing that a hypothesis is likely to be true are to:

• Show that it is consistent with a known theory;
• Quote an ‘expert’;
• Show that predicted consequences occur;
• Find situations where the hypothesis is clearly not true and yet there are results that are the opposite of those that you observe.

If all else fails,
• eliminate all other alternatives.

Strategy development synthesis

The synthesis part of the strategy development process requires creativity and non-linear reasoning (Kilroy & McKinley 1997). The analysis part of strategy development used classical, linear reasoning. You gathered data, analysed them to gain insights which were then tested to check they were plausible. Now you combine the insights from the analysis, your experience and intuition to create strategic options for actions. After creating the options you seek to justify choosing one of them.

Generating options for action – you won’t choose an option if it is not on the table

There is rarely one ‘right way’ to address a strategic issue. Businesses will opt to compete in different market segments, offering different products or excelling in different parts of the value chain. There will, therefore, be many options that are feasible.

Because of restrictions on the project length, it is sensible to generate no more than two options for a particular project. This may not be what you would do in your organisation, but the comparison of two options will allow the marker to assess your skill in formulating and justifying a recommendation. Presenting two options shows that you have thought hard about alternative options. When you know that your audience is already predisposed to pursue an option that you are not recommending, it is crucial that you show how your proposal is better than the one they were inclined to pursue.

Whatever the options are, there should be some distinction between them. Organisations and individuals face budget and time constraints: pursuing one business opportunity means that you cannot pursue another one.
If you generate two ‘options’ and a third option could be to do both, you do not have the options well enough defined. In one strategy implementation project the options were listed as:

- restructure to a functional design;
- introduce standard operating procedures;
- focus the measurement systems on cost and efficiency;
- re-engineer the major processes;
- all of the above.

The last ‘option’ on the list highlights the weakness of this framing. The ‘options’ are at too low a level and are not mutually exclusive. While options may have some overlap, adopting one should preclude the other since any manager who is presented with two options that are not mutually exclusive will choose both.

The above example needs to be more abstract. The basic options here could be (besides continuing to operate as at present) to take responsibility for the inefficiencies and solve the problems within the organisation or to outsource and manage the service contract. Now we have two options we can compare and contrast: outsource and manage others to do it right or own the solution in-house and manage it yourself.

As well as being mutually exclusive, the options in a project should be realistic: they should not be able to be rejected without an argument. To ensure this, make sure that all options considered create some sort of value in an unique way.

An example of strategy options for the Australian subsidiary of an international food company, from another student project, is:

‘There are several options available for entry to this market and these include:

- Local acquisition of a new product;
- Development of a new brand;
- Roll out an established product from the parent’s European or American operations.’

**Evaluating options – the art of the Devil’s Advocate**

How is it possible to justify one solution when there are many solutions, all of which may solve the perceived problem? There are two standard ways of justifying a recommendation: argue from theory or generate and compare options.
In rare cases there will be only one sensible option available. When that happens its justification is usually based on some theory. For example, if the strategic imperatives for your chosen organisation are similar to the standard generic ones (Miles et al. 1978), the theory of alignment will specify the most appropriate configuration for the internal architecture. When using this way of justifying, remember that most theories in strategy are based on correlational analyses. Some organisations that break the rules will be successful just as some organisations that stick to the rules will under-perform.

No one solution will be perfect and, in fact, all proposed solutions will have unintended negative consequences that have to be managed. Another way of justifying a solution is to consider a number of options, comparing them and then choosing the one that seems to be optimal. Optimal can mean that it is the cheapest solution, the one that will disrupt the business least, the one whose downsides can be managed, the one that satisfies requirements of legality and morality, etc. Whichever solution is proposed it has to:

- Be creative;
- Be unique in some way;
- Solve the issue that generated the analysis;
- Leverage what the organisation is currently good at;
- Be best amongst the available options; and
- Come with a plan to manage its downsides (remember that strategy is about making trade-offs (Porter 1996)).

**Articulating a recommendation – exposing the risks**

The final part of the strategy development process is articulating the recommendation. In a strategic project the final recommendation is a hypothesis of a particular kind; it is an ‘If/Then’ statement either explicitly or implicitly. The recommendation will propose doing something (recognising that deciding not to proceed is also an action); it is an action to be taken to achieve a particular strategic objective. What needs to be assessed is how likely the proposed action is to result in the desired outcomes.

When making a recommendation, describe it in specific terms. Do not say ‘I recommend a move to a regional structure’. Do say ‘I recommend that four regional divisions be created: North (including Queensland north of Brisbane and the Northern Territory), South (Tasmania, Victoria), East (NSW and South-Eastern Queensland), and West (South Australia and Western Australia). The regions have been created to create areas of roughly equal market size and to reflect the seasonal nature of the market’.

Do not say ‘I recommend that the organisation improve its HR skills’. Do say ‘I recommend that the organisation improve its skills in selecting sales staff’.

Draft
Double check that the recommendation proposed addresses the issue. If the issue is that the organisation has to lower costs to compete in a mature market, and you propose a new structure, you have to prove that the restructure will most likely lead to lower costs. The link from your recommendation to your analysis and from your analysis to the issue must be explicit and clear. Provide a balanced argument for your recommendation, describing its strengths and weaknesses.

The strength of the recommendation depends on its internal consistency, the likelihood of its solving the issue and the potential for managing any downsides. Every proposed action will have downsides, some of them unexpected and unintended. Some of these could have been predicted by using a systems lens or game trees to expose potential interactions.

The act of implementation will stimulate reactions both inside and outside the organisation. No proposal is implemented in a vacuum. The potential interactions are one part of the risks attached to the proposal. There is an argument that the best option to choose is the one whose downsides are understood and can be managed. After all, few organisations fail because they are unable to manage the upside of a proposal well.

For example, one of the risks for the Australian subsidiary of an international food company mentioned above if it uses an American product is lack of acceptance. This is discussed in the extract from the project below:

There are several risks and limitations in relation to the Australian launch of the American product and these are discussed below along with suggestions to mitigate them.

**Lack of Acceptance** – There are two elements to this risk. The first is that the concept is blatantly American and may therefore fail to be accepted by Australian consumers. The second is the perceived indulgence of the product that may be counter to emerging trends for health and nutrition. Nestlé have recently purchased Jenny Craig and are seeking to position themselves as a relevant nutritional offer with a balanced portfolio of products. Nestlé is now able to partake in consumer’s lives on whole new level. It has now branched into services.

