2. The Limitations of Current Practice

2.1 Current Practice

Both observation and research support the view that current management and planning practices result in an empowered management and board structure which defines and establishes corporate outcomes based on a director's and manager's perceptions of what is 'in the best interest' of the shareholders (Koutsoyiannis 1982; Sawyer 1979). These managers and boards tend to assume that shareholders have a set of common objectives (Band 1992).

The planning process incorporates the assumptions that organisations and their managers make about why the organisation exists and what it intends 'delivering' to its stakeholders (mission statements) and how the corporation intends allocating resources to achieve some future state (vision statements). It is reasonable to assert that certain assumptions will result in mission and vision statements that are different from mission and vision statements based on different assumptions.

Although organisations have their own manner for undertaking their strategic planning activities, it is possible to identify a representative process that typifies the planning activity for a large proportion of corporations. This assessment is based on observations and consulting assignments in over 100 corporations largely within Australia encompassing corporations that are large, medium and small, government, private and listed corporations.

Figure 2 has been adapted from a contemporary Top-4 Chartered Accounting Management Consulting Practice's Strategic Planning process that has been used extensively to assist clients in developing their strategic plans.

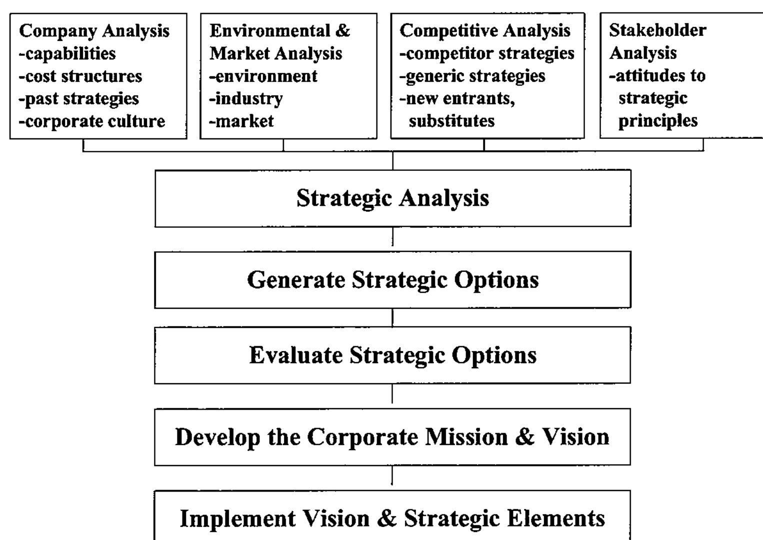

Figure 2. Strategic Planning Process

The characteristics of such a process, although used slightly differently by different organisations, provide a valuable insight into the perspectives of management and the way they shape corporations. Some of the interesting aspects of this and similar planning processes are:

- The analyses of the company's costs, culture, strategies and capabilities, etc. pre-cede the strategic analysis and are made in the context of its existing operations. In certain contexts, what is a capability today may be a redundancy tomorrow. The context is unknown at the stage of the analyses thus making use of the conclusions of the analyses questionable for the later-developed options and strategies. The analyses could have greater impact if the SWOT[3] analysis was conducted after the strategic options were generated.
- When such an analysis serves only to define an organisation's 'current state' position, then such an analysis is valuable because it provides the benchmark from which transition strategies must commence and against which such change strategies are measured. This is provided that no assessment is made as to the applicability or otherwise of the capability, resource or asset until the context to which the capabilities must be applied is clarified.
- The market and environmental analyses assume that the markets and environments from which the company must extract corporate (and shareholder) benefits are known and agreed. If the developed strategies don't deliver the outcomes needed from the existing markets and environments, it may be necessary to enter new markets and environments to generate the outcomes needed - and this will be determined after the market and environmental analyses.
- Where management regards corporate objectives as the sum total of corporate strivings, then it is easy to assume one knows the full range of markets and environments that may be applicable, because the manager has defined what is a suitable corporate outcome. On the other hand, when the corporate outcomes are defined by other than managers, then the market and environmental analyses take on a wider perspective. The markets and environments that will impact the corporation are those that will provide the corporation with the outcomes sought and may be wider and more expansive than those currently accepted, participated in or acknowledged by management.
- The same limitations exist regarding the competitor analysis. What is a competitor today, based on existing markets, products and services, may differ from that of tomorrow and that dictated by an emergent strategy.
- The stakeholder analysis is flawed on two counts. It presumably ranks shareholders with stakeholder (if at all), and then by implication, assumes (by omission) that shareholder objectives are either known or not important. For reasons outlined later, shareholders and non-shareholder stakeholders have fundamentally different roles to play. The contention of

[3] Strengths, Weaknesses, Opportunities, Threats

this study is that the shareholder's objectives must be satisfied by the organisation and are therefore the fundamental deliverable of that organisation. Non-shareholder stakeholders have interest in the corporation but the corporation does not exist for the stakeholder as such - rather the organisation must satisfy the stakeholder in order for it to satisfy its fundamental deliverable to the shareholder. This planning process does not recognise this distinction and does not allow itself to be driven by shareholder satisfaction. As a result, corporate striving are sub-optimal from a shareholder perspective.

- One of the most important characteristics of this planning process is the clear expectation that management develops the corporate mission and vision. Notwithstanding significant abuses and ambiguities associated with the terminology, a corporate 'mission' is a statement of its fundamental purpose: its reason for being. Its 'vision' is its view of itself that will enable it to deliver its mission at some specified time in the future. A corporate 'vision' is a product of its 'mission', not the other way around. The formulation of a corporate 'vision' is the role and responsibility of management since the vision has operational, strategic, market, environmental, technical, people and other implications, and management are the people skilled and paid to make such an assessment. The 'mission' or its 'reason for being' however, should not be determined by management since there appears significant evidence to suggest that management on occasion may be motivated by other than the owners' best interest and influenced by cognitive and interpretive subjectivity (Band 1992; Eden 1994; Golden 1992; Jensen 1976; Reger & Huff 1993; Weick 1995; Williamson 1991).
- This process as it operates in many large organisations, generates performance measures and criteria that are defined and established by management. In other words, managers are largely assessed according to the criteria that they themselves have defined and established. There is much business case evidence and practice experience which illustrates the risks to shareholder satisfaction that such an introverted and self-regulating process engenders. A good example of formalised systems that entrench self-measurement is the Balanced Scorecard approach which has management develop the metrics associated with the financial, customer, business process and learning perspectives and then link the measurement of corporate performance against those criteria (Kaplan & Norton 1996, 83).

2.2 Problems with Current Practices

The principal problems associated with current planning and governance practices that relate to shareholder satisfaction include:

Poor ability to resolve incongruence between owner and corporate objectives. Davidson notes that even as far back as Adam Smith in 1776, there has been recognition that manager and directors of other people's money cannot be expected to

> watch over it with the same anxious vigilance with which partners in a private copartnery frequently watch over their own... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company (Davidson 1997, 3).

Despite the best intentions, corporations, their boards and managers cannot match the outcomes from their organisations with the needs of their shareholders without some knowledge of what it is that those shareholders want. The chairs and CEOs of the top 100 Australian companies interviewed confirmed that the knowledge of their shareholder needs was moulded by regular discussions with only the top five to fifteen mainly institutional investors, and discussions with brokers and analysts.

Never have any of the interviewed companies attempted to monitor or determine all shareholder views, nor did any of them consider it important to do so. The assumption that appears to underpin their relationship with their shareholders is that either all shareholders share the same objectives and the institutional investors are a reasonable proxy and sample for all shareholders; or that the institutional investor is the only one that matters and the specific needs of the small shareholder are unimportant.

The skewed focus of corporations toward the institutional investor is likely to continue and to become more pronounced. This is according to the institutions themselves where it was noted in 1995 by the Executive Director of the Australian Investment Managers' Association that 'the importance and influence of institutional investors in corporate governance is already significant. Inevitably, their impact is going to increase, particularly in regard to the allocation of capital' (Matheson 1995, 7).

Fromson reinforces the importance of the issue when he observed that

> too often, the directors are in management's hip pocket. That is why institutions will keep pressing for truly independent boards. Many fund managers want to see outside directors installed as chairmen of the board because they do not trust CEOs to serve the shareholders first and themselves second (Fromson 1990, 78).

Where corporations employ an Investor Relations Manager, the manager's role is overwhelmingly to notify the investors of company activity, strategy and intention, and not to ask the investor what they want as an outcome. The emphasis is always 'selling' the company to the investor (James 1996, 70), rather than the adoption of a 'marketing' approach which would attempt to identify investor needs and mould the company outputs to satisfy them. To compound the issue, they also tend to concentrate on the larger, institutional investors and ignore the small shareholder.

James observed:

> ...investor relations managers tend to focus on institutional investors, share brokers, analysts and institutional fund managers...Even the media rank ahead of small shareholders, who are considered only marginally ahead of prospective and employee shareholders. While 22% of shares are owned by small shareholders, they consume only 6% of the typical investor relation manager's day. It is curious that in a period of increasing community interest in corporate governance and shareholder activism, little effort is made to communicate with all shareholders on an equitable basis (James 1996, 69).

Corporate mission is defined by management with little, if any; orientation to shareholder interests and needs. Boards and management, despite the rhetoric of their annual reports and public utterances, bestow on the organisation 'a life of its own' which is separate from the needs of shareholders. What is good for the organisation appears to have a higher priority over that which is good for the shareholder, based on the argument that if the organisation ceases to exist then the shareholders' interests won't be served. The continuation and growth of the organisation, they argue, is more important than the transitory and superficial interest shown by shareholders. Therefore, the satisfaction of shareholders is a fortunate outcome of the efforts of the corporation rather than the reason for its existence.

Boards and managers therefore see as their legitimate role, as custodians of the corporation, the development and definition of the organisation's mission or reason for existence. The survival of the organisation is seen by many boards and managers as paramount and supersedes the interests of the shareholder, even when the demise or sale of the organisation can be to the shareholders' advantage. A dilemma between corporate (read 'manager') good versus shareholder benefit is most frequently resolved in favour of the organisation. Supporting this view, the Australian Investment Managers' Association (A.I.M.A.) noted that '...there is the question of the accountability of management and the equitable treatment of investors and, in particular, the equitable share of reward between owners and managers' (A.I.M.A. 1995, 7).

Similarly, in discussing 'poison pills', Perlmuth noted that

> it's no secret that many institutional shareholders frown on poison pills. These investors believe that the pills serve to entrench management, holding at bay suitors willing to pay a premium for their shares (Perlmuth 1996, 35).

Even when there is every intention to satisfy all shareholders, the task is very difficult in practice, let alone the attempt to capture the needs of all shareholders within a corporate mission. "No matter how competent or ethical, it could be at times very difficult for the nominee director and the major shareholder to always act in the best interests of all shareholders" (Deveson 1995, 16).

To illustrate the point that directors generally do not place shareholder interests above the 'well-being' of other stakeholders, Francis quotes Donald S. Perkins, a director of many large and notable corporations, as follows:

> ...a director's responsibility is to do everything possible to assure the long term health of the enterprise...You will immediately recognise that this may not be consistent with the short term wealth of shareholders. My approach requires thoughtful consideration of all of a corporation's constituencies - shareholders, employees including management, unions, suppliers, communities... (Francis 1997, 32).

Harold Geneen, the former CEO and chairman of ITT adds another dimension to the dilemma of differential interests of owners and managers when he stated:

> If the board of directors is really there to represent the interests of the stockholder, what is the chief executive doing on the board? Doesn't he have a

> conflict of interest? He's the professional manager. He cannot represent the shareholder and impartially sit in judgement on himself. He should not (Geneen 1984, 29).

Francis further reinforces the disenfranchisement of shareholders by quoting Baxt in stating that "an exclusive concentration on any one stakeholder will not lead to sustainable competitive performance. It is therefore not necessarily in the best interests of shareholders to be singled out" (Francis 1997, 33).

The argument for the stakeholder view is put by Andrew Campbell, among others, where he sees that the shareholder view is only about 'buy low, sell high'. In other words, he sees shareholders as having only short term objectives, and simplistic ones at that. He provides an analogy where he uses MBAs and their ambitions as a case in point. He states that 'making money for shareholders is not one of their life's ambitions. They recognise that they have to do this to achieve their ambitions, but enriching shareholders is not a purpose' (Campbell 1997, 446).

This same analogy works against Campbell's argument. Making money or providing benefit for stakeholders is not one of shareholders' ambitions. They recognise that they have to do this to achieve their ambitions, but enriching stakeholders is not a purpose. Campbell goes on to denigrate corporations who by default 'find themselves focusing on making money for shareholders' (Campbell 1997, 447), and castigate those corporations who aren't squarely focused on maximising customer focus.

Argenti, in response to Campbell, sees shareholders as the 'intended beneficiaries' and other stakeholders as 'collateral beneficiaries' (Argenti 1997, 445). In other words, stakeholders are a means to an end and not the end that corporate striving is intended to satisfy.

He concludes his response by stating quite profoundly that:

> The stakeholder theory is an idea whose time has long passed. It claims that companies should be run for the benefit of all, an impossible dream which, significantly, inspired such well-meaning disasters as nationalisation. In reality all human organisations involve two distinct relationships: they are designed to confer advantage to one specific set of people - their intended beneficiaries. But in order to operate effectively, they must engage the enthusiasm of all those other people who are affected by their activities and so must offer them some inducement. The stakeholder theory is not just philosophically misconceived; it has practical consequences to society that are profoundly damaging and deeply unethical (Argenti 1997, 445).

Millstein provides us with a defining statement in noting:

> Any governance discussion must include an understanding of the corporation's ultimate purpose - the polestar by which it is to be governed. Throughout its evolution in the United States, the corporation has always had the same objective - 'the conduct of business activities with a view towards enhancing corporate profit and shareholder gain.' While some scholars have argued that employees, suppliers, and communities deserve equal consideration, most have rejected this notion. Managers need a polestar, which has been and should continue to be 'corporate profit and shareholder gain.' While managers must treat fairly the

> corporation's 'constituents' - employees, customers, suppliers and communities - whose well being is critical to the corporation's long-term profitability, the basics have not changed: to perpetuate the corporation, managers must produce, within a 'fairness' framework, profit and gain (Millstein 1995b, 6).

Boards largely abrogate to management their responsibility to steer the corporation. When the Chairmen and CEOs of some of the Top-100 Australian business corporations were asked about the role of the board to set high-level corporate strategy, the majority of interviewees stated that it was the role of management to set such strategy and direction.

This was a surprising response, particularly in the light of views on board responsibility espoused by key associations and organisations. Deveson summed up this relationship when he stated

> there is no doubt that the role of the Board is essentially to establish direction, policy and performance benchmarks - to select the Chief Executive, and to develop potential successors for that position. It is Management's job to manage (Deveson 1995, 12).

Francis notes that according to *Corporate Practices and Conduct*, directors are responsible for the adoption of a strategic plan, rather than its creation (Francis 1997, 27). By deduction, the development would be by management. This is reinforced by Wright and Ferris who noted that senior management are more visible and more influential in corporate strategy formulation and implementation than any other of a firm's stakeholders (Wright & Ferris 1997, 77).

Nicholls finds from her experience on boards of management that 'many managing directors and chief executives jealously guard the strategy setting process. They believe strategy is their job because they are the leader' (Nicholls 1996, 3). Despite this, she feels that 'directors cannot delegate strategy setting because it is part of their job to define the end and measure the means' (Nicholls 1996, 4).

Millstein also noted that among other things, the role of the board is to 'review and approve and, at times, initiate objectives, strategies and plans' but noted that in the US, boards tended to abrogate these duties to the CEO who was often also the board chairman (Millstein 1995, 13).

Millstein further noted that

> typically, strategic plans are written by senior management in the divisions, developed by the CEO's staff, approved by the board, and carried out by senior management at the CEO's direction. Different CEOs vary this mechanism for plan evolution, but in the end the CEO and management have the primary responsibility for articulating strategy (Millstein 1995, 16).

He goes on to argue that boards can have a more active role in the strategic planning process since

> if the board is to independently judge the merits of a management proposal concerning strategic and business plans, including the probability of realising its components, then board committees, or individual members of the board, need to evaluate the elements which should be taken into account in the process of creating a strategic plan for the enterprise (Millstein 1995, 17).

Irrespective of whether boards should or shouldn't be more involved, and to what extent that involvement should take, there appears to be little contention that it is management that currently

largely, and in some cases wholly, develop such plans. These plans by their nature steer the corporation's future more profoundly than infrequent, high-level nuances in direction *instigated by the board*. Experience and interviewee responses indicate that radical shifts in corporate direction instigated directly by the board, are relatively rare. From both an intuitive and practical perspective, management provides greater effective steerage of the corporation than is currently acknowledged - particularly by those who see the onus of responsibility for steering the corporation falling on the board.

Management is affected by normal human subjectivity while the planning process in which they are instrumental is not immune from their subjectivity. It is not the intention of this study to argue the existence of 'subjectivity' since that is beyond the scope of the study. However an acceptance of its existence is critical because such subjectivity moulds the relationship between managers, what and how they perceive their environments and therefore shape it; how they perceive their own relationship with the organisation; and how they perceive the shareholder and his/her needs.

It might also be suggested that shareholders seek managers (and board members) who display or have displayed certain attributes or attitudes in order for the manager to fulfil specific roles within the organisation that the shareholder owns. Secondary research supporting both positions would appear to support the contention of managerial subjectivity.

The key issue is whether the manager is 'subjectively neutral' or whether the individual manager brings with him/her a character, nature, attitudes and perceptions that may alter his/her managerial performance, the destiny of the organisation, and implied therefore, the attitude towards the owners of the business.

