# CUSTOMER ORIENTATION AND COMPETENCE BUILDING

**Doctoral dissertation by Johan Wallin, defended 31.3.2000**

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# 1 INTRODUCTION

## *1.1 Background*

Customer relationships have lately received considerable attention in popular management literature.[1] There are authors (Madhok, Tallman, 1998, Ramírez, 1999), who have suggested that customers should be managed as assets, and, subsequently, developing customer relationships should be treated as a resource investment. The 1990s has also witnessed the emergence of competence-based strategic management (Hamel, Heene, 1994, Sanchez, Heene, Thomas, 1996, Sanchez, Heene, 1997a, Heene, Sanchez, 1997), a new school of thought that provides tools for firms to better understand and use their resources to achieve their goals. The role of customers as a source for knowledge (Lang, 1997, Sivula, van den Bosch, Elfring, 1997) has been well recognized within competence-based strategic management.

The competence perspective has been accused of tautology and lack of operationalization (Williamson, 1999). One suggested way to address the tautological nature of this perspective is to evaluate those resources and competences regarded as important through the firm's intermediate outcomes (Mosakowski, McKelvey, 1997). Thus far the competence-based school has presented limited empirical research on how the intermediate outcomes can be used to link competences and customer relationships to avoid the accusation of tautology. Sanchez and Thomas (1996) have however recommended further research into dynamic patterns of competence building and leveraging to improve the understanding of how the short-run competitive interactions of competence leveraging could be linked to the long-run dynamics of competence building, and how the two dynamics interact in driving the evolution of industries.

This dissertation looks into three specific issues. First, it elaborates in which context(s) firms decide to increase the emphasis on cultivating and developing existing customer relationships, which in this dissertation is defined as becoming more customer oriented. Second, it investigates how the decision to deepen the customer relationships is implemented. And third, it focuses on what implications (if any) this deepening of customer relationships has on competence building. These issues are addressed by developing a conceptual framework which has the notion of intermediate outcomes (here called the "offerings") as a central concept, and by clinically analyzing case firms that have increased the emphasis on cultivating and developing existing customer relationships.

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[1] Buzzwords like "one-to-one marketing" (Peppers, Rogers, 1993) , "global account management" (Yip, Madsen, 1996), "customer delight" (Plowman, 1994), "the loyalty effect" (Reichheld, 1996), and "partnerships" (Faris, Farris, 1996) are examples of how the importance of customer relationships has been communicated to managers.

### *1.2 Research problem*

Firms face the challenge of building future competences on the one hand and responding to present customer needs on the other hand.

> Top management is pulled by two opposing, responsible forces: those that demand commitment to the old, and those that advocate for the future. Management must find the right balance between support for incremental improvements and commitments to new and unproven innovations. Understanding and managing this tension perceptively may well separate the ultimate winners from the losers. (Utterback, 1994, p. 216)

This dissertation looks at identifying how firms constantly question their existing way of working, and occasionally change the way they operate. Particularly, the focus is on changes in which the firm decides to increase the emphasis on cultivating and developing existing customer relationships, or become more customer-oriented. The study primarily belongs to the category of strategy process research.

Chakravarthy and Doz (1992, p. 9) believe strategy process research has to become more normative if it is to be of relevance to general managers. They argue that transformational change processes have seldom been researched comprehensively with the detailed attention and rigor that could satisfy most researchers. They therefore state that the first challenge faced by strategy process research is to address central evolutionary processes and purposeful transformational processes, rather than to simplify the research task by focusing on an individual administrative system at a cross-section in time. Their recommendation is that strategy process research would call for three distinctive characteristics: team work, focus on corporate managers, and action research.[2] The goal of this study is to respond to these challenges.

The main research question of this study can be expressed as follows:

*What are the interrelationships between the adoption of a more customer-oriented business model*[3] *and competence building?*

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[2] Chakravarthy and Doz (1992, p. 9-10) mean by team work that multiple disciplinary lenses and longitudinal research has to be applied when watching organizational transformations. They argue that strategy process research must aggressively move to the level of top management. Action research, according to their view, should gain more legitimacy in the strategy process sub-field.

[3] In this study the following definition of business model is applied: *The **business model** defines the value-creation priorities of the firm in respect to the utilization of both internal and external resources for the purpose of creating value for and with customers. The business model is itself subject to continual review as a response to actual and possible changes in perceived business conditions.* The "grounding" of this definition is presented in section 2.1. In congruence with the business model definition, a "customer-oriented business model" can be defined: *A customer-oriented **business model** defines the value-creation priorities of the firm in respect to the utilization of both internal and external resources for the purpose of creating value for and with customers in such a way that there has to be focus on continuously building new capabilities, in order to respond to changing needs and preferences of existing customers.* Becoming more customer-oriented means that the firm allocates relatively more resources than previously for these capability-building activities, in order to cultivate and develop existing customer relationships.

One possible choice to consider, when developing the business model, concerns a preference towards customer orientation. Becoming more customer oriented means that the firm starts to rethink its current business model from a focus on how to best retain and develop its existing customer relationships. To this effect, the firm has to make sure its capabilities will enable it to continuously provide its customers with new offerings, which is a prerequisite to nurture and cultivate customer relationships in a dynamic and competitive environment, where customer needs and preferences change. In such a context, the firm has to develop new capabilities, if it is to be regarded from the existing customers' point of view as truly "customer oriented"[4].

Developing capabilities can, in general, lead to competence building and/or competence leveraging.[5]

***Competence building*** *is any process by which a firm achieves qualitative changes to its stocks of assets and capabilities*[6]*, including new abilities to coordinate and deploy new or existing assets and capabilities in ways that help the firm achieve its goals* (Sanchez, Heene, Thomas, 1996, p. 8).

***Competence leveraging*** *occurs when a firm applies its existing competences to current or new market opportunities in ways that do not require qualitative changes in the firm's assets or capabilities* (Sanchez, Heene, Thomas, 1996, p. 8).[7]

The main research question presented above has both a behavioral and a normative aspect.

The behavioral aspect describes how the adoption of a more customer-oriented business model takes place in real life contexts. The behavioral part represents strategy process research (Schendel, 1992, Chakravarthy, Doz, 1992). In strategy process research, the focus is on the behavioral interactions between the individuals, groups, and organizational units of the firm. In this dissertation, the behavioral part attempts to explain how firms behave when increasing customer orientation within their business model.

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[4] In static business environments there is no need for a continuous development of capabilities to stay customer oriented. However, in this research the focus is on dynamic, competitive contexts where it is assumed that competitors will continuously introduce new improved offerings, based on their development of new capabilities.

[5] Sanchez, Heene, Thomas (1996, p. 7) define ***capabilities*** *as repeatable patterns of action in the use of assets to create, produce, and/or offer products to a market.* ***Competence*** *is an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals* (Sanchez, Heene, and Thomas 1996, p. 8). When the transistor was developed, superior capabilities in the manufacture and refinement of the vacuum tube could not save the vacuum tube market. The vacuum tube firms maintained their capabilities but lost their competitive advantage, as the dynamic environment underwent a competence-destroying change (Bogner, Thomas, 1994). Capabilities can thus be maintained even if the competence is lost.

[6] Sanchez, Heene, Thomas (1996) refer to "assets *and* capabilities" even though, strictly speaking, *capabilities* are included within the term *assets* in their terminology. They do this because capabilities are intangible assets that determine the uses of tangible assets and other kinds of intangible assets, and they recognize capabilities as an important special category of assets.

[7] Competence building creates, in effect, new options for future action for the firm in pursuing its goals. Competence leveraging, in effect, is the exercise of one or more of a firm's existing options for action created by its prior competence building.

The normative aspect explains which are the competence building implications when adopting a more customer-oriented business model. The behavioral and normative aspects are intertwined. The clinical approach implies that

- there were certain normative assumptions by the researcher, when entering the field of research,
- this study will imply normative suggestions on the interrelationships between customer orientation and competence building, but
- the original normative assumptions affect the researcher's interpretation of how customer orientation affected competence building within the studied firms, thereby biasing the normative suggestions.

The above-mentioned methodological dilemma is further discussed in the chapter on research methodology. The behavioral aspect of the main research question can be expressed in the following way:

*What characterizes the patterns of decision making and implementation processes related to the adoption of a more customer-oriented business model?*

"Patterns" refers to the sequence of events through which the implementation of a new business model is made. The main emphasis here is on understanding how dissatisfaction with the present business model and the perceived gap between the present and future capabilities affect the implementation of a new customer-oriented business model. The behavioral research question can be broken into the following sub-questions:

- *What causes the adoption of a more customer-oriented business model?*
- *How does the implementation of a more customer-oriented business model take place?*

The normative part of the main research question is

*What are the impacts of the adoption of a more customer-oriented business model on competence building?*

The impacts refer to needs for capability building. For the purpose of this study capability building is used as a measurable component of competence building. The needs for capability building is determined by within-case and cross-case analyses, and by comparing the case findings with the developed theoretical model. The normative implication is: if the needed capability-building activities do not take place, the probability of successful implementation of a more customer-oriented business model decreases.

### 1.3 Objectives of the study

The purpose of this dissertation is to better understand how firms behave (Rumelt, Schendel, Teece, 1994) by developing a framework and a common language for analyzing business model dynamics. The objectives of the study are two-fold: to describe how a more customer-oriented business model is implemented, and to identify the competence implications when increasing customer orientation. In order to fulfill its objectives this study has to address two main concerns related to the competence perspective raised by Williamson (1999): the tautological definitions of key terms; and the failure of operationalization.

The issue of definitions and tautology[8] is addressed by following the suggestion of Mosakowski and McKelvey (1997) to use the "intermediate outcomes" of the firm to avoid dismissing the importance of external topics, such as competitors, customers, suppliers, and so forth. Complementary to the work on the role of "intermediate outcomes" within the competence-based management literature are the writings on interactive strategy (Normann, Ramírez, 1993, 1994, Ramírez, 1999) which will be used in this study as well. The definitions of this study are consequently based on a combination of these two fields of research, using an extension of the model of the firm as an open system presented by Sanchez and Heene (1996) as the integrating mechanism.

The operationalization of capabilities is explicitly addressed in this dissertation in order to identify the implications of business model change on competence building. The operationalization of capabilities will be "grounded" in the conceptual framework developed here based on the literature.

The findings from the case studies are synthesized with the objective to link the behavioral part of the dissertation to the normative part, identify context-specific recipes in the field of strategy (Collis, Montgomery, 1998), and increase the collaboration between academics and managers to contribute to the understanding of how firms behave (Mahoney, Sanchez, 1997).

The subject of the study, main objectives, sub-objectives and integrative objectives are illustrated in Figure 1.

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[8] The tautology problem derives from a fundamental circularity in the reasoning of the resource-based view that is characterized by Porter (1991) in the following way: "Successful firms are successful because they have unique resources. (Therefore) they should nurture these resources to be successful." (Sanchez, Heene, 1997b)

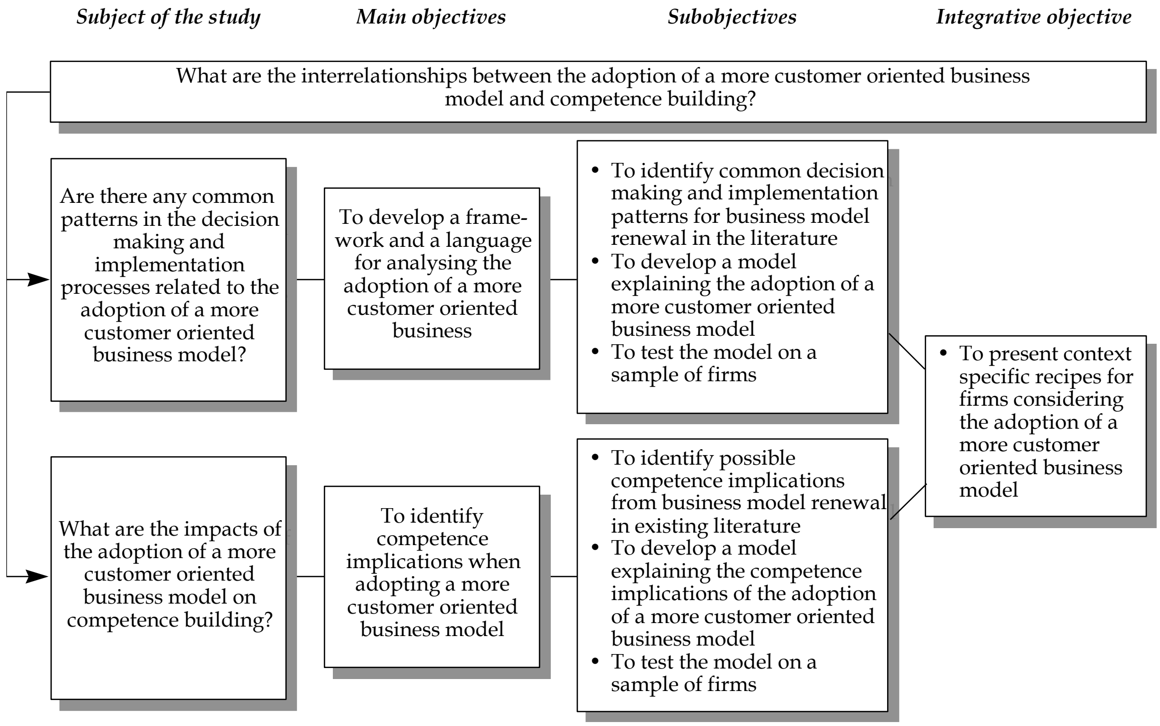


*Figure 1 Subject of the study and objectives*

### 1.4 Scope of the study

In the conceptual part of this study a generic framework is developed. The empirical part is based on a sample of firms operating in Finland. Two firms, ABB Fläkt and Tamrock, are subsidiaries of a global company. Finnish Fur Sales exports 99 % of its products. The majority of Metsä-Serla's revenues is generated outside Finland. Only one, Aktia, is solely operating in the Finnish market. Aktia's largest shareholder is a foreign bank with whom it has close cooperation. The context wherein all these firms operate is international, and the perspective of ABB, Tamrock and Finnish Fur Sales is truly global. The findings of this study should be applicable to non-Finnish firms as well. However, all the change processes reported have taken place in a Finnish context.

The five case firms are all mature firms with sales of more than FIM 100 million (1998 figures). Each firm has more than fifty years of business experience. The findings of the study should have applicability for larger mature firms. To what extent the results are useful for other types of firms, newly established or small, is further evaluated in the discussion part of the study.

The five firms represent both industrial and service firms. In this respect the firms offer an interesting sample for the purpose of evaluating to what extent the conceptual frameworks are adaptable to different firms in different industries. The five firms have been selected based on the author's role as manager and consultant. This may cause bias both in respect to the selection of firms and in the interpretation of the results. The research approach is discussed in chapter four, and the reliability and validity of the results is elaborated in chapter six.

Finnish Fur Sales and Aktia are medium-sized single business firms. ABB Fläkt is a business unit within ABB, and so is Tamrock within the Sandvik Group. Metsä-Serla is analyzed on both business unit and corporate level. In this respect the sample provides interesting possibilities for comparisons between the business unit and the corporate perspective.

### *1.5 Structure of the study*

This dissertation consists of the following parts:

1 a review and analysis of the literature on competence-based management and strategic change, on which is based the development of a model of business-model renewal;

2 conceptualization of the process of increasing customer orientation as a special form of business model renewal in order to establish the theoretical foundations upon which research hypotheses can be built;

3 hypotheses linking cause for change, explication of change approach, management of change, and capability building with the success of the implementation of a new more customer-oriented business model;

4 an empirical test of the hypotheses; this includes operationalizing the theoretical constructs, designing the research methodology, identifying a suitable sample, gathering the case material, and using the case method to test the hypotheses; and

5 conclusions regarding the implications, significance, validity, and reliability of the results of the study.

The structure of the study unfolds from the research questions and research objectives. The first chapter of the dissertation is the introduction.

In the second chapter a conceptual model is developed based on a literature review. The literature review provides the building blocks for the conceptual model, which is built in a top-down manner starting from a holistic view of the firm as an open system. The notion of strategic logic is broken down into two parts: corporate values and the business model. Corporate values address the issue of value distribution, whereas the business model addresses value creation.

The business model is introduced as a central concept for understanding the dynamics of the firm. It is argued that the competence building and leveraging options on one hand, and the opportunity to create value for existing and new customers on the other hand, form the contingencies on which the firm prioritizes capability building and leveraging within its business model. One option for the firm is to choose to primarily serve existing customers and continuously provide new offerings to these customers. This option is called customer orientation.

Using the above concepts, a process model for business model renewal is developed and further specified for the case of increasing the customer orientation efforts of the firm.

The conceptual framework was the final part concluded during the research project. The research model emerged from the analysis process itself. It was not specified a priori; instead it was an outcome of the study. The conceptual model and the analysis of the cases have therefore emerged in parallel. This is further discussed in chapter four.

Chapter three introduces the overall research construct and the hypotheses put forward in this dissertation. The hypotheses are developed using the process model of increasing customer orientation. The hypotheses address the causes for increasing customer orientation, how the causes affect the way the change process is organized, and how the choice of implementation process affects competence-building activities.

Chapter four provides an overview of the research methodology and includes a discussion about the methodological concerns relating to the clinical approach of this study. The chapter also includes the operationalization of the variables used for the testing of the hypotheses.

The fifth chapter contains the case studies. Each case study is described in two parts. First, a descriptive presentation of how the business of the firm has evolved during the time period observed. Second, an interpretation of the dynamics using the conceptual model developed in chapter three.

The sixth chapter contains an analysis of the similarities and dissimilarities between the cases. Based on this analysis the process model introduced in chapter four is refined. Following a discussion of the managerial implications of the study, the limitations, reliability, and validity of the study is discussed. Chapter six is concluded by some suggestions for further research.

The seventh chapter provides a summary of the results and the conclusions.

# 2 THE CONCEPTUAL FRAMEWORK

*The aim of this chapter is to develop a framework and the language for understanding the nature of customer orientation and competence building, and the interdependence between the two. The chapter starts with some general definitions from the field of competence-based strategic management (Sanchez, Heene, Thomas, 1996, Sanchez, Heene, 1997a, Heene, Sanchez, 1997), after which a view of the firm as an open system (Sanchez, Heene, 1996) is introduced. Once an extended version of the Sanchez, Heene (ibid.) model of the firm as an open system is introduced, its three major components are analyzed in greater detail: corporate values, the business model, and the value-creating process. The model of the firm as an open system is thereafter used to develop a model of business model renewal. The chapter concludes with a deepening of the model of business model renewal in the special case of increasing customer orientation.*

The roots of competence-based strategic management can be traced back at least to the 1950s. Selznick (1957) noted that organizations have to represent a fundamental congruence between external opportunity and internal capability:

> Leadership set goals. But in doing so takes account of the conditions that have already determined what the organization can do and to some extent what it must do...In defining the mission of the organization leaders must take account of (1) the internal state of the policy: the strivings, inhibitions, and competences that exist within the organization, and (2) the external expectations that determine what must be sought or achieved if the institution is to survive (Selznick, 1957, pp. 62, 67-68)

The renewed interest in competence in the 1990s can be seen as an extension of the resource-based view of the firm which started to gain interest in the mid-1980s.[9] The interest for the resource-based view of the firm has, at least partly, been due to the fact that the external orientation driven to its extreme lead companies to go into businesses where they could not remain competitive (Conrad, 1963; Schneider, Ebeling, 1992).

Already in 1981, focus on the firm's resources as an alternative to the marketing view had been presented by Bennett and Cooper:

> Marketers must place less emphasis on the marketing concept…Instead, a product orientation - delivering product value based on what firms do well - should be thought…the technology push model must be reinvented as a viable route to new products in management courses…the product value concept - delivering the most product value efficiently - should become the corporate credo…And above all, the firm must recognize what it does well. It must be aware of its distinctive competences and unique resources. Having identified these areas of excellence, the firm should use these in its task of producing a product of superior value. (Bennett, Cooper, 1988, p. 47)

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[9] According to the resource based view (Penrose, 1959; Lippman, Rumelt 1982; Rumelt, 1984; Wernerfelt, 1984; Barney, 1986, 1991, 1995; Dierickx, Cool, 1989, Conner, 1991; Amit, Schoemaker, 1993; Barney, Zajac, 1994; Collis, 1994) the key strategic challenge is to understand the ways the resources can be utilized in an optimal way, often in quite different market surroundings.

The resource-based view argues that excellence related to the way resources are used is the main driver for success. These resources can be used to superiorly perform production activities in a superior way, or to come up with superior products, or to be able to combine both these goals. To achieve this, firms cannot simply evaluate environmental opportunities and threats. Instead, creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment. To discover these resources and capabilities, managers must look inside their firm for valuable, rare, and costly-to-imitate resources, which are exploited by the organization (Barney, 1995). The resource-based view was further developed through the introduction of the notion of "core competence" (Prahalad, Hamel, 1990, Hamel, Prahalad, 1994).

The core competence perspective has been associated with four key components (Rumelt, 1994):

- corporate span; powerful core competences support several products or businesses,
- temporal dominance; competences are more stable and evolve more slowly than do products,
- learning-by-doing; competences are gained and enhanced as they are applied and shared,
- competitive locus; product-market competition is merely the superficial expression of a deeper competition over competences.

Hamel defined when a skill cluster can be considered a “core” competence (Hamel, 1994, pp. 11-15):

- a competence is a bundle of constituent skills and technologies, rather than a single, discrete skill or technology
- a core competence is not an inanimate thing, it is an activity, a messy accumulation of learning comprising both tacit (Polanyi, 1966) and explicit knowledge
- a core competence must make a disproportionate contribution to customer-perceived value
- to qualify as a “core” competence a capability must be competitively unique
- a core competence should provide an entrée into new markets.

The Hamel perspective on managing core competences includes four key tasks: selecting core competences, building core competences, deploying core competences, and protecting core competences. (Hamel, 1994, p. 25). A key observation is that to protect core competences, a company must be able to distinguish between a bad business and the potentially valuable competences buried within that business.[10]

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[10] For example Sony was profoundly embarrassed by the failure of Betamax. But it kept the competence team together, and scored a major success when, a few years later, it rebounded with the 8 mm camcorder. This competence provided Sony with the means to create a core product. Core products enable companies to get monopolistic rents in certain

The competence-based perspective (as well as the resource-based view) has been criticized for representing a tautological reasoning: successful firms are successful because they have unique resources, and should nurture these resources to be successful (Porter, 1991, Williamson, 1999). This problem with tautology has been addressed by Sanchez, Heene, and Thomas (1996) as they introduce the key definitions forming the basis for the competence-based strategic management perspective. These definitions are here briefly presented.

Resources can be defined as follows:

***Resources** are assets that are available and useful in detecting and responding to market opportunities or threats. Resources include capabilities, as well as other forms of useful and available assets.* (Sanchez, Heene, Thomas, 1996, p. 8)

Firm resources can be divided into firm-specific and firm-addressable resources (Sanchez, Heene, Thomas, 1996, p. 7). Firm-specific resources are those which a firm owns or tightly controls. Firm-addressable resources are those which a firm does not own or tightly control, but which it can arrange to access and use from time to time. Firms use resources in some form of coordinated deployment of assets and capabilities to provide offerings for customers.

The following definitions are connected to the above resource definition (Sanchez, Heene, Thomas, 1996, pp. 7-8):

***Capabilities** are repeatable patterns of action in the use of assets to create, produce, and/or offer products and services to a market.*

***Competence** is an ability to sustain the coordinated deployment of assets in a way that helps a firm achieve its goals.*

*A **skill** is a special form of capability, with the connotation of a rather specific capability useful in a specialized situation or related to the use of a specialized asset*.

Firms use resources in some form of coordinated deployment of assets and capabilities to create, produce, and provide offerings to markets. These coordinated deployments of resources constitute competences when they lead to positive market responses that help a firm achieve an acceptable level of attainment of the firm's goals. Competence-based strategic management connects the notion of competence to the attainment of the firm's goals. By doing this instead of referring to a competence as something making a disproportionate

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components, and at the same time maintain superiority in the competences related to these components.(Hamel, 1994, p. 32) contribution to customer-perceived value and being competitively unique, competence-based strategic management addresses the tautological construction of the core competence perspective.

Mosakowski and McKelvey (1997), when addressing the problem of tautological construction, suggest that the evaluation of those resources and competences regarded as important should be addressed through the firm's intermediate outcomes. Their argument is that it is the scarcity of the intermediate outcomes, not of specific competences, that is necessary for rent generation since intermediate outcomes encompass both the form and function of a competence. Bogner and Thomas (1996) advocate a similar view by stating that competences likely to generate rents are those capable of generating product attributes that are desirable in their targeted market.

Normann and Ramírez (1993, 1994) also recognize the importance of the "firm's intermediate outcomes". In their "interactive strategy framework" they perceive value creation as the "raison d'être" for a firm. This focuses the attention on the interaction and interplay between suppliers and customers. An offering is defined as the output produced by one (or several) actor(s) - 'producer' or 'supplier' - creating value that becomes an input to another actor (or actors) - the 'customer' creating value. Successful firms are effective "conversation holders", catalyzing an effective dialogue between competence development and customer development. The author further developed the reasoning of Normann and Ramírez (ibid.) into what he called the value-creation framework (Figure 2), wherein the thinking of Normann and Ramírez was connected for the first time to the competence-based strategic management perspective.

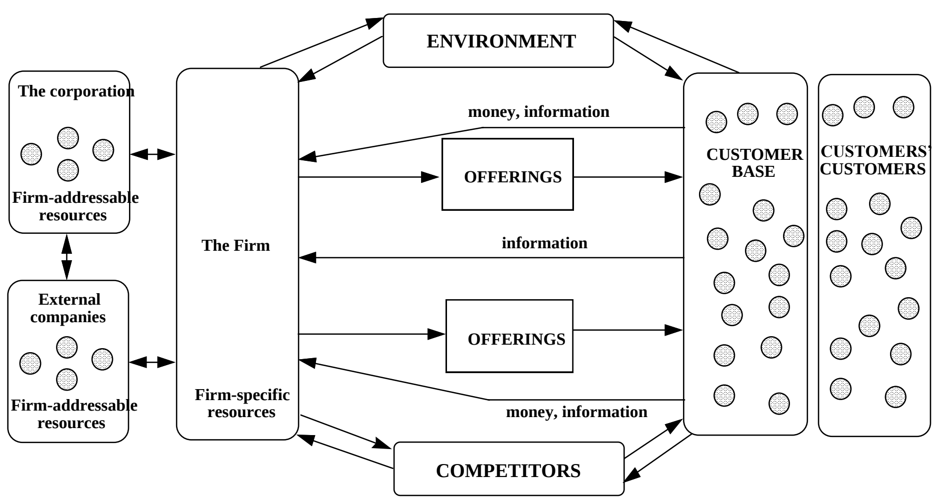


*Figure 2 The value-creation framework (Wallin, 1997a)*

Offerings are both outputs and inputs. Acknowledging and incorporating the specific individual requirements of each customer implies that customers cannot be simply treated *en mass* as "product markets". Customer needs and preferences can be better understood by knowing how each customer is producing value for himself and, in turn, for his customers (Normann, Ramírez, 1993). What is valuable depends on the value-creating context of the customer. The notion of market traits may therefore be misleading, as traits exist for customers, not markets (Wallin, 1997a). Bogner and Thomas (1996) reached similar conclusions when they noticed that "no skill, no matter how refined, can be a core competence if it does not give a firm an advantage in the marketplace by satisfying a customer need better than a competitor".

The competence-based strategic management perspective simultaneously addresses the internal perspective (the resource-based view), and the external perspective related to changing environments that may make obsolete previously valuable competences. In this study, the offerings of the firm are used to evaluate which resources are important. Having recognized the importance of the offering and having introduced the value-creation framework to combine the competence-based strategic management and the interactive strategy perspectives, section 2.1 presents a model of the firm as an open system based on which the process model of increasing customer orientation will be developed.

## *2.1 The firm as an open system*

*This section on the firm as an open system introduces the elements of the conceptual framework, based on which the dynamic model of business model renewal will be developed. Corporate values, the business model, and value-creating processes are described as the basic components of the firm as an open system. Corporate values address the question of what the firm wants to be, the business model defines the value-creation priorities of the firm, and value creation is the process of co-producing offerings in a mutually beneficial seller/buyer relationship. In the following these concepts are elaborated in more detail.*

The model of the firm as an open system developed in this section has its origin in an earlier model, developed by Sanchez and Heene (1996)[11], which is extended here. The major extensions compared to Sanchez and Heene are:

- The company, and its interaction with its environment, is depicted in greater detail, making specific distinction between value constellations, transactional environment, and contextual environment.
- The notion of product markets is replaced by the notion of customers.

[11] Sanchez and Heene (1996) connect their model to earlier works on the systems behavior of firms (Ashby, 1956, Forrester, 1961, 1968, Simon, 1969, Dierickx and Cool, 1989, Teece, Pisano, and Shuen, 1990)

- The Sanchez and Heene notion of strategic logic is here divided into two components: corporate values, addressing the issue of value distribution; and business model, addressing the issue of value creation.
- Business processes and management processes are specifically categorized.
- Culturing is superimposed on the other managerial processes.

The model of the firm as an open system (Figure 3) can be summarized to consist of three parts: the purpose (values and goals), the recipes (the business model), and the value creating processes. This is similar to the description by Simon (1960) of the organization as a three-layered cake. In the bottom, the basic work processes; in the middle layer, the programmed decision-making processes -- the processes that govern the day-to-day operation of the system; and in the top layer the nonprogrammed decision-making processes, the processes that are required to design and redesign the entire system, to provide it with its basic goals and objectives, and to monitor its performance.

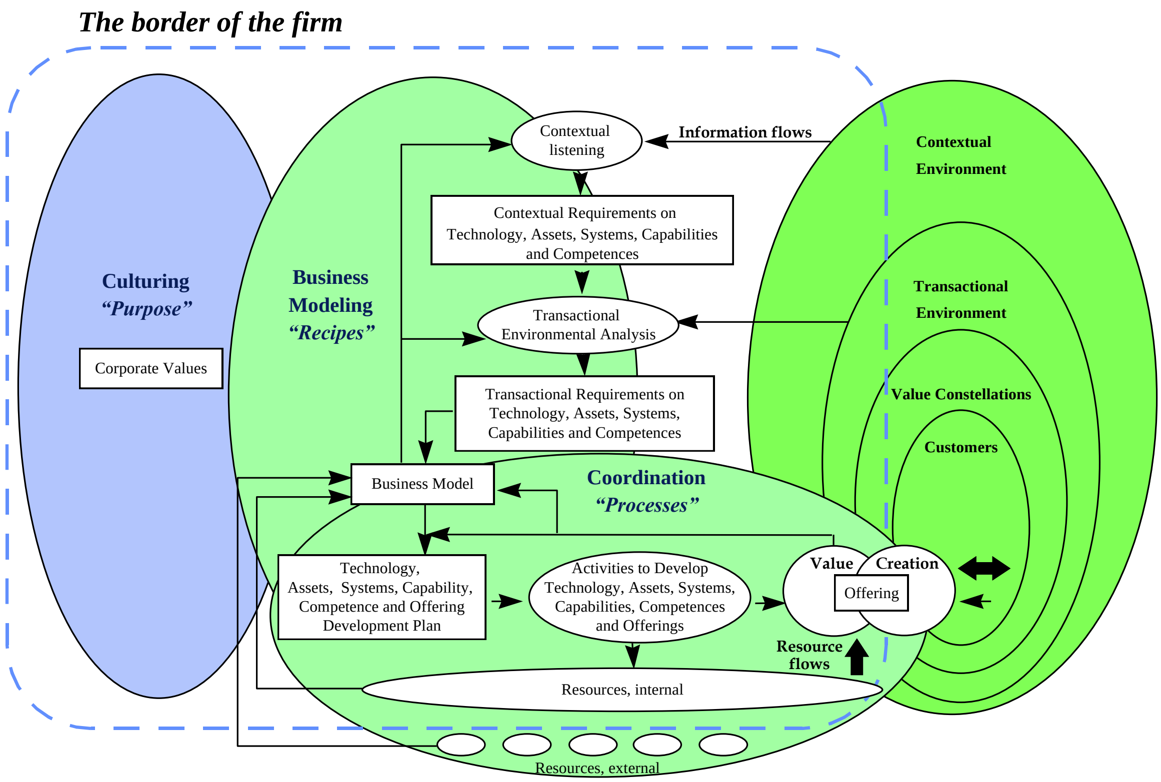


*Figure 3 The firm as an open system (adopted from Wallin, 1998b)*

The model of the firm as an open system takes its origin in the value-creating business processes[12] through which the firm-addressable resources and

[12] The processes of the firm can be divided into two broad sets: business processes and management processes.

customers are coupled together. To be able to provide value to customers the firm develops and delivers offerings, which require activities to develop technology, assets, systems, capabilities and competences. These activities are planned for according to the priorities set within the business model.

The business model is under constant re-evaluation, as the environment wherein the firm exists is dynamic. For the firm, customers represent a very immediate contact with the external environment. Other actors within the value constellation, such as co-suppliers (which also can be competitors) also provide the firm with feedback information, based on which the firm will consider a possible redesign of its business model.

A firm must make decisions about which resources to develop, access and deploy. These decisions are influenced by external and internal environmental factors, including the desires or actions of customers and other stakeholders[13]. Therefore, business intelligence activities - getting information about, and feedback from, the firm's transactional and contextual environments - support, and are often key elements in, making the right decisions. The business intelligence activities evaluate the requirements of technology, assets, systems, capabilities and competences imposed on the firm. These business intelligence activities can be categorized into contextual listening and transactional environmental analysis. Business intelligence and decision making form the business modeling process. The business modeling process is very influenced by the corporate values, as well as the perceptions of managers, board, and other stakeholders affecting decision making on the business model, as the example of the development of the Finnish market for Internet connections suggests.

The idea of offering an easy Internet connection to the public had been suggested by a marketing manager of Telecom Finland (now Sonera) in 1994. Top management was not greatly enthusiastic. In spite of this, she managed to launch the package in March 1995. The subscription rate was immediately ten times the predicted level. By the end of 1997 Finland was the country with the highest density of Internet connections per capita (Wallin, 1997b).

In the case of Telecom Finland the marketing manager had had direct interactions with customers, suppliers, and competitors. She therefore developed

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*The activities tying together customers and resources (firm-specific and firm-addressable) through offerings (present and future) are the **business processes** of the firm. The business processes are defined, monitored and re-evaluated through the management processes of the firm. **Management processes** relate to the ways a firm gathers and interprets data, makes, communicates, implements, monitors, and adjusts decisions about tasks and resource allocations, and measures and compensates performance.* (Garvin, 1995, pp. 80-81)

[13] van der Heijden (1996) and Freeman (1984) have categorized the stakeholders of the firm into five groups: suppliers, employees, competitors, money providers, and the government. de Geus (1997) emphasize the importance of recognizing the firm in itself as a stakeholder. Combining these perspectives thus dissertation will use the following categories of stakeholders: the company itself, owners, customers, employees, and society (=all other stakeholders)

knowledge about what change was needed. Top management acted mainly based on secondary sources of information through formalized planning processes. Top management needed to get the knowledge of the marketing manager codified into business plans, budgets etc. For the middle manager this was an almost insurmountable challenge, due to the partly tacit nature of the knowledge. Hamel, seeing strategizing as a key process, has also recognized the importance of codifying the knowledge already existing within the organization about the need to change (Hamel, 1996). Already Burgelman (1983) had reached similar conclusions when noticing that strategy in many firms was the product of autonomous behavior initiated outside top management.

The Telecom Finland example suggests that strategic events cannot be pre-programmed. A model of the firm as an open system has to allow non-programmed feedback from different sources to alter the business model. The model of the firm (Figure 3) is therefore structured as a double-loop learning model (Argyris, Schön, 1978).

The view of the firm as a system was originally developed in the field of operations research (Churchman, Ackoff, Arnoff, 1957).[14] Checkland (1981) noted that the firm as an open system essentially performs three functions:

- Adjusting the system's behavior to deal with external contingencies.
- Directing the system towards more favorable environments to improve survival chances.
- Reorganizing aspects of the system structure to make it more effective in these two tasks.

The relationship between the firm and its environment was analyzed by Wallin and Ramírez (1996). They argue that the competitive environment for firms is becoming more complex. They base their observations on the Emery and Trist (1965) analysis of the causal texture of organizational environments. This analysis allows dividing the organization's environment in two (Smith, 1984):

- the contextual environment, which from the firm's perspective is made up of factors influencing the behavior of the actors with which it interacts, and
- the transactional environment, which from the point of view of the firm is made up of actors with which it interacts.

According to the definition by Smith (ibid.) the firm has no power or influence over the contextual environment, and has no power over the transactional one but can influence it. At least some aspects of the change in a firm’s transactional

[14] Simon (1960) considered the systems approach as a set of attitudes and a frame of mind rather than a definite and explicit theory.

environment may result from a firm's own competence building and leveraging actions (Sanchez, Heene, Thomas, 1996). Thus the firm's prospect for attaining its goals is critically dependent on its ability to manage the systemic interdependency of its own internal resources and processes, and their open-system interfaces, with external resources.

The functions of management can be distributed in terms of this distinction. In Smith's view, management in effect is meant to control the processes within the organization it manages, and in this sense holds power over internal issues. Management listens to (Crozier, 1989) and influences the transactional environment. This capability of "listening" to contextual environments gains management attention as business becomes more complex and it is necessary to anticipate discontinuities and to try to act in advance of their full impact (Utterback, 1994, p. 220).

Hamel (1998) stated that strategy is emergent, but that by creating the right set of preconditions, one can provoke emergence. Strategists should therefore work on the preconditions that could give rise to strategy innovation instead of working on "the strategy". This view on strategy as an emergent phenomenon was introduced at Shell as early as the 1970s by Pierre Wack, whom van der Heijden (1996) regards as having been one of the first to articulate a resource view of strategy in general. Pierre Wack used the concept of "strategic vision" to express the emergent properties of strategy. He described the concept of strategic vision as follows (van der Heijden, 1996):

- A clear and explicit rationale for achieving business success, focusing on building up "profit potential" (as distinguished from operational profit), by developing a reservoir of potentialities.
- A system for dominance, expressed as a commitment to excellence in a number of capabilities (more than two, less than ten) perceived as such critical factors of success that their importance tends to override everything else.
- Coalesced into a unique combination the above mentioned are then experiences as a strategic vision of what the company wants to be.

Inspired by Richard Normann, the notion of strategic vision was subsequently developed further at Shell into what van der Heijden (1996) calls the "business idea"[15]. The similarities between Pierre Wack's definition of "strategic vision" and the definition of "strategic logic" are apparent:

> Strategic logic refers to the rationale(s) employed (explicitly or implicitly) by decision makers in the firm as to how specific deployments of resources are expected to result in an acceptable level of attainment of the firm's goals (Sanchez, Heene, Thomas, 1996, p. 10).

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[15] Normann, 1975, introduced the business idea as a central concept in his work on management for growth.

The notion of strategic logic addresses both the issue of value distribution and value creation. The model of the firm as an open system developed in this dissertation separates value distribution and value creation. Both Wack (van der Heijden, ibid.) and Sanchez, Heene, and Thomas (ibid.) start their definitions from the rationale, which addresses the issue of value distribution. This part of strategic logic will be defined here as the corporate values (based on a definition of personal values by Zetterberg, 1992):

*Corporate* ***values*** *are generalized, but relatively enduring and consistent priorities of what the firm wants to be.*

The corporate values address two basic questions:

- who are the main stakeholders of the firm, and in which order shall they be served?
- how shall each stakeholder be served according to the corporate values?

The other part of the strategic logic addresses how demand and supply dynamics affect the firm's value-creating opportunities and how the firm creates value. This part of the strategic logic is referred to as the business model.

Bogner and Thomas (1994) notice that organizations have 'recipes and organizational routines' for approaching ill-structured problems. They note that as information emerges, existing 'recipes or routines' (Nelson, Winter, 1982) play an important role in the further development of the business. Similar findings have been reported in connection with the concepts of managerial dominant logic (Prahalad, Bettis, 1986), and managerial mind-sets (decision-making orientations) based on a firm's center of gravity (Galbraith, 1983). The business model establishes such recipes and organizational routines for the value-creating processes of the firms.

*The* ***business model*** *defines the value-creation priorities of the firm in respect to the utilization of both internal and external resources for the purpose of creating value for and with customers. The business model is in itself subject to continual review as a response to actual and possible changes in perceived business conditions.*

According to the above discussion, corporate values are superimposed on the business model; in turn, the business model is superimposed on the value-creating processes. All three concepts will be discussed in the following.

### *2.1.1 The purpose of the firm as an open system; corporate values*

Sanchez, Heene and Thomas (1996) defined goals as a set of interrelated "gap-closing" objectives, which motivate a firm's decision making and guide its competence-building and competence-leveraging activities. Goal-seeking behavior of firms is motivated by a desire to improve the states of the firm's system elements; specifically in the form of closing gaps between the perceived and the desired states of any of these elements (Sanchez and Thomas, 1996).

A critical question here is to what extent a gap can be clearly identified and communicated. If the ambition of the firm is to search for new knowledge (yet unknown), then a clear future state cannot be explicitly recognized, much less communicated. In such a case, goals can only be expressed as processes in order to deliver some outcomes in the form of new knowledge. Such a situation requires new, adaptive, goal-formulation perspectives. Van der Heijden (1996) addressed this issue by stating that "organismic" organizations need to adopt the idea of the learning loop and build up related capabilities for perception, reflection, the development of theories about the environment, and joint action. The learning loop model interlinks thinking and action. If action is based on a mental model, then institutional action must be based on a shared mental model.

Stacey (1993) also addressed the issue of goal formulation and innovation. He claimed that if a firm is operating in the border area between stability and instability, as it must if it is to innovate, then any decision-making process that involves forecasting (envisioning future states) will be ineffective.

As things change rapidly and unpredictably, more attention needs to be paid to the strategy process. Success is based on having the "most skillful strategy process" instead of the "optimal strategy" (van der Heijden, 1996). Normann and Ramírez (1993) reached the same conclusion by noticing that the strategic goal of a firm is to create an ever-improving fit between competences and customers.

Recognizing the growing importance of the search for knowledge, or learning, two different ways to formulate goals can be defined:

- goals as future states of the firm's system elements (to meet the goals, necessary processes will be defined in order to reach these states)
- goals as processes, which are expected to generate activities and outcomes congruent with aspirations expressed in the corporate values.

Hamel and Heene (1994) seem to support the process view when they state that strategic management has less to do with the search for 'defensible' sources of competitive advantage than with the search for sources that allow for a continuous renewal of the competitive position. Knowledge as such is not a defensible source of competitive advantage; rather it is the processes of 'knowledge creation' and 'knowledge engineering' that have to be considered to be the ultimate sources of competitive advantage.[16]

If the goals of the firm can be defined as processes which generate new knowledge, which in its turn affect later goal setting, then one conclusion is that external stakeholders implicitly are participants in the goal-setting process of the firm. The choice of which external stakeholders the firm interacts with thus becomes an issue not only regarding the present value-creating activities, but also in the establishment of its future goals. Normann (1975) made the same reflection. He noticed that the way the company will "choose" which part of the external environment to interact with has considerable impact on the process of growth and knowledge development in the company.[17]

If the firm takes a more adaptive approach to its goal formulation, the question is where the direction is set regarding the processes and activities that have to take place in order to bring the firm forward. Ackoff (1970) was addressing this issue when discussing adaptive planning. A firm following the adaptive approach operates largely through the manipulation of incentives and seek compatibility of collective, unit, and individual objectives. Subsequently there is a need to be aware of, and responsive to, values held by the organization as a whole, its parts, the individuals who make it up, and those organizations and individuals in its environment whose behavior affects the system planned for. The adaptive approach also requires understanding the dynamics of values: the way values relate to needs and their satisfaction, how changes in needs produce changes in values, and what produces changes in needs (Ackoff, ibid.). Churchman (1968) also discussed values extensively when considering system objectives.

Zetterberg (1992) identified six sociologically derived values that can be called cardinal values, four of which are relevant in business (pursuit of wealth, search for knowledge, civic virtue, and beauty). To these can be added two additional values, which are arguably of a more biological and psychological nature: survival of the firm and a sense of belonging - which is particularly relevant for the employees. A firm's six cardinal values are then here suggested to be: pursuit of wealth, search for knowledge, civic virtue, beauty, survival, and belonging.

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[16] Sanchez, Heene and Thomas (1996, p. 14) see competence-based competition as a state of perpetual corporate entrepreneurialism. Continuos learning about how to build new competences and leverage existing competences more effectively becomes a new dominant logic for lending strategic coherence to firm processes.

[17] Sanchez and Thomas (1996, p. 77-78) state that flows of new intellectual resources are also essential to competence building and eventual competence leveraging and that accessing resources outside the firm is a fundamental process in competence building.

An important step in formulating goals it to rank a firm's major stakeholders on the basis of these six cardinal values. The matrix in Figure 4 offers a framework for this comparison. The first cardinal value, wealth, relates to "value distribution", which is well recognized in the strategy literature. But the other cardinal values can also be approached from a similar "distribution" perspective.

| **Values** / **Stakeholders** | *Wealth* | *Knowledge* | *Civic virtue* | *Beauty* | *Survival* | *Belonging* |
|---|---|---|---|---|---|---|
| *The company itself* | | | | | | |
| *Owners* | | | | | | |
| *Customers* | | | | | | |
| *Employees* | | | | | | |
| *Society (= other stakeholders)* | | | | | | |

*Figure 4 A matrix for firm values (Wallin, 1998d)*

One decision managers must make when formulating goals in light of values is to consider whether all of these stakeholders are important to the process at the time they are considering reformulating their goals.

When evaluating the values of the firm it should also be noted that there is a cultural bias towards our interpretation of values. The values are part of the culture and affect how offerings are used in a society, provide positive and negative valences for brands and for communication, and define acceptable market relationships. Personal values are based upon the core values of the society in which the individuals live, but modified by the values of other groups to which they belong and their own individual life situations (Engel, Blackwell, Miniard, 1987, pp. 362-365).

The balance between the first two values of Figure 4 - pursuit of wealth and search for knowledge - influences to what extent the goal setting of the company is short or long term, and whether goals are stated in terms of future states of processes. Today, defining goals in financial terms is the prevailing goal-setting model for most firms. De Geus (1997) calls such companies "economic companies". However, there is an increasing interest in the notion of the learning organization (Senge, 1990; de Geus, 1997) as an alternative model to the “economic company”. These companies de Geus call living companies. Such companies, like all organisms, exist primarily for its own survival and improvement: to fulfill its potential and to become as great as it can be (de Geus, 1997, p. 11).

Löwendahl and Haanes (1997) analyzed a firm organized around projects with clear objectives. The conclusion was that the project organization was too objective-oriented and killed creativity. Creativity had been connected to reaching pre-set goals, not to identifying new possibilities. Therefore focusing mainly on organizing around activities proved to be less suitable for competence building. Their recommendations were that emphasis on goal orientation and strategic direction may in fact be more important than ever, but they need to be manifested in terms of shared values[18] and commitment rather than formal structures. Amos and Saetre (1998) also refer to shared visions and shared values as part of a relatively stable inner core of a gyroscope, on which agile organizations develop their capabilities. A similar perspective has been presented by Hamel (1996, 1998).

The role of corporate values in learning organizations takes the form of a fairly broad, long-term direction, providing some coherence in a large organization. (Becoming more customer oriented, for example, is a "broader" goal than a profit target.) Such broad, or ‘umbrella’ (Bogaert, Martens, van Cauwenbergh, 1994) goals, refer to a (higher-order) purpose of a corporation and the domain in which this purpose is to be realized. The major aim of this 'umbrella' is not to direct the firm's strategy towards a pre-determined outcome. It guides the motivation of participants whose contribution in the strategic actions is needed and distinguishes what is considered possible from what is considered impossible.

The performance measures are fairly straightforward if the objectives of the firm have been expressed as states or outcomes. Whether the goals have been reached or not depends on whether the states or outcomes have been reached. Even if the primary objectives are in process terms, there are secondary objectives which are in the forms of states, e.g. the firm has to reach certain financial objectives in order to avoid insolvency. The performance on such objectives can be measured through the states even for a firm stating its primary objectives in process terms.

Regarding the process-related objectives de Geus (1997) introduced the notion of the "living company". In these companies return on investment still remains important, but managers regard the optimization of capital as a complement to the optimization of people. The company itself is primarily a community. Its purposes are longevity and the development of its own potential. Profitability is a means to that end. De Geus argues that a living company has to produce both

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[18] The importance of values can be argued to increase (Zetterberg, 1992). Quinn (1992), and Kotter and Heskett (1990) have found considerable positive profit impacts of values management.

profitability and longevity. To do this it must focus on various processes for building a community: defining membership, establishing common values, recruiting people, developing their capabilities, assessing their potential, living up to a human contract, managing relationships with outsiders and contractors, and establishing policies for exiting the company gracefully. The performance measurement for a system with such a multitude of goals is not trivial. The notion of "The Balanced Scorecard" (Kaplan, Norton, 1996) is an attempt to address this issue.

### *2.1.2 The recipe for value creation; the business model*

Sanchez and Heene (1997b) have noticed that a firm's ability to learn and acquire new capabilities may be more important determinants of its competitive success in dynamic markets than the firm's current endowment of unique resources or the industry structure it currently faces. Connecting existing internal capabilities with external capabilities provides the firm with opportunities to learn new capabilities (competence building) and to enhance existing capabilities (competence leveraging). Normann (1977) referred to the same phenomenon when talking about "actors concerned with learning" and "actors concerned with stability or exploitation".

The competence-based perspective (Sanchez, Heene, Thomas, 1996, Sanchez, Heene, 1997a, Heene, Sanchez, 1997) approaches the question of competence building and competence leveraging through the formulation of goals, which guide these competence-building and leveraging activities.

The competence-based perspective recognizes that creativity by definition means that the outcomes cannot be defined ex-ante in terms of states of the firm. The only way to enable creativity is to provide processes that will increase the probability that creativity will take place. An innovative firm therefore has to be much more focused on managing processes and continuously adopting its behavior to new knowledge resulting from its learning processes. Learning thus can enable the firm to exploit temporal imbalances in the marketplace faster than the competition. In the core competence orientation the first step, according to Hamel (1994), is to select core competences. In a learning context it can be difficult to select the future competences ex-ante. Competences emerge based on the test that they provide future customer-perceived value, which is not a completely controllable variable. Mintzberg (1990) has made the same reflection:

> Might competences not also be distinctive to time, even distinctive to application. And can any organization really be sure of its strengths before it tests them, empirically?...Every strategic change involves some new experience, a step into the

> unknown, the taking of some kind of risk. Therefore, no organization can ever be sure in advance whether an established competence will prove to be a strength or a weakness.

A firm emphasizing learning, accepts and encourages the business model to be updated dynamically and changed in pace with the changes in the environment that make the previous model out of date. Constantly changing the business model is, however, not a goal in itself. On the contrary, the cost of changing the business model implies that the model should not be changed unless the benefits are greater than the cost of change. Understanding when and how to change the business model then becomes a possible competence.

Winterscheid and McNabb (1996) describe the evolution of AT&T's organizational configurations for developing telecommunications products as AT&T grew from a national to a global company. They characterize the transition from one evolutionary stage to another as motivated by the need to strike a new balance between maintaining "a tight match between product offerings and customer needs (in different national markets)" and achieving efficiencies in leveraging AT&T's technologies as widely as possible.

The learning perspective possesses a dilemma for the firm deciding on its value-creating activities. First, in which context does the best present cash-flow-generating opportunity through competence leveraging reside? Second, which offerings (with which customers) provide the best opportunities for learning and competence building? This dilemma suggests that the firm should choose different business models at different times.

The learning perspective of the business model raises the question of how competences or knowledge are acquired (Helleloid, Simonin, 1994, de Leo, 1994). Internal development, market procurement, inter-firm collaboration and merger and acquisitions have been suggested as ways to acquire knowledge. Several case studies have shown that customers can also be an important source for knowledge acquisition (Wallin, 1997a, Sivula, van den Bosch, Elfring, 1997). It has also been documented that mutual interaction between firm-specific resources and environment-specific resources (e.g. country-specific) have an important impact on how competences geographically cluster (Kogut, 1991, Porter, 1990). The question here is, then, what knowledge to acquire so this new knowledge can be used to develop new offerings.

Another issue to be considered when developing the business model is the risks related to both competences and relationships. Here the firm also needs to include specific risk management features in making the decision on which business model to choose.

Firms can approach the definition of the business model in two ways. First, the customer demand for different types of offerings can be the business model's driver. An alternative view is to focus more on the supply side, seeing the firm's resources as drivers for value creation. Resources include capabilities, as well as other forms of useful and available assets (Sanchez, Heene, Thomas, 1996). Of particular interest in this study is the role capabilities play within the business model. Accordingly, depending on whether the firm emphasizes activities focusing on existing or new customers and capabilities, the framework depicted in Figure 5 will evolve.

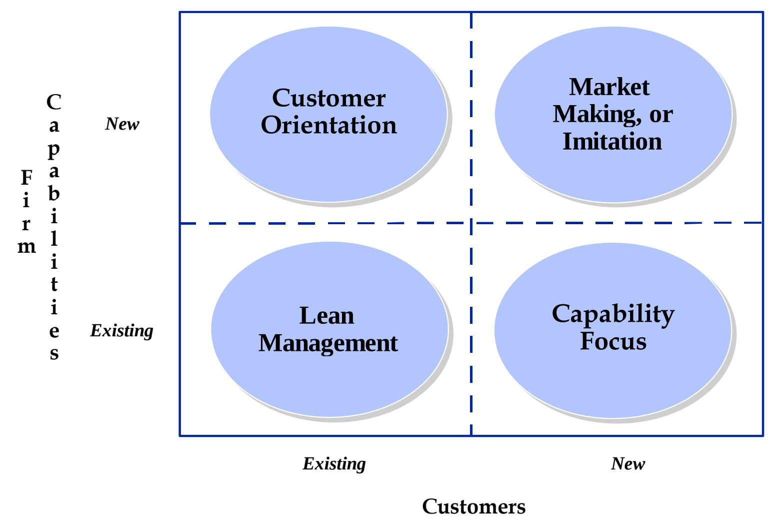


*Figure 5 The capability development options within a business model*

The firm has at its disposal different alternatives when it chooses to develop its business model. One of the four options that can be emphasized within the business model is ***customer orientation***. Microsoft, for example, stated a need to strengthen the customer orientation part of its business model:

> In the long run, Microsoft's got to get most of its revenue from repeat customers rather than new ones. That's a fundamental shift in our business model, and we have to start to change ourselves, our products, and our strategies now to be able to do that. (Bill Gates in Schlender, 1995)

Applying a customer-oriented business model means that the firm starts from its existing customers, and continuously develops its capabilities to serve these chosen customers. This does not mean that existing customers cannot be served by leveraging capabilities; this alternative, however, would be called lean management (see below).

Another positioning alternative, ***capability focus,*** uses the existing resource base as the main driver for developing new business. Capability focus looks to develop new applications and offerings based on the existing capabilities of the firm. Lorino and Tarondeau (1998) have described how one firm, Port Express, chose capability focus as the priority of its new business model.

A third positioning alternative is to see the development of new business as one of developing simultaneously both new capabilities and new customer preferences. This can be called ***market making*** if the capabilities are genuinely new in the market place. If the capabilities are new to the firm, but already exist in the market place, then this can be referred to as ***imitation.*** The notion of market making has been borrowed from Nokia. Kulkki and Kosonen (1999) suggest that market making is applicable under the following conditions:

> (i) Very rapid growth and turbulence, in an environment with
> (ii) highly competitive and also co-opetitive behavior of companies that
> (iii) are aiming at creating new businesses, when
> (iv) product life cycles are very short, and there is
> (v) strong standardization- and technology-based competition.
>
> These tendencies emphasize the importance of
>
> (vi) right timing, as well as
> (vii) speed of bringing up new innovations into the global market place.

In almost any business model a substantial part of the business is to provide existing customers with existing solutions. The fourth priority, ***lean management,*** stresses continuous efficiency improvement within the existing business and management processes of the firm (Womack, Jones, 1994).

Single firms change their business model priority over time. In the beginning of the 1900s, Ford could be described as a genuine market making company. The automobile clearly changed the way society worked, and Ford drove this change. In the 1920s General Motors developed sophisticated ways to leverage capabilities through new ways of organizing and marketing. As the 'industry' which Ford's original market making created matured, car manufacturers around the world began consolidating and became more and more alike in how they operated, giving way to the lean management focus we see today. The Smart initiative by Daimler-Chrysler is a first effort to re-enter the market making mode. Other car manufacturers try to strengthen their hold on existing customers through customer relationship marketing efforts (like car owners' clubs). And most producers aim at leveraging their capabilities all over the world (e.g. through integrated distribution networks). Any business model thus often includes a combination of customer orientation, market making, capability focus, and lean management.

### *2.1.3 The value creating process*

Value creation stems from a combination of three ideas (van der Heijden, 1996, p. 60):

- Discovering a new way of creating value for customers.
- Bringing together a combination of capabilities, which creates this value.
- Creating uniqueness in this formula in order to appropriate part of the value created.

Sanchez and Heene (1997b) and Khanna, Gulati, and Nohria (1998) have noted that networks of firms sometimes function like competence alliances. In such alliances, firms enter a succession of short-term collaborations for the explicit purpose of more quickly reconfiguring and maximizing a temporary pool of resources to take advantage of short-lived market opportunities (Sanchez, 1995). Using the notion of "offering" instead of "product" enables a better understanding of the dynamics of such competence alliances. The notion of offering explicitly addresses the issue of value co-production (Ramírez, 1999), recognizing that both customers and suppliers can learn through the interaction manifested in the offering.

The idea of defining the offering as the matching of a technology and a market has long existed (see e.g. Johnson, Jones, 1957). The notion of value constellations provides for the extension of the product/market notion along both its dimensions: in the supply or resource dimension to include capabilities and competences, and in the demand or market dimension to include and take account of individual customers' needs, as shown in Figure 6.