Market research will be conducted early on along with a pilot store to test the market acceptance of the brand. While it is true that health and nutrition and functional foods are a growing trend there is also a shift towards indulgence and reward with consumers adopting a ‘debit & credit’ approach to their diets to allow for indulgent consumption (Research and Markets, 2006). The new product can be positioned as a wholesome, natural brand with real ingredients and is therefore aligned with natural foods.

Reference:

http://www.researchandmarkets.com/
A good recommendation will include a risk analysis and a risk mitigation strategy. The key assumptions behind the recommendation should be listed and a sequence of milestones identified to ensure that the implementation is approached in an experimental learning mode (McGrath & MacMillan 1995).
Appendix 3a

Think Your Way to Clear Writing

Barbara Minto

ON THINKING, COMMUNICATING & WRITING

Think Your Way to Clear Writing

BARBARA MINTO

We all know that management consultants, not to mention corporations, can produce the dullest writing in the world. I’m not talking about the everyday letter or memo, which is generally too short to be boring. I mean the thick reports and proposals, the lengthy slide presentations, the detailed explanations of why or how to go in a certain direction, that, for most consultants, are the backbone of communications to clients.

The prospect of settling down to absorb any of these missives or to sit through a two-hour presentation can positively make the eyes glaze over. Yet usually these very dull documents are the product of extensive analysis, by very bright people, who have developed good insights of real value to the client firm. What happens to make the communication of those important insights so turgid and tedious?

Nothing happens. That’s the problem. Or at any rate, the serious thinking necessary to transform so somewhat indistinct insight into a clearly stated set of ideas never takes place. Hence the complaint, “I know what I want to say, but I can’t say it.”

There are generally two forces at work here. First, the corporate culture—perhaps aided and abetted by consulting firms—doesn’t permit written documents to reflect thinking and, even if it did, the writers wouldn’t know how to go about doing it. Underlying both these forces is a worldwide belief in the organizing power of Headings and Lists—the two most notoriously useless “analytical aids” ever offered to a newly minted MBA.

Corporations as well as their consulting firms, in an effort to impose some order on the final product, tend to require that writers support a predetermined set of headings. FINDINGS, CONCLUSIONS, RECOMMENDATIONS is one example. OBJECTIVES, SCOPE, BENEFITS, APPOACH is another. The writers respond to these unhelpful strictures by making lists of points they hope will make the heading stand out. The result may look organized, but it is hard going for the reader.

This article attempts to explain why imposing headings in advance virtually forces lack of clarity, and to suggest instead an approach that will guarantee the reverse.

The Purpose of Headings

Headings are meant to break up the sections in long documents, indicating where one section ends and the next one begins, thus allowing the reader to take in the thinking in logical “chunks.” The fact that there are sections implies a pyramidal hierarchy of ideas, in which sentences have been grouped together to form paragraphs, and paragraphs to form sections, all leading upward to the single summary point of the document, like that shown in Figure 1.

Distilling business missives into usable nuggets is to develop the art of thinking—knowing what you want to say and discarding age-old “formal” writing habits in order to say it clearly.

La distillation de lettres d’affaires en arguments convaincants représente le développement de l’art de la pensée; réaliser ce que vous voulez dire et rejeter les vieilles habitudes de formules “officielles” afin de vous exprimer clairement.

Geschäftsbriefen in günstige Gelegenheiten zu verwandeln, das bedeutet die Kunst des Denkens zu entwickeln—zu wissen, was Sie sagen wollen und alte “formale” Schreibgewohnheiten abzulegen, damit Sie es klar sagen können.
To form such a pyramid, the writer has to group together related ideas at the lower levels and then summarize them to discover the ideas appropriate to the higher levels. This process of grouping and summarizing lower-level ideas to discover the higher-level idea implied, is what is meant by thinking. And the resulting ideas are then most easily grasped by a reader if they are presented from the top down, forcing the reader into a question/answer dialogue with the writer.

Thus, a portion of a pyramid comprising the ideas shown in Figure 2 might translate into this paragraph, preceded by this heading:

_Raising Wages_

The company’s first step should be to raise wages to competitive levels. It pays lower wages than other printers in the area and is consequently finding it difficult to get and retain compositors. Indeed, two compositors just quit, leaving the department with fewer people than budgeted. As a result, most jobs are running behind schedule, and overtime hours exceed budget by more than 50 percent.

As you can see, what goes in each box is an idea—a full sentence that raises a question in the reader’s mind because it tells him or her something not previously known (your thinking). Because a section exists solely to explain or defend its summary idea, the most appropriate heading for this section would be the one that reflects that idea. The heading for the section cannot possibly be imposed in advance of developing the idea because, sadly, there is no way to know precisely what the point will be until the underlying thinking has been completed, and one section’s relationship with the other sections has been established.
It is true that the process of problem solving is often thought of as gathering FINDINGS that lead one to draw CONCLUSIONS, from which one or more RECOMMENDATIONS might be developed. But that is a description of the stages of the analysis, not a recipe for communication. It overlooks the pyramidal relationship already inherent in the words—the fact that groups of findings cannot usefully be separated from related conclusions, since the conclusions are derived from them, as shown in Figure 3.

To insist that someone organize his or her thinking to present first the FINDINGS, then the CONCLUSIONS, and then the RECOMMENDATIONS forces precisely this separation, and very nearly guarantees that the disciplined grouping and summarizing process that must underlie the development of clear thinking will not take place.

The use of a heading instead of an idea in each upper-level box, as shown in Figure 4, encourages the writer simply to list any points that match the category, rather than those that can be justified because they explain or defend a stated idea. The result is bound to be turgid, boring reading because the lists will imply rather than state the points they might support.

The Limits of Listing
There is nothing wrong with making a list of points as the beginning step in determining one's message. The danger is in presuming that the list alone communicates the message, and that making the list completes the thinking process. What's missing is the determination of the exact nature of the relationship between the points listed, and then the expression of that insight as a higher-level idea. Without that, little communication takes place.