Jensen and Meckling in discussing agency contract, observed that

> a contract under which one or more persons (the principal/s) engage another person (agent - manager) to perform some service on their behalf which involves delegating some decision-making authority to the agent. If both parties to the relationship are utility maximisers there is a good reason to believe that the agent will not always act in the best interests of the principal (Jensen & Meckling 1976).

Band, in his discussion of Agency Theory, noted that it is based on two fundamental behavioural assumptions: that all individuals are assumed to choose actions that maximise their personal welfare which may or may not be in the best interests of principals; and individuals are assumed to be rational thus implying that every individual recognises the self-interested motivation of all others so that self interested decisions by agents are anticipated by principals. Therefore agency theory is concerned with the principal-agent problems in the separation of a firm's ownership and control. If individuals

act self-interestedly as assumed, the likelihood is that such differences will produce conflict (Band 1992).

Despite this, Band maintained that generally while Agency Theory devotes attention to the cooperative aspects of social life, it ignores the ways in which exploitation can be structurally encouraged by the asymmetric distribution of power in bureaucracies.

He further noted that the interests of managers revolved around job security and rate of growth of the firm with subsidiary goals including high salaries, power and status, perquisites and resolution of personal conflict. He noted that the maximisation of the manager's own career-wide incomes was in the manager's self-interest. As incomes are dependent on job security, 'managers will adopt financial policies and a capital structure for the firm which can help to secure their jobs'. Band maintained that individual shareholders only learned ex post facto of the firm's progress in maximising their wealth; and then largely on the basis of what management told them.

Rediker and Seth support this contention and found that certain stimuli, such as threat of takeover, will reduce 'nonvalue maximising behaviour on the part of managers...' and '...the need arises for internal governance mechanisms to limit managerial opportunism' (Rediker & Seth 1995, 88).

To further explore the issue of subjectivity, leadership and psychological and cognitive influences will be examined to support the contention that managers (or board members) are 'merely' human and bring to the corporation their own perspectives which may alter and determine their behaviour and therefore the performance of the corporation.

2.2.1 The Nature of Leadership

From a leadership perspective, much has been written and postulated about the attributes, characteristics and determinants of quality and successful leadership over the last fifty years or so. According to Van Seters and Field, such research has progressed from a beginning which centred on the personality characteristics of great men and women. It progressed through nine identifiable stages of theoretical thought culminating in a 'Transformational Era' which 'suggested that perhaps leadership resided not only in the person or the situation, but also and rather more in role differentiation and social interaction' (1990, 35).

Similarly, Yukl (1989) traced leadership theory and research through the years and identified its major themes. The dominant issues addressed by the researchers and theorists include leader traits and skills, behaviour and activities, power and influence, situational determinants, transformational issues, organisational effectiveness and leadership as an attribution process.

The conclusion that one draws from the body of research on the issue of leadership is that the concept of leadership quality and/or success has largely centred on a corporation's internal criteria. Profits, returns on investment, industrial harmony, employee commitment, job satisfaction, effective

communications, succession practices, and the like, are all measures which are assumed (sometimes quite justifiably) to be appropriate and accurate measures of success. The relativity of such performance is inevitably measured against like performance of peers from similar corporations or from similar industries.

But considerable focus has revolved around other, more personal attributes of leaders. As an example of other measures of leader success and effectiveness, Sashkin (1986, 1) identified three critical elements in the formation of visionary leadership. He saw the synergy between personal, situational and behavioural factors as the key elements in forming a visionary leader. According to Sashkin, the existence of such factors in an individual enable him or her to 'develop long-range visions of what his or her corporation can and should become', 'understands the key elements of a vision', and enables the leader to 'communicate his or her vision in ways that are compelling'. In other words, the presence of certain personal, situational and behavioural factors and attributes contribute to different organisational outcomes.

Despite this, Sashkin's treatise appears to be concentrated on maximising internal-measurement criteria rather than on assessing a corporation's broader environment in general - and its owners' specific objectives in particular. One would expect however, that the 'Sashkin' type leader would probably acknowledge the important role of the external environment in formulating the organisation's internal character, even though this has not been overtly acknowledged. '...goals that may seem trivial to outsiders...are critical to those inside the organisation' (Sashkin 1986, 3).

Implied in Sashkin's treatise is that leaders create a corporate vision where no vision existed before, or modify an existing vision. Niehoff, et al., (1990) also acknowledge the role played by leaders in moulding a corporate vision. Such a postulation poses two critical dilemmas. Inherent in Sashkin's and other internal-oriented views, is that the process of being a visionary or 'successful' leader allows a leader to formulate (or be instrumental in formulating) the very vision against which the leader's performance will be assessed. In other words, a 'visionary leader' is able to set the agenda and be assessed by the degree of its fulfilment. Conceptually, the leader may amend and modify that vision generally at his or her discretion. If this is not the case, then Sashkin does not offer any suggestion as to which criteria such a vision is to relate or be measured against, other than against itself.

Secondly, Sashkin like many others before him, has nowhere acknowledged the relationship of the vision established by the leader, to the specific objectives set or anticipated by the corporation's shareholders. Is a leader visionary, entrepreneurially successful, or generally successful when he or she sets a path of fast growth through acquisition and high gearing (even exceeding his peers), when shareholders seek stability, security and consistency of returns?

Both Aldrich (1979) and Weiner and Mahoney (1978) commented on the lack of organisation-specific variables which implied that corporate performance was more company and leader specific than an attribute shared by the general population of 'leaders'. Despite accurately identifying in broad terms

the key element in this discussion, none of these researchers have explicitly acknowledged the nexus between leadership and the specific objectives of the corporation's owners, against which the performance of the leader and the corporation will (can?) be ultimately assessed.

It is intuitively implausible to suggest, as may be implied by many that a leader enters his or her leadership role with zero influence or direction from those stakeholders who have an intense interest in the destiny of the corporation to which the leader is being appointed.

It is more realistic to suggest that in order for a leader to be appointed, he or she must have exhibited or displayed certain skills, characteristics and attributes to those who are empowered to affect such an appointment. Those empowered to make that appointment most certainly have a reasonable understanding of the core elements required to succeed in that position of leadership. A leadership position that requires certain skills and traits, will most probably have had recruited to it, an individual who possesses those skills and traits. Typical of this was the search for a new CEO to head the Fairfax Group in 1996 where it was noted that

> ...it is obvious Mr Mansfield's successor must be willing to consult fully with John Fairfax's controlling shareholder...The appointee must also be able to work with a board that wants to be more involved in making decisions...There is a belief that someone with foreign experience would fit into the Fairfax culture because they would accept the proprietorial relationship sought by the Black camp... (Deans 1996, 46).

The implication of non-congruence between CEO and shareholders on this issue is highlighted by Sykes at the same time about the same issue when he stated

> As Mr Mansfield's actions were primarily aimed at overturning decisions made by the major shareholder and its representatives, he apparently saw no point in consulting them or seeking their approval...In practical terms, it is in directors' self-interest to ensure they know what their management is doing (Sykes 1996, 46).

Beach also states that 'the most common approach to the selection problem is to choose individuals who possess the necessary skills, abilities and personality to successfully fill specific jobs in the organisation' (Beach 1970, 232).

The implication here is that the leader is appointed with an existing 'skills and traits' profile. The leader's profile has been assessed by those making the appointment and is generally considered as the best set of skills and traits available in order to succeed with a given corporate agenda. That different leaders have different skill and trait profiles must therefore seem a logical truism. Miller and Toulouse confirmed this when they concluded that '...it is also true that more mature organisations look for a leader who can match the culture and the strategic challenges facing the firm' (Miller & Toulouse 1986, 1406).

The importance of this statement to theorists and practitioners lies not only in understanding what constitutes the varying profiles in terms of skills, traits and characteristics, but equally, how these profiles are affected by the character and objectives of the shareholders who ultimately choose which of them they desire in order to suit their purposes.

If this shareholder-based perspective of leadership is realistic, then its acknowledgment is not readily evident in studies attempting to identify and explain the influences on leadership. Intuitively, an observer of corporate processes must concede that the owners of an organisation either directly, or indirectly through a board of control, have an influence over who is selected, elected, nominated or recruited to head a corporation. Virtually all regulators, director associations and observers see the selection and appointment of the CEO as one of the fundamental responsibilities of the board (Millstein 1995, 6; Millstein 1995b, 13). Francis found that 'of the many functions of directing, today's directors feel most responsible for appointing the CEO...' (Francis 1997, 300). The question is not so much whether there is an influence, but rather under what conditions and situations does this influence occur, how is it manifest, and what are the practical implications for better corporate performance.

Miller (1983) has identified that there are differential levels of entrepreneurship dependant on the type of firm. It is a small conceptual jump from Miller's findings to conjecture that if entrepreneurship (and leadership style and success in general) varies according to type of firm; and that successful leadership of such a firm requires the incumbent to possess certain attributes (Shapero 1975; Collins & Moore 1970; Collins, Moore & Unwalla 1967; Kets de Vries 1977; Toulouse 1980); then one may more readily accept the earlier assertion that shareholders will be related to leadership style and therefore organisational mission and character, by recruiting those leaders who exhibit the attributes and subjectivity which they (the shareholders) perceive as critical to the attainment of their objectives.

This supports the contention that managers and directors bring with them to their positions a set of subjectivities which may contribute to their appointment to the position but which may over time, detract from their success in that position. In support of the general thrust of this argument, Niehoff et al. (1990, 348), noted that 'Bass posited that transformational leadership may be more effective in certain organisational settings than others' and thus supported their assertion.

Equally interesting were the counter-indications identified by Kenny and Zaccaro, (1983, 683) that despite what on face value would 'seem to suggest that leadership is much more stable across situations than (their) introductory texts would indicate'. They note that 'it in no way illuminates what personality trait or set of behaviours bring about this stability', implying that such personality traits and behaviours exist. They further propose 'that persons who are consistently cast in the leadership role possess the ability to perceive and predict variations in groups and pattern their own approaches accordingly'. The implication here is that some people ('leaders') have attributes that other people ('non-leaders') do not, and that these attributes affect corporate actions and behaviour.

The premise that some leadership responds to the pressures of equity stakeholders appears to be implicitly supported by Kenny and Zaccaro who state that leaders pattern their own leadership style in light of such pressures and influences. However, to assert that all leaders and corporations are equally affected by their shareholders is intuitively unrealistic. Like Miller (1983), one would expect different corporations to be affected in different ways - particularly as it relates to a corporation's leadership agenda and the style required to bring that agenda to fruition.

The degree of transformational leadership will vary according to the principal expectations of shareholders. The concept of a leader having a personal vision dictated by personal attributes (Sashkin 1986; Bower & Weinberg 1988) is less likely in those corporations where the corporate mission is actively determined by its shareholders and where the leader is not the principal or a major shareholder. Conversely, and more importantly for this study, *personal vision and personal attributes are more likely in those corporations where the corporate mission is not actively determined by its shareholders or where the leader is the principal or a major shareholder.*

In Conger's review of leadership he observed that

> generally speaking, unsuccessful strategic visions can often be traced to the inclusion of the leaders' personal aims that did not match their constituents' needs...Fundamental errors in the leader's perception can also lead to a failed vision...If the leader loses sight of reality or loses touch with constituents, the vision becomes a liability (Conger 44).

A sobering conclusion to this aspect of leadership is provided by Gartside who states that he suspects that 'sociopaths are concentrated among organisational leaders'. He quotes Hogan, Raskin and Fazzini who assert that

> certain kinds of people with identifiable personality characteristics tend to rise to the tops of organisations and these people are potentially very costly to those organisations (Gartside 1998, 11)

In examining leadership then, we find that the subjective attributes and proclivities of leaders vary but impact the behaviour within the organisations they lead. The concept of 'leadership' implies that the leader has the duty and obligation to 'take the organisation' in a direction that the leader deems appropriate. The leader's subjectivity will impact directions chosen and may conflict with the interests of shareholders.

2.2.2 Cognitive and Psychological Issues

In the area of cognitive and psychological influences, there is considerable support for the contention that manager subjectivity exists, but not necessarily in those terms, and that this subjectivity impacts upon and influences their behaviour.

Miller and Toulouse concluded from their study of CEO personalities that there was some support for the view that personality influences organisation (Miller & Toulouse 1986, 1405). They also noted that

the relationship between personality and organisation was stronger in smaller firms and that the impact of a single CEO can be much greater in smaller firms. (1986, 1406).

In his work on cognitive mapping, Eden noted that his techniques were useful because

> by bringing to the surface the realities as seen by those who will enact strategy, it not only provides ownership but counters the risks of locked in perspectives that derive from 'the mind of the organisation' (Eden 1994, 116).

The clear implication from this is that perspectives which are dysfunctional or negative to the corporation exist, and that these perspectives reside in the minds of people. Eden notes:

> The data of strategic thinking will...be dominated by a qualitative *belief system*, which represents 'theories' about why the world works and how it can be changed. The need to recognise the complex interaction between the multiple beliefs of organisational members reflects the reality of every goal being qualified by others and every strategy being constrained and enhanced by a network of other strategies (Eden 1994, 118. Eden's emphasis).

Reger and Huff (1993, 104) found in their study of strategic groups that 'management perception of similarities and differences among competitors influence strategic decision-making'. The implication from this is that management is influenced by the way it thinks about how it understands its environment, which therefore changes what the manager has the organisation do based on those personal perceptions.

Writing about culture difference, Wood noted that 'when you consider making a decision in a group, whether the decision is a moral dilemma or is a business issue, you approach it with your own beliefs, values and attitudes' (Wood 1997, 83).

Weick in his work on organisational 'sensemaking' recognises the existence of subjectivity within the organisation. He stated that

> organisations were conceptualised as social structures that combine the generic subjectivity of interlocking routines, the inter-subjectivity of mutually reinforcing interpretations, and the movement back and forth between these two forms...tensions between the innovation of inter-subjectivity and the control of generic subjectivity animate the movement and communication (Weick 1995, 170).

In an interesting study of retrospective accounts, Golden (1992, 848) found that errors in recalling past strategies by CEOs were attributed to either faulty memory or 'attempts to cast past behaviour in a positive light'. The study suggests that since the formulation and implementation of a firm's strategy is typically a high involvement activity for the CEO in both behavioural and cognitive terms, the ability of a CEO to accurately recollect past events has serious implications for formulated strategy in which the CEO is instrumental in developing (Golden 1992, 849). A manager's ability to recollect, or his/her subjective cognitive skills impact organisational strategy, and by implication, performance and shareholder satisfaction.

The psychological reasons for a CEO to want to cast past behaviours in a positive light, although intuitively self-evident, would probably vary between individuals rather than be a uniform trait of CEOs. If so, the personality and cognitive implications from this support the contention that subjectivity resident in management individuals exists and can significantly shape corporate direction and action through its strategy formulation process.

Zajac (1990, 227) in his study of CEO selection found that those CEOs who 'perceive a stronger connection between their personal financial wealth and the wealth of their organisation tend to be more profitable'. Interestingly it is worth reiterating that the connection identified here was between personal CEO and corporate wealth and not between personal CEO and shareholder wealth. Zajac also noted that the incongruence between managers and shareholders means that CEOs seek '...to maximise their own utility function, which may be at odds with the utility function of the principal, e.g. shareholders' (Zajac 1990, 219).

Bolman and Deal, in their discussions regarding the reframing of the organisation, noted that 'the human resource frame emphasises the malfunctions that result from the mismatch between the needs of organisations and the needs of individuals or from the strategies used to manage interpersonal and group dynamics'. They go on to note that within organisations 'there are enduring differences among individuals and groups in their values, preferences, beliefs, information and perceptions of reality' (1991a, 186). Power and the use of power is of major interest to Bolman and Deal. They make the following statement regarding the use of power within organisations:

> Sometimes, the legitimate authorities are the dominant members of the organisational coalition: this is likely to be the case in a small, entrepreneurial organisation where the chief executive is also the owner. But large organisations are often controlled by senior management rather than by the stockholders or the board of directors....the exercise of power is a natural part of an ongoing contest...There is no guarantee that those who gain power will use it wisely or justly (1991a, 204).

Elsewhere, Bolman and Deal note that managers looking for information to make decisions 'operate mostly on the basis of intuition, hunch, and 'judgement' - derived from long experience in their organisation and its successes or failures' (Bolman & Deal 1991b, 242). What then of managers who have just joined the organisation - from where do they obtain their organisational experience and how reliable is their subjective judgement? The implications from this view is that differential views of reality coupled with manipulated power create opportunity for the powerful to use their subjectivity for self gain to the detriment of shareholders.

Lessard and Zaheer in their study of strategic responses to volatile exchange rates found that

> even in firms where Treasury had an explicit mandate to reduce overall corporate risk, the structure of its evaluation and incentives at times gave rise to Treasury actions that were driven by its desire to 'look good', but were suboptimal from a corporate perspective...The way in which subunits 'frame' a particular strategic problem and see their own roles in relation to that problem will affect their responses to it or the extent to which they cooperate with other subunits in

> dealing with it, thus affecting the quality of the response (Lessard & Zaheer 1996, 518-519).

On the purely psychological level, Morgan notes that

> Freudian psychology emphasises how human personality is shaped as the human mind learns to cope with raw impulses and desires. Freud believes that in the process of maturation these are brought under control or banished to the unconscious. The unconscious thus becomes a reservoir of repressed impulses and painful memories and traumas that can threaten to erupt at any time. The adult person deals with this reservoir in a variety of ways, engaging in various defence mechanisms to keep them in check... some of the important defences that have been identified by Freud and his followers (include): repression, denial, displacement, fixation, projection, introjection, rationalisation, reaction formation, regression, sublimation, idealisation, splitting (Morgan 1986, 206).