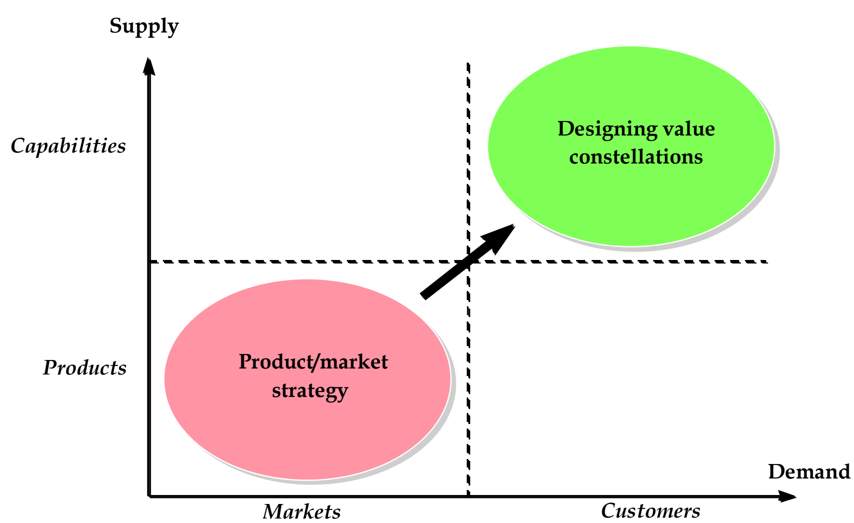


*Figure 6 From product strategy to designing value constellations (Wallin, 1998a)*

Extending the notion of product strategy into the view of designing value constellations was suggested by Normann and Ramírez (1993, 1994). This proposal was commented by Schön as follows:

> In the world of Normann and Ramírez´s value constellations...the distinction between product and service is irrevocably blurred, since all products carry a periphery of services on which their value depends, and the "hard" product core is better seen an embodiment of services contributed by the actors that have had a hand in its development... Relationships between provider and customer are increasingly to be conceived as ones in which the provider helps the customer create value - at the extreme, taking responsibility for the customer's bottom line. Customers, in turn, are to be conceived not as passive consumers of offerings but as active contributors to value creation: without their contribution, the value of the offering could not exist. Provider-customer relationships should be conceived not as one-way transactions but reciprocal constellations in which the parties "help each other and help each other to help each other". (Schön, 1994)

Designing value constellations means that the firm not only needs to consider to what extent the offering provides value to potential customers in the short term. The firm also has to reflect on how the established value constellation can be leveraged for later value creation. Based on this we can define value creation as follows:

***Value creation*** *is the process of co-producing offerings (i.e., products and services) in a mutually beneficial seller/buyer relationship. This relationship may include other actors such as sub-contractors and the buyer's customers. In this relationship, the parties behave in a symbiotic manner leading to activities that generate positive values for them. The actors brought together to interact in this process of co-producing value form a* ***value constellation****.*

The value constellation perspective addresses dynamic competitive environments, which have been perceived by some scholars (Sanchez, Heene, 1996) as not adequately covered by current strategy theory.

The notion of business model do then not just replace the traditional elements of the product/market perspective. In the product/market thinking the focus was on defining the best output strategy of the firm.[19] In value constellation terms offerings are both outputs and inputs, and the business model addresses this issue of value co-production. This interpretation also supports the suggestion by Mahoney and Pandian (1992) that the industrial organization view and the resource-based view are complementary perspectives.

[19] Product/market strategy (see Figure 6) considers the offering as an output. The product/market perspective is about maximizing the output. In the value constellation view the optimization of both Customer Value and the supplier's Exchange Value is considered (see section 2.1.3.3). The offering is regarded both from a transactional and a relationship perspective.

### *2.1.3.1 Capabilities*

The capabilities of an organization can be categorized based on whether they relate to the lower-order system elements or the higher-order system elements of the firm as an open system. The notion of higher-order and lower-order control loops (or feedback flows) introduced by Sanchez and Heene (1996) is here adapted to the categorization of capabilities. Sanchez and Heene (ibid.) define higher-order control loops as those monitoring and adjusting asset stocks and flows in a firm's higher-order system elements of strategic logic, management processes, and intangible assets. Higher-order control loops govern changes in a firm's managerial cognitions. Lower-order system elements refer to tangible assets, operations, and products in the world of Sanchez and Heene (ibid.).

The value-creation framework (Figure 2) depicts the “lower-order elements"[20] of the model of the firm as an open system (Figure 3). The value-creation framework can be used to categorize the capabilities of the firm that relates to "lower-order system elements" (Wallin, 1997a). Sanchez and Heene commented on this categorization as follows:

> Viewing customers as "co-producers"...helps to identify...four capabilities: the capability of the firm to develop and maintain relationships with its customers (relationship capability), the capability of the firm to design products that deliver value to customers (transformative capability), the capability to create new kinds of product performance (generative capability), and the capability to deploy both firm-specific and firm-addressable resources (integrative capability). Recognizing these four dimensions of competence provides a framework for both goal setting in competence building and developing insights into key aspect of industry change dynamics. (Sanchez, Heene, 1997b, p. 14)

The firm can also have capabilities that relate to "higher-order system elements". These higher-order system elements were in the model of the firm as an open system (Figure 3) identified as culturing, business modeling, and coordination.

The categorization of capabilities suggested here would thus consist of seven categories: relationship, transformative, generative, integrative, culturing, business modeling, and coordination capability. Each of these is discussed below.

***Customer-interaction capability***, or ***relationship capability***, is the capability to listen to and understand the customer, as well as the ability to communicate to the customer the value-creation possibilities of the firm, and to do so over long periods of time.

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[20] The capabilities of an organization can relate both to business and management processes. Business processes are "lower-order" system elements, whereas management processes can be both "lower-order" (e.g. production planning, delivery scheduling etc.) and "higher-order" (e.g. business model renewal, cultural change programs etc.).

Day (1990) divides the customer-interaction capability into two sets of capabilities: ***customer intelligence*** and ***customer linking***. Customer intelligence involves the processes for gathering, interpreting, and using market information. Customer linking include the well-defined procedures and systems that a firm uses to achieve collaborative customer relationships.

***Transformative capability*** refers to the ability to combine bundles of product traits that in terms of physical, service and people content have the threshold traits required by each customer and which can be offered at costs less than their perceived value-creating potential.

The central transformative capability is ***offering design***. The distinction between creation and design here follows the reasoning presented by Gorb (1990). He defines design as a planning process of artifacts (in our language offerings). By that definition, design is a key element in the planning process of the business. Design is separate from the innovative process. Innovation is the creative process. Design is the process that modulates, controls, and encourages the innovative and creative inputs into the business - something that makes innovation meaningful. Design acts as a thermostat for innovation, responding to the voices and views of customers, employees and capital investments. Design is therefore, according to Gorb (ibid.), a major driving force for both change and the rate of change.

***Generative capability*** is the ability to create new bundles of product traits that constitute firm-specific competences. Two important features of generative capability can be identified, ***innovation*** and ***execution***. Innovation was described in the previous section on design. Execution refers to the capability to perform according to set objectives and is closely related to the notion of efficiency.

***Resource-integration capability***, or ***integrative capability***, refers to the capability to deploy firm-addressable assets and capabilities inside and outside the boundaries of the firm/business unit. The resource-integration capability can be divided into ***internal integration*** and ***external integration.*** Internal integration has been discussed by Hamel and Prahalad (1994) who emphasize the need to extract value out of the management of interlinkages. They introduce the notion of an "enlightened collective strategy" to describe this. External integration refers to how the firm integrates its own resources with the resources of outside actors.[21]

The four categories of "lower-order" capabilities are illustrated in Figure 7.

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[21] External integration has been extensively discussed in connection with networks (Gomes-Casseres, 1994, Gulati, 1998), ecosystems (Moore, 1993, 1996) and value constellations (Normann, Ramírez, 1993, 1994).

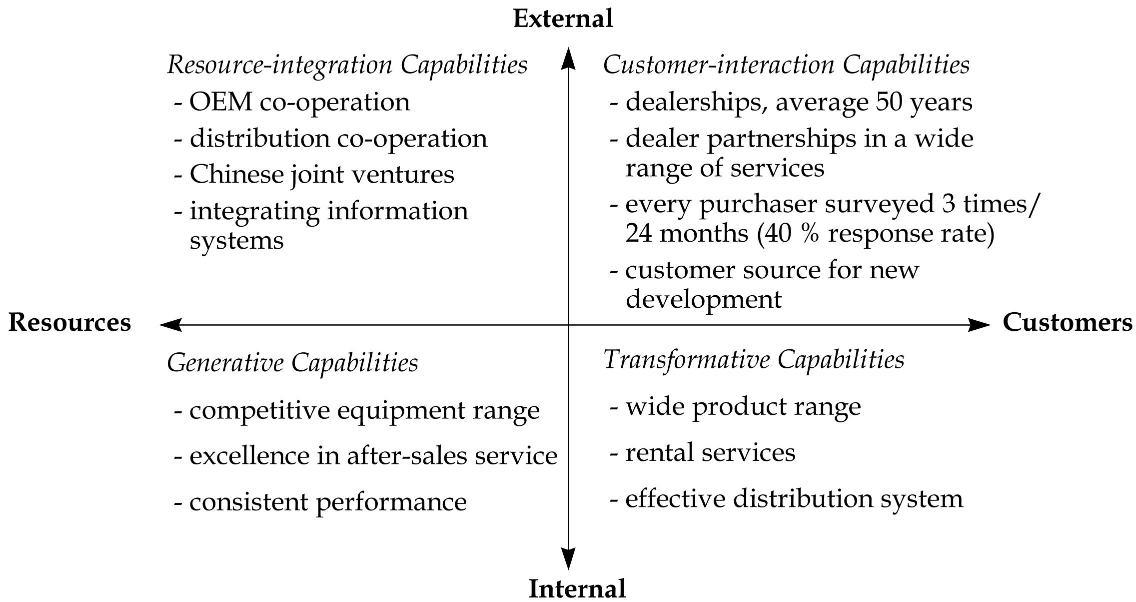


*Figure 7* *"Lower-order" capabilities, case Caterpillar (Wallin, Ramírez, 1996)*

"Higher-order system elements" can form capabilities in culturing, business modeling, and coordination. The process of recognizing, articulating, and shaping the values and culture within the firm is called ***culturing***. Culture has been defined by Schein as follows:

> A set of basic tacit assumptions about how the world is and ought to be that a group of people share and that determines their perceptions, thoughts, feelings, and to some degree, their overt behavior. Culture manifests itself at three levels: the level of deep tacit assumptions that are the essence of the culture, the level of espoused values that often reflect what a group wishes ideally to be and the way it wants to present itself publicly, and the day-to-day behavior that represents a complex compromise among the espoused values, the deeper assumptions, and the immediate requirements of the situation (Schein, 1996).
>
> The culture of a group is a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (Schein, 1997).

Based on the discussion by Schein (1997, pp. 228-253) regarding how leaders embed and transmit culture, two central aspects of culturing can be identified: ***socialization*** and ***role modeling***. Socialization refers to the explicit processes to pass over and teach the values and the culture to members of the organization (Schein, 1997). It includes transferring knowledge from one individual or a group to become knowledge for another individual or group (Nonaka, Takeuchi, 1995).

Role modeling involves how the leading actors demonstrate values and culture through their own behavior. Role modeling has a more implicit function of transmitting the values to the organization than socialization. Role modeling is here defined to include what the leaders pay attention to, measure, and control on a regular basis, how they react to critical incidents and organizational crises, how they allocate scarce resources, how they allocate rewards and status, and how they recruit, select, promote and excommunicate organizational members (Schein, 1997).

***Business modeling*** is the management process whereby the firm develops, prepares and makes decisions on its future business model. Sanchez and Heene (1996) have stressed the importance of understanding the mechanisms that need to be created to achieve coherence across the firm's many decision makers. They also note (ibid.) the need to understand both the benefits and potential liabilities for the firm as a system of following a single dominant strategic logic versus allowing many strategic logics to flourish within the firm. Business modeling capabilities would then have to address at least three parts relating to the development, preparation and making of decisions on business models: ***absorptive capacity***, ***conceptualizing***, and ***timing***.

Cohen and Levinthal (1990) define absorptive capacity as the ability of firms to recognize the value of new, external information and to add this information to their own knowledge base. In this dissertation the process capabilities relating to the processing of external information are seen as key elements in the definition of absorptive capacity. Having the right process capabilities provides the content, the "insight". The notion of insights was introduced by Hamel and Prahalad as follows:

> Foresight is based on deep insights into the trends in technology, demographics, regulation, and lifestyles that can be harnessed to rewrite industry rules and create new competitive space (Hamel, Prahalad, 1994, p. 76).

Hamel and Prahalad (ibid.) defined foresight as "the capability of management to recognize changes in the business environment and identify gaps between existing and future capabilities". Having a definition of foresight based on insights is problematic, as the insights will only materialize ex-post. "Insights" which at one moment of time look right, may later prove to be wrong. One such example is the case of NEC, which in the early 1990s was praised for insightful behavior. In 1999 the financial press reported that NEC had suffered extensive losses, and considerable management changes had taken place.

Conceptualizing refers to the capability of transferring the knowledge derived from absorptive capacities into actionable activities, as described in van der Heijden's (1993) "concept research" notion. Through conceptualizing, management develops actual business opportunities that exploit new ways to create value.[22]

Absorptive capacity and foresight has been connected by practitioners to the question of timing (Ala-Pietilä, 1998, Ollila, 1999).[23] Nokia has defined timing as "time when put in context of what to do", and considers timing as one of the cornerstones of "excellence in execution" (Ala-Pietilä, 1998). De Leo (1994) has noticed that timing and speed is a dimension of strategy which does not find a place in the traditional strategy frame. Eisenhardt and Brown (1998) use the notion of time pacing to describe a strategy for competing by scheduling change at predictable time intervals.

The need for coordination within competence-based strategic management has been stressed: (Sanchez and Heene, 1996, p. 40)

> Taking a systems view of learning suggests that competence-based competition is also, in a very fundamental sense, a contest among managerial cognitions and a test of adaptive coordination capabilities as firms vie to identify and develop those competences of greatest strategic value in dynamic competitive environments.

Managers gather and interpret data, make decisions, and initiate gap-closing actions (Garvin, 1995, Sanchez, Heene, 1996). Capabilities in this area can be called coordination capabilities when they relate to value-creating activities. These capabilities include both an internal perspective related to coordinating resources (***internal coordination***) and an external one (***constellation management***). In addition the process of closing gaps is a special form of coordination (***change management***).

Internal coordination renders the day-to-day management of the business possible. It includes financial, human resources, legal, and information management.

Value constellations are constantly changing. A firm designing or co-designing these must therefore have a management process to take care of its positioning within its value constellations. Constellation management involves deciding with whom to create value, determining the roles each actor will play in value constellations, including allocating accountabilities and responsibilities, and managing these relationships as a coherent system. Constellation management therefore includes the definition of the boundaries wherein the value-creating activities of the firm can take place.

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[22] Metaphors and analogues (Nonaka, Takeuchi, 1995) and scenario techniques (Schwartz, 1991, van der Heijden, 1996) are examples of tools for conceptualizing.

[23] For example the introduction of the Newton handheld computer by Apple has been mentioned as a product launch that came too early.

Change management entails making it possible for an organization to actually change from one business model to another. There seem to be an increasing awareness that change is difficult to preplan in detail according to the "unfreezing", "change", and "refreezing" metaphor. For example, Orlikowski and Hofman (1997) suggest an improvisational model for change management to encourage ongoing and iterative experimentation and learning, as they recognize that change is typically a process made up of opportunities and challenges that are not necessarily predictable at the start.

The categorization of both "higher-order" and "lower-order" capabilities is presented in figure 8.

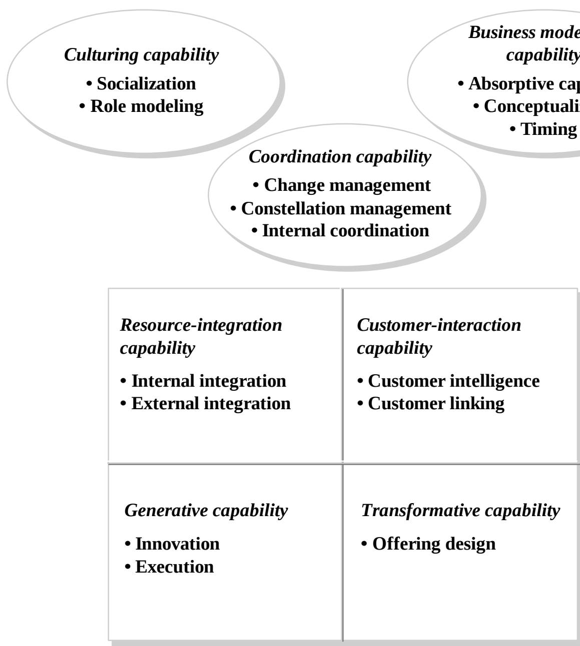


*Figure 8 A categorization of capabilities*

The competence-based strategic management perspective suggests that a firm must manage its competences as a system and avoid excessively focusing managerial attention on developing and managing a "single competence" judged by some criteria to be "core" (Sanchez, Heene, 1997b). Therefore, both the firm's "higher-order" and "lower-order" capabilities are critical to building, leveraging, and maintaining competences. The connection between capabilities and competence management can be charted based on the framework in Figure 9.

| Capability / Competence management | Culturing capability | Business modeling capability | Coordination capability | Resource integration capability | Generative capability | Trans-formative capability | Customer interaction capability |
|---|---|---|---|---|---|---|---|
| Competence maintenance | | | | | | | |
| Competence leveraging | | | | | | | |
| Competence building | | | | | | | |

*Figure 9 A framework for competence management (adopted from Wallin, 1998b)*

It is important to notice that a capability may be maintained or even developed, but still the competence may be lost, as the earlier cited example of the vacuum tube market showed. Even if the environment is not competence-destroying, maintaining competence requires efforts to overcome systemic tendencies to organizational entropy in the form of, for example, gradual decline in coordination capability or in the clarity of intentions that motivate an ongoing deployment of assets (Sanchez, Heene, Thomas, 1996).

Jenkins and Floyd (1998), studying Formula One racing, showed that when a racing team was successful it was unable to absorb enough new knowledge to maintain its success for a longer period. Creating the right mix of competence maintenance, leveraging, and building activities within the firm at a given moment is a critical success factor in assuring long-term profitability.

### *2.1.3.2 Customers as a source for value creation*

The classic argument for paying attention to customers was presented by Theodore Levitt in his seminal article “Marketing Myopia” in 1960. His argument was that the American railroads were in trouble because they assumed that they were in the railroad business rather than in the transportation business; they were product-oriented instead of customer-oriented. Still the first notion of a customer-oriented approach considered the value creating potential among customers on an aggregate level:

> The marketing concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors (Kotler, Armstrong, 1987, p. 15).

A market-driven organization, as defined by Day (1990), recognizes the importance of relative capabilities and competitive position, i.e. the competitive strategy of the firm (Porter, 1980, 1985). Porter stated that diversified companies do not compete; only their business units compete (Porter, 1987). The theory of competitive strategy suggests that the firm should deliberately consider its competition when formulating product strategies. The opportunity to neutralize the competition through the right combinations of transactions will create barriers to competition, which will improve the future position of the company.[24]

Somewhat different from the theory of competitive strategy, another trend in the field of marketing has been to put increased attention on the relationship between the supplier and its individual customers. This perspective gradually evolved from the field of service marketing into its own specific field of research called relationship marketing or customer relationship management.

Normann (1978) coined the metaphor 'the moment of truth' (later popularized by Jan Carlzon of Scandinavian Airlines, 1987) to refer to the 'personality intensity', meaning that customer perceived quality depends on the way people perform in the specific situation of service delivery (Normann, 1983). Grönroos (1978, 1983) noticed that the heart of service marketing is management of the buyer/seller interaction. The critical decision within service marketing is to determine how much to spend on improving service quality. Kaplan and Norton (1996, p. 71) argue that companies need to have financial measures, such as customer profitability, to help them from being customer-obsessed. Expenditures on quality have diminishing returns.

In the 1980s, service marketing was expanded into the field of relationship marketing[25], as customer relationships were seen as essential not only for service organizations, but for product companies as well. Relationship marketing assumes that to achieve optimal results, the firm has to simultaneously optimize both its own interests as well as the interests of the customer. Håkansson and Snehota (1995, pp. 384-385) describe this as follows:

> What makes the economy of relationships so special is indeed that a relationship has functions (has economic consequences) for several actors and thus that the outcomes of different relationships are interdependent...Thus it is not enough for any actor to be concerned just about itself in order to be successful, as is suggested in all recommendations based on market theory.

---

[24] At its extreme a competitive strategy develops into an almost obsessed focus on a single competitor, like Pepsi-Cola against Coca-Cola (Sculley, 1987, Barney, 1995), or Komatsu against Caterpillar (Hamel, Prahalad, 1994).

[25] Grönroos (1990, p. 138) goes even that far that he suggests a relationship definition of marketing:

> Marketing is to establish, maintain, and enhance (usually but not necessarily long term) relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises.

Relationships have to be managed in order to get the highest possible return on relationships (Gummesson, 1998). Several authors (Grant, Schlesinger, 1995, Reichheld, 1996) have suggested that a firm can realize the full profit potential of their customers by optimizing the relationship between the financial investment the firm makes in particular customer relationships and the return that customers generate based on the way they choose to respond to the company's offerings. Reichheld (1996) suggests that as a result of learning and familiarity the cost of serving the customer gradually diminishes. Simultaneously, as customers get to know their supplier and become more effective buyers, the full value they receive goes up. Over time cost declines and value increases.[26]

The competence-based strategic management school has shown examples of how client alliances may provide support for the firm’s competence building. In one example, the close interaction with the client in service delivery offered an opportunity for a business service firm to absorb knowledge from the client (Sivula, van den Bosch, Elfring, 1997).

ARM Holdings, a Cambridge-based semiconductor group seen as one of Europe's most promising new electronics groups (Cane, 1999) was analyzed by Lang (1997). ARM enters contractual licensing agreements with its customers. In October 1999, ARM had licensed its microprocessor design to 37 partners around the world, including most of the leading US and Japanese electronic groups. These companies make the chips and pay ARM royalties (Cane, ibid.). The key to ARM's success, according to Lang (ibid.), has not been as much the contracts as the “structure and culture” of the organizations’ teams involved at the boundary of the firms. Lang notices that organizations such as ARM may be seen as “adapting the internal structures” and “absorbing interdependencies” of their customer alliances with each partner interaction. There is a permeability at the firm boundary facilitated by the constant interaction of personnel (boundary spanners) between the firms. These exchanges constantly reshape a firm’s members’ perceptions of their own competences, update their knowledge of useful assets and capabilities, and suggest new ways of organizing and coordinating, all of which contribute to a process of continuous (alliance-) based competence building and leveraging (Easton and Araujo, 1996).

Based on new information technology, close interactions between the supplier and its customers are also no longer excluded from the consumer market. One-to-one marketing (Peppers, Rogers, 1993) in consumer retailing industries such as banking, telecommunications and food retailing has emerged due to increased

[26] Cooper and Kaplan (1991) found in one case that 20 % of the customers accounted for 225 % of profitability, and Storbacka (1994) found that 20 % of the customers in two retail banks brought close to 140 % of the total profitability of the customer bases.

opportunities to handle large amounts of data with the help of new database technologies. For example, Unisys introduced their "Customerize" marketing campaign in 1995, backed up with research about the role of information management in customer relationship management.[27] Ramírez (1999) argues that the 'value co-production' framework is needed as an alternative to views inherited from the industrial era. He encourages research on valuing customers as assets, and on how managers become responsible for developing these assets. Taking this perspective on customers as consumers creating value (even if they destroy goods in doing so) changes the focus of management's attention. From tracking what happens to the good after purchase, systems must be installed to track what happens to the customers' value creation (as well as the value creation of the customers' customers, if possible). This extends beyond satisfaction measures; satisfaction and quality may need to be lowered selectively, so as to manage the customer base asset effectively (Ramírez, ibid.).

#### *2.1.3.3 Offerings*

The role of products in a strategic perspective was already noticed by Ansoff (1965, p. 12). He stated that product policy is the major strategic focus for the firm and finance, personnel and production strategies are emanating from the basic product strategy. In the field of strategy, products have been traditionally seen as the "output" of an industry (Porter, 1980, p. 5), and the term "product" has then been used to describe both products and services (Porter, 1985, p. 233). In the interactive strategy framework (Normann, Ramírez, 1994, p. 27) the notion of "product" in the above sense has been replaced with the term "offering", emphasizing the role of the "offering" as the "input" to the value-creating process of the customer. Competence-based strategic management goes one step further by stressing the role of the offering as an "learning input" to the value-creating process of the supplier. Thus, the offering can be defined as follows:

*An **offering** is a limited set of focused human activity forming a three-dimensional activity package[28] which can, and is intended to, generate positive customer value and exchange value.*

The above definition acknowledges the view of Bennett and Cooper (1988) promoting that the essence of business is to deliver an offering which satisfies a need and whose market value exceeds its cost, and the definition also includes the elements of the "package" view on offerings presented by Corey (1975):

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[27] One of the findings from the Unisys research was that a high rate of customer retention is directly related to ease of access to customer information. Banks with retention rates over 90 % were twice as likely to characterize their customer information as easy to access and consistent across multiple databases (Unisys, 1995).

[28] Corey (1976), Levitt (1980), Wind (1982), and (Kotler, 1986) have also described the offering as a value package.

> The “product” is what the product does; it is the total package of benefits the customer receives when he buys. This includes the functional utility of the goods, the service that the manufacturer provides, the technical assistance he may give his customers, and the assurance that the product will be delivered when and where it is needed and in the desired quantities. Another benefit might be the seller’s brand-name and reputation; these may help the buyer in his promotional activities.

Another benefit that the customer may gain has to do with the range of relationships, technical and personal, that may develop among people in the selling and buying organizations. Particularly in industrial marketing, such relationships are normally part of the “package of benefits” that the purchaser is likely to buy (Hutt, Speh, 1998).

The three-dimensional activity package; the three axes of which can be labeled hardware, software, and peopleware corresponding to the physical, service and people content of the offering is illustrated in Figure 10. In keeping with Levitt’s (1980) and Bogner and Thomas (1996) view that an offering only has meaning from the viewpoint of the customer, different customers will emphasize different axes of the offering.

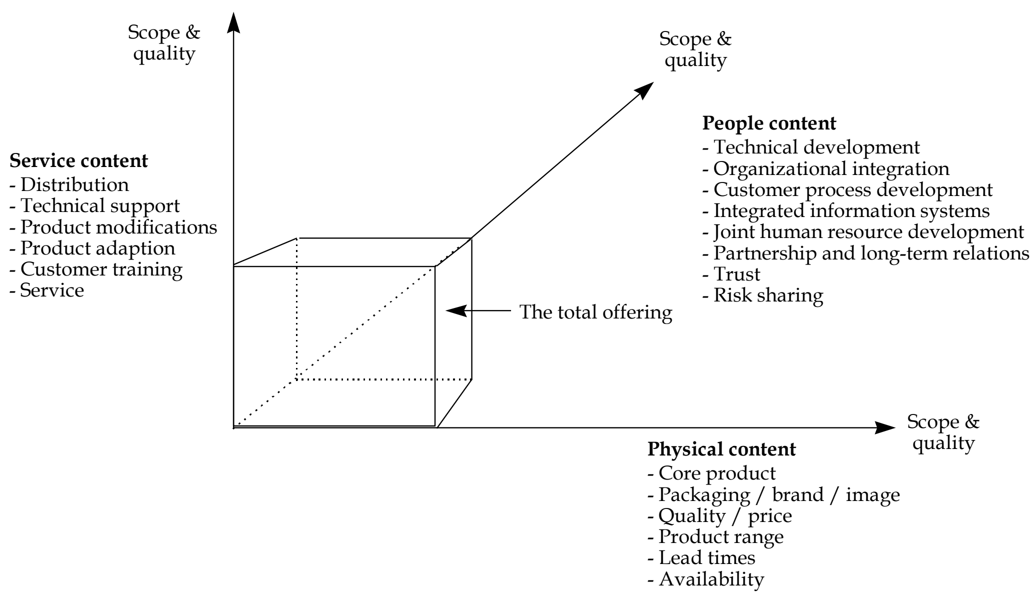


*Figure 10 The three-dimensional offering (adopted from Wallin, 1997a)*

The value-creating potential along each axis of the offering depends on the value-creating process of the customer. Two customers from the same segment may have completely different value-creating systems as, for example, General Motors and Toyota (see Treece, 1992). Ramírez (1999) listed elements a customer considers when determining the value of one particular offering. These elements include the three above-mentioned axes (physical goods, services and people). In addition, he includes risk-sharing and risk-taking formulae; access to, or usufruct of, systems and infrastructure; and information. Based on the concept of the three-dimensional offering and the suggestions of Ramírez, the Customer Value of one offering will be described here in accordance with Table 1.

*Table 1 The Customer Value equation (adopted from Wallin, 1998b)*

| *Code* | *Element* | *Content* |
|---|---|---|
| **NSC** | Net satisfaction contribution | Impact on the customer's sales revenues and/or profit (how well the offering supports the actual value creation activities of the customer) or in the case of eventual individual consumers, the contribution to the level of customer satisfaction (increasing levels of satisfaction or reducing levels of dissatisfaction, as the case may be). |
| **$C_1$** | Initial cost to the customer | The final, actual purchasing price. |
| **$C_2$** | Interface (or handling) cost | The cost to the customer to get the offering from the supplier to his own system (ordering, purchasing, transport, etc.). |
| **$C_3$** | Integration cost | The cost of the customer to integrate the offering into the customer's own system. |
| **$C_4$** | Lifecycle cost | The projected cost-in-use related to the offering during its utilization (operating and maintenance, financing, disposal costs, etc.). |
| **R** | Relative risk position | The risk that the supplier will go out of business due to bad credit rating or, more subjectively, the perceived risk (based on the level of reliance in the supplier, often represented by the supplier's individual sales person). |
| **L** | Learning/information-transfer advantages | The potential learning/information-transfer advantages for the customer, arising from the relationship with the supplier and enforced by and through the transaction. |
| **CV** | Customer Value | $CV = NSC - C_1 - C_2 - C_3 - C_4 + / - R + / -L$ |

Customer Value is the net satisfaction contribution[29] (NSC) less the costs for the customers to include the offering into his or her own value-creating process, adjusted for possible risk and learning impact. The life-cycle cost is included to enable the comparison between alternative offerings whose cash-flow or other time-dependent characteristics differ (e.g. buying or leasing a new car).

Co-productive value creation for customers contains two distinct perspectives: the 'single event'-transaction and the 'process'-relationship over time (which basically consists of a sequence of transactions). Focusing on individual transactions implies that each transaction should cover its own costs plus generate a margin.[30] In the relationship logic, customer relationships are seen as extending over time, and are often conceived of in terms of a 'life cycle'. The relationship logic doesn't solely focus on the profitability of individual transactions. It also considers the profitability of all the transactions involving one customer - in other words, all of the transactions that take place during the

[29] Net Satisfaction Contribution means that if the offering has elements that affects the satisfaction in a negative way (e.g. psychological "costs") these costs are deducted from "Gross Satisfaction Contribution" to get Net Satisfaction Contribution.

[30]See for instance Williamson, 1975, regarding a more detailed discussion of transaction costs.

life of the relationship between supplier and customer. In such relationships, some up-front seed investments might be needed to generate later revenues. The experience curve describes this phenomenon by illustrating that costs respond dynamically to “learning-by-doing.” Current costs, therefore, are not simply expended outlays but are, in part, an investment in lower future costs (Rumelt, 1994). Likewise, from the supplier's point of view, one can also assume that current costs to build customer relationships can be regarded as investments in higher future returns. For example key account management thinking recognizes that relationships evolve over time, with each specific transaction affected by the history of the relationship, and the relationship modified by each specific exchange (Ford, Håkansson, Johanson, 1986). Individual transactions will not only be affected by market considerations (price and product specifications), but also by relational or process factors (Szymanski, 1988), which require different key account management strategies to be adopted as the relationship evolves.

In a relationship-driven economy, the relative importance of value elements other than the purchasing price is increasing. Thus taking into account the other elements in the customer value equation becomes more important. This would apply to the supplier as well. The supplier’s Exchange Value (EV) can therefore be defined in a similar way to the Customer Value, as shown in Table 2.

*Table 2 The supplier's Exchange Value equation (adopted from Wallin, 1998b)*

| ***Code*** | ***Element*** | ***Content*** |
|---|---|---|
| **P** | Selling price | Identical with $C_I$ for the customer. |
| **RC** | Resource cost | The cost to the supplier to access and allocate the resources necessary to provide the customer with the offering. |
| **B** | Competitive blockage factor | The extent to which the transactions affects the future competitive position of the supplier in relation to its competitors. |
| **G** | Goodwill | The transaction’s customer-relationship-goodwill influence, which can affect later transactions with that particular customer or other customers. |
| **R** | Relative risk position | The risk that the customer will go out of business due to bad credit rating or, more subjectively, the perceived risk (based on the level of reliance in the supplier, often represented by the supplier’s individual sales person). |
| **L** | Learning/information-transfer advantages | The potential learning/information-transfer advantages for the supplier, arising from the relationship with the customer and enforced by and through the transaction. |
| **EV** | Supplier’s Exchange Value | EV = P - RC+ / - B + /- G +/ - R +/-L |

The resource costs in the Supplier's Exchange Value equation do not include the costs of building, leveraging and maintaining resources, as it is seen that these costs should be covered by the surplus generated from the sale of offerings. However, if a "full cost" allocation is applied, the resource costs should include these costs as well.

Lane and Lubatkin (1998) have addressed the firm's ability to learn from another firm. They argue that this learning ability depends on the similarity of the parties' (1) knowledge bases, (2) organizational structures and compensation policies, and (3) dominant logics. They found that the similarity of the partners' basic knowledge was positively related to interorganizational learning. This suggests that the inclusion of the learning element into the supplier's Exchange Value equation implies that the customer base has to be analyzed in its entirety in order to clarify the relative absorptive capacity related to each individual customer within the customer base.

Kim and Mauborgne (1998) note that creating and sharing knowledge can not be forced out of people. Without trust and commitment, voluntary cooperation is hardly obtainable. They introduce the notion of procedural justice or fair process to highlight the need for having the right processes between individuals to form a team that engages in knowledge creation and sharing. The learning advantages from a customer relationship thus depend both on the knowledge content (what knowledge the customer possesses) and the knowledge process (how well a fair process can be established).

Creating value means that the offering's "leverage value" or "capability in-use enhancement" for the buyer (i.e., Customer Value) as well as the supplier's Exchange Value must both be positive. The supplier's Exchange Value has to be considered in the context of the total offering set offered to the customer. That is, it must take into account not only the immediate cash flow impact of the single transaction, but also the potential future revenues derived from that particular transaction. Pricing can be either transaction or relationship based.[31]

Normann and Ramírez (1993) state that in a world where value occurs not in sequential chains but in complex constellations, companies do not really compete in the same way anymore. Rather, it is offerings that compete for the time and attention and money of customers. Stabell and Fjeldstad (1998) show that as a matter of fact some companies, such as telephone companies, provide offerings where the network and the number of other customers within that network is a critical driver of Customer Value. They note that firm strategy might involve choosing what value creation logic to emphasize. They conclude that there is probably a need for a new look and additional empirical work that explores the issue of the choice of value configuration from a firm-level strategy and strategic perspective. The process of business model renewal addresses this issue.

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[31] The maximum price (P) for one transaction is the net satisfaction contribution (NSC) less than the interface cost ($C_2$), integration cost ($C_3$) and life cycle costs ($C_4$) adjusted for possible risk (R) and learning (L) impacts of the transactions. The price and the costs can exceed the NSC if the learning element (L) has a positive value.

## 2.2 Business model renewal

*Business model decisions are complex. The environment affects the objectives, the admissible alternative courses of action, and the degree of uncertainty about the outcome of each course of action. Three issues are of importance when considering business model renewal. The first one relates to how the decision on the business model emerges and is made. The second is about the choice of business model, and the third relates to how the new business model is implemented. All three issues are interdependent, and ultimately business model renewal reflects all three elements. In the following each of the three elements are combined into a model of business model renewal.*

### 2.2.1 The decision-making process

Strategic change, such as changing the business model, can be approached from two perspectives: (a) whether initiated by top management, or is originating from some lower level of the organization, and (b) whether it is proactive or reactive[32]. Combining these perspectives results in four types of decision-making processes:

(i) top-down, proactive decision-making process
(ii) top-down, reactive decision-making process
(iii) bottom-up, proactive decision-making process
(iv) bottom-up, reactive decision-making process

(i) Strategic management has implicitly implied a proactive decision-making process from the top. Ansoff (1965) regards the choice of strategy and the formulation of policy as a decision process where first goals are established, after which alternatives are evolved and a choice made among them, possibly after some adjustment in the original goals. A similar approach has been suggested within the competence-based strategic management perspective. Goals are here defined as a set of interrelated "gap-closing" objectives which motivate a firm's decision making and give direction to its competence-building and competence-leveraging activities (Sanchez, Heene, Thomas, 1996).[33]

(ii) Hamel (1996) has questioned the strategic planning paradigm and proposes that the strategizing process has to involve all levels of the organization in order for the company to identify the revolutionary ideas and the unconventional strategic options. But he argues that even if the strategic revolution doesn't need

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[32] Nadler and Tushman (1989) have typified strategic change according to two dimensions: type of change (proactive and reactive) and extent of change (incremental and transformational). Business model renewal is transformational change.

[33] The goal-seeking behavior of a firm is seen to be motivated by desires of managers and others in a firm to improve the states of the firm's system elements, and specifically this takes place in the form of closing a gap between the perceived and the desired state of any of the firm's system elements (Sanchez, Thomas, 1996).

to start at the top, it must ultimately be understood and endorsed by the top. The role of top management is to enable an open-ended and inclusive process of strategy creation which substantially lessens the challenge of implementation.

Normann (1977) also expressed doubts of the idea of planning as a decision process in which the decision-maker first formulates goals and then generates alternatives. Instead he suggested a "process approach", according to which the planner does not formulate his goals as future states he wishes to achieve; instead he formulates a vision of a future state, a vision based on insights at present available. Starting from this vision, he decides upon one or two first steps in a process. When these steps have been taken the experiences they generate should be evaluated and the vision adjusted in light of the new state of knowledge. Further steps in the process can then be decided upon.[34]

(iii) The bottom-up proactive process is best exemplified by 3M. The company has institutionalized procedures which are intended to stimulate activities that will generate new offering ideas and subsequently a stream of new businesses. As Mr. Roger Appeldorn, the inventor of the first microreplication offering (lenses for overhead projectors), explains the development of microreplication:

> We didn't sit down and say, 'Microreplication is the next thing to do; let's go do it.' It doesn't work this way. It evolved. It reached a critical mass, and it suddenly proliferated. (Stewart, 1996)

Beginning with a simple lens for overhead projectors in 1964, microreplication has in 3M spawned a billion-dollar family of offerings that range from mechanical fasteners to brightness-enhancing film for laptop computer screens. The management of 3M sees the role of management as provider of an environment that frees the imagination.

> Innovation tells 3M where to go; 3M don't tell innovation where to go (L.D. DeSimone, CEO of 3M in Stewart, 1996).

(iv) Bogaert, Martens, and van Cauwenbergh (1994) have shown that, in several empirical studies, strategy processes are typically fragmented, evolutionary and largely intuitive (see e.g. Quinn, 1980; Smith, Child and Rowlinson, 1990). They also notice that the assembly of strategic assets often occurs without a clear perception of the relevant strategic field. Subsequently strategy can be analyzed as a sequence of tasks deduced from problems merging at (relatively) unpredictable points in time. These findings weaken the assumptions that (i) an

[34] van der Heijden (1996) supports a "processual view on strategy". He states that business success cannot be codified, but requires an original invention from the people involved. The role of top management is to make sure that the organization gets into a loop linking action, perception and thinking towards continual learning. This "processual" paradigm sees the organization as a complex adaptive system. It is open to the outside world, and adjusts its activities according to what it discovers there.

organization's strategy inherently refers to long-term objectives and fits the organization's mission and (ii) the idea that analysis (resulting in strategy formulation) can be completed before the action (or strategy implementation). According to Bogaert, Martens, and van Cauwenbergh (ibid.) strategy should be considered as a dynamic short-term oriented situational assembly. In their view, contrary to a large stream in the strategic management literature, strategy has much more to do with the short term. Short-term objectives do not necessarily imply short-term effects. A firm's short-term response to a suddenly perceived external change may limit or promote future strategic actions. The notion of strategic windows (Abell, 1978) supports this view. Therefore short-term objectives, arising from suddenly perceived situations, may result in long-term commitments of resources. Barney (1995) supports a similar view by noticing the importance of path dependency and numerous small decisions in the development of competitive advantage. A well documented case of this type of behavior is the success of Honda in the United States (Pascale, 1984).

If the decision on the business model of the firm can emerge in different ways there is still the question of what triggers the decision, or how occasions for making a decision emerge. Normann (1977) and Tregoe and Zimmerman (1979) used the term “driving force” to describe the reasons behind the decisions. The driving force impacts and influences the nature and direction of the organization, and provides the basic means for thinking about alternative futures and what each might mean in terms of offerings, markets, capabilities, and return.[35] Normann (1977) distinguished between natural driving forces which refer to the impetus that arises without any active initiative on the part of the company's management, and driving forces which result from a direct expression of management's will.[36]

### *2.2.2 Choosing the business model*

The firm has to accomplish two interrelated tasks; it has to manage its current operations effectively and it must be able to change these operations, to continually meet shifting future demands (Abell, 1994). In managing this dilemma[37], the firm in its decision on the business model has to consider on the

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[35] Day further developed the concept of driving forces. He suggested that the driving force can come from any one of six strategic areas. Each area is an essential ingredient in the success of a business, but only one acts as a driving force. According to Day the six areas are: products offered, market needs, technology, production capability, method of distribution and sale, and control of raw materials. Day (1984)

[36] Normann identified four kinds of natural driving forces. One kind of natural driving force is built into the technology or business idea. Another kind is due to various interdependencies in the external environment. A third kind of driving force springs from disturbances and variations in the external environment, which can trigger growth intended to stabilize the conditions under which the company has to operate. Finally, a fourth kind of driving force is connected with certain aspects of the power system and the value system in the external environment. (Normann, 1977)

[37] See Hampden-Turner, 1990, for a thorough description of dilemmas, which he describes as seemingly incompatible choices that have to be reconciled.

one hand immediate value creation for customers, which primarily asks for competence leveraging, and on the other hand more long-term resource development, wherein competence building is a central element. This balancing act becomes even more challenging in hypercompetitive[38] environments. Volberda (1996) has analyzed this issue of simultaneously addressing change and preservation[39]. He defines flexibility as the degree to which an organization has a variety of managerial capabilities and the speed at which they can be activated to increase the control capacity of management and improve the controllability of the organization. Flexibility involves the creation or promotion of capabilities for situations of unexpected disturbance.

The model of the firm as an open system (see Figure 3) identified five linkages affecting the business model. A sixth one is the business model itself, as it was noted that the business model itself is subject to continual review. The elements affecting the business model decisions are:

- internal resources, including the decision makers within the firm,
- external resources, including the owners (often represented through the board),
- feedback from the value-creating process (including customer feedback),
- business intelligence activities,
- corporate values, and
- the old business model, and its appropriateness in the light of the five above-mentioned elements.

The choice of the future business model thus depends on the resources available for the firm, the decision-making philosophy in the firm, the competitive environment, the firm's values and objectives, and the present business model.

Ackoff (1970) has suggested three decision-making philosophies: 'satisficing', optimizing, and adaptivizing.

'Satisficing', according to Simon (1960), is to designate efforts to attain some level of satisfaction, but not necessarily to exceed it. To 'satisfice' is to do "well enough", but not necessarily "as well as possible". The 'satisficers' normally sets objectives and goals first. In resource planning most 'satisficers' are preoccupied with one resource, money.

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[38] Hypercompetitive environments are characterized by short periods of advantage punctuated by frequent disruptions (D'Aveni, 1994).

[39] Volberda (1996) introduces the notion of "the paradox of flexibility" to describe the constructive friction between change and preservation.

In optimizing an effort is made not just to do well enough, but to do as well as possible. The optimizer tries to formulate corporate goals in quantitative terms and to combine them into a single measure of overall corporate performance.

Adaptive planning was coined by Ackoff (1970).[40] Adaptive planning has three main planks in its platform (Ackoff, ibid.):

- It is based on the belief that the principal value of planning does not lie in the plans but in the process of producing them.
- The principal objective of planning is to minimize the future need for retrospective planning, that is planning directed toward removing deficiencies produced by past decisions.
- The knowledge of the future can be classified into three types: certainty, uncertainty, and ignorance; each requires a different kind of planning: commitment, contingency, and responsiveness.

Depending on the decision-making style of the firm, it may come up with different outcomes even if the inputs to the decision are similar. It is also possible that situational and context-specific factors will guide the decision makers in different directions at different times.

If the firm follows a 'satisficing' philosophy the probable route is to change business models as seldom as possible; as long as the business model is 'satisficing' the firm's goals it is good enough. As changes in the business model cause additional costs, the 'satisficing' principle can be effective. The risk with the 'satisficing' approach is that the firm is not alert enough. It may miss radical environmental changes, which will take it by surprise at some stage. In general a 'satisficing' approach seldom produces a radical departure from the past.

Decision making according to the optimizing approach emphasizes quantitative expressions of the rationale for the decisions. This philosophy probably generates more frequent changes in the business model. The constant search for the optimal solution will force changes once there are external changes big enough to prove that the business model is no longer optimal. The restrictions relating to the optimizing philosophy is that it tends to ignore goals that cannot be quantified. Optimizing is also more focused on the external conditions of the firm, and less so with the internal development processes and resources (which are more difficult to quantify).

The adaptive approach is more of a continuous process, whereby the business modeling process constantly updates its perspective on the environment and the

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[40] Adaptation is a response to a change (stimulus) that actually or potentially reduces the efficiency of a system's behavior, a response which prevents that reduction from occurring.

future. This means that plans are updated and re-evaluated when necessary. The adaptive approach requires a rather extensive planning effort. The optimizing approach mostly takes the system structure for granted and seeks a course of action that best solves the problem. The adaptive approach tries to change the system in such a way that more efficient behavior follows "naturally". Ackoff concludes his discussion about planning philosophies with the comment that the more one pushes from 'satisficing' toward adapting, the greater the requirement for scientific methods, techniques and tools (Ackoff, 1970).

Decisions on business models are affected by elements such as external and internal incentives to change, inertia and cost of change, goals of decision makers and decision-making style. How these different elements come together in the ultimate decision depends on the systemic interdependencies within and outside the firm. Decisions on business models have to strike a balance between these interdependent and often conflicting elements.

The competitive situation can be expected to have an impact on the discretion of management to choose between different alternatives. Hitt and Tyler (1991) investigated this particular phenomenon. They defined three different perspectives of strategic decision making:

- The rational normative model of strategic decision making suggesting that executives examining the firm's external environment and internal conditions and using the set of objective criteria derived from these analyses, decide on the strategy.
- The strategic choice model which builds on the rational normative model by emphasizing the effects that executives can have on strategic decisions.
- The external control perspective (Bourgeois, 1981, Romanelli, Tushman, 1986), which argues that strategic decisions are largely constrained by the external environment, and thus highly deterministic.

The results from the survey of Hitt and Tyler (ibid.) showed that elements of the rational normative, strategic choice, and external control perspectives of strategic decision making all were operative. Therefore their conclusion was that strategic decisions cannot be accurately modeled with one perspective alone.

### *2.2.3 Implementing a new business model*

When implementing a new business model one has to address two basic questions. The first one is the content issue relating to the questions of why, when, and what to change. The second question relates to the change process itself, addressing the question of how to move from idea to implementation. A model of business model renewal has to consider both the content and the process perspectives. The model developed here will do so. For practical reasons the presentation will start with the content issues, move forward to the process aspects, and then conclude with the integration of the two into a model of business model renewal.

### *2.2.3.1 A framework for business model dynamics*

The framework here developed based on the model of the firm as an open system (see Figure 3) defines culturing, business modeling, and coordination as higher-order system elements. The value-creating processes form the lower-order system elements. Based on these definitions, it is possible to perceive the way the business model evolves as a double-loop learning process. The question of why to redesign the business model will emerge through the linkages depicted in Figure 11.

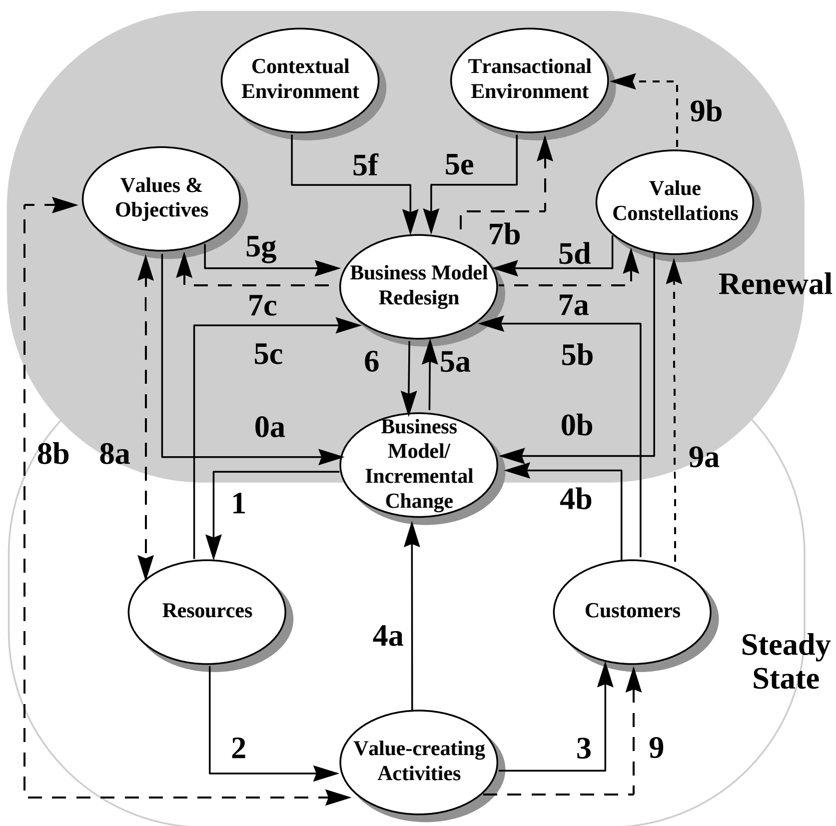


*Figure 11 A framework for business model dynamics*

The starting point for the dynamics is the deployment of resources (1) to pursue value-creating activities (2) for customers (3) based on the "recipes" or the business model. The value-creating activities are monitored (4a) and the customers might also provide direct feedback (4b) based on which the business model is incrementally improved and updated. As long as the underlying objectives (0a) behind the business model are reached and the competitive position is on a satisfactory level (0b), the firm operates in this fairly stable and predictable mode. This refers to the lower-loop learning notion of Argyris and Schön (1978), and is here called steady state.

If the business model is not providing performance according to expectations (5a), or there are pressures from the customers (5b) or the resources, including the decision makers, (5c) to change the business model, or there are radical environmental changes in the value constellations (5d), the transactional environment (5e) or the contextual environment (5f), or there is a discrepancy between the present state of the business model and the values and objectives of the firm (5g), there might be a need to redesign the business model (6). There is always a varying degree of external inputs (5) that would suggest a change in the business model, but not until a certain threshold level is reached will the firm switch from the lower loop to the upper loop. The difference between the incremental changes in the business model (4) and the business model redesign (6) is that the latter is a conscious redirection of the way the firm prioritizes its resource deployment, which is manifested in an explicit management decision. The decision to change the business model can also have an impact on the value constellations where the firm participates (7a), on the transactional environment (7b), and on the values and objectives of the firm (7c).

Two additional linkages are worth noticing. The values of the firm are constantly formed in the daily life of the firm through the behavior of management (8a) and the way the firm performs its value-creating activities (8b). The values represent "priorities for what the firm wants to be", which in the long term cannot deviate from the actual behavior of the actors within the firm (for values to be real, one has to "walk the talk"). During the lower-loop mode of operation the behavior of the firm (9) will also affect the value constellations (9a) and the transactional environment (9b) via its value-creating activities for the customers. In this mode, however, it is the value creating activities per se (how it best can match its addressable resources with customers) that are the focus of the firm.

The framework presented here recognizes that the environmental contexts in which the firm exists are themselves changing at an increasing rate, and towards increasing complexity. In open systems any living entity survives by importing into itself certain inputs from its environment, transforming these in accordance with its own system characteristics, and exporting other outputs back into the environment. By this process the organism obtains the additional energy that renders it 'negentropic'; it becomes capable of attaining stability in a time-independent steady state - a necessary condition of adaptability to environmental variance. Such steady states are very different from the equilibrium states described in classical physics. (Emery, Trist, 1965)

In congruence with the above-mentioned reasoning it could be assumed that any firm wants to reach a new steady state as quickly as possible, once it has been forced to exit a previous steady state. Mintzberg (1990) argues that organizations must function not only with the business model, but also during periods of the formulation and reformulation of the business model, which cannot happen instantaneously. Bogaert, Martens, and van Cauwenbergh (1994) note that the assembly of strategic assets often occurs without a clear perception of the relevant strategic field. Strategy, in their view has to be considered as a puzzle game bearing uncertainty and ignorance as inherent characteristics. This was noticed also by Quinn (1978):

> It is virtually impossible for a manager to orchestrate all internal decisions, external environmental events, behavioral and power relationships, technical and informational needs, and actions of intelligent opponents so that they come together at a precise moment.

Mintzberg (1990) continued that during periods of unpredictability the danger is not the lack of explicit strategy, but exactly the opposite: "premature closure", the reification of speculative tendencies into firm commitments.

To avoid "premature closure" the firm, because of external and/or internal reasons, may consequently become occupied in a state of transition or renewal for a longer period. Such a state of bounded instability or chaos, which normally is short-lived, and periodic rather than continuous, can be called a dissipative structure (Prigogine, Strengers, 1984, Stacey, 1993).

A firm which can improve its capability to stay in a steady state, without having to move into a renewal state, is more effective in constantly changing dynamic contexts. The same observation was made by Huff, Huff and Thomas (1992) who referred to this capability as the homeostatic capability of the firm.

#### *2.2.3.2 The strategic renewal process*

Huff, Huff and Thomas (1992) developed a theoretical process model describing strategic renewal as the outcome of interacting stress and inertia.[41] 'Organization stress' was defined as a summarizing concept expressing ways in which current strategy is not satisfactory; it reflects the dissatisfactions of individual actors and imperfections in the fit between the organization and the environment. Stress is always present because no strategy is perfect. It will increase if implementation falls short of expectation.

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[41] Huff, Huff and Thomas (1992) identified four states in their model. (i) Incremental adaptation within the framework of current strategy. (ii) Deciding whether or not to consider a significant change in strategy. (iii) Envisioning renewal alternatives. (iv) Honeymoon and trial.

Inertia was defined as the level of commitment to current strategy, reflecting individual support for a given way of operating, institutional mechanisms used to implement strategy, monetary investments, and social expectations. Absent other forces, inertia describes the tendency to remain with the status quo and the resistance to strategic renewal outside the frame of current strategy.

Huff, Huff and Thomas (ibid.) used the concept of homeostasis, or steady state, to describe the tendency of a system to maintain internal stability owing to the coordinated response of its parts to any situation tending to disturb its normal condition of function. They noticed that not all problems can be satisfactorily resolved within one strategic framework, and thus it is unlikely, over time, that homeostatic efforts can completely counteract dissatisfaction. They therefore came to believe that the frequently drawn distinction between incremental and synoptic, discontinuous change must be maintained. Meyer, Brooks, and Goes (1990) had earlier supported this:

> Almost everyone who spends much time thinking about change processes seems to conclude that the world changes in two fundamentally different modes. Continuous, or first order change occurs within a stable system that itself remains unchanged. Indeed system stability often requires frequent first-order change...Discontinuous, or second-order change transforms fundamental properties or states of the system.

The key idea behind the Huff, Huff and Thomas (ibid.) description of strategic renewal is that the process of selecting a direction for renewal is better described as developing a direction for renewal. In this reasoning they rely on Quinn's (1980) description of rational incrementalism. Quinn argued that complex organizations cannot move immediately into a new way of acting. First, key issues in the environment (including the very forces that initiated the process of dramatic redirection by increasing stress) take time to unfold. This is in line with the notion of core rigidities developed by Leonard-Barton (1992). Then, the details of complex strategy cannot be outlined instantaneously. Even if a few people have a very detailed view of what must be done, just preparing the marching orders takes some time. It is more likely that the details have to be discovered by interaction among many different people who have the knowledge necessary to construct the total picture. It is also important that people who have not been as close to stress-causing events be convinced that dramatic renewal efforts are necessary. Finally true renewal will be more likely if people across the organization gain ownership in the new strategy by putting together pieces of it for themselves, and this, again, is time consuming.

Huff, Huff and Thomas (ibid.) also touched upon the role of the dominant decision-making coalition. They referred to research on successful turnarounds and noticed that the perspective implicit in such a renewal frequently involves changes in the chief executive officer, the top management team, or the board of directors. The new leaders not only bring new causal knowledge into the firm, but they also are unconnected to previous commitments of the firm. In other words, new leaders are a mediating force between the forces of inertia and the forces for change in the organization.

Mintzberg and Waters (1985) pictured strategy as a combination of deliberate and emergent discussions. Mintzberg (1990) stated that chief executives tend to be caretakers of existing business models rather than champions of radically new ones. Similar evidence has been found in cognitive psychology. The explication of a strategy - even having someone articulate what he or she is about to do anyway - locks it in, breeding a resistance to later change (Kiesler, 1971).

Minzberg's findings (1978), supported by the findings of Miller and Friesen (1984), suggest that major reformulation of a business model will occur through a form of revolution; power is centralized around a single leader who acts personally and decisively to unfreeze existing practices and impose a new vision. In such situations the organization tends to revert to a more flexible simple structure, and to a more entrepreneurial mode of decision making -- at least until it has developed a new business model. Then it tends to settle back down to its old "machine bureaucratic" way of functioning (Mintzberg, 1990).

#### *2.2.3.3 A model of business model renewal*

The model of the firm as an open system (Figure 3), and the framework for business model dynamics (Figure 11) are here combined with the findings of Huff, Huff and Thomas (1992) into a dynamic model of business model renewal. This model will incorporate four states, as did the model suggested by Huff, Huff and Thomas (ibid.). The four states of the model here developed are:

I Steady state
II Qualification
III Validation
IV Implementation

A complete transition from an old business model into a new one goes through all four states. In the following each state is briefly discussed.

*I Steady state*

Merten (1991) developed a model for corporate decision making to be used in decision support. He noticed that the decision to change the business model (a rule-setting decision) is highly time-dependent. Time plays an important role in the identification of strategic problems as well as in the implementation of the new business model. He introduced feedback processes between the structure and the behavior of the system ('evolutive feedback'). This feedback governs systems in a centralized way and has the ability to change the structure of systems qualitatively when there are severe discrepancies between the actual and expected behavior and the desired behavior of a corporate system -- discrepancies that normally exist when important system variables go out of bounds. Severe discrepancies are caused either by the system itself (i.e. the policies of different subsystems do not harmonize) or by outside pressures, which are often the result of the interaction of the system with other autonomous systems with totally or partly conflicting goals.