To illustrate, here is a list of an analyst's "findings" about his client company's sales proposals:

Sales Proposals—A
Your sales proposals can demonstrate a new image to your customers through improvements in the following areas:

Barbara Minto is the first female consultant ever to have been hired by McKinsey. In 1966, she was transferred from the United States to London, to concentrate on developing the writing skills of their growing European staff. Minto still lives in London, but since 1973 has run her own firm, Minto International, Inc. She specializes in teaching the Minto Pyramid Principle to people whose major training is in business or the professions, but whose jobs nevertheless require them to produce complex reports, analyses, memoranda, or presentations.
1. More effective Opportunity Analysis to ensure that we maximize the utilization of resources
2. Establishment of a single quality process for proposal development, standards for content and packaging, and a system for continuous quality improvement.
3. Maximize the reuse of proposal information.
4. Share the knowledge and experience of those involved in the proposal process, both within the company and the industry as a whole.
5. Become more cost-effective in proposal preparation.
6. Further reduce response time.
7. Focus the proposed process on customer needs as a sales tool (not a mechanism for transfer of technical information).

All the points no doubt are true, but that does not guarantee that the writer is communicating a clear message. He next needs to see how the ideas relate, and then state the insight inherent in that relationship.

Then his message will be easy to absorb and understand, and he can look critically at what he is saying to determine whether there are any gaps in his thinking.

Sales Proposals—B
Your proposals do not act as effective sales tools because:

1. You don’t give them a compelling message. (1, 4, 7)
2. You don’t produce them efficiently. (3, 5, 6)
3. You don’t make them look outstanding. (2)

Such a grouping not only communicates its message clearly, but also offers a base for further thinking on the part of both the writer and the reader. And my goodness, what a pleasure to read by comparison.

Here’s another difficult-to-grasp list of “findings”—an assessment of an insurance company’s Information Systems department. The insurance company was planning to enhance its current information systems with new applications software, and at the same time migrate its mainframe applications to a new platform.

Information Systems—A
Our assessment of your Information Systems (IS) indicated:

1. Inexperience is present at the project manager position.
2. The IS culture allows target dates to be “slipped” rather than implementing creative alternatives to achieving the target dates.
3. Project managers have not installed “mission critical” systems of this size or complexity.
4. Project managers have limited, if any, classroom or on-the-job project management training or practice experience.
5. Estimates, time frames and schedules for “mission critical” projects are at a high level; the ability to achieve the time frames appears risky and suspect.
6. The current system development environment does not provide the methodology, tools, or techniques required to support client/server development, such as Rapid

**Figure 5** ALLOCATING COSTS—A

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Scope</th>
<th>Objectives</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine how other well-run mobile communications companies assign/allocate costs among partners.</td>
<td>Determine cost assignment/allocation processes of 5-7 similar companies.</td>
<td>Identify target companies who might be receptive to participating.</td>
<td>Develop survey questionnaire.</td>
</tr>
<tr>
<td>Determine whether changes need to be made in current practices.</td>
<td>Determine nature/magnitude of costs directly assigned or allocated to partners.</td>
<td>Document study results and compare/contrast to client’s practices.</td>
<td>Identify target companies.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recommend changes, if any.</td>
<td>Collect data and conduct interviews.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Compile and analyze information.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Present results.</td>
</tr>
</tbody>
</table>

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Application Development, Joint Application Development, and Prototyping.

The actual message can be much more clearly stated:

**Information Systems—B**

Our assessment of your Information Systems Division indicates a risk that your Project Managers may not be able to achieve the target dates. (2, 5)

1. They lack the methodology, tools, and techniques required to do the job. (6)
2. They have limited experience in doing this kind of work. (1, 4)
3. They have never before installed systems of this size or complexity. (3)

These have been relatively simple examples of single lists. The problem is exacerbated when the listing extends over several sections. Then the forced separation of related ideas leads to repetition of the points. For example, Figure 5 presents the structure that a consulting firm used to tell a company how to bring its cost-estimation process up to the level of the best in the industry.

As you can see, the introduction tells the reader that the writer will determine two things. In fact, it is only one thing: Determine whether changes need to be made in the current practices. The writer determines how other companies allocate their costs so as to identify the changes needed in the present practices, which relegates that point to a lower level.

Similarly, under Scope the writer says he will determine how other companies allocate their costs, which he has already told us, and under Objectives he tells us he will look at target companies, which he told us in the Scope section. And he tells us that again in the Approach section.

The real message is perfectly simple and straightforward:

**Allocating Costs—B**

We will determine whether changes need to be made in your current approach to allocating costs among partners. We will:

1. Identify 5–6 target companies who might be receptive to participating.
2. Codify their present practices.
3. Determine the value of any differences from your practices.
4. Recommend appropriate changes in approach, if any.

These examples are typical of 99 percent of the writing that takes place worldwide in every field of endeavor. All of them were written by new MBAs, under the guidance of more experienced people who assigned the headings. Small wonder that what they got back lacks clarity and coherence.

Fortunately, there is a way out of the problem, and that is to understand the limited logical ways in which ideas can relate to each other, and then to use the understanding of those relationships to help ferret out the message inherent in your listed points.

**Finding the Message**

Lists of points can be of two kinds. Either you tell readers that something is the case (Conclusions, Benefits, Reasons, Problems, etc.), which I call *Situation Ideas*, or you tell them that you will or they should do something (Recommendations, Objectives, Steps, etc.), which I call Action Ideas.

If you are dealing with *Action Ideas* (see Figure 6), you are always dealing with cause-and-effect relationships. The ideas in the grouping always go in time order, and the summary of a set of actions is always the effect of carrying out the actions.

The resulting list in Allocating Costs—B is an example of the cause-effect logical pattern. One takes steps 1–6 that follow in order to achieve the effect stated above.

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**Figure 6** ACTION IDEAS

- Effect
  - Action idea
  - Action idea
  - Action idea
If you are dealing with Situation Ideas (see Figure 7), you bring the ideas together because the sentences share a similarity in structure—their subjects fall into the same category or their predicates indicate the same kind of action—and you draw an inference based on seeing the similarity.

Both the Sales Proposals–B list and the Information Systems–B list are examples of inferences drawn from seeing similarity in the kind of action being taken. Thus, because you don’t give your proposals a compelling message, or produce them efficiently, or make them look good, we can infer that they will not act as effective sales tools. Similarly, because the project managers don’t have the necessary techniques, or the general experience, or the specialized experience, we can infer that they won’t meet the target date.

The process for working out your thinking with either type of grouping is much the same:

Step 1. List the points
Step 2. State the essence of each point
Step 3. Group like ideas
   by similar subject or predicate
   by same end effect
Step 4. Identify the source of grouping
Step 5. Order
Step 6. Summarize

For example, if we take the Sales Proposals–A list of points, step 2 would be to state the essence of each point:

1. We don’t get clear what the client is requesting.
2. We don’t make it look good.
3. We don’t reuse existing information.
4. We reinvent the wheel.
5. We take too long to prepare.
6. We take too long to prepare.
7. We don’t focus on what the customer wants.