It is not suggested that managers or leaders, per se, suffer from these characteristics, but that managers and leaders, as human beings, are as liable to posses one or more of these attributes as anyone else. These mould (or create) their subjectivity and play a role in the way the manager or leader (or board director) shape his/her view of reality and thus his/her behaviour. It is also not suggested that these attributes are necessarily all 'bad', but that some may help certain individuals perform more effectively than others in a corporate environment. A fixation on success, for example, may be interpreted in corporate terms as 'focus' and may be seen as highly positive.

Deal and Kennedy (1983) in their study of corporate culture identify a range of organisational cultures. They deal with the organisational attributes of these cultures and suggest that different types of managers have the ability to manage certain types of cultures than other types. They acknowledge that managers have different attributes and skills thus the managers with certain attributes are better able to manage those cultures which exhibit those same characteristics. The implication here is that the skills and traits of managers determine how a manager interprets behavioural requirements and ultimately the success of those behaviours. A poor match of manager skill with cultural attribute will result in a sub-optimal outcome.

Patten noted in his work on team building that

> ...there is a life flow in man on all levels, an energy that flows through cycles of motivation, preparation, performance, and consummation. When these energy blocks are interrupted, a number of blocks can be identified. There can be physical blocks that lead to physical illness, emotional blocks, to under-achievement, social blocks, to incompatibility, and spiritual blocks, to postponement of the realisation of the total person...Self-deception and dishonesty block energy...(1981, 65).

The concept of team building rests on the notion that people are different and perform differently. If their behaviour is modified they can work effectively as a team and be more productive. The differences between them are based on their uniqueness, their emotions, attitudes and perceptions - their subjectivity.

Dessler noted in his work on integrating organisation structure with behaviour that

> ...traits classified as physical, social background, intelligence and ability, and personality were found to differentiate leaders from followers and effective leaders from ineffective leaders in specific studies' (1980, 256).

This again supports the view that managers hold different subjectivity and this subjectivity contributes differentially to performance.

McCarthy in his popular book dealing with why managers fail, noted that the reasons for failure in managers differ.

> Poor judgement, lack of foresight, a myopic view of the management job that concentrates attention on areas of interest and leaves other areas neglected, if not ignored ... are but some of the reasons why managers fail (1978, vii).

The plethora of cases and forms of failure discussed by McCarthy illustrate the diversity of individuals who each have their own skills, failings, preferences, perceptions and attitudes which when applied to the business context, causes a range of outcomes - in this case failures. Skills and subjectivity create behavioural outcomes.

Boyd in his study of board control and CEO compensation noted that

> a CEO with no or minimal equity ownership...is expected to have substantively different goals than stockholders or a CEO entrepreneur...the top man...usually finds expanding his power more important than rewarding owners...Specifically, the absence of ownership creates an incentive to consume more on the job than is agreed in his contract. Thus, the CEO may focus on maximising his own wealth versus that of the firm (Boyd 1994, 336).

The references to, and research of, differences between individuals and the impact of these differences on behaviour is almost endless. But to conclude this section on subjectivity, Athos and Coffey make a number of salient points in their study of behaviour in organisations as follows:

> The differences between and the similarities among human beings are at least as important as and perhaps more difficult to grasp than the differences in and similarities among companies or small groups (1968, 149).
>
> The way they see themselves...and their relationship...is different, and each will behave so as to *protect, maintain, and enhance his own adequacy* in the situation as he sees it. Both will strive for their own adequacy, and in that sense they will be similar, but they may go about it in very different ways (1968, 150. Athos & Coffey emphasis).
>
> Out of all this comes a view of self (not all of it in awareness), of one's own specific behaviour, and of other people and things and places, which has been laboriously built up over time. This view is our 'personal frame of reference.' And each man continues to behave so as to avoid pain and to maintain or enhance himself - given his view of himself, his behaviour, and others. Even if our view of ourselves and others leads to behaviour that results in little satisfaction or sometimes even in pain, we tend to hold onto our frame of reference tenaciously and to continue to behave in light of what we see. Because to each of us, what <u>we</u> see is real. What we perceive, we take for reality (1968, 153. Athos & Coffey emphasis).

> Thus any person's behaviour is, *from his point of view* (of self and situation), perfectly 'logical' and sensible to him at the moment (1968, 154. Athos & Coffey emphasis).

Management has the ability to choose tools, techniques and strategies that are possibly self-seeking and thus maybe to the detriment of shareholders. This contention is a derivative from the above discussion of leadership and of the psychological and cognitive perspectives on individuality. The logic for this is as follows:

> One of the roles of leadership, management and directors is to set the vision of the organisation and oversee, in a practical sense, the operations of the organisation.
>
> Leaders, managers and directors bring to their roles their own frames of reference.
>
> Those who hold a frame of reference will behave in a way that generally will protect and enhance it through their choice of, and use of tools, techniques and strategies.
>
> Organisational behaviour is triggered through the adoption of tools, techniques and strategies.
>
> These tools, techniques and strategies may be protective of the individual manager's frame of reference but not advantageous, or less advantageous for the organisation. In a similar manner, shareholders may be disadvantaged.

Supportive of this view were Wright and Ferris who recently found 'that non-economic pressures may influence managerial strategies rather than value-enhancement goals' (Wright & Ferris 1997, 77). They also concluded that the research

> provides some evidence which suggests that divestments of business units in South Africa may have been motivated by the self-interests of senior managers and, as such, represent the manifestation of an agency problem. These results are counter to the traditional theory of the firm where it is assumed that organisations are managed in the best interests of their owners. Moreover, the results are not supportive of the premise that senior executives are motivated to act in the best interests of the shareholders as a result of: capital market signals, managerial labour markets, and the threat of hostile takeovers. Our study provides further support to the argument of select authors who claim that managers, as agents of shareholders, may not always act in the best interest of the owners (Wright & Ferris 1997, 81).

It is not even remotely contended that all managerial or board decisions are to the disadvantage of the organisation or shareholder. A Williamsonesque view of corporate operations where management is essentially malicious and conniving is not proposed here. Rather, it is maintained that the current relationship between shareholders, the board and management, and the processes used to establish corporate direction and deliverables, do not sufficiently protect the shareholder from the natural foibles and characteristics of the individuals who are entrusted with the shareholders' investment.

As such, an improved system or process, possibly based on a new model of the relationship between owners and corporation, that better ensures congruence between organisational outputs and owner objectives is worthy of serious consideration.

External performance measures are based on industry and competitor performance when such industry and competitor performance may not be congruent with specific company objectives. The reason that this practice is problematic is threefold. Measurement of performance across organisations is difficult because definitions of measurement and motivations toward the measure vary between organisations (LEK 1997). Secondly, the pursuit of a measure that is generic across organisations, such as return on investment, net tangible assets, etc., may be a poor method of assessing an organisation which is not pursuing such an outcome as its primary objective. Thirdly, the corporation may have other objectives which significantly impact its optimisation algorithm and which make fulfilment harder or easier to achieve (James 1996, 81). As an example, satisfying sales growth and earnings growth objectives may be mutually supportive objectives, and relatively easier to achieve than satisfying growth in net assets and growth in dividend payments which in certain circumstances may be competing and conflicting objectives.

This leads back to the discussion of the pursuit of an outcome that is determined by management rather than by owners. If the industry measure is, say, return on investment, then this disadvantages the corporation which is seeding the market for the future. Conversely, a manager who wishes to be seen as a successful performer in the industry will pursue those behaviours and practices which augment ROI, in order to satisfy his/her personal ambition, even if the pursuit of that measure is sub-optimal for the organisation and/or the shareholder.

Thomas (1988), in his discussion of Lieberson, and O'Connor's (1972) paper on leadership and organisational performance, and notwithstanding conjectural methodological issues, has highlighted serious limitations in current leadership performance appraisal.

Lieberson and O'Connor's 'path breaking study', like others before and after it, assumed that a corporation's leadership can be measured for its effectiveness against leadership in other companies and other industries. Yet Thomas accurately identified the need to differentiate between the performance of a leader compared to other leaders, and the relative performance of a leader within a given corporate and environmental context.

Millstein noted that there is a move in the US to link director compensation to corporate performance and the financial interests of the shareholder rather than to generic industry ratios. That despite a similar move to tie manager and director compensation to performance, there is a concern that 'reliance on relatively short-term financial performance indicators may result in an inappropriate focus on the balance sheet and stock price, rather than on necessary long-term strategies' (Millstein 1995b, 15). Hence there is a move to incorporate measures that are non financial indicators of 'value' despite the difficulty in measuring them (Millstein 1995b, 16). This trend supports the contention that current performance measures are insufficient and inappropriate. Millstein doesn't in this paper go so far as to say that the corporate measures should be tied to shareholder objectives as proposed in this study, but it does not seem hard to extrapolate this from the discussion from which this comment was made.

However he does state elsewhere:

> ... historical and purely financial performance measures may not provide sufficiently sensitive tools for board decision-making... If the board is to accurately evaluate management and corporate performance beyond the level of a stock analyst, it needs sharper tools...*The board can indeed go so far as to put itself in the place of an entity investing in the corporation...* (Millstein 1995, 19-20. Emphasis added).

This is certainly an indication of a different view of performance.

Stubbington (1995, 5) intimated a similar view when he stated 'to assess company performance there must be an agreed level of responsibility to clearly identified stakeholders'. Notwithstanding the differences between the concepts of shareholder and stakeholder, it is not clear whether this statement is merely rhetoric or hard policy and philosophy. His discussion of Economic Value Add (EVA) as a way to determine '...how successful a company has been in allocating, managing and re-deploying scarce resources to maximise the NPV of the enterprise and the wealth of its shareholders' (Stubbington 1995, 8), contradicts his earlier proposition in that NPV and EVA are criteria established by directors and managers of how to measure performance, and generally not a measure determined by stakeholders. To his proposition of 'responsibility to stakeholders' should be added 'as defined by directors and management'. The reason this is important is that this view is purported to be that of the Australian Institute of Company Directors, of which Stubbington was then its CEO, and thus potentially represents the philosophy of the organisation that he was representing.

In a study of corporate performance measurement in Australia by LEK it was found that

> no preferred, single, simple model of performance measurement currently exists which can be labelled as 'superior'. The performance measurement models used differ for a variety of reasons: the industry in which the organisation operates; the short-term operating and long-term strategic position of the organisation in its industry; the history of the organisation and experiences of the CEO as well as other senior executives and stakeholders (LEK 1997, 6).

The study also found that nearly 80% of all surveyed companies and about 95% of publicly listed companies used market share, a competitor/industry focused measure, while less than half used any shareholder-related measures (LEK 1997, 6).

They also noted changes in measures used.

> ...43% of organisations changed measures in the last three years and 31% were contemplating change...Wherever measures are currently being used, it seems that there is a distinct likelihood of change in the foreseeable future...Extensive analysis of the change process revealed that several reasons for seeking a change of measures existed: changes to the industry...resulted in the need to reconsider which performance measures were appropriate for the new environment; changes in an organisation's particular situation, such as making losses or developing a new corporate strategy, often resulted in new measures being used;

> arrival of new key stakeholders of the organisation, such as a new owner or new CEO, also resulted in new measures being introduced (LEK 1997, 7).

Not only are existing measures not directly aligned to shareholder objectives, but it appears from this study that those measures that are used are seriously problematic and do not provide shareholders and others with an effective and uniform method of assessing a corporation's performance. The LEK study concluded that

> organisations that have clearly articulated models had a better understanding of the inter-relationships of their business. Many of these organisations also had superior shareholder returns. Companies that were shifting towards a shareholder value perspective were increasingly linking remuneration to organisational performance (LEK 1997, 8).

From this analysis comes the suggestion for a new strategic framework along the following lines:

- The prevailing perspective that a corporation's mission is derived by management and boards based on their interpretation of what is in the corporation's best interest, be replaced with a perspective that elevates shareholder objectives to primal position in all company striving. In other words, dispense with the notion that a corporation has a life of its own outside its owner context.
- To do this, corporations must quantify shareholder objectives in a way that provides each corporation with an explicit set of deliverables that the board and management are responsible to deliver. Such quantification is needed to avoid the ambiguity and lack of precision currently associated with high-level mission statements defining corporate intent and purpose. It is suggested that these objectives would normally be against the criteria of value, benefit, growth and risk.
- It is the role of the board and management to deliver those specific outcomes and their performance is assessed against those outcomes, irrespective of industry or competitor performance.
- The strategies employed by boards and management to achieve those outcomes are 'objective' specific. A company will choose a strategy that will deliver a specified outcome, rather than a generalist strategy not tied to specific outcomes.
- The optimal practical role for strategic theory is for the theorist to postulate strategic models which will deliver specific outcomes (i.e. satisfy specific types of objectives, e.g. ROI, RONA, risk minimisation, revenue growth, etc.) in certain environments, industries, or contexts rather than try to account for all circumstances and contexts.

In this way, managers will be encouraged to match context-based strategies with outcomes and adopt those which assist the corporate aspirations, rather than choose those strategies which caress the corporate and distract from the real corporate purpose.

2.3 Problems with Management Theory

An area worthy of examination is that of contemporary management thought. Within this thought, is there a methodology, tool or technique which if adopted overcomes both managerial and director subjectivity and enhances the shareholder's ability for secure satisfaction through their relationship with the organisation?

The review that will be undertaken here is intended to examine the implications of key contemporary corporate and strategic writings relating to the relationship between the corporation, management and owners.

The choice of writings is selective and subjective. It was not intended to provide a review of all writing on contemporary and strategic writing, but rather to review a select number of popular approaches to strategy and of methods and techniques commonly used in many organisations. It is neither a review of all that is written in any area nor is it a review of all work by the authors discussed. Instead, it provides an insight into the implications for organisations, boards and management of adopting theory or techniques without a rigorous assessment of its implications on shareholder interests. The review seeks the answers to specific questions:

- *Is the adoption of a particular strategic planning model, tool or technique likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes in the future and change effectiveness?*
- *Is the 'way an organisation plans' likely to impact on owner outcomes?*
- *How do various strategic planning models handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?*

These questions were chosen because they identify the key relationship and process issues that underpin the intent of the corporation to satisfy shareholder objectives.

This review examines a range of approaches to strategic planning and organisational management. The intention is not to determine the 'rightness' or otherwise of each of the proposed models to achieve what they purport to achieve, but rather to determine how each contributes to an organisation's ability to deliver shareholder satisfaction and whether each recognises the primacy of shareholders (as contended here). Will any of these models, if adopted, help the organisation bridge the gap between management and shareholders?

The approaches to be examined here include the writings of: Kenneth Andrews, Henry Mintzberg, Christopher Bartlett and Sumantra Ghoshal, Gary Hamel & C. K. Prahalad, Michael Porter, John Moore, Bromiley and Cummings, Birger Wernerfelt, Avinoah Dixit and Danny Nalebuff, Richard Rumelt, Jay Barney, and Eugene Fama.

Kenneth Andrews

Kenneth Andrews argues that corporate strategy is the pattern of corporate decisions that determine its objectives, purposes or goals and produces the key policies and plans that lead to the delivery of those objectives and goals (1980, 39). The strategy process also defines the company's business, structure and composition and establishes the outcomes that its shareholders, employees, customers and others are to receive.

The process of corporate strategy has two distinct elements: that of strategy formulation and the other of strategy implementation.

Strategy formulation relies on the identification of opportunities and threats; appraisal of strengths and weaknesses, particularly of existing and available resources; and the identification of opportunities and risks. From this analysis comes a set of strategic alternatives. The formation thus far represents what a company 'might do'.

Andrews states that the analytical process is then subjected to the opinion and attitudes of management when he states that 'the determination of strategy also requires consideration of what alternatives are preferred by the chief executive and perhaps by his or her immediate associates as well, quite apart from economic considerations. Personal values, aspirations, and ideals so, and *in our judgement quite properly should*, influence the final choice of purpose' (p.41, Emphasis added).

The key issues from Andrew's strategy planning process with regard to the relationship between management and owners include:

- Management (the CEO) defines both the direction of the organisation as well as the outcomes that the organisation will deliver;
- Management's subjectivity is deliberately used to refine, enhance or amend decisions made on the basis of deliberate analytical process;
- Existing organisational competencies and opportunities from the environment define the alternatives available to that organisation.

Is the strategic planning model likely to impact on the way managers (and boards) relate to owners/shareholders, and will this impact on outcomes?

In the corporate context, most observers of, and participants in, business would agree that the *raison d'etre* of corporations (i.e. where a corporation 'starts' and from where it gets its legitimacy) is identified within its mission statement. It is from this mission statement that organisations develop an enabling vision and extract from it a set of enabling objectives and strategies that will deliver this vision and fulfil its mission.

In Andrew's model the development of mission and definition of corporate deliverables is undertaken entirely by management. It is management who make subjective assessments as to those objectives,

and incorporate them into the organisation's strategies and plans. In other words, managers decide what it is that their organisation will do and what their organisation will deliver.

Management's subjective value assessments may not be aligned with owner desires. The corporation's mission then, is a statement of organisational deliverables which, because it has been derived by management without taking into account shareholders' objectives, diminishes the probability for owner satisfaction.

A key element of the organisation in which management defines the mission statement is that management sets the performance criteria against which it will itself be measured. These criteria may not be the criteria needed to drive toward owner objectives and owner satisfaction. Interestingly a recent but undated LEK study found that there was an increasing shift towards shareholder based value measures and that organisations and their strivings must focus on superior shareholder returns (LEK 1997). This change may be caused by greater shareholder dissatisfaction with management performance in relation to the delivery of shareholder satisfaction; or by management who might be recognising that it is easier to deliver to shareholders what they want rather than try to deal with shareholder dissatisfaction.