Feedback loops represent the ability of goal-oriented corporate systems to recognize complex and problematic behavior patterns, to generate and select strategies that will create structural changes, and to implement and redefine strategies. Merten[42] (ibid.) proposed, in keeping with Maruyama (1963), to divide the feedback structure of corporate systems into two types of behavior modes: structure-preserving behavior modes ('morphostasis') and evolutionary behavior modes ('morphogenesis').

Morphostatic behavior modes are growth, decay, adaptation, stabilization, and oscillations of all kinds (Forrester, 1971). Morphostatic behavior modes can be described as changes in the quantitative dimensions of a given set of system variables, and do not change the quality of a system, i.e. its structure. Morphostasis is synonymous with homeostasis and steady state.[43]

Morphogenesis or evolutionary behavior modes are generated by changes in the strategy and policy sets of interacting corporations which are normally accompanied by changes in the number of integrations of their resource systems.

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[42] Merten (1991) identified four 'morphogenetic' types of behavior:

- autopoiesis, an evolutionary behavior where a system produces or reproduces itself (Maturana, Varela, 1980),
- dissipative self-organization (Prigogine, Strengers, 1984),
- co-evolution, an evolutionary behavior mode where the interaction of two corporate systems causes structural changes in both (Jantsch, 1979), and
- evolution by learning, which allows corporations to improve their knowledge bases and thereby to reorganize themselves (Powers, 1973).

[43] Huff, Huff and Thomas (1992) also noticed that strategic renewal in the steady state will occur through relatively small incremental efforts. As long as the tasks to be accomplished are demanding enough to occupy most people's time, and as long as they can be carried out with reasonable success, there is little incentive to question the principles that organize activities. Strategic renewal is most of the time not a topic of sustained consideration within the organization; instead it is accomplished as part of ongoing problem-solving activity.

*II Qualification*

If the homeostatic capability of the organization inadequately reduces new stress, serious questioning of day-to-day decision-making activity becomes more likely. In the face of increasing but unresolved stress, individuals within the organization begin to ask whether the current situation could be better dealt with in some other way (Lewin, 1947).This stage will define the dominant decision-making coalition. Two candidates for the position of dominant decision-making coalition exist: top management and the owners, usually represented through the board. The performance level of the firm, and the relationship between the two possible dominant decision-making coalitions will decide the ultimate cause for a possible change of the business model. The need to change the business model can either be based on factual indicators of the firm's performance, or on perceptions by either or both of top management and the board. If both management and owners consider performance as good, there are no inducements to change the business model. According to studies by Bibeault (1982), the board of directors has few possibilities to react to the weak signals, since they are distanced from the firm. Based on the absorptive capacity of the firm and derived insights, it is possible managers will perceive that there is a need to change the present state of the business in order to accommodate for a possible future threat or opportunity.

Another reason for change can be that management and owners can disagree on whether the performance of the firm is bad. This is a state of instability, which has to evolve into a re-interpretation of the situation by one of the party, or a value-laden conflict will arise between the owners and management. The recent focus on shareholder value has created the application of "turnaround strategies" on firms which are not in crisis according to traditional measures of financial performance.[44] Worrell, Nemec, and Davidson (1997), Harris and Helfat (1998), Davidson, Worrell, and Nemec (1998), and Dalton, Daily, Ellstrand and Johnson (1998) discuss the interdependence between the chief executive officer and the board. They found that there is not yet enough empirical evidence on whether it is positive to split key executive positions (such as chief executive officer and chairman of the board). According to agency theory the board would then be better able to monitor management performance resulting in enhanced firm performance. On the other hand the leadership (or stewardship) perspective suggests that firms will perform better if one person holds both titles, because the executive has greater authority to make critical decisions.
If owners and management agree that performance is bad, the firm is in crisis. Two types of crisis can be identified: crisis where the owners still have

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[44] DiPrimio (1988) has also made the reflection that crisis can be "initiated" by management. This means that the definition of what is "bad" performance becomes much more subjective and context specific than e.g. the Z-score defined by Altman (1968).

confidence in management, or a crisis where the owners lack confidence in management and especially in the chief executive officer.

The above discussion results in three types of situations possibly causing changes in the business model: crisis, managerial perceptions, and value conflict. This also corresponds to the perspective of the firm as an open system (see Figure 3), whereby decision making on the business model receives input from three areas: value-creating activities, intelligence activities, and corporate values.

Once the cause for starting a process to re-evaluate the present business model has been established, there is a need to have some preliminary idea about what emphasis the new business model should have. Should the focus be on short-term profitability or on longer-term resource development. These two considerations, the cause for change and new objectives, jointly form the qualification stage of a possible business model renewal.

This stage ends with the explicit or implicit decision about whether the situation is grave enough to risk jeopardizing current coalitions (Cyert, March, 1963); grave enough to justify committing resources that could otherwise be used directly to reduce stress within the context of current strategy; and grave enough to deflect organizational energies along new paths, many of which are likely to be dead-ends (Huff, Huff, Thomas, 1992).

*III Validation*

The stage of validation is the state during which the decision to change is either made or not made. The four decision-making types combining top-down versus bottom-up and proactive versus reactive decision making are possible alternatives for the development of the direction for renewal. The process of envisioning different alternatives can be very divisive as proponents of the current and merging strategy vie for attention. While this increases stress, the process of framing an alternative is inherently time consuming.

The validation may result in two different outcomes. One possibility is that no viable renewal alternative presents itself. In this case the organization's return to the first state is abated by an interpretative process that will tend to push inertia and stress apart - discontinuing current stress and strengthening commitment. If, on the other hand, at least some components of a viable contender are articulated within a relatively short time, interpretative processes can be expected to further reduce commitment to the old business model by underscoring its many problems, hastening the day in which the organization puts into place significantly different strategic ideas. (Huff, Huff, Thomas, 1992)

*IV Implementation*

If the validation phase results in a renewal decision, the actual implementation process starts. The transition from being engaged in a decision-making process to the implementation phase can be very dramatic according to Huff, Huff and Thomas (1992). Especially if a formal announcement is made that the organization will follow a new direction, the uncertainties and reinterpretations called for in comparing different paths for renewal significantly decrease. Wise promoters of the new strategy will be as visible and convincing as possible during this period (Bibeault, 1982). This phase involves trial and error; and there is still a substantial risk of reverting back to re-envisioning renewal alternatives because expectations are high, while the actual effectiveness of the newly formulated strategy is initially likely to be relatively low.

The countermanding forces of stress and inertia are thus immediately in evidence; but consciously considering further dramatic change is time consuming and distracting at a critical point in the organization's history. If the initial indicators are positive, the efficiencies of operating without questioning the basic underlying logic of action are great. The organizational context will therefore help people move back to a 'business as usual' mode if positive results begin to accumulate. If satisfactory performance can be sustained, the organization will move on to a steady state in which needed adaptations are achieved through less costly homeostatic adjustments. A process of business model renewal containing all four stages can be depicted as in Figure 12.

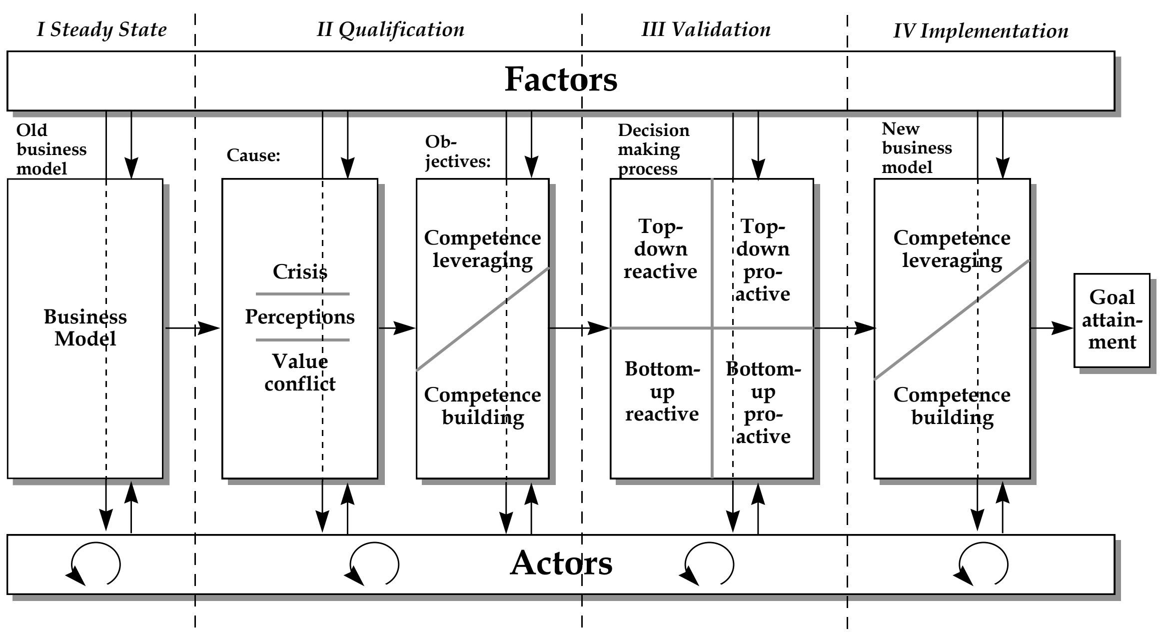


*Figure 12 A model of business model renewal*

The second and the third states of the model may result in a decision not to proceed, but to return to the steady state, whereby the evaluation itself can have had a stress relieving function.

The model of business model renewal presented in Figure 12 can be seen as an extension of the model developed by Huff, Huff and Thomas (1992). The major extensions compared to Huff, Huff and Thomas are:

*I Steady state ("Incremental adaptation within the framework of current strategy" in the presentation by Huff, Huff, Thomas)*

The emphasis on time-dependency is added to the description by Huff, Huff and Thomas.

*II Qualification ("Deciding whether or not to consider a significant change in strategy")*

Huff, Huff and Thomas do not separate the chief executive officer and the board as two possibly separate decision-making coalitions, and consequently do not discuss the issue of conflict among decision makers. Nor do they categorize the causes for change explicitly. Nor do Huff, Huff and Thomas introduce competence leveraging and competence building as a way to explicate the change objectives.

*III Validation ("Envisioning renewal alternatives")*

Huff, Huff and Thomas do not categorize alternative decision-making processes.

*IV Implementation ("Honeymoon and trial")*

The model in Figure 12 makes the outcome of the renewal process very explicit: impact on competence leveraging and competence building. Consequently the end result is in the form of goal attainment achieved through the future offerings of the firm. The outcome of the business model renewal process is not explicated by Huff, Huff and Thomas.

## *2.3 A process model of increasing customer orientation*

If the firm has not previously emphasized customer orientation in its business model, it is very unlikely that the firm will become genuinely more customer oriented without a conscious renewal effort to change the business model (Winterscheid, 1994). If the firm considers it has had a customer-oriented business model, it is also possible that it decides to substantially increase its efforts to become even more customer oriented, e.g. further intensify its interactions with the most important customers through a formalized key account management program. In such a case, a previously customer-oriented firm may enter a process of business model renewal, during which some critical new customer orientation-enhancing features are added. It is also possible that a firm which has emphasized customer orientation decides to abandon its customer-oriented activities, and, for example, focus more on developing cost efficiency.

The difference between incremental changes and renewal (or transformational change) is by no means indisputable. By improving its homeostatic capability, the firm can itself ameliorate the possibility of conducting a change process without having to leave the steady state. But in line with the earlier cited quotation by Meyer, Brooks, and Goes (1990), there are situations which need second-order changes. For the purpose of this study it is therefore appropriate to concentrate on the phenomenon of increasing customer orientation, which includes a renewal phase attached to the process of change. Such a process can be called a planned transformational change (Nadler, Tushman, 1989).

Customer-orientation asks for a considerable amount of internal coordination, which plays a fundamental role in the competence building (Sanchez, 1995). Increasing customer orientation will therefore ask for more coordination efforts. Winterscheid (1994, p. 286) has argued that such changes will not easily be adopted:

> (The case of Warren Corporation) has demonstrated the insidious power of past market success. Building upon Leonard-Barton (1992), insiders described the numerous roadblocks encountered with existing procedures and operational assumptions (previously established and until now unquestioned)... They had problems speaking to and understanding each other. People in different departments used different language... The social reconstruction of meaning (Berger, Luckmann, 1967) had to occur before the project could go forward.

Winterscheid (ibid.) concluded from the above that people will not change until they are forced to do it. In the context of increasing customer orientation, one can interpret this to mean there has to be a solid argument presented to people before they will be prepared to change their own behavior in accordance with new requirements. Hamel (1998) presents a similar view stating that individuals will not invest emotionally in a change process unless they are given the chance to have a voice in inventing the future of their company. How to design and implement the process of reinforcement is thus a managerial challenge that managers aiming at increasing customer orientation must meet. Stacey (1993) introduces ordinary management and extraordinary management as two fundamentally different modes for approaching this process of reinforcement.

> Ordinary management is practiced when most of the managers in an organization share the same mental models or paradigm, and it is about rational processes to secure harmony, fit, or convergence to a configuration. Cognitive feedback loops then operate in a negative feedback manner so that shared mental models are not questioned. (Stacey, 1993, p. 301)

> Extraordinary management involves questioning and shattering paradigms, and then creating new ones. It is a process which depends critically upon contradiction and tension. Because it is outside the rules of an existing paradigm, because no-one can know what new paradigms will be shared, and because no-one knows what the outcomes will be, there will be a situation of competition between tentative or evolving rationales, based on which alternative paths forward can be envisaged. Convincing opposing perspectives through rational analysis and argument will not be very effective in the developing of the new paradigm. Instead, frame-breaking extraordinary management is a process of persuasion and conversion, requiring the contributions of champions. Extraordinary management is the use of intuitive, political, group learning modes of decision-making and self-organizing forms of control. (Stacey, 1993, pp. 301-302)

Stacey (ibid.) suggests that ordinary management is practiced in formal groups that require the leader to arrive at the group with particular skills developed beforehand. Leadership under ordinary management is about motivating people and the concern is with the appropriate role of the leader in securing efficient performance of known tasks. For effective ordinary management people need to be motivated to fill roles in a stable hierarchy, protect the culture, and operate the systems to achieve the objectives set by the paradigm. The development of a sense of mission is a central leadership task in the ordinary management of an organization. It is a vitally important way of gaining commitment to, loyalty for, and consensus around, the nature and purpose of the existing business.

According to Stacey (ibid.) extraordinary management takes place in informal groups. Unconscious group processes produce informal roles in unstructured groups. The leader may well not create the group, but rather be the creator of the group. Leadership is the ability to interpret the processes of the group without being sucked into them, so as to help the group identify its task. Such an informal group is a many-faceted self-organizing system that coexists with the formal organization but that is far more flexible and more capable of dealing with the unexpected and the unknowable. When managers explore open-ended issues in groups, they are in fact learning, and through this learning they discover how to frame issues and what to do about them. An effective learning group has its own built-in limits to instability and the more effective the people constituting the group are at complex learning, the more they will be able to contain the instability their learning itself inevitably generates.

Stacey (ibid.) concludes that the formal has to stay formal and the informal has to be really self-organizing if they are to make their distinctive contributions to the organization. But he advocates that the hierarchies and short-term control (ordinary management) has to be the dominant form of leadership, and rejects the idea of a comprehensive structure of loosely controlled self-managing teams.

Three types of situations causing a process of business model renewal were identified in section 2.2.3.3: crisis, managerial perceptions, and value conflicts. Of these three causes, value conflicts, from the perspective of increasing customer orientation, could be seen as an intermediary cause, based on which the ultimate cause to become more customer oriented is either a crisis or the perceptions of the decision-making coalition. For example, it could be that in a situation of crisis the board would favor more emphasis on customer orientation, whereas the management would like to continue cost cutting. In this situation the first step in the transformation process would be resolving the conflict between the board and the management. If the board would decide to change the management into one that would support customer orientation, the primary driver for the actual change process would be the crisis. The perception of the (new) decision-making coalition would be that customer orientation is the remedy to handle this crisis.

The turnaround literature seems to be unanimous that decision makers under pressure tend to favor quick, habitual solutions rather than creative ones.[45] However, there are cases where the crisis has been approached by focusing on customer orientation. 1991 was a difficult year for the Nokia Group and the Group's result showed a loss of FIM 324 million. Mr. Jorma Ollila, CEO since 1992, could report improvements on operational results in 1993. He commented on the new Nokia way in the 1993 annual report as follows:

> In 1993 we began strengthening the Nokia way of operating, recognizing our shared values of customer satisfaction, respect for the individual, achievement, and continuous learning.

The customer orientation efforts within Nokia had meant a transformation of Nokia into a predominantly telecommunications-based group. Mr. Ollila stated that the objectives of Nokia were profitable business operations founded on customer satisfaction. (Nokia, annual report, 1993)

Another possible reason for changing the business model in favor of increased customer orientation is the perception of an emerging opportunity by the decision-making coalition. This perception can to a varying degree be shaped by a vision of a new future business model. The origin for this perception can e.g. be

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[45] Numerous authors have documented decisive implementation of cost cutting strategies as the main remedy to improve the state of companies in crisis (Strang, 1998, Prihti, 1980, Ford, 1980, Whetten, 1980, Lowe, McInnes, 1971). Management then accepted solutions that were closest to satisfy a priori goals (Cyert, March, 1963, Pfeffer, Salanick, 1978). Other authors notice that if a decision is perceived as a crisis different actions will be taken than if the decision is perceived as an opportunity (Jackson, Dutton, 1988; Milburn, Schuler, and Watman, 1983; Papadakis, Lioukas, Chambers, 1998).

based on shifts in the competitive situation, recommendations by consultants, signals from existing customers, or some other outcome of a cognitive process of an individual within the decision-making coalition.

Heskett et al. (1997) have developed a model that can be used to assess when determining whether achieving change is feasible or not:

$$(D \times M \times P) > C$$

where D = the level of dissatisfaction with the status quo, M = the existence of a model or vision for change, P = the availability of a process for change, and C = the costs of change to various participants in the process. This model would suggest that achieving change is most feasible when there is a high level of dissatisfaction (i.e. there is a clear, identifiable gap between the actual state of the firm and some envisaged better state), there is a clear vision for change, and there is a readily available process for change. The most feasible situation for change would therefore seem to be some form of reaction to changes in the environment, the most apparent one being a state of crisis.

As was discussed in section 2.1.3.1 the notions of foresight and absorptive capacity would suggest that there is also another type of change process available to the firm. This one would not primarily be based on identifiable explicit imperfections in the fit between the organization and the environment. This other type of change process would be more based on individual actors' perceptions of an emerging opportunity to better match the present and future capabilities of the firm with future value-creating potentials for and with existing customers. Such emerging opportunities could be a change in technology, de-regulation, access to new knowledge through alliance partners, or suggestions for extended cooperation from key customers.[46]As this type of situation would have a lower level of dissatisfaction with the status quo, the feasibility of change depends on the availability of a change process with low enough costs of change to the various participants. This type of change process could then be called a proactive approach to change, whereas the first category could be called a derivative approach to change. The word ***derivative*** (instead of reactive) is used because the change process derives from the vision of the new business model.

Stacey (1993, pp. 248-251), when discussing the notions of ordinary and extraordinary management, introduces the notions of closed change (when there is a good possibility to forecast with precision), contained change (where one can

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[46] Honda e.g. suggested to its interior-mirror supplier Donnelly to make exterior mirrors to them. Honda knew that Donnelly's values and culture matched with theirs. With only a handshake to mark the birth of the new partnership, Donnelly built an entirely new plant to make Honda's exterior mirrors. (Magnet, 1994)

use the laws of probability to make forecasts of the system's behavior) and open-ended change. He defines open-ended change as follows:

> It is not possible to forecast the long term at all in open-ended change situations because it is not possible to predict; and is not possible to predict long-term consequences because the connections between cause and effect are lost in the detail of the interactions that occur over time. Open-ended change situations are ones of unique uncertainty and ambiguity where the outcomes of actions are unknowable.

Stacey (1993) discusses alternative modes of decision-making and planning/monitoring. He notices that within firms there is a need to make decisions and to control in both closed/contained and open-ended situations simultaneously. He therefore sees that organizations have to apply both ordinary and extraordinary management in parallel, but for different types of situations.

The implementation of a more customer-oriented business model can take place in both a derivative and a proactive form. The change process initiated can be open-ended to a varying degree. Subsequently, the proper implementation strategy can be either through ordinary or extraordinary management.

The ultimate outcome of a process of increasing customer orientation is that the firm will improve its offerings to its existing customers. These new offerings have to be based on new ways of combining the existing and future resources (firm-specific and firm-addressable) of the firm. To be able to come up with new offerings, the firm will have to build new capabilities. Whether the whole process of implementing a new more customer-oriented business model has been a success or not will depend on the reception these new offerings will get.

The process of implementing a new more customer-oriented business model can now be depicted as a model, which consists of four stages:

I Explication of change approach: the reason to enter a process to increase customer orientation and the way this reason is communicated by the decision-making coalition to the rest of the organization as a derivative or proactive measure.
II Implementation management: how the implementation process is handled through ordinary or extraordinary management.
III Capability building: what capability building is performed to (i) handle the change process itself, and (ii) enable the firm to provide new, more competitive offerings for the customers.
IV Offering development: the actual development and provision of the new offering(s) to the customers.

The model is graphically illustrated in Figure 13.

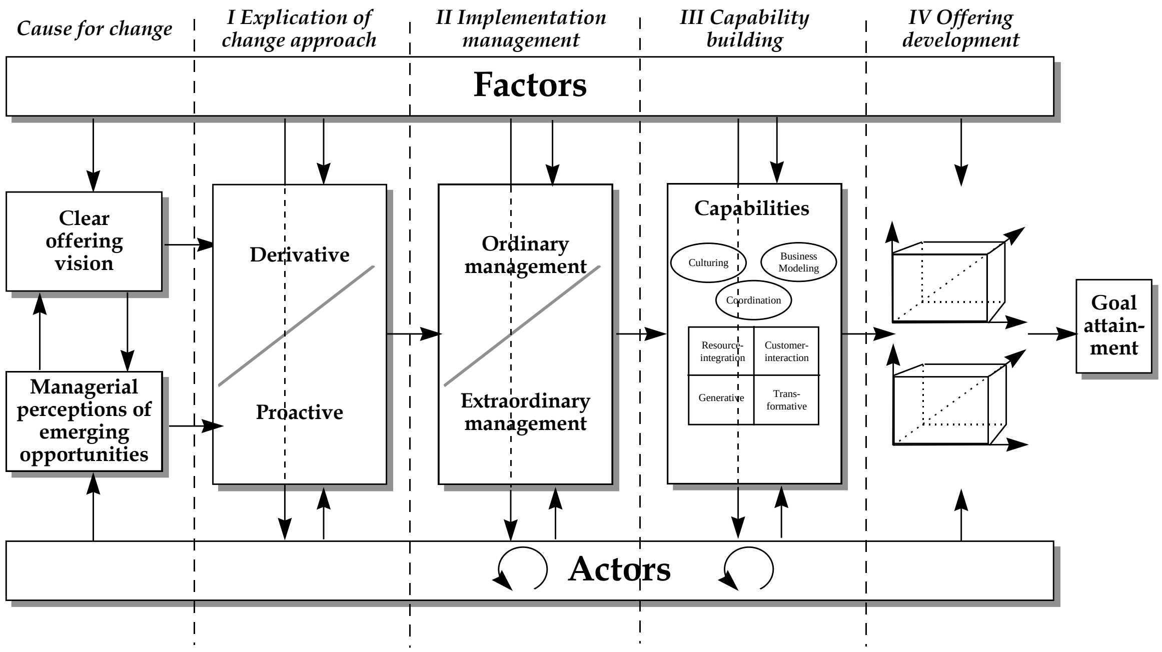


*Figure 13 A process model of increasing customer orientation*

The model in Figure 13 provides a more detailed presentation of the implementation stage of the renewal model (Figure 12). The process model in Figure 13 indicates that the implementation is continuously influenced by both changing preconditions in the business environment (the factors) and changes in the perceptions of the decision-making coalition and other stakeholders influencing the process (the actors). The circular arrows in stages three and two indicate that the process can proceed in an iterative manner: e.g. start off in a proactive mode through extraordinary management and some first capability-building activities. Changes in the environment may cause a shift into an ordinary mode with other capability-building activities etc.

# 3 DEVELOPMENT OF HYPOTHESES AND RESEARCH MODEL

*This chapter develops the hypotheses and a research model to be tested. The hypotheses are developed based on the conceptual model presented in Figure 13 in combination with the research questions presented in section 1.2. The research model integrates the behavioral and normative research questions presented in the introduction chapter. The research model hypothesizes the links between the cause for change, the change approach, the implementation strategy, and capability-building activities.*

The research model addresses the main research question presented in the introduction chapter:

*What are the interrelationships between the adoption of a more customer-oriented business model and competence building?*

The main research question was broken down into one more behavioral research question and another more normative one. The behavioral research question was stated as:

*What characterizes the patterns of decision making and implementation processes related to the adoption of a more customer-oriented business model?*

"Patterns" refers to the sequence of events through which the implementation of a new business model is made. The behavioral research question was further broken down into the following sub-questions:

- *What causes the adoption of a more customer-oriented business model?*
- *How does the implementation of a more customer-oriented business model take place?*

The normative part of the main research question was expressed in the following way:

*What are the impacts of the adoption of a more customer-oriented business model on competence building?*

The first, behavioral research question is occupied with both the temporal and the factual issues triggering the decision-making process, the decision-making process itself, and the implementation process. The second, normative research question is interested in the impacts of the decision on competence building within the firm.

As the behavioral and normative research questions suggest, this study tries to address both the process and content variables of the process of increasing customer orientation within a firm. The behavioral part of the research question is approached through normative perceptions of the researcher. Therefore the normative implications derived from studying the behavior of the case firms is possible only within the "band width" available after the pre-normative assumptions have restricted the interpretations from the case studies.

The behavioral part of the model attempts to explain how firms behave when increasing customer orientation within their business model. The dynamics of the decision making regarding the increase of customer orientation are covered by two hypotheses focusing on the relationship between the cause for change and the change approach, and three hypotheses covering the relationship between the change approach and the way the implementation process is carried out.

The normative research question represents strategy content research. Strategy content research focuses on the linkages of competitive and resource positioning to performance. The normative part of the model aims at identifying the interdependencies between the change approach and implementation characteristics of the successful increase of customer orientation and competence building. The normative part of the research question is addressed by three hypotheses.

The individual hypotheses are developed below.

The first sub-question derived from the main research question was stated as

- *What causes the adoption of a more customer-oriented business model?*

The decision to change the business model has to be made by the leading decision makers within the firm, or the dominant decision-making coalition. In section 3.2.4 it was shown that there are two major stimuli for initiating a process of implementing a more customer-oriented business model: identifiable gaps between the present and some future state, and managerial perceptions of emerging opportunities.

*Proposition 1. Sources for the implementation of a more customer-oriented business model can be a clear vision of a new offering to be provided to existing customers, or managerial perceptions of emerging future opportunities, but without a corresponding clear vision of the future offerings.*

The second sub-question derived from the main research question was stated as

- *How does the implementation of a more customer-oriented business model take place?*

The implementation of the decision was also discussed when developing the conceptual model in section 3.2.4. Two modes of implementation, ordinary and extraordinary management, were identified. Based on that discussion a proposition about the implementation strategy can be made.

*Proposition 2. Implementation of a more customer-oriented business model can be through ordinary or extraordinary management or through a combination of both.*

Based on the two propositions and the model for implementation of increased customer orientation in Figure 13 two hypotheses on the impact of the cause of change and the change approach can be presented.

*Hypothesis 1. Efforts to increase customer orientation stimulated through the decision-making coalition's clear offering vision will favor a derivative mode of implementation.*

*Hypothesis 2. Efforts to increase customer orientation stimulated through the decision-making coalition's more subtle perception of an emerging opportunity to better match the present and future capabilities of the firm with the value-creating potentials of the customers will favor a proactive mode of implementation.*

The stronger demonstrated the external source for dissatisfaction with the status quo is, the more this will decrease the credibility of the existing management to handle the change process. Subsequently a strong derivative form of change will favor a reorganization, i.e. to be handled through an ordinary form of management.

*Hypothesis 3. Derivative efforts stimulating the increase of customer orientation will favor implementation activities through ordinary management.*

Beer, Eisenstat and Spector (1990) studied corporate renewals. They primarily looked at organizational development programs, which share many of the features attached to a proactive effort to introduce a more customer-oriented business model. Their conclusions were:

- Corporate programs to change the whole culture of a company in a top-down planned manner do not work.
- The most effective change programs are those that start in a number of small peripheral operations and gradually spread throughout the organization.
- Changes to formal structures, systems, and policies come at the end of successful periods of change, not the beginning. Effective culture change

focuses on the tasks people have to do in business units and it spreads not because the top is in control of the spread but because the top creates the right climate for change to spread.

The findings of Beer, Eisenstat and Spector (1990) can be used to formulate two hypotheses considering the application of extraordinary management.

*Hypothesis 4. Proactive efforts stimulating the increase of customer orientation will favor implementation activities through extraordinary management.*

*Hypothesis 5. The implementation of a new business model with increased customer orientation, which has started in an extraordinary mode, will shift into an ordinary mode at the end of the implementation process.*

The three final hypotheses relate the implementation strategy to the issue of capability development.

Ordinary management enables an organization to build on its strength, deliver competitive advantage, sustain continuity, and carry out the day-to-day activities of an organization in an orderly and effective manner. It is essentially concerned with repetition; without it an organization cannot succeed (Stacey, 1993). A firm entering a process of increasing customer orientation based on ordinary management will initially have to shape the preconditions for managing effectively under the new business model.

*Hypothesis 6. Ordinary management will initially ask for capability development in the higher-order management processes whereby the settings for the new business model are established.*

Nonaka (1991) sees senior managers managing through extraordinary management by articulating ideals, challenges, umbrella concepts, and metaphors to guide the thinking and acting of people in the organization. He advises senior managers to build redundancy into their organizations because the overlapping responsibilities and activities and the internal competition encourage communication and provoke new perspectives, even if it all appears to be wasteful. Nonaka describes how the use of a metaphor ('Tall Boy') enabled Honda to develop a new car concept, called Honda City. The extraordinary management was in this case very focused on understanding the not-yet exploited value-creating potential among customers, and transforming this into a new offering.

*Hypothesis 7. Extraordinary management will ask for capability development in the business processes, and especially in the customer-interaction and transformative capabilities.*

Ordinary management is the process of finding out how to achieve known objectives and expected outcomes; it is all about finding solutions to organizational puzzles within the existing paradigm. Ordinary management solves the puzzle of how to achieve operational targets (Stacey, 1993). To achieve these targets, the firm has to strengthen its capabilities in the areas that would support the development of the elements of the new offerings.

*Hypothesis 8. Ordinary management, subsequent to the development of capabilities in the higher-order management processes, will ask for capability development in the generative and resource-integration capabilities.*

The adoption of a more customer-oriented business model is considered as successful when (i) it results in an implemented change in the business model, (ii) the offering mix is changed, and (iii) the financial performance of the firm has been positive after the adoption of the new model.

The hypotheses can be presented as a research model according to Figure 14.

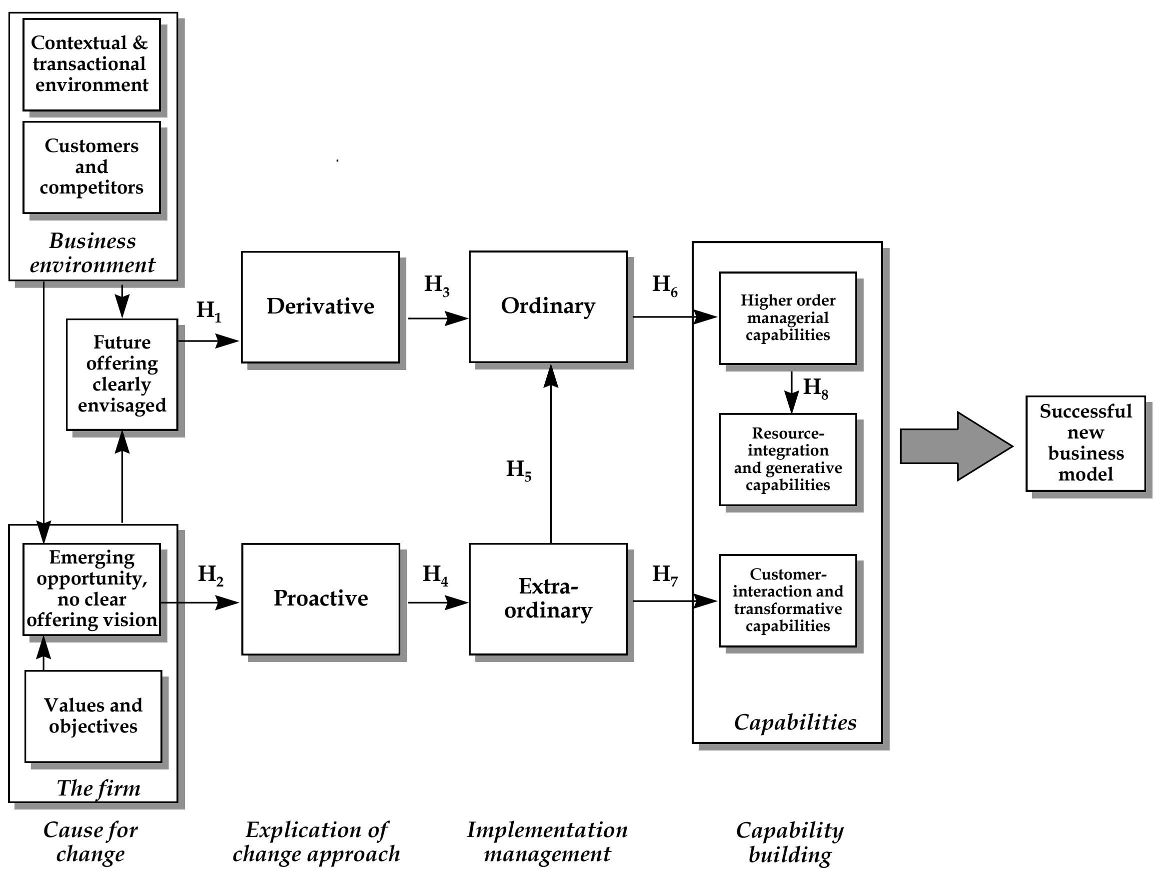


*Figure 14 The research model*

The normative implications of the model can be summarized by saying that two major paths can be identified in a successful adoption of a more customer-oriented business model.

The first possibility is that a need for change can be identified by the decision-making coalition. This need is accompanied by a clear offering vision. The decision-making process is then derivative and capability gaps can be identified. Here an ordinary management mode is effective. The implementation would focus on establishing a shared view throughout the whole organization. This would initially ask for capability-building activities in the higher-order management processes. After this, the capability-development activities in the business processes and lower-order management processes could be initiated with a focus on resource and capability building in both generative and resource-integration capabilities in order to rapidly come up with new offerings.

If there is no immediate dissatisfaction with the status quo of the company, a trigger for change can be the intuitive perception within the decision-making coalition sensing an emerging opportunity. This would then make the identification and communication of a gap more difficult, as the status quo is not as apparently threatened. In such a situation the adoption of an extraordinary management mode would be more suitable. The process would be one of interactive learning, gradually bringing the implementation process forward. The capability-building activities would initially focus on capabilities in the business processes and the lower-order management processes, especially on customer-interaction and transformative capabilities to support the experimental learning process. As understanding improves, achievable objectives can be identified, and the implementation mode shifts to ordinary management.

# 4 RESEARCH METHODOLOGY

*This chapter describes the methodology of the present study. First, the research approach is described including explaining the choice of clinical case studies as research method, discussing how to build theories from case study research, and evaluating the strengths and weaknesses of the clinical approach. Then, the operationalization of the constructs in the research model is presented including a discussion about how the testing of the hypotheses takes place.*

## *4.1 Research approach*

Näsi (1983) distinguishes four research approaches in business administration: conceptual analytic approach, nomothetic approach, decision-making methodology approach, and action analytic approach.

Conceptual analytic research aims at developing new conceptual systems, often on the basis of logical deduction and argumentation. The nomothetic research approach is based on positivistic scientific tradition, and aims at describing and verifying relationships between phenomena. The decision-making methodology approach attempts to develop problem-solving methods. The action analytic research approach is often applied when trying to understand complicated phenomena, and explain causal relationships between these phenomena.

The objective with this research project was originally to "to more deeply understand and define the concepts of product and product strategy and to connect product strategy to a broader strategic framework" (first research project proposal, presented to professor Tauno Olkkonen in December 1989). The core of this objective remained unchanged during the ten years the research process lasted, but insights derived during the journey had great impact on the final outcome of the study. Also, which research approach to choose was finally decided only at the end of the process.

The chosen research topic is an area where the problems investigated are broad in scope. The benefit when addressing an area this broad is that the results can be operationally significant to managers. For this type of research James L. McKenney describes the research methodology of Harvard University Graduate School of Business Administration as follows:

> Our research process starts with a "scoping" stage, followed by an inductive analysis and then a multifirm study. As do most methodologies, ours begins by coupling a review of published research with field data from a few test sites. A crude model of likely

> exogenous factors as well as controllable forces is then developed. This model is tested in an in-depth analysis of two or three field sites, which yields case studies. The resulting revised model is then tested in a multifirm study, in which data are often gathered by structured interviews or questionnaires. (McKenney in McFarlan, 1985, p. 366)

The research methodology of MIT Sloan School of Management is described by John F. Rockart in the following way:

> Depending on the maturity of the research field and the style of the researcher, a method must be chosen from what we see as a rough research progression model. An entirely new research topic starts with the researcher's "rough model" or "concept". Initial cases are used to validate the model's appropriateness and flesh out the researcher's understanding of the field. The result of the cases is a richer, improved model ready for testing in one of several ways: structured data gathering, field data gathering, field experiments, or laboratory work. (Rockart in McFarlan, 1985, p. 372)

Initially, in 1989, these two quotations were used as guidelines for the methodological design of the research project. But not until 1997 was the final decision made regarding which methodological approach to choose.

### *4.1.1 Why case study?*

The first outline of the study presented in 1989 focused on the role of products in strategic thinking. During the research process it became evident that the notion of product was to narrow to entail the dynamics of the value-creating activities taking place as a process of co-production between the supplier and the customer. This insight was derived through the author's experience as a consultant and the opportunity to discuss the notion of offering with Richard Normann and Rafael Ramírez, based on their ideas presented in the book "Designing Interactive Strategy" (Normann, Ramírez, 1994).

After the first, unsuccessful, attempts in 1990-1991 to structure a clearly defined research process around the objective developed in 1989, the research process as such was interrupted during the years 1991-1995. The writing of the paper on ABB Fläkt (Wallin, 1997a), and the subsequent papers for the SMS conferences in Phoenix (Wallin, Ramírez, 1996) and Barcelona (Wallin, 1997b) sparked the courage to take up the process of working on the dissertation. Two alternative research approaches were discussed with the supervisor: to make a dissertation based on individual papers, or to combine the findings into a monograph. Because the initial ambition had been to develop a comprehensive framework, the decision was to aim for a monograph. Using the MIT terminology (Rockart, 1985, p. 372) the following activities had been carried out by the end of 1997:

- developing the first ideas around the concept, 1989
- basic literature research, 1989-90

- developing a first conceptual model (the one seller, one buyer, one product -case) to understand the notion of product strategy, spring 1990
- first field test and validation of the concept; the Finnish Fur Sales case, 1990-
- field experiment and testing, consulting assignment, ABB Fläkt, 1991-93
- field experiment and testing, consulting assignment, Metsä-Serla, 1991-96
- field experiment and testing, consulting assignment, Aktia, 1994-95
- field experiment and testing, consulting assignment, Tamrock, 1995-
- refinement of concept and re-evaluation of field experiments based on gradually improving understanding, 1996-

The starting point for the conceptual framework developed during the research project had been the logical reasoning carried out around the question of what is a product. The idea for this part was suggested to the author by professor Philip Kotler in March 1990. Based on this first preliminary theoretical framework, a literature study on the different notions of product was conducted in 1991. In this connection the dual perspective on strategy and products became evident. At the same time, the basic field work regarding the major case, Finnish Fur Sales, took place. Then for three years the pre-understanding of the phenomena was guiding much of the author's project assignments as a consultant. The explicit devotion of time to further structure the ideas was initiated in spring 1995 when a case presentation around the assignment with ABB was made.

In October 1997, the objectives with the study was still to connect the concepts of "product" and "product strategy" to a comprehensive framework considering the changes in the business environment. To this objective was added the sub-objective to "define what a customer-oriented product strategy is", and "develop hypotheses for defining the preconditions for a customer-oriented product strategy".

As indicated above, the author had by 1997 participated in a number of processes where companies had gone through the transition towards a higher degree of customer orientation. The experiences from these change processes, which had been intuitively expressed in one of the cases (Metsä-Serla) as "Competence Driven and Customer Oriented", could not be properly explained by existing theories and frameworks. It was therefore felt that the area of research was relevant, as many managers were occupied with these questions and were prepared to use consultants to help them to deal with these issues.

The experiences from the author's consulting assignments where "customer-oriented product strategies were developed", showed that this phenomenon was quite comprehensive and complicated. It was felt that developing a better understanding of causal relationships related to this phenomenon would be important.

Lindell (1988) studied the development of new products in Finnish companies. He concluded that for the purpose of understanding this phenomenon process-oriented longitudinal case studies were needed, as the ultimate decision making around new products included many individuals and several layers of the firm. The same argument seemed to apply for the purpose of studying how "customer-oriented product strategies were developed". It can be argued that the implementation of customer orientation is an organizational phenomenon similar to the development of a new product. The same difficulties apply to the study of both:

> Innovative processes are highly idiosyncratic: they do not follow known patterns. Thus they are hard to trace, describe and measure. It is very difficult to discover conditions, factors, etc. which really influence innovative processes in distinct, measurable and predictable ways.
>
> As we do not know innovations are under way, we may have to investigate existing innovations, and follow them "backwards" trying to find out what conditions, contexts etc. made it possible to let the innovation develop to such a successful end (which is a beginning). This means that we will tend to apply methods to analyze past records, in order to find promoting and inhibiting factors, how they came about, how they were built up/broken down etc. As innovations however tend to leave weak signals behind, our methods may not be good enough to uncover the right promoters/inhibitors and to measure their influence. (Goldberg, 1982, p. 2 referred to in Lindell, 1988, p. 65)

The area for research thus fulfilled the criteria for action analytic research on the basis of the type of research problem (Näsi, 1983). The situation was also similar to the one described by Ridderstråle (1996, p. 40), who used the case approach when studying global innovation:

> In our view, theoretical arguments (it was difficult to specify an integrated set of testable and meaningful hypotheses before the research project was launched), as well as more empirical ones (little is known about the specific phenomenon), can be made for the choice of a qualitative research design.

The author had by 1997 access to material from a number of cases. This material could be useful when trying to better understand "what a customer oriented product strategy is". The challenge was how to use this material in order to develop new theory that could explain this phenomenon better than the existing one.

At this time the author had also become acquainted with the competence-based strategic management perspective. From that field of research, Mahoney and Sanchez (1997) had suggested that the development of competence theory may require an expansion of strategy research to include more grounded theory building (Glaser and Strauss, 1967) in which inferential reasoning plays a leading role. Mahoney and Sanchez (ibid.) therefore had suggested collaboration between academics and managers to develop a theory of competence-based competition. This further encouraged the selection of a case study method.

### *4.1.2 Building theories from case study research*

Case studies have been quite popular in the Nordic research tradition. Already Karlsson (1965, p. 446 referred to in Kjellén, Söderman, 1980, p. 14) defined case studies as follows:

> A case study is research which only includes one or a few cases, i.e. elements of a population, which instead are studied in great detail. The case study can fulfill three objectives: (a) explorative, testing of hypotheses, (b) studying of non-conforming cases, and (c) descriptive and predictive studies.

Normann (1969, 1975, 1976) argued that case studies are more useful than traditional positivistic research when broad, and relevant, phenomena should be understood.

Eisenhardt (1989) presented a description of the process of inducting theory using case studies - from specifying the research questions to reaching closure. The process she suggested consists of eight steps: getting started, selecting cases, crafting instruments and protocols, entering the field, analyzing data, sharpening hypotheses, enfolding literature, and reaching closure.

In the following section the research project ending in this dissertation is evaluated against the arguments presented by Eisenhardt. One important feature of this study, which is not considered by Eisenhardt, is that this study is clinical. The implicit starting point for Eisenhardt is that the case study is conducted by researchers who enter the case firms with the specific interest of making scientific research. In this study the primary role of the researcher has not been to conduct research but to participate in the decision-making process. During a later stage, this decision-making process has been used as a case in the research process that later unfolded. The specific problems relating to a clinical study are discussed in section 4.1.3.

*Getting started*

Eisenhardt (1989, p. 536) recommends an initial definition of the research question. As explained above, the initial objective for the study was to understand product strategy within the context of a broader strategic framework.

Eisenhardt (ibid.) notices that although early identification of the research question and possible constructs is helpful, it is equally important to recognize that both are tentative in this type of research, and the research question may shift during the research. She also notices that theory-building research should begin as close as possible to the ideal of no theory under construction and no hypotheses to test. Attempting to approach this ideal is important because preordained theoretical perspectives or propositions may bias and limit the findings. She recommends that even if investigators need to formulate a research problem, with some reference to literature, they should avoid thinking about specific relationships between variables and theories as much as possible, especially at the outset of the process. This has also very much been the case in this research process, as the clinical work has not been guided by the research objectives but by the objectives of the management in the firms studied.

*Selecting cases*

Eisenhardt (1989, p. 536) considers selection of cases as an important aspect of building theory from case studies. She notices that the concept of a population is crucial, because the population defines the set of entities from which the research sample is to be drawn.

The selection of cases gets more problematic in a clinical approach than in a case study approach, where the researcher selects cases which are approached in a non-clinical way. The clinical approach will provide access to material in a different way, as the researcher probably has less limitations on access to material due to his or her role as a participant in the process. On the other hand, this automatically means that the number of firms that are accessible in this way is restricted to the companies with whom the researcher has this form of a relationship.

In this research project the selection of cases emerged gradually. The first case study was Finnish Fur Sales which has been rewritten several times 1990-1999. Finnish Fur Sales was one of the cases in a paper presented at an EIASM conference on product development in Como in May 1998 (Wallin, 1998a). Finnish Fur Sales was also analyzed in another paper, published in the Data Warehousing Journal (Wallin, 1998c). The second case study was ABB, which was documented in a paper for the second workshop on competence-based competition in Ghent, Belgium in 1995 (Wallin, 1997a). A part of the Metsä-Serla case was included in a paper written together with Rafael Ramírez in 1996 for the Strategic Management Society conference in Phoenix (Wallin, Ramírez, 1996). The first version of the Tamrock case was prepared in 1997 for a paper presented at the Strategic Management Society conference in Barcelona (Wallin, 1997b). The

Aktia case was included as the fifth case only during the last part of the research project and has not appeared in any previous papers.

The selection of cases was primarily based on the access to in-depth material about the process of increasing customer orientation. In the position as a consultant the author would have had access to some additional cases that were not included in the study. The considerations for not adding more cases are included under the notion of "Reaching closure" later in this section. The cases here selected were included for two major reasons. First, these cases represent chronologically the earliest experiences that the author has had in the field of participating in implementing a more customer-oriented business model. This provides access to longitudinal material over a fairly long period of time, and opportunities to evaluate the actual outcome of the process more objectively. Second, the cases represent a mix of industries and contexts for implementing a more customer-oriented business model. As later argued, adding new cases would have included only minor new insights. However, in all of the cases here analyzed, the major part of the actual change process has taken place in Finland, even if the companies studied have operations abroad. Having had access to cases from outside Finland may have provided additional insights. This issue is further elaborated on in section 6.6 when discussing the limitations of the study.

All but the Aktia case have been analyzed and originally written without the objective that they would become a part of a dissertation. In this respect the study has been close to the ideal of starting from "the idea of no theory under construction and no hypotheses to test".

*Crafting instruments and protocols*

Data collection in a clinical study enables access to confidential material that normally is not available to researchers. On the other hand the close relationship between the researcher and the object makes the risk for bias obvious. In this study, the amount of material available for preparing the cases has been very extensive. At the same time the question of selection becomes important. Therefore, there has been a conscious effort to include as much archival sources as possible (formal reports, protocols, press clippings, annual reports etc.) to counter-balance the perceptions that the researcher has gained as an actor in the studied cases.

Eisenhardt (1989, p. 538) discusses the use of multiple investigators as a way to enhance confidence in the findings, adding to the empirical grounding of the hypotheses. In this case, the preparation of the material has been based on a conscious effort to validate the case material in different ways.

The Finnish Fur Sales material has been iterated four times with a member of the 1999 management team, who was only superficially involved in the second FFS case and not employed in the company during the first case. This iteration of a substantially more detailed version has been an attempt to reduce bias.

The ABB Fläkt case was thoroughly evaluated in 1995-1996 when the case was prepared for publication, and was then commented and approved by two of the senior executives that themselves participated in the process.

The initial mini-case of Metsä-Serla was presented to and approved by two senior executives before presentation in the Phoenix paper in October 1996. The full Metsä-Serla case was in the spring of 1998 presented for the first time to another senior executive, who actively participated in the project, but who at that time was no longer employed by Metsä-Serla. After that the case has been evaluated and commented three times by a member of the executive team of Metsä-Serla as of 1999, who himself was not involved in the process but could observe it from another part of the Metsäliitto organization.

The Aktia case was presented to the managing director for the first time in early 1999 and further commented in the spring and autumn of 1999.

The first version of the Tamrock case was presented to a member of the management team in 1997 and approved for publication in the mentioned paper. The final version has been discussed in the autumn of 1999 with the President of Sandvik Mining and Construction.

In addition to the above-mentioned validation of the results with the participating companies, two of the cases (Metsä-Serla and Tamrock) were subjects of internal case writing exercises for junior professionals within SMG. This exercise also provided additional insights which is acknowledged here.

*Entering the field*

In this study the field was actually entered before the formal research process began. Eisenhardt (1989, p. 538) notices that a striking feature of research to build theory from case studies is the frequent overlap of data analysis with data collection. She also refers to Glaser and Strauss (1967) who argue for joint collection, coding, and analysis of data. This is what has happened in this study. Field notes are in this project the actual documentation of the managerial work that the author had in Finnish Fur Sales (containing more than ten thousand pages of archived documentation that has been the basis for the analysis of that particular case), and the project documentation of respective consulting projects for the four other firms, containing several thousands of pages of project-related material for each company.

The data gathering in respect to Finnish Fur Sales meant unlimited access to material for the period 1981-1992 as the author during these years was a member of the management team. Relevant data for later events is gathered from annual reports.

Data gathering from the ABB Fläkt case was based on eight interactive workshops with ABB Fläkt management during the period 14.10.1991 - 16.4.1992 (Appendices 7 and 8), a number of additional interviews and meetings with ABB Fläkt managers, and several interviews with customers of ABB Fläkt. All these activities were part of the consulting project, but as they were well documented, they have retrospectively provided the data for the ABB Fläkt case descriptions.

The Metsä-Serla case is based on a consulting assignment 1991-1996. In this assignment the author was in regular contact with the top management of Metsä-Serla, including Mr. Timo Poranen, CEO, and Mr. Christian van Niftrik, Senior Executive Vice President. The stream of projects (see Appendix 10) generated substantial project documentation, including public material such as annual reports, internal memorandums, etc., based on which the case description is made.

Both in the Aktia and Tamrock cases the author worked as a consultant directly reporting to the CEO (Mr. Horelli in Aktia and Mr. Jakobsen in Tamrock). In these cases project documentation has been used as primary data source, which later has been complemented with archival material such as annual reports and press clippings, and finally evaluated and cross-checked with representatives from the case firms.

*Analyzing data*

Eisenhardt (1989, p. 539) notices that analyzing data is the heart of building theory from case studies, but it is at the same time the most difficult and the least codified part of the process. She recommends having a formalized way of doing the within-case analysis. This recommendation was also presented by Kjellén and Söderman (1980) who suggested starting with a historical analysis presented in two phases. First, a longitudinal description of the history of the firm should be presented. Second the critical events should be analyzed in more detail. The longitudinal study should include information about important events in the environment of the firm, changes in the ownership structure, changes in the production processes of the company, changes in the product /market mix, and changes in the organization of the firm. The analysis of the critical events should investigate the background of these events, the actual event itself, and the consequences of the event. When making both the historical analysis and the analysis of the critical events one should combine an actors-based (or phenomenological) perspective and a systems-oriented perspective.

In this study, this recommendation is adopted in such a way that each case is documented as follows:

- a short background of the company and the context of the decision to enter a business model renewal process
- a longitudinal description of which activities took place before and during the process of increasing customer orientation
- an analysis of the settings for the implementation using the framework for business model dynamics
- an analysis of the implementation process using the process model of increasing customer orientation

The ambition with this structure is to enable the reader to become intimately familiar with each case as a stand-alone entity. This process should allow the unique pattern of each case to emerge before the investigator pushes to generalize patterns across cases (Eisenhardt, 1989, p. 540).

The cross-case comparison should look at the data in many divergent ways to counteract tendencies of reaching premature and even false conclusions because of information-processing biases. The discussion part of the study (part 6) provides cross-case analyses in several ways. The findings of each different case are compared across all cases to identify similarities and dissimilarities between the cases. Successful cases are compared to less successful ones. Implementing customer orientation in a derivative mode is compared to implementing customer orientation in a proactive mode. This way, within-group similarities are coupled with intergroup differences in a multitude of ways.

*Sharpening hypotheses*

Eisenhardt (1989, p. 541) notices that from the within-site analysis plus various cross-site tactics and overall impressions, tentative themes, concepts, and possibly even relationships between variables begin to emerge. The central idea should be that the researcher should constantly compare theory and data - iterating toward a theory which closely fits the data. Eisenhardt recommends sharpening the hypotheses through the sharpening of constructs.

Normann (1976) has emphasized that the use of case studies is valuable only if the case studies can be compared against something. He presents four alternative comparisons:

- other cases
- formal theories
- ideal stages and ideal types
- "traditional norms and perceptions"

In this study, the case studies are compared against each other, but also against the research model, which represents a formal theory.

The research process documented in this dissertation proceeded for the period 1989-1998 with a quite vague connection between the theory and the empirical material. The process was genuinely driven by the data and the findings that unfolded during the iterative reflective process around the cases. Not until the researcher closely interacted with the supervisor and the examiners in spring 1999 did the final connection between the theory and the case findings emerge. The refining of the definition of the construct of hypotheses in spring 1999 was guided by a constant comparison between data from the cases and previous constructs. Gradually, the evidence from the cases started to converge on a single, well-defined construct.

This research process therefore resulted in a construct whose definition and measurement emerged from the analysis process itself. It was not specified a priori, but it was an outcome of the study. The final step was thereafter to make the last analysis of each case against the final construct. The underlying logic for the validation of the construct is therefore replication, that is, the logic of treating a series of cases as a series of experiments with each case serving to confirm or disconfirm the hypotheses (Yin, 1984). Each case is analogous to an experiment, and multiple cases are analogous to multiple experiments.

*Enfolding literature*

Eisenhardt (1989, p. 544) notices that an essential feature of theory building is the comparison of emergent concepts, theory, or hypotheses with the extant literature. A key to this process is to consider a broad range of literature. The role of literature in this study has been twofold. First, the literature has had the role of supporting the creative part of the work that has resulted in the definition of a number of new concepts. Second, the literature has provided the essential building blocks to connect the findings of this study with the existing body of research.

This study originally had two major literature streams as its basis: the industrial organization tradition represented by Porter and the business idea and interactive strategy frameworks represented by Normann and Ramírez. The interactive strategy framework was in itself an attempt to build a theory to challenge the industrial organization perspective. It was, however, not academically grounded well enough to provide the basis for a thesis. Because of this, the emerging school of competence-based management became in 1995 an important complementary source of literature that supported the research process. The competence-based strategic management perspective provides a dynamic, systemic, cognitive, and holistic perspective on management (Sanchez, Heene, 1997c) and is very complementary to the writings of Normann and Ramírez. Originally Normann and Ramírez had addressed the interactions with customers, and less so the competence-related issues, even if they defined an organization's competences and customers as the only two resources that really matter in today's economy (Normann, Ramírez, 1993). The role of individual customers was again less emphasized in the school of competence-based management. It was therefore felt that combining the interactive strategy perspective with competence-based strategic management would provide a good theoretical basis for this research.

To support the development of the research model, a number of new concepts have been introduced. The four most central ones all have their origin in existing literature. (i) The value-creation framework is an operationalization of the Normann, Ramírez notion of interactive strategy. This operationalization took place in 1992-93. (ii) The three-dimensional offering emerged as a tool in a consulting assignment in 1993. This tool was very much an application of the service management thinking (Grönroos, 1978, Normann, 1983). (iii) The firm as an open system was a concept developed by Sanchez and Heene, and presented to the author in mid-1995. This concept has been somewhat extended in this study. (iv) The notion of business model as the component addressing value creation within the notion of "strategic logic", also presented by Sanchez and Heene. The business model is a key element in this study, providing the possibility to operationalize customer orientation and see customer orientation as one possible focal area of a business model.

The role of literature has also been important in the formulating of the construct and connecting the construct with previous research. The examiner made some important comments on earlier versions of the manuscript, the most important one being to use organization theory as a source when formulating the hypotheses. Complexity theory applied for organizational development proved to be an important piece in the puzzle.

*Reaching closure*

Eisenhardt (1989, p. 545) lists two issues of importance in reaching closure: when to stop adding cases, and when to stop iterating between theory and data. She makes the observation that a number of cases between four and ten usually works well. In this study the number of cases is seven, originating from five companies. There were potentially additional cases that could have been added, but the feeling of the researcher was that additional cases would have brought only limited further insights into the area of research. Practical considerations such as time and costs also supported stopping at the number of cases now selected.

The issue of iterating between theory and data has been more openly approached. When the decision was made to collect the findings from the individual case studies into a dissertation in 1997, no definite time limit was defined. In mid-1998, when the project was presented to the examiner, it was however indicated that the ambition was to finalize the project within a year. As spring unfolded in 1999, the urge to finalize the project also meant that considerable efforts in respect to time were made to connect the theory and data. In May 1999 the author reached the conclusion that further iterations would not improve the understanding of the research problem. This interpretation could also be compared to the discussion Normann (1977) has about the question of the researcher's cognitive interest. Normann notices that problems arise when we consider the innovative cognitive interest - the question of what is beautiful. The range of states which can be described as beautiful is great, and the possibly relevant values systems are complex. Ultimately the question is how to establish clear criteria by which to judge the work of an artist. In this case the work itself has to be evaluated by the observer, in its totality and its details. The artist can only leave the judgment to the observer.

### *4.1.3 Methodological concerns relating to clinical studies*

The case firms of this research are ones in which the author has been involved either as manager or as consultant. The role of the author has in all these cases been to participate as a decision maker in the processes here described.