Next we look for similarities. Obviously, 1 and 7 go together, 5 and 6 go together. And probably 3 and 4 are reasons for 5 and 6. Now we can move to the next step, which is to identify the source of the grouping.

Groupings of ideas can be created by the mind in only three ways: by visualizing a process, by commenting on something physical that has been divided into parts, or by creating a class of objects with similar features. Thus, any grouping of ideas must reflect one of these three structures, with “visualizing a process” the most commonly employed in the kind of writing we are considering here.

In the Sales Proposals–A example, the points all appear to relate to the process of developing a proposal:

In other words, for the writer to have created the original list of points and deemed them relevant, he must have had this process as his unacknowledged starting point. That’s why he did not include a point like “We don’t wash the windows frequently enough.” Thus, we can decide he probably intended the message shown in Sales Proposals–A.

Similarly, with the Information Systems–A example, here is the essence of each point:

1. Inexperienced project managers
2. Danger of slipping dates
3. Never done something this big
4. Limited experience
5. Danger of slipping dates
6. Don’t have tools to do the work

Where are the similarities? Clearly 2 and 5 go together (they’ll slip the date), as do 1 and 4
(they don’t have the experience), plus they don’t have tools (6), and they’ve never done something this big (3). What could have been the source of the ideas? Probably a visualization of the requirements needed to do the job on time, as shown in Figure 8.

Matching the ideas to such a structure would give us the message shown in Information Systems–A. And again we have a strong basis for further thinking on the part of both writer and reader. Is this the right process? Are these the only steps in it? Have we gathered sufficient data to prove what we say in each box?

These two examples dealt with finding the message in Situation Ideas. The process does not differ from Action Ideas, except that actions go together not by type of action but because the actions together are needed to achieve the same end result. Thus, we begin by listing the essence of the Allocating Costs–A points (from Figure 5).

1. Determine how to allocate costs.
2. Decide whether changes are needed.
3. Determine how to allocate costs in 5–7.
4. Determine how to allocate costs.
5. Identify target companies.
6. Contrast to client’s practices.
7. Recommend changes needed.
8. Develop questionnaire.
9. Identify target companies.
10. Collect data.
11. Analyze information.
12. Present results.

Next we want to identify where points say exactly the same thing (see Figure 9), after which we can sort causes from effects.

It is now relatively easy to see the underly-
ing process and to state the message that reflects it, as shown in Allocation Costs-B.

Imposing headings on actions is particularly nefarious when people are writing strategic plans. Here the classic headings are often OBJECTIVES, STRATEGIES, TACTICS, and STEPS, and I have known companies to spend weeks trying to define the difference between each category, so they would know what to include in each section.

The fact is that there is no difference between the categories. Other than level of abstraction; they are all part of a single cause-effect hierarchy. You could as well label the sections KNIVES, FORKS, SPOONS, and TEA CUPS and know as much about what the sections should contain.

The assumption, of course, is that to achieve the objective, you first develop strategies that will lead to it, then work out tactics to deploy the strategies, and finally determine the steps necessary to implement the tactics (see Figure 10). That is indeed what you do, but a hierarchy of ideas is nevertheless implied.

To insist instead that first you must talk about OBJECTIVES, and then STRATEGIES, etc., forcibly separates action ideas whose validity depends on seeing their hierarchical relationship to each other (see Figure 11).

The discipline for checking that the steps will achieve the tactics, so-called, that the tactics will achieve the strategies, and that the strategies will achieve the objective (there is no such thing as objectives in this context) is lost. Perhaps that's why so many plans get abandoned halfway through the planned period.

To conclude, clearly communicating one's thinking in writing requires, first and foremost, that the thinking actually be completed. The habit of imposing headings as a guide to organizing the thinking lures writers into believing that if they have listed points that satisfy the sense of the heading, they have completed the thinking and that the message is obvious.

In fact, the message has yet to be discovered. It requires grouping and summarizing the listed points into coherent, logical pyramids that can be presented to the reader from the top down. The reader can then absorb the message with maximum ease.

But making the effort to find the message can be wonderfully rewarding for the writer as well, not only because it uncovers insights of which he may have been unaware, but also because it presents a platform from which he can push his thinking forward creatively.

We have talked here about headings imposed in the body of the document. Companies and consulting firms also impose headings in writing the introduction, and even in carrying out the problem solving. Subsequent articles will deal with each of these misguided approaches. ■

INDEXED UNDER:

Writing; Logic structure
Appendix 3b

Detecting and Selecting Business Opportunities: Structuring the Process
Appendix 3b: Detecting and Selecting Business Opportunities: Structuring the Process

Compiled by George Shinkle, Peter Moran, and Elizabeth Maitland.

Solving complex strategic problems, like opportunity detection and selection, requires a combination of intuition and structured logic. The logic for evaluating an idea is no different than the ‘story’ used to sell the idea. The purpose of this document is to present the concept of issue trees and hypothesis trees and link these to Minto’s (1996) approach to communication. You will detect many insights from problem solving in this document. This is because many aspects of opportunity development, strategy creation, and performance improvement can be framed as a problem to be solved – so these tools are very helpful to our analysis.

These approaches have roots in decision theory, quality improvement techniques, and the scientific method; but have been improved for business strategy applications by Minto (1996, 2002) and consulting firms such as McKinsey. This summary is largely excerpted from McKinsey documents and the book: The McKinsey Way by Ethan Rasiel (1998). Additional information regarding logical problem solving can be found in Minto (1996, 2002).

The outline of this document is:

- Introduction
- Issue Trees
- Hypothesis Trees
- Integrating Issue Trees, Hypothesis Trees, and Analysis Work Plans
- Overview
- Summary
- References
- Appendix
- Chapter 1 of The McKinsey Way
Introduction

Complex problems, like business opportunity detection and evaluation, are characterised by interdependencies that obscure our ability to see or find their solution. Structured approaches help us to break down such problems into more manageable pieces that we can more easily solve and communicate (Minto, 1996). In particular, structured approaches are helpful when:

- The situation is complex
- The value of finding superior solutions is high
- A team of people are involved
- There is a high level of uncertainty
- Recommendations must be explained and ‘sold’ to others
- The analysis / plan may need to be refined in the future

McKinsey’s problem solving process has three major attributes. They require that the process be:

1. Fact Based
2. Rigidly Structured
3. Hypothesis Driven

For more definition on what these attributes entail see the reading: Chapter 1 of *The McKinsey Way*. Additional points from McKinsey are provided in Appendix A.