The issue for those organisations where management subjectively develops the mission statement is that as long as a mission statement fails to address the satisfaction of owner objectives in tangible, quantifiable and measurable ways, then the mission statement is not accurately defining the corporation's purpose. Without tangibility, quantifiability and measurability, objectives remain abstract and ambiguous and open to interpretation and misinterpretation.

The mission statement will provide the necessary direction for the corporation as long as it is not a statement of subjective or uninformed management, but is an accurate representation of the outcomes desired by owners.

A way to bridge this chasm between management perception and owner objectives is to quantify owner objectives in a way that enables the organisation to determine what it needs to deliver over time. Once quantified, a mission statement for an organisation needs to be 'no more' than a statement of quantified owner objectives since the organisation 'merely' exists to satisfy those objectives. What the organisation chooses to publicise to its various constituencies and term as its mission statement may be something else entirely and may be used for other purposes, such as motivation, promotion, communication, change management, etc. The latter use of the mission statement is quite legitimate. Any confusion that might be generated by using two 'versions' of the mission statement can be averted by naming those objectives related to directly satisfying shareholders as the organisation's 'Statement of Purpose' or something similar.

On the matter of existing competencies, Andrews believes that 'the way to narrow the range of alternatives of new possibilities is to match opportunity to competence...it is this combination which establishes a company's economic mission and its position in its environment' (p.47). This approach

has a serious impact on shareholder satisfaction. If I am limited by the competencies or resources I currently have, then options that provide me with satisfactory or better benefits but rely on new, enhanced or different skills are closed to me. It also assumes that the current combination of resources and competencies are optimal and are the elements that will provide me with satisfaction in the long term.

Companies that undertake SWOT analyses and automatically look to enhance current competencies and resources, risk investing in competencies and resources that may not be required in the longer term, or missing opportunities for building competencies and resources that will be required in the future, but may be weak today.

Lessons from successful entrepreneurs are timely here. Entrepreneurs have a vision and seek competencies and resources that will deliver a specific outcome. They generally don't have the competencies and/or resources needed to achieve their vision, but do so by using other parties to 'fill in the gaps' for them. They never accept the primacy of resources or competencies because they can secure what they need from elsewhere. The same principles apply to corporations. Competencies and resources are merely enablers for the achievement of a higher-level outcome. A corporation should secure (internally or by alliance) those competencies and resources it needs to deliver an outcome and should never be fixated by a corporation's existing resource and competency profile.

Is the 'way an organisation plans' likely to impact owner outcomes?

In addition to Mintzberg's plethora of concerns (Mintzberg 1990), there are two serious limitation to Andrews' planning structure. Firstly, there appear to be only four key inputs into the strategy formulation stage: assessment of opportunity and risk, SWOT analysis, management values, and non-economic responsibility to society.

Although these four elements are important and form part of most planning methodologies, there are other inputs into the process that have been ignored. As an example, the relationship with shareholders and other stakeholders appears to be missing. In the context of Andrews' paper, this has important implications.

In his diagram 2.1 (p.42) he states that the Formulation phase of the process is 'deciding what to do'. By implication, the four inputs he has identified must be sufficient inputs to determine a corporation's strategy and direction (and therefore outcomes). One can deduce that what shareholders want is not an input into the formulation process. The result of this mind-set is that managers ignore shareholder objectives as part of the strategy formulation process. For reasons discussed above, the outcomes delivered by the organisation are unlikely to be aligned with those of the shareholders.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Andrews doesn't deal with board members at all, and maintains that the particularly subjective attitudes and perceptions of management are necessary for the strategic planning process. This supports Andrews' notion that managerial subjectivity is a 'positive', rather than a 'negative' that needs to be compensated for. Such negativity comes from the assumption that subjectivity is neither consistent nor totally replicable or sustainable over long periods.

The experience of many organisations would suggest that judging by the effort and expense applied by them to ensure consistent, replicable, reliable, predictable and fair outcomes from decision making processes, that the Andrews propositions are ill founded. Andrews' insistence that managerial values are a key 'Formulation' element hinders the consistency, replicability, reliability, predictability and fairness of decisions and strategies since values carry with the individual. The 'value' which prevails at any time is usually an outcome of a number of influences including power relationships, charisma, politics, or the ability to be heard or be persuasive.

Andrews' differentiation of formulation and implementation as two parts of the strategic process has little impact, per se, on shareholder outcomes. Where it will impact shareholders is when implementation is poor or misaligned to objectives, but this risk applies to all planning models. The separation of formulation from implementation, does not of itself impact shareholders.

In summary, the Andrews' model seriously jeopardises the ability of shareholders to influence the outcomes from their investments in a way that ensures their satisfaction by overemphasising the managers' subjective judgements and values.

Henry Mintzberg

The term 'emergent strategy' was developed by Henry Mintzberg based on the idea that most of what organisations intend to happen, does not happen and is eventually rejected along the way (Mintzberg 1991). Mintzberg argues that only about a third of strategy that has been operationalised was originally intended. The balance is an emergent strategy that is a product of culture, efforts to correct what was perceived as incorrect or inappropriate and of miscommunications.

He further argues that strategy is crafted in situations where 'skill, dedication, perfection through the mastery of detail' are key characteristics. He further maintains that the strategy development process 'is not so much (about) thinking and reason, as involvement, a feeling of intimacy and harmony with the materials at hand, developed through long experience and commitment' (1991, 105). In this way, strategies 'can form as well as be formulated' (1991, 107).

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact on outcomes?

A reader of Mintzberg's (1990) criticism of Andrews' planning process, and the resultant invective between Mintzberg (1991a) and Ansoff (1991) might be surprised by the degree of apparent commonality between the two on issues that relate to shareholders.

Although Andrews saw the strategic planning process as a mechanistic and structured one, and Mintzberg saw it as emergent and intuitive-based on experience; both have identified and emphasised the role of management values (subjectivity).

Although Andrews argues for the importance of this subjectivity, and Mintzberg for the inevitability of it and as a responsibility of management; both see it as instrumental in the formulation of strategy. Mintzberg (1991b, 40) states that it is the 'leader's responsibility to define the mission of the enterprise'. This is not too different from Andrews' view of the active role that the CEO must take in imposing his/her views over the alternate scenarios before the organisation.

Probably to Mintzberg's chagrin, he suffers from similar limitations to those of Andrews: namely, that management are expected to vision a corporation's destiny at the apparent exclusion of the over-riding objectives of shareholders. The discussion above in relation to Andrews equally applies to Mintzberg in relation to impacting shareholders.

Is the 'way an organisation plans' likely to impact on owner outcomes?

The emergent character of Mintzberg's model gives no greater confidence that shareholder objectives will be recognised as key inputs into strategic deliberations over Andrews' model of a 'one-stop' formulation process. Both models omit any reference to the corporation's owner and both support the subjectivity of management in determining the direction of the corporation. A philosophy which accepts the principle of shareholder primacy would see the planning process reflect this orientation irrespective of the specific planning model chosen.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Much the same as Andrews' model, Mintzberg's model of emergence and crafting have little (positive) impact on shareholder outcomes. The fact that strategies emerge over time due to impacting influences does not prescribe where the emergent strategies obtain their guidelines from. Similarly, the fact that the strategies are lovingly crafted does not prescribe the source of the guidelines.

In Andrews' case, one can develop a wonderfully strong, but fundamentally misguided corporate strategy based on his four key inputs. Similarly in Mintzberg's case, one can develop a wonderfully dynamic strategy that was developed with great care, love and intuition that is also misguided in terms of shareholder objectives.

Bartlett and Ghoshal

Bartlett and Ghoshal (1994) contend that the traditional 'M-form' of strategic processes in organisations is dated and is no longer adequate for organisation growth and vibrancy and needs refinement. They maintain that the 'large global corporations are creating a new organisational model

in the 1990s that is significantly different from the M-form organisation that has dominated corporate structures over the preceding five decades and that has provided the context for much of current management theory' (p.24).

In essence, and quoting Chandler (1962, 7), they believe that a new theory of the firm is needed 'from the point of view of the busy men responsible for the destiny of the enterprise' (p.25).

Bartlett and Ghoshal see the fundamental characteristic of the future corporation as being entrepreneurial and comprising three key core elements:

- the entrepreneurial process which drives the opportunity-seeking, externally-focused ability of the firm to create new businesses;
- the integration process which allows it to link and leverage dispersed resources and competencies to build a successful company; and
- the renewal process which maintains its capacity to challenge its assumptions, beliefs and practices and to continuously revitalise itself so as to develop an enduring organisation.

Bartlett and Ghoshal take a more humanistic view of the corporation and the people within it, particularly compared to earlier models, such as that of Williamson (1975). Williamson took a relatively pessimistic view of organisations, suggesting that people were basically opportunistic, free riding and shirked responsibility and therefore needed to be controlled and monitored; and the organisation was perpetually in a state of inertia.

Bartlett and Ghoshal (p.43) see the organisation as 'fundamentally a social structure. Even though actions of and within organisations may be motivated by a variety of economic and other objectives, they emerge through processes of social interactions that are shaped by the social structure.'

Their view is that the organisation should revolve around initiative, creativity, collaboration and learning. They maintain that their model

> is very different from currently dominant theories of the firm which are grounded in the perspectives and languages of different social sciences...(Their) model is at least as useful for illuminating organisational phenomena as those generated by economists describing the firm in the context of market failure or social psychologists describing it as a higher order aggregation of individual and group behaviour that are typically their focal level of analysis (p.46).

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Bartlett and Ghoshal's model states that top management creates the purpose of the organisation while lower level management integrate knowledge and resources and drive entrepreneurial opportunities (p.44). Once again, as with Andrews and Mintzberg, it appears that organisational destiny is driven by management with no acknowledged reference to the organisation's owners.

Bartlett and Ghoshal's identification of the elements of initiative, creativity, collaboration and learning can assist management to become more effective in handling the challenges of the 1980s and 1990s, but are largely internally focused. In other words, these elements merely help management to manage against a set of outcomes they have determined (or are determined by the social dynamic within the firm), rather than help management deliver an outcome that is desired by shareholders. However, were management to recognise the need to satisfy owner objectives as the principal organisational driver, then it would not be difficult to refine their model to support such an external driver.

Bartlett and Ghoshal, like Andrews and Mintzberg, have assumed that the organisational outcomes defined by management are the same as the outcomes desired by owners. A recent paper (Jacoby 1997) has suggested that this assumption is not supported by evidence. From a planning perspective, the model suggested here reinforces management's obligation to seek external opportunities to satisfy the vision defined by it. As such, it has an important impact on the ability of the organisation to deliver owner satisfaction, which will only occur if shareholders want what management is striving to achieve; rather than management striving to achieve what shareholders want.

Is the 'way an organisation plans' likely to impact owner outcomes?

The key elements of the model relate to the role 'front-line' managers have in identifying entrepreneurial opportunities. Using the Asea Brown Boveri (ABB) example, Bartlett and Ghoshal state that 'front-line managers - the heads of the 1300 little companies - have evolved from their traditional role of implementers of Top-down decisions to become the primary initiators of entrepreneurial action, creating and pursuing new opportunities for the company' (p.29).

According to Bartlett and Ghoshal, middle management's role is to become a 'key resource to the front-line manager, coaching and supporting them in their activities' (p.29). Senior management's role is to delegate responsibility and develop a broad set of objectives. Was one to accept that senior management's setting of objectives was based on shareholder objectives, then it is conceivable that this model could prove beneficial to satisfying owner objectives. However, Bartlett and Ghoshal's emphasis on the 'autonomy' of lower-management and on the social milieu determining organisational outcomes suggests that the model does not recognise the primacy of shareholders determining organisational direction.

The fact that major activity is determined at the 'grass-roots' of the organisation is problematic in that the decision of what needs to, or can be, undertaken is far removed from the owners of the organisation and their over-riding goals. That in itself, is not the ultimate determinant of the suitability of this model, but without a clear emphatic statement of the alignment of the organisation to the delivery of a 'higher-level outcome, it is hard to image how the 'front-line' manager remains focused on such higher-level goals.

Pragmatically, one would expect that 'front-line' managers would seek opportunities that enhance their own performance, irrespective of the bigger picture. An opportunity that may be suitable for one of the 1300 companies in the ABB example, may not contribute to overall shareholder well-being. Planning under this model would reinforce the philosophy that the company is the sum of its parts, and that shareholder benefit is a sum of what each of its components could produce. An alternative philosophy is that the company exists to deliver shareholder satisfaction, so each component of the firm, must in one way or another, contribute to that high-level and over-riding set of outcomes.

Although proponents of this model would argue that the sum of its parts do deliver shareholder satisfaction, this is based on the premise that management knows exactly what shareholders want, which due to the subjectivity of managers, is arguable.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

In this area, and in relation to shareholder satisfaction, this model is problematic. As with Andrews and Mintzberg, this model vests in senior management the obligation to define the organisation's purpose. As discussed earlier, this is problematic because of the subjectivity of individuals. In Andrews' case, he saw this subjectivity as a positive influence on the decision-making process. To some extent this was reiterated by Mintzberg.

Bartlett and Ghoshal see outcomes emerging through processes of social interactions that are shaped by the social structure of the organisation. These are necessarily people-based, and as such, determined by individual perspectives, perceptions, attitudes and experiences. On this level, there is little difference between Bartlett and Ghoshal and Andrews and Mintzberg.

This is not to suggest that these influences don't exist - because they do. The issue here is whether an organisation should allow its destiny to be driven by such subjectivity rather than by a higher-order of desired outcomes. Bartlett and Ghoshal seem to imply that because outcomes emerge through processes of social interactions and shape the social structure of the organisation, then that should remain unchallenged as an appropriate state of affairs.

The counter view, and that of this writer, is that social interactions are a reality of all organisations, and that some of these interactions support the higher-level desired outcomes of shareholders while others form barriers to achievement of these outcomes. Management must manage the interactions to ensure they don't impede shareholder satisfaction: to do this management can't accept social interactions as a given but rather must be prepared to change them as necessary to achieve desired outcomes.

Hamel & Prahalad

Hamel and Prahalad (1994) maintain that not enough effort is devoted by management to developing a view of their industry in the longer term. They believe that with a clear view of the future of the industry, corporations are able to adapt their own directions and thus secure leadership in the industry. According to Hamel and Prahalad, industry foresight is defined as a 'deep insight into the trends in technology, demographics, regulations and lifestyles which can be harnessed to rewrite industry rules and create new competitive space'. Companies with this attribute are 'rebels' and are willing to break the rules that have governed both the industry and the value chain between the customer and the supplier.

Hamel and Prahalad maintain that attempting to meet the articulated needs of a company's customer base is insufficient. A company needs to pre-empt customer needs and actually create the future by changing the value proposition between them and the customer.

Hamel and Prahalad identify three types of corporations: those which attempt to lead customers where they don't want to go; those which listen to their customers and then respond to their articulated needs; and those which lead customers where they want to go but aren't yet aware of it. The essence of Hamel and Prahalad's research is that companies need to create their own future rather than be reactive to the environment around them.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

To some extent, it is possible to say that the Hamel and Prahalad's model is neutral to strategic planning issues because you can 'create' your own destiny focused on shareholder objectives or not focused on shareholder objectives. The key issue here is the intent.

However, the key issue of concern with their model is the implication that all companies should 'reinvent' themselves, because that is the way that Hamel and Prahalad see corporations continuing to exist in the future and continuing to add value. By 'reinventing' itself the corporation avoids future failure. This is a concern because the time, costs and expertise needed for corporations to 'reinvent' themselves may not be in the best interest of shareholders in the longer term. As much as a program of 'reinvention' may be a saviour, it may also be the cause of failure when the 'reinvention' is pursued for its own sake rather for the benefits it provides for the organisation.

This, like a score of other strategies, is dangerous if adopted unquestioningly. Strategies such as the following appear in the mission statements of many of the world's major corporations: 'We will become the biggest', or the 'best', or have the 'largest market share', or 'we adopt TQM principles', or 'we are here to maximise customer satisfaction', or 'we are here to create sustained competitive advantage', or 'we need to reinvent ourselves.'

These are all admirable pursuits, but only when they are in context, and then only when they are seen as enablers to achievement rather than the purpose for striving. In other words, they are the tools used to get to where you want to go. No owner who invests in a corporation does so because it has, for example, re-invented itself per se. Rather, the owner invests because of the benefit that 're-invention' delivers.

It is a truism that not all organisations are alike; they have different needs and aspirations and similarly, the expectations of their owners are different. Therefore the adoption of a particular management theme or tool-set may not be equally appropriate for all organisations.

Re-invention, much like sustained competitive advantage, in most contexts implies on-going investment in product design and modification, a quality orientation, new channel development, research and development, and other strategies and techniques which continuously review and revitalise products, services and delivery mechanisms in order to maintain a competitive advantage. Most of these techniques have a 'longer-term' benefit rather than 'shorter-term'. Commencing a re-invention or sustained competitive advantage strategy is appropriate when shareholders are content with longer term pay-back of expected benefit. It is however, in conflict with shareholders who have a short-term expectation of benefit.[4]

As an example, a manufacturing company may have a flexible ability to tool-up quickly to manufacture a certain range and quality of product. A new product hits the market which is well within the capability of the company to produce. In the short-term, and in the early stages of the product's life-cycle, demand is well in excess of supply so quality and efficient channels are not critical. The company is not very liquid and therefore has little capital resource to draw on for upgrades and investment in plant and machinery. Historically, the company has provided good short-term dividend return to a loyal group of shareholders with little to no long-term debt. As the product becomes accepted in the marketplace and becomes more mature, new suppliers enter the market. In order to stay in the market, suppliers must start differentiating their product, must concentrate on quality and must invest in efficient distribution channels. Due to the cost of such investment, one would only contemplate such a strategy if one were prepared to remain in the market long enough to enjoy the benefits from this investment and strategy.