Autio (1995, p. 39) reflects on the role of the decision maker as follows:

> Economics, being a branch of social sciences, is by nature closer to philosophy than to natural sciences. Its main aim is to understand the functioning and dynamics of economic systems. Typical for economics is that the phenomena under study seldom can be measured or described accurately and comprehensively. For example, the behavior and success of industrial firms is affected by a broad range of variables, for example, the various motivations affecting the behavior of the individuals, are often not fully comprehended even by the individuals themselves.

The last sentence is intriguing. If the individual does not comprehend his or her own behavior, how will this affect the outcome of a clinical study in which the primary role of the researcher has been to participate actively in the decision making. Yin (1984, p. 86) notices that participant observation provides certain unusual opportunities for collecting case study data, but also involves major problems related to the potential biases produced.

Normann (1977) sees the issue of validation as one of the more difficult issues concerning case studies. Also, Hedlund and Hägg (1978, p. 12) discuss the use of case studies to verify hypotheses:

> Moreover, the kinds of hypotheses advanced from rich lose study material may be of a character that does not permit translation to hypotheses about simple relations between distinct variables. In this case, the richness of the hypotheses demand a corresponding depth in the testing of the hypotheses.

Yin (1984) has presented case-study tactics for construct validity, internal validity, external validity, and reliability. How the issue of validation has been approached is discussed extensively in section 6.5. Using different tactics for validity and reliability, the author has tried to address the major risk related to the clinical approach: the risk of bias. In spite of these measures some qualifications are needed. The findings and the developed conceptual model are subjective interpretations of an empirical phenomenon. These interpretations are affected by both the pre-normative assumptions of the author, and by the sample that have been selected for study. Thus, the results presented here have to be judged primarily based on how well they can be generalized.

## *4.2 Testing of hypotheses*

### *4.2.1 Operationalization of variables*

The cases on which the hypotheses are tested are ones in which the author has been involved in strategic decision-making processes. Now, retrospectively, these processes are analyzed to generate a better understanding of what actually happened. This understanding, in turn, is evaluated against a suggested framework, which is developed in chapter 2. In this framework, grounded in the literature, new constructs are developed. Consequently, both the description of what actually happened as well as the framework for analyzing what happened are developed by the author. This means that the risk for bias is considerable. To address this there is a need to operationalize the defined constructs as far as possible, but without moving into an area where one tries to "quantify the non-quantifiable". The operationalization here presented is therefore defined in such a way that after the descriptive part of the case presentations (chapter 5), each case is analyzed using the operationalization of the variables (in chapter 6). Through this procedure the highest possible objectivity has been sought for in respect to evaluating the results from the case studies.

To test the hypotheses, the first step is to operationalize the dependent and independent variables.

A process of business model renewal is considered to have been one of increasing customer orientation if (i) there has been an explicit decision by management to change the business model, and (ii) top management explicitly, prior to the decision or immediately after the decision, communicates that an ambition to become more customer oriented has been a major reason for the decision to change, and (iii) the decision is of such a magnitude that it has an implication on competence building within the firm.

*Offering vision and managerial perceptions of opportunities (independent variable)*

The cause of change is either a clear vision of a future offering or a more subtle perception of an emerging opportunity. There is a clear vision when the decision-making coalition up front can describe the outcome of the change process in the form of new offerings. If the future state does not have a clear vision of the future offerings, the cause is regarded as managerial perceptions of opportunities.

*Derivative and proactive change (dependent and independent variable)*

The change has been derivative if the decision was recommended directly to the board by outside advisers, if it was derived from a merger or an acquisition, if it was an apparent reaction to a significant move (or intended move) by a main competitor, if it was communicated as a measure to close an identifiable capability gap, or if it was communicated as a way to get out of a crisis.

The source for change is proactive if the decision was derived through internal activities, e.g. a policy decision at a higher level in an organization, or if the change process was the idea of the chief executive officer and is not communicated as a derivative measure to address some existing dissatisfactions.

The source for change has to be discussed in each case, but it is argued that the major reason for change should be identifiable as either derivative or proactive at any moment of time of the change process.

*Ordinary and extraordinary management (dependent and independent variable)*

The implementation is considered to have occurred through ordinary management if management shares the same mental models or paradigm, choices are made according to some approximation of technically rational criteria, and there is agreement on what the business is all about and with what kind of environment it has to cope.

Extraordinary management is considered to have prevailed when the situation is characterized by contradiction and tension, it is outside the rules of an existing paradigm, and the process proceeds through persuasion and conversion requiring the contribution of champions. Consistency or harmony does not prevail, but the situation is one in which new paradigms emerge from the confusion created by anomalies and the contradiction of the existing paradigm. Extraordinary management is the use of intuitive, political, group learning modes of decision-making, and self-organizing forms of control.

As with the question of change approach, the question of implementation strategy has to be discussed in each case. The implementation process is, however, argued to be one of primarily ordinary or extraordinary management at any moment of time of the change process.

*Capability building (dependent variable)*

For each of the seven categories of capabilities, the amount of activity to build the capability is measured during the launch and implementation of the new business model. Each capability-building effort is measured on a three-level scale: no or an insignificant amount of activities identified (0), the company itself explicitly communicating a change in activity level in connection with the business model renewal (2), something in between the two previous alternatives (1). Business modeling and resource integration will be measured and reported as an aggregate capability. All other capabilities will be reported individually in accordance with the definitions in section 3.1.3 and Figure 8. The operationalization of the capabilities is presented in Table 3.

*Table 3 The operationalization of the degree of capability building*

| *Capability* | *Description* |
|---|---|
| Culturing, role modeling | The CEO or head of business unit addresses the whole organization through some program declaration which identifies the implications of the new business model on the corporate values. |
| Culturing, socialization | Socialization has happened if there have been systematic efforts to increase the opportunities for top (and middle management) to regularly meet and exchange opinions also under less formal conditions. |
| Business modeling, conceptualising | Top management has defined and communicated clear goals for the implemented new business model, and these goals are measurable and the action plans to reach these goals are communicated throughout the organization. |
| Change management | Top management appoints somebody to be in charge of change management, and the change process is continuously followed in the management meetings, and the CEO or head of business unit is personally communicating the results of the change process to the rest of the organization. |
| Constellation management | Top management creates tools to get a holistic picture of the value constellations wherein the firm is involved, including detailed information about individual customers. The picture of the value constellations is regularly updated, and the top management team has explicit discussions and makes decisions about how the firm wants to dynamically position itself within these constellations. |
| Internal coordination | Top management creates tools to have a continuous follow-up of the activities related to the implementation of the customer-oriented business model, such as customer based budgeting, customer based reporting, key account reporting, customer information systems and customer profitability analysis. Top management also initiates processes with responsible persons to explicitly handle these administrative routines. |
| Resource integration | Top management together with business unit management is actively improving cross-divisional activities and integration between the firm and its addressable corporate and external resources. |
| Transformative | Business unit management is actively pursuing activities to develop new offerings with the explicit ambition to design new bundles of offering elements, considering all three dimensions of the three dimensional offering. |
| Customer interaction, customer intelligence | Institutionalized efforts to collect, analyze, and internally distribute information about customers. |
| Customer interaction, customer linking | Customer linking activities include institutionalized customer specific programs aiming at strengthening the ties between the firm and its customers. |
| Generative, innovation | Business unit management is actively pursuing activities to develop product or service elements (innovation). |
| Generative, execution | Business unit management is actively developing its processes (execution). |

*Success of implementation of customer orientation (dependent variable)*

Success is measured on a three-level scale: highly successful, moderately successful, or unsuccessful implementation.

A highly successful implementation has

(i) resulted in a permanent change towards a more customer-oriented business model (identified through the fact the language used by the chief executive officer at the moment of launching the new business model, which refers to the ways the firm wants to be more customer-oriented, still appears in the language three years later),
(ii) changed the offering mix, and
(iii) improved the financial performance of the firm after the adoption of the new model.

A moderately successful implementation is one which has not led to a permanent change towards a more customer-oriented business model, but affected the offering mix and improved the financial performance subsequent to the process of increasing customer orientation.

If only one or none of the two last criteria have been fulfilled, the implementation is considered to have failed.

### *4.2.2 Testing hypotheses within and across cases*

Each case is longitudinally described in chapter 5. This description contains the information that is used for the operationalization of the variables and the subsequent testing of hypotheses. The actual within-case testing of hypotheses is presented in chapter 6. After each case is analyzed as a separate entity, the across case analyses is conducted.

# 5 CASE STUDIES

*In this chapter seven cases from five different firms are longitudinally analyzed. The analyses describe the dynamics of the process of increasing customer orientation in each respective case. Each description initially presents the background of the firm, where after a longitudinal presentation is given on the events prior to, during, and immediately after the process of increasing customer orientation.*

*Subsequent to the longitudinal presentation, each business model transition is analyzed using the framework for business model dynamics. The framework for business model dynamics provides the guidance for which activities to describe and analyze. Activities causing a transformational change of the business model are analyzed by identifying the external causes for change (in the contextual and transactional environments as well as within the value constellations), feedback from customers, internal causes driven by the decision makers, and changes in the values and the value-creating activities of the firm.*

*Finally, the full business model renewal process of each case is summarized based on the model of increasing customer orientation.*

## 5.1 Finnish Fur Sales; the period 1978-1998[47]

### 5.1.1 Background

Historically fur was a commodity obtained over vast, inaccessible, thinly populated, northern areas during the winter seasons. Originally the primary source of furs for international trade was from Siberia. It is known that in Irbit, at the confluence of the Irbit and Niza rivers, there were annual fur trading fairs organized as early as 1643. (Innis, 1927, p. 128)

Finnish fur farming started in 1916, when the first silver foxes were imported to Finland from Norway[48]. By 1928 there were 15 fox farms in Finland. The same year the Finnish Fur Breeders Association (FFBA) was registered. The first mink farm was established in the beginning of the 1930s. During the war the market for silver fox skins collapsed, and by the beginning of the 1960s the global production of farmed fox skins was less then 200,000 skins, and Finnish

[47] The source material for writing the Finnish Fur Sales case consists primarily of internal, not published, documents. Two publications have provided the historical background: Finlands Pälsdjuruppfödares Förbund, r.f.: 50-års Festpublikation (1978) and Qvist, Å. (ed.) Turkistuottajat Oy:s historik, 1938 - 1988 (1988). In case there has been another public source used, as for example an annual report, this is specifically indicated in the text.

[48] The first pair of silver foxes had been imported to Norway from Canada in January 1914 (Norges Pelsdyralslag, 1951).

production had gone down to less than 2,000 skins, from its peak of more than 30,000 skins in 1950.

At the same time that the production of fox skins declined, mink skins emerged as the leading farm-produced fur article. The Finnish production of mink skins exceeded in 1950 for the first time 50,000 skins, and ten years later the production was already 500,000 skins.[49] In the 1960s, fox skins regained interest as raw material for the fur industry, and Finland established itself as the leading producer of fox skins in the 1970s.[50]

In the mid 1930s, numerous international auction companies competed for the Finnish farmed fur skins.[51] In an attempt to coordinate the marketing of skins, FFBA made an agency agreement with the Swedish/Norwegian auction company Nordic Fur Auctions in 1936.[52] This auction company was seen as an efficient and reliable auction house, and was at that time the market leader in the selling of fur skins produced in the Nordic countries.

The role of collecting skins within the agency agreement was however not seen as the right long term solution, as FFBA was an association. Because of this FFBA in 1938 established Turkistuottajat Oy (FFS). The role of this company was to "take care of the trade with fur skins and equipment for fur farming", and it immediately took over the role as an agent for Nordic Fur Auctions. Turkistuottajat Oy (meaning "The Fur Producers") was in 1969 registered as Turkistuottajat Oy - Finnish Fur Sales Co Ltd. In 1995 the official name was again reduced to Turkistuottajat Oyj, but Finnish Fur Sales was maintained as a trade mark. Throughout the text FFS is used as the abbreviation.

The first auction of Finnish fur skins was held in Helsinki January 23-24, 1941. This event was mainly for domestic buyers. The first international auction to be announced took place in February, 1950. The offering consisted of about 19,000 fox skins, 9,000 mink skins, 1,000 fitch skins and some nutria skins. Buyers participated from England, Italy, Switzerland, USA, Norway and Finland.

The auctions in Helsinki gradually grew in importance, and they were regularly visited by buyers from all the leading market areas. Compared with the development in the other Nordic countries, however, the Finnish production of mink skins remained low. By the late 1950s the Finnish mink production was less than 300,000 skins as the Swedish production was about one million skins,

[49] The peak of the Finnish production of mink skins was in 1985 with 4,6 million skins produced.

[50] The peak of the Finnish production of fox skins was in 1986 with 3,3 million skins produced.

[51] At least the following auction houses advertised in the farmers magazine published by FFBA: Hudson's Bay Company, London; C.M. Lampson & Co Ltd, London; London Fur Sales Ltd, London; Henry Kiver & Co, London, and Rauchwaren-Versteigerungs A/S, Leipzig.

[52] Later Nordic Fur Auctions became a wholly owned subsidiary of the Swedish Fur Breeders Association.

Denmark produced close to one million skins and the Norwegian production was around 700,000 skins.

Because of the relatively weak competitive position as a producer of fur skins, the Finnish fur breeding community had been looking for cooperation with its Scandinavian counterparts for quite some time. Already in the 1930s the first contacts were made, but not until 1948 was the cooperation formalized through establishment of a joint committee called "Nordic Committee for Cooperation" (Nordiskt samarbetsutvalg). The committee aimed at protecting the interests of Nordic fur farmers in international negotiations regarding trade barriers, coordinating technical standards regarding pelting, grading and presenting the skins for international buyers, exchanging information, and coordinating projects concerning the marketing of skins.

A further step towards closer Nordic cooperation was taken in 1954 when the Scandinavian Fur Committee, later Scandinavian Mink Association (SMA) was formed. The objective of this organization was to promote the Danish, Finnish, and Norwegian mink skins on the world market. The promotion was mainly based on advertising using the trade mark SAGA MINK.[53]

In the beginning of the 1960s, the idea of one large international auction house in the Nordic countries was raised on several occasions. The main reason for the Finns to actively pursue this effort was the relatively smaller amounts of skins produced in Finland compared to the other Nordic countries. As a result of these negotiations, the first trial joint Finnish-Danish auction in Copenhagen was arranged in May 1963. In June the same year, the board of FFS decided to make a one-year contract regarding joint Finnish-Danish selling in Copenhagen. The counterpart in this agreement was the Danish fur auction company, Danish Fur Sales (DFS). This decision was contrary to the recommendation and opinion of the managing director at that time, Mr. Mauno Jalanka.

The joining of the Finnish and Danish resources implied that the Copenhagen auctions became the leading fur auctions in the world. For the auction season 1963-64, the offerings consisted of 1 500,000 Danish and 750,000 Finnish mink skins. The results of the first season were satisfying for both parties, and the contract was renewed for a period of three years.[54]

The Finnish production of fur skins grew rapidly in the 1970s. In 1972 Finland was the biggest Nordic producer of mink skins with a production of 3 million skins. The increased production required FFS to look for additional space. The

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[53] In 1967 also the Swedish fur breeding organization joined the SAGA cooperation, and in the 1970s this organization started to promote fox skins, and the name was changed to SAGA Furs of Scandinavia.

[54] Based on additional successive renewals the cooperation lasted until spring 1983.

farmer representatives in the board were very strongly advocating that the expansion of FFS should be at least partly accomplished by bringing some of the functions to the Vaasa region. Vaasa, on the Finnish west coast 400 kilometers north of Helsinki, was in the middle of the fur breeding area, with 80 % of the production taking place within a radius of 100 kilometers. The decision on the building site led to a fairly intense struggle. The management, with Mr. Jalanka, the managing director, and Mr. Juhani Moisander, at that time sales manager of FFS, were the main spokesmen for a location in the Helsinki area. Ultimately they convinced the board to follow their recommendation. The final decision resulted in FFS buying an industrial site 15 km from the center of Helsinki in the Varisto area, in Vantaa. This deal was completed on July 6, 1976.

In 1980-81 Finnish fur production consisted of 3.8 million mink and 1.5 million fox skins (the figures for mink include fitch skins, and the fox figures include finnracoon skins). The corresponding Danish production was 3.9 million mink and 100,000 fox skins. Finland had hereby clearly surpassed Denmark as the leading fur producer in the world. The implications from this were threefold:

- the increased volumes raised the commission income for FFS considerably;
- due to favorable tax legislation FFS was able to use deprecations without limits when building its new premises (of which the first building phase was completed in June 1978), and thus further consolidate its financial position;
- the competitive position of FFS was reinforced; in the annual report 1978/79 management proudly stated that "our company has further strengthened its position as the globally leading marketer of farmed fur skins".

The 1978/79 annual report also included a company mission for FFS:

> Finnish Fur Sales Co. Ltd. is a company owned by the Finnish fur farmers. Its mission is to secure the continuity of the farming and guarantee Finnish fur farmers the best possible financial result by (i) being responsible for the grading, marketing and sales of the fur skins produced by the farmers, (ii) securing the financing of the farmers during the breeding season, and (iii) keeping the service level to the farmers high and representing the interests of the farmers externally.

### *5.1.2 The resumption of full scale auction activities in Finland*

The joint sales agreement between FFS and DFS was re-negotiated in 1978. This time the negotiations were quite difficult. The rapidly increasing Finnish production, primarily in fox skins, forced DFS to expand its premises to be able to sell, store, and ship the skins. The Danes wanted to be compensated for the necessary investment in fixed assets to handle the increasing volumes. For FFS, however, it was difficult to accept that Finland, as the biggest fur producer in the world, should finance investments in property for the Danish fur auction company. The Finnish negotiators felt that the Danes were squeezing the Finns into a deal that was financially unacceptable, based on a belief the Finns would have no choice. The Finnish party seriously considered an alternative to resuming full scale auction activities in Finland from December 1980 forward.

Mr. Juhani Moisander, managing director for FFS as of January 1, 1978, presented on February 22, 1978, a calculation which showed considerable cost savings if the auctions would have been transferred to Finland.[55] The board still decided to continue the cooperation with DFS, and the agreement was signed on January 27, 1979.

The agreement between FFS and DFS included the possibility for FFS to arrange its own auctions from June 1 to December 6. This clause was included to enable FFS to arrange test auctions during the term of the agreement, until the end of September 1983. FFS had thus created the possibility of resuming international fur auctions on Finnish soil, after an interruption of almost twenty years.

Mr. Moisander was becoming more and more convinced that it would be possible to have full scale fur auction operations in Finland as of December 1983. For him this had been a personal dream for many years. When negotiating about the site for the new premises in the early 1970s, one requirement was that the site could facilitate an expansion into a full fledge international auction center.

In June 1980 Mr. Moisander agreed with the author about the terms for him to become business development manager and coordinator for the activities to bring back the auctions to Finland.[56]

The first test auction, containing an offering of 200,000 fox skins, was arranged in Finlandia Hall in Helsinki November 29 - December 2, 1980. The auction was a big success. It was immediately decided to repeat the same arrangements in 1981 and 1982, starting the international fur auction season with a Finnish fox auction in the beginning of December.

Having started to actively prepare for the possibility of bringing back all auction activities from Copenhagen to Finland, the boards of FFS and FFBA in 1980 initiated a fairly large consulting study with the aim of clarifying the roles of the different organizations within the Finnish fur breeding community. They also arranged for the possibility for auction buyers to make a one day trip from the Copenhagen auction to visit the Varisto Fur Center in May 1980.

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[55] Similar results had been presented by Mr. Jalanka during the previous negotiations in 1976.

[56] The author had been a trainee since June 1978, and joined FFS as a permanent staff member May 1, 1981.

The organizational study concluded that the Finnish fur farming community was very production oriented. It had not exploited the international potential it derived from its leading position as a producer of farmed skins. The study recommended a rapid increase of the professionalism in the companies and organizations within the Finnish fur farming community. Improvement of marketing intelligence and an increased market orientation were seen as the most critical measures needed.

In 1981 FFS initiated a market survey, whereby almost 200 fur buyers were interviewed regarding the re-establishing of full scale auction activities in Finland. This survey addressed four areas: the price differences between Finnish and Danish mink skins, the issue of bringing the auctions back to Finland, the sales and marketing policies for Finnish skins, and sales promotion and PR through the joint SAGA marketing organization. The conclusion was clear support for the resumption of full scale auction activities in Finland.

The sales agreement with DFS had to be re-negotiated or notice had to be given by the end of September 1981. The management of FFS supported the idea of its own auctions, but it was evident that the farmer representatives of the board were hesitant. The most critical issue was whether the mink skin prices fetched in Denmark could be achieved in Helsinki as well. As the quality of Finnish mink skins was not fully up to Danish standards, the Finnish farmers suggested to DFS that the Danish and Finnish brown mink should be inter sorted in joint collections. This way it was felt that at least the best Finnish mink farmers would fetch the same price levels as their Danish counterparts.

The decisive negotiation was in Mariehamn on June 30, 1981. In this negotiation the Danish negotiators, and especially the Danish chairman, Mr. Anders Kirkegaard, took a very firm position against the Finnish suggestion regarding inter sorting. After this meeting, all farmer representatives of the board confirmed to Mr. Moisander that they now were in favor of bringing the auctions back to Finland. The formal decision was taken in the board August 12-13, 1981. The press release mentioned that both the opinion of the international fur trade and the cost factors supported the decision, and that the farmers expected the Finnish auctions to have a positive impact on the future price levels of Finnish skins. It was also added that the auctions would stimulate the overall Finnish economy due to numerous ancillary services related to the auctions.

The auction decision initiated an unprecedented high level of activity within FFS. Everybody had hoped for this decision in many years, but still there had been great doubts about the possibility of its realization. The whole FFS organization worked together to make sure the Finnish auctions should be successful. The competitive situation as of 1981-82 is depicted in Appendix 1.

FFS was the market leader in foxes. DFS was the market leader in mink. The Copenhagen auctions also comprised the Swedish production of mink skins.[57]

In a 1982 company brochure Mr. Moisander clarified the product strategy: FFS wanted to be the leading auction venue for fox, finnracoon, and fitch skins. Based on this superiority, buyers would be attracted to the Finnish auctions and thereby increase the demand for mink skins as well. In another brochure Mr. Moisander stated:

> FFS is the largest national auction company, judging by its sales value...we are constructing what will undoubtedly be the most modern auction facilities in the world...we strive to be pacesetters and innovators in a tough industry.

The management team for the auction preparations consisted of Mr. Moisander, Mr. Staffan Slotte, finance director, Mr. Kaj Eklund, sales manager, Ms. Pirkko Rantanen, auction service manager, and the author, who was coordinating most of the activities relating to the auction project in the position as business development manager. This team was supported by the new chairman of the board, Mr. Holger Wester, who took over for Mr. Lennart Östberg on January 7, 1982. Most of the international issues relating to the resumption of the auction activities were handled by Messrs. Moisander, Slotte, Wallin and Wester.

When the decision was taken the management team immediately considered the possibility that DFS would retaliate against FFS and start to collect Finnish skins for their auctions in Copenhagen. Therefore it was considered as utmost important to make sure that the loyalty of the Finnish farmers was maintained. One measure in this direction was to further intensify communications to the farmers. For example, the annual report 1980-81 including ample editorial material (e.g. about the decision to transfer the auctions back to Finland) was distributed to all Finnish farmers, with the intention of further strengthening the position of FFS amongst the farmers.

Preparations for the start-up of Finnish auctions took place in parallel with continuing for two years joint auctions with DFS in Copenhagen. This enabled FFS to make very detailed competitor intelligence, as the Copenhagen auction center at that time by far was the most efficient and representative one in the world. As an example, the author took very detailed measurements of the sizes of inspection tables, heights of steps in the auction rooms etc. to make sure that no detail was overlooked when the FFS auction center was planned.

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[57] DFS had an agreement of collaboration with the Swedish auction company Nordic Fur Auctions.

The preparations for the resumption of full-scale auctions were concentrated into three areas: marketing activities targeting farmers, preparation of the internal activities at the Fur Center, and marketing activities targeting the international fur buying community.

*Farmer marketing*

Marketing targeting the farmers consisted of several activities. A newsletter was issued three times a year. A new insurance package was developed for the farmers, including fire protection of the farm free of charge for all farmers that supplied FFS. Different forms of farmer meetings were arranged. The fox auctions in the Finlandia hall in December 1981 and December 1982 were used as marketing events for the farmers, and hundreds of farmers visited these auctions. The auction results were reported in a way enabling more sophisticated statistical comparisons than previously.

The annual general meeting decided October 21, 1982 to raise the share capital from FIM 3.75 million to FIM 12.5 million. This issue was offered to the farmers at a competitive price.

In 1982 the Norwegian Fur Breeders Association revealed its interest in the possibility of selling the whole Norwegian fur production in cooperation with FFS. The Norwegians recognized that the new situation with auctions both in Helsinki and Copenhagen would enable third party suppliers to negotiate favorable sales conditions if the two auctions companies were made to compete against each other.

FFS was not expected to have more than the role of securing the best possible conditions for a Norwegian-Danish deal. The Finnish auctions were not yet even ready. It was considered as improbable that the majority of Norwegian farmers at this stage would take the risk of entering into an agreement with FFS.

The decision by the Norwegian farmers was made in the annual meeting of the Norwegian Fur Breeders Association in Oppdal on June 27-28, 1983. The final result was that a close majority voted in favor of the Finnish alternative.[58]

The Finnish-Norwegian agreement meant that all Norwegian mink skins were fully inter sorted with the Finnish mink skins, and sold in Vantaa. 13-15 % of the Finnish blue fox production was partly inter sorted with Norwegian fox skins, and sold at the auctions in Oslo. The agreement was for ten years, with a trial period of two years, based on which the Norwegians could terminate the agreement after the third season.

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[58] The joint sales agreement between FFS and Oslo Fur Auctions (OFA) was signed in Oslo on August 18, 1983.

The fact that the Norwegians voted against Denmark was a big disappointment for DFS, and especially for the chairman, Mr. Kirkegaard. It was rumored that immediately after the decision, he had suggested to the board of DFS that DFS should start to solicit foxes in Finland to secure a big enough fox collection for the Danish auctions. The DFS board however did not support this suggestion.

*Internal preparations*

The activities to prepare FFS for its role as a full service auction house were based on the service marketing concept.[59] The measures to improve the services were focused on four areas: the physical design of the premises, information technology, training of the personnel, and third party services.

The physical layout of the premises was designed to enable a smooth and efficient working environment for the international buyers. The auction room, the invoicing, shipping and telex rooms and the restaurant were all located centrally within short distance from each other. The auction center hosted a full fledged bank office, it was equipped with numerous restrooms, and for the biggest buyers it was possible to rent permanent offices within the building. The auction room was purpose-built to meet the requirements of the most demanding buyers. The warehouse and grading halls were designed to make sure that once the skins had been paid, the shipment would leave within the shortest possible time frame.

In 1981 FFS made the decision to use the IBM S/38 (now IBM AS/400) as its IT-platform (Wallin, 1998c). Using the possibilities offered by the relational database technology, FFS designed and built an integrated auction system that was superior to any system anywhere else in the world. FFS also introduced a direct dialing system, as well as a teletext system providing continuous monitoring of the auction room complemented with news, exchange rates etc. all over the premises.

The management was very particular about having the personnel to meet the expectations of the international buyers. Great emphasis was put on the training of the front line personnel. A separate leaflet was printed to give the temporary workers a good background of the function of the auction, FFS and the Finnish fur breeding community, and the fur articles offered at the auctions. The brochure also included the following statement by Mr. Moisander:

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[59] The author had prepared a masters thesis at the Swedish School of Economics. Three areas of marketing were identified as crucial for the success of an auction company: traditional marketing, interactive marketing, and internal marketing. (Wallin, 1983)

> You are in a key position... Our attitude is decisively important. If we are able to respond positively to situations that evolve in front of us, we have good opportunities. If the customer clearly can see that we understand him and are prepared to listen to him and discuss with him, then he will respect us as a partner. When we in addition to that actively look for and suggest solutions to possible problems, we surely will reach our goal: the customer accepts us and really wants to be our customer.

A brochure about the new auction facilities was distributed to the fur buying community during the first auction season. The services offered by FFS were described as follows:

> An auction company is a service company. International success cannot be achieved on the basis of the collections alone; the services must also be good. We have made every effort to offer our customers the best possible service, including:
>
> - efficient auctioning (fast, reliable auctioneers)
> - flexible invoicing (with a choice of several currencies)
> - easy inspection (many show collections, efficient samplemen)
> - good customer service (knowledgeable, obliging staff)
> - high-class restaurant service (with meals cooked in our own kitchen)
> - modern technical facilities (credit-card phones, switchboard, telex, internal paging system, teletext etc.)

The Fur Center also offered customers airline travel agency services and banking facilities. Forwarding was taken care of by four experienced forwarding agencies. Within the Fur Center there were also a gym and facilities for indoor golf and tennis practice. Bus transportation was provided daily between the Fur Center and various hotels, with whom special rates had been negotiated.

*Marketing to the fur buying community*

The marketing of the Helsinki auctions was supported by the SAGA organization. A variety of sales promotion and direct marketing activities were conducted to spread the message about the Helsinki auctions. For example FFS arranged on August 16, 1982 an information session for the commercial secretaries of countries representing the biggest fur buying potential: Germany, Great Britain, Spain, Italy, USA, France, Japan, South Korea, and Hong Kong. Numerous visits by representatives from the international press were also hosted by FFS during 1982 and 1983.

The main message was to communicate to the buyers that FFS was expecting them. Thus, the invitation to the auction in December 1982 included a notice that "Your chair is under design". The text continued as follows:

> Regular international fur auctions will begin again in Finland in December 1983 after twenty years in exile...The working environment of our customers has been planned down to the most minute details. We have paid special attention to the design of the

> Auction Room chairs. Some of the most famous Finnish designers are concentrating on designing a chair that will satisfy even the most exacting requirements. The chairs, as well as other auction facilities at Fur Center, are being constructed with efficiency and convenience in mind. The staff, finally, is looking forward to seeing you in Finlandia Hall this December and welcoming you to Finnish Fur Center in December 1983.

The first auction in the new Fur Center in Varisto was arranged November 28 - December 2, 1983. The auction offering consisted of 260,000 fox skins. The turnover of this sale was FIM 56 million, and 75 % of the offering was sold. During the two following auctions the prices increased for both mink and fox skins. After the January auction in 1984, the management of FFS was able to announce that the auction had been attended by 460 international buyers of 22 different nationalities. Finland and Varisto had taken its place on the international fur auction map.

The 1983-84 auction season, the first one with full scale auctions in Finland was commented by Mr. Moisander in the annual report as follows:

> We are pleased to report that already during the first selling season our auctions at the Fur Center achieved international recognition and appreciation by fur buyers. The resumption of full-scale auctions in Finland has also enhanced the reputation of Finnish fur skins on the world market. We are thus now in a better position to follow the development of the fur trade and meet the ever changing requirements.

In addition to the favorable reception by the buying community, FFS also enjoyed an increasing price trend during the season. Prices of blue fox skins, the most important item, increased from USD 40 in the opening December auction 1983 to close at USD 60 in the May auction 1984. The management commented on the financial result as follows in the 1983-84 annual report:

> The financial period, which saw a resumption of international auctions in Finland, was reasonably successful. There was a substantial rise in the price level of the skins. The quality of the auctions and the services of the Fur Center were good. At the same time the profitability and solidity of the Company improved, reaching a level commensurate with the heavy investments made during recent years.

During its first operating season, the Vantaa fur auctions became the leading fur auctions by sales volume, slightly ahead of Copenhagen. FFS regarded the global fur producing community as its potential source of supply. FFS management was keen on comparing the competitive position of FFS with other fur auction companies. FFS estimated that the total value of mink and fox skins sold on the open market in 1983-84 was USD 950 million. Of this FFS had a share of about 27% and DFS 26%. The competitive position of FFS in 1983-84 is depicted in Appendix 2.

### 5.1.3 International solicitation

The international supply of fur skins for auctions consisted in the 1980s of six main sources:

- the Nordic mink and fox farmers, selling primarily through their own auctions; with some farmers selling in London through Hudson's Bay and Annings, some selling directly to fur brokers and dealers (Nordic mink and fox skins represented 40-45 % of the value of the global sales of raw fur skins)
- the British-Irish-Dutch mink farming community, selling primarily in the London and Copenhagen auctions and directly to brokers (3-5 %)
- the Eastern European farmers (mink producers in the Soviet Union and fox producers in Poland) and wild fur suppliers, selling primarily in the Leningrad auctions and some quantities in the London auctions (18-20 %)
- North American mink farmers (13-15 %), fox farmers (2-3 %) as well as wild fur suppliers (6-8 %), selling primarily in North American auctions and to domestic fur brokers and dealers, some quantities in London and in Copenhagen (total North America 23-25 %)
- suppliers of karakul lamb skins from South Africa, Namibia and Afghanistan, primary sold in London (3-5 %)
- various suppliers of wild and farmed furs, e.g. Australian red fox, New Zealand opossum, Argentine nutria and Chinese mink, primary sold directly to fur brokers and dealers, some quantities in auctions (3-5 %).

In spite of the growth of the Finnish fur skin production, FFS management was concerned since the Danish production grew even more. DFS also had a much bigger market share in the solicitation of goods outside its own home market. FFS management recognized that to secure the future success of the auctions, FFS also had to be able to compete in the solicitation market, which asked for further development of management capabilities. In 1984-85 Messrs. Slotte, Wester, and Wallin therefore participated in a four-week course on international management arranged by the Finnish Institute of Management. This was in 1985-86 followed by an internal project to develop the internationalization and marketing strategy of the Finnish fur breeding industry. This project group consisted of Mr. Bengt Jansson, chairman of FFBA, Mr. Simo Borén, board member of FFS, Mr. Carl-Eric Holm, managing director of Finnad-Bates (a leading Finnish advertising agency at that time), marketing professor Reijo Luostarinen of Helsinki School of Economics, and the author, who on May 1, 1985 had become marketing director and secretary to the board when Mr. Slotte left the company.

FFS management saw the success in selling Norwegian skins as evidence that FFS could become a true international fur auction house with versatile offerings. Three categories of suppliers were identified as the most interesting ones for expanding the solicitation efforts: fox farmers worldwide (especially in Poland and Canada), Dutch farmers, and the wild fur suppliers in the US. In addition, discussions with the Russian fur auction company V/O Sojuzpushnina had started already in the mid 1970s. It was felt that these discussions would not easily been brought into some concrete actions. The Russians had very close cooperation with Hudson's Bay and Annings, the independent fur auction company based in London.

In spite of strong competition FFS was able to put up the first collection of wild furs in its January 1985 auction, followed by a collection of Polish fox skins in the March 1985 auction. In addition to these collections, fox skins from individual Canadian and Dutch farmers were inter sorted with the Finnish fox collections, as well as mink skins from individual British, Irish and Dutch mink farmers. The quantities solicited from non-Finnish fur farmers, however, remained low. Neither did the following selling season, 1985/86, see any radical increase in the numbers collected.

At the same time DFS was aggressively approaching the Norwegian fur breeding association trying to convince them to reconsider the Finnish-Norwegian cooperation and instead sell their production at the Copenhagen auctions. This lead to a series of negotiations, which in January 1986 resulted in the Norwegian decision to terminate its cooperation with FFS and, beginning in autumn 1986, enter into a collaboration with DFS.

The aggressive solicitation by DFS, and the surprising change of mind of the Norwegian fur farmers caused within FFS serious discussions about the future strategy of the firm. This work resulted on June 4, 1996 in the approval by the board of FFS of a document called "The objectives and policies of Finnish Fur Sales". In this document the competitive position of FFS was very much underlined. One objective was stated as follows:

> FFS should support the auction offerings with non-Finnish skins in order to increase the buyers' interest in the Finnish skins. Sales of non-Finnish skins could also be an economically profitable activity, which would improve the relative competitive position of FFS.

The operations strategy was described in the following way:

> FFS aims in all aspects towards a centralized business model. In its international operations the ambition is primarily to coordinate the activities from Finland. A secondary strategy is to handle the operations through flexible agreements with sales representatives. To develop its operations within its focus strategy, FFS can also consider minority share holdings or acquisitions, if this is strengthening the competitive position.

After the loss of the Norwegian contract FFS management was closely following the competitive situation. Hudson's Bay and Annings (HBA), the European fur auction operations of the Hudson's Bay Company, was in addition to FFS and DFS the only significant player remaining in Europe. It solicited skins internationally and arranged auctions and so called private treaty sales in London. HBA was in the mid-1980s losing market share to DFS and FFS. But it still had a very firm position in the international fur trade through its exclusive agreements guaranteeing supplies of Russian mink, Polish fox, south-west African karakul lamb skins (Swakara) and North American wild furs. On top of this, HBA collected substantial quantities of European mink and fox skins, including skins from all the Nordic countries.

During the Finnish-Norwegian cooperation (1982-1985), many informal discussions took place between the leading actors of FFS and OFA. In these discussions it was speculated whether the Finns and Norwegians could jointly buy HBA. As similar discussions could take place between OFA and DFS, FFS was extremely alert in following whatever might happen around HBA.

The first more detailed internal FFS discussions about how a takeover of HBA might turn out had already taken place on February 5, 1985 in a discussion between Mr. Holger Wester, chairman of FFS, Mr. Staffan Slotte, finance director and deputy managing director, and the author. The HBA issue was discussed that particular day because Mr. Slotte was the following day traveling to London. Based on the discussions, Mr. Slotte instructed a FFS bank representative in London to closely follow any type of activity that might reveal if the Canadian parent company would be considering the disposal of its fur activities. Such rumors had been on the market from time to time.

On September 1, 1986, in a meeting between the present chairman of FFS, Mr. Wester, the chairman-elect Mr. Olavi Petäjä, Mr. Moisander, and the author, FFS management was asked to find out if there was the possibility of initiating discussions with the Hudson's Bay Company about a possible takeover of HBA.

On October 2, 1986, Mr. Arto Naukkarinen, who had replaced Mr. Slotte as finance director, was called by the bank representative of FFS in London, who informed him that he had received information from Morgan Stanley, the investment bank, that Hudson's Bay was in the process of divesting its interests in the fur industry.

Mr. Moisander, who at that time was in Singapore, was immediately informed. His biggest concern was whether there were discussions already taking place between DFS and Hudson's Bay Company. It was agreed to contact the executive committee of the board immediately to get their approval to gain more information and reveal for Morgan Stanley that FFS was asking for information.

On October 7, 1986, the author and Mr. Kaj Eklund, sales director of FFS, met in London with Mr. Ian Ronald, executive vice president of Hudson's Bay Company, to discuss the sale of its fur division. In this meeting, FFS succeeded in presenting itself as a serious potential buyer of the fur activities. The author was placed in charge for coordinating the takeover negotiations.

On November 3, 1986, the executive committee of the board met physically for the first time since the negotiations with Hudson's Bay had started. In these discussions, everybody supported the idea that FFS should actively pursue its candidacy as an acquirer of HBA. It was emphasized that FFS should try to convince Hudson's Bay Company to sell only the European part of the fur division to FFS, and leave the North American part to some other buyer, as Hudson's Bay Company had announced it wanted to sell the whole fur division in a single transaction. Everybody also agreed that if HBA became a subsidiary of DFS, this would severely weaken the competitive position of FFS.

HBA, the European part of the Hudson's Bay Company fur division, had registered sales of GBP 87,6 million in the financial period ending January 31, 1986, and employed 241 people. This was the part FFS was interested in. The other part (Hudson's Bay Company Fur Sales Canada with a turnover of CAD 109 million and Hudson's Bay Company Fur Sales Inc. with a turnover of USD 71 million) was not of primary interest. First, FFS management was doubtful of its own managerial capacity to handle a diverse business with operations in Finland, London, Toronto, and New York. Second, the major income stream of the North American units was generated through sales of mink skins. FFS considered the mink ranchers in Canada and the USA easily could regroup around another competitor, Seattle Fur Exchange, if they did not agree with the policy of a new shareholder. A shift in the supplier base would hurt North American profitability due to high fixed property costs.

On November 11, Morgan Stanley sent a telefax where it was informed that no later than November 19, 1986, any potential buyer had to submit a written letter of interest in the Hudson's Bay Company Fur Division, including an indication of the price the acquirer might be willing to pay.

Mr. Wester met with the chairman of DFS, Mr. Kirkegaard, in a meeting on November 15, 1986. Bound by confidentiality agreements, Mr. Wester did not reveal anything about the discussions with Hudson's Bay Company. Mr. Kirkegaard however indicated that DFS was in the process of taking over HBA.

The proposal to acquire HBA was prepared by management and presented to the executive committee of the board in Vaasa on November 17, 1986. Management had prepared a fairly detailed presentation with a mainly defensive argument for buying HBA. If FFS would not be the acquirer, DFS would become totally dominant on the international fur auction market.[60] In addition to this strategic argument, FFS had prepared financial analyses that showed that by reducing costs in HBA the business could as well become quite profitable. The financial discussion was, however, secondary compared to the strategic threat of having DFS dominating the world mink market.

In the meeting it was agreed that FFS would aim to buy the European part of the fur divisions. The argument for this solution was presented in the letter of interest to Hudson's Bay Company as follows:

> In formulating this proposal, which does not constitute at this stage a formal offer, we have regard to the following considerations:
>
> (a) We understand that it is the vendor's intention to obtain the highest possible price from a sale of the Fur Division of Hudson's Bay Company. From our knowledge of the fur trade, it is our view that HBA and the North American part of the Division are separate businesses for which higher prices could be obtained if sold separately. Indeed, we consider that if a European company is to acquire the North American part of the Fur Division as well as HBA, then American and Canadian mink ranchers and shippers might react adversely. This fear might prejudice a high price being obtained from a combined sale.
>
> (b) The ongoing fur auction businesses of HBA and the North American group will need to trade, in the short to medium term at least, in the name of Hudson's Bay. It would be our intention if we are to acquire HBA's business and Acquired Assets to enhance this name and the image of Hudson's Bay. Further we consider that the proposal as formulated enables the vendor to be seen to be re-organizing its fur trade operations, with which it had been associated for over three centuries, in such a way that the interests of American and Canadian mink ranchers and shippers are being considered. We imagine that this could enhance the vendor's image and reputation compared to a disposal of the whole operations to a single company.
>
> (c) The fur trade is a very people-intensive business. The key to success of an auction house lies with the management of the business and its ability to attract both shippers and buyers. We understand that we have the confidence of the management of HBA. Furthermore we understand that the management of the North American part of the Fur Division may prefer a solution which permits participation by themselves and North American ranchers and shippers; this could be facilitated by a separate sale of the North American Group.

[60] At that time FFS had no information about any potential anti-competitive consequences of a possible DFS takeover of HBA.

### 5.1.4 *The HBA acquisition*

On November 20, 1986 FFS was contacted by Morgan Stanley. It was agreed to immediately start negotiations the following day. On Saturday, November 22, 1986, negotiations were concluded. Based on the submitted proposal FFS had agreed to buy HBA and pay book value plus a certain amount for goodwill.[61] For FFS, the goodwill payment was primarily a payment for HBA's supplier contracts. The experience from soliciting goods on the free market had shown that it was extremely difficult to convince fur suppliers to switch their sales channel. At the time of the purchase, FFS also saw good possibilities to develop a profitable business in London based on improved cost efficiency. The position of FFS at the time of the takeover is depicted in Appendix 3.

The two years following the FFS takeover of the HBA operations were characterized by two environmental changes which affected FFS immensely:

- the escalation of competition between FFS and DFS, and
- an unprecedented market decline starting from Black Monday, October 19, 1987.

*The escalation of competition*

The announcement of the FFS takeover of HBA reached the chairman of DFS when he arrived in China for a joint Scandinavian sales promotion event on November 27, 1986. It was told that DFS vigorously complained to Hudson's Bay Company that they never knew that it was possible to put forward a bid for only the European part of the business. DFS' bid was for the whole fur division for a consideration equal to the net asset value.

For FFS, the situation was almost euphoric. After the humiliation linked to the abrupt ending of the Finnish-Norwegian cooperation, FFS had now finally been able to strengthen its position on the international fur solicitation market in competition with DFS.

The start up of integration of HBA with FFS, however, rapidly revealed that there were several sources for conflict between FFS and DFS. The first issue that emerged was that HBA had an ongoing legal dispute with DFS concerning the Danish Fur Breeders Association's constitution, which according to HBA was anti-competitive and a misuse of DFS' dominant market position on the Danish market. This legal process had been initiated in 1985. The process was already in

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[61] The transaction included all HBA business contracts and assets, a leasing agreement for the auction premises on Upper Thames Street for two and a half years, the right to use the name Hudson's Bay for five years, and a non-competition agreement with Hudson Bay's North-American fur operations. The legal fine print was clear by December 19, 1986 and the agreement was signed. The transfer of assets took place on February 1, 1987.

the hands of EEC officials and could not be terminated by FFS. With FFS as the parent company of HBA, FFS now became legally responsible for driving a case against DFS within the EEC.

The next issue, and the one which created the greatest tension between FFS and DFS, was the status of the HBA subsidiaries in Denmark and Sweden. FFS had previously followed a "gentleman's agreement", a policy of not competing for skins in the Nordic countries outside existing agreements between national fur breeders associations. This had never been formed into a written agreement, even if the Finnish Fur Breeders Association had suggested having this formally agreed upon in April 1983. At that time DFS refused to formalize this status. For the Finnish representatives, this had indicated that at some stage DFS could enter the Finnish market to solicit goods for its own auctions.

After the Norwegians had joined the Copenhagen auctions during autumn 1986, the Swedish, Norwegian and Danish fur breeders all sold their skins at the Copenhagen auctions. FFS did not sell any Scandinavian farmed skins besides the Finnish production.[62] In a similar way, no Finnish skins were sold in Copenhagen. The HBA acquisition changed this situation. Suddenly FFS had its own solicitation in all Nordic countries. For HBA these skins were not only important from a revenue perspective, but they were also important to attract mink- and fox skins from non-Scandinavian fur farmers. FFS management therefore strongly defended the right to continue the HBA solicitation on all markets. The quantities collected by HBA from the other Nordic markets were quite low (less than 3 % of the Danish production and initially less than 20 % of the Swedish production). The discussion was therefore not just about the quantities, but about the strategic direction of FFS. DFS was afraid that FFS would be able to increase its market share compared to what HBA had achieved.

DFS fought vigorously to reach a situation where FFS would not have the right to compete with DFS on territory that DFS considered as its own. The same applied in the opposite way: FFS saw as an absolute requirement not to be bound by any political constraints for its solicitation activities. FFS management had the ambition of building FFS into a global leading fur auction house.

The discussions about the solicitation of goods particularly in Sweden, but also in Denmark, was for the first time up for discussions in a joint Nordic meeting on March 7, 1987. A week later the Danish chairman, Mr. Kirkegaard, sent FFS and FFBA a seven page letter where it was strongly argued that HBA should close its subsidiaries in Denmark, Norway, and Sweden as of autumn 1987. Based on this,

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62 Yearly, some small quantities of rare Nordic mink and fox skins were inter sorted and alternatively sold by DFS or FFS. These arrangements were agreed upon by the Nordic Committee for Cooperation. The individual farmer could not choose where his skins were sold.

the farmer representatives on the board of FFS were prepared to terminate the solicitation in the Scandinavian countries. FFS management however raised the legal issue relating to anti-competitive behavior.

Representatives from FFS met with officials of the Competition Directorate of the European Commission (DG IV) in Brussels on April 8, 1987. FFS was informed that in the view of the Commission there was little doubt that a number of aspects of the SAGA arrangements both individually and taken as whole infringed Article 85(1) of the Treaty of Rome. This included the individual decision taken by the Nordic fur breeders associations to solicit only from their own national territories. In May, 1987, the officials announced that the suggested model on how to "integrate the solicitation of skins to HBA into the existing Nordic cooperation", presented to the commission in April, was not acceptable. The commission could not "see how an agreement with a competitor could operate as an effective alternative to HBA's existing outlets in Denmark, nor how such an agreement could bring to an end the restrictions on the freedom of the individual breeders who have complained to the Commission."

Irrespective of the above, the discussions about the status of the solicitation of HBA continued. The delay of a firm decision was hurting the ongoing business of HBA. Mr. Ian Allely, managing director for HBA as of February 1, 1987, wrote in a letter to FFS on May 22, 1987:

> From our position, the other Nordic countries appear to be adopting the attitude that by not making any realistic effort to come to some sort of solution they feel, quite rightly, that they can achieve their objectives because HBA's business will disappear unless its future is resolved once and for all.

The HBA management and Mr. Allely never understood the complexity of the value constellation in which FFS was operating. Partly in their defense, it should be noticed that certain false promises had been made immediately after the acquisition. Mr. Moisander had given quite promising perspectives on how the business in London would be developed, e.g. he foresaw that FFS would invest another 70 million FIM in new auction premises.

The three Scandinavian fur breeders associations were not able to persuade FFS to close the subsidiaries of HBA in Denmark, Norway and Sweden. Because of this they took a decision on June 1, 1987 to start solicitation of Finnish goods.[63]

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[63] November 13, 1987 the three Scandinavian auction companies, DFS, Oslo Fur Auctions and Nordic Fur Auctions (Sweden) announced that they had established a joint auction company, Scandinavian Fur Sales Ltd. (SFS) in Hong Kong with a subsidiary in Vaasa, Finland. The primary purpose of this company was to solicit goods from Finnish farmers.

On November 23, 1987, FFS sent out a detailed documentation to its suppliers regarding the events ultimately leading to the new competitive situation. The development was described as follows:

> When FFS started to negotiate the purchase of HBA in autumn 1986, it was clear a change would occur in the auction business in Europe anyway. For FFS and the Finnish fur breeding community only two alternatives existed. Either the activities of HBA would be dominated by those shippers working together around the auctions in Copenhagen, or FFS and its shippers would get access to the market outlet in London.

At the same time as the competition for soliciting skins increased, the international fur market was severely hit by the stock market crash on October 19, 1987.[64]

The solicitation war between FFS and DFS was closely followed by the international fur auction buyers. The establishing of SFS was generating strong counter reactions from established fur dealers and commission agents, who saw the move as an attempt by DFS to reduce the role of the middlemen in the distribution of raw fur skins. Mr. Harry Cohen, chairman for the British Fur Trade Association, wrote on November 19, 1987 to DFS that

> ...shipping Scandinavian mink to the Hong Kong fur auction is damaging the British Fur Trade who have been loyal customers to DFS from the initiation of auctions in Copenhagen and who are still purchasing from DFS and taking responsibility for around 40 % of the crop sold through DFS.

Mr. Cohen finished by stating that:

> ...finally we must state that in the difficult year in front of us any destabilization of the marketing system would in our opinion be very damaging also to the trade in Hong Kong.

*The market collapse*

The 1986-87 selling season had been the best ever in the history of FFS. The biggest auction in 1987 (in January) realized a turnover for FFS of almost USD 100 million (FIM 585 million) for a collection of 1.4 million mink and 850,000 fox skins. Average prices for the main fur types were at a record high level.

During spring 1987 signs of a slowing market could be seen. FFS was forced to leave some of the skins unsold in its May and September auctions, in order to protect the price levels. The opening auction of the season 1987-88 was a disaster.

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[64] FFS arranged the opening auction of the selling season 1987/88 the first week of December, and the sales percentage remained as low as 7 %. This was the lowest sales percentage ever in the history of FFS.

It became clear that the effects of the end of the "yuppie period" would hurt the international fur trade severely.

The auction results from the second auction in December, 1987, underlined the depth of the difficulties. In a letter to farmers, FFS informed that it was evident some of the 1987 crop had to be stored and not offered for sale until the selling season 1988-89. FFS also initiated activities to find out what kind of additional financing could be provided during the period farmers' skins would remain unsold in the premises of FFS. In the following auction in January, 1988, FFS succeeded in establishing a market price for most fur types, but the decline in price levels compared with one year earlier was almost 50 %. Consequently the total turnover of the auction was FIM 320 million (45 % less than a year earlier). After the 1988 May auction FFS still had one third of the 1987 fox crop unsold.[65]

*The post-merger process*

In FFS' pre-acquisition calculations, it had been estimated that HBA would reach a turnover of GBP 85 million by annually selling 3 million mink skins, 600,000 fox skins, and 1.5 million wild furs and lamb skins. This would generate commission revenues of approximately GBP 6.5 - 7 million. Applying the FFS cost structure on such a business would result in a healthy profit.

However , things did not turn out according to the pre-acquisition plan. The first nine months of operations had been slightly better than budget in turnover, GBP 78.7 million against budgeted GBP 77.3 million. The commission structure was not, however, at expected levels, and commission income was GBP 5.4 million. Further, the result was hit by exceptional items of GBP 800,000 relating to the write down of fixed assets, which induced a loss of GBP 200,000 for the first nine months. FFS management started to feel uneasy with the situation.

FFS had decided not to have a strong controller in London, even if this had been up for discussion. One reason was that Mr. Allely himself had the background as financial director of HBA. It was therefore felt that a controller would not have brought much value added. Second, the challenge was more seen to be on the operations side, as an auction company is extremely vulnerable to fluctuations in sales volumes. Securing the solicitation volumes has much more to do with external issues than with the internal ones. For such a position, there was not anybody to be easily found in the market, due to the nature of the fur trade as a quite unique and small society. However, FFS was late 1987 able to recruit Mr. Henry Eklund who had been managing director for HBA in Finland previously.

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[65] On November 17, 1988 the Finnish Fur Breeders Association sent a letter to its farmers in which it recommended the farmers to voluntarily deep freeze some of its 1988 fox crop, in order to reduce the supply of fur skins for the selling season 1988-89.

The new price level in late 1987 dramatically worsened the situation for HBA. The board of FFS therefore decided in early 1988 that the author should take the role of overseeing the operations of HBA.[66] The author, in cooperation with Mr. Henry Eklund, presented a report to the board in March 1988. This report evaluated four possible strategies for HBA:

- the aggressive approach (FFS and HBA completely out of the Scandinavian cooperation)
- the independent approach (a separately quoted HBA)
- the approach of conformity (to reach some sort of agreement between HBA and the breeders' organizations within each Scandinavian country)
- the cooperative approach (all auction companies in Western Europe would cooperate to survive in the very difficult market situation)

In addition the report presented a very detailed list of possible cost-saving measures, the implementation of which was immediately started.

By October 1988 FFS had spent a total of FIM 74 million on HBA (goodwill investment, other expenses, and losses).

FFS was, in parallel with the internal restructuring of HBA, in continuous discussions with the other Scandinavian auction companies on how to cope with the still worsening market situation. The discussions had become more balanced as both parties now had competing soliciting organizations on each other's territory. FFS had also acted in a very disciplined way during the selling season of 1987-88, and tried to avoid a further deterioration of the relations between the Nordic fur breeding organizations.

The chairmen of the four Nordic fur breeders associations met in Frankfurt, April 12, 1988. In these negotiations the Finnish representatives presented the idea to turning HBA into a jointly owned auction company. FFS also negotiated joint share holding with shippers from the Soviet Union and Poland.

In a meeting on May 14, 1988 the four Nordic fur breeders associations and auction companies reached an agreement in principle about joint share holding of HBA. It was agreed, however, that consent had to be obtained from EEC before implementing the decision.

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66 The internal politics of FFS had affected the way the post-merger process was handled. Instead of appointing one person clearly in charge of the post-merger activities, it was initially decided that each member of the FFS management team should be responsible for the post-merger activities of his/her functional area. Retrospectively this did not work out. Also HBA management operated in a decentralized mode. When the losses became apparent, there were no clear lines of responsibility within FFS.

This rethinking of the HBA-strategy proved that the opinions of the managing director, Mr. Allely, and the board were too far from each other. On August 11, 1988, the conditions for the resignation of Mr. Allely were agreed upon. Mr. Henry Eklund was appointed acting managing director of HBA.

On August 12, 1988, the four Nordic organizations met again and agreed upon the practical activities in transfering the local representation from the subsidiaries of HBA to the local auction organization in each country. On August 17-18, 1988 ,representatives from FFS and DFS met for two days in Denmark to arrange the practicalities for the coming sales season.

On September 21, 1988 officials from the EEC arrived on the premises of HBA to investigate the case of DFS becoming a shareholder in HBA. They informed that the Commission had taken a decision in the interim forbidding DPA from exercising its voting rights and also forbidding them to close down any HBA office in Denmark. The arguments put forward by the Commission were:

> The agreement means that Danish Fur Breeders Association at last has succeeded in reducing considerably, if not eliminating, competition by its largest competitor in the EEC: The agreement has as its object a restriction of competition within the meaning of Article 85(1). The purchase of 35 % gives the Danish Fur Breeders Association alone substantial power in deciding the future of HBA in the Community and above all in Denmark. Furthermore, the Danish Fur Breeders Association, the most powerful member of the Nordic cooperation, has been supported by Oslo Fur Auctions and Nordic Fur Auctions in calling for HBA to respect the gentleman's agreement. There is no reason to suppose that these three will not continue as allies and use their joint 50 % voting power to achieve this objective...The closing down of the HBA offices in Scandinavia and the "substitution" of Danish Fur Sales and the other local auction houses as HBA agents ensures that HBA no longer exists as an independent competitor - it is now a member of the powerful fur cartel, the Nordic Union.

Based on this decision from the EEC, the plan for a joint ownership of HBA collapsed. It was however agreed that the solicitation for HBA in Sweden and Norway would be handled through the local auction companies for the selling season 1988/89, as this was not restricted by the EEC. [67]

*Rethinking the strategy*

Mr. Moisander appointed in October, 1988, a project group called TTOY-90 (FFS-90), headed by the author, to attack the existing difficult situation for FFS, and work out an action plan. This group had to face a situation of genuine uncertainty. Over the last 18 months the price levels for the most important skin

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[67] The original case against DFS, initiated by HBA in 1985, reached its conclusion by EEC on October 28, 1988. The Commission issued the Danish Fur Breeders Association a fine of ECU 500.000 for an infringement of Article 85(1) of the Treaty of Rome.

types had changed as follows: (prices in the December auction 1988 compared to the peak level during spring 1987):

| | | | |
|---|---|---|---|
| • scanblack (black mink skins) | FIM 93,50 | (FIM 199,-), | - 53 % |
| • scanbrown wild (brown mink skins) | FIM 115,50 | (FIM 192,-), | - 40 % |
| • blue fox skins | FIM 153,- | (FIM 271,-), | - 44 % |
| • silver fox skins | FIM 425,- | (FIM 1085,-), | - 61 % |

The task of the TTOY-90 group was to develop a plan for the combined business of FFS and HBA as of June 1, 1989. The guideline for the TTOY-90 group was "to come up with a solution, which would provide Finnish fur farmers with the best possible result from selling their skins through the competitive auction company FFS". At the same time it was said that FFS could not support an unprofitable HBA, even if the goods solicited by HBA were important for the future of FFS.