A fundamental aspect of the McKinsey structure is the concept of MECE.

- MECE – Mutually Exclusive, Collectively Exhaustive: “MECE structures your thinking with maximum clarity (hence minimum confusion) and maximum completeness. When you think you have determined the issues, take a hard look at them. Is each one a separate and distinct issue? If so, then your issue list is mutually exclusive. Does every aspect of the problem come under one (and only one) of these issues – that is, have you thought of everything? ” Your issues are collectively exhaustive, if you can answer “yes” to this question (Rasiel, 1998: 13).

Issue Trees

Issue trees are a type of logic hierarchy (a logic tree) which identifies and orders the questions which must be addressed to answer the fundamental issue.

- Issue trees ask “How” we could meet a desired outcome
- Issue trees are excellent for organising ideas in a “MECE” manner
- Complete issue trees uncover all relevant potential ideas
How can Acme increase profits from existing business lines?

From Widgets

Increase Revenues

Decrease raw material costs

Negotiate wage concessions

From Thrum-mats

Decrease Expenses

Decrease labor costs

Negotiate higher productivity quotas

Implement a labor-saving production process

From Grommets

Decrease overhead costs

Note: ACME widgets example from Dr. Peng Chan; California State University, Fullerton, California.

Hypothesis Trees

Hypothesis trees are a type of logic hierarchy which identifies and orders the reasons that a hypothesis is believed to be true. As a result, hypothesis trees focus and build up an argument or conclusion. Hypothesis trees:

• Ask “Why” we believe something to be true
• Are excellent for narrowing down an investigation to essentials
• Build up a supportable argument (when they are thorough and MECE)
• Focus on the “so what” of any data that is presented

While hypotheses should be based on prior analysis or understanding, when stated they point to the data required to confirm/refute them. Data gathering should be comprehensive and designed to refute hypotheses – particularly those hypotheses where confidence is low.
We can increase thrum-mat profitability with the new production process. It will reduce our costs.

Our organization can implement the necessary changes.

We can maintain product quality while implementing the process.

The process does not require new facilities.

The process does not require new skills.

Note: That the hypothesis tree (above) was directly evolved from an issue tree (below) – with hypothesized answers.

Can we increase thrum-mat profitability with the new production process? Will it reduce our costs?

Can our organization implement the necessary changes? Does the process require special facilities?

Can we maintain product quality while implementing the process? Does the process require special skills?
Integrating Issue Trees, Hypothesis Trees, and Analysis Work Plans

Expected answers to the issue questions link issue tree “hows” into hypothesis tree “whys.” The tool box framework below shows this connection and relates how our other SMY tools may provide support for hypothesised answers.

The hypothesis tree provides a straightforward way to decide which hypotheses and reasons need further evaluation and which can be accepted based on existing data and understanding. Thus, it enables efficient use of resources and time by 1) identifying areas of greatest confidence to skip data gathering and 2) reducing data gathering in other areas to a more confirmatory role.

Our SMY analysis framework for Issue/Hypothesis Trees follows. This framework is a guideline and can be modified for specific situations (add or detract levels, rate level of confidence in reasons, action needed, etc.).

<table>
<thead>
<tr>
<th>Issue / Hypothesis Tree</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issue</strong></td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

The Issue / Hypothesis Tree can also be extended to create an analysis work plan to resolve issues and confirm (refute) hypotheses. A few tips for designing the analysis work plan are:

- Lay out the issues in a written workplan by priority
- Identify the essential analyses necessary to draw conclusions on each issue
- Disregard analyses that are “interesting” but not essential to prove/disprove the hypothesis
• Avoid time-consuming analyses designed for more precision than necessary
• Begin each analysis with the end (specific end products and timing) in mind

An example for the ACME Widgets case follows:

### Acme Widgets: Analysis Work Plan

<table>
<thead>
<tr>
<th>Issue/Hypothesis</th>
<th>Analyses</th>
<th>Data Sources</th>
<th>End Product</th>
<th>Responsibility</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can we implement the necessary changes to the production process? Yes</td>
<td>Technical Specifications</td>
<td>Articles, interviews</td>
<td>Chart</td>
<td>Sally</td>
<td>3-Jun</td>
</tr>
<tr>
<td>Does the new process require special facilities? No</td>
<td>List of facilities that meet new criteria</td>
<td>Facilities management, interviews</td>
<td>List</td>
<td>Tom</td>
<td>5-Jun</td>
</tr>
<tr>
<td></td>
<td>Map of “facilities gap”</td>
<td>Facilities management, thum-mat line supervisors, interviews</td>
<td>Chart</td>
<td>Belinda</td>
<td>7-Jun</td>
</tr>
<tr>
<td>If it does require special facilities, can we acquire them? Yes</td>
<td>Source of required facilities/equipment</td>
<td>Operations, trade publications</td>
<td>List</td>
<td>Sam</td>
<td>7-Jun</td>
</tr>
<tr>
<td></td>
<td>Costs to fill gaps</td>
<td>Operations, contractors, interviews</td>
<td>Table</td>
<td>Rose</td>
<td>10-Jun</td>
</tr>
<tr>
<td></td>
<td>Effect on project rate of return</td>
<td>Finance department, prior analysis</td>
<td>Spreadsheet</td>
<td>Terry</td>
<td>12-Jun</td>
</tr>
</tbody>
</table>

### Overview

A quick and simple overview and example are provided below as a review. (Additional logic tree examples are provided in Appendix B.)
Issue/Hypothesis Trees Provide a Structure for Analysis

- **Issues**: Break the problem or opportunity down into a small number of the key constituent questions
- **Hypotheses**: Invite answers and reasoning to these constituent questions and prompts specification of data needed to confirm or disprove the hypotheses
- **Analysis**: Focuses on (using data and strategy tools) to answer each hypothesis

![Diagram of Issue/Hypothesis Tree]

### Issue/Hypothesis Tree Example

**Issue**

Should we launch Roadster DeLuxe in Speediland next year?

**Questions**

- Is Speediland a potentially attractive market for this model?
- Is this the right time to launch?
- Can we support an effective launch?