It is clearly inappropriate for the company in question to even contemplate 're-invention or sustaining advantage' as they don't have the capital, it isn't what their shareholders want, and they would risk losing the flexible opportunistic character that has served them well.

Re-invention, like most strategies, needs to be adopted in a manner to suit the context and objectives. It should not be regarded as a necessity. Re-invention within a corporation's mission statement is therefore a commitment to certain long term strategies, investments and shareholder outcomes.

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[4] The issue of choosing between competing or contradictory enablers is further heightened when the corporation is not aware of the owner objectives that the enablers should satisfy, and heightened even further when the share registry contains shareholders with objectives that compete or contradict each other.

Is the 'way an organisation plans' likely to impact owner outcomes?

An organisation determined to re-invent itself is committed to change. As such, its planning process is focused on transitions, new skills and competencies. It tends to view existing assets and competencies as limitations because they represent a form from which the corporation wishes to move. Although change, and rapid change at that, is an increasing characteristic of modern global business, it is a state that is not a necessary requirement to satisfy shareholders in every instance.

Reasonably consistent change to an organisation's ability to compete in the future is often a prerequisite to the continuity of that corporation. However, to achieve this change, as stated earlier, a corporation needs to invest significant amounts of shareholders funds (either direct equity infusion or undistributed profits). The return on those funds may be at a time or in a form that does not satisfy shareholders, particularly if those shareholders have a short-term horizon for securing their benefits.

Therefore, under-going significant change may negatively impact shareholders. As such, the planning process underpinned by an ethos of change, risks under-valuing a corporation's existing assets and competencies, and may risk short-term shareholder benefits.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Hamel and Prahalad contend that managers, due to the pressures of dealing with urgent operational imperatives, fail to devote time to consideration of the future, thus causing the reactionary posture in most corporations. They contend that 'difficult questions (about the future) go unanswered because they challenge the assumption that top management really is in control, really does have more accurate foresight than anyone else in the corporation, and already has a clear and compelling view of the company's future.' They go on to state that 'the urgent drives out the important; the future is left largely unexplored; and the capacity to act, rather than to think and imagine, become the sole measures of leadership' (p.123).

From Hamel and Prahalad's perspective, this humanistic attribute of management is a clear negative and limits the ability of the corporation to cope with the future. The treatment of managements' humanity (albeit very curtly) by Hamel and Prahalad differs markedly from that of Andrews and Mintzberg who would regard this subjectivity as generally beneficial for the corporation.

Hamel and Prahalad, through their model of re-invention, attempt to place over the organisation a context from which it takes its bearing: that of re-invention and re-creation in order to ensure the long term viability of the organisation. The counter view is that the organisational context should have been focused on shareholder satisfaction, and that re-invention and re-creation are merely means to that end, of which not all companies share a common need.

Michael Porter

Michael Porter (1980) states that competition in an industry depends upon five basic forces, in terms of which one can assess the long-term attractiveness of that industry. A corporate strategist must find a position within the industry where the company can best defend itself against these forces and then choose one of three strategic directions.

The five forces are:

- *The intensity of competitive rivalry* which measures the level of product differentiation, switching costs and concentration of the forces.
- *The threat of new entrants* which impacts possible barriers to entry, the role of government policy and any expected retaliation from competitors.
- *The threat of substitutes* which examines price positioning, the likelihood that buyers will provide substitute products and the changes in technology.
- *The bargaining power of suppliers* which analyses the presence of substitute inputs, the concentration in the supplier's industry and the impact of the inputs on the total cost of the product.
- *The bargaining power of buyers* considers the concentration of firms in the buyer's industry, the buyer's volume, the availability of substitutes and the incentives that the buyer may have to purchase from one firm or another.

According to Porter, when the characteristics of each of the five forces within an industry are identified, one of the following three strategies must be selected:

1. *Low Cost Production.* If accomplished consistently, increased profits will enable a company to undercut the competition, if necessary.
2. *Product Differentiation.* A company can successfully distinguish its products from other products or services on the market, thereby charging a premium.
3. *Focus Strategy.* Concentrating on a market niche and developing specialist skills which will differentiate the organisation in terms of reputation and pricing.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Porter's model is essentially a macro view of industry dynamics at the national and international levels and does not provide much insight into the relationship between the corporation and the shareholder. However, it is possible to identify some important corporate-level insights that help us understand the implications in this area.

Porter believes that 'companies achieve competitive advantage through acts of innovation. They approach innovation in its broadest sense, including both new technologies and new ways of doing things' (Porter 1990, 74). Much in the same way that Hamel and Prahalad appear to promote innovation as a way to ensure corporate survival and growth; so does Porter. In his view, 'once a company achieves competitive advantage through innovation, it can sustain it only through relentless improvement' (p.75). Although Porter's research concerns the competitive advantage of nations, since innovation resides at the corporate level, it is reasonable to conclude that innovation is the required practice that corporations must adopt in order to remain competitive.

As such, and in exactly the same way as Hamel and Prahalad, there is an exhortation to adopt innovation as a corporate strategy in order to 'thrive'. Such innovation, and the corollary strategy of continuous improvement (p.75) have both time and cost perspectives that impact on shareholders as discussed earlier with reference to Hamel and Prahalad's research.

It is conceivable that the shareholders of a corporation with little access to the capital or retained earnings required to fund innovation, change and continuous improvement, are neither able nor interested in investing in either innovation or continuous improvement. They may only be interested in taking short-term cash benefit rather than defer their benefit. Although a short-term cash benefit may not be in the 'company's best long-term interest', shareholders are not necessarily prepared to assume that the company's long-term survival is in their best interest. Some companies are worth more 'dead' than 'alive' to shareholders when liquidation value of assets exceeds on-going operational value.

Although this may apply to only a small number of small to medium size companies, it does suggest that a strategy of innovation and continuous improvement is not necessarily a panacea for all companies. Innovation as with all 'strategies' must be context based. Shareholder objectives provide the context.

Is the 'way an organisation plans' likely to impact owner outcomes?

A corporation which philosophically adopts innovation will necessarily have strategies related to its asset and resource usage that are different to a company that has a different philosophy.

Notwithstanding that a process of innovation might create new asset capital for shareholders, it also discards or devalues existing assets by virtue of the innovation's new relationship to, and use of its assets and resources. The dynamic of re-casting asset value and of securing return from the investment in innovation, may not be to the shareholders' best interests if the benefits from the investment do not coincide with the benefits desired by shareholders. Newly created assets or benefit flows, may be less than what would have been at that point of time without the changes.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

As a result of the perspective of his research, the human characteristics and foibles of management are largely not considered. The implication that one might deduce from Porter's view is that personnel within corporations must be prepared to accept and adopt innovation, be able to handle dynamic and ambiguous environments, and be prepared to change established mind-sets and methods of operations.

Any human characteristic that implies stability or unpreparedness to change is a barrier to the corporation innovating and improving and therefore a barrier to the corporation being competitive and 'staying in business'. This view would contradict other strongly held views that suggest that the characteristics of leaders vary according to the needs of the corporation: there are times when the leader must be a visionary and agent of change, while at other times the leader must be able to consolidate and bind the corporation. Leaders who try to change when consolidation is needed or try to consolidate when change is needed both threaten the strength and vibrancy of the corporation and thus threaten shareholder interests. The Porter model may thus, when applied in the wrong context, be dysfunctional to shareholders and may compromise their best interests.

John Moore

John Moore (1993) takes an ecological view of corporations for which he borrows the anthropologist Gregory Bateson's concept of 'co-evolution'. Co-evolution 'is a process in which interdependent species evolve in an endless reciprocal cycle - in which changes in species A set the stage for the natural selection of changes in species B and vice versa' (p.75).

Moore maintains that companies are part of a cross-industry 'business eco-system' in which:

- companies co-evolve capabilities around a new innovation;
- they work cooperatively and competitively to support new products - invest in a shared future;
- satisfy customer needs; and
- eventually incorporate the next round of innovations

The key elements of the eco-system are competition and cooperation. Competition with companies and other eco-systems, and cooperation with a company's own eco-system. Moore also recognises that business communities are social systems in that they are made of people, choices, ideas and perceptions. A change in any of these elements changes the system. The lifecycle of the eco-system, according to Moore has four key stages: birth, expansion, leadership and renewal or death.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Moore offers an interesting alternative to the 'company dominant' or 'industry dominant' options commonly used to explain the focus of economic activity and influence. He contends that

corporations cooperate with other corporations who together share a common set of objectives and operate in the market place on the basis of enhancing their common good.

Innovation plays an important role in the eco-system, but unlike Porter, and Hamel and Prahalad, innovation for Moore is an environmental and commercial option rather than an operational imperative. Because competitive eco-systems are evolving by innovating their offerings or the way they do business, one needs to consider innovation if it suits the purposes of the eco-system. There appears no proscriptive to innovate in Moore's environment compared to that of Porter, Hamel and Prahalad. Innovation for Moore appears to be more an enabler to achieve a 'greater' outcome, rather than the cornerstone of corporate strategy.

In that respect, Moore's concept is much more palatable from a shareholder perspective. However, in that Moore doesn't discuss the principal motivations of the individual corporations within an eco-system, it is hard to assess whether the eco-system, or the corporations within it, are driven by motivations that are manager-centric, shareholder-centric or survival notions.

Moore's concept, at least at this early level of its development, could easily accommodate a diverse spread of 'centricities' to explain the motivations of the eco-system constituents without seriously harming the essence of his approach. For Moore, it would matter little whether the motivation to co-join with others into an eco-system was due to the subjective assessments of management, or from an attempt to optimise shareholder benefit. The outcome of both, and the focus for Moore, is that they do co-join.

Is the 'way an organisation plans' likely to impact owner outcomes?

The way that a company in an eco-system plans (or how the eco-system as an entity plans) will not directly impact shareholders. However, where a company makes planning and strategic decisions that are driven by a need/desire to optimise its relationship with its eco-system, then such a decision may have the potential to conflict with shareholder outcomes. A decision to align with another corporation may be a positive when viewed from the well-being of the eco-system, but may be disadvantageous when viewed from the shareholder as it may limit flexibility and compromise the company's ability to seek more advantageous prices or products.

What is of greater importance is establishing the driver that stimulates the corporation to formalise its place in the eco-system. If driven by shareholder benefit, then the eco-system may be the best means for doing so. If driven by, say, management's insecurity about the future or inability to manage in a chaotic market, then the outcomes may be in conflict with shareholder objectives.

The conclusion that one draws here is that if membership of the eco-system is driven by shareholder optimisation, then the eco-system becomes a means to that end. When it is driven by any motivation other than shareholder optimisation, then there is the potential for shareholder interests to be compromised.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Although Moore recognises the basic humanity of corporations (p.85), the context of this 'humanity' is in relation to a company's ability to keep up with or keep ahead of its eco-system or competing eco-systems. The subjectivity of management and people in general, can contribute to a corporation's aim or can detract from them. Aligning both is important, but in any case, is a variable that can influence outcomes: shareholder or otherwise. Intuitively, this approach appears more sympathetic to the real nature of people and the way they relate to and impact organisational outcomes.

Bromiley and Cummings

Bromiley and Cummings (1995) argue that

> trust is an important variable in organisations and that trust can be used to extend transaction economics...differing levels of trust ...have implications for internalisation versus use of market transactions, design and application of control system, clarity and bias in communications systems, the development of inter-divisional joint ventures, and overall corporate performance (25).

The core argument of Bromiley and Cummings is that trust in organisations reduces the transaction costs necessarily incurred by that organisation. They take a fundamentally different view of the individual to Williamson (1975) who regarded people as essentially untrustworthy, self-seeking and requiring to be controlled and monitored.

Bromiley and Cummings maintain that one can determine trustworthiness and that behaviour is essentially trustworthy. The implications for organisations are many, according to Bromiley and Cummings. They maintain that a lack of trust in an organisation increases control costs; restricts change and the ability to change; demands control systems and the resources needed to manage them; reduces inter-organisational co-operation; and hinders managers in undertaking change.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

From a shareholders' perspective, Bromiley and Cummings's research has some important implications principally in the area of corporate governance. Shareholders who have cause to doubt the motivations (as distinct from abilities) of management are likely to insist on rigorous governance tools and techniques. The excesses of the 1980s, 1990s and now 2008-9 have heightened the sensitivities of shareholders to this issue.

An environment of trust between management and shareholder provides management with the context which enables them to openly and honestly canvas options, initiatives, opportunities and problems without being accused (overtly or covertly) of ulterior or self-seeking motivations. This can

only happen when shareholders are reasonably satisfied that management's focus is on shareholder satisfaction rather than some other purpose.

Conversely, lack of trust generates additional activity at every level of the organisation. Management reporting systems attuned to pre-empting board concerns or questions, or satisfying them on issues that have historically been problems involve more time, cost and resources in their preparation. The pressure to be accountable is pushed down the organisation and impacts every corner of it.

Additionally, an environment of distrust adds great pressure to board members who are being made increasingly accountable for the performance and decisions of their management and staff. The costs, both direct and indirect, of dealing with or accommodating an environment based on distrust are significant and will ultimately be a cost borne by shareholders through decreased profits and therefore distributions of benefits.

Is the 'way an organisation plans' likely to impact owner outcomes?

A trust-based environment invests less in control and monitoring processes. As parts of the organisation push their planning requirements or recommendations 'up the organisation', less checking or re-work is required in a trusting environment than a less trusting one. This generally makes planning faster, cheaper and often more flexible and attuned to the corporation's environment. The reason for this is that a less trusting organisation employs systems and processes which cleanse the process of individual intuition and judgement. A trusting environment is more prepared to accept the individual perspectives of its people because it accepts their motivation, and based on their experience, is prepared to consider more seriously their judgement.

Naturally, there are times when such trust and faith prove misplaced. But some would argue that the cost associated with poor judgement in such cases has a lesser impact on the organisation (and shareholder outcomes) than the cost of the control systems employed in less trusting organisations and opportunities lost through not trusting the motives of the proponents of those opportunities.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Bromiley and Cummings's research is largely about people and their relationship with the organisation in which they work. It is not difficult to extrapolate their research to boards of directors and to shareholders. The planning implications of the trusting corporation imply that the trusting organisation reduces transaction costs within it. This lowers the overall operational costs and complexities of organisational operations which increases bottom-line advantages to shareholders. However, Bromiley and Cummings would acknowledge that being a trusting organisation, in and of itself, is an insufficient theoretical perspective to account for and guide all organisational performance and strivings. Certainly, trust helps shareholders satisfy most objectives but is not enough by itself.

Birger Wernerfelt

Birger Wernerfelt (1984, 1985) by using a resources based perspective, explores the usefulness of analysing firms from the resource rather than product side. He maintains that firms are generally not viewed as a collection of resources due to the difficulty in modelling them. Broad categories such as labour, capital and land are often used, but other less tangible resources (such as management skill, intellectual property and brand names) may be more difficult resources to quantify.

Wernerfelt feels that a resource view could be used to identify those resources that lead to high profits. Strategy, according to Wernerfelt, involves the optimal exploitation of existing resources and balancing them against the cost and benefit of acquiring new resources. In considering resources, Wernerfelt takes the broad view that resources are anything that can be thought of as a strength or a weakness of a firm; includes both tangible and intangible assets which are tied semi-permanently to a firm; and includes efficient procedures, machinery, capital, skilled personnel, etc.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Wernerfelt states that 'by specifying the size of the firm's activity in different product markets, it is possible to infer the minimum necessary resource commitment. Conversely, by specifying a resource profile for a firm, it is possible to find the optimal product-market activities' (p.171).

This relationship is problematic because it assumes in both cases that the firm controls or owns those resources. It appears to ignore the ability to achieve outcomes using resources owned by other corporations through such strategies as licensing, franchising, brokerage, etc. To assume that one is limited by the resources one owns, limits one to those resources and distracts from other market and commercial relationships that create economic outputs but which don't rely on the ownership, control and management of resources. Shareholders of corporations which take a resource-based view of the corporation risk not benefiting from non-resource based strategies.

A further limitation of the perspective is the assumption that the outcome from the optimisation of resources is an improvement in 'returns over longer periods of time' (p.172). This seems to assume that all organisational outcomes must lead to returns over the longer term. Some shareholders are more intent on short term dividend while others are focused on capital growth, asset growth, modest but very secure growth, share price growth, etc. In other words, Wernerfelt appears to have assumed for all shareholders what is good for them and assumes that the optimisation of resource usage will deliver that outcome. Shareholders have a diversity of objectives, some of which may support Wernerfelt's view, while others may not.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

In that Wernerfelt defines 'resources' as just about anything and everything within the firm, then people are included: '...examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures, capital, etc' (p.172).

Except for being treated as a chattel of the firm, Wernerfelt does not recognise the foibles and differences of managers except where their differences may add to, or detract from their value as an asset. Therefore, Wernerfelt appears to take the view of a corporation's staff as enablers to enhance asset value, and possibly thereby indirectly enhance shareholder value and benefit.

Avinoah Dixit and Danny Nalebuff

Dixit and Nalebuff (1991) take a game theoretical perspective of strategy in which they maintain that for every action there is a reaction. One cannot assume, they maintain, that when one changes behaviour, everything else remains constant (p.27). Therefore, strategy is about the ability to estimate/guess/predict the actions and reactions of competitors to the manoeuvres that you might make.