In a document dated January 12, 1989, Mr. Moisander presented the alternatives for HBA for 1989-90: HBA becomes jointly owned by FFS and V/O Sojuzpushnina, HBA remains as an auction center in London, or HBA becomes a small private treaty sales organization (without auctions) and a soliciting organization for the Vantaa auctions. In the final alternative, all efforts would have to be made to make sure the majority of the skin quantities traditionally sold in London would be channeled to the FFS auctions in Vantaa.

In the board meeting of January 25, 1989, the author was given the responsibility to develop an action plan on how to proceed with HBA after the February, 1989 auction. If the board did not get convincing evidence that the activities of HBA could be continued profitably, the board would have to decide to terminate the auction activities in London.[68] HBA would then become the soliciting organization for non-Finnish goods for the Vantaa auction.

In the beginning of March, 1989, the author compiled a report on the alternatives for HBA. It presented four different alternatives. None of the alternatives could guarantee profitability. In its meeting on March 13, 1989, the FFS board decided that HBA should further investigate an alternative where the London auctions would include only Russian and Polish mink and fox skins, lamb skins and wild fur. Western European mink and fox skins would be sold in the auctions in Vantaa. A prerequisite for this alternative was that the mentioned suppliers to the London auctions would accept the new model. If not, FFS would have to withdraw from auctions in London. This decision by the FFS board was strongly opposed by the HBA management.

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[68] In a meeting on February 16, 1989, the auditor of FFS, Mr. Erkki Simpanen voicing his concern in writing regarding the rapidly deteriorating financial situation of FFS, mainly caused by the continuous losses of HBA.

In the board meeting on April 12, 1989, Mr. Simpanen, the auditor, and Mr. Slotte, the ex-deputy managing director that had been called in as a consultant, had a decisive impact on the final outcome. They convinced the other decision makers that FFS could not be allowed to further increase its financial exposure relating to HBA. The risks were already of such magnitude that the whole future of FFS was at stake. This opinion was opposed by the author, as the personal involvement in finding out a solution together with HBA management created a strong emotional commitment to the future of HBA. The author also felt that the closure of the HBA auction business would create a vacuum that would be filled by a competitor to FFS, and thereby dilute all possible future benefits from the HBA purchase. The board, however, decided HBA would cease its auction activities and become the international fur soliciting organization of FFS, with possibly some small private treaty operations in London. The author was given the responsibility of informing the HBA staff.

### *5.1.5 Consolidation*

The first round of redundancies announced in HBA on April 17, 1989 made 31 employees immediately redundant. In July, the 67 Upper Thames Street building was emptied of items relating to warehousing activities. The office facilities became vacant by the end of September, 1989. In parallel with the transfer of activities from London to Vantaa, negotiations with the most important shippers were initiated in order to secure their deliveries to the Finnish auctions in 1989-90. These negotiations were carried out quite successfully. Besides 4.9 million Finnish skins, almost 1 million Western European mink and fox skins, 700,000 Russian mink skins and 400,000 karakul lamb skins and wild furs were sold at the Vantaa auctions during the 1989-90 season. The difficult market situation did not encourage anybody to try to develop a new fur auction concept in London. The fear by FFS management that the closure of the London auction would mean the loss of the HBA supplier contracts proved to be unwarranted.

The 1989-90 season was from the farmers point of view still very unsatisfactory. In December 1989, the author analyzed the market and based on these analyses developed three scenarios for the market of fur skins. The most probable scenario was used in the successful application for governmental subsidies, and proved retrospectively to be quite accurate. In the same document it was stated that FFS had only two alternatives when entering the 1990s. Either FFS would maintain its position as an independent competitive auction house, or it would have to return to the business model prevailing on 1963-80, becoming only a fur soliciting and cooperative sales arm of the severely reduced Finnish fur breeding community. Using the worst case scenario it was said that even if FFS aimed to remain an independent auction house, a prolonged crisis could force FFS to become just a soliciting organization because of financial reasons. To avoid being forced into the second alternative FFS had to vigorously pursue cost cutting and in parallel intensify its own international fur solicitation activities. The same message was also presented by the chairman of the board in the 1987/89 annual report:

> The worldwide reduction in fur skin quantities makes the competition between auction houses keener. It is important that the reduction in domestic production is compensated by securing skins form other countries. The offerings at our auctions must be large and versatile to attract the international buyers. This will mean that we get better prices also for our domestic skin production.

It was estimated that 42 million mink skins were pelted during 1988, a production peak occurring simultaneously with a radically shrinking demand.[69] For the first time in seventeen years, DFS had to transfer unsold mink skins (400,000 skins) into the following auction season (autumn 1989). Two years later this quantity had increased to 5 million unsold mink skins to be transferred into the 1991/92 sales season.

The depressed market situation maintained the pressure on FFS management to continue its efforts to further reduce costs. In June 1990, FFS sold 15,000 $m^2$ of its cold storage space providing FFS with a pre-tax profit of FIM 53 million. Without this deal FFS would have had severe difficulties to maintain its financing services to the fur breeders during the breeding season, as the FFS credit line in 1990 had become extremely constrained due to the continuous losses of HBA.

By the end of the sales season 1990-91 the number of permanent FFS employees in Vantaa had been reduced from a peak of 152 in 1987 to 85. The number of permanent employees for international solicitation activities was only eight, compared to 90 permanent HBA employees in April 1989.

During the second half of 1990, the reorganization of FFS top management was agreed upon. In May 1990, the author had been given authority by the board to design a new organization, including the arrangements to prepare for the retirement of Mr. Moisander. Having made the decision in 1989 not to contend for the job as a managing director, the author could in a fairly "objective" way try to work out an organizational solution that would give FFS the best possible set up to meet the challenges once the market situation improved. In June the author informed the chairman that he intended to leave the company once the restructuring measures were completed in February 1991. As Mr. Naukkarinen had left the company in August 1990, it was full consensus when Ms. Pirkko

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[69] The global production of fox skins had reached its peak in 1986 (5,3 million skins), but was still almost 5 million skins in 1988. In spite of the record high quantities of furs, the value of the global sales of raw fur skins during the sales season 1988/89 was less than USD 1 billion, compared to the record level of more than USD 1,6 billion in 1986/87. Two years later, 1990/91, the global sales of raw fur skins amounted to less than USD 600 million.

Rantanen-Kervinen in the board meeting on October 25, 1990 was appointed deputy managing director as from November 1, 1990. The final succession took place on August 1, 1991, when Ms. Rantanen-Kervinen became the new managing director of FFS.

After the disappointing January 1991 auction, the farming community started to question the predictions by FFS that the reduced quantities would affect the price levels of fur skins. A decisive moment for the Finnish fur breeding community was the FFBA board meeting on February 22, 1991. The key decision was whether FFBA should recommend fox farmers further reduce the breeding stock, in order to support a more rapid improvement of the price level.[70]

The author, still in charge of marketing at FFS, participated in the meeting in order to present an analysis of the fur market. The analysis showed that Japanese buyers had bought very limited quantities of fox skins during the first two auctions. The retailing reports, however, did not reveal any reason why Japan would not still need almost 300,000 fox skins to satisfy the annual demand for fox trimmings. As this demand would have to transform into orders in the remaining auctions, the FFS projection was that the prices would thereby be forced upwards. This analysis was the basis on which the board of FFBA had to vote whether to recommend a reduction in the fox breeding stock or not. The votes went even, and the chairman, Mr. Jansson gave his decisive vote in favor of the recommendation of FFS: no further reduction in the breeding stock.

Two months later, in the April 1991 auction, the prices for blue fox skins increased by 50% and in the May auctions the prices advanced another 20%. The April 1991 auction became the market turning point. FFS management could, after this auction, gradually start to return to business as usual, after a period of four years of continuous uncertainty.[71]

In the 1990/91 FFS annual report the chairman, Mr. Petäjä noted that even if the closure of the London auctions had been a difficult process, the fact that most of the supplier relationships could be transferred to the Vantaa auctions was strengthening the financial position of FFS. A similar statement by the chairman and the managing director appeared in the 1997-98 annual report:

> ...at the same time as FFS has cemented its position as the most important sales channel for Finnish fur farmers, also the confidence in FFS among foreign farmers has grown, which can be seen in the form of increasing volumes of foreign skins sold through FFS. The foreign skins are needed to support the marketing of Finnish skins.

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[70] The Finnish production of fox skins had by then already shrunk from a peak volume of over 3,5 million skins to 1,2 million skins in 1990.

[71] The development of the sales volumes and profitability for FFS during the turbulent years 1986-1991 as well as the following recovery period 1991-1998 are presented in Appendix 4.

### 5.1.6 Analysis of business model dynamics in Finnish Fur Sales

*Resumption of Finnish auctions - preparing and making the decision*

In the 1970s, FFS was the logistical organization for Finnish fur farmers preparing their fur skins for the joint Danish-Finnish auctions in Copenhagen.

The activities carried out by FFS at this stage consisted of basically two business processes. The first one, "fur skin sales" included the collecting of skins from Finnish farmers, grading and bundling of skins in sorting premises in Helsinki or Vantaa, transporting the skins to joint Danish-Finnish auctions in Copenhagen, selling the skins at the auction, invoicing the auction buyers, paying the farmers in accordance with the agreed terms, and handling the credit control and collecting activities. The second business process was "farmer marketing" activities related to securing the delivery of skins from the farmers. Both these business processes had remained more or less unchanged since FFS entered into its cooperative agreement with DFS in 1963.

The rapid development of the Finnish production of fur skins had in the mid-1970s already initiated discussions among the Finnish fur breeding community about the possibilities of resuming auction activities in Finland. Mr. Jalanka and Mr. Moisander were both proponents of this idea. When Mr. Moisander became managing director in the beginning of 1978, he had a strong ambition to pursue the effort to transform FFS into a leading international auction house. The decision to resume fur auctions on Finnish soil was a redesign of the business model of FFS. The dynamics of this process is summarized in Table 4.

*Table 4 The decision to resume fur auctions on Finnish soil*

| Code | Activity | Timing |
|---|---|---|
| 5c | Mr. Moisander as managing director strongly supporting the resumption of auctions in Finland. | 1976- |
| 8a | Mr. Moisander systematically moulding the values and objectives of FFS . | 1976- |
| 5f | Favorable market development. | 1978- |
| 5e | Rapidly growing popularity of blue fox skins in Japan; increased the demand for Finnish furs. | 1978- |
| 5g | Raising international profile of the Finnish fur breeding community due to increased demand on fox skins. | 1978- |
| 5d | Strengthened competitive position of FFS. | 1978- |
| 5g | Confidence in FFS management by the board. | 1980- |
| 5d | Reluctance by DFS to accept Finnish proposal. | 1981 |
| 5f | Favorable tax legislation in Finland making the investment in new premises an attractive option. | 1981 |
| 5a | The increasing Finnish and Danish production of fur skins too big for one giant joint auction. | 1980- |
| 5e | Marketing reasons for Finnish farmers to have own auctions to strengthen the image of Finnish skins. | 1980- |
| 5b | Support from auction buyers to split the Copenhagen auctions into two. | 1980- |
| 5a | A change needed as the increased volumes asked for a radical change in the cooperative agreement between DFS and FFS, due to space requirements. | 1980- |

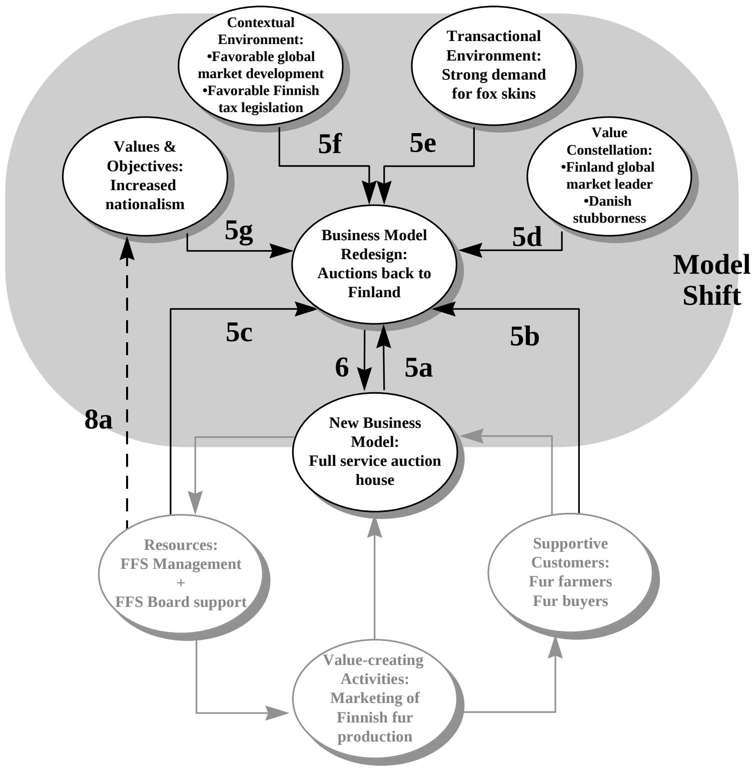


*Figure 15 FFS decision to resume auction activities on Finnish soil, summer 1981*

The decision to transform FFS from having a primary function as a logistical organization into a full-service fur auction company was a fairly smooth decision. Both the internal and external factors as well as the actors supported the decision. The only alternative decision, to continue the sales cooperation with DFS, was in the end only a theoretical alternative. The behavior of DFS in the negotiations ultimately unified all Finnish decision makers, so a strong consensus supported the final decision.

*Resumption of Finnish auctions - implementing the decision*

The decision to bring the auctions back to Finland was changing the offering of FFS. FFS took now full responsibility for serving the auction buyers throughout the whole auction, which could last for up to two weeks. To prepare for this new challenge, FFS had to create a temporary business model, with a focus on the preparations for the start-up of the Vantaa auctions in December 1983.

FFS now had to expand its business processes. The two earlier mentioned business processes, "fur skin sales" and "farmer marketing," were still relevant (as FFS was selling most of its skins in Copenhagen). In addition to these two processes, two new ones had to be added: "auction sales" and "auction buyer marketing". The successful test auction in December 1980 established the basis from which FFS started to prepare its auction service concept.

The implementation of the decision to resume auction activities in Finland can be described as a lower loop mode transition, where management just executed the changes in the value-creating activities deriving from the decision made in August 1981. This transition process is depicted in Table 5.

*Table 5 The change forming FFS into a full fledge auction house*

| Code | Activity | Timing |
|---|---|---|
| 2 | Management built new resources, both physical and intellectual, to cope with the new challenges. | 1981-1983 |
| 3 | Management changed the value creating activities to accomplish the objective of arranging full scale auction activities. | 1981-1983 |
| 4b | Management had close cooperation with both auction buyers and fur farmers to fine tune the design of the new offering: full scale international fur auctions. | 1980-1983 |

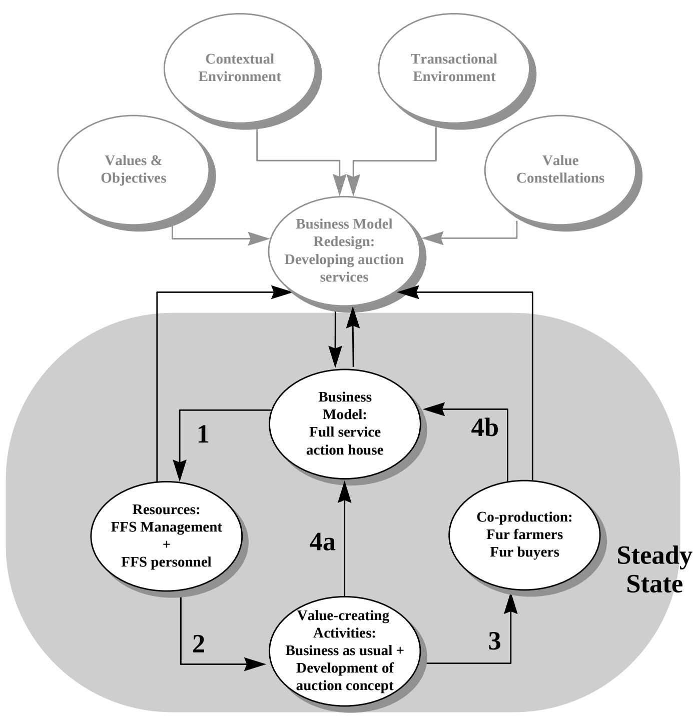


*Figure 16 The transition into a full service auction house 1981-1983*

The outcome of the transition phase was the full-scale auction activities arranged by FFS in the new premises in Vantaa resulting in new offerings to farmers and auction buyers, which are depicted in Appendix 5. The full transition when resuming the fur auctions in Finland is summarized in Table 6.

*Table 6 The full transition of resuming fur auctions in Finland*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **1970-1977** | •Perception of Messrs. Jalanka and Moisander that full scale auctions possibly could be arranged in Finland | •Convincing the board to invest in a site in the Helsinki area, not in Vaasa | •Purchase of site 6.7.1976 | |
| **1978-1979** | •Mr. Moisander becomes CEO and Mr. Slotte finance director 1.1.1978<br>•The author starts as trainee 1.6.1978<br>•The Finnish production of fur skins grows rapidly | •Increasing argumentation for having auctions in Finland during negotiations for renewal of contract with DFS | •New FFS/DFS agreement 27.1.1979 allowing FFS to arrange auctions 1.6.-6.12. | •Educating the board and the rest of the organization to understand the needs of a new business model<br>•Mr. Moisander recruits allies to promote auctions in Finland |
| **1980-1981** | •The management team united in its ambition to get the auctions back to Finland<br>• Finnish production grows further | •Escalation of efforts to build up the ultimate proof of case | •Consulting study 1980 about need for internationalization<br>•Successful test auction in December 1980<br>•Large study including 200 customer interviews in 1981 | •Increasing amount of interaction with fur buyers (consulting studies, flight to Finland May 1980)<br>•Designing the auction concept; test auction (proto-type) in December 1980 |
| **1981-1982** | •Decision by board 30.6.1981, informally, and 12.-13.8.1981, formally | •Clearly defined project with subprojects aiming at having everything ready 1.12.1983<br>• Very clear vision of how the new offering should look | •A multitude of projects coordinated by the author and controlled by Messrs. Moisander and Slotte | •Farmer services<br>•Buyer services<br>•Third party collaboration<br>•Training of personnel<br>•Auction facilities<br>•Computer systems<br>•Norwegian cooperation<br>•Total concept |
| | | | | **New auction offering launched 1.12.1983** |

*The HBA acquisition - preparing and making the decision*

In 1981 the FFS board took the decision to bring the auctions back to Finland. At that time the board envisaged FFS as the auction company selling Finnish farm produced fur skins in close cooperation with the other Nordic fur organizations. The surprising move by the Norwegian fur breeders to enter a cooperation agreement with FFS broadened the scope of FFS right from the start-up of the Finnish auctions.

In 1984 the competitive position of the Finnish fur breeding community deteriorated. FFS management started to feel increasingly uneasy with the loss of market share (by sales volume) to DFS. FFS solicitation volumes from e.g. Holland and the UK remained low, underlining the difficulties in making inroads into the fur solicitation market dominated by HBA and DFS.

*Table 7 The activities preceding the HBA takeover decision, autumn 1986*

| Code | Activity | Timing |
|---|---|---|
| 5c | FFS management and especially the author argues the need for FFS to become an "independent international fur auction company". | 1984-1986 |
| 8a | Efforts by FFS management to shape the opinion of the board regarding the need to prepare for higher international activity, e.g. participation by chairman together with Mr. Slotte and the author in a course in internationalization. | 1984-1986 |
| 5g | Building resources to increase the international solicitation through representatives in e.g. Canada, the Netherlands and Poland. | 1984- |
| 5f | Reduced demand for fox skins. | 1985- |
| 5e | The competitive position of FFS weaker in comparison with DFS. | 1985- |
| 5d | DFS enters cooperation agreement with the Norwegian fur breeders. | 1.1986 |
| 5e | Hudson's Bay Company announces its intention to divest its fur interests. | 10.1986 |
| 6 | FFS acquires HBA. | 11.1986 |

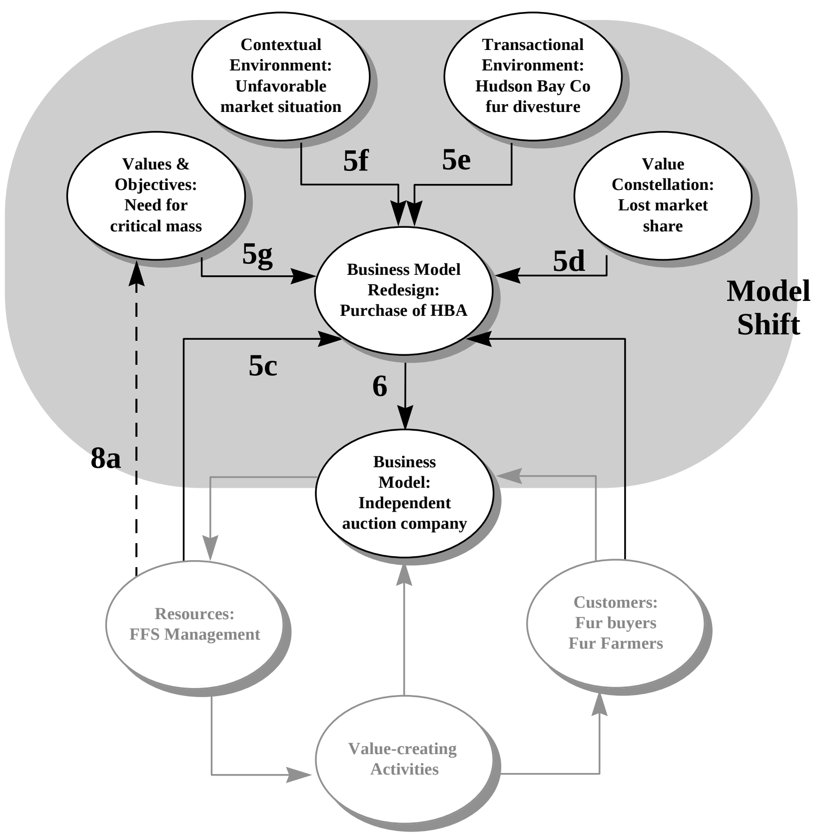


*Figure 17 The HBA takeover decision, autumn 1986*

FFS management used the reduced market share as the main argument to convince the board to pursue the bid for HBA in competition with DFS.[72] Strengthening the competitive position of FFS was fully supported by the board and the larger farmer community involved in the final decision making related to the takeover process. The full implications of the decision on the competitive position of FFS were, however, not recognized by the management, even less so the coming difficulties linked to the abrupt turn of the market in late 1987.

*The HBA acquisition - trying to find out how implement the decision*

There was a severe confrontation between the ambition of FFS to be an independent auction house competing internationally, and the tradition of more than thirty years of inter-Nordic cooperation in the auctioning and marketing of furs. The HBA acquisition divided opinions among the decision makers. Should FFS go for a strategy of becoming a strong independent auction house, or should FFS go back to the cartel-type of Nordic cooperation? Because of disagreement within the board, FFS management was also lacking the power to firmly govern the managerial decision making in London during the first eighteen months after the acquisition. In some meetings, it was suggested that the author should move to London. At the same time, however, Mr. Moisander felt that it was as important to participate in the political inter-Nordic discussions to defend the interests of FFS in the dilemma regarding cooperation vs. competition.

The financial outcome of the HBA takeover was in the short-term a disaster for FFS. Things were also affected by the unprecedented rapid decline of the fur market in 1987. The responsibility for the losses was, however, clearly with the management of FFS, and ultimately with the author and Mr. Moisander. As the crisis prolonged, the author became more and more the person that individually had to take responsibility for bringing the post-merger process further. At no moment did the author conceive the takeover as a mistake. In this respect the author had a different opinion from that of Mr. Moisander.[73] Neither did the author at any stage regard the takeover price as too high, considering the conditions at the time of the purchase. But there was no doubt that the post-merger process was badly handled. Retrospectively, the managerial resources of FFS were at the time of the acquisition insufficient to handle the complex HBA takeover business case.

Once Mr. Allely was removed and more detailed analysis of the HBA operations made, FFS management was in the end of 1988 able to paint a quite accurate

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[72] 1986-87 DFS had a share of 36 % of the value of mink and fox skins sold on the global market, as the combined FFS and HBA share was 33 %, and FFS alone had only 25 %. If DFS would have purchased HBA it would have increased its share to 44 %.

[73] When retiring, Mr. Moisander gave an interview for the press, where he was considering the acquisition of HBA as a mistake (Jakobstads Tidning, 8.6.1991).

picture of the situation in London. The decision to close the auction business in London, even if extensively discussed before taken, unified FFS management. Once the decision was made, the author and the rest of FFS management were committed to work out the best possible execution of the decision.

*Table 8 The activities preceding the decision to close the HBA London auctions*

| Code | Activity | Timing |
|---|---|---|
| 5f | The stock market crisis radically worsened the outlook for the fur industry. | 10.1987 |
| 5g | FFS objectives regarding HBA not met. | 11.1987- |
| 5e | Extremely low sales percentage at opening auction in Helsinki. | 12.1987 |
| 5d | Global oversupply of fur skins, unprofitable price levels for all fur types. | 1988-1991 |
| 5a | The business model with auctions both in London and Vantaa inappropriate. | 1988- |
| 5b, 5c | Fur buyers in London, HBA management as well as part of FFS management oppose the closure of the London auctions. | 1988-1989 |
| 5c, 8a | Outside stakeholders, the auditor and a consultant, urge FFS board to take the decision to cease auction activities in London due to financial reasons. | 1989 |
| 5g, 6 | The board gets convinced that the closure of London is the only way to protect the long term objective of FFS securing the continuity of the Finnish fur breeding community. | 4.1989 |

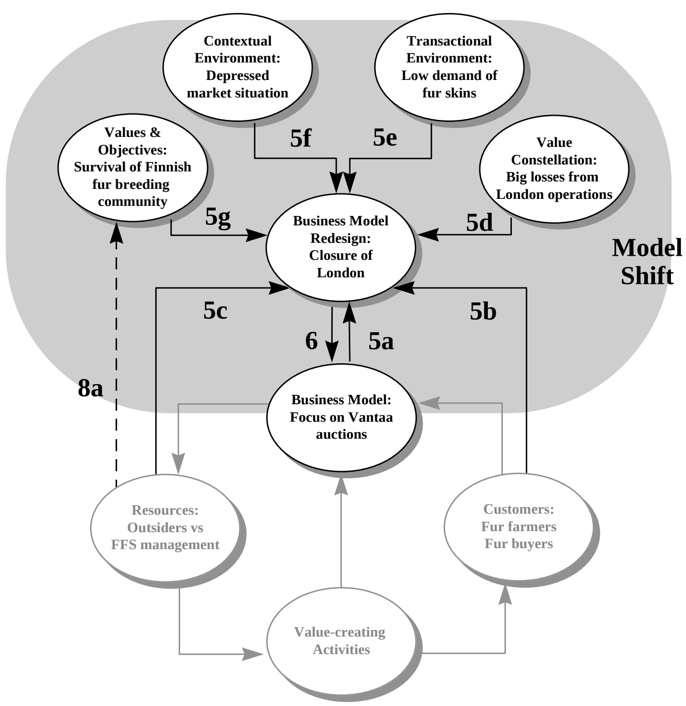


*Figure 18 The April 1989 decision to cease the auction activities in London*

FFS was transformed from being an auction company with auction sales in two locations, Vantaa and London, into becoming an auction company with only one sales location. This did not affect the role of FFS as an independent auction company. The offerings also did not change if one does not consider the fact that the physical sales of the skins would take place in Helsinki instead of London.

The decision made April 12, 1989, was an intermediary decision in the middle of the crisis. By the time the decision was made it was very uncertain how the future ultimately would unfold. The decision was therefore one of "wait and see" aiming at minimizing the risk exposure for FFS.

*The HBA acquisition - implementing the consolidation decision*

From a managerial perspective, the two-year period (spring 1989 to spring 1991) did not represent the same uncertainty as the previous two-year period. One major issue had been solved: how to deal with the post-merger process of HBA. The uncertainty related to the general outlook for the fur market remained. For fur farmers the crisis deepened.[74] In this situation, it was recognized that a strong international fur auction company is a valuable asset for the fur breeding community in any country. The Swedish fur auction company went bankrupt in the beginning of the 1990s, and the Norwegian fur auction company ceased its auction sales in Oslo as of 1990. Therefore, FFS and DFS remained the only viable European auction companies after the crisis.

A new era with an improving industry outlook and return of confidence was symbolized by the decision on February 22, 1991 to not recommend further reductions in the Finnish production of fox skins.

The period of spring 1989 to spring 1991 can be characterized as a lower loop manifestation of a business model that in principle was decided upon on April 12, 1989. The activities pursued were subject to the survival of the fur trade, which was a genuine uncertainty factor until April 1991. During these two years FFS management provided clear leadership for the whole Finnish fur farming community. FFS was instrumental in the application of governmental subsidies, in advising farmers concerning their production decisions, and in providing local bankers with detailed information about the market situation in order for them to be able to continue the financing of their fur farming clients.

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[74] During the period 1987-1991 half of the Finnish fur farmers went out of business, and the production volumes decreased from 4,6 million to 1,5 million mink skins and from 3,5 million to 1,1 million fox skins. FFS turnover was reduced from FIM 1,6 billion in 1986/87 to less than FIM 600 million in 1989/90.

*Table 9 The implementation of the centralized Vantaa based fur sales services concept*

| **Code** | **Activity** | **Timing** |
|---|---|---|
| 2 | Management reorganized its resources, both physical and intellectual, to cope with the new challenges. | 1989-1991 |
| 3 | Management changed the value creating activities to accomplish the objective of arranging all activities with Vantaa as the centralized coordinating body. | 1989-1991 |
| 4a | Management had to continuously adapt to new situations, as the fur market deteriorated all the time. | 1989-1991 |
| 4b | Limited possibilities to consider the opinion of customers. | 1989-1991 |

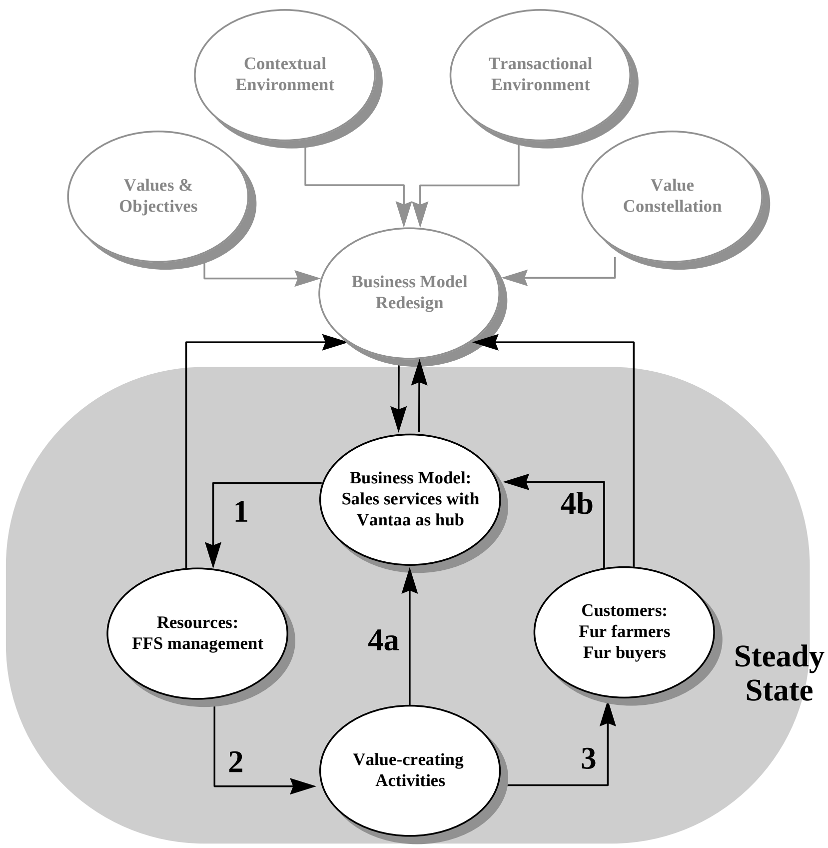


*Figure 19 The implementation of the centralized FFS sales services' model*

The concept of auctions in Vantaa with international solicitation was the service concept which had originally been defined in the strategy document of June 1986. The transition was FFS management driven, as the depressed status of the fur market implied that only limited energy could be mobilized by any other stakeholder in respect to influencing the process.

The internal restructuring changed the way FFS looked upon itself. FFS now defined fur suppliers as its primary customers. Offering sales services to these suppliers was FFS' core offering. The auction offering was built around the core offering, the sales services offered to the fur suppliers. The value constellation of FFS as of the auction seasons 1992-93 and 1995-96 are depicted in Appendix 6. From 1992-1995, the prices of fur skins increased rapidly due to increased demand for fur garments and fur trimmings in China and Russia.[75]

The transition from cooperative to internationally leading independent solicitor of fur skins took FFS seven years. This transition can be summarized as shown in Table 10.

*Table 10 The transformation into an independent fur soliciting auction house*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **1984** | •Growing apetite among FFS management to become a truly independent international auction house | •The author becomes responsible for international solicitation | •Numerous contacts with independent fur suppliers in the US, Canada, Poland, the UK, Ireland and the Netherlands | •Building the infrastructure to handle the logistics for international solicitation<br>•Gradually learning the relationship building elements of forming supplier contracts |
| **1985** | •Market share remains relatively low on the international solicitation market | •Initial discussions about the possibility of FFS taking over HBA<br>•The author becomes secretary to the board 1.5.1985<br>• Frustration by top management because of limited possibilities to act | •Continuous effort to solicit suppliers to the Finnish auctions<br>•Argumentation in the board by top management for the need of "critical mass" | •Further refinement of the handling of international accounts<br>•Building the understanding of the whole international fur industry to better position FFS |
| **1986** | •The Norwegians break the OFA/FFS agreement and enter an agreement with DFS in January 1986<br>• HBA for sale | •Strong sense of urgency due to OFA/DFS agreement<br>•Formalization of new strategy in June 1986<br>•HBA acquired in November 1986 | •Continuous adaptation to changes in environment | •Building the foundation for a new business model<br>- content: international<br>- support from the board<br>•Development of absorptive capacity |
| **1987-1988** | •All time high during spring 1987<br>•Stock market crash October 1987<br>•Rapidly increasing losses in HBA | •Cooperation or competition?<br>•Lack of direction<br>•FFS management allies with the EEC DG IV to prohibit political "horse trading" | •Trial and error, FFS management desperately defends the future of the company<br>•The author gradually becomes the person in charge of the restructuring | •Political game playing to protect the preferred business model<br>•Intense efforts to reduce costs |
| **1988-1989** | •Outside stakeholders ultimately convince FFS to close the London auctions | •Financial situation of FFS does not allow any more losses | •Intense internal struggle before ultimate decision | •Further process streamlining |
| **1989-1990** | •Decision by board to close London auction 12.4.1989 | •Clearly defined projects to bring all activities from London to Finland and at the same time intensified solicitation in the field | •A multitude of projects coordinated by the author and controlled by the management team | •Limited capability building, mostly execution with existing capabilities |
| | | | | **New business model fully implemented by the end of 1990** |

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[75] In the strategy document by the author in December 1989 the future potential of the fur industry had been evaluated in the following way:

> An interesting perspective on the future consumption of furs is the development in China and in the former Comecon countries. These markets form a considerable consumer potential, which yet is untapped. At this moment (December, 1989) it is impossible to evaluate how this factor will affect the global demand of fur skins, and therefore it will be left out of the demand projections made here.

## 5.2 ABB Fläkt; the period 1991-1993[76]

### 5.2.1 The industrial division process

In 1990 Percy Barnevik initiated a corporate wide effort in ABB called "Customer Focus". The message he gave when introducing this program was:

> We know the key to our long-term success and profitability: the unconditional and total satisfaction of our customers with every contact they experience and every product or service they receive from us. Whatever we do must be aimed at satisfying their needs and expectations at an even higher level. We have to be aware that this is a moving target, because their needs and expectations change. We must welcome such changes as opportunities for adding more and new values for our customers.
>
> To install this uncompromising customer-driven attitude throughout our Group, we have started a process called "Customer Focus". To me, it is one of the most important processes that we have embarked on in our company. Quality and cycle time are vital elements of this process since improvement of both offers a huge potential for increasing customer satisfaction. (Barnevik, 1990)

In 1991 the Finnish ABB Fläkt corporation had 1 700 employees and its turnover was 920 MFIM. The Industrial Division of ABB Fläkt Oy, headed by Mr. Antero Hietaluoma, employed 75 people in 1991 and had a turnover of 223 MFIM. The Industrial Division's projects related to air pollution control systems, pulp and paper dryers, industrial fans and service contracts relating to these installations.

The Customer Focus process within the Finnish ABB Group started within the industrial division of ABB Fläkt in October 1991 through a project called "Customer Base Management". It's first task was to conduct a customer base analysis, whereby the buying behavior of the 30 largest (by turnover) customers was analyzed in detail for the period 1988-1991. Based on this background material a seminar was held in November 1991 in order to define the goals of the project in greater detail. This seminar, as the ones to follow, were occasions where a large part of the sales force met for business, but also for socialization. Mr. Hietaluoma himself encouraged critical and spontaneous discussions around the topics on the agenda. These discussions continued after the formal program during the evening.

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[76] This case was originally presented as a paper in the Third International Workshop on Competence-Based Competition in Gent, November 16 - 18, 1995. It was later published in Heene, Sanchez, 1997, (Wallin, 1997a). The material in sections 5.2.1-5.2.3 is with some minor modifications directly from the original paper, only the order of presentation has been changed.

The goal formulation of the project was addressed by asking the participants of the November 1991 seminar (the 15 most senior salespeople of the division) to present their views on the business potential for three customer segments: domestic customers, Eastern European customers, and other export customers. Each participant was placed in a matrix with a qualitative scale from 1 to 5 indicating their views on business volume development (decrease, status quo, or increase) within the coming 3-5 years. When aggregating the results, it became evident for the participants that the potential of the domestic market was perceived collectively as far poorer than existing budgets and plans indicated. On the other hand, the collective view of the potential of the Eastern Europe segment was seen as much more promising than the existing corporate perception. Considerable Western export potential was also identified. The problem was that resources could not be deployed to develop these opportunities.

The results of this session created confusion within the top management of the ABB Fläkt Group. The following three months were, to some extent, a crisis stage in the process. The future outlook of business opportunities presented in the seminar did not coincide with top management's view. The Industrial Division was meanwhile conducting in-depth interviews with the most important customers. The results of these interviews further supported the earlier, fairly pessimistic, domestic industry outlook.

Based on these findings, it was decided in February 1992 that the Industrial Division should change its strategic goal formulation, and radically increase its deployment of resources to develop business opportunities in Eastern Europe, as well as focus more on export projects abroad. Three categories of key resources were identified: the internal resources of ABB Fläkt, addressable resources within the ABB Group (including product development, marketing, and finance functions), and addressable external resources (primarily export alliances with Finnish companies such as Ahlström and Tampella).

Mr. Hietaluoma gave the following credit to the "Customer Base Management" project in a presentation to ABB Fläkt management in autumn 1992:

- A substantially clearer view of business potential for the next 3-5 years
- Better possibilities to allocate resources efficiently
- A deeper understanding of customers and, in turn, of their customers' businesses and of data-gathering possibilities
- Definition of key accounts (10 customers)
- Emphasis on export
- Increased cooperation between different business areas.

### 5.2.2 *The ABB Fläkt Group process*

In the first half of 1993, based on the success of the Industrial Division process, Mr. Harri Launonen, CEO of the whole Finnish ABB Fläkt Group, initiated a similar project. Mr. Launonen stated the project objectives as:

- To adapt key account management to ABB Fläkt Oy's current situation in order to support sales activities - in other words, to create a new mode of operation
- To gather information on important customers in order to be able to develop further customer-oriented strategies and to create customer-specific action plans
- To classify and analyze customer base management activities: what to do, how to do it, how to group customers.

When the ABB Fläkt Oy "Key Account Management" project was initiated early in 1993, the Industrial Division was already working towards its new strategic goal, i.e. increasing its export activities. Therefore the ABB Fläkt Oy process primarily involved the remaining divisions of the Group, with some participation from the Industrial Division.

The "Key Account Management" project was divided into three areas: definition of the account management organization, information gathering about important customers, and the development of a systematic approach to account management. Personal relationships were seen as major intangible assets, especially when dealing with the most important customers with whom ABB Fläkt had developed close cooperation over the years.

During a period of six months each participant (in total, 30 senior sales executives representing all divisions within ABB Fläkt Oy) gathered information about one particular customer. For customers who were defined as possible key accounts, detailed action plans were prepared. These action plans included concrete proposals to the management team on how to handle the key account.

In June 1993, based on the proposals from the participants, the management of ABB Fläkt Oy nominated 21 customers as ABB Fläkt Oy key accounts. One person was appointed to be responsible for each key account. In most cases this person was the same individual who had been in charge of gathering information on that particular customer.

Implementation of the suggestions went rapidly and smoothly due to the "action learning" approach of the project. At the end of the project Mr. Launonen stated that the "Key Account Management" mode of operation was well understood throughout the organization. Consensus prevailed regarding the selection of key accounts and the appointment of persons responsible for those accounts.

The "Key Account Management" project had also identified customer dissatisfaction with the way ABB was organized. ABB was very product-oriented from the customer's point of view. On a construction site, for example, there could be several different ABB units represented: the Ventilation Division of ABB Fläkt Oy providing air-conditioning installations, ABB SLM Oy taking care of electrical installations, and ABB Fläkt Service Oy providing service for existing equipment. Due partly to the results of the "Key Account Management" project, a radical reorganization took place at the end of 1993. The Ventilation Division of ABB Fläkt Oy, ABB Fläkt Service Oy, and SLM Oy were combined into a new company: ABB Installaatiot Oy. At the same time the Industrial Division was transferred to ABB Power Oy and became a separate division, ABB Environmental Systems Oy. The remainder, i.e. the genuine product divisions (Industrial Products, Ducts, Ventilation Products and Air Terminal Units), formed the new ABB Fläkt Oy. As of January 1, 1994, Harri Launonen became marketing director for the whole ABB Group in Finland.

Mr. Launonen mentioned three reasons for the reorganization:

- There was a higher level (ABB corporate-wide) redefinition of ABB business areas and business segments; the changes in ABB Fläkt Oy conformed with this.
- The structural changes in the Finnish construction market forced ABB to consolidate its activities and to reduce costs.
- The new organization enabled a better grouping of competences focused on customer requirements.

### *5.2.3 Reflective analysis made in 1995*

The reflections made in 1995 addressed the following issues: goal formulation, addressable resources, market test for competence, the role of the offering, and the appropriate organizational boundaries.

For management, a very difficult task when setting goals is to define what the desired state of the firm's system elements (Sanchez, Heene, 1996) should be in the future. In 1985 AT&T projected that the number of U.S. cellular users in 1995 would be 900,000. Based on this forecast, the company buried its cellular program. The number of cellular subscribers in the USA in 1994 was 20 million. To correct this mistaken projection McCaw was acquired at a cost of $12 billion (Kupfer, 1994). The suggestion by Hamel and Prahalad (1994) to develop better industry foresight is one way to improve goal formulation.

The managerial goal formulation (Sanchez, Thomas, 1996) that leads to competence-building and competence-leveraging activities is one of the elements described in the ABB Fläkt case. The case suggests that important customers can be co-producers in the goal formulation process and improve the absorptive capacity of the firm.

One element of the desired state of the system is the generation of future cash flows. Strategic decision making is about creating strategic options to develop, produce, and market products in the future (Sanchez, Thomas, 1996). Seeing products as bundles of product traits means that strategic decision-making is about future product traits (Bogner, Thomas, 1996). This corresponds to the view of Normann and Ramírez (1994) that offerings, not firms, compete in the marketplace for customers. An offering is not only an output of one value-creation system but also an input to another value-creation system. The implication of seeing products as inputs to value-creation systems of customers brings more depth into the "market" notion applied in the suggested "market test for competence" (Sanchez, Heene, Thomas, 1996). The way this issue was treated in ABB Fläkt also gives some insights into how the notion of "customer potential" can be practically addressed.

Resource building is, according to Normann and Ramírez (1994), connected to the customer base. Two basic strategic alternatives are acquisition of competences to be offered to existing customer bases and expansion by building on existing competences and applying them to new customer bases. In the case of ABB Fläkt, competence building was primarily seen as an activity which would further enhance relationships with existing customers. Competence leveraging was seen as deploying existing resources to customers not yet served.

The concept of "business unit" versus "corporation" was touched upon in Sanchez, Heene and Thomas (1996) who stated that the understanding of actual and potential coordination systems available to firms, at both business unit and corporate levels, is inadequate. When implementing "Customer Focus" at ABB Fläkt, the role of the business unit within the context of the corporation was relevant. Based on the ABB Fläkt case, the question of which resources are firm-specific and which are firm-addressable needs to be addressed from the point of view of the business unit. There may be firm-specific resources internal to the corporation which, from the business unit point of view, are less addressable than external firm-addressable resources. When the corporate culture favors internal competition, the preferred addressable resource may prove to be external. Whether this is "good" or "bad" has to be related to other advantages/ disadvantages within the existing mode of operation.

As established industry definitions become obsolete, strategic flexibility and learning are firm characteristics of growing importance. This means that more than ever before, the market test for competence has to be seen as the customers' test for competence. When existing customer relations are developed in-depth, it is a radical shift in thinking from the traditional customer satisfaction paradigm.

Developing customer orientation within a firm helps to understand the customer-specific threshold traits, thereby avoiding the unnecessary costs attached to providing more than the minimum level of performance in any threshold trait for each specific customer. The logic for developing supplier-customer partnerships is to create a work- and risk-sharing formula that optimizes the total value creation of the two players, and thereby forms a genuine win-win situation; Normann and Ramírez (1994) call this co-production. Co-production means that if a supplier for example has both Toyota and GM as its customers, it has to be able to deploy its available assets and capabilities simultaneously in a way that satisfies both these customers, but also makes appropriate use of the distinctive competence (Selznick, 1957) the supplier has. Customer satisfaction takes a one-sided view of the customer; in co-production the goals of both the supplier and the customer have to be considered.

The concept of the three-dimensional offering was applied in the ABB Fläkt project. Which elements to include in offerings for respective customers, and customer segments, was carefully evaluated. It was noticed that moving all customers to a strategic partnership level is not economically justifiable. Also, all customers may not want partnerships with suppliers for ABB-type products. However, from the point of view of ABB, the goal was that every customer should see ABB as a responsive and reliable supplier. For chosen customers ABB wanted to be seen as a preferred supplier or strategic partner.

The ABB "Customer Focus" initiative was communicated from ABB corporate management to business areas and country organizations as an organizational imperative. At the same time, it was concluded that moving the organization from traditional product selling to strategic relationships with customers is a complex and slow process that requires cultural change, changes in organizational processes (e.g. performance measurement systems) and a concerted effort over many years. To move the organization to "strategic partnerships" involves multiple steps, each one requiring continuous improvement, with measurable progress along the way. The ultimate goal, a truly customer-focused organization, bases its long-term direction on individual customer strategies and plans (Schulmeyer, 1992).

One ambition stressed by ABB management was to increase cross-business unit cooperation. This was a challenge within an organization that favored internal competition and a high degree of decentralization. Strong emphasis on products and technical skills were very much the basic values at the business unit level.

When asked, in August 1995, what had changed between 1992 and 1995 Mr. Hietaluoma answered: outsourcing. In 1995 the former Industrial Division employed fewer people than in 1992, but used much more subcontracting. Mr. Hietaluoma felt that in 1995 ABB Environmental Systems Oy was fairly good at managing external firm-addressable resources.

### *5.2.4 Analysis of business model dynamics in ABB Fläkt*

When the "Customer Focus" initiative was introduced within the ABB Corporation, the Industrial Division issued in February 1991 a request for tender regarding how to implement "Key Account Management" within the division. SMG was awarded the project based on a proposal which emphasized an interactive action learning methodology. SMG argued in the proposal that key account management had to be divided into two parts, project management and customer relationship management. The proposal emphasized that two simultaneous objectives have to be met when implementing key account management: (i) The key account manager should promote the short term sales efforts, and (ii) at the same time provide senior management with feedback information to support future customer strategies.

When the project started in September 1991 the goals of ABB Fläkt were driven by perceptions of product cash-flow generating potential emanating from existing forecasts. In retrospect, as Figure 20 indicates, these perceptions were unreliable. Management faced an unprecedented discontinuity, and did not realize this or its implications in full.

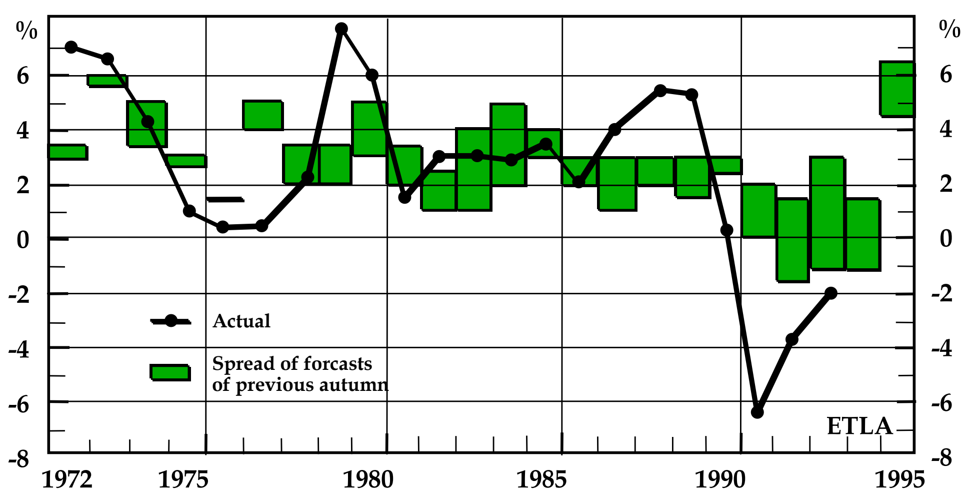


*Figure 20 Dispersion of Finnish forecasts of economic development: forecast for next year*

The Kick-off for the Industrial Division CBM (Customer Base Management) project was October 14, 1991, where after three workshops were held.[77]

In the first workshop in November 1991 the participants had prepared sales forecasts for 14 key customers. These customers represented companies from the pulp and paper, engineering, base metals, and energy sectors. The sales forecasts combined with the brainstorming around the business potentials in a 3-5 years' perspective created the first deep doubts about the outlook for 1992.

The Industrial Division managers were thus the first ones within ABB Fläkt to notice the impending discontinuity. This view was further confirmed through in-depth interviews with the most important customers regarding their investment plans and business prospects in November and December 1991. These interviews helped the Industrial Division to better estimate the buying potential of the existing customer base.

The close interaction between the Industrial Division and its most important customers helped the division to switch more quickly from competence building (for existing customers) to competence leveraging (for new export customers). Understanding the value-creation logic of their customers helped ABB Fläkt to redeploy resources and redesign offerings to make the shift in strategic focus without adding new resources. The second workshop in February 1992 verified that the outlook for the domestic market was worsening all the time.

Immediately after the workshop Mr. Hietaluoma decided to deploy more resources for exports. He applied for corporate support which was granted to the Industrial Division in May 1992 in the form of corporate funds to further develop the activities of the division in Russia and the Ukraine. In the project export markets, alliances with Ahlström and Tampella resulted in significant orders from the pulp and paper industries of Indonesia, Thailand and South Africa.

There were two competences in the Industrial Division which were used for leveraging: technological know-how for air pollution control for certain industrial applications and industrial know-how of pulp and paper processes. Both of these competences had been developed in close cooperation with Finnish industrial companies engaged in these activities, domestically and abroad. The Industrial Division was, in competence terms, addressing external resources both from customers (like Outokumpu and Kymmene) and from suppliers providing complementary products (like Ahlström and Tampella) when strengthening its competences. In this way the Industrial Division was part of a value constellation where the focus of each member was on competence building. This supports the concept by Sanchez and Thomas (1996) that the firm, as a goal-seeking open

[77] The content of these workshops is presented in Appendix 7.

system, creates strategic options through systemic interaction of many kinds of firm stakeholders. The activities preceding the change of business model of the Industrial Division are listed in Table 11.

*Table 11 The activities preceding the decision to redesign the business model of the Industrial Division spring 1992*

| Code | Activity | Timing |
|---|---|---|
| 5f | Recession on the domestic market. | 1991- |
| 5e | Pulp and paper industry reduces investment level. | 1991- |
| 5d | Projects were cancelled. | 1991-1992 |
| 5g | The objectives of the Industrial Division could not be met. | 1991-1992 |
| 5a | The existing business model was not providing satisfactory results. | 1991-1992 |
| 5c | The management of the Industrial Division, and the management of the ABB Fläkt Group, arguing about how severe the recession actually was. | 11.-12.1991 |
| 5b | Feedback from the customers: business model had to be changed. | 11.-12.1991 |
| 5c | The outside consultant secured that the feedback from the market was adhered to. | 1991-1992 |
| 8a, 5g | The decision making process included a large group of individuals within and outside the Industrial Division, which affected the values and objectives of the division. | 3.-5.1992 |
| 6 | The division recognized that its business to a lesser extent had common interests with the rest of the ABB Fläkt Group. | 5.1992 |

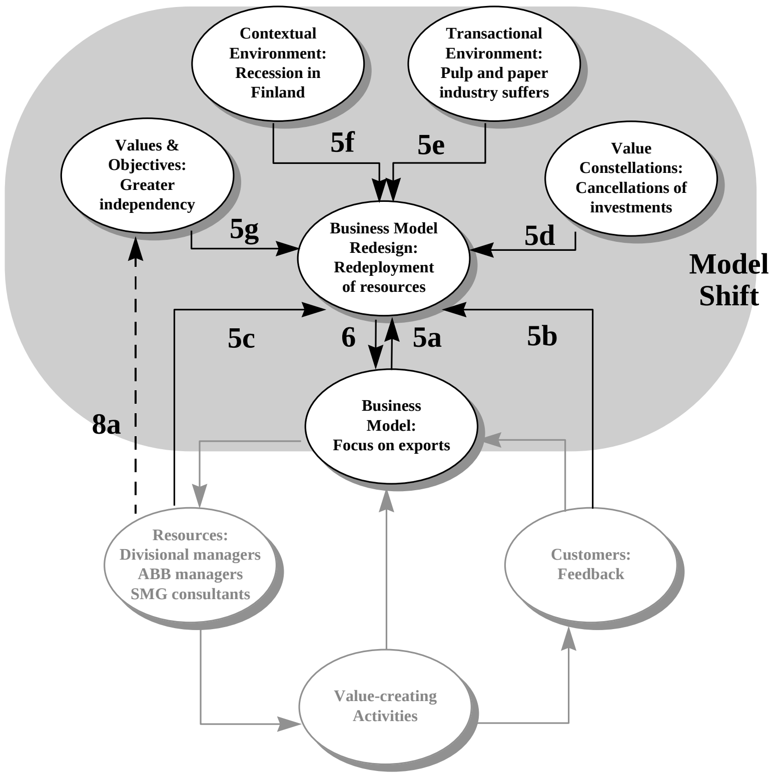


*Figure 21 The decision to focus on exports within the Industrial Division, spring 1992*

*Table 12 The reformulation of the business model of the Industrial Division*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **9.-10.1991** | •Initiative by Mr. Percy Barnevik, ABB, CEO: "Customer Focus" | •Design of "Customer Base Management" project | •Kick-off meeting to initiate customer research | |
| **10.1991-12.1992** | •Customer feedback indicating worsening market picture | •Close interaction with customers<br>•Intense internal debate about how to interpret market signals | •Customer interviews<br>•Formal and informal internal discussions | •Improved understanding of customers<br>•Improved understanding of market |
| **2.-5.1992** | •Need to refocus on export business | •ABB Group wide discussions and decisions on Eastern European strategy | •Top down decision making on re-allocation of resources | •Export offerings<br>•Cooperation with Ahlström and Tampella |
| | | | | **Refocus on exports** |

The results of the Industrial Division project were the basis for a project that was agreed upon between Mr. Harri Launonen, CEO of ABB Fläkt Oy and the author in December 1992. This project was called the "ABB Fläkt Oy corporate key account management project". Its content is presented in Appendix 8.

At the end of the "Key Account Management" project 24 written reports on key account candidates were compiled. 21 customers were selected to become key accounts by Mr. Launonen on June 10, 1993. The key accounts were divided into five groups: wholesale, pulp and paper, construction, OEM-export companies, and other industries. Each group had a responsible person from ABB Fläkt Group's management team coordinating the work of the group. Mr. Hietaluoma was responsible for coordination among the five groups.

The new organization aimed at tighter cooperation and handling of customer service so that the divisions within ABB Fläkt Group should reach the sales goals set for each key account as profitably as possible. Emphasis was put on the measurability of the results. Three possible benefits were identified: increased market shares, better customer profitability, and improved productivity. Indicators of improvements were increase of customer partnerships, better project hit rates, and reliability of estimated project probabilities.

Merging ABB Fläkt Oy, the ventilation business, with SLM Oy, the electrical installation unit, had been discussed between Mr. Hietaluoma and the author in November 1992. This organizational restructuring suggests that the appropriate boundary of a "business unit" is the organizational entity that provides the same customer base with offerings that the customer perceives as related. - The reorganization of ABB Fläkt Oy was commented as follows:

> ABB Installaatiot Oy was established at the beginning of this year when the SLM Group combined its expertise with ABB Fläkt Oy's Indoor Climate Division. The new company's greatest strength is its dedicated house technical package. This means that the customer has to negotiate with only one source, time and operational costs are saved and the overall quality is higher. The new company employs over 1500 experts in 36 operational bases all over Finland. (ABB Group, 1994 review)

The Industrial Division of ABB Fläkt Oy became as of January 1, 1994, the Environmental Systems Division within ABB Strömberg Power Oy. This organizational move was expected to enable the unit to offer even more comprehensive solutions, which consider not only the needs of the customer but also environmental aspects. The Environmental Systems Division signed in 1993 and 1994 numerous agreements with Russia and other CIS countries. In 1995 the Environmental Systems division was awarded the global business responsibility for Pulp & Paper air pollution control within the whole ABB Group. Due to its new responsibilities, Environmental Systems increased exports to Austria, Brazil, Indonesia, South Africa, and Estonia. (ABB Oy Group, review 1996)

The remaining part of ABB Fläkt Oy, air-handling equipment, components, and industrial fans became the new ABB Fläkt Group. This loss-making business returned to profitability in 1994. The reorganization of the ABB Fläkt Group was preceded by the activities listed in Table 13.