**Hypotheses**

- Current imbalance in supply and demand makes market attractive
- Offensive and defensive value from launching soon
- We have the relevant resources available

**Data & Findings**

- Potential demand is high
- Car registrations/demographics
- Disposable income
- Economic outlook
- Current supply is low
- Our product range
- Competitor ranges
- Waiting lists
- Low opportunity cost for us
- Few other major initiatives
- Danger of competitors gaining first mover advantages
- Other markets
- Production capacity
- Suitable dealerships for distribution
- Sales and marketing capacity

Issue trees and hypothesis trees can (and should) be ‘flipped over’ into a pyramid that communicates recommendations according to Minto’s proper hierarchy.
Communicating Results Following Minto’s “Proper Hierarchy”

**Recommendation**
Addresses framing issue / opportunity & contributes to Fundamental Objective

Launch Roadster DeLuxe in Speediland next year!

**Conclusions**
Point convincingly to recommendation by answering all key sub-issues

A large imbalance in relevant supply and demand makes Speediland a potentially attractive market for this model.
We already have all the key resources required to support an effective launch.
Timing is critical → A quick launch would give us both . . .
➢ Offensive and defensive value
➢ Time to build our brand and strengthen our dealer networks so we can capture this potential and make it hard for competitors to follow

**Synthesized Findings**
Resolve hypotheses, turning each sub-issue into a conclusion

Potential demand is high
- Car registrations / demographics
- Disposable income
- Economic outlook
Current supply is low
- Our product range
- Competitor ranges
- Waiting lists

Production capacity

Suitable dealerships for distribution

Sales and marketing capacity
- Few other major initiatives makes our opportunity cost low
- Danger → Monster Car could gain strong foothold if they pre-empt us
Monster Car will need to spend much more to build share, once our position is established.

Timing is critical → A quick launch would give us both . . .
➢ Offensive and defensive value
➢ Time to build our brand and strengthen our dealer networks so we can capture this potential and make it hard for competitors to follow

**Summary**

Issue Trees and Hypothesis Trees are proven techniques for analysis and for accumulating and synthesising knowledge about a subject. The logical structure parallels the Hierarchy of Minto’s pyramid for communicating the story to stakeholders. Issue Tree and Hypothesis Tree use is intended to:

- Ensure that all relevant issues (and only these) are addressed
- Focus attention and improve problem solving efficiency and effectiveness
- Prioritize data gathering and analysis efforts
- Allow a clear analysis work plan to be established.
References (to Appendix 3)


Dr. Peng Chan; California State University, Fullerton, California. ACME widget example. From faculty.fullerton.edu/pchan/590/591lecturenotes.ppt accessed 31 May 2010.

Additional suggested references


Appendix 3c

Additional Selected Information from McKinsey
(Rasiel, 1998)
Appendix 3c: Additional Selected Information from McKinsey (Rasiel, 1998)

**McKinsey's key points** regarding problem solving offer some insightful hints:

- The problem is not always the problem
- Create a structure that is “M.E.C.E.”
- Don’t reinvent the wheel
- Every client is unique (no cookie cutter solutions)
- Don’t make the facts fit your solution
- Make sure your solution fits your client
- Sometimes let the solution come to you
- No problem is too tough to solve

**The 80/20 Rule** – A small fraction of elements account for a large fraction of the effect, therefore remember the Pareto Effect and focus on top few items.

**Don’t Boil the Ocean** – Be selective and don’t try to analyse everything. There’s a lot of data out there relating to your problem, and a lot of analyses you could do. Ignore most of them. Focus on the most important ones – the key drivers
THE MCKINSEY WAY

Using the Techniques of the World’s Top Strategic Consultants to Help You and Your Business

ETHAN M. RASIEL
BUILDING THE SOLUTION

Like all things McKinsey, the Firm’s problem-solving process has three major attributes. When team members meet for the first time to discuss their client’s problem, they know that their solution will be

• Fact-based
• Rigidly structured
• Hypothesis-driven*

In this chapter, you will learn exactly what these attributes mean and how you can apply them in your business.

*At McKinsey, three is a magic number. Things at the Firm come in threes. Notice that this list has three items. Ask a McKinsey-ite a complex question, and you are likely to hear “There are three reasons. . .” Then, of course (as you will learn later in the book) there is the true McKinsey hierarchy for consultants—in descending order: client, Firm, you.
FACTS ARE FRIENDLY

Facts are the bricks with which you will lay a path to your solution and build pillars to support it. Don’t fear the facts.

Problem solving at the Firm begins with facts. On the first day of an engagement, all members of the team comb through stacks of articles and internal research documents to gather enough facts to illuminate their piece of the problem for the first team meeting. Having drawn up an initial hypothesis for the problem, the team then races to gather the facts necessary (when put through the appropriate analyses) to support or refute it.

At the start of your time at McKinsey, gathering and analyzing facts is your raison d’être. As one former SEM* observed:

When you strip away a lot of the high-minded language with which McKinsey dresses up its problem-solving process, it comes down to very careful, high-quality analysis of the components of the problem combined with an aggressive attitude toward fact gathering.

Why are facts so important to the way McKinsey does business? There are two reasons. First, facts compensate for lack of gut instinct (see “. . . But Every Client Is Unique” in Chapter 2). Most McKinsey-ites are generalists. They know a little about a lot of things. As they gain experience and move through the ranks, they may come to know a lot about a lot of things. Even at this point, however, they will still know less about, say, inventory

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*Senior engagement manager. In many ways a junior partner, the SEM is in charge of multiple studies and is expected to take a hand in client relations. SEMs get all the stress of partnership with less pay.
management practices for perishable foodstuffs than the folks who have been running the distribution operations of Stop & Shop for the last 10 years. Gut instinct might tell those folks the solution to an inventory management problem in 10 seconds (although they still would be wise to check the facts); McKinsey will go to the facts first.

Second, facts bridge the credibility gap. When she joins the Firm, the typical associate* (at least in the United States) will have graduated near the top of her college class, spent two or three years working for a large company, then received her MBA from a top business school. She will be in her mid- to late twenties. On her first engagement she may have to present her analysis to the CEO of a Fortune 50 company, who will not give much credence to what some newly minted, 27-year-old MBA has to say—unless she has an overwhelming weight of facts to back her up. This is just as true for a junior executive presenting a proposal to his boss.

Despite (or possibly because of) the power of facts, many businesspeople fear them. Perhaps they are afraid that if they look too closely at the facts, they—or someone above them—might not like what they see. Maybe they think that if they don’t look, the nasty facts will go away—but they won’t. Hiding from the facts is a prescription for failure—eventually, truth will out. You must not fear the facts. Hunt for them, use them, but don’t fear them.