The essence of strategy, according to Dixit and Nalebuff, is the interdependence of players' decisions. Each player needs to forecast how his current actions will affect the actions of others and his subsequent actions in turn (p.33). Dixit and Nalebuff maintain that there are three core rules for behaviour in situations where players are forced to make simultaneously moves without the benefit of time or knowledge of the others' behaviour.

- If you have a dominant strategy, then use it (p.66);
- Eliminate any dominated strategies from consideration, and go on doing it successively (p.69);
- Having exhausted the simple avenues of looking for dominant strategies or ruling out dominated ones, the next thing to do is to look for an equilibrium of the game (p.76).

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Game theory is largely a tool that does not directly impact the relationship between managers and shareholders. The tool, as with most tools, can be well applied and misapplied. Game theory presumes that the players in the 'game' have an objective they wish to fulfil and the 'game rules' define all the game elements (competitors) which are managed in order to deliver the objective.

Therefore, when the players in the 'game' have shareholder objectives as their principal motivation then game theory may enhance the likelihood of the outcome (assuming the game is well played and/or won). On the other hand, when managers determine the outcome of the 'game' as something

that is not aligned to shareholder best interest, then their shareholders may be compromised in the same way as the misuse of any management tool will ensure.

Shareholder best interests may also be compromised when/if managers play the game because they see playing the game as the objective rather than the outcome that the game delivers. In other words, managers, particularly if they are competent game players, can become mesmerised with the need to out-strategise competition, even at the expense of the objective.

A good example is the adoption of best practice used in a game theory context. In this context, best practice is the way to out-flank competitors by providing a product or service that can be presented as a market leader, and which forces competitors to lift their expenditure and investment in their own products/services to 'keep up'. However, to achieve best practice it is generally expensive, risky and involves a longer term payback because of the investment needed in plant, machinery, research and development and upskilling needed to make and deliver better products and services. As such, when shareholders would have been happy with an outcome that could be delivered without best practice, the pursuit of best practice compromises their interests. In this case, management might win the battle by playing an exceptional game, but ultimately lose the 'war' through the non-delivery of shareholder objectives.

A further risk to shareholders in the adoption of a game theory approach to strategy is that of seeing 'everything as a game' when it may not be. Some business, market and strategy decisions will not illicit a competitor reaction - particularly when the player is relatively small, or when the market is highly distributed with a large number of players. The birth of a dominant strategy from such an context is not always possible.

By adopting a 'game' perspective on everything, there is a risk that management might make things much more complicated than they really need to be, or are. This may result in additional time and resources invested in collecting information and brainstorming options and possibilities, or even building contingency solutions when such solutions are highly unlikely or improbable. The game theory approach is not appropriate in all situations.

Lastly, shareholders may be impacted when in the name of game-based strategic process, urgent decisions are slowed in order to 'deliberate'. Such deliberation may, in certain circumstances, contribute to lost opportunities or a significant opportunity cost.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Interestingly, the examples used by Dixit and Nalebuff draw heavily on humanistic characteristics of individuals in making decisions. In their discussion of the examples Dixit and Nalebuff attempt to restate the game dilemmas with rules that have almost mathematical precision in their application. Such objective discipline in the application of game theory can be accepted only when objective discipline dictates when and how the tool will be used in the first place. As previously discussed, the

subjectivity of management may direct the use of the tool in a way that may compromise shareholder best interest.

Another example where this might occur is in the area of performance measurement. Where a corporation is not overtly seen as working toward and delivering shareholder outcomes, it will need to find a substitute measure. Often industry benchmarks are used to determine the relative performance of players in the same industry. The relationship that a board, CEO or management may take to competition in the industry may vary, particularly where the company needs to 'defeat' the competitor so that it can 'look good'. Game theory will help the company defeat other players, but may not assist a company in cooperatively joining with competitors for their mutual advantage (as in Moore's eco-system). One-upmanship, a basic principle of game theory, may therefore detract from a win-win situation and only allow a win-lose situation, thus potentially compromising shareholders.

Richard Rumelt

Rumelt (1991) studied the total variance in rate of return among 'line of business' reporting units by industry factors, time factors, factors associated with the corporate parent and business-specific factors. His core finding was that variations in rates of return on assets across business units within an industry are much greater than variations across industries. Specifically he found that:

- corporate effects on return on asset variations did not exist;
- market share effects were negligible;
- industry effects explained 20% of the variance in business-unit returns;
- industry effects accounted for at least 75% of variance in industry returns;
- large business-unit effects indicate considerable intra-industry heterogeneity;
- market share appears to make little contribution to observed variations even allowing for measurement errors;
- it is difficult to identify factors underlying the observed heterogeneity;
- industry returns are a poor measure of long-term industry effects;
- due to the random distribution of high and low-performing business units across industries, few industry Return on Assets can be identified as arising from stable industry settings; and
- there appears to be no 'synergy' amongst business units related to a common corporate umbrella.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

Earlier the dangers of using industry ratios as a corporate performance measure were noted. Rumelt has strongly reinforced this view. Managers will more readily look for explanations of performance among those areas and factors that they understand and feel comfortable with. Therefore, companies will attempt to explain their performance in the context of the industry in which they operate, rather than look at ways they can improve their own corporate performance by taking a cross-industry perspective.

Experience reinforces the contention that managers are often 'crippled' by the models of operations and strategy that exist in their industry. This blinkered view seriously restricts the way they perceive their options and alternatives and therefore limits the ability of such organisations to satisfy shareholder objectives. Rumelt's view begs the question therefore, that if one's industry is not the place from which to gauge performance, then from whence will such perspective come?

Is the 'way an organisation plans' likely to impact owner outcomes?

Based on Rumelt's research findings, there are strategic options and alternatives available to the corporation to satisfy shareholder objectives. This assumes of course, that that is what managers wish to do. The adoption of Rumelt's findings is not a guarantee that shareholder objectives will be enhanced if management has determined its own objectives. However, given the appropriate motivation, a non-industry specific perspective is beneficial for shareholders.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Rumelt's perspective does not cast any light, one way or the other, on the human aspects of managers. One aspect of the perspective that can be implied however is that one suspects that managers will have difficulty in acknowledging that a non-industry perspective has more impact on corporate performance than their existing and historical views.

Asking managers (and directors) to step out of their comfort zone will have a destabilising effect on them and may have a negative impact on short-term staff stability and performance - particularly as they struggle to identify issues and factors outside their own industry that may assist them. Over time, and with the appropriate change management strategies and training programs, these issues should be overcome since they are largely transitional. Intuitively, one suspects that the most difficult areas in which to affect a change will be at senior management and Board levels, where old models take a long time to change.

Jay Barney

Jay Barney (1991) builds 'on the assumption that strategic resources are heterogeneously distributed across firms and that these differences are stable over time. The link between firm resources and sustained competitive advantage' is therefore examined (p.99). Barney argued that in general firms cannot expect to obtain sustained competitive advantage when resources are evenly distributed

across firms and are highly mobile. Therefore, firms must focus on resource heterogeneity and immobility to obtain sustained competitive advantage.

Barney differentiated three types of resources: physical capital (physical, technological, plant and equipment); human capital (training, experience, insights); and organisational (formal structure). This model maintains that resources need to be valuable, rare, unable to be perfectly imitated and unable to be substituted in order for sustained competitive advantage to be maintained. Barney contends that firms expect to secure sustained competitive advantage on the open market. Sustained competitive advantage must be found in the rare, imperfectly imitable and non-substitutable resources already controlled by a firm.

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

There are two key issues with the Barney approach that will impact on shareholder outcomes: the reliance on assets and ownership of them as the cornerstone of strategy; and the assumption that sustained competitive advantage (SCA) is an acceptable strategy for all companies in all cases.

The earlier discussion of Andrews' (and others') reliance on existing assets (resources) as one of the key determinants of strategy identified the ways that shareholders can be compromised through such a view. Although Barney explicitly talks about building the resources (rather than being content with what you've got) so that they satisfy the valuable, rare, imperfectly imitable and non-substitutable criteria of SCA, it is implicit that the resources are owned by the company.

As we have also seen earlier, ownership of resource is a means to an end rather than an end in itself. A company may find it prudent to 'outsource' certain resource requirements rather than own the resource themselves. Using someone else's resources in a strategically innovative way for example (e.g. through licensing, subcontracting, joint venturing, etc.) may be a more effective and efficient way of delivering the sought outcomes compared to outright resource ownership, implied in Barney's research.

The discussion above regarding Hamel and Prahalad's model identified the risks to shareholders of assuming the appropriateness of SCA (or any other strategic 'principle'). SCA, in the right context, is a legitimate methodology. In the wrong context, reliance on it will detract from real shareholder objectives.

Is the 'way an organisation plans' likely to impact owner outcomes?

Acceptance of SCA as *the* strategic principle motivating a company, and the belief that the company must own and control all resources, will have a significant impact on the company.

How does the strategic planning model handle the human characteristics and foibles of managers and board members in relation to the impact of these on owner outcomes?

Barney suggests sources of SCA, but that is about as far as he goes. The implication is that the model helps 'integrate' the organisational and economic perspectives of the firm, but Barney doesn't elaborate on the process of integration. Such an elaboration would identify how a resource-based view of resources, particularly human resources, could quarantine subjectivity from the rigorous (and presumably objective) assessment of resources and resource strategies.

Eugene Fama

Fama's model (1980) explains how the separation of security ownership and control, typical of large corporations, can be an efficient form of economic organisation. Fama sets aside the presumption that a corporation has owners in any meaningful sense. The concept of entrepreneur as owner is also laid to rest, at least for the purpose of the large modern corporation. The two functions usually attributed to the entrepreneur - management and risk bearing - are treated as naturally separate factors within the set of contracts called a firm.

The firm is disciplined by competition from other firms, which forces the evolution of devices for efficiently monitoring the performance of the entire team and of its individual members. Individual participants in the firm, and in particular managers, face both the discipline and opportunities provided by the markets for their services, both within and outside the firm (p.288).

Is the strategic planning model likely to impact the way managers (and boards) relate to owners/shareholders, and will this impact outcomes?

There are many issues in this model that are problematic from a shareholders' perspective. The separation of ownership and control, for most large corporations, is a reality borne by the changing character of corporations over the last 100 or so years and in reaction to the demands and rigours of modern business. But to imply that the conventional concept of ownership should be put aside reinforces the view that the modern corporation is at the crossroads.

On one hand, boards and management argue that shareholders have generic objectives, are not fully informed, have conflicting interests and suffer from a range of other attributes all of which contribute to their 'inappropriateness' in determining the destiny of the organisation in which they hold ownership. This philosophy holds that the board and management are better placed to determine the destiny of the organisation and the outcomes that the corporation will deliver. Shareholders who don't like the way the company is run (so this philosophy goes) can quit the registry and take up ownership elsewhere.

The contrary view held by shareholders, regulators and others, maintains that the organisation exists solely to deliver shareholder satisfaction. As such, the organisation is the servant of the owners and all that the organisation does, must in one way or another, enable those shareholder objectives to be fulfilled or enhanced. This view is contrary to Fama's ownership perspective.

Is the 'way an organisation plans' likely to impact owner outcomes?

To a considerable degree Fama's contention that 'the firm is disciplined by competition from other firms, which forces the evolution of devices for efficiently monitoring the performance of the entire team and of its individual members', is similar to Game Theory. Like Game Theory, Fama is postulating that whichever way the market dictates 'the game', then that is the way that the company should go.

As earlier noted, this is a problematic philosophy when viewed from a shareholder perspective. The ultimate issue here is that Fama's model suggests that the market dictates a corporation's direction, and the manager dictates the way that the corporation adapts to that direction. Fama also contends, by implication, that the market disciplines the firm and not the owners. In reality, owners represent the 'capital market' which extracts its own toll on misdirected and poorly performing companies.

Corporations which adopt Fama's view (and there are many large corporations which are sympathetic to it) do not recognise the primacy of the shareholder despite providing lip service recognition to their satisfaction. Many corporations appear mesmerised by the semi-religious fervour by which they succumb to chasing competitive outcomes such as market share, sales, 'better' products and services, etc. These objectives, if pursued for themselves, rather than for the benefit that their achievement provides, risk having the competitor-based objective supplant the owners' objective as a reason for organisational striving. Experienced managers recognise that high or higher market share does not automatically bring marginal benefit; higher sales come at a cost; better products and services have a cost, etc. Chasing the competitor-based objectives may not necessarily augment the organisation nor satisfy shareholder objectives. Fama's contention that the market disciplines the firm is only partly true. The firm is certainly disciplined by the market on competitor-based criteria but is not held directly accountable to shareholders for the corporation's ability to optimise shareholder outcomes.

2.4 Myths of Modern Management

It is increasingly common to hear shareholders and directors talk about the difficulties they face in maintaining control over their organisations, particularly in ensuring that their organisations deliver what their owners expect. The consequences of the excesses of the 1980s have drawn attention to the importance of this issue, which has led to critical assessments of management style and performance in both commercial and academic circles. It has also brought into fashion previously esoteric discussions of corporate governance.

This has led to pressures on legislators and regulators to enhance controls over corporations through initiatives such as corporate disclosure and increased accountabilities and responsibilities for directors. Corporations, on the other hand, have responded with initiatives such as the appointment of investor relations specialists, and enhanced investor and regulator communications, among other measures. As a result, corporate governance has taken on a much more pragmatic tone with a profound new urgency relevant to virtually everyone in the commercial environment.

However, an area still receiving little attention but upon which corporate performance is based, is that of the corporate assumption, the strategic 'principle' or model that drives business and against which fundamental investment and management decisions are formulated and the destiny of organisations determined. It is these corporate models which contribute significantly to shaping the way managers perceive their roles, the relationships they mould for their organisations, the investments they make, the initiatives they undertake, the resources they employ and allocate, and ultimately, the outcomes they produce.

The writer's experience supports the contention that corporations frequently make decisions which are not only dysfunctional from their owners' perspective, but are even hard to comprehend from their own internal perspective. There are many examples of corporations which have adopted strategies that seem appropriate because of the publicity given them in the media or in business circles, or because of their 'motherhood and apple pie' nature, or because they are the latest managerial 'fad' (Shapiro 1995; Hillmer & Donaldson 1996), but are inappropriate when examined rigorously against owner objectives.

Accordingly, and in the context of the 'model of congruence' presented here, some of the most common and basic flaws in strategic and operational thinking encountered in modern business are outlined as they relate to shareholders, and the relationship between them and the organisations they invest in. The implication that this alternate view has on some corporations is quite profound, and seriously questions the suitability and applicability of many modern managerial practices.

2.4.1. The corporation exists for its stakeholders

When one examines the mission statement of many of the world's leading corporations, one will inevitably find references to the satisfaction of stakeholder objectives. These references acknowledge the owners of the corporation, but more often than not, also identify other stakeholders such as employees, the community, the government, suppliers, and of course, the ubiquitous customer, among a range of stakeholder communities.

When one then examines the operating strategies employed by these corporations, one regularly finds that investment and operational decisions are made which attempt to maximise stakeholder satisfaction: i.e. they attempt to maximise the 'benefits' provided to each of the corporation's stakeholder constituents.

Philosophically, it is hard to argue against maximising value to stakeholders. The reality however, is that decisions to maximise stakeholder value *never* occur in an implications vacuum. There are always implications and most often costs, associated with keeping stakeholders happy. And most frequently, one finds that to keep one set of stakeholders happy is inevitably at the expense of other stakeholders. Who then gets primacy over the

organisation's efforts in satisfying its stakeholders? If one is both honest and rigorous, one must recognise that no organisation exists to satisfy its non-owner stakeholders, per se. Rather, organisations must satisfy their non-owner stakeholders in order that the owners' objectives can be satisfied.

Business is all about delivering the best possible outcome to the owners of the organisation, whatever those desired owner outcomes may be. A rational owner will not invest in a corporation because of the stakeholders or in order to satisfy them. However, owners know that in order for their objectives to be fulfilled, stakeholders must be 'appeased'. Generally speaking, and from an owner's perspective, non-owner stakeholder satisfaction is about delivering the '*lowest* level of satisfaction' that the organisation, management and owners can 'get away with' while still delivering the over-riding owner objectives. That does not imply that owners 'abuse' non-owner stakeholders, but rather that any effort and resource applied to non-owner stakeholder satisfaction over the 'minimum' needed to deliver owner objectives may detract from their own objectives.

Although this may appear politically incorrect, business is not about delighting stakeholders (customers, community or others) *per se*, but about satisfying owners. Certainly, it is *sometimes* necessary to delight the stakeholders *in order* to satisfy those owners. Owners generally recognise however, that 'unbridled' owner satisfaction is not possible in developed Western societies, and as such, it is widely accepted that owners must 'invest' in non-owner stakeholder satisfaction in order for their own objectives to be satisfied.

Organisations that 'elevate' non-owner stakeholders to primacy in their *raison d'etre,* risk making operational, management, strategic and investment decisions which maximise stakeholder objectives at the expense of owner objectives. Non-owner stakeholders are, from an organisational perspective, enablers. Maximising, rather than optimising enablers, risks significant organisational misalignment.

Responsible management is all about 'optimising' non-owner stakeholder objectives in the context of, and in order to fulfil (and maximise where possible), owner objectives. It is not about treating owners and other stakeholders as equal (as is being mooted by certain vocal community interest groups). No owner will remain an owner if non-owner stakeholders secure their own objectives in the longer term at the expense of owners.

The relationship between a rational organisation and its stakeholders, (proposed by the writer), can be shown as a three tier hierarchy as follows:

Level 3:	Deliver to owners their minimum objectives
Level 2:	Deliver to non-owner stakeholders the minimum level of their desired objectives which will enable Level 1 to occur.
Level 1:	Maximise owner objectives.