*Table 13 The activities preceding the reorganization of ABB Fläkt Oy*

| Code | Activity | Timing |
|---|---|---|
| 5f | The business climate considerable worsened. | 1991- |
| 5e | Drastic downturn of the construction industry. | 1991- |
| 5d | Orders received 1990 FIM 1107 million, orders received 1991 FIM 738 million, 1992 orders received FIM 604 million. | 1990-1992 |
| 5a | Need to improve internal efficiency. | 1993 |
| 5b | Corporate objective of customer orientation. | 1991- |
| 5c | Outside consultant facilitator to make sure that "the voice of the customer" was heard. | 1991-1993 |
| 5g | Corporate re-organization at ABB level. | 1993 |
| 5g | Former ABB Fläkt business areas were divided into separate business segments also on ABB corporate level. | 1993 |
| 8a | The ABB Corporation change combined with the feedback from the customers affected the opinion of the management of ABB Fläkt in respect of what the ultimate objectives of ABB Fläkt Group should be. | 1993 |
| 6 | Formation of ABB Installaatiot Oy. | 1.1.1994 |

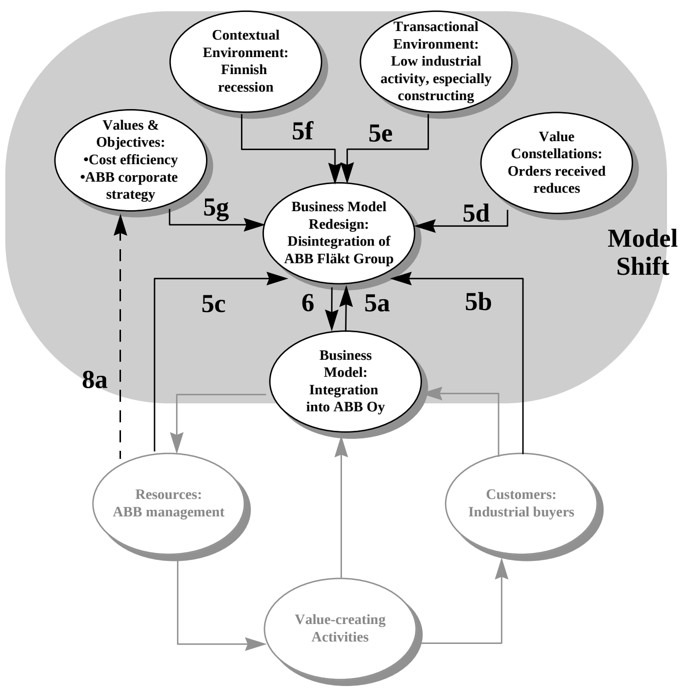


*Figure 22 The business model change within ABB Fläkt Oy 1.1.1994*

From an ABB Fläkt Group perspective, the initial change within the Industrial Division was only a minor change within one part of ABB Fläkt. The major change for ABB Fläkt was the reorganization taking place during the second half of 1993. This change, in turn, was seen by the Industrial Division as a continuous improvement of its new business model, as the transition into an export organization had happened earlier. For the Industrial Division the shift from ABB Fläkt to ABB Power had a minor impact, as the Industrial Division both before and after this organizational change worked quite autonomously.

*Table 14 The reorganization of ABB Fläkt Oy*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **1992-1.1993** | •Initiative by Mr. Percy Barnevik, ABB CEO: "Customer Focus"<br>•Successful "Customer Base Management" project in Industrial Division<br>•Reduced domestic demand | •Design of "Key Account Management" project | •Kick-off meeting to initiate customer research | |
| **1.1993-5.1993** | •Customer feedback indicating need for re-organization<br>•ABB Corporate wide re-organization | •Close interaction with customers<br>•Monthly one-day seminars with key managers | •Customer interviews<br>•Financial analyses<br>•Formal and informal internal discussions | •Improved customer understanding<br>•Design of more comprehensive offerings |
| **6.1993-12.1993** | | •Design of new organization | •Discussion within ABB Fläkt and ABB Finland | |
| **1.1.1994** | | | | **Formation of ABB Installaatiot** |

## 5.3 *Metsä-Serla, the period 1991-1997*[78]

### 5.3.1 *Background*

Metsä-Serla was founded in 1986 through the merger of G. A. Serlachius Oy and Metsäliiton Teollisuus Oy, two long-standing Finnish forest industry companies. Operations began in January 1987. G.A. Serlachius had been established with the founding of the Mänttä groundwood pulp mill in 1868. As its pulp and paper production increased, the company expanded to new locations and forest industry sectors, becoming a major Finnish producer of paperboard, tissue and fine paper. Metsäliitto was founded in 1934 as a timber exporter. In the late 1940's it became an association of private forest owners, expanding into wood processing, including saw milling and pulp and paper. In 1998 Metsäliitto, still

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78 Parts of this case were presented as a paper for the 16th Annual International Conference of the Strategic Management Society, Phoenix, Arizona. (Wallin, Ramírez, 1996)

an association of the Finnish private forest owners, was Metsä-Serla's largest shareholder with 33 % of the shares and 63 % of the votes.[79]

When Metsä-Serla was founded the biggest individual product group was pulp. Metsä-Serla started immediately to systematically increase its proportion of other products to reduce its dependence on highly cyclical pulp prices.[80]

At the formation of Metsä-Serla Mr. Ebbe Sommar was elected CEO. In 1991 the members of the executive board included Timo Poranen, CEO (who had succeeded Mr. Sommar), Christian van Niftrik, Ossi Kokkonen, and Hannu Anttila. Juhani Yli-Paavola had a central position as the CEO of Metsä-Botnia, part of which activities were later merged with Metsä-Serla.

### *5.3.2 Increasing awareness of the need for customer orientation*

CEO Timo Poranen stated in the annual report 1991:

> Due to intensified competition, there is a growing importance of continuous development of products and services based on customer needs.

The development towards customer orientation has since then been a main topic within the strategy of Metsä Serla. Five years later Jorma Vaajoki, the new CEO of Metsä-Serla, described in the 1996 annual report:

> The business climate for the forest industry is changing throughout the world at an increasing pace. In many of its products the industry is approaching the situation of lasting over-supply that has affected many other industrial sectors as well as trade for a considerable time. For the forest industry, the situation represents a major challenge. Adapting will be a painful process, as we shift the emphasis away from production and devote more attention to customers' interests and marketing.

The worldwide recession in 1990-1992 affected Finland and the forest industry heavily. The forest products market was characterized by an oversupply in most product areas. The Finnish markka was devaluated in November 1991. This increased the competitiveness of Metsä-Serla but the devaluation also increased the currency-denominated debt.

Metsä-Serla made a loss after financial items of over half a billion FIM in 1991. In 1992 the result improved but profit after financial items was still negative. Consolidation became a key theme. Measures to cut costs and improve

[79] Metsä-Serla's shares are listed on the Helsinki Stock Exchange, on the SEAQ International in London and on the Bavarian Stock Exchange.

[80] In 1990 Metsä-Serla had a turnover of FIM 8,7 billion FIM and defined its business in four categories: paper and paperboard (33 % of turnover), corrugated board and tissue (28 %), sawn goods (19 %) and pulp (20 %).

profitability were launched, e. g. the personnel decreased between 1991 and 1992 by over 1000. The company started to focus on its core activities.

There was a tradition in Metsä-Serla towards decentralization of operations. The individual mills were quite independent. This made it hard to get signals from customers to the group level. Marketing and sales of Metsä-Serla's products were to a large extent in the hands of the cooperative sales networks Finnboard and Finnpap. This made it difficult for management to get a tighter grip on the market. Consequently, customer knowledge was quite diffused within the Metsä-Serla Group.

The ideas about customer orientation, therefore, most naturally emerged in the divisions that were not primarily selling through the sales cooperatives. Christian van Niftrik had been in charge of the successful reorganization of one such division, the tissue division. In this context, he had initiated a process focusing more strongly on customers. This same approach was used for the corrugated board businesses, which were also under his supervision. In October 1991 Neopac Oy, the corrugated board box producer within Metsä-Serla, started its customer-orientation project in cooperation with SMG and with the author as project manager.

The discussions about a project with Neopac Oy were born in autumn 1991 out of the need to renew the information system. During the preliminary discussions it became evident that large changes were to be expected in the Finnish corrugated box market. The proposed project would therefore concentrate on Neopac's operations in Finland, including it's factories in Tampere, Nokia and Nummela.

The project work commenced in October 1991. The goal of the project was to define the future business model for Neopac and design a supporting information system. A key word for the project was to develop a "split vision" – the ability to manage strategic and operational issues simultaneously.

Customer interviews and a customer base analysis were done in order to increase knowledge about the value-creating processes of Neopac's customers. The results were presented in seminars on customer orientation that were held for key personnel in management and sales. The message of these seminars: To be able to provide the customer with added value, one had to understand the customer's and the customer's customers' businesses.

In January 1992 the crude design of the new business model for Neopac was agreed upon. During the spring sub-projects were initiated to further fine-tune the new business model. For example, the goal of the customer logistics project was to study what specific requirements Neopac's 200 largest customers had as far as the logistics part of the cooperation between Neopac and its customers.

In April 1992 the project group could start to implement the new customer-oriented business model. All personnel were informed about the objectives and implications of the new business model. The work on information systems supporting the new operation model was initiated.

During the evaluation of the Neopac project Christian van Niftrik brought up a possibility of also doing a customer base analysis in Savon Sellu Oy, a producer of fluting, a raw material for corrugated board production. The project was agreed upon, and the customer base analysis was done between September and December 1992.

The Savon Sellu customer base analysis was based on sales data from 1991 and 1992 as well as on predictions for 1993. The conclusions based on the customer base analysis suggested that Savon Sellu had several strategic problems due to the way sales was organized through the sales cooperative Finnboard.

The project report focused on the role of corrugated board in Finnboard and how Savon Sellu's sales organization could be developed. Part of this discussion was based on a bench-marking exercise with Savon Sellu's main competitor, Stora Billerud. The conclusions suggested that Savon Sellu needed to cooperate closely with the other Finnboard member of the Metsäliitto Group, Metsä-Botnia Kemi, to maximize its influence within Finnboard. Metsä-Botnia Kemi produced liner, the other main component of corrugated board.

As a result of the Savon Sellu project a new project was started in January 1993. This project's goal was to investigate the opportunities for cooperation in marketing between Savon Sellu and Metsä-Botnia Kemi.[81]

The Metsä-Botnia Kemi project contained three phases: 1) the mentioned customer base analysis at Metsä-Botnia Kemi (January-February), 2) a comparison of the customer bases of Metsä-Botnia Kemi and Savon Sellu (February-May), and 3) a competitor survey (June-September).

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81 The start up of the Metsä-Botnia Kemi project in the beginning of 1993 did not happen without complications. The client was hesitant to immediately accept the project budget. On the other hand it was necessary to proceed as quickly as possible due to the importance of combining the results from Savon Sellu with the ones of Metsä-Botnia Kemi. SMG therefore accepted to do the first stage of the project, the customer base analysis, at its own risk. The client delivered the raw data and SMG made the whole analysis. If the client would not like to pay for the project, the whole material would be destroyed. If the client wanted to take the material with him he would have to pay. When SMG presented the material, the client wanted to keep it...

The customer base analysis data from Metsä-Botnia Kemi was compared with that of Savon Sellu Oy. The comparison concentrated on two dimensions: proportion of sales in different European countries and price indices for these countries. The conclusions were that a majority of the customers should be approached jointly, and it was agreed that Savon Sellu and Metsä-Botnia Kemi should coordinate their marketing and share key account responsibilities.

The customer analysis also included an in-depth study of SCA, which was a big customer of Savon Sellu, but at the same time could be regarded as a competitor of Neopac. Based on this study, the relationship with SCA was further developed through high-level managerial contacts between SCA and Metsä-Serla.

### *5.3.3 Emerging external pressure to change*

The beginning of 1993 saw the start-up of a period that evolved into a radical restructuring of the Finnish pulp and paper industry. The first event in this series of escalating changes was the acquisition by Enso of Tampella, which resulted in the announcement of the exit of Tampella from Finnboard in March 1993. The discussions about the need for customer orientation within Savon Sellu and Metsä-Botnia Kemi had started late 1992, thus providing good timing in respect to being able to adjust to the new situation. Some of the analysis conducted jointly for the two units could be applied immediately in support of the negotiations about how to treat the exit of Tampella.

That Tampella left Finnboard created a new situation for Metsä-Serla. It became relevant to discuss and define the future marketing strategy. The two sales organizations, Finnpap and Finnboard, now had only five members of significance: United Paper Mills, Metsä-Serla, Myllykoski, Veitsiluoto, and Kyro. United Paper Mills was by far the leading exporter within Finnpap, whereas Metsä-Serla represented more than half of the volumes handled by Finnboard.

In April 1993 Mr. Poranen, CEO of Metsä-Serla, initiated a number of meetings to consider in which way customer orientation could be introduced as a corporate theme within the company. Based on these discussions, however, it was considered more relevant to proceed with customer orientation as independent decentralized projects. As a result, two new divisional projects were initiated: Metsä-Serla Kangas and the sawmill units of both Metsä-Serla and Metsäliitto.

*Kangas Paper Mills*

The customer orientation project for Kangas paper mill (a paper mill producing copier paper and various other uncoated fine papers) was conducted using the same approach as for Neopac Oy, Savon Sellu Oy and Metsä-Botnia Kemi.

Metsä-Serla Kangas consists of two paper mills, PM2 and PM4. In 1993 PM4 produced mainly office papers (A4), whereas PM2 had a broader range of products, including printing quality papers, wall paper, etc.

The initial phase of the Metsä-Serla Kangas customer orientation project (May-August, 1993) comprised of a customer base analysis, an organizational analysis and the design of a new customer-oriented business model. The discussions regarding the reorganization of Metsä-Serla Kangas were continued until November 1993. Based on the support from the analyses, it was agreed that a key account management approach would be suitable for Kangas.

The implementation phase focused on the design and implementation of key account management processes. Here the cooperation between Metsä-Serla Kangas and Canon and Metsä-Serla Kangas and British Telecom were used as examples. Selling through distributors was approached through a set of in-depth interviews among existing and potential UK key customers of M-S Kangas. This was done together with Finnboard UK and Lamco Fine Paper, the UK sales office of Finnpap.

The customer interviews focused on four areas: 1) general customer information, 2) the view of the customer regarding the dynamics of its markets, 3) the relationship between the customer and Metsä-Serla, and 4) other questions regarding the future customer relationship.

The findings from the interviews were used to fine-tune the customer-oriented business model. The interviews helped to increase knowledge about the customers' businesses, thus giving Metsä-Serla Kangas indications on how to develop its offerings. The interviews also revealed which customers wished a closer relationship with Metsä-Serla. One such customer was Canon.

The customer orientation project had included a detailed analyses of the customer portfolio of PM4. This analysis supported the view that PM4 should concentrate on copier papers. Two major customers were identified initially: Xerox and Canon. In-depth analyses on these customers followed. Potential in the Canon relationship not yet exploited was thus uncovered. This potential implied that Kangas could form a Europe-wide partnership with Canon. In September 1993, Kangas' managers decided to pursue this opportunity.

As the account executive of PM4 had built a very good relationship with the Finnish Canon organization, this relationship enabled Kangas to mobilize Canon Finland to prepare a joint seminar for all European Canon units. This seminar was held in February 1994. Twelve Canon representatives and the entire PM4 management team attended. The seminar confirmed that the potential existed, and that an opportunity to co-produce value existed. Canon was indeed interested in working more closely with PM4 to jointly make available competitive offerings across Europe. The management of PM4 allocated more resources to further develop the Canon relationship. On top of this, the management team also addressed some specific issues that related to the offerings presented to Canon. After this occasion business between PM4 and Canon started to develop even more favorably, and in 1995 volumes were almost 50% higher than in 1993.

In the past, Kangas Paper Mill 4 had almost solely focused on production. The product had been sold using the cooperative export organization Finnpap, whose costs were shared with other, competing Finnish paper mills. Therefore, the unit could affect its results almost only through production capabilities: to provide high-quality paper from virgin fiber at the lowest possible costs.

At the first stage of the application of the value-creation framework, the attention was shifted from production capability to the customer-interaction capabilities needed to pursue a more successful strategy. The analyses of 1993 showed that Kangas suffered from two problems. First, the limited amount of interaction with customers reduced the possibility of distinguishing Kangas' particularities with respect to key, big customers (like Xerox and Canon). Second, customers were a very under-utilized but important source of information to support innovation.

The first problem was addressed by developing customer-interaction capabilities within PM4. But addressing this issue in this manner created a lot of resistance outside the unit, as Kangas was a member of the Finnpap organization and expected to remain focused on its production activities.

The second problem was addressed by realizing that the offering was broader than the traditional physical paper product. Based on a better understanding of customers' value creation, the offering was supported by a multi-million dollar investment in sheeting and packaging operations, as well as considerable investments in human resources.

Using the three-dimensional offering and the value-creation framework helped Kangas PM4 to partly shape the value constellation in which it wanted to be a significant actor. The tools also provided a platform for better understanding the resources and capabilities needed to pursue a chosen strategy of focusing the product mix on copier papers.

*Metsäliitto Sawmills*

The Metsäliitto sawmill customer orientation project commenced in May 1993. The goal of the project was to create a new more customer-oriented business model. A basic principle in the project was to look at the customers of the Metsä-Serla and Metsä-Botnia sawmills as one entity, even if these units at the time of the project were operating as independent businesses.[82]

In the first phase of the project the sales data was analyzed through a customer base analysis. The sawmills were responsible for providing data from key markets. In some markets spruce products were studied, in other markets, pine products. For example, the author conducted an in-depth study with a large French customer. The analysis of the pine and spruce markets were reported separately. The final report of the customer base analysis was presented in January 1994. Additionally a survey of the Metsäliitto sawmill information systems was conducted.

In the second phase, the spruce market was analyzed in even greater detail. The third phase contained an in-depth analysis of the pine market. Detailed data was collected in order to increase the understanding of key markets, operating environment and customers, with the goal to further fine-tune the business model for the Metsäliitto sawmills.

The analyses revealed that a key account management approach would be applicable for the sawmills industry. There was also a need to improve coordination and communication between the individual sawmills. The reorganization was suggested to be based on the competences the mills possessed and the raw material available in the local region surrounding each mill. The information systems survey revealed a need for a centralized reporting system for customer information.

### *5.3.4 Designing a corporate architecture for customer orientation*

The accumulated knowledge from the different customer orientation projects was continually reported to the group management of Metsä-Serla. In April 1994 Mr. Poranen decided to accept the suggestion to initiate a corporate program to increase customer orientation. The project was called "MS 2000". It was launched in May 1994 with the following catchword: "Metsä-Serla's marketing theme for the 2000s: Competence-driven and Customer-oriented."

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82 The management of Metsä-Serla and Metsäliitto had already in 1993 started to discuss to merge the sawmill operations. This finally took place in March 1995 when Metsä-Serla sold its sawmill business to Metsäliitto, and the new entity, Metsä-Timber was formed.

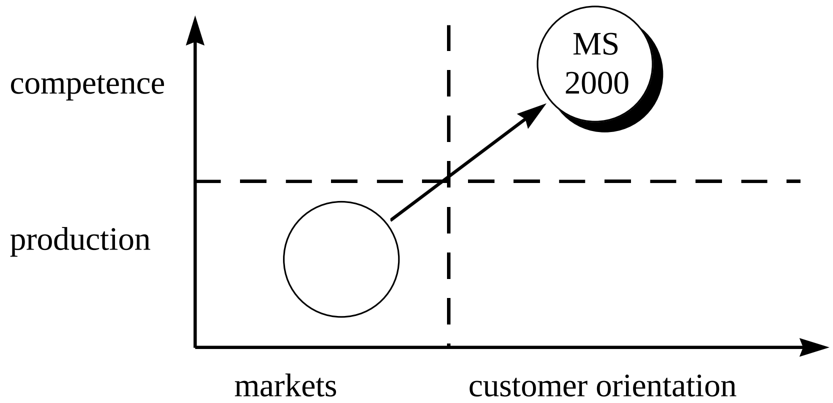


*Figure 23* *From production-/market driven to competence driven and customer oriented (MS 2000, project presentation 29.4.1994)*

Simultaneously, it was decided that Finnboard, the sales cooperative of which Metsä-Serla was the major supplier, would initiate a similar program. In June 1994, Finnboard started its project called "Finnboard Vision 94".

*MS 2000*

The idea of "Competence-driven and Customer-oriented" was communicated by Mr. Ari Antsalo, Senior Vice President as follows:

> At Metsä-Serla we have sought to break the tradition of production orientation by firmly basing our strategic planning on "the two C's": Customers and Competence. Our aim is to operate in a customer-oriented way, listening closely to our customers and trying to understand their future requirements. We know we can only come up with the right products and solutions when we thoroughly understand what our customers think, and what their visions for the future are. At the same time we seek to maintain and further enhance our own competence, by keeping ahead of technological developments and changing market situations. (Metsä-Serla News 1/95)

The goal of the MS 2000 project was to create a proprietary sales organization, aimed at developing a strong competitive position on the market. In developing the new organization, both Metsä-Serla and Metsä-Botnia products should be included (also including the sales of the non Metsä-Serla mills in Finnboard, Kyro and Simpele, if possible). The organization should still be mean and lean.

Furthermore, the project was to give recommendations on competences, customers, organizational implications, and action plans. The projects in which the author was involved concentrated on three topics: customer relationships, organization, and information systems.

Customer relationships were studied from two dimensions: customer base analysis and customer-based budgeting.

The customer base analysis was based on 1992-1994 data from the mills regarding products, customers, and sales. Objectives for the analysis were to find out the distribution of sales over markets, distribution of different products, the concentration of the customer base, and possible synergy between mills. The customer base analysis also compared the sales of Metsä-Serla with the total Finnboard sales, market by market.

Based on the analysis, the sales of Metsä-Serla and Metsä-Botnia was geographically grouped into 7 areas: "Hansa", UK, "Germany"(+surrounding smaller countries), "France"(+surroundings), Far East, Nafta, and agents. The new product grouping was suggested to be: paper, packaging, tissues, and pulp. This phase of analysis heavily involved representatives from respective division as well as the top management of Metsä-Serla and Metsä-Botnia. In the final discussions, there was a consensus to structure the business based on geography and product group according to the above-presented analysis.

The study showed synergy especially between the Savon Sellu and Metsä-Botnia Kemi factories. Kirkniemi, Äänekoski, and Kangas also had potential synergy not yet fully exploited. In the question of the Tako and Äänekoski board mills, the synergy was already exploited. But it was also considered that the role of the Kyro mill was critical for Metsä-Serla. Only the combined volume of the three mills (Tako, Äänekoski, and Kyro) was large enough to maintain the company's position as a preferred supplier for the important tobacco, fragrance and liquor manufacturers forming the main customer segments for these mills.

The goal of the customer-based budgeting was to follow up the development of the customer base, especially in respect to the most important customers. Another important goal was to forecast the year 1994. The budgeting exercise covered the years 1994-1997. The whole production capacity was allocated to customers. The budget material was used to make forecasts about market area developments and to forecast the future role of the top 100 customers.

The competence evaluation was done in four areas: technological, product/service, organizational, and relationship. The technological analysis was done by a group of Metsä-Serla managers together with SMG, while the other evaluations were conducted by SMG.

The evaluation of the customer-interaction capability included a listing of individuals from the Finnboard and Finnpap organizations that were seen as critical for Metsä-Serla if the cooperatives were to be dissolved. Metsä-Serla would then have to rapidly recruit the individuals of greatest importance.

The responsibility charting was one measure intended to overcome the decentralized Metsä-Serla culture. The objective here was twofold: First, to provide a view on the responsibilities of the mill, divisional management, and Metsä-Serla corporate management; second, to improve communication between the different parties within Metsä-Serla.

The competence analyses together with the responsibility charting resulted in a suggestion for a new organizational design for the entire Metsä-Serla corporation. Three principles characterized this organizational design:

- A strengthening of some corporate functions in order to achieve the necessary degree of coordination;
- A customer-focused divisional structure with the two main divisions being Paper and Packaging; Tissue was already discussed as a possible spin-off business;
- Processes, team work, and project thinking as main tools for business development, which would have to take place across divisions.

The decentralized culture of Metsä-Serla made the information systems strategy project especially challenging but at the same time important. The goal of the project was to create a common information systems architecture to support an integrated reporting system.

*Finnboard Vision 94*

Several changes in conjunction with the Finnish EU membership (January 1, 1995) and constant turmoil in the marketplace were issues that from Finnboard's own perspective motivated a strategic re-evaluation. From the point of view of Metsä-Serla, there were two main drivers behind the project. First, the number of members of the Finnboard organization was constantly reduced (e.g. exit of Tampella by the end of 1993). It was felt that Finnboard had become too large and too costly for its present membership. Second, as the previous customer-orientation projects had revealed, the individual mills saw a need to get in closer contact with the end customer. This was sometimes prohibited through the cooperative role of Finnboard, which prevented Finnboard from favoring any member, not even its single biggest supplier Metsä-Serla.

SMG's role in the Vision 94 project was to coordinate the project and to work on an alternative future business model for Finnboard. Evaluating the present Finnboard situation was done by Finnboard itself, together with member representatives and legal advisers.

The organizational evaluation was done through several projects. One project analyzed the fiscal and legal consequences of EU membership on Finnboard, another depicted the owners' views on Finnboard, a third analyzed the competence and internal efficiency of Finnboard, and a fourth developed an alternative fiscal model to cope with the regulations: a so-called agency model.

The SMG effort in the Finnboard project was concentrated on developing the arguments for a new business model. This was done through three projects: a customer base analysis, an idealized model for the cooperation between Savon Sellu Oy and Metsä-Botnia Kemi factories, and a responsibility-charting exercise depicting the relations between Finnboard and the members.

*External changes*

In 1994 the majority owners of Metsä-Serla, the Finnish forest owners, had re-evaluated their ownership strategy. In the beginning of the 1990s, Metsä-Serla had not been a subsidiary of the Metsäliitto Group. However, in March 1992, Metsäliitto increased its holding in Metsä-Serla to surpass 51 % of the votes, and formed Metsäliitto Group as a new corporate entity.[83]

In the process of re-evaluating ownership strategy, the CEO of Metsäliitto Group, Mr. Ahava, had recommended that the forest owners decrease their influence in Metsä-Serla. It was considered that Metsä-Serla management also shared this view. The final conclusion among the forest owners was, however, not to dilute their ownership in Metsä-Serla. On the contrary, Metsäliitto further strengthened its grip on Metsä-Serla. This was probably one of the main reasons why Mr. Antti Oksanen, CEO of the Metsäliitto cooperative, and not Mr. Poranen succeeded Mr. Ahava as CEO of the Metsäliitto Group. The decision was taken by the board of Metsäliitto Group in September 1994, but the actual succession did not take place before November 21, 1995.[84]

In October 1994 Enso acquired Veitsiluoto, which further reduced the number of members in the Finnpap and Finnboard sales organizations. As Metsä-Serla had been in competition with Enso for taking over the Veitsiluoto Group, Metsä-Serla rapidly regrouped its resources and announced in November its green field investment in a new paper machine in Kirkniemi. Due to the changes in the situation regarding Finnpap and Finnboard, talks between UPM and Metsä-Serla regarding the future of the sales organizations began in December 1994.

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83 Through later arrangements Metsäliitto increased its ownership to reach 65 % of the votes at its peak in early 1993. Since that Metsäliitto has had between 62 and 65 % of the voting power.

84 Mr. Oksanen had been in charge of the Metsäliitto cooperative, the third major part of the Metsäliitto Group, the two other being Metsä-Serla and Finnforest, a manufacturer and marketer of wood-based panels and building supplies.

### 5.3.5 *Restructuring*

Both MS 2000 and Finnboard Vision 94 ended at a time when the structural changes within the Finnish forest industry were at their peak. Enso and Veitsiluoto had just merged and the discussions about the coming UPM-Kymmene merger had become public. This contextual uncertainty for Metsä-Serla had to be combined with the internal uncertainty as Mr. Oksanen had been elected to become CEO of Metsäliitto Group. It was understood that in due time he would like, in his role as the chairman of the board of Metsä-Serla, to influence how Metsä-Serla operations would be run in the future.

The need for customer orientation had by no means diminished due to the developments in late 1994. It was agreed to continue the work on implementing the ideas that had been raised in MS 2000 and Finnboard Vision 94. A new project, MISSI-95, was initiated, very much organized in the same format as the MS 2000 project.[85] The value-creation framework was used as a tool, and the business of Metsä-Serla was described in accordance with Figure 24.

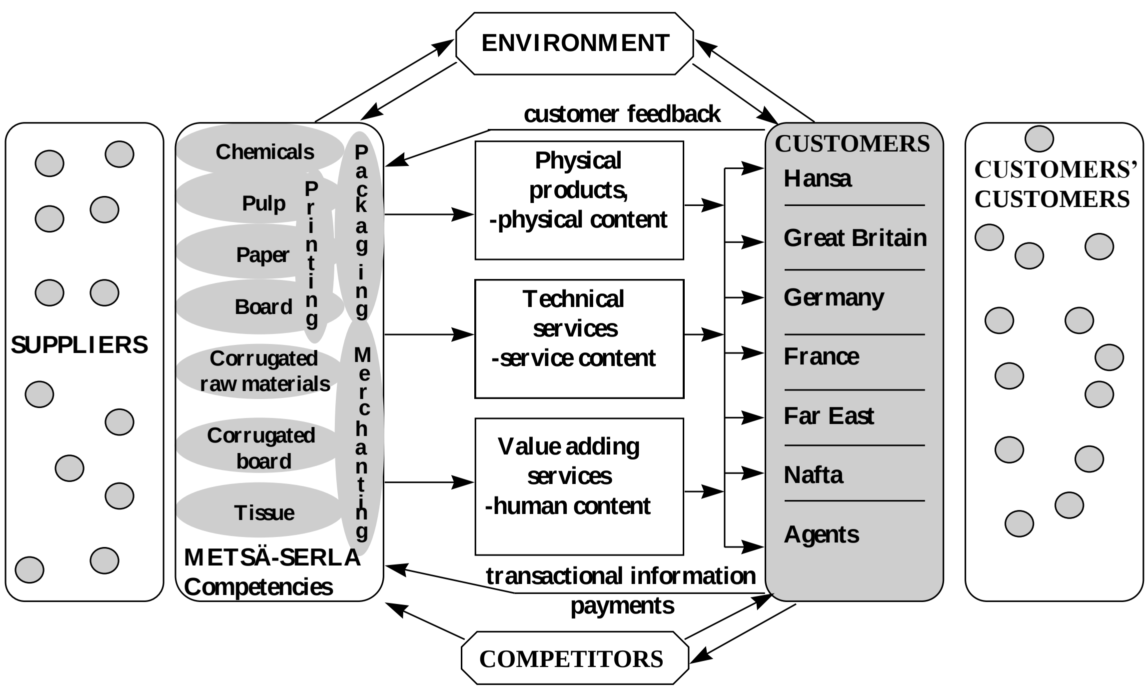


*Figure 24 Competences and Customers (as presented to Metsä-Serla in 1995)*

The major issue on the Metsä-Serla corporate agenda in the beginning of 1995 was the KIRI (Kirkniemi paper machine) project. Because of the uncertainty in respect to the future of the sales organizations, Metsä-Serla developed several

85 MISSI stood for Metsä-Serla Information Systems and Sales Integration.

contingency plans for its future sales network during spring 1995. One step in securing its position in the restructuring activities was the decision to acquire the Kyro board mill in June 1995. This affected the role of the sales organizations, especially Finnboard. After the Kyro acquisition, the UPM Simpele mill was the only board mill selling through Finnboard and not belonging to Metsä-Serla.[86]

Repola and Kymmene merging in September 1995 to form UPM-Kymmene completely changed the value constellation of Metsä-Serla. Once this decision became public, there was no doubt that the era of sales collaboration had reached its end. The competitive legislation within the EU prohibited the continuation of sales associations with UPM-Kymmene as a member.

In autumn 1995, as part of MISSI-95, discussions were held on how to organize Metsä-Serla's sales after the sales cooperatives had been dissolved. In negotiations with UPM, it was possible to reach an agreement which was close to the original objectives that had been set up in the internal discussions. The achieved results enabled the rapid implementation of a new sales organization, called Metsä-Serla Sales. The backbone of this organization was the old global sales network of Finnpap and Finnboard.

The customer-oriented business model needed better corporate information systems support. In autumn 1995 a market intelligence project was therefore initiated to create a unified procedure for all Metsä-Serla units in respect to collecting market and customer information. This project also developed a processes concerning information gathering, analyzing, storing, and usage.

In November 1995 Mr. Oksanen became CEO of Metsäliitto Group. As one measure the new chairman initiated a change in the corporate structure of Metsäliitto. The Metsäliitto cooperative now became the parent company for the three companies Metsä-Serla, Finnforest, and Metsä-Timber. Metsä-Botnia was in this structure a subsidiary of Metsä-Serla. Subsequent to this Mr. Oksanen organized a change in the management of Metsä-Serla. On June 1, 1996 Jorma Vaajoki, former CEO of Finnforest, became CEO and President of Metsä-Serla. In the first half of 1990s, he and his team brought Finnforest through a successful phase of internationalization and expansion. It was felt that this experience would be valuable for Metsä-Serla in its coming phase of implementing its customer-oriented strategy. At the same time Mr. Vaajoki needed to reorganize the sales organization due to the disintegration of the sales cooperatives, Finnpap and Finnboard.

[86] In the summer of 1995, Metsäliitto's shares in Metsä-Botnia were swapped with Metsä-Serla against Metsä-Serla's sawmills. Metsä-Botnia Kemi thus became part of Metsä-Serla.

### 5.3.6 *Implementation*

The new management team under Mr. Vaajoki started to move aggressively forward in 1996. They implemented a more customer-oriented business model and re-deployed resources to support this strategy. The growth of Metsä-Serla was attempted through a focused attention on its two major businesses: paper and packaging.[87]

During the years 1994-1998 Metsä Serla grew both through green field investments and acquisitions. The major investments in new mills were decided upon in 1994. Both the paper mill in Kirkniemi, Finland and the Metsä-Botnia craft pulp mill in Rauma, Finland, started their operations in 1996.

Metsä Serla acquired the forest industry of the Kyro Group in 1995 and bought the Simpele production facility from UPM-Kymmene in 1997. The major investments abroad were the acquisitions of MD Papier GmbH and Papierfabrik Albbruck GmbH in Germany (a joint acquisition with Myllykoski) in 1996; the acquisition of Biberist, Switzerland in 1997, and the acquisition of UK Paper in 1998.[88]

In the 1990's Metsä Serla also increased its activities in paper and packaging wholesaling and merchanting. A number of acquisitions were done in this area including Hedsor Ltd and Grafiskt Papper Norden AB in 1991, Amerpap Oy in 1993, and Pierce & Pierce in 1997.

In a speech in 1998 CEO Vaajoki commented on the strategy as follows:

> ...a strategy process of Metsä-Serla has revealed that the range of Metsä-Serla was not wide enough for top customers, and Metsä-Serla was also considered too small to become NR 1 or 2 supplier for top customers. This Metsä-Serla solved through forming a strategic alliance with the Myllykoski group in 1996. Myllykoski sells its production through the Metsä-Serla sales network.

In 1997 the results of the chosen strategy paid dividends, and Metsä-Serla made an above-average return on sales in comparison with other Finnish pulp and paper companies. The turnover had increased from less than 8 billion FIM in 1992 to 19,2 billion FIM in 1997. The product mix was also completely changed. Metsä-Serla had divested its sawn goods business as well as its chemical business, but increased its investments in paper and paperboard, which in 1997 accounted for 60 % of the turnover. The marketing group consisting of sheeting

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[87] The redefinition of the core activities lead to the divestment of non-core businesses. The Metsä Serla sawmills were divested in 1995 to Metsäliitto. The chemical products' division was sold in 1996. In 1997 Metsä-Serla Tissue was listed as a separate company on the Helsinki Stock Exchange. Metsä-Serla retained the majority of the shares in the new Metsä Tissue company.

[88] The UK Paper acquisition had been considered already in the beginning of the 1990s. Metsä-Serla was then loosing a takeover battle to Fletcher Challenge, from New Zealand.

and merchanting represented 10 % of the turnover. Tissue represented 9 % and pulp 21 % of the turnover.[89]

### *5.3.7 Analysis of business model dynamics in Metsä-Serla*

The initial contact between Metsä-Serla and SMG Finland took place on August 14, 1991, when the author met for the first time with Mr. Christian van Niftrik, Senior Executive Vice President. At that time, Mr. van Niftrik was in charge of the tissue and corrugated board operations. In the meeting it was agreed that the author should contact Mr. Olavi Nyberg, Vice President in charge of the corrugated division Neopac, with whom the author met on September 4, 1991. A month later a project to develop customer orientation for the three production units forming the Finnish part of the Neopac division began.

As the Neopac project approached its end, a meeting with Mr. van Niftrik in June 1992 resulted in a preliminary agreement on the start-up of a similar project in Savon Sellu, the fluting producer. Savon Sellu was, in contrast to Neopac, a company mainly exporting its products. This project had a higher degree of complexity as the Finnboard sales network was a cooperative including, among others, Savon Sellu and its main competitor, Tampella.

Metsä-Botnia Kemi was another member of Finnboard. As Metsä-Botnia Kemi produced liner, the other raw material for production of corrugated board, it became evident that it would be worthwhile to coordinate the activities between Savon Sellu and Metsä-Botnia Kemi. At the same time the joint efforts would also improve the negotiating position of the two units within Finnboard. Consequently a similar project to the one of Savon Sellu commenced in January 1993 for Metsä-Botnia Kemi. This project was then followed by similar projects for the Kangas Paper Mills and the sawmills in the Metsäliitto Group.

All projects from late 1991 to early 1994 were conducted using the same formula: (1) defining the basic strategic framework including the notion of matching customers and competences using the value-creation framework and understanding the elements of the three dimensional offering, (2) making a customer base analysis based on data from the sales ledger, (3) conducting a number of customer interviews, and (4) making recommendations on an improved, more customer-oriented business model.

The transitions taking place during the years 1991 to 1994 can be characterized as continuous improvements of the business models of each business unit with

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[89] In 1997, Metsä-Serla was Europe's fifth largest forest industry group by turnover. It had production facilities in Finland, Germany, Switzerland, the UK, Sweden, Denmark, Spain, Greece, Russia, Poland and Estonia. The development of sales and profits for the period 1990-1997 is presented in Appendix 9.

whom the author was involved. These gradual improvements at the business unit level, however, increased the pressure on corporate level to change the overarching structure for export: the cooperatives Finnpap and Finnboard. However, in 1994 this pressure was not yet big enough to convince the Metsä-Serla group management to initiate any radical efforts questioning the existing structure.

In spring 1994 the situation changed as Mr. Poranen supported the idea of initiating a corporate-wide effort to support customer orientation by accepting the start-up of the MS 2000 project. In this project the author, together with the SMG consulting team, was the process designer and process coach for a multitude of simultaneous activities.[90]

The mergers between Veitsiluoto and Enso in October 1994 and between UPM and Kymmene in September 1995 created a totally new situation for Metsä-Serla. Both Kymmene and Enso had their own marketing channels. As Veitsiluoto and UPM had been major participants in the sales cooperatives, the mergers implied that the sales organization had to be completely restructured. Scenarios for these types of events had been developed already from early 1993 when Savon Sellu and Metsä-Botnia Kemi discussed their joint customer strategies, and how to promote their own special needs within the joint sales cooperative. The situation of Tampella leaving Finnboard in March 1993 was the first clear indication that a larger change might be at hand. Because of this, the Kangas Paper mill project had also extensively evaluated different alternatives for the sales organization.

Through the analyses and internal discussions that had been done within the MS 2000 and MISSI-95 projects, Metsä-Serla was able to rapidly respond to the changes in the competitive situation when UPM and Kymmene merged. The management of Metsä-Serla succeeded in turning the temporary instability into a fairly successful outcome. Metsä-Serla reached an acceptable solution concerning the dissolving of Finnpap and Finnboard. Metsä-Serla gained control over Finnboard, as well as some parts of the Finnpap organization that were primarily handling Metsä-Serla's businesses. Metsä-Serla also formed the alliance with Myllykoski, the paper manufacturer that was selling its products through Finnpap and Finnboard. The alliance meant that Myllykoski would use the sales network of Metsä-Serla. On top of that, Myllykoski and Metsä-Serla jointly acquired MD Papier and Papierfabrik Albbruck, which further strengthened the ties between the two companies.

One of the major efforts within the MISSI-95 project was to define the future IT strategy for Metsä-Serla. The IT strategy should support the aims of the common

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[90] The individual projects constituting the cooperation between Metsä-Serla and SMG are presented in Appendix 10.

business model outlined in MS 2000, as well as handle the integration needs between Metsä-Serla and the sales network. The dissolving of the sales cooperatives implied that this issue was transferred in 1996 to the former management of IT services for Finnpap and Finnboard, as this organization became part of Metsä-Serla based on the agreement with UPM.

Retrospectively, MS 2000 has to be considered as a more successful project than MISSI-95. Many of the activities in the MISSI-95 project were delegated to middle management level and broken down to individual issues such as human resource planning, information systems, logistics, financial reporting, and market intelligence. The uncertainty among top management regarding the future direction of the Metsäliitto Group, and Metsä-Serla therein, had a tendency to take away the attention of top management from the MISSI-95 agenda, which primarily was concerned about issues regarding implementation of the customer-oriented strategy.

In the beginning of 1996 the basic strategic foundation for Metsä-Serla was laid and the principles of the new sales organization had been agreed upon. Mr. Oksanen made his decision to change the top management team. He selected a new, younger, and more internationally experienced, team. This change in management subsequently released a lot of energy that until then had been upheld due to uncertainty.

The business model shift within Metsä-Serla addressed simultaneously two questions: how to organize the Metsäliitto Group, including its governance structure, and how to implement customer orientation within Metsä-Serla. Both these issues were connected to the reorganization of Metsä-Serla which ultimately took place on June 1, 1996. The activities preceding this change are listed in Table 15.

*Table 15 Changing the business model of Metsä-Serla*

| Code | Activity | Timing |
|---|---|---|
| 8a, 5g, 5b | Business unit based customer orientation projects under the supervision of Mr. van Niftrik. | 1991-1994 |
| 5e | Enso acquires Tampella. | 3.1993 |
| 5c | The Metsä-Serla management team initiate plans for a more international customer oriented era of the firm. | 1994-1995 |
| 5e | Enso acquires Veitsiluoto. | 10.1994 |
| 8a, 5g | The owners want to have a stronger grip than before on Metsä-Serla. | 1994-1995 |
| 5g | Mr. Oksanen was chosen to succeed Mr. Ahava as the CEO of the Metsäliitto Group and chairman of Metsä-Serla. | 9.1994 |
| 5f | The overall business outlook for the forest industry good. | 1995 |
| 5e | Metsä-Serla acquires Kyro. | 1995 |
| 5e | The formation of UPM-Kymmene. | 9.1995 |
| 5d | The EU prohibits the existence of Finnpap and Finnboard with UPM-Kymmene as member. | 11.1995 |
| 5a | Metsä-Serla had to abandon its old business model based on sales through Finnpap and Finnboard. | 11.1995 |
| 6 | The board of Metsäliitto looks for a rapid and radical shift in the mode of operation.The implementation of the new business model was given to a more internationally experienced management team under the leadership of Mr. Vaajoki. | 6.1996 |
| 5c | The change in management was at the same time also considerably lowering the average age of the members of the management team, and thus providing continuity for the development. | 1996 |

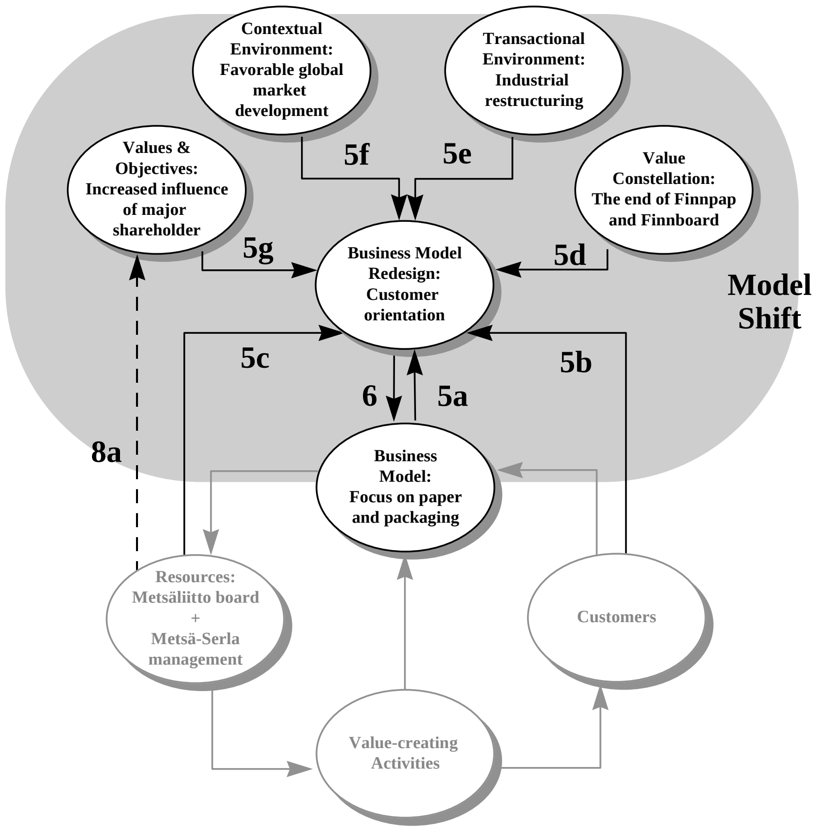


*Figure 25* *The shift of business model within Metsä-Serla, 1991-1996*

*Table 16* *The Metsä-Serla transition*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **1991-1993** | •Initiative by Mr. Christian van Niftrik (and sponsored by Mr. Poranen) to test how to implement customer orientation | •Business unit learning exercises | •Projects, tailor-made for each unit | •Improved customer understanding<br>•New offerings |
| **1994-1995** | •Mr. Poranen prepared to strengthen efforts towards customer orientation | •MS2000, a corporate wide multi-project initiative | •Projects, still lot of improvization and dialogue | •Value constellation design<br>•Further strengthening of customer understanding<br>•Customer-driven investments in technology<br>•New administrative routines |
| **1994-1996** | •Board intervention | •Mr. Oksanen new CEO of Metsäliitto | •Re-organization | |
| | | | | **New Metsä-Serla organization 1.6.1996** |

## 5.4 Aktia, the period 1994-1997[91]

### 5.4.1 Background

The predecessor of Aktia Savings Bank was the Savings Bank of Helsinki (Helsingfors Sparbank), which was established in 1826. This bank was the first deposit-taking bank in Finland. On October 21, 1991, seven local savings banks from the southern coastal area of Finland merged with Helsingfors Sparbank. In connection with the merger, the bank changed its name to Aktia Savings Bank. On November 23, 1992, the Porvoo Savings Bank and the Vaasa Savings Bank merged with Aktia.

In 1991 the Finnish economy was hit by a deep recession. The gross national product decreased by 6 %. Finland had never experienced such a severe decline during peacetime. The main reasons were to be found in the slump in the Finnish-Soviet trade, the recession in the West, and the consequences of the rapid deregulation of the money market.

During autumn 1991, the savings bank group opted for a radical structural change. Having considered various alternatives, the Finnish Savings Banks' Association recommended that the savings banks merge into one bank covering the entire country, called the Savings Bank of Finland -- SBF Ltd. Aktia decided not to join this combined savings bank. Most of the local savings banks that had merged into SBF had to be taken over by the Finnish government in 1992. The government decided on October 22, 1993, to divest itself of SBF, selling them to the four major Finnish banks at that time, Union Bank of Finland, Kansallispankki, Postipankki and Okobank. After this transaction 40 independent savings banks, that had not joined SBF, were the only remaining part of the tradition of savings banks in Finland. Prior to the dismantling of SBF the market share of the savings banks in the Finnish banking sector had been 25 %. In the new situation the savings banks became a marginal group within Finnish banking with a market share of roughly five percent. The single biggest savings bank in this new situation was Aktia.

Aktia had an extremely difficult period during the years 1991-1993, suffering substantial losses. The severe crisis within the bank caused the major owners to reorganize its governance structure. The extraordinary general meeting of January 27, 1994 unanimously approved the Supervisory Board's proposal that the Bank's Board of Directors comprise only non-executive directors. Patrick Enckell, previously chairman of the Supervisory Board, was elected new chairman of the Board of Directors with immediate effect.

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91 The material for this case has been prepared based on project documentation from the consulting project of SMG, annual reports 1990-98, and internal Aktia material.

### 5.4.2 *Reorganization*

The new board decided to ask for an outside perspective to clarify which measures were needed to restore the long-term profitability of the bank. The future of the bank was the cover story of the major Finnish weekly, Talouselämä, in its March 31, 1994, issue. The front page read "Göran Grönroos, managing director, is in a hurry to save Aktia". In the story Mr. Enckell firmly proclaimed that the board would not accept any more losses after the fiscal year 1994.

In a document dated February 24, 1994, the board outlined some central questions to address before Aktia could move ahead. This document was presented to several consulting companies, and among those SMG was awarded the contract to support the foreseen change process within Aktia.

SMG and Dr. Richard Normann had already in the 1980s been consulting Helsingfors Sparbank. During that assignment SMG had introduced certain new service offerings that retrospectively had proved very successful.

The proposal presented by SMG in March 1994 listed four main questions that would be addressed in a project, April - June 1994:

- the overarching philosophy guiding the organization of the bank,
- the management systems needed to support the philosophy,
- the composition of the management of the bank,
- the organizational structure for the bank.

To be able to answer these questions five activities were carried out:

- conducting an internal set of interviews to clarify the present values, goals, and strategies of Aktia,
- conducting an external analysis of the competitive situation,
- creating an idealized design of the best case scenario of Aktia,
- defining opportunities to improve efficiencies by redesigning the organizational structure,
- defining efficiency improving potentials in the branch network.

The SMG project team consisted of six consultants. The author had the responsibility of analyzing the efficiency-improvement potentials.

The initial interviews conducted primarily by Dr. Normann revealed that the prolonged crisis had caused a lot of apathy within the organization. It was considered as extremely difficult to find the needed re-energizing efforts without bringing in new managerial resources into the management team. This had not originally been the intent of the project, but already in May discussions were initiated in order to enable a smooth transition at the top.

A first intermediary report was presented to the board of directors on May 25, 1994. In this presentation it was stated that there was the potential to improve the profitability of the retail bank with FIM 40 million over a period of three years. The profit improvement would be generated primarily through increased lending to the public, improved productivity of the personnel, and a new price policy. In order to achieve this potential it was considered mandatory that a new management system would be installed, enabling a better coordination within the bank and stimulating internal bench marking and mutual learning.

In the project report presented on June 21, 1994, the key recommendation was to change the organization. Consequently, Mr. Johan Horelli became the new managing director as from July 1, 1994. The role of SMG had been fairly important in this first change. SMG, as a catalyst, brought the existing perspective of the organization to the surface; thereafter the decision making basically was quite self evident. SMG was able to identify that the elements for a change process existed within the organization providing that the organizational prerequisites could be corrected.

The new organization introduced the region as the key decision making unit in respect of the operational day-to-day issues. Under the 23 regions, or business district centers, were the branch offices. In functions where economies of scale existed, the functions were centralized into the head office. To support the decentralized decision making, each region was supervised through a local board.

The cost efficiency improvement measures focused on the stock of non-performing loans. This single phenomenon had the biggest short-term effects on the result. Before there would be absolute certainty that every effort had been made to make sure that any problem loan was fully under control, it was not seen as relevant to use the limited resources on any other matter. In June 1994 17 % of all loans within Aktia were still classified as non-performing.

The design of a new management system was initiated in a project called "The branch network project". The management system was seen as consisting of three parts: structure, leadership, and management. The structural discussion was relating to the possible cooperation with the Swedish savings bank, Swedbank.[92]

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[92] In December 1994 Aktia could inform that negotiations with the Swedish savings bank (Swedbank) had resulted in a decision whereby Swedbank had agreed to acquire 7,5 % of the shares of Aktia. The cooperation with Swedbank was further intensified in 1996, as Swedbank increased its ownership to 25 %. In congruence with the increased share holding Swedbank got two representatives on the board of Aktia as from January 1, 1998.

Leadership referred to the management team, the regional management and the roles and qualities needed in these positions. Management referred to financial control, managing the balance sheet, and business development and planning.

The road to the future was seen as combining many elements into the business idea of Aktia: banking, properties (Aktia had big property holdings), two languages, the special interests of the Swedish speaking population in Finland, and diversity through the integration of several banks with different history and traditions. The aspiration was to be a broad bank for the retail customer: local and non-bureaucratic, with customer-friendly offerings and a foundation in the Swedish speaking part of Finland, but gradually expanding the geographical scope. A central theme was "integrated diversity".

Contrary to the original expectation the organization did not reveal any major not yet exploited cost-cutting opportunities. It was estimated that without closing branch offices a maximum of 20 employees could be identified as possible targets for further cost cutting.

### *5.4.3 Restructuring*

In the 1994 annual report Mr. Horelli commented on the reorganization decision by the advisory board as of July 1, 1994 as follows:

> In essence, the strengths of our new strategy are
> - a flexible and flat organization,
> - familiarity with local markets, and
> - commitment to lasting customer relationships.

The new organization consisted of only two hierarchical levels: the management of the bank and the 23 local regions, thus reshuffling the internal responsibilities within the bank. Before the new organization was announced in October 1994, the management resources were thoroughly assessed and tested.

In summer 1994 Aktia participated in the restructuring of the savings banks' joint IT company, Savings Bank Services Ltd. This company was on September 1, 1994, reorganized into Samlink Ltd. Aktia became the biggest owner with 28 % of the shares. This way Aktia secured that the operational IT services were continued.

The major efforts of Aktia related to the development of its customer services. The "flagship" offering of Aktia had since the 1980s been in its Prime Customer concept. Through this initiative, co-designed by SMG during a previous project, Aktia was the first bank in Finland to introduce a comprehensive service concept based on the profitability of account relationships. The Prime Customer concept had created a group of loyal customers that represented the single most important private customer segment of Aktia. Mr. Horelli wanted to further strengthen this image of Aktia as the reliable, personal and flexible house bank. In his 1994 review he announced that a major organizational change had been implemented to improve customer service still further. Under the new Relationship Management Program, an officer was assigned to each regular account relationship so that customers always would reach someone who was familiar with their business. For some time already, Prime Customers had had their own contact persons. Now it would be offered to all regular customers. To emphasize the specificity of the customer-orientation efforts, Aktia management set specific marketing activities and goals for a selected group of 10,000 individual customers. Each office had its own portion of this customer group, and the progress was followed on a weekly basis.

In parallel with developing the customer offerings, Mr. Horelli also emphasized the on-going education of the personnel and a strive for a change in the internal culture towards continuous learning and a focus on customer services.

To be able to manage the Aktia organization according to the new structure the development of a new management system was initiated in August 1994. It was concluded that the potential to improve the profitability of the retail operations of Aktia required a management and control system that would focus on four elements: risk management (management of non-performing credits), sales of credits, productivity, and pricing (interest spread). For each area a set of key ratios was defined. Every branch office would be continuously measured and categorized based on these ratios into groups wherein bench marking could be made. The new management principles were launched in a kick-off meeting November 11-12, 1994, with all region managers, functional managers and the top management present.

In the beginning of 1995 the segmentation efforts were brought forward through a round of customer interviews carried out by Dr. Normann and the author. Based on these interviews it was possible to further fine-tune the marketing strategy that had evolved in a customer base analysis conducted during the autumn. The segmentation was one of the main themes at a two-day management workshop January 11-12.

In January 1995 a new initiative called "Strategy 95" was launched by the management team. The first steps in "Strategy 95" included: finalizing the customer base analysis, agreeing on the customer typologies, developing a management tool for performance measurement for the branch offices, and creating a total communication plan to support the strategic initiative internally and externally. The "Strategy 95" efforts were thereafter further developed under the umbrella of the "Personalized Attention Program", in which the new role of the front-line personnel was developed.

On February 9, 1995, the Finnish banking industry witnessed a fundamental restructuring. The merger between the two major Finnish banks, Union Bank of Finland and Kansallispankki created the Merita Bank. This provided Aktia with further ammunition to attract new customers. The individualized personal selling efforts were intensified. The word customerize introduced by Unisys was used to guide efforts in the customer service area. Key topics included:

- using a variety of research tools and information sources to "listen" to customers and develop a deeper understanding of their expectations;
- identifying and courting customers who most closely fit the company's competences and who bring the most to the company's bottom line;
- retaining existing customers, as opposed to merely chasing new business;
- cultivating and enhancing employee satisfaction;
- using technology to gather, analyze, and quickly disseminate customer information throughout the organization.

In April 1995 a new project called "Aktia 2000" was launched as an activity to look into the effects of new technology on banking. These ideas were further developed, and resulted in a project that was called "Aktia On-line". The need for this project was illustrated according to Figure 26. It was seen that the new offering, "Aktia On-line", would provide a solution for those customers that look for cost minimization according to the self service logic.

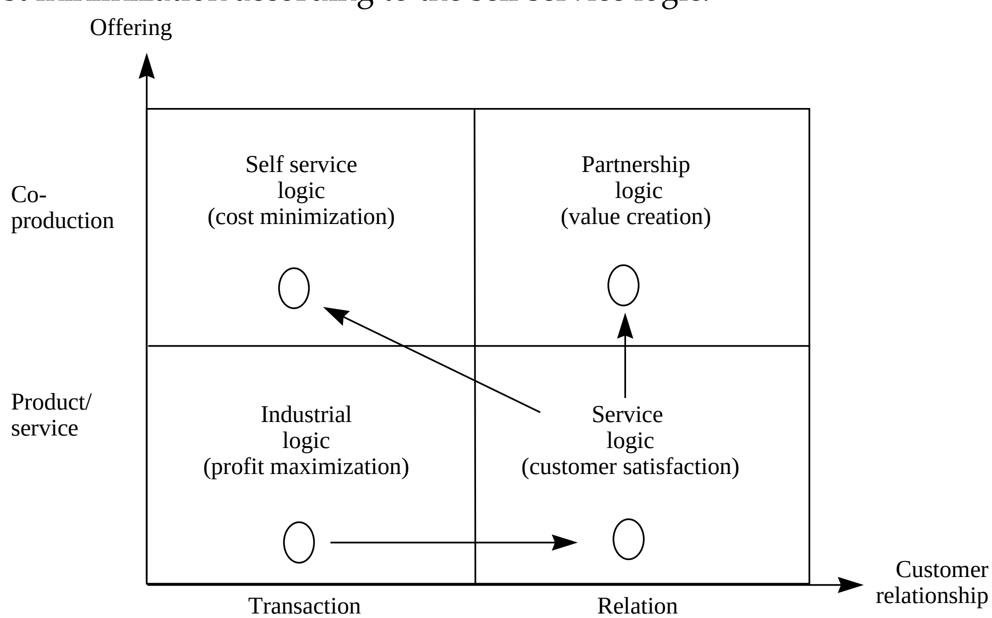


*Figure 26 Positioning of the self service concept "Aktia on-line"*

The original idea was to launch a new competitive self service product. As the project proceeded the new "Aktia on-line" offering was seen as a complementary service to the existing branch network. "Aktia on-line" became an umbrella for a variety of new, more technology-based offerings, such as telephone banking, PC-banking, Internet-banking etc. In the beginning of 1996 the project resulted in the launch of a new telephone and Internet service of Aktia, called Aktia 7.[93]

In the 1995 annual report Mr. Horelli commented the new strategy as follows:

> To better position ourselves to take advantage of all the opportunities and challenges that have presented themselves, we must show flexibility and responsiveness to change, adapting ourselves not only to current circumstances but far beyond, As part of this positioning, we have introduced a revised philosophy, called "The New Aktia". It is built upon two future assumptions:
>
> - Routine transactions such as cash deposits, withdrawals and transfers will be automated or taken care of by the customers themselves.
> - The provision of more sophisticated financial service will continue to be solidly based on a close relationship between the customer and the supplier of services.