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*Associate: An entry-level McKinsey consultant, usually with an MBA. Technically, every consultant who has not made partner, even the hottest SEM, is still an associate of the Firm.
FEEL FREE TO BE MECE

To structure your thinking when solving business problems (or anything, for that matter), you must be complete while avoiding confusion and overlap.

MECE (pronounced “me-see”) stands for “mutually exclusive, collectively exhaustive” and it is a sine qua non of the problem-solving process at McKinsey. MECE gets pounded into every new associate’s head from the moment of entering the Firm. Every document (including internal memos), every presentation, every e-mail and voice mail produced by a McKinsey-ite is supposed to be MECE. Ask any number of McKinsey alumni what they remember most about the way the Firm solves problems and they will tell you, “MECE, MECE, MECE.”

MECE structures your thinking with maximum clarity (hence minimum confusion) and maximum completeness. MECE starts at the top level of your solution—the list of issues making up the problem you have to solve. When you think you have determined the issues, take a hard look at them. Is each one a separate and distinct issue? If so, then your issue list is mutually exclusive. Does every aspect of the problem come under one (and only one) of these issues—that is, have you thought of everything? If so, then your issues are collectively exhaustive. Suppose your team is working on a study for that famous American manufacturing firm Acme Widgets. The problem you face is “We need to sell more widgets.” Your team might come up with a list of the following ways to increase widget sales:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.
If this list looks rather generic, that’s fine; we will talk about moving down a level of detail in the next section. What matters is that the list is MECE.

Suppose you add another item, say, “Reengineering our widget production process.” How does that fit with the three issues you already have? This is certainly an important issue, but it isn’t a fourth point alongside the others. It falls under “Reducing the unit cost,” along with other subissues such as “Leveraging our distribution system” and “Improving our inventory management.” Why? Because all these are ways to reduce the unit cost of widgets. Putting any (or all) of them with the other three issues on the list would cause an overlap. The items in the list would no longer be mutually exclusive. Overlap represents muddled thinking by the writer and leads to confusion for the reader.

Once you have a list in which all the items are separate and distinct (i.e., mutually exclusive), you have to check that it also includes every issue or item relevant to the problem (i.e., it is collectively exhaustive). Go back for a moment to “Reengineering our widget production process.” You put this under “Reducing the unit cost.” Now one of your team members says, “We should think about ways to improve widget quality through the production process.”

She’s right. Does this mean you should go back to having reengineering as an issue in its own right? No, but you should refine your list to include, under “Reducing unit cost,” the subissue “Reengineering the production process to reduce unit cost,” and, under “Improving the way we market . . . ,” the subissue “Reengineering the production process to improve widget quality.” Now you have something that looks like this:

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
Thinking About Business Problems

–Reengineering the production process to improve widget quality.
• Reducing the unit cost of our widgets.
  –Reengineering the production process to reduce unit cost.

Suppose your team has come up with some interesting ideas that don’t fit under the main issues. What then? You could ignore those points, but that wouldn’t help Acme. You could make them issues in their own right, but then you would have too many issues. A good McKinsey issue list contains neither fewer than two nor more than five top-line issues (of course, three is best).

There is a solution to this dilemma—the magical category “Other Issues.” If you can’t figure out where to put those two or three brilliant ideas, there is always Other Issues. There is a caveat, however. Avoid using Other Issues in your top-line list—it looks out of place. It’s fine lumped in among a bunch of subissues, but on the first slide of a big presentation, it sticks out. So try a little harder to fit those brilliant ideas into your top-line issues. Chances are you can. Still, if all else fails, Other Issues will help you stay MECE.

SOLVE THE PROBLEM AT THE FIRST MEETING—THE INITIAL HYPOTHESIS

Solving a complex problem is like embarking on a long journey. The initial hypothesis is your problem-solving map.

The initial hypothesis (IH), the third pillar of the McKinsey problem-solving process, is the most difficult to explain. To make the explanation easier for you (and me), I will break this section into three parts:
Building the Solution

- Defining the initial hypothesis.
- Generating the initial hypothesis.
- Testing the initial hypothesis.

DEFINING THE INITIAL HYPOTHESIS
The essence of the initial hypothesis is “Figure out the solution to the problem before you start.” This seems counterintuitive, yet you do it all the time.

Suppose you have to drive to a restaurant in a part of town you don’t know. You know you have to make the third left off Smith Street and then take the first right; it’s just after that corner. You know how to get to Smith Street; you’ll just follow your directions from there. Congratulations, you have an initial hypothesis.

Solving business problems is more complicated than finding a restaurant, but the initial hypothesis works the same way. It is a road map, albeit hastily sketched, to take you from problem to solution. If your IH is correct, then solving the problem means filling in the details of the map through factual analysis.

Let’s return to Acme Widgets from the last section. You and your team must find a way to increase sales at the widget business unit. After you’ve brainstormed using your knowledge of the widget business, but before you’ve spent a lot of time gathering and analyzing the facts, you might come up with the following top-line IH:

**We can increase widget sales by:**
- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.

As I will show in the next section, you would then take each issue down to another level or two of detail to determine which analyses you need in order to prove or disprove each hypothesis.

Remember that a hypothesis is merely a theory to be proved
or disproved. It is not the answer. If your IH is correct, then, a few months down the road, it will be the first slide in your presentation. If it turns out to be wrong, then, by proving it wrong, you will have enough information to move toward the right answer. By putting your IH down on paper, and determining how you can prove or disprove it, you have set up a road map that you can follow to an eventual proved solution.

GENERATING THE INITIAL HYPOTHESIS
The IH emerges from the combination of facts and structure. Therefore, as the first step in generating an IH, you must start with the facts. Remember, however, that you don’t want to do a lot of digging around for information before you know where to dig. One former McKinsey SEM had a good approach for generating IHs:

At the start of an engagement, I would just try to digest as much of our fact base as possible. I would sit down with the trade publications in that industry for an hour or two—not so much to gather facts as to absorb something of the flavor of that industry: what the jargon is, what the current industry issues are. I would especially seek out people in the Firm who knew about this particular industry. That was the quickest, most efficient way to get up to speed.

When generating an initial hypothesis, you don’t need all the facts, just enough to have a good overview of the industry and the problem. If the problem is in your own business, you may already have the facts in your head. That’s great, but facts are not enough. You have to apply structure to them.