Chart 1: Three Tier Hierarchy

Any attempt to deliver non-owner stakeholder objectives before owners have achieved their objectives on a long-term basis, will result in owner dissatisfaction and sell-down or sell-off of equities. Such a situation is unstable and is caused by the lack of congruence between the risk and investment incurred by owners for their desired outcomes and their inability to achieve those outcomes.

As discussed before, non-owner stakeholders are a means by which the organisation and its owners achieve their objectives. For each stakeholder, there is a level of 'satisfaction' which will be sufficiently enticing for that non-owner stakeholder to accept, and which will allow the organisation to continue its corporate striving. This level of 'satisfaction' is the minimum level acceptable to that stakeholder/s. This is what negotiation is all about irrespective of whether the negotiating party is the Government, the unions, suppliers, the community or any other of a myriad of potential stakeholders. The corporation offers the least that *"it can get away with"*, while the other party asks for what it would like to receive. Most commonly, both compromise but the stakeholder *allows* continuance to the organisation while the organisation has *secured* continuance.

Once the non-owner stakeholders have been appeased, then the organisation should strive to maximise owner objectives. The concept of 'maximisation' is an interesting one since it is limitless and infinite. By virtue of its limitless nature, it can never be fully satisfied. When is there enough profit, or growth, or dividend, etc? When is there no risk?

The limitless nature of the third tier means that nothing meaningful can exist after it. In other words, inserting a fourth tier of, say, 'maximise non-owner stakeholder objectives' becomes meaningless and redundant since the third tier can never be satisfied.

For organisations to chase the maximisation of stakeholder 'satisfaction' is certainly a worthwhile activity from the non-shareholders' perspectives. From the corporation's perspective, it is a warrant to invest time and resources when there is no or little possibility of payoff to that organisation and its owners.

2.4.2. All corporations exist to produce the same outcome

From interviews with Top-100 corporation chairmen, CEOs and managers, it is surprising how many boards and management believe that owners are an homogeneous group who all share common objectives. And it is the belief in such common objectives that causes organisations to chase the

mythical 'maximisation of shareholder value or wealth' often at the expense of what shareholders actually want.

The fallacy of this belief in a unitary and generic objective can be illustrated on two levels. Firstly, if 'shareholder value' or 'wealth' is represented by, say, a corporation's net assets or dividend, and if all shareholders only sought to maximise either or both of these criteria, then even in an imperfect market, all shareholders would eventually accumulate and gravitate to those few corporations which had the highest dividend and/or net assets. Even a cursory examination of listed stock performances will confirm that this does not occur. Clearly other factors and issues impact upon shareholders which affect their investment/ownership decisions.

Secondly, the research undertaken here supports the view that based on the way shareholders behave, it is clearly erroneous to believe that all shareholders have the same generic objectives, and it is furthermore erroneous to believe that any one shareholder will have the same set of objectives across all of his/her investments.

2.4.3. A corporation's mission statement is the principal reason for its existence.

In the corporate context, most observers of, and participants in, business would agree that the *raison d'etre* of corporations (i.e. where a corporation 'starts' and from where it gets its legitimacy) is identified within its mission statement. And it is from this mission statement that organisations develop an enabling vision and extract from it a set of enabling objectives and strategies that will deliver this vision and fulfil its mission.

Unfortunately this process is flawed since in most organisations the process of developing its mission is undertaken entirely by management, as discussed in sections 2.1 and 2.2. And it is management who, without the necessary metrics to define their owners' objectives, make subjective assessments as to those objectives, and incorporate them into the organisation's strategies and plans. In other words, managers decide what it is that their organisation will do and what their organisation will deliver.

Since shareholder objectives vary significantly, management's subjective assessments are therefore often wrong, inexact or inappropriate. The corporation's mission then, is a statement of organisational deliverables which, because it has been subjectively derived, often diminishes the probability for owner satisfaction.

The question therefore is whether an organisation's mission statement is the fundamental reason why an organisation exists. Strictly speaking, the mission statement does provide the rationale for an organisation's existence and the context for its operational and investment strategies.

However, the issue for those organisations where management subjectively develops the mission statement is that as long as a mission statement fails to address the satisfaction of owner objectives in tangible, quantifiable and measurable ways, then the mission statement is not accurately defining the

corporation's purpose. The mission statement will provide the necessary direction for the corporation as long as it is not a statement of subjective or uninformed management, but is an accurate representation of the outcomes desired by owners.

2.4.4. The corporation should be in charge of its own destiny.

Modern business is at the crossroads. On one hand, boards and management argue that shareholders have generic objectives, are not fully informed, have conflicting interests and suffer from a range of other attributes all of which contribute to their 'inappropriateness' for determining the destiny of the organisation in which they hold ownership. This philosophy holds that the board and management are better placed to determine the destiny of the organisation and determine the outcomes that the corporation will deliver. Shareholders who don't like the way the company is run (so this philosophy goes) can quit the registry and take up ownership elsewhere.

The contrary view held by shareholders, regulators, and certain key associations, maintains that the organisation exists solely to deliver shareholder satisfaction. As such, the organisation is the servant of the owners, and all that the organisation does must in one way or another, enable those shareholder objectives to be fulfilled or enhanced.

The problem with boards and management who are beholden to no one except themselves is that they have no reference point against which decisions and strategies can be assessed and determined. An organisation whose principal accountability is to it is not compelled to maximise owner benefit or even to avoid owner harm if it believes that such a course 'is not in the best interests of the corporation'.

The reality of course is, that in some instances, the best interests of the owners are served by the organisation ceasing to exist (sell, merge, divest, etc). Some of the defensive corporate plays recently seen in the US, and largely engineered by boards and management, were no more than attempts to keep the organisation intact, demonstrably for board and management purposes rather than in the best interest of the owners.

Corporations which act in other than the best interests of owners represent diminished probability of satisfaction and imply higher risk to their owners. Investors denied access and input will feel vulnerable to the character and machinations of management. They will tend toward other forms of investment where probability of outcome is stronger and where the investor is offered greater accountability from the chosen investment vehicle and less susceptibility to the foibles of individuals.

2.4.5. Each investor has a fixed objective for all his/her investments

The research here tests the hypothesis that not only do different shareholders have different objectives, but the same shareholder's objectives vary among different investment targets.

It is possible, but not particularly useful, to talk of a set of generic objectives shared by the community of shareholders. Such objectives will necessarily be in general and generic terms such as 'maximisation of wealth' or 'benefit'. The difficulty comes from an attempt to define such concepts as wealth and benefit. It means different things to different investors. Some may interpret wealth enhancement as asset growth, while others may interpret it as risk minimisation. 'Benefit' may mean dividend to one investor while it may mean share price growth to another.

The error of many boards and management is that they argue from the general to the particular. If they believe that all shareholders want, say, dividend maximisation, then they argue that their shareholders want dividend maximisation. The issue is that corporate strategies to minimise risk or grow assets are different and have fundamental impacts on what a corporation does and how it does it.

Compounded upon this error is the assumption that each shareholder will have consistent objectives across all investments. Institutional investors weight certain attributes such as growth, industry sector, risk, etc. and choose their investment targets on the basis of those weightings (among other criteria). They may invest in a certain industry sector in order to minimise risk or to secure the benefits from fast growth. Their expectations (and therefore objectives) from such investment decisions will vary according to the character and attributes of each target and what that target represents for the investor in the investor's context. A typical investor will therefore have a range of objectives within his/her investment portfolio.

How then, can a corporation claim to be pursuing shareholder wealth or benefit if it does not know in real and quantifiable terms what it is that its shareholders regard as 'wealth' and 'benefit' *as it relates to the shareholder's objectives in that particular corporation?*

Without clear and quantified owner objectives, management will continue to fire its strategies at shadows rather than at substance and continue to wonder why owners are unhappy. Corporate investments and resources will continue to be applied in directions that are presumed to be appropriate without ratification in measured terms of the correctness of those actions. And those actions will continue to detract from the maximisation of owner satisfaction as long as 'owner satisfaction' remains undefined and unquantified.

2.4.6. Organisations know what their shareholders and owners want

Intuitively one would expect that small organisations with few shareholders are more 'in-touch' with their owners' objectives. One would further expect that the larger the organisation and the greater the number of shareholders, then the less able the organisation is to keep 'in-touch' with all shareholder objectives. The writer's experience and reality show that companies, irrespective of size, are not immune from the lack of congruence between owner objectives and corporate actions.

The majority of companies are small businesses who have one or a small number of people carrying out the roles of managers, directors and owners simultaneously. One would expect that since one person carries out all three roles then 'knowledge' would be 'perfect' and congruence would be maximised. Many small businesses have difficulty in ensuring congruence because they are too involved in operational management. It is easier to change the objective than to change the operational, marketing or business realities that threaten congruence. In other words, it is easier to 'settle for less' than it is to make the 'dream happen'.

Generally boards and management of large corporations maintain that since they have many shareholders with varying objectives and they can't effectively ask shareholders what they want; the board has the responsibility to define the core deliverables of the organisation. These deliverables are intended to keep shareholders satisfied. For reasons identified earlier, such presumptions by boards are often misplaced because they are subjectively derived. Examination of corporate practice overwhelmingly supports the contention that corporations do not know what all their owners want *in any measurable way* apart from indications gleaned from 'churn' on their share registries and selective discussions with institutional investors.

In the case of medium to large companies where management may be divorced from directorship and/or ownership, it is common to find organisations intent on striving to maximise generic outcomes (such as EVA[5], ROI[6], RONA[7], etc.) rather than to satisfy specific owner objectives other than those shareholder objectives that they have subjectively determined. Certainly, a large part of this lack of congruence is caused by management failing to ask owners what they want; but equally at fault, are owners who have not made the effort of telling management in realistic and measurable terms what it is that they desire from their involvement in the company.

The author's experience supports the view that very few companies, irrespective of size, really *know* what their owners want. In the case of small business, the owner/manager has rarely defined what it is that is wanted so that it becomes the principal driver of business performance.

2.4.7. Owners and managers of corporations share common objectives and perspectives

Until recently, it has been a generality in business that owners and managers look at the corporation 'through the same eyes' and that the same 'appropriate action' would be chosen by either group. Sections 2.1 and 2.2 provide evidence of research which has identified the lack of congruence between owners and managers.

Management may elect, say, a Total Quality Management (TQM) strategy because based on their knowledge of their market; quality is the differentiator between the customer opting or not opting to purchase the company's product.

[5] Economic Value Add
[6] Return on Investment
[7] Return on Net Assets

From a corporate perspective this seems like a reasonable decision path. However, TQM is expensive to implement and takes time for its benefits to come to fruition. An investment in TQM is necessarily borne by shareholders, at least until its benefits 'kick-in'. If all shareholders of that company have longer-term objectives, then a TQM strategy may enhance those objectives. But what if those shareholders have a short term cash dividend objective? Clearly, a TQM strategy would be directly to the disadvantage of their objectives, irrespective of what management determine is 'good for the company'.

Different perspectives of owners and management as to what is an appropriate strategy or policy (let alone outcome) cause tension between the two groups. This tension is also fuelled by differing motivations of the two which, when applied to the formulation of corporate destiny, has the potential to create great disharmony or dissatisfaction between them.

It can be reasonably conjectured that the principal reason that owners invest in a corporation is to fulfil their own specific objectives, which most generally relate to wealth creation and maintenance. Similarly, it can be reasonably conjectured that the principal reason that managers are involved in a corporation (where they have little or no equity) is because management is the manager's profession. The issues and outcomes that enhance or detract from a manager's professional standing and well-being are not the same issues or outcomes that create or maintain wealth.

As an example, the way that managers are perceived as effective or 'good' is generally in comparison with their peers. Therefore, managers will understandably strive to perform well on measures that help that assessment, such as industry or sector ratios. A manager may be considered as the most effective in the industry or sector if, say, his/her ROI is the highest in the sector. But what if in the search for 'excellence' the high ROI is achieved through high gearing and high risk? And what if shareholders are risk-averse and require low gearing? Certainly, this manager may be rated as a superior manager by virtue of his/her ability to deliver a high ROI; but the manager would be rated poorly against his/her ability to deliver owner objectives.

The evidence examined earlier supports the contention that managers and owners do not share common objectives and perspectives. That their objectives and perspectives differ, is normal and to be expected. However, not understanding that they differ is both naive and potentially dangerous for shareholders and their expectation for certain outcomes.

2.4.8. There are 'Strategic Principles' that apply to all corporations

We frequently see companies adopt one or more of a range of strategic 'principles' which guide much of what they do. 'Principles' such as Focus, Differentiation, Time is of the Essence, Concentration of Forces, Building on Strengths, Matching Aims with Resources, Limiting Risk, Shareholders wanting Earnings, Customer Service, Best Practice, Sustained Competitive Advantage, Total Quality Management, and the list goes on.

The use of these 'principles' are not however applicable in every instance or in every context despite what many popular authors who promote their own 'hobby horse' would like us to believe.

All of these 'principles' are only enablers which assist a corporation to achieve a specific outcome defined by its owners' objectives. The choice of an enabler should only be assessed against its ability to enhance those objectives, and not because it is used by other companies (competitors or not) or because it is the 'flavour of the moment'.

Each of these 'principles' have serious implications and impacts on core objectives, and wrongly chosen, will impede an organisation's ability to satisfy them. The following are examples of legitimate alternatives to some commonly used strategic 'principles'. Each is appropriate in its own context and inappropriate out of that context.

Focus	*versus*	*Diversification*
Differentiation	*versus*	*A 'me-too' strategy*
Time is of the essence	*versus*	*At the right time*
Concentrate your forces	*versus*	*Spread your risk*
Build on your strengths	*versus*	*Build the strengths needed to fulfil your aims*
Match aims with resources	*versus*	*Create the resources to satisfy aims*
Limit risk	*versus*	*Accept higher risk for higher reward*
Create a unified corporate culture	*versus*	*Internal competition and intrapreneurship*
Shareholders want earnings	*versus*	*Asset growth and security*
Quality organisation	*versus*	*Give the market what it wants*
Best Practice	*versus*	*Be as good as you need to be, to satisfy aims*
Sustained competitive advantage	*versus*	*Commercial opportunism*

Chart 2: Strategic Alternatives

Choosing the appropriate strategy is dependent on the context, and what it is that the strategy is required to accomplish. The accomplishment in turn is dependent on the corporate objectives which are themselves dependent on owner objectives. In assessing strategies therefore, one must necessarily assess the contribution that the strategy makes toward the organisation's fundamental objectives. It is not possible to determine the appropriateness of a strategy on a generic level and outside of its organisational and owner context.

2.4.9. Maximising customer service is the path to success

Many organisations claim that they exist 'to satisfy their customers', or to 'maximise customer satisfaction', or some other variation on this theme. When one examines their operations, one often

finds both an ethos and an operational environment which is trying to do just that - maximise customer satisfaction or value.

If we take this concept to its logical conclusion - what would an organisation which is providing 'maximum customer satisfaction' actually be doing? Even if it is providing good service at a good price and thereby satisfying customers, it is inevitable that competitor reaction will find a way to provide slightly better service or product at a slightly better price. When we extend this logic to its extreme, then 'maximum' customer service must, by definition, be the provision of exceptional service at zero price to the customer - an obvious inanity.

The provision of customer service (and other management concepts and techniques) must be applied in the context of owner-defined objectives. It is only against such a yard-stick that management can determine how much investment into customer satisfaction 'is enough' to generate the outcomes desired. Customer service, as noble and important as it may be, is no more than an enabler through which the organisation achieves its ends. Thomas (1998) noted that 'what investors valued least is, surprisingly, the strength of customer service units and the rate of customer complaints' (p.94).

Customer service is however, the enabler or channel that will deliver the benefit or outcome sought by owners. Doing it well may be important and doing it better than the competitor may also be important, but only when it serves owner objectives and is used as an enabler and not as the reason for existence.

Owners are therefore primarily concerned with outcomes, while boards and management are understandably pre-occupied with means. It is not surprising then that management 'elevates' the enabler to primal importance because that is the way management sees the world and it is the element that is largely controllable by them.

The writer's experience suggests that in the majority of corporations, management defines the outcomes that will be delivered by the corporation, and management's definition of these outcomes is, more often than not, a product of what is achievable in the marketplace rather than of what owners want. Since a key determinant of what is achievable in the marketplace is dependent on customer service (among other criteria) it is not at all surprising to observe corporations who pursue it with almost religious zeal and often at the expense of higher-level objectives.

Elevating enablers to primacy is dangerous because most organisations attempt to maximise core objectives. For example, companies try to maximise profit rather than ever say 'this is enough profit'. But since customer service has a cost and is to some extent 'limitless' all efforts to enhance customer service will carry significant financial implications for most corporations. Often corporations strive for continual enhancement of it, even when the marginal benefit has long turned negative - a milestone of which most companies are oblivious.

It is important for corporations to recognise that customer service is 'only' an enabler, and they must limit endless enhancements to the point of Just Noticeable Difference (JND). That is, the point where

additional customer service is exceeded by benefits created by the provision of customer service. Chronic enhancement of customer service is a common ailment of corporations who see their reason for existence as the provision of service, rather than the benefit that the service provides to the owners of the corporation.

2.4.10. Structural change is the key to improvement

It is alarmingly to observe the frequency with which organisations reach for the 'structure button' whenever they need to wring some improvement from their organisations. It is reasonably understandable why this occurs. This is because structure is arguably the most pervasive, visible and responsive element of the organisation and when required to 'do something', a CEO will often change the structure so that he/she is seen as having done something - irrespective of whether the change brought about will create the impact desired.