In 1995 additional cost reductions were also made. Ten branch offices were closed, which made possible a further reduction in personnel.

### *5.4.4 Business as usual*

On February 5, 1996, Aktia became the central bank for the Finnish savings bank, looking after its domestic and international payments and safeguarding its liquidity. This enabled Aktia to strengthen its role as the node of the largest Finnish banking group outside the three dominant corporations, MeritaNordbanken, Postipankki (later Leonia), and the Okobank group. The cooperation with the thirty-nine independent savings banks provided Aktia with the possibility of offering better services throughout Finland. This helped to solicit a growing number of corporate customers from throughout the country.

In 1996 Aktia also increased its share capital, which further strengthened its financial position. Mr. Horelli noticed in the annual report that the year 1996

> propelled Aktia to new heights, with considerable progress in most aspects of the business.

In 1996 the chosen philosophy of an increased local decision-making authority was continued. Activities were undertaken to further strengthen decentralized

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[93] The Aktia 7 unit was well received when launched, and had by the end of 1996 more than 4000 registered subscribers.

decision-making, personal responsibility, interactive management, and teamwork. An agreement was reached with staff representatives covering the development of professional skills, job rotation, and redeployment of resources. The cornerstone of this agreement, known as "The Handshake", was an effort to foster the corporate culture and workplace climate. In parallel the focus on customer orientation was maintained and proactive marketing and customer management were concepts that started to gain increased share in the common internal language of Aktia.

The positive development continued during 1997, and during the fiscal period Aktia got 17,000 new customers. Aktia continued its efforts to maintain the loyalty of its customers and at the same time further improve its cost efficiency. Mr. Horelli stated in the 1997 annual report that

> Aktia is walking a tightrope but must achieve the right balance between efficiency and sensitivity to customers' needs.

In early spring 1997, 44 cooperative banks decided to leave the Okobank group to set up their own association, the local cooperative banks. In April 1997, said banks concluded a central bank agreement with Aktia -- an agreement identical with the one entered into by and between Aktia and the independent savings banks in 1995. At the same time, the local cooperative banks signed an agreement with the Finnish Savings Banks Association and Samlink on cooperation in EDP and other matters.

On February 9, 1998, Aktia repaid the Finnish government’s capital investment of FIM 90.2 million. The investment had become necessary during the crisis of the Finnish banking industry in order to strengthen customers' confidence in the bank.[94]

### *5.4.5 Analysis of business model dynamics in Aktia*

The events preceding the reorganization of Aktia are presented in Table 17.

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[94] By repaying the capital investment by the Finnish State Aktia was fully recovered from the effects of the crisis in the beginning of the 1990s. The details of the financial development of Aktia for the years 1990-1997 is presented in Appendix 11.

*Table 17 The reorganization of Aktia*

| Code | Activity | Timing |
|---|---|---|
| 5f | The financial crisis in Finland that Aktia faced was one of the worst in Europe. | 1990-1993 |
| 5e | The crisis caused the end of Kansallispankki and the majority of independent savings banks, and the government had to intervene in order to save the whole Finnish banking system. | 1991-1993 |
| 5d | The severe market conditions affected the profitability of Aktia, caused considerable credit losses, and threatened the survival of Aktia. | 1991-1993 |
| 5c | Board intevention. The non-executive board members initiated a change in board structure as the first measure to strengthen the grip on the company. | 1993-1994 |
| 8a, 5g | The board saw Aktia as an important part of the major Swedish-speaking institutions in Finland. Consequently, it was considered as important to maintain Aktia as a central financial institution serving its main shareholders. | 1993-1994 |
| 5b, 5c | The bank relied on outside expertise in order to get an objective view on the direction in which Aktia should move. In-depth analyses of the value constellation where Aktia was acting to guide the direction for the new business model and the reorganization. | 3.-6.1994 |
| 6 | Mr. Horelli appointed new CEO, and a new management team was composed to supervise the implementation of the new business model. | 7.1994 |

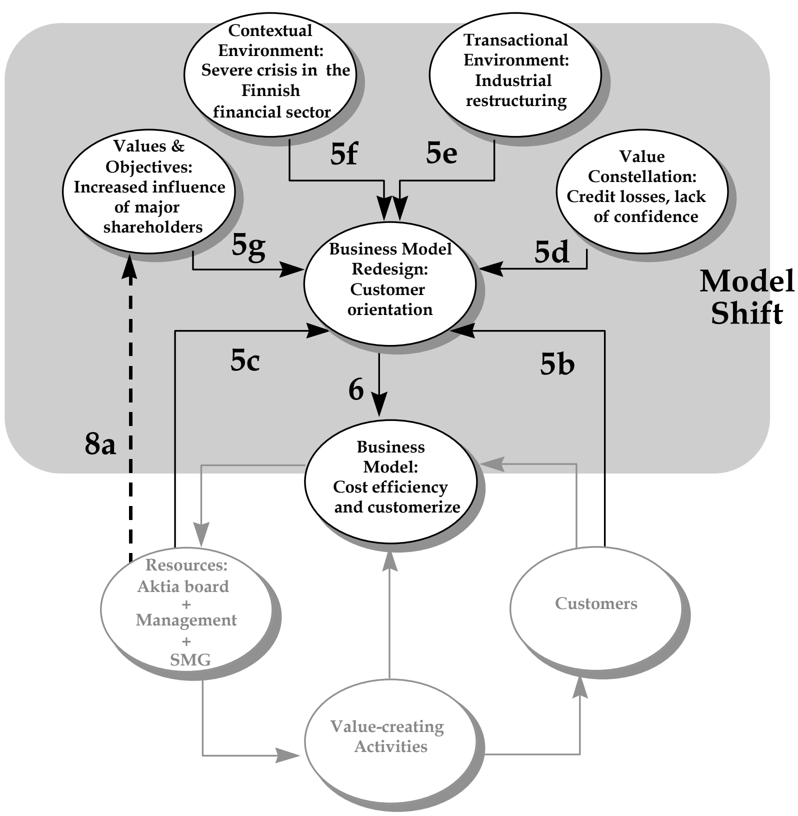


*Figure 27 The shift of business model within Aktia, June 1994*

Once Mr. Horelli was appointed as new managing director, the responsibility for driving the change process was transferred to him. After one year on duty, Mr. Horelli commented on his experiences in the internal magazine Aktiellt:

> We have to reduce our costs and create sustainable sources of income...We have to create a new holistic concept for the bank. The key word in this concept is customer orientation. Customer orientation does not mean that we sacrifice profitability and efficiency. But we will carefully consider how we deploy our resources.
>
> There are three keys to success. First, we have to create a special value for the customer to be particularly our customer. Second, Aktia has to be profitable. And third, we need to have a knowledgeable personnel and genuinely customer friendly technology.... We have to increase customer satisfaction and simultaneously reduce costs...The future is in our own hands. Our desire and capacity to change will be decisive for the future of Aktia.

The actual restructuring work can therefore be seen to have been primarily a lower-loop change process. SMG supported the new management team in this phase with some guidance in the implementation of the chosen business model.

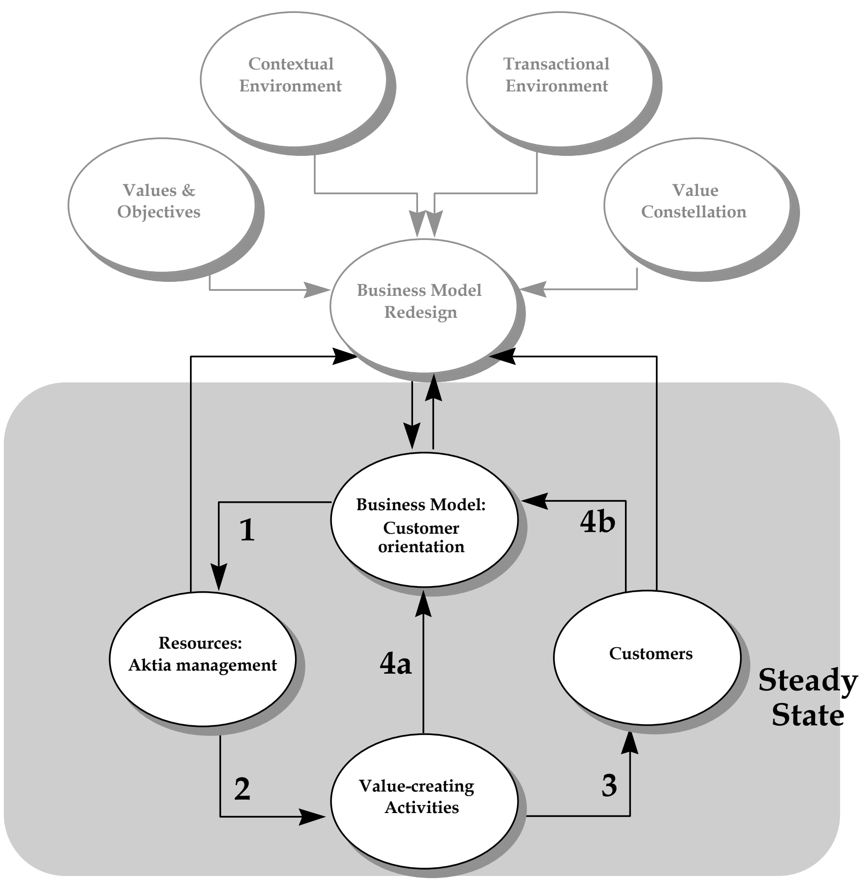


*Figure 28 The restructuring of Aktia 1994-1996*

The Aktia case was a successful turnaround case. The results of the case should, however, be read with some cautiousness, as the external changes in the environment also helped. The merger of the Union Bank of Finland with Kansallispankki to form Merita created a first stream of customers into the Aktia camp. The merger of Merita with Nordbanken and the subsequent strong cost cutting of that banking group created a second phase of movement in the retail banking market from which Aktia could benefit. Aktia's strong emphasis on customer orientation, and a proven track record of successfully handling long-term customer relationships, proved to be a very attractive value proposition for Finnish retail banking customers in the second half of the 1990s.

Already in the beginning of 1995 it could be noticed that the more longer-term issues got an increasing amount of attention of Mr. Horelli. The 1995 annual report has the following notion regarding the development of the operations:

> The previously mentioned change process is based on a long-term strategy, the objective of which is to develop the bank based on the needs of the customer. Through focus on active customer care, improved responsiveness and a motivated and knowledgeable personnel, the bank will build the prerequisites for a sustainable profitability.

At this stage it could be seen that e.g. the issue of profitability was considered to be a derivative target from its success in its customer base. If customers would be well treated profitability would follow. The opening words of the annual review 1997 are symptomatic of such a development:

> Aktia took a considerable leap forward during 1997. Both profitability and volumes improved even more than what we had expected.

As shown above, it can be stated that the management philosophy of Mr. Horelli was built around the idea of involving people into the decision making. Responsibilities were shared and operational decision making was further decentralized. At the same time there were intensified efforts to centrally support and coordinate the most strategic initiatives. Aktia introduced local boards to oversee the operational duties of the regions. This was a way to involve a larger group of individuals in the decision making.

The starting point of the turnaround of Aktia was to have a short-term focus, as the future of the bank by some observers was considered as seriously in jeopardy. Subsequently, as profitability improved, the time frame of decision making became more long term. Mr. Horelli initiated the routine of having a meeting with the 30 top managers every fourth month. This managerial cycle of four months offered the management team flexibility in addressing issues of both short- or long-term character. These so-called "tertial meetings" were also important vehicles for internal communication and socialization.

Aktia also spent a considerable amount of time discussing its roots and values. The tradition of Aktia is in the Swedish-speaking population in Finland. However an increasing portion of Aktia customers have Finnish as their mother tongue. Therefore Aktia carefully considered this issue when formulating the communication strategy that resulted in a new corporate image in mid-1995. One can say that Aktia actively reinvented its own culture to adapt it to the changing circumstances in the business environment. This was considered as important to have a firm ground to move from when the new strategy was implemented. In the 1997 annual report Aktia is presented as "a Finnish bilingual credit institution".

Mr. Horelli recognized in the 1996 annual report that the dividend pay-out would add a new interesting dimension to the role of the savings bank foundations; by using the funds thus made available to them for donations and local community sponsorships, both the foundation and Aktia could greatly enhance customer value. The savings bank foundations were here seen to have an important mission according to Mr. Horelli.

*Table 18 The full transition within Aktia*

| ***Time*** | ***Cause for change*** | ***Explication of change approach*** | ***Implementation management*** | ***Capability building*** |
|---|---|---|---|---|
| **1991-1993** | •Financial crisis | •Continuous adjustments to worsening conditions | •Cost cutting | |
| **1.-3.1994** | •Survival | •Change in board structure<br>•Appointment of outside consultant | •Internal and external converzations | |
| **4.-6.1994** | •Business model redesign | •In-depth evaluation of present situation and future options | •Customer interviews<br>•Internal interviews<br>•Quantitative and qualitative analyses | •Customer understanding<br>•New business model<br>•Principles for new management structure and control systems |
| **7.-12.1994** | •Re-organization | •A flat organization, local anchoring and commitment to lasting customer relationships | •New organization<br>•A multitude of project groups | •Strong culture building efforts<br>•Closely watched change program |
| **1995-** | | | | **Cementing the decided business model** |

## 5.5 Tamrock; the period 1994-1998[95]

### 5.5.1 Background

Tamrock, founded in 1943, is a manufacturer of excavation equipment for mining and construction industries. Its product range includes equipment for underground and surface drilling, coal mining, underground rock and ore loading and transport, as well as components and services related to these products. 1997 sales were about FIM 5 billion and operating results almost FIM 300 million. In 1997 Tamrock had operations in more than 40 countries.[96]

In the early 1990s Tamrock had recognized certain major trends in its competitive environment: globalization, consolidation, technological advances, quality and customer service revolution, greater customer sophistication, change in work force demographics and intensified competition. These trends had an impact on the way Tamrock was conducting business. It was recognized that there was a bias for customized offerings, customers were engaging in increased analysis during the purchasing process, sales cycles had become longer, more decision makers were involved, emphasis on longer term supplier commitment (partnerships) was evolving, and at the same time there was an increase in random events that destabilized the business.

### 5.5.2 Preferred supplier

Mr. Ole Jakobsen was appointed CEO of Tamrock in January 1991. In the 1990 annual report, he commented on the situation of Tamrock as follows:

> Tamrock's order backlog was lower than during the previous year, reflecting a sharp, industry-wide downturn in the market...Tamrock's profitability dropped sharply from the previous year's figure as a result of a rapid fall in demand, and Tamrock recorded a loss for the year.

The task for Mr. Jakobsen was to achieve a corporate turnaround. The years 1991 and 1992 meant a radical restructuring of Tamrock; personnel was reduced from over 4000 to less than 2600, the product range was rationalized, and additional efforts to reduce costs were made. As a result, the financial results for 1992 showed clear signs of recovery.

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[95] The first version of this case was presented in a paper for the 17th Annual International Strategic Management Society Conference in Barcelona. (Wallin, 1997b)

[96] Two thirds of the 1997 turnover related to mining equipment, 20 % to construction equipment and the remaining 15 % derived from other products.

Based on the improved results Mr. Jakobsen recognized the need to find a new rationale for moving Tamrock toward a greater focus on growth.

> Our hardware products must be the best - competitive for the future. But hardware can easily be copied. The winners are those who can differentiate on service and other additional items adding value.

Therefore, in 1994 Tamrock began a program called Preferred Supplier, which aimed at positioning Tamrock as the alternative of choice for customers targeted as the most desirable ones. A consultative approach was favored in developing customer relationships. The focus was on understanding the customer's business processes and performance objectives. It was also stressed that the customer had to be involved in the creation of the ideal product/service package to meet his requirements.

Preferred Supplier was initiated to make a strategic change at Tamrock and change the product- and market-driven company to a customer oriented organization. This strategic change started at the Tamrock Group level and would later involve the whole personnel of Tamrock.

The primary objective was to inspire and support every Tamrock associate in being an active and growing team member in the new organizational structure and in the new way of operating. This all had to be done while keeping profitability in mind. According to the new way of operating, the profitability contribution was to be made with the customers' interest at heart.

The second objective of Preferred Supplier was to build a service culture that would be perceived as unique in the industry and confirmed by customers in terms of market share, repeat sales, and customer satisfaction ratings. There would exist a true relationship between Tamrock and the customer. For chosen customers Tamrock wanted to be perceived more as a strategic partner than just as an occasional supplier. Instead of sporadic contacts with Tamrock, cooperation would be continuous and considerably increase the opportunities to identify joint business potential.

The third objective of Preferred Supplier was to strengthen the competitive advantage of Tamrock by partnering with selected business vendors. Thus, they would become a part of Tamrock's business processes and would create joint business opportunities. In this way of operating Tamrock would be able to convey true value-added to its customers. Tamrock itself would concentrate on its core competences and in this area provide the best performance in the industry. Additional and supporting services/products would be provided by other partners/vendors highly recommended by Tamrock.

The first notion of Preferred Supplier can be found in the 1994 annual report:

> Tamrock wants to be the Preferred Supplier to our customers. Our entire organization will be harnessed to identify and understand our customer's needs. This will ensure our ability to develop our services in a way most beneficial to the end users.

The concrete actions of Preferred Supplier were described in the annual report of Tampella in 1995:

> Tamrock restructured its organization during the year to bring the company closer to its customers. The basic elements of its Preferred Supplier concept are the allocation of business responsibility to customer-based units and the appointment of persons and support groups for individual customers...Tamrock will further emphasize its customer-driven marketing focus. In 1996 special attention will be paid to intensifying the Preferred Supplier concept, by which Tamrock will develop its services to better serve the business needs of its customers. Tamrock will also further enhance its after-sales services.

In a project-launch seminar of the Preferred Supplier project in Copenhagen August 17-18,1995, the new customer-based "Business Sector" organization was presented to an audience of about 60 top and middle managers.

The new organization became effective on September 1, 1995. Tamrock was regrouped into three units: two business sectors, Tamrock Hard Rock Mining and Tamrock Construction; and the production and product support unit, Tamrock Product Companies. The business sectors were responsible for the products and services they offered, for distribution, customer support, and customer satisfaction. Product Companies were responsible for the design and manufacture of the products marketed by business sectors as well as for technical product support, research, and development.

To support this organization customer-based budgeting was introduced, and as from January 1,1996 all sales was reported and followed on an individual customer level. Profit and loss statements were also calculated based on business sectors (i.e. customer groups) in addition to the traditional legal accounting. The amount of work to introduce this double accounting system was felt to be compensated for by the opportunity to follow on a monthly basis how business progressed customer by customer. The centralized database enabled corporate management to make multidimensional analysis and aggregate results based on customer groups, regions, products, industry types, etc.

The need to understand in-depth the value-creating processes of customers was not only addressed in the form of new reporting systems. Management and outside consultants, including the author, conducted customer interviews in order to find out which offering elements the customer really considered as important. The three dimensional offering was used as an analytical tool. Based on the findings from these interviews it became evident that the focus had to be on developing the business processes of Tamrock.

In 1996 a multitude of projects were launched with the ambition of improving the customer and service orientation in the organization. Implementing a Key Account Management process was the main activity during the first half of 1996. Key customers were appointed through management board approval, and each key customer had a board member as executive coach. A global team leader was appointed to be responsible for overseeing the activities related to each key customer and was accountable for the results. Regional team leaders were responsible for the actual operational activities. In each team there could be multiple skills represented (account managers, service engineers, sales assistants, etc.) The teams were accountable for customer share as well as profit. Bonus and commissions reflected the goals related to the individual customers.

Following the Key Account Management project, which primarily addressed the needs of the Hard Rock Mining business sector, another project was initiated in June 1996 aiming at redefining the distribution and sales processes for the Tamrock Construction business sector. During this project an extensive round of customer interviews was conducted in the USA and Canada. Customer needs were examined in detail and the sales and distribution processes were further developed. This work was closely linked to IT-development work going on.

In September 1996 a business process design project was initialized at the product company level, starting from the Tamrock Drills plant in Tampere. This project was closely connected to work on Product Data Management and to the specifications of the JBA system enterprise resource planning.

### *5.5.3 Change in ownership*

Until June 1996 Tamrock was 75% owned by Tampella Group (a mechanical engineering corporation founded in 1856) and 25% by Sandvik Group. By early 1998 Sandvik's holding in Tamrock exceeded 99%.[97] In April 1998 Sandvik formed a new business area, Sandvik Mining and Construction, combining the operations of two companies, Tamrock and Sandvik Rock Tools.

The restructuring discussions had started already in 1995, and as a consequence of these Mr. Ole Jakobsen announced in December 1995 his intention to leave the

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[97] In June 1996 Sandvik had sold its shares to Tampella and simultaneously increased its ownership of Tampella to 49 %. Due to this transaction Tamrock was merged to Tampella Group in the beginning of 1997. In February 1997 the name of Tampella Group was changed to Tamrock Corporation. In November 1997 Sandvik Group acquired all the Tamrock (former Tampella) shares from the Finnish companies Rauma Oy and Solidium Oy, thus becoming a 76% owner of Tamrock Corporation. After that Sandvik continued to buy Tamrock shares. As a result, Sandvik’s holding in Tamrock in early 1998 exceeded 99%.

company. On March 5, 1996, Mr. Ilkka Hakala was appointed by the Board of Directors to the position of President and CEO. Once Tamrock and Tampella merged to form the new Tamrock Corporation, Mr. Jouko M. Jaakkola became new President and CEO and Mr. Hakala Executive Vice President and COO.

The legacy of Mr. Jakobsen was still present in Tamrock throughout 1996, but as of the beginning of 1997 it could be felt that the change in corporate structure was changing priorities within the firm. Sandvik, as the major shareholder, was clearly indicating that it was not satisfied with the level of profitability of Tamrock. In the annual report for 1996 it was stated:

> The new Tamrock Group is not without its challenges, however. Its financial performance is still not sufficiently strong, and we must further increase the company's solvency. Thus, an additional challenge for the near future is to raise the Group's internal efficiency.

In the beginning of 1997 a comprehensive cost analysis was made at the Tamrock Group level. This resulted in April 1997 in a report with recommendations on cost savings as well as measures to improve the reporting systems at Tamrock.

In July 1996 an agreement had been reached with the Austrian Österreichische Industrieholding AG (ÖIAG) on the transfer of the coal mining equipment producing part of the Voest-Alpine Bergtechnik Group (VAB) to Tampella. VAB was, at the time of the purchase, incurring losses, but the situation got even worse once Tamrock became the owner. Once the authorities had approved the deal, Tamrock immediately reduced staff by almost hundred people in the main VAB production plant in Zeltweg, Austria. This lay-off represented 15 % of the total workforce of the factory. This proved not to be enough. The 1997 annual report commented that the coal mining business suffered from low business volume and capacity under utilization, and the result was clearly negative.[98]

### *5.5.4 Sandvik Mining and Construction*

By the end of 1997 the four business areas of Tamrock were described as follows on the Tamrock home page:

> The Hard Rock Mining business area is a leading supplier of equipment, application engineering, and parts and service for most underground and surface applications. It provides performance-enhancing solutions for underground and surface mining. The customers of HRM are mining companies and mining contractors all over the world. The brand names of HRM are Tamrock and Driltech. The production sites of HRM are located in Canada, Finland and USA.

[98] The development of the results for Tamrock 1990-1997 is depicted in Appendix 12.

> The Construction business area is a world leader in breaking and demolition technology and one of the leaders in surface excavation drilling, tunneling and water well drilling. The product offering also includes underground loading and hauling equipment. The customers of Construction are quarries, general contractors, rock drilling excavation contractors, demolition and recycling contractors, and well contractors. The brand names of Construction are Tamrock, Driltech, Rammer, Voest Alpine. The production plants of Construction are in Canada, Finland, France, and USA.
>
> The Coal business area is one of the leading suppliers of underground coal and soft mineral mining equipment and services. It is the world's leading supplier of roadheaders, borers, and bolter miners. Other offering includes continuous miners, coal hauliers and utility equipment. The customers of Coal are underground, potash, salt and other mineral mines and mining contractors. The brand names of Coal are EIMCO and Voest Alpine. The production facilities of Coal are located in Australia, Austria, Germany, Great Britain, Poland, South Africa, USA, and a joint-venture in India.
>
> The Roxon business area is an expert in bulk material's handling and services providing an extensive range of products of the highest quality and up-to-date technology. Roxon supplies solutions and services including conveyor components, system engineering, equipment, and maintenance services. The customers of Roxon are mining and base metals industries, quarries, solid fuel power plants, and ports. The brand names of Roxon are Roxon, Gurtec, Kopo, Prok, Rox'n Roll, and Voest Alpine. The production facilities and engineering offices are located in Australia, Austria, Finland, Germany, Indonesia, and Sweden.

During the period 1994-1997 Tamrock had been able to improve its services to customers. In the regions where the improvements had been most significant Tamrock was perceived as the preferred supplier by customers. However, in spite of these improvements, the financial results of Tamrock had not improved enough compared to the aggressive targets set up in 1996. This was not acceptable to Sandvik, the major shareholder.

On April 1, 1998, Sandvik Mining and Construction was formed by merging two organizations that shared their ground in the same customer segments, but otherwise were fairly different in their internal culture. Sandvik Rock Tools was a product-driven, streamlined, and very cost-effective organization. Tamrock had over the years 1994-1997 aimed at becoming a broader systems provider, enabling a higher degree of value-added services and this way increased profitability. Combining these two cultures was a considerable challenge, especially as the division was established in a period of uncertainty within its industry. Gold prices were at a record low, and the crisis in South East Asia and Russia created uncertainty in respect to the general economic outlook for the coming years and reduced radically the order intake.

When Sandvik Mining and Construction was formed Mr. Jaakkola was appointed President and CEO. In the beginning of August 1998, Mr. Jaakkola resigned. His successor was Mr. Anders Ilstam, who had served the Sandvik Corporation for many years and had a considerable experience from turnaround projects. His task was to rapidly bring the new division into the targeted ten percent profit range. In November 1998 Mr. Ilstam announced a program to cut the headcount in the new Sandvik Mining and Construction Division with 1000 staff of which 235 employees was to be reduced in the Tamrock units in Finland.

### *5.5.5 Analysis of business model dynamics in Tamrock*

The first contact between the author and Tamrock was on April 28, 1993, when SMG made a presentation on customer orientation for Tamrock Group management. A result of this presentation was that Mr. Jakobsen continued discussions with SMG. In the second half of 1994 SMG was asked to make a proposal on how to support the Preferred Supplier initiative. Based on this proposal the project started in October 1994.

This first project phase focused on defining the elements of a customer-oriented organization in the specific context of Tamrock. Tamrock had been organized based on regions and production units, which both had profit responsibility. Internal pricing conflicts and sub-optimization were common problems relating to this business model. When Tamrock went through its cost-cutting program 1991-1993 the organization had proved very useful and able to rapidly attack ambitious cost efficiency targets. But when focus was on expansion and growth the organization was felt to be inadequate.

The above-mentioned deficiencies were identified at the beginning of the Preferred Supplier project. In March and April 1995 the organizational requirements attached to implement Preferred Supplier were elaborated in workshops. The basics of a customer-oriented organization were presented and the steps in the implementation of the Preferred Supplier concept were composed. The outcome of this phase was the announcement of the new Business Sector-based organization in May 1995.

In parallel with the reorganization, "the strategic framework" for the Preferred Supplier concept was developed using the notions of value constellations, value-creating processes and offering development. A transformation into a more customer-oriented culture started to emerge. This phase was supported by a number of customer interviews, based on which practical applications and illustrations of customers' value-creating processes were made.

The reminder of 1995 was filled with activities making the new Business Sector organization operational. The following year, 1996, the new business model was fine tuned further. New management systems, organizational infrastructures, and supporting information technology were established. The interaction between Tamrock and its customers were intensified in order to better understand the true value-creation potential represented by individual customers. At the same time efforts were put into further developing the offerings for different types of customers and customer needs. These efforts were supported by detailed customer research. The activities preceding the establishment of the Preferred Supplier organization are listed in Table 19.

*Table 19 The establishing of the Preferred Supplier organization*

| Code | Activity | Timing |
|---|---|---|
| 8a, 5c | Ole Jakobsen's vision: Preferred Supplier. | 1993/1994 |
| 5c | Activities to implement the vision enabling better understanding of the unique requirements for Tamrock to become a Preferred Supplier. | 1994 |
| 5g | The customer oriented business model seen to achieve both the objective of profitability and growth and at the same time create a new sense of excitement within the organization. | 1994 |
| 5b | Market analyses confirmed that the customers to an increasing degree asked for solutions. | 1994 |
| 5a | The previous very product focused way of working felt not to be adequate. | 1994 |
| 5d | Industry consolidation, the competitive pressure asked for a re-evaluation of the business model. | 1994 |
| 5e, 5f | Healthy growth in the mining sector due to overall buoyant economic climate. | 1994 |
| 5d | Intensified focus on the most important customer segments. | 1995 |
| 6 | New Business sector organization. | 1995 |

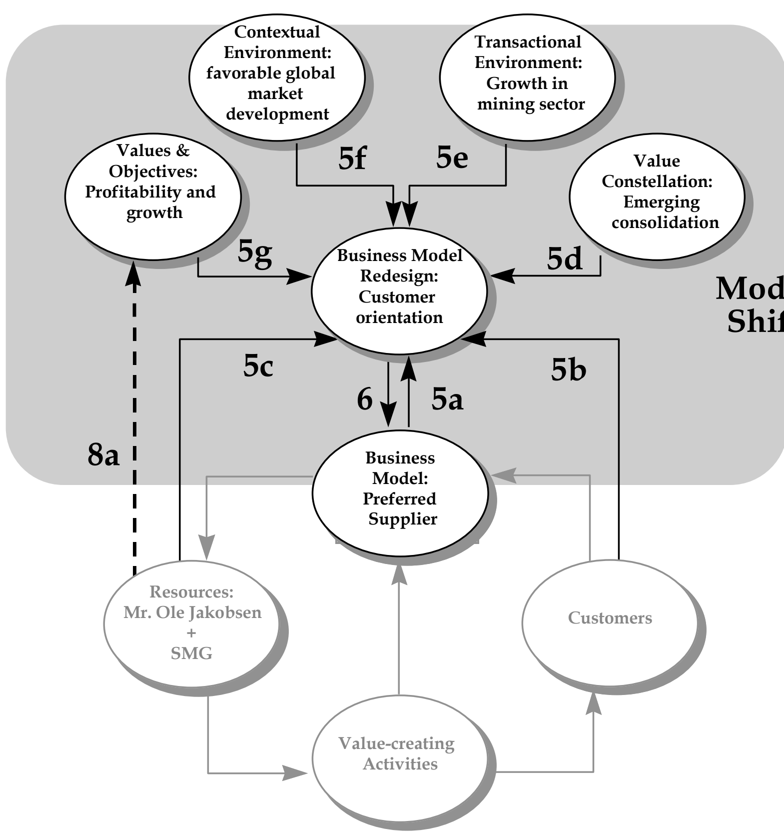


*Figure 29 Establishing the Preferred Supplier organization, 1995*

During the end of 1995 much effort was put into communicating the ideas behind Preferred Supplier. In 1996 the focus was on concrete activities to further make Preferred Supplier operational. Customer-based reporting, customer interviews, and key account management were examples of efforts whose aim was to anchor Preferred Supplier into the organization. At this stage the findings from these concrete actions were, however, not fed back to top management in the same coherent fashion as before, due to the new management structure after Mr. Jakobsen had left.

During spring 1996 other issues such as cost efficiency, Sandvik/Tamrock integration, Tampella/Tamrock restructuring, etc. started to attract much more attention from top management. Bringing Preferred Supplier forward therefore became much more an issue that could only be promoted (or not promoted) in a decentralized way. The 1995 Tampella annual report mentioned that "in 1996 special attention will be paid to intensifying the Preferred Supplier concept" (p. 9). In the 1996 Tampella/Tamrock annual report the notion "Preferred Supplier" cannot be found any more.

The Tamrock culture favored decentralization. The objectives of Preferred Supplier were to increase the degree of integration. Mr. Jakobsen as a charismatic leader was able to maintain activities that created a glue at the top and thereby unified the different activities of Preferred Supplier. Once Mr. Jakobsen left, diverging forces started to dominate the scenery. Every unit within Tamrock interpreted the requirements from Preferred Supplier in their own way. Production companies needed investments in cell manufacturing, product development needed integrated CAD applications, sales needed sales support systems, etc. At the same time Tamrock had decided already in 1994 to implement an enterprise-wide resource planning system, JBA. The pressure at the corporate level to facilitate and guide all these activities were far greater than the resources allocated for this purpose.

Due to the decentralized culture many of these dispersed initiatives were, however, pushed forward and politically backed by individual members of the management team. Many initiatives were accepted on a pilot basis, causing a multitude of separate loosely coordinated activities, requiring even more resources to secure the necessary level of integration. At the same time costs escalated and the pressure to reduce corporate overhead actually forced a reduction of corporate IT resources. This dilemma was further worsened because of the uncertainty related to what effects the integration of Tamrock into Sandvik would bring.

The contradiction between the long-term ambitions connected to Preferred Supplier and the short-term profitability improvement targets remained unsolved until Mr. Ilstam announced the clear goal of cost cutting. Therefore, the Preferred Supplier business model was, at least temporarily, abandoned to achieve focus on short-term profit improvements.

Mr. Ilstam commented in September 1999 that as Mr. Jakobsen left Tamrock there was a "vacuum" at the top. Nobody knew exactly who was in charge. The two main business sectors, Hard Rock Mining and Construction were building their own empires. Profitability suffered. Because of this he, when entering, emphasized:

- retained focus on profitability,
- closer contact between markets and production, and
- back to reality.

By the second quarter of 1999 the result of Sandvik Tamrock was the best ever, in spite of reduced turnover, but thanks to considerably lower costs.

*Table 20 The Tamrock transition 1994-1998*

| *Time* | *Cause for change* | *Explication of change approach* | *Implementation management* | *Capability building* |
|---|---|---|---|---|
| **1994-1995** | •Mr. Jakobsen "…a new rationale for bringing Tamrock forward: Preferred Supplier" | •Support Tamrock associates to grow as team members<br>•Build a service culture<br>•Partnering with selected vendors | •Restructuring into customer-based Business Sectors 9.1995<br>•Several projects started | •Customer integration increased<br>•Customer-based reporting<br>•Large change program from the top |
| **1996** | •Mr. Jakobsen leaving | •Less guidance for Preferred Supplier from the top<br>•Focus on cost-efficiency<br>•Still Preferred Supplier projects like Key Account Management | •Contradictory signals regarding focus of implementation | •Process development<br>•Customer service training |
| **1997** | •Change in ownership, Sandvik majority owner | •Clear focus on improving the internal efficiency | •Cost-efficiency improvement programs | |
| **1998** | •Tamrock becomes part of Sandvik Mining and Construction | •New CEO announces a program to cut headcount of the division with 1000 staff | •Lay-offs and cost cutting | |

# 6 DISCUSSION AND CONCLUSIONS

*This dissertation has sought to shed light on the interrelationships between the adoption of a more customer-oriented business model and competence building. In this chapter the research model is applied to each case introduced in the previous descriptive chapter and the results are synthesized in the form of cross-case analyses. Based on the analyses and the synthesis the original research model is evaluated, and an improved integrated model of the competence implications of increasing customer orientation is proposed, based on which the theoretical, empirical, and managerial contributions of this study are evaluated. Then the validity and reliability of the study is discussed. Finally the limitations of the study are examined and some directions for further research are suggested.*

## 6.1 Within-case testing of hypotheses

### 6.1.1 Finnish Fur Sales resuming auctions in Finland

To provide the basis for the testing of the hypotheses the operationalization of the variables is presented in Appendices 13 and 14. The operationalization forms the basis when testing the research model and the hypotheses.

The resumption of auctions in Finland was an emerging opportunity, which caused proactive behavior ($H_2$ supported). Management actively tried to build support for these ideas in the 1970s ($H_4$ supported) but did not initially succeed as the agreement with DFS was prolonged until 1983. However in 1979 it was possible to get permission to arrange (test) auctions in Helsinki as of December 1980. This provided a tool for FFS management to build necessary capabilities for arranging full scale international auctions (support for $H_7$). This meant that the cause for change could be more explicitly communicated to the board. The implications of having auctions in Finland now became much more explicit. At the same time, the external conditions further strengthened the position of the Finnish fur breeding industry, which also supported the decision in August 1981 to resume auction activities in Finland. Based on this the implementation shifted to a very clear goal-driven mode (support for $H_5$) with a detailed vision of the new offering. The project to re-establish full scale auction activities in Finland, starting in 1981, was initially focused on establishing the necessary internal structure to carry through the project. The author was appointed business development manager and was put in charge of the overall coordination (support for $H_6$). Subsequently an array of capability-building exercises took place to secure the overall service capability: building new information systems, designing the premises to correspond to the requirements of the international auction buyers, and linking to third-party service providers (support for $H_8$). The way the case conforms to the research model is depicted in Figure 30.

The resumption of auction activities in Finland conforms well to the research model. What perhaps is worth noticing is that the findings seem to support the original, more complex, process model (Figure 13) including feedback loops. In the case of Finnish Fur Sales the feedback loop from capability building to cause for change is relevant. One interpretation, which also is supported by the application of the process model in this case (Table 6), is that the research model should be seen as a "fractal" model. All the elements are actively present at any phase of a change process. Due to the openness of the change process, as indicated in the process model, the original cause for change and the interpretation of the outside world also change, and learning continuously takes place during the process.

In the light of the above-mentioned complementary views of the research model, it can be stated that the research model finds good support from the case of Finnish Fur Sales resuming auction activities in Finland.

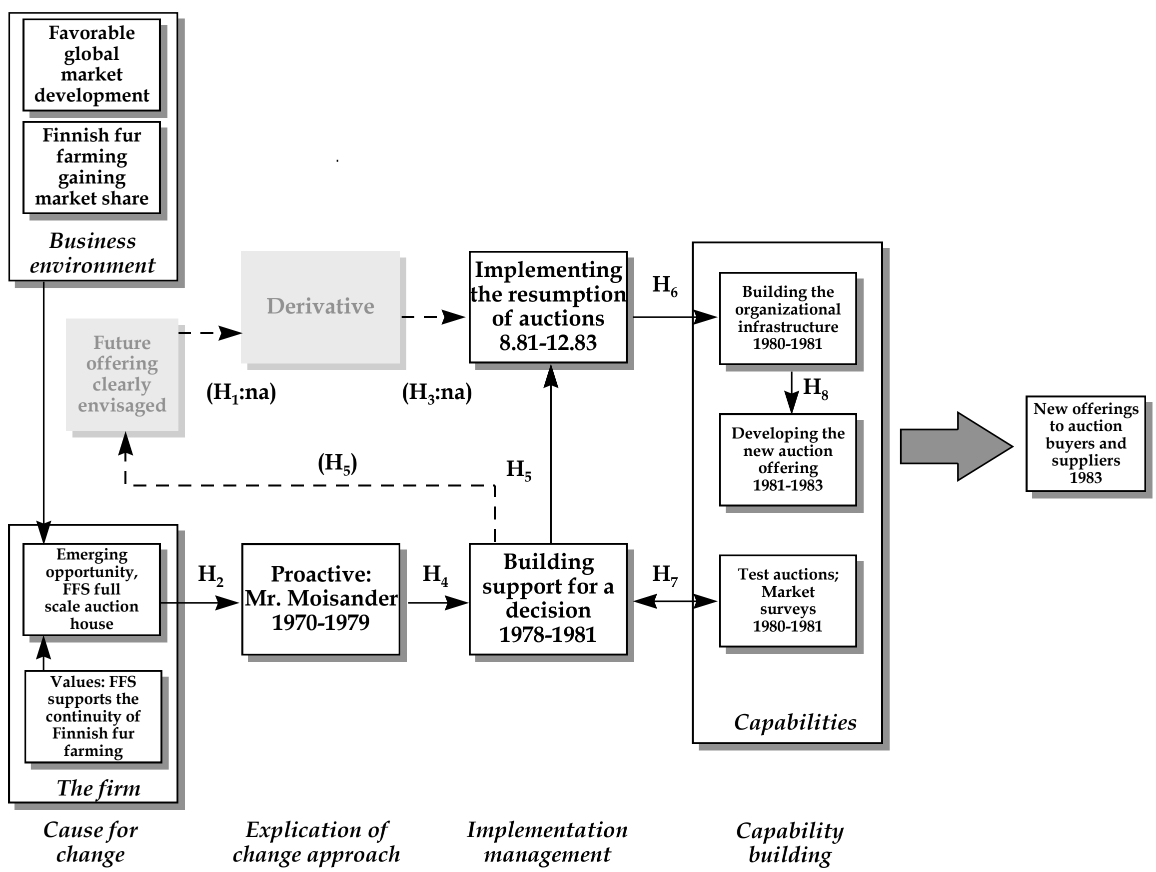


*Figure 30 The resumption of fur auctions in Finland 1983, hypotheses testing (hypotheses $H_1$ and $H_3$ are not applicable in this case)*

### 6.1.2 *The acquisition of HBA by Finnish Fur Sales*

The operationalization of the variables is presented in Appendices 15 and 16.

The possibility of FFS acquiring HBA was considered already during the cooperation between FFS and the Norwegian fur breeders. The first more concrete discussion took place in the beginning of 1985. In this respect the first phase could be characterized as one of emerging opportunity and a proactive stance could be found from FFS management ($H_2$ supported). When it became known that Hudson's Bay Company was divesting its fur operations, FFS had not yet within its own strategy fully envisaged what the practical implications of a possible combining of FFS with HBA would mean. As FFS acquired HBA this was a derivative move. The main reason was to prevent the competitor, DFS, from becoming the acquirer. At this stage FFS did not have a clear vision of how to combine the two units ($H_2$ is violated). Because of the uncertainties relating to the situation, the way FFS managed the post-acquisition phase was for two years highly unstructured (this violates $H_3$). Not until the decision to close the auctions in London did the process start to proceed in a managed way (support for $H_5$). The consolidation of the business first required a reorganization of responsibilities within both FFS and HBA and between the two units; and thereafter considerable internal efforts were made to make the combination of the two units work in practice (support for hypotheses $H_6$ and $H_8$). The research model applied for the HBA acquisition is depicted in Figure 31.

As indicated in Appendix 15 the takeover of HBA has to be regarded as unsuccessful based on the criteria for success. If the point in time, based on which the effects are evaluated, is November 1986, within a period of three years FFS had not proceeded in a successful way subsequent to the takeover. If one takes a more long term perspective the situation somewhat changes.

The detailed description of the pre- and post-acquisition events shows that FFS faced a very difficult situation when trying to manage its value constellation immediately after the acquisition of HBA in 1986. The impact of the EU-legislation created additional problems and the post-acquisition situation was for FFS a business case representing a level of complexity that the management had never encountered before.

During the years 1987-1989 FFS was confronted with a dilemma: how to serve farmers and auction buyers simultaneously when the interests of these two groups conflict. A strong commitment toward the auction buying community was one of the reasons that FFS management was reluctant to make the decision to close the London operations, which retrospectively was the right decision. Once this conflict of interest between fur suppliers and fur buyers was resolved, FFS re-established its focus on the Finnish fur farmers.

The author considered at the time of the acquisition, and still considers, the FFS takeover of HBA as a proper strategic move. It is very difficult to ex-post present an analysis of what the actual result would have been if the acquisition had not have been made. Here two alternative scenarios are suggested.

The FFS perspective at the moment of the bidding was that if FFS did not get HBA, it would be purchased by DFS. In this case FFS management felt that the offerings of mink skins provided by the combination DFS-HBA would have made the comparative mink collections at the Vantaa auctions too small to attract the international mink skin buyers. In this scenario the acquisition retrospectively was definitely right and in the long-term interest of the Finnish fur farmers. Having competitive auctions also affects the spirit of the whole auction organization. Thanks to the acquisition, FFS has in the 1990s been positioned to compete vigorously with DFS for the number one spot in international fur auctions. This has had a strong motivational effect on the whole organization, and secured constant capability maintenance and building to stay competitive. It can therefore be argued that this development would not have occurred if FFS had not acquired HBA.

The second alternative is that the acquisition of HBA by DFS would have been prohibited because of EEC legislation. This would have triggered a series of events that are very difficult to predict. In this case it is plausible that because Finland, at that time, was not an EEC member, it would have been difficult for FFS to gain access to solicitation markets similar to the ones it accessed through the HBA acquisition. On the other hand FFS would have avoided the pre-tax investments costs of approximately FIM 100-120 million. How this scenario ultimately would have unfolded can only be the object of speculation.

The HBA acquisition should be evaluated both from a capability-development perspective and from an economic perspective, when considering the total impact of the acquisition.

By July 31, 1991, the two units, FFS and HBA, were integrated and the investment of FIM 100-120 million was made. Subsequently, the pay back period started as of August 1, 1991. During the following seven financial periods (see Appendix 4), FFS had a gross accumulated profit before taxes and extraordinary items of FIM 305 million. The accumulated auction sales for the period amounted to FIM 9,4 billion, of which FIM 2,6 billion originated from sales on non-Finnish skins. FFS was a very successful auction company from 1992-1998. It was the world's leading international auction house as far as soliciting goods outside its own domestic market. To what extent this was due to the supplier contracts FFS acquired through HBA is difficult to determine. Therefore, it is not possible to give an objective answer to the question of what share of the financial success of FFS was based on its strategic investment in HBA. The author leaves the reader with the opportunity to make his or her own judgment in this matter.

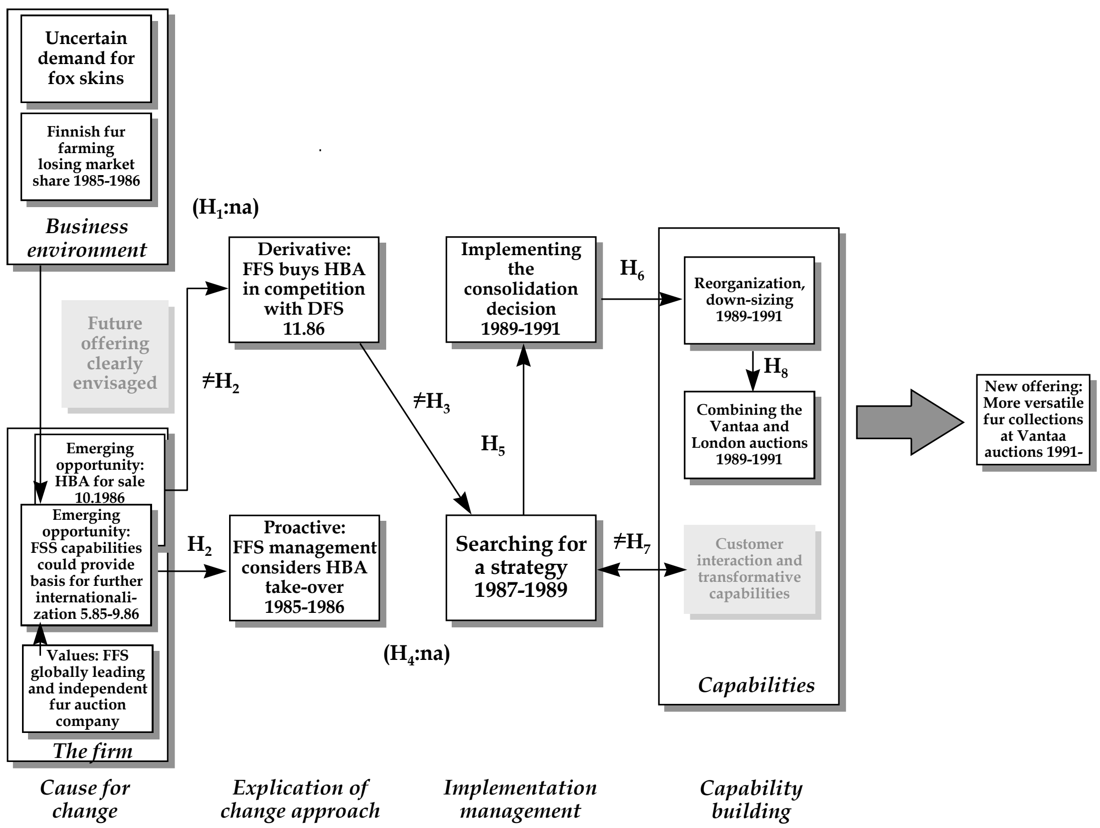


*Figure 31* *FFS 1986 HBA acquisition, hypotheses testing (hypotheses $H_1$ and $H_4$ are not applicable in this case)*

### *6.1.3 The ABB Fläkt Industrial Division, Customer Base Management*

The operationalization of the variables for the ABB Fläkt Industrial Division Customer Base Management case is presented in Appendices 17 and 18.

The Customer Base Management project was preceded by the "Customer Focus" initiative announced by Percy Barnevik in 1990. Mr. Hietaluoma volunteered to be the first unit to begin a customer-orientation pilot program within ABB Fläkt in Finland. When doing this, it was the emerging opportunities presented by Mr. Barnevik and identified by the ABB Fläkt management that initiated the project.

At the time of start up there were no other immediate factors asking ABB Fläkt to change its way of working (support for $H_2$). Management actively engaged in explorative interactions with customers in order to better understand what exactly "Customer Focus" would mean in the context of the Industrial Division ($H_4$ supported). These efforts enabled the Industrial Division to develop a better understanding of the needs and value-creating potential of existing customers. This, in turn, made the Industrial Division recognize that the potential was considerably lower than originally expected (support for $H_7$). Thus, in early 1992, the Industrial Division's management chose a different path: providing corporate funds and support for the ideas of expanding through exports, which was a different outcome than the original intent of the Customer Base Management project (support for $H_5$). The final result of the project was that the Industrial Division opted more for capability leveraging than for customer orientation. Still the project meant capability building in the higher-order management processes in order to allocate resources necessary for the new focus on exports (support for $H_6$). Having received approval to launch this new strategy, the Industrial Division started to strengthen its ties with other companies to provide the necessary elements for the demanding export projects (support for $H_8$).

The application of the research model of the Industrial Division is depicted in Figure 32. The statement of Mr. Hietaluoma in 1995, when the first version of the case was written, can be used as evidence that the project was regarded as successful from the point of view of the Industrial Division management. However, applying the criteria for success defined here would classify the case as a moderately successful one, as there was not a permanent change towards a more customer-oriented business model.[99]

The Customer Base Management project proceeded in an unexpected way. The more the Industrial Division learned about existing customers, the clearer it became that the division had to focus on new customers. Due to these insights the higher-order management processes became targets for capability building. Divisional management faced a situation where the whole business model had to be rethought in a more fundamental way than was anticipated when the project started. This need to change the focus of the project was accentuated by the rapid downturn in the business climate in Finland at the time of the project.

The divisional management used the resource-integration and customer-interaction capabilities in order to identify how existing divisional competence could be provided to new customers. The insights derived from increased interaction between the Industrial Division and its most important customers revealed that the business potential within the existing customer base was not

[99] Detailed financial figures are not available for the case, as separate figures for the Division have not been presented in public reports.

big enough to satisfy the sales targets of the division. The ultimate outcome of the project was to change direction from a customer-oriented business model (meaning building new competences to better serve existing customers) towards one of competence leveraging: selling existing offerings to new customers.

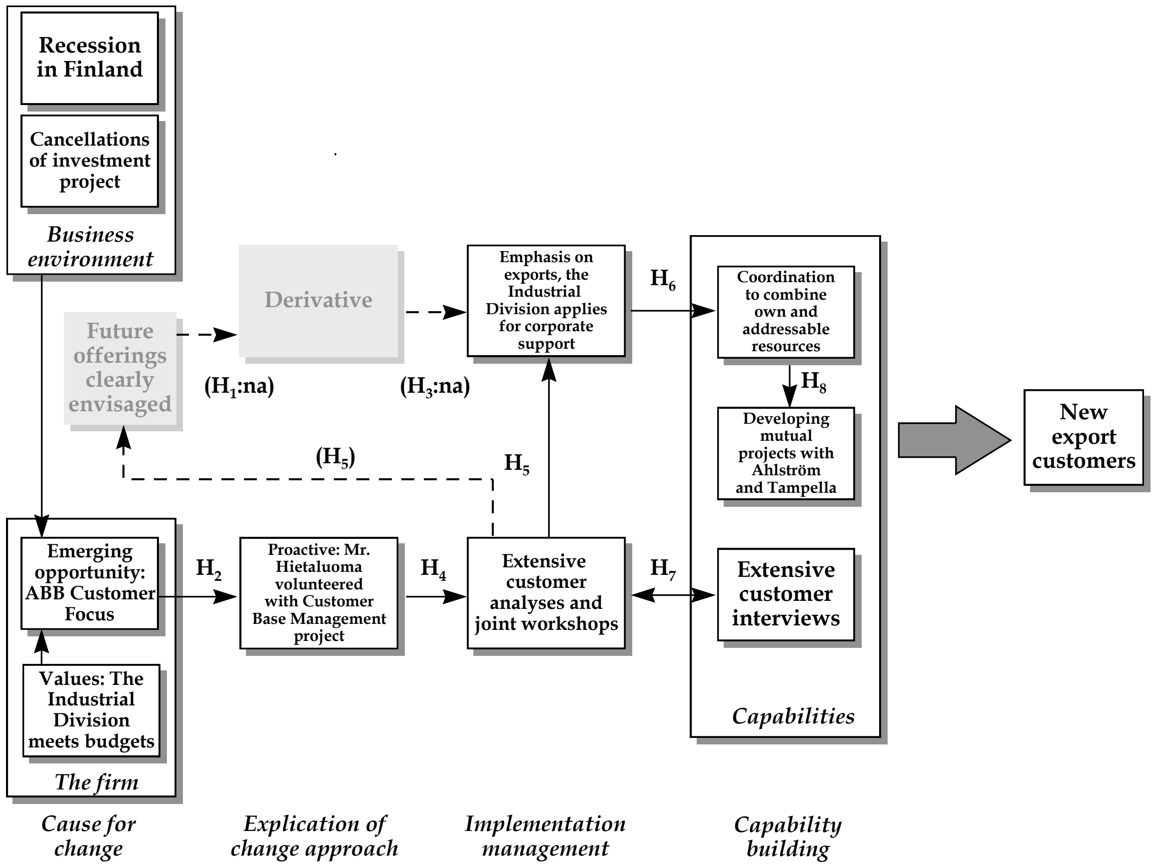


*Figure 32 The ABB Fläkt Industrial Division Customer Base Management, hypotheses testing (hypotheses $H_1$ and $H_3$ are not applicable in this case)*

### *6.1.4 The ABB Fläkt Group, Key Account Management*

The operationalization of the variables for the ABB Fläkt Group Key Account Management case is presented in Appendices 19 and 20, and the research model is depicted in figure 33.

The Key Account Management project was a continuation of the Industrial Division's Customer Base Management project, when viewed from the ABB Fläkt Group perspective. The process was one where management explored new alternative business models (support for $H_2$). However, when the project ultimately started in the beginning of 1993, external conditions in Finland had worsened. Therefore, there was an urge to get a fast improvement of the results of ABB Fläkt. The project started, in a fashion similar to the Customer Base Management project, with explorative interactions with customers. The aim was to better understand what value-creating potentials there existed for ABB Fläkt Group within its existing customer base ($H_4$ supported). The findings from the interactions with customers revealed that there was a need to reorganize the way the Finnish ABB Group handled its customer interfaces (support for $H_7$). During spring 1993 ABB Fläkt Group management completely reorganized its customer responsibilities. In the beginning of 1994 the entire Finnish ABB Group was reorganized (support for $H_5$). In the new context of ABB Installaatiot the capability-building efforts probably continued, which would support hypotheses $H_6$ and $H_8$. These activities took place beyond the period of observation, so hypotheses $H_6$ and $H_8$ are not applicable here.

The statement of Mr. Launonen in the Finnish weekly, Talouselämä, in April 1994, and subsequent mentions of customer orientation in the annual reports of ABB Finland support the interpretation that the project was considered a success. But again, as was the case of the Industrial Division, separate figures have not been available to verify the success based on financial statements.

The ABB Fläkt Group Key Account Management originally focused on internal issues, but ended up being very much concerned about external issues. The changes in the business environment affected top management and their priorities during the project.