To structure your IH begin by breaking the problem into its components—the key drivers (see “Find the Key Drivers,” in Chapter 3). Next, make an actionable recommendation regarding each driver. This is extremely important. Suppose your business’s
Building the Solution

profits are greatly affected by the weather; in fact, it is the key determinant of profits in a given quarter. “We have to pray for good weather” is not an actionable recommendation. On the other hand, “We must reduce our vulnerability to changes in the weather” is an actionable, top-line recommendation.

For your next step, you must take each top-line recommendation and break it down to the level of issues. If a given recommendation is correct, what issues does it raise? Consider the likely answers to each issue. Then go down another level. For each issue, what analyses would you need to make to prove or disprove your hypothesis? With a little experience, and a lot of debate within your team, you should get a good sense of what is provable and what is not. This will help you avoid blind alleys.

In the Acme Widgets problem, suppose your team decided that the key drivers were the sales force, the consumer marketing strategy, and production costs. You then came up with a list of actionable, top-line recommendations as your initial hypothesis:

**We can increase widget sales by:**

- Changing the way we sell our widgets to retail outlets.
- Improving the way we market our widgets to consumers.
- Reducing the unit cost of our widgets.

Let’s begin with a closer look at the sales force. It’s organized geographically (Northeast, Mid-Atlantic, Southeast, etc.) and sells primarily to three types of retail outlets: superstores, department stores, and specialty stores. The team believes that the sales force ought to be organized by customer type—that’s one issue.

What analyses could prove or disprove that belief? You could break out the sales by customer type for each region. If penetration of superstores in the Northeast is higher than in any other region and higher than for the other types of retail outlets, find out why. When you talk to the Northeast sales reps, you might
find that they have a better feel for superstores than any other sales team. What if they were put in charge of all superstores across the country and achieved the same penetration? What would that mean for widget sales?

The end product of this exercise is what McKinsey calls the issue tree. In other words, you start with your initial hypothesis and branch out at each issue. The result looks like the figure below.

When you’ve completed your issue tree, you have your problem-solving map. That’s the easy part. The difficult part will come when you have to dig deep to prove your hypothesis.
TESTING THE INITIAL HYPOTHESIS

Before you take your problem-solving map out on the road, you want (forgive the mixed metaphor) to kick the tires on it. Test it. Is it the best possible hypothesis you could devise, given what you know about the industry and your client or company? Have you thought about all the issues? Have you considered all the drivers of the problem? Are all your recommendations actionable and provable?

When I discussed generating an IH, I used the phrase “your team” rather than “you.” My experience at the Firm (and that of the many McKinsey alumni I interviewed for this book) taught me that IHs produced by teams are much stronger than those produced by individuals. Why? Most of us are poor critics of our own thinking. We need others to pick apart our ideas. A team of three or four bright individuals is an excellent vehicle for that.

So when your team meets to come up with an IH let a thousand flowers bloom. Everyone should have his or her own ideas and initial hypotheses. Everyone should be prepared to push a teammate’s thinking and test each new idea. If you are the team leader, you should try to be the thought leader too. Try to take a different approach from whatever has just been said. Ask, “What if we change this? What if we push that? How about looking at it this way?” The process involves shooting a certain amount of bull. That’s OK, have fun—as long as it pushes your thinking. (For more ideas and techniques to push your team’s thinking, see Chapter 9.)
Appendix 3d
Additional Information Regarding Structured Analyses
Appendix 3d: Additional Information Regarding Structured Analyses

Two additional analyses, which use other forms of logic trees, are DuPont Analysis and Causal Chain Analysis. An example of each is shown next:
The DuPont analysis enables understanding of the source of superior (or inferior) returns.

DuPont Chart Analysis

- DuPont analysis breaks down Return on Investment

Causal Chain of Competitive Advantage

Germany’s Dye Industry 1877

3rd Level Causes
- Higher Number of Chemists
- No Tariffs on dyes
- Lack of Patents

2nd Level Causes
- Process Innovation
- More Competition

Proximate Causes
- Premium Price
- Lower Cost

GOAL
- High Performance

- Ask what is necessary to accomplish the result in each succeeding level (work left to right)
Conclusion

This course overview has been prepared to help you write a better project and to understand the basis of its assessment. Writing a good project may seem straightforward but it is not as easy as it seems.

Remember that developing the solution to a strategy issue is a skill, made convincing by careful argument. Thus, we are interested in the process that you use. If you have learned rigorous process skills, this will stand you in good stead throughout your career.

Writing the major projects will be a painful business. From experience we know that these projects turn out to be the most useful learning tool to become a confident strategist. No pain, No gain. You will find it difficult to choose and then articulate an issue. You will find that each section needs a structure, a skeleton, and until you have worked out what the appropriate one is you will find your mind full of information and facts. When you write the project you may find it exceeds the page limit. To meet the page limit you will have to be selective by identifying the most relevant and important points and keeping them while discarding other, less important, discussions. You may well have all the material needed and have the structure of the project clear in your head but do not have the time to do a final edit that could have changed a Credit to a Distinction. Always remember that in business life you typically only have a few minutes to pitch your ideas. Learning how to be concise is a valuable skill.

But when you have the final product, polished and easily read and appreciated by someone who does not know your organisation, you will feel proud. Good luck in your endeavours!
References


Minto, B. 1998b, ‘Think your way to clear writing (Part Two)’, *Journal of Management Consulting*, vol. 10, no. 2, pp. 45–53.


Readings

A note on timing your readings. Before starting the readings, re-familiarise yourself with the advice on Reading the Course Materials in the Learning Technology Section of the SM1 course materials. You should survey the course materials by reading the Course Overview and the introductions to all the readings. Given work and family commitments, the average student should reach the R2 stage of the SQW3R method of study before coming to the residential in Week 4 for 9 of the 15 readings. To obtain the full benefit of the residential you need to have read (in addition to reading the course overview section and the ‘Thinking and Writing in the Strategic Management Year Guide’ in the Learning Technology Section) the following readings: 1, 2, 3, 5, 6, 7, 8, 12 and 13 before you arrive at the residential. In particular, we want to stress that you need to have mastered in detail the Dell Case (Reading 13) to be able to discuss it in depth during the residential.

Readings are available via URLs or active hyperlinks. Please note that you may be required to enter your UNSW zID and zPass in order to access hyperlinked readings.


If you experience any problems in accessing readings, you should search for them using the Search tool available on the UNSW Library home page: https://library.unsw.edu.au.

• for journal and magazine articles enter the title of the article
• for book excerpts enter your course code, and a complete list of book excerpts will appear for the specified course.