Certainly structure can aid or hinder certain outcomes. In fact, the wrong structure can have disastrous ramifications on people, process and outcomes. However, structure is 'no more' than an enabler and should be treated as such. It should never be the first point of call when seeking improvement, as structure is a necessary outcome of 'higher level' decisions made for the organisation. The relationship between these higher level decisions has been discussed earlier.

2.4.11. All companies should strive for sustained competitive advantage

This, like other strategies, tools and techniques is dangerous if adopted unquestioningly. Objectives such as the following appear in the mission statements of many of the world's major corporations: 'We will become the biggest', or the 'best', or have the 'largest market share', or 'we adopt TQM principles', or 'we are here to maximise customer satisfaction', or 'we are here to create sustained competitive advantage', and so on.

These are all admirable pursuits, but only when they are in context, and then only when they are seen as enablers to achievement rather than the purpose for striving. It is a truism that not all organisations are alike; they have different needs and aspirations and similarly, and as the research below identifies, the expectations of their owners are different. Therefore the adoption of a particular management theme or tool-set may not be equally appropriate for all organisations.

Sustained competitive advantage in most contexts implies on-going investment in product design and modification, a quality orientation, new channel development, research and development, and other strategies and techniques which continuously review and revitalise products, services and delivery mechanisms in order to maintain a competitive advantage. Most of these techniques have a 'longer-term' benefit rather than 'shorter-term'. Commencing a sustained competitive advantage strategy is often appropriate when shareholders are content with longer term pay-back of expected benefit. It is, however, often in conflict with shareholders who have a short-term expectation of benefit.

As an example, a manufacturing company may have a flexible ability to tool-up quickly to manufacture a certain range and quality of product. A new product hits the market which is well within the capability of the company to produce. In the short-term, and in the early stages of the product's life-cycle, demand is well in excess of supply so quality and efficient channels are not critical. The company is not very liquid and therefore has little capital resource to draw on for upgrades and investment in plant and machinery. Historically, the company has provided good short-term dividend return to a loyal group of shareholders with little to no long-term debt.

As the product becomes accepted in the marketplace and becomes more mature, new suppliers enter the market. In order to stay in the market, all suppliers must start differentiating their product, must concentrate on quality and must invest in efficient distribution channels. Due to the cost of such investment, one would only contemplate such a strategy if one were prepared to remain in the market long enough to enjoy the benefits from this strategy.

It is inappropriate for the company in question to even contemplate 'sustaining advantage' as they don't have the capital, it isn't what their shareholders want, and they would risk losing the flexible opportunistic character that has served them well. Alternatively, a strategy of opportunistic manufacture to satisfy short term market demand appears more appropriate than one of sustained competitive advantage.

Sustained competitive advantage, like most strategies, needs to be moulded to suit the context and objectives. It should never be regarded as a 'given'. Embedding sustained competitive advantage within a corporation's mission statement is therefore a commitment to certain long term strategies, investments and shareholder outcomes. It is never a panacea for shareholder satisfaction.

2.4.12. All organisations should strive to become 'quality' organisations

Three important issues surface when considering the use of 'quality' strategies for organisations.

Firstly, much has already been discussed here about the pursuit of the enabler, rather than using the enabler to achieve a specific desired outcome. Many, if not most, corporations have the concept of a 'quality organisation' identified somewhere in either their mission or vision statements. This implies that they will 'chase' quality as a desirable outcome. Quality is expensive of time and resources and has a longer-term payback. It also frequently compromises in the short-term, other outcomes such as profit, investment, etc.

Secondly, organisations should not chase quality because 'it makes management and staff feel good about themselves'. This is not a sufficient justification to adopt any strategy. The principal legitimate reason for a corporation to embark on a quality path is when quality is (proven to be) the differentiator in the mind of the customer between choosing or not choosing to buy; and quality assists the organisation to satisfy specific shareholder objectives, such as the minimisation of risk (caused by poor processes).

Because of the financial and other implications of 'quality programs' or 'quality accreditation', such decisions should not be taken lightly nor should it be assumed that the pursuit of quality is a 'given' in all situations.

It is not suggested however, that companies should be content with shoddy products or processes, but that quality programs have implications and those implications may impact significantly on the organisation's ability to deliver what it is really there to do – i.e. satisfy shareholder objectives.

Thirdly, having or adhering to a quality program is not a guarantee of success. TQM and other quality programs generally concentrate on the processes within a corporation, and on the premise that if all the processes are effective, efficient and of quality; then the outcomes that those processes produce will be of quality.

The unfortunate reality is that an organisation may have superlative quality processes, but still produce a poor product that no-one wants. Quality is not a substitute for thinking. Many corporations who have been quality accredited are still not performing in terms of satisfying their shareholders. Often the cause of this incongruence is that too much faith is placed in the 'quality process' as a cure-all, while the basics of running a business are down-played or over-looked.

Although it is never the intention to promote mediocrity over excellence, it must be said that many corporations satisfy their shareholders by providing the market with what it wants; and what it wants may be 'less' than what can be achieved in quality terms.

From a product perspective, enough 'quality' should be build into a product or service to create the necessary sales that will create the necessary and desired benefits to satisfy its owners. From an organisational perspective, only sufficient investment in 'quality' is needed that will create the necessary processes, environment and outcomes to enable the organisation to satisfy its owners. Over this level, any investment in the pursuit of quality is at the expense of shareholders.

2.4.13. World's best practice is a legitimate aspiration for all organisations

As with many enabling strategies adopted by organisations, World's Best Practice (WBP) is often elevated to the corporation's mission and vision statements. The corporation then inevitably chases this objective because the mission statement implies that being 'best' is why (or one of the reasons that) the organisation exists.

The writer's experience supports the contention that few if any shareholders make their investment on the basis of the best practice position of their intended investment. They may however, make their investment on the basis that best practice brings an outcome that the investor seeks. But it is not the best practice per se, that is the attraction but rather the outcomes from best practice to which the shareholder is attracted.

It is when management 'likes the concept of being at WBP' and chases such a standard for reasons other than enhancement of shareholder objectives, that dysfunction occurs between organisation and owners.

Many organisations chase WBP because they see that WBP is a status they would like to aspire to and have for their own organisation. Yet the WBP standard is often far in excess of the standard required in the corporation's own market place to satisfy its current or potential customers. Where a company operates or intends to operate in a global market then WBP may be a relevant differentiator in the company's market place. But then again it may not.

If WBP in say, the order-to-deliver process in a certain industry, is half a day, and the industry best in a company's market place is 5 days, then there is no justification in chasing WBP unless at half a day, the company will be able to secure additional advantages (such as increased sales or economies of scale) that will lead to enhanced shareholder objectives.

If such 'elasticity' does not exist in this particular market, then the investment (and other costs such as organisational change) required to achieve a half day standard will detract from that which shareholders desire.

2.4.14. Corporate efficiency is achievable from a detailed knowledge of current performance

Many CEOs and senior managers make fundamental changes to their organisations based solely on existing performance. They may divest or cease operations of a product or division which has not achieved, for example, the corporate ROI expected. Other measures may be chosen as the criteria which dictate whether an activity is continued or ceased.

The issue is not that such deliberations are made, because that is exactly what management is paid to do - to ensure the viability of operations. However, the reality is that management often makes these decisions in an inappropriate context. The following observation by Hamel and Prahalad helps illustrate this point:

> ROI (or return on net assets or return on capital employed) has two components: a numerator - net income - and a denominator - investment, net assets or capital employed. Managers know that raising net income is likely to be harder than cutting assets and head count. To increase the numerator, top management must have a sense of where new opportunities lie, must be able to anticipate changing customer needs, must have invested in building new competencies, and so on. So under intense pressure for a quick ROI improvement, executives reach for the lever that will bring the fastest, surest result: the denominator (1994).

One of the key issues about such decisions are managers who chase the wrong performance measures. More often than not, these performance measures have been internally determined (i.e. by management) and do not necessarily directly address shareholder objectives. This is because most organisations have no verifiable and quantified view of their own shareholder objectives and therefore need to make a subjective assessment of what will please shareholders. Such subjectivity inevitably leads to management comparing themselves to peers and setting generic ratios and

performance measures as their own performance criteria. The chase for performance based on inappropriate performance measures will negatively impact on real shareholder satisfaction.

The second issue is that in chasing the wrong measure, often core assets are cut or jeopardised. If ROI is determined by management as the key measure, then they may cut products and/or activities that the company has been seeding for some time and at considerable cost, that haven't as yet achieved the desired ROI. Management action may certainly enhance ROI, but it may also destroy shareholder funds invested in new product development over many years.

Thirdly, undertaking efficiency reviews and actions solely on the basis of current operational performance is not sufficient or adequate. One must also know where the organisation is 'travelling' (or more specifically, where it would like to 'travel') in order to determine whether the intended cuts or changes will aid or hinder the company's future aspirations. All too often, corporations with no vision of the future, or a vision that is largely undefined, undertake significant organisational change only to find that which has been eradicated or changed is that which is needed for future operations and success.

Corporate improvement must be determined by the context within which the corporation operates: i.e., what outcomes are needed to satisfy shareholders and what attributes of the current operations are required to satisfy the vision for the future. Looking at current performance without the guideline provided by the future vision and an understanding of shareholder objectives makes tampering with the current state a highly risky activity.

2.4.15. Churn in a corporation's share registry is an indicator of poor performance

Much movement on the share registry of a corporation is commonly interpreted as representing instability and is therefore seen as negative. Boards and CEOs therefore attempt to 'quieten' their registries, using a range of techniques including promotion, advertising, communication to shareholders, communication to analysts, promise of bigger benefits to existing shareholders, etc..

Although volatile movement on a registry may be unfavourable, it should not automatically suggest that all movement on a registry is negative and that stability of the registry, per se, should be pursued.

Except in a market in free-fall, every stock exchange transaction has a buyer and a seller. Where an existing shareholder is selling because of the corporation's inability to provide a high probability of satisfaction for the stock owner, then it is likely that the stock owner may discount the sale price asked in order to cut 'losses' and reposition in another registry which offers greater probability of satisfaction. If many of the company's shareholders feel the same way, then prices will fall.

Conversely, an investor wishing to gain entry into a registry or wishing to buy a greater holding will see additional value in that stock over the purchase price. If there is no such perception of 'extra' value, then there is not much point in the purchase. When there is 'extra' value perceived by the

intending investor, and when many investors perceive such 'extra' value, then there is a likelihood that prices will be pushed up to a level that equates to the value perception.

Therefore, when existing shareholders wish to sell their holdings due to a negative perception of the future, then prices will tend to be depressed. When external shareholders want to enter the registry, then they tend to push prices up. Depressed share price causes market capitalisation of that company to be depressed while rising prices enhances market capitalisation.

Companies therefore should attempt to minimise churn on their registry caused by disenfranchised shareholders because this will maintain share price and market capitalisation. The methods used by companies to achieve this might vary, but can be summarised as methods which enhance shareholder satisfaction and positive perceptions of future performance.

On the other hand, companies should 'chase' positive churn, i.e. registry churn caused by investors wishing to enter the registry - particularly when fewer existing shareholders are prepared to exit the registry. This forces share price up which is to the advantage of all existing shareholders.

One is not able therefore, to deduce merely from the existence of churn, whether the instability is 'positive' or 'negative'. One conclusion is clear however, positive churn is very much to the advantage of existing shareholders.

2.4.16. Corporate and CEO performance is best measured by industry ratios and competitor performance

Since, as the research below indicates, shareholder objectives vary within the same company, and between companies within the same industry, an industry-based generic ratio will disadvantage those corporations who, based on their own shareholder objectives, do not pursue that ratio as their principal outcome, or who rank that ratio in importance below other outcomes.

The preferred and more effective method for assessing CEO and corporate performance is by assessing their ability to deliver those outcomes that are specific to it, its shareholders and its context. It is considerably easier to assess a company against its specific performance objectives, even though it might then be more difficult to establish cross-corporation relativities.

In a competitive environment, it is easy to state that company 'A' is superior to company 'B' based on sales, market share, number of customers, etc. Biggest, highest or most normally wins. However, when one factors in shareholder objectives, or what the company is trying to achieve within known constraints, then comparisons become more tenuous. Is a company that deliberately pursues and excels in dividend generation superior to a company that deliberately seeks long-term positioning? Is a company which pursues dividend maximisation with a gearing constraint of 25% superior to a company that pursues dividend maximisation with a gearing constraint of 75%?

Based on the model proposed below, cross-corporation comparisons are only valid when the corporations involved in the comparison are trying to achieve the same outcomes based on the same constraints.

2.4.17. Organisational culture is a given

Organisations are often heard to say 'we can't do that because it runs counter to our culture', or similar comments which reinforce the organisation's existing culture. Because culture is so hard to change management tends to regard it as a given and something that shouldn't be tampered with.

And yet, culture is as much of a construct as any other part of the organisation and it is required to contribute to the delivery of corporate and shareholder objectives in the same way as is expected of other parts of the organisation.

Shareholders are not too interested in the preservation or enhancement of the organisational culture of their investment if that culture impedes or hinders the satisfaction of their objectives. That doesn't have to mean 'open slather' on immoral and unethical practices, but it may have implications on style and method related to decision-making, communication, involvement and empowerment issues, among others.

Culture is an enabler and can be (should be) moulded to provide the optimal outcome for both the organisation and the shareholder. Corporations which are internally focused and consider that they have an existence independent of their owners, find it easier to justify the stability of the organisational culture, since culture helps to define for staff who they are and where they belong. When one is focused on shareholders, then culture becomes an enabler and can be prudently changed when necessary.

2.4.18. Organisations must, as part of the fundamental reason they exist, 'fulfil' their staff

Contemporary management has embraced the contemporary attitude that it is the employers' responsibility to enable staff to fulfil themselves in the workplace. This is quite legitimate when the fulfilment of staff is a necessary condition for the satisfaction of corporate and shareholder objectives. However, many organisations pursue the fulfilment of staff as a primary objective of the organisation, ranking equally with other stakeholders and with shareholders.

Although sounding somewhat apocryphal in this 'new age' environment, staff are enablers to help the organisation fulfil its objectives much like other organisational elements. The organisation does not exist for the benefit of staff but for the organisational outcomes that are intended to be delivered by it. In order to deliver these outcomes, the organisation needs to employ and maintain staff. In order to maintain staff, it needs to satisfy them. This logical argument is intuitively recognised by most organisations. Yet some of them choose to elevate the importance of staff to a point where staff satisfaction is divorced from the roles they are there to fulfil, and rank such satisfaction ahead of shareholder (and sometimes even corporate) satisfaction.

The cost for satisfying staff is borne by shareholders. A position where a corporation incurs costs borne by shareholders for the satisfaction or gratification of staff that do not deliver benefits to shareholders that exceed those costs is not sustainable in the long term.

2.5 Conclusions and Suggestions for a new Model

This section has reviewed current practice and associated problems, reviewed selected management theory from a shareholder perspective and identified a range of modern managerial myths.

The conclusions that can be drawn regarding current practice include the following.

- The planning process which sets goals and directions for the corporation is largely determined by management.
- The planning outcomes are moulded by management, and to a lesser extent director views, perceptions, attitudes, expectations and understandings.
- Contemporary planning processes make assumptions regarding shareholder benefit based on limited intelligence regarding desired benefits and outcomes of shareholders.
- Shareholders are commonly ranked on par with other stakeholders.
- Most contemporary planning processes have a poor ability to resolve incongruence between shareholder and corporate objectives.
- Popular moves to develop, establish or enhance leadership skills empower the CEO to mould a corporate vision and destiny often determined by themselves.

When viewed from a shareholder perspective, one accepts the pivotal role that management plays in determining the outcomes that the organisation delivers and the impact that this will have on the degree of shareholder satisfaction.

The examination of the cognitive and psychological issues overwhelmingly supports the view that management has the propensity to be driven by self-serving and self seeking actions which impacts on that which a corporation does and how it does it. Even if one rejects the malevolent 'Williamsonesque' interpretation of management, based on the presented secondary research one must concede that human behaviour is driven by at least subconscious influences. These influences mould behaviour which has the propensity to direct corporate outcomes contrary to those desired or expected. The argument for the humanity and therefore subjectivity of both managers and directors seems overwhelming.

The review of diverse strategic models found that while some share common attributes, they are by no means in agreement on most issues. Some are diametrically opposed to the views of others.

What is clear is that each has shareholder-related implications which give rise to some concern. Adoption of the philosophy, tool or technique either does, or has the potential to do, considerable

harm to the interests of shareholders. Unquestioning and blind acceptance of the guru philosophies is dangerous, not only from a shareholder perspective, but also because it has the ability to focus the organisation on issues and directions which aren't to the shareholder's best advantage.

What is common amongst them however, is the desire to explain all or most corporate needs through the adoption of a particular strategic view or model - a 'theory of everything' so to speak. Perhaps their (and everyone else's) inability to successfully find one strategic theory or approach to encompass all corporate striving is because no such 'beast' exists. Maybe this is due to people asking the wrong question while in search of the unfindable.

If one critically examines these diverse and sometimes divergent views, one nearly always finds some aspect of the proposed theory that appears strong or valid, but is invalidated by other contexts or circumstances. If we could find a strategic framework that accommodates (or confines) each view to the context in which it has relevance and utility, then perhaps we could begin to make sense of these disparities and differences.

It has been argued that the relationship between managers and directors and the corporation's shareholders is based on two assumptions: all shareholders share the same objectives; and managers and directors work for the benefit of shareholders (Refer Figure 1). The review of current practice strongly refutes the assumption that managers and directors always work for the benefit of shareholders.

The following section will attempt to refute the assumption that all shareholders share the same objectives.