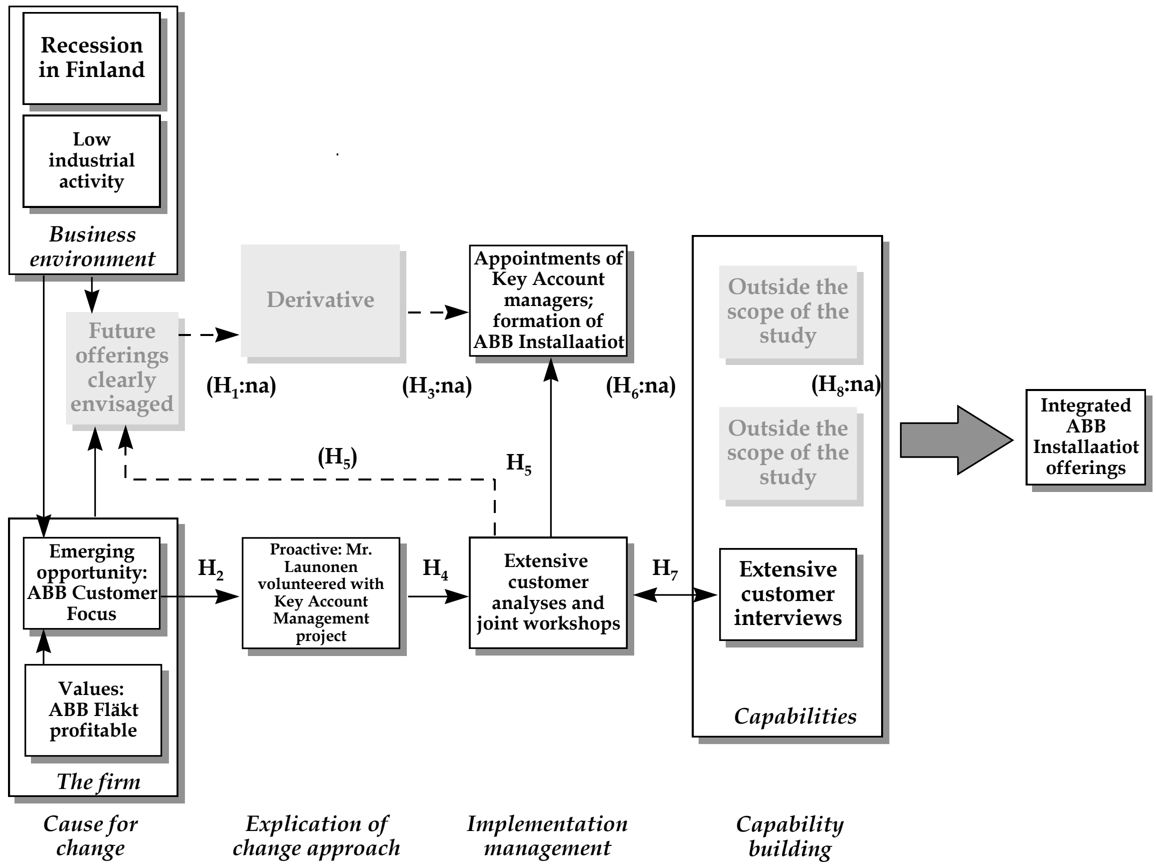


*Figure 33* *ABB Fläkt Group, Key Account Management, hypotheses testing (hypotheses $H_1$, $H_3$, $H_6$, and $H_8$ are not applicable in this case)*

### *6.1.5 Metsä-Serla, Competence Driven and Customer Oriented*

The operationalization of the variables for the Metsä-Serla case is presented in Appendices 21 and 22, and the research model is depicted in figure 34.

Customer orientation was by Mr. Poranen communicated as an area of growing importance in the 1991 annual report. This need for customer orientation initiated a number of decentralized activities at the business unit level under the supervision of Mr. van Niftrik. Mr. van Niftrik was one of the first pulp and paper executives in Finland to be totally committed to the idea of customer orientation. The process was therefore driven primarily by his personal conviction for the need to change the business model (support for $H_2$). This process was one of gradually building momentum for the ideas of customer orientation within the whole corporation. Metsä-Serla Group was still operating in a more traditional production-oriented mode with production and sales separated. Implementing customer orientation proceeded in an emergent mode to build the argument for a customer-oriented approach also at the corporate level (support for $H_4$). The individual projects provided opportunities to increase interaction between the individual business units and customers. These interactions improved the understanding of the value-creating opportunities within the customer base and provided insights that could be used to develop customer-specific offerings (support for $H_7$). Gradually it became clear that the structure with joint sales organizations was not appropriate. As the merger of UPM-Kymmene happened in 1995 the change process became much more structured. The objectives of Metsä-Serla was to protect its own customer relationships by securing the physical distribution channels and the personnel in charge of individual key customer relationships (support for $H_5$). The integration of the sales associations into Metsä-Serla was accompanied by a new organizational structure and new processes initiated by new management (support for $H_6$). This new management thereafter decisively went on to acquire new resources to strengthen the customer-oriented business model (support for $H_8$).

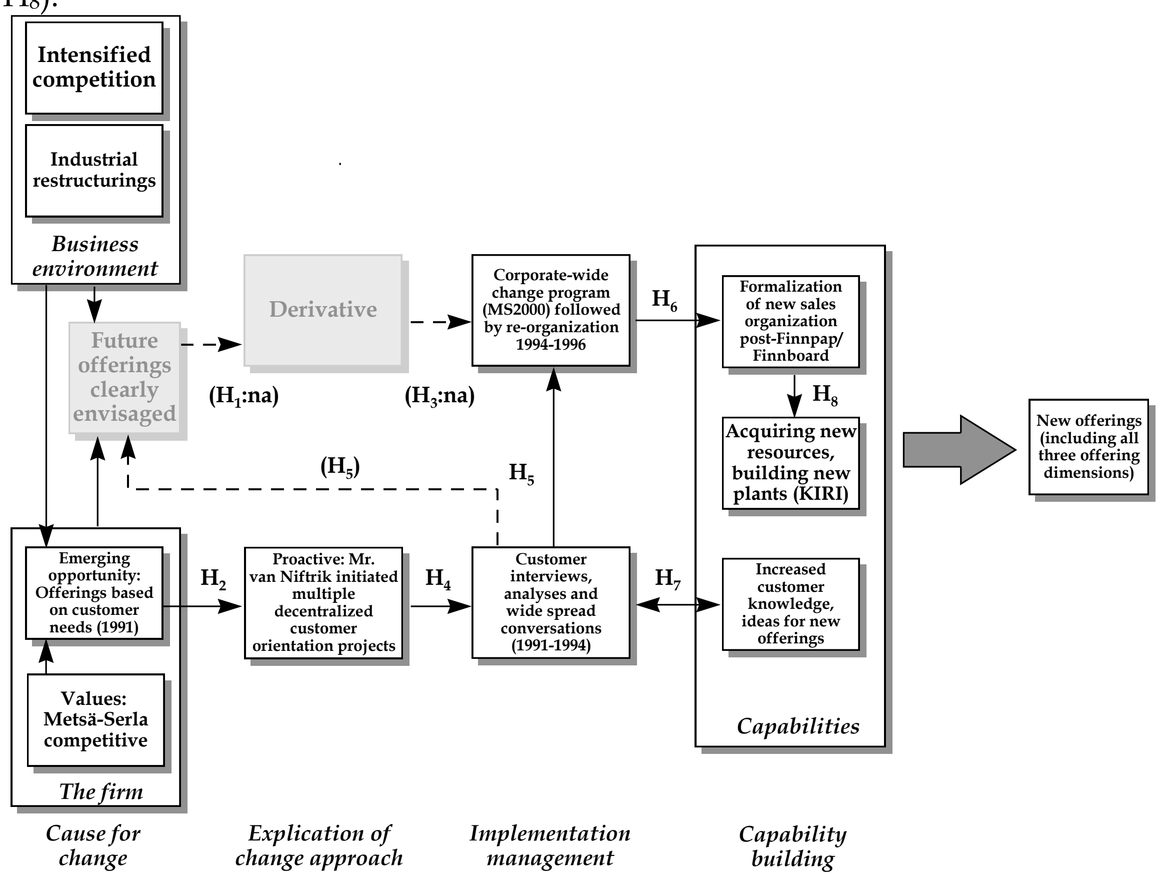


*Figure 34* *Metsä-Serla, Competence Driven and Customer Oriented, hypotheses testing (hypotheses $H_1$ and $H_3$ are not applicable in this case)*

### *6.1.6 Aktia, Prime Customer*

The operationalization of the variables for the Aktia case is presented in Appendices 23 and 24, and the research model in figure 35.

The sources of implementation of customer orientation within Aktia were primarily external. The deep recession and losses made by the bank in the beginning of the 1990s initiated a change in the board structure in the beginning of 1994. The new board called on outside consultants to provide guidance for the next development phase of the bank. The goal was to rapidly come up with a very concrete action plan, based on which the recovery could take place. Increased customer orientation was recommended by the consultants as the way for Aktia to return to profitability.

The prolonged crisis within the whole financial sector in Finland had been very exhausting for the previous management. Facing a re-energizing phase, it was apparent that it would have become very difficult to motivate and inspire Aktia personnel if the top management had remained unchanged. Changing the management was therefore also seen as a positive change from an internal perspective.

The report by the consultants, containing a detailed action plan, was presented to the board in June 1994 (support for $H_1$). As the plan was approved, the board appointed Mr. Horelli as new managing director (support for $H_3$). Mr. Horelli first installed a new, flatter management structure (support for $H_6$), based on which he installed new management reporting systems and entered into a cooperation agreement with the Swedish savings banks (Swedbank) (support for $H_8$). In parallel he also initiated considerable efforts to further strengthen customer-interaction capabilities ($H_{8a}$).

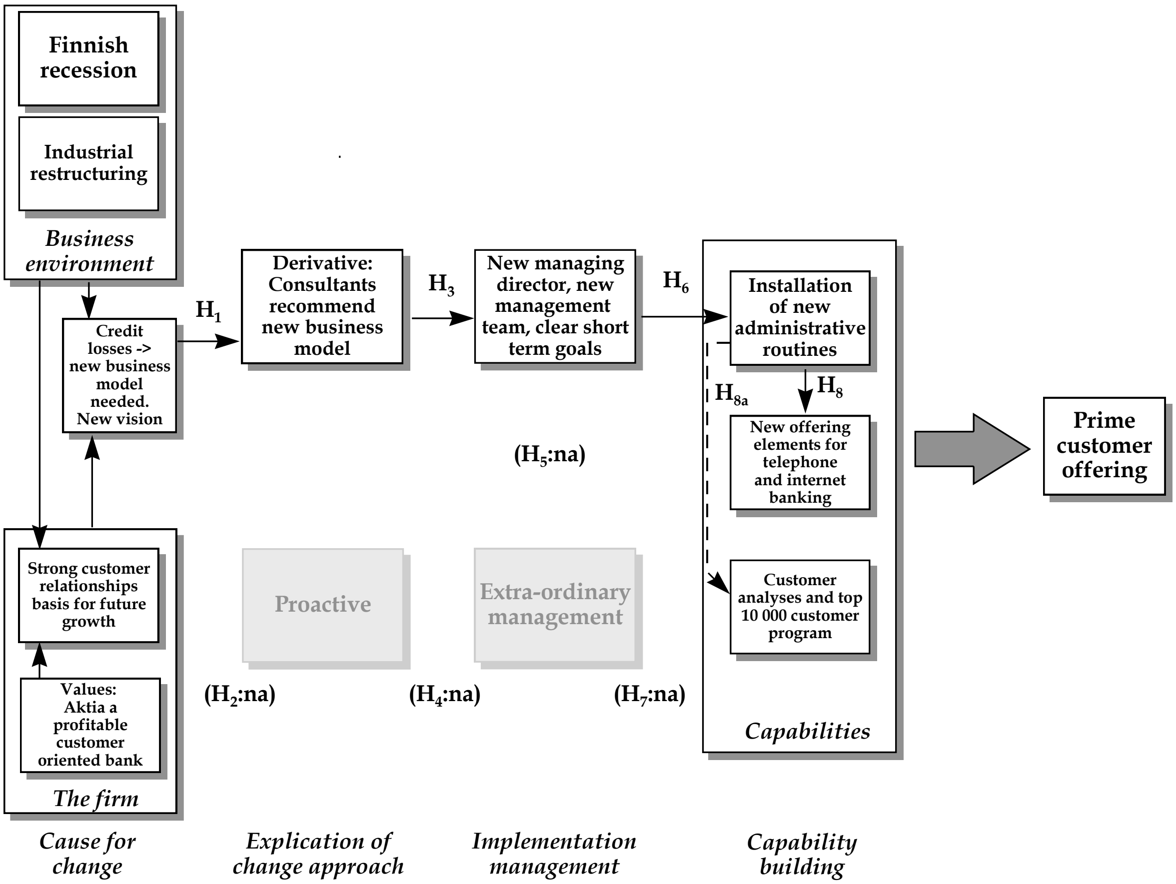


*Figure 35* *Aktia, Prime Customer, hypotheses testing (hypotheses $H_2$, $H_4$, $H_5$, and $H_7$ are not applicable in this case)*

### *6.1.7 Tamrock, Preferred Supplier*

The operationalization of the variables for the Tamrock case is presented in Appendices 25 and 26, the research model in figure 36.

There was an internal source for the implementation of customer orientation within Tamrock. Mr. Ole Jakobsen had identified the need to introduce a new corporate theme to bring the organization forward, once the 1991-1993 restructuring had restored profitability within Tamrock. This initiative, Preferred Supplier, was a way to energize the organization around continuous efforts to improve competitiveness (support for $H_2$). Mr. Jakobsen's perception drove the reorganization and implementation of the business sector organization (no support for $H_4$). Mr. Jakobsen announced that he was leaving the company almost immediately after the announcement of the new organization structure had taken place. At this stage the Preferred Supplier initiative entered into a mode of internal debate and search for content (the opposite of $H_5$). In the phase of looking for how to proceed with Preferred Supplier, a number of activities were undertaken which increased the interaction between Tamrock and its most important customers (support for $H_7$). At the same time there were initiatives to strengthen the coordination efforts through customer-based budgeting and reporting (support for $H_6$). Some efforts to develop new service offerings were also undertaken (some support for $H_8$). In late 1996 the requirements of the major owner, Sandvik, shifted the focus to cost efficiency improvements, and the Preferred Supplier initiative gradually faded away.

The 1996 Tamrock annual report did not mention the notion of Preferred Supplier. Instead the emphasis is symbolized in the words "an additional challenge for the near future is to raise the Group's internal efficiency." Subsequently in 1997 and 1998 efforts to improve cost efficiency were further emphasized, and customer orientation gained relatively little attention.

Using the operationalization criteria for success introduced in chapter 4, the Tamrock case must, for the time being, be classified as an unsuccessful case of implementation of customer orientation.

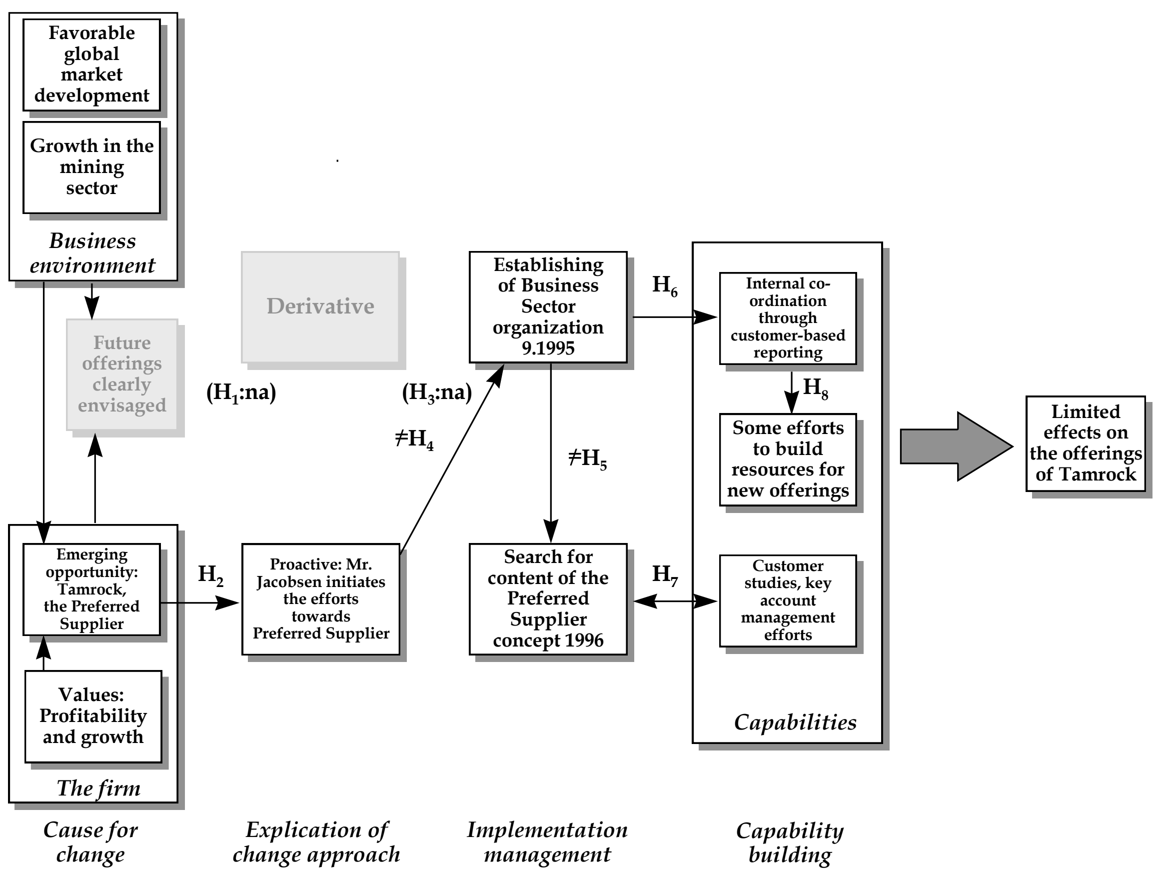


*Figure 36 Tamrock, Preferred supplier, hypotheses testing (hypotheses $H_1$ and $H_3$ are not applicable in this case)*

## 6.2 Cross-case analysis

### 6.2.1 Alternative change approaches

The findings of the within-case analyses can be summarized as in Table 21.

*Table 21 Summary of findings from within-case analyses (y = hypothesis supported, n = hypothesis not supported, na = hypothesis not applicable)*

| | FFS auctions 1983 | ABB Fläkt Industrial Div. | ABB Fläkt Group | Metsä-Serla | Aktia | Tamrock | FFS & HBA |
|---|---|---|---|---|---|---|---|
| **GENERAL INFORMATION** | | | | | | | |
| **Success** | Highly successful | Moderately successful | Highly successful | Highly successful | Highly successful | Failure | Failure |
| **Cause for change** | Emerging opportunity | Emerging opportunity | Emerging opportunity | Emerging opportunity | Clear vision | Emerging opportunity | Emerging opportunity |
| **Change approach** | Proactive | Proactive | Proactive | Proactive | Derivative | Proactive | Derivative |
| **Implementation** | Extraord. -> Ordinary | Extraord. -> Ordinary | Extraord. -> Ordinary | Extraord. -> Ordinary | Ordinary | Ordinary | Extraord. -> Ordinary |
| **Change path** | Emergent | Emergent | Emergent | Emergent | Crisis management | Champion | Structural |
| **HYPOTHESIS TESTING** | | | | | | | |
| **H1, vision -> derivative** | na | na | na | na | y | na | na |
| **H2, emergent -> proactive** | y | y | y | y | na | y | n |
| **H3, derivative -> ordinary** | na | na | na | na | y | na | n |
| **H4, proactive -> extraord.** | y | y | y | y | na | n | na |
| **H5, extraord. -> ordinary** | y | y | y | y | na | n | y |
| **H6, ordinary -> managem. processes** | y | y | na | y | y | y | y |
| **H7, extraord. -> customer interaction + transformative** | y | y | y | y | na | y | n |
| **H8, ordinary -> generative + integrative** | y | y | na | y | y | y | y |
| **OPERATIONALIZATION OF VARIABLES** | | | | | | | |
| **Role modeling** | 0 | 2 | 2 | 0 | 2 | 0 | 0 |
| **Socialization** | 0 | 2 | 2 | 0 | 2 | 1 | 0 |
| **Business modeling** | 0 | 2 | 2 | 1 | 2 | 0 | 1 |
| **Change management** | 1 | 2 | 2 | 1 | 2 | 1 | 1 |
| **Constellation management** | 1 | 2 | 2 | 2 | 2 | 2 | 2 |
| **Internal coordination** | 2 | 2 | 2 | 2 | 2 | 2 | 0 |
| **Resource integration** | 2 | 2 | 0 | 2 | 1 | 1 | 2 |
| **Transformative** | 2 | 1 | 2 | 2 | 1 | 1 | 0 |
| **Customer intelligence** | 2 | 2 | 2 | 2 | 2 | 1 | 0 |
| **Customer linking** | 2 | 2 | 2 | 2 | 2 | 1 | 0 |
| **Innovation** | 2 | 0 | 0 | 2 | 1 | 0 | 0 |
| **Execution** | 2 | 0 | 1 | 1 | 1 | 1 | 0 |

The hypotheses are discussed below one by one. Hypotheses 1 and 3 are applicable only in the Aktia case, and are there supported. Hypothesis 2 is applicable in six cases, and supported in all cases except the HBA takeover case, which was a failure. It was supported in the initial phase of Tamrock, and it could be argued that the Tamrock process had a good start, but ran into problems once Mr. Jakobsen left. Hypothesis 4 is applicable in five cases, and supported in all other cases except the Tamrock case, which was a failure. Hypothesis 5 is applicable in six cases, and supported in all other cases except the unsuccessful Tamrock case. That it is supported in the unsuccessful HBA takeover case has to do with the sequencing of hypotheses 3 and 5. The model would have suggested that in the case of HBA the process should have started in the ordinary mode. When it started in the extraordinary mode, the shift to ordinary management was compulsory considering the circumstances. Hypotheses 6 and 8 are applicable in six cases out of seven, and are supported in all of the six. This indicates that even if the case has been unsuccessful, there is a strong link between ordinary management and the development of higher-order management processes as well as generative and integrative capabilities, whether the final outcome is a success or not. Hypothesis 7 is applicable in six cases and supported by all the others except for the HBA takeover case. That it was supported by the Tamrock case could again be related to the fairly good start of the change process.

In light of the above findings, none of the hypotheses can be rejected. However, it is possible to further deepen the reasoning around the process of increasing customer orientation. The analyses of the individual cases suggest four possible paths for increasing customer orientation:

- the emergent path,
- the crisis-management path,
- the champion path,
- the structural path.

The emergent path is one where the process starts with the decision-making coalition identifying emerging opportunities to improve competitiveness by increasing the amount of customer orientation. In this approach management acts proactively and applies initially extraordinary measures to move the process forward. Learning takes place in the interaction between the firm and its customers. This learning enables management to better understand what future offerings could strengthen the relationships between the firm and its customers. At the end of this process an offering vision has emerged. For the final stage the process shifts into a visionary path. Of the cases analyzed, FFS resuming auctions in Finland, both ABB cases, and the Metsä-Serla case followed this path.

The crisis-management path is dominated by the urgency to find a way out of the crisis. This requires management to come up quickly with a solution. This solution is communicated as a very concrete mismatch between the performance of the firm and its future objectives. The future envisaged state is described, including a vision of new offerings. Based on this vision the approach to change is derivative, and ordinary management is the implementation mode. Capability building will focus on efforts to streamline operations. At the same time some new offering elements are developed. This asks for either new generative capabilities or integration with firm-addressable resources. The crisis management path may include also structural measures in order to provide the foundations for the new offering(s). The Aktia process was an example of increasing customer orientation as a way to handle a crisis.

The champion path is one where somebody within the decision-making coalition starts a change process with a fairly clear personal vision of a future offering in mind, but this vision is not yet shared by the whole management and board. The process will be driven by this personal perception of a gap between the present and the future envisaged state of the firm. The change mode is derivative, and an ordinary management mode can be adopted. In this type of change process the focus is on building the capabilities necessary to provide customers with the envisaged offering. The Tamrock process had elements resembling this approach. The initial vision was relatively vague, and did not include a vision of clearly defined future offerings. The vision was championed by Mr. Jakobsen, the CEO. As he left the company it became evident that the vision was not fully shared by, or grounded in, the rest of the management team. As the change process started to enter resistance, it faded away due to lack of a strong defender of the original vision.

The structural path has similarities to the champion path. The difference is that to achieve the envisaged future state of providing new offering(s), some structural changes are needed in addition to organic internal changes. For example an acquisition may be needed to secure the resources necessary for developing the new offering. The FFS acquisition of HBA had elements of this change approach. The problem for FFS, however, was that when the acquisition took place, FFS management did not possess a clear vision of how the future offering should look.

The crisis-management, champion, and structural approaches can all be called visionary processes in comparison with the emergent approach, which initially lacks a strong vision as the driver of the process. The visionary processes can be categorized in accordance with Figure 37.

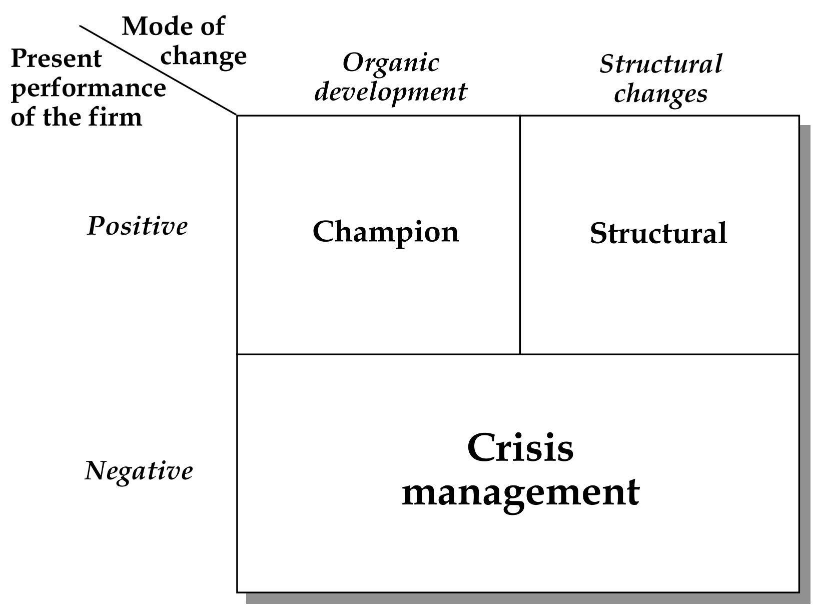


*Figure 37 Increasing customer orientation through visionary processes*

### *6.2.2 The process of change*

Four issues are briefly touched upon here when discussing the process of change:

- process governance,
- external conditions,
- process speed,
- sequence of events.

Process governance emanates from the decision-making context and from the underlying values supporting the change process. In the case of Tamrock three changes in ownership altered the role of the unit of analysis during the period 1994-1998. When the Preferred Supplier was initiated in 1994 Tamrock was a division within Tampella. In 1996 the rest of Tampella was divested, and Tamrock became the new Tampella, which changed its name to Tamrock. In 1997 Sandvik acquired the majority of the new Tamrock, and Tamrock became a subsidiary of Sandvik. In April 1998 Tamrock was merged into Sandvik Mining and Construction, which formed a new division within Sandvik. These changes in the governing structures of Tamrock also affected Tamrock's goal formulation. The case description showed that the philosophy of Sandvik favored lean management. The underlying corporate values of Sandvik were geared towards immediate shareholder value. The Tamrock values had put greater emphasis on a longer-term perspective. The Aktia and Metsä-Serla processes were also affected by changes in the governance structure. In these cases the changes in governance helped to speed up the implementation of the change process.

Two of the cases described change processes carried out during a period when operating conditions considerably worsened during the project: the FFS acquisition of HBA and the ABB Fläkt Industrial Division case. The FFS project could not properly digest the changes in the environment for a fairly long period. In the ABB Fläkt Industrial Division project, management rapidly changed the composition of its business model, and actually reduced activities related to customer orientation and increased activities in the capability focus domain. Therefore, implementing a new business model has to allow the restart of the process any time the external conditions change. New insights learned during the process may also change the perspective of the whole change process. This was part of the reason why the direction of the ABB Industrial Division process changed.

As far as process speed, it is worth noting that the larger the unit, the longer the change process seems to take. The Metsä-Serla process lasted for about five years, while the change within the ABB Fläkt Industrial Division was made within six months. The Aktia change, in turn, was more or less completed in two years. The

Finnish Fur Sales cases are somewhat different, as the change processes in both FFS cases were largely governed by outside factors. Comparing the Tamrock process with the Metsä-Serla one could suggest that the role of the champion is crucial in change processes in large organizations. Mr. van Niftrik was personally pushing customer orientation efforts forward for three years (1991-1994), before it was felt that the issue was ready to be rolled out on a corporate level. Mr. Jakobsen just started the efforts to roll out the Preferred Supplier initiative before he left.

The emergent process for increasing customer orientation proved in this study to be the one which would have a large probability of success. In this case there is risk for bias due to the impact of the author (both as becoming involved in this type of processes and by being an actor guiding the processes in this direction). However these findings are also similar to the one reported by Beer, Eisenstat, and Spector (1990). An emergent process seems to start from a proactive approach and extraordinary implementation. In this stage new insights are generated. Based on these insights, the process not only shifts from extraordinary management to ordinary management, but one can say that almost a new process is started based on these insights about a new offering. The second part of the change process is therefore basically a visionary champion process.

If the process is started in an emergent mode it can be difficult to handle if the process shifts to an ordinary mode of implementation too early. Both the HBA acquisition and Tamrock Preferred Supplier originated from a managerial perception of an emerging opportunity. The HBA acquisition was done in a derivative move. FFS management did not have a clear vision to bring the implementation forward based on ordinary management. Tamrock was initially implemented in an ordinary mode. As Mr. Jakobsen left, nobody was there to maintain the direction for the ordinary management mode. In both cases the mismatch between change approach and implementation mode caused problems.

### *6.2.3 The capability-building activities*

Three successful cases (both ABB cases and Aktia) had a clear focus on capability development in all of the higher-order managerial capabilities. The two other success cases (FFS Auction 1983 and Metsä-Serla) showed strong capability development in all four business capabilities. The unsuccessful cases showed scattered capability-development activities.

The ABB and Aktia cases, with strong capability development in the higher-order capabilities, were all initiated as clearly pre-defined projects with well-defined steps and time tables. They were also genuinely open processes. Top management had taken the attitude that the objective of the project was to provide new insights. These insights were to be used for designing a better business model. This explicit commitment to learning seems to have provided a good base for developing the managerial capabilities within these analyzed firms.

The second category of successful cases were not, as the cases mentioned above, uniform in the way the implementation was conducted. The FFS Auction 1983 case was similar to the above-mentioned three cases, as its final phase was tightly pre-designed with clear objectives and deadlines, but it included a very limited amount of openness. The task was seen as very straightforward. The whole FFS Auction 1983 case was focused around developing and implementing a new auction concept. This explains the almost total focus on developing business capabilities.

The Metsä-Serla case was initially characterized with the same type of openness as the ABB Fläkt and Aktia cases. The process evolved based on the experience gained during the previous stage. Each sub-project had to develop concrete benefits in business capabilities in order to create credibility for the push for customer orientation. Especially in the light of the existence of the sales cooperatives Finnpap and Finnboard, there was a certain degree of political sensitivity related to customer orientation at the corporate level of Metsä-Serla. Once Metsä-Serla top management became committed to dedicating more resources to develop customer orientation, there were good opportunities to move swiftly forward as the units were already familiar with the concepts based on earlier projects at the business unit level.

The results of the testing of the hypotheses regarding capability development in the seven cases can be summarized as follows in respect to successful processes of implementation of customer orientation:

- Implementation through reorganization emphasizes capability building in the higher-order management processes.

- The bigger the perceived gap between the present and the future business models, the more emphasis there should be on capability building in the higher-order management processes.

- Initiating the implementation of customer orientation through extraordinary management emphasizes capability building in customer-interaction capabilities, especially in customer intelligence.

- Implementation of customer orientation based on a clear offering vision requires special attention to be paid to capability building in the generative and resource-integration capabilities in order to rapidly come up with new offerings.

- A permanent shift towards more customer orientation in the business model induces needs to develop capabilities within the lower-order capabilities (relationship, transformative, generative, and integrative capability).

### *6.2.4 The notion of success*

The definition of success presented in section 4.2.1 clearly disqualifies the HBA acquisition by FFS and Tamrock from the list of successful cases. The success of the HBA acquisition was discussed in some length in section 6.1.2. Here the Tamrock case is commented upon briefly.

The Tamrock case cannot be evaluated with the same ten-year perspective as was possible for the FFS case. Analogous with the HBA acquisition, it can be expected that the capability building that resulted from the implementation of customer orientation within Tamrock affected the total stock of capabilities within Tamrock. These capabilities have long-term impacts on the future performance of Sandvik Mining and Construction. Sandvik Mining and Construction entered a stage in 1998 where the "Lean Management" part of the business model got highest priority, similar to the case of FFS during the years 1988-1991. How the Tamrock business model looks in the year 2003 will show what the total impact of the Preferred Supplier initiative was.

Both the FFS case and the Metsä-Serla case suggest that the impact of implementing customer orientation has to be evaluated over substantially longer periods than three years. Customer orientation primarily forces the firm to focus on capability building. Such activities have a long-term impact on the competitiveness of the firm. These experiences suggest that the original, quite arbitrary definition of success is not necessarily adequate when evaluating whether a process of increasing customer orientation is successful or not.

## *6.3 An integrated model of competence effects when increasing customer orientation*

The results of the empirical study can be used to transform the construct of hypotheses into a model of the implications on competence building when implementing a customer-oriented business model. The model is depicted in Figure 38.

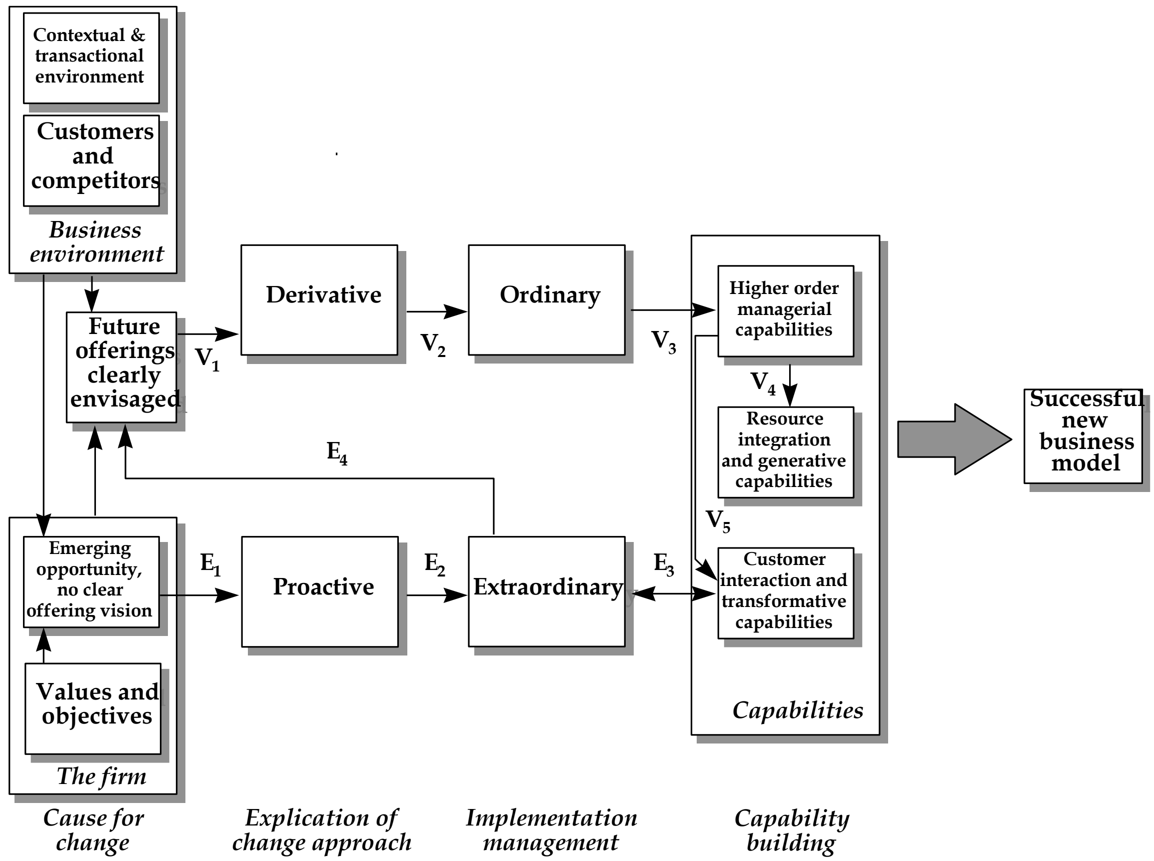


*Figure 38* *A model of competence implications from implementation of a customer-oriented business model*

The model in Figure 38 has substituted the arrow from extraordinary to ordinary (hypothesis 5) in the original research model (Figure 14) with an arrow from extraordinary to the offering vision ($E_4$). This change in the model is based on the results of the case analyses, which indicate that the cause for change from extraordinary to ordinary management is the emergence of a vision during the period of extraordinary management. As the vision is crystallized the change approach evolves from the proactive to the derivative mode and ordinary management is practiced. The other change is that the arrow $V_5$ is added to indicate that the development of customer interaction and transformative capabilities is important also in the visionary change process.

The model in Figure 38 indicates two major development paths when implementing a more customer-oriented business model.

The emergent path starts from the perception of an emerging opportunity by the decision-making coalition, which leads to a proactive change approach and implementation through extraordinary management. During the extraordinary management phase, capability building takes place especially in the customer-interaction and transformative capabilities. Based on these insights a vision of a new offering emerges (steps $E_1$ - $E_3$). Once the offering vision is clear enough, the process shifts into a visionary process ($E_4$).

The visionary path starts off with a clear vision of some future offerings. This vision then provides the basis for staging the change process as a set of gap closing activities, bringing the firm from its present state towards a new future state, thus enabling the development and provision of the future offerings. This development is handled through ordinary management (steps $V_1$ - $V_2$). The ordinary management-driven change process requires capability building in the higher-order management processes to establish the preconditions for the development of the new offering ($V_3$). Generative and resource-integration capabilities need to be subsequently built in order to provide the necessary resources for the new offering ($V_4$). The completion of the business model renewal may also demand a continuous building of customer-interaction and transformative capabilities ($V_5$). The visionary path can be a continuation of the emergent path, but it is also possible that the increase in customer orientation starts off directly in the visionary mode.

The model provides some important implications on the design of the change process.

First, it is worth noting that in the end all drivers for change require changes in the business processes. This is independent of the source of that change. The changes in the business processes are required in order to have new offerings, which is the externally identifiable output of the process of implementing customer orientation. The change of the business processes demand the building of new business capabilities, and also the strengthening of coordination capabilities.

Second, the form of organizing the change process defines to what extent it is necessary to also develop capabilities in the higher-order management processes. The more urgent the need for visible changes of the offerings, the more probable the need for immediate reorganization, and the greater the need for capability-building efforts in the higher-order management processes.

Third, the answer to the question of how to organize depends on the source of change. The more the external factors will be attributed as the reason for change, the stronger the pressure to pursue the change process through reorganization. The role of external factors also correlate with the perceived gap between existing capabilities and the ones needed in the future business model. If the change process is internally motivated, then it could be recommended to start off by applying extraordinary management. In this case a reservation has to be made for the level of energy that the present management can allocate to the change project. If that level is unsatisfactory, this would motivate reorganization and the injection of new blood into the organization, as the case of Aktia showed.

The five successful cases are briefly discussed based on the updated model.

The 1983 FFS Auction case was one where top management, through extraordinary management, ultimately convinced the board to pursue the decision to bring the auctions back to Finland. The process then shifted into a visionary mode. Management was highly motivated. The activities of 1981-1983 were aimed at building the necessary new capabilities in the business processes to deliver a new competitive offering.

The ABB Industrial Division project started in an extraordinary mode, with the objective to improve the offerings to existing customers. However, very soon the perception of management changed, and external factors gained in importance. Subsequently, the management recognized the need to refocus on exports. This meant a shift to a visionary path and corresponding ordinary management. In the light of this change there was strong emphasis on capability building in the higher-order managerial processes. The subsequent emphasis on developing resource-integration and customer-interaction capabilities within the business processes also conforms to the model. These two categories of capabilities were the most important ones for the Industrial Division when pursuing its intensified efforts on developing export projects.

The ABB Fläkt Group case is similar to the Industrial Division project, starting in an emergent mode and shifting to a visionary mode. The issue of reorganization was crucial for ABB Fläkt Group. The focus on higher-order management processes was therefore justified. In the case of the ABB Fläkt Group the outcome was continued emphasis on the existing customer base, but in a new organizational context. Therefore, capability development in the business processes primarily concerned the customer-interaction and transformative capabilities. Especially the transformative capabilities were important, as the new ABB Installation Group had to design new offerings, combining pieces from the different units that were merged into the new group.

The Metsä-Serla case started with limited immediate pressure from external factors. Therefore the emergent path was natural. Initial focus was on building capabilities in the business processes, thus providing the organization with a continuous stream of small success stories, which were used to support the customer-orientation case at the corporate level. In 1995 external changes radically changed the scenery for the customer-orientation initiative. The impact of these external changes also raised the question of whether the capability of the existing management was sufficient to handle the new situation. Metsä-Serla now entered a visionary path, with a reorganization at top as one visible action. Within Metsä-Serla there had been a considerable amount of capability building in the business processes during the years 1991-1995. Because of this there was probably less need for efforts in capability building in the higher-order management processes. As at least some capabilities in the business processes already were there, the most critical component that corporate management had to provide was a sense of direction and internal coordination, "make sure that things agreed upon get done". The rapid restructuring of the Metsä-Serla Group in 1996 and 1997 illustrated this new level of energy.

The Aktia case was the only successful case starting off in the visionary mode. The reorganization decision was the first step in the ordinary management implementation process. The immediate emphasis on the higher-order management processes is what the model suggests, and what Mr. Horelli did. An interesting observation here is that capability building in the business processes was focused on one single capability: customer interaction. Considering the competitive situation for Aktia this has proved to be a very successful strategy. Aktia has increased its market share continuously, and is very highly rated in customer satisfaction surveys on the Finnish retail bank market. In discussions with Mr. Horelli (March, 1, 1999) he agreed that Aktia might have performed even better in developing its business capabilities more broadly. The internal reorganization, customer focus, and favorable market development together had produced quite good results for the period 1995-1998.

If one uses the model to analyze the two cases that were considered as failures, some interesting observations can be made. Tamrock was organized through ordinary management, whereas the model would have suggested a proactive approach and extraordinary management. The acquisition of HBA was organized according to the emergent path, whereas the model would have suggested an ordinary management style. These observations suggest that the question of how to organize the change process is of importance.

A second observation is that in both the HBA acquisition and the Tamrock case the external conditions changed dramatically during the project. FFS faced an unprecedented slump in the market, and Tamrock a period of extremely high internal turbulence. Implementing customer orientation is a long-term process where building new capabilities is a both a means and an end. This seems to demand persistence from top management in order for the change process to be successful. The HBA acquisition and the Tamrock case both had unfavorable conditions under which to pursue the implementation of customer orientation. It is questionable whether an approach according to the here suggested model had been enough to pursue the implementation of a customer-oriented business model at the time of the projects analyzed. It is clear, however, that both cases would have benefited from more capability building in the higher-order management processes. Neither FFS or Tamrock showed a strong effort to develop capabilities in the higher-order management processes. It could be argued that if this would have been the case, management would have had better chances to redirect the activities in pace with improved understanding of the changed conditions. The example of the ABB Fläkt Industrial Division showed that the strong emphasis on building capabilities in the higher-order management processes enabled management to quite rapidly digest the change of preconditions and act accordingly.

### *6.4 Theoretical, empirical, and managerial contributions of the study*

The contribution of a clinical research process should be evaluated against the starting point and the aim of the process. As described in the beginning of this report, this study has tried to address how competence building takes place in dynamic real-life contexts, and how the intermediate outcomes can be used to link competence building and customer relationships. To do this, a comprehensive research approach was undertaken with the ambition of making a theoretical and empirical contribution, but above all to provide results that would be of managerial interest.

The major theoretical challenge related to the chosen competence perspective has been its reputation of tautology (Porter, 1991, Williamson, 1999). Another challenge is that the notion of capability has been considered somewhat vague (Richardson, 1972). The competence-based strategic management school of thought has emerged as an attempt to address these issues. One contribution from this field has been to suggest a shift in the temporal locus for assessing the strategic value of competences from the late-downstream stage of rent generation to an earlier stage: the intermediate outcomes of the firm (Mosakowski, McKelvey, 1997).

This study has its roots in the competence-based strategic management school of thought, and especially the observation that by using the intermediate outcomes, or the offerings according to the definitions adopted in this study, the tautology problem can be better addressed. Using the offering as a catalyst, this study has also taken one step further and suggested a way to operationalize the notion of capability.

Sanchez and Heene (1997b), when commenting on the suggestion by Mosakowski and McKelvey (ibid.), state that there is a need to improve the ability of strategy theory to identify ex-ante competences that are likely to be valuable in the future. Mosakowski and McKelvey themselves (ibid.) recognize the need to develop further knowledge about how managerial processes influence firm competences, how firm competences influence intermediate outcomes, and how intermediate outcomes influence rent generation. This study explicitly addresses this challenge in the specific case of increasing customer orientation. The research model builds on the concept of intermediate outcomes (by asking whether there was a clear vision of the offering when the change process started), and it uses the offering as a measure of whether the change process was successful or not.

The research model was tested clinically in seven cases. It was possible to show that the competence-based strategic management perspective can be used to provide ex-ante normative suggestions in the specific field that was investigated in this study.

It could therefore be stated that this study has contributed to the operationalization and empirical testing of the notion of capability, which is accused of lack of operationalization. Further, in linking the development of the capabilities of the firm to the success of implementing increased customer orientation, this study has provided empirical evidence in support of one of the basic propositions of the competence-based strategic management perspective: the results demonstrate that the definitions applied in competence-based strategic management help avoid the tautology problem, which in general has been attached to the competence perspective.

The present study also responds to the question raised by Hubbard, Vetter and Little (1998) concerning using replication as a research strategy. Two well-documented constructs - a model of the firm as an open system (Sanchez, Heene, 1996) and a formal model of strategic renewal (Huff, Huff, Thomas, 1992) - have been extensively discussed, and applied when developing the process model of increasing customer orientation.

Empirically, this study has provided extensively rich and comprehensive presentations of seven authentic change processes of five different Finnish firms. Due to the unique access to strategically valuable material, it has been possible to present the case studies in quite some detail. This has reduced the risk for bias.

One of the primary goals of a clinical study is to improve the understanding of all parties involved in the research, not the least the participants from respective case company. From their point of view the most interesting part is the specific case description of their own case. Having a rich discussion on each case further extends the usefulness of this written report beyond the academic audience. Already the intermediate case study reports have created positive feedback from the participating firms.

This study was designed with the aim to provide insight about firms' behavior. In this respect its focus has been managerial. The objective was to produce results that would be significant for managers, and that would improve decision making in firms concerning the introduction of new business models.

The results have several implications for managers:

- Customer orientation should not be seen as the business model. Customer orientation is one of four capability development options within a business model. The three other are market making, lean management, and capability focus. Increasing customer orientation therefore means an explicit effort to increase the relative amount of activities that aim at capability building for existing customers. How much of these efforts should be undertaken has to be related both to the external surroundings of the firm, and the firm resources available to undertake different initiatives.

- Implementing customer orientation always demands a certain amount of coordination that requires capability building in the higher-order management processes, such as change management, constellation management, and internal coordination. Management has to be aware of this and make sure that the necessary resource allocations for this are available.

- The question of how to organize the change process is crucial. If there is not a clear vision of the future offerings available, then the process should be initiated in an emergent mode with the specific intention to engage in conversations, internally and externally, that should generate the insights about how the future offerings should look. If there is a clear offering vision, then the implementation can be directed towards the capability-building efforts necessary to develop, produce, and deliver the new offerings.

- If the change process requires reorganization, management should be aware that such a change process demands considerably more efforts in respect to capability building in the higher-order management processes. Reorganization requires greater effort in building culturing and business modeling capabilities. Only through such capability building can management gain credibility in front of, and support from, the rest of the organization.

- Implementing customer orientation always requires capability building in the business processes, as this is the only way to be able to come up with new offerings, which is the only valid reason for entering a process of implementing customer orientation.

- A successful implementation of a customer-oriented business model is a long-term process, which can be very rewarding. The systemic structure developed through customer orientation is highly idiosyncratic, and therefore difficult to imitate by competitors. The successes of FFS, Metsä-Serla, and Aktia have shown that long-term commitment to customer orientation can provide the firm with a sustainable competitive advantage.

To summarize, this dissertation represents an emerging competence-based stream in strategic management research. The study has addressed an area which is of considerable interest. As Williamson (1999) states:

> The competence perspective is attuned to good issues and challenges both orthodoxy and the governance perspective to be responsive.

This study has provided evidence of the possibilities to operationalize capabilities and to avoid a tautological construct of competence. By examining how firms increasing customer orientation should build competences, the study has addressed some important topics in the field of competence-based strategic management. In so doing, it has provided a theoretical, empirical, as well as a managerial contribution to this field, which according to Williamson (ibid.) is projected to have a lively research future.

### *6.5 Validity and reliability analysis*

Validity is the extent to which the study measures and tests the phenomenon that it is assumed to examine, while reliability refers to the replicability of the results of the study in a repeated measurement (Salvendy, Carayon, 1997). In qualitative research, the generalization towards theory (analytical generalization according to Yin, 1984) is the main interest. If the qualitative study is clinical, content (validity; that data/results really address what they are intended to address) and procedures (reliability) become allied to one another.

The criteria for judging the quality of the research design are construct validity, internal validity, external validity, reliability (Yin, 1984), and relevance (Hammersley, 1990).

Construct validity refers to establishing correct operational measures for the concepts being studied. Two issues are essential for construct validity (Yin, 1984):

- selecting the specific types of changes that are to be studied, and
- demonstrating that the selected measures reflect the selected specific types of change.

The selection of types of changes to be studied was based on an in-depth literature study in order to ground the research model in relevant literature on competence-based management and strategic change. Demonstrating that the selected measures reflect the selected specific types of change was accomplished by applying pattern-matching using the framework for business model dynamics (Figure 8), and the model of increasing customer orientation (Figure 14) in each case. In addition, the following three tactics were used to increase the construct validity (Yin, 1984):

- triangulation in the form of having different protocols describing the same objects,
- chain of evidence that also covers the data collection, and
- member checking, which means that the intermediate and final case study reports were reviewed by key informants.

Internal validity means establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships (Yin, 1984). Yin recommends pattern-matching as a mode of analysis for strengthening internal validity. Rival explanations, emerging from the empirical material, can be regarded as a threat to the validity of a study. This threat can be attacked by designing the study so that they are ruled out by literal replication (two or more cases support the same theory) or by theoretical replication (the result failed due to predictably different circumstances). This study applied both forms of replication. Internal validity can also be strengthened by tying the results to findings from other literature. The findings of this study conform to findings from the literature (Chapters 2-3).

External validity means establishing a domain to which the study's findings can be generalized. Generalizability, precision (the control and measurement of variables), and realism form a "three-horned dilemma" (McGrath, 1982). No research strategy can maximize all three conflicting desiderata simultaneously, and it is often necessary to choose the one on which to focus. This study is a clinical study. As such it maximizes realism, not precision nor generalizability to populations. The case studies aim at analytical generalization, at generalizing results into some broader theory and not directly to other populations (Yin, 1984). Literal and theoretical replication logic is one measure applied in this study to generalize the results into a broader theory. Eisenhardt (1989) argues that literature discussing similar findings is important because it ties together underlying similarities in phenomena normally not associated with each other. The result is often a theory with stronger internal validity, wider generalizability, and a higher conceptual level. In this study, the concepts of ordinary and extraordinary management (Stacey, 1993) were extensively discussed and subsequently applied in the research model. The similarities between the conceptual discussion by Stacey (ibid.) and the outcomes of the case analyses would suggest that the findings of this study have wider generalizability than just for large mature Finnish companies, which is the main characteristics of the sample.

Reliability demonstrates that the operations of a study - such as the data collection procedures - can be repeated, with the same results (Yin, 1984). Yin suggests approaching the reliability problem by making as many steps as operational as possible and to conduct research as if someone were always looking over your shoulder.

The notion of reliability becomes problematic in a clinical study. According to Schein (1987), replicability is not applicable in a clinical research process. As the clinician by definition is also a subject in the process, he influences the organization in such a way that it is not possible to replicate the process in exactly the same way. The problem with both the reliability and validity constructs is that they basically have been developed in a positivistic research tradition; applying them to clinical research is difficult. Both Schein (1987) and Normann (1977) suggest that the improvement of the organization is the ultimate test of validity for clinical research. But even if one can recognize improvements within the organization, e.g. improved profitability, one cannot establish causality between the measures taken within one restricted realm, such as increasing customer orientation, and the overall improvement of the state of the firm.

According to Eneroth (1984) judgment of a clinical study should not be based on "mathematical precision" but rather on the depth of understanding which is attained by the research process. As to the conducting of the research process, Eneroth (ibid.) suggests that reasonable "inter-subjectivity" should be guaranteed by providing as accurate a description of the process and the collected data as possible so that readers can judge the method and the results. Merriam (1994) argues that an important part of case study research processes is to be explicit about the researcher's background and position both when it comes to the previous experience of the researcher, her or his basic assumptions, and the events that triggered the research process. In this study the case descriptions basically describe the entire professional career of the author during the years 1978-1996. Additionally, the original ideas behind the research project are described in detail in the chapter on research methodology.

Despite the above-mentioned restrictions on the applicability of the reliability concept, the issue of operationalization has to be addressed, as the operationalization of the constructs was a central part of the research strategy.

The operationalization of capabilities has been slow to evolve (Williamson, 1999). The operationalization of capabilities undertaken in this study can therefore only aim at providing a first modest attempt to move this difficult issue a bit forward. The operationalization, perhaps, has more the character of "clarifications" than stringent observable quantified measures. Nevertheless, having categorized and "clarified" capabilities enabled the connection of business model renewal to observable changes in the capability-building activities within the studied firms. In so doing, the study was able to show that the tautological construct of the core competence notion can be avoided by using the competence-based management perspective and the central definitions presented in this school of thought.

Relevance refers to the importance of the topic and the contribution of the conclusions to the existing knowledge. To be relevant a study has to make a contribution. The contribution of the conclusions of this study was improved through a series of iterations of intermediary research reports enabling the author to gradually focus on questions that would make a contribution. Two major problems related to the competence perspective; tautology and operationalization (Williamson, 1999), have both been addressed. This would indicate that this study has been able to provide a relevant contribution to the on-going scientific debate around the competence perspective.

In the chapter on research methodology, the risk for bias was extensively discussed. This issue will be further addressed below by presenting the measures undertaken to reduce the amount of bias.

The results of this dissertation comprise

- a model for the implementation of customer orientation developed from literature,
- eight hypotheses about the interdependence between source of change, way of organizing the change process, and implications on competence building,
- findings from a clinical study of seven cases of the implementation of a customer-oriented business model, and
- subsequent analyses of the findings.

The hypotheses have been derived from the literature search, and the gradually emerging findings have been discussed on several occasions with other researchers to reduce bias[100]. The findings from the clinical study have been

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[100] The first research report derived from this study was presented in a competence-based management conference in Gent, 1995. The second research presentation was in the 1996 SMS conference when the first version of the model of the firm as an open system was presented. In the 1997 SMS presentation the first version of the Customer Value and Supplier's Exchange Value equations was presented. In the 1998 competence-based management conference in Oslo the author presented the first attempt to categorize business models as well as the matrix for corporate values. Finally the

analyzed from three perspectives. First, there is a longitudinal description of how the business developed during the period of observation. The material for this part is primarily from archival material such as annual reports, internal magazines, minutes from meetings and internal documents to which the author has had access. Second, the reason for changing the business model has been analyzed in a uniform way using the framework for business model dynamics developed in section 2.2.3.1 Third, each case is analyzed in-depth in relation to the hypotheses developed in chapter 3 -- a uniform approach that enables the highest possible comparability between the cases. The use of well-known Finnish companies as case firms has also increased the access to public material which has further facilitated the aim to reduce bias.

The selection of the firms for the case studies is both the weakest and strongest part in a clinical study. The access to the firm is the decisive criteria for selection. The risk is here that the researcher has only access to a limited and not very broad sample of firms, in which case there would be restricted opportunities to generalize the results of the study. In this respect the author has been fortunate to have had access to a multitude of firms that were positive to the idea of being included as cases in this dissertation. The positive thing with a clinical study is that it provides the opportunity to dive into how firms actually behave. If the firms included in the sample represent a variety of behavior, and the researcher has access to the firms over a long period of time, the clinical study may reveal a lot of interesting observations. The author has had access to all of the firms for a minimum of three years, and to some of them for a period of more than five years. Because of this the sample is quite suitable for the purpose of longitudinal research. The research topic chosen for this dissertation was also one which was well suited for a longitudinal approach. As it addressed an area where little previous empirical research exists, the clinical method was well motivated.

In the analysis of the cases, one risk is that the researcher does not treat the different cases in a consistent way. Because of this the different variables were operationalized. This procedure enabled the researcher to compare the firms between each other.

The construct validity of measures represents perhaps the largest risk for bias in a clinical study. The measures for testing the hypotheses were developed by the author. The assessment of each of the cases according to the measures were also made by the author. However, as the cases are clinically treated and all the measures for each individual case are openly presented, any possible bias from the author is transparent to the reader. Subjective judgment cannot be entirely removed from the analysis. Carrying out the analysis of each case in three steps,

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outline of the thesis was presented at a doctoral workshop on competence-based management in Copenhagen in February 1999.

operationalizing the variables of the hypotheses, and transparently presenting the results in the study are all measures taken to reduce possible validity and reliability problems. On the whole, it could therefore be argued that this dissertation achieves a satisfactory level of validity and reliability.

### *6.6 Limitations of the study and directions for further research*

Several limitations exist in terms of the generalizability and interpretation of the results of the dissertation. The chosen clinical case study methodology has several advantages when new, complex relationships are analyzed. One disadvantage, however, is that only a small number of cases can be analyzed. As previously discussed, a clinical study limits the reliability of the results in a positivistic sense. Therefore, it would be valuable to make use of the findings of this study and use the suggested model for more formal testing either through a comprehensive field study or through a multi-firm study, in which data could be gathered longitudinally by structured interviews. This would ensure greater generalizability of the findings of this study.

Another limitation of this study is that the sample was taken only from Finland. There is a possibility that the attitude towards change is connected to business culture, where nationality affects the behavior. However, as the findings were consistent with suggestions from the literature of both European and American origin, this would indicate that the generalizability is broader than a Finnish-only context. It would, however, be interesting to compare the results of this study with similar studies in other geographical contexts.

The five firms studied in this research project were all well-established businesses, each with traditions of more than 50 years. In this respect the results of the study are not necessarily applicable to newly established firms. The firms all had distributed ownership, which means that the situation of a strong owner/leader within the firm was not covered by this study. It is possible that in a firm with a strong dominant owner, the question of higher-order management processes and culturing and business modeling capabilities will get some new aspects, not treated in this study. Further research could shed light on this issue.

The unit of analysis has consciously been chosen to represent single business firms (FFS and Aktia), a business unit of a big corporation (ABB Fläkt Industrial Division), a division (ABB Fläkt Group), and a corporation (Metsä-Serla). The cases did not provide any findings which would suggest that the change process, and the implications on competence building, would be different depending on the unit of analysis. In this respect the model developed here is a "fractal" model, meaning that the pattern and structure can be deployed on different levels of the organizations. Depending on the unit of analysis the practical implications differ according to the scope of the observed organization. Developing capabilities in culturing in a corporation with more than 10,000 employees is definitely, from an implementation point of view, different from developing the culture of a business unit with 50 employees. How the size of an organization affects the practicalities of implementing customer orientation would be an important issue to further elaborate on in future research.

The firms represented both manufacturing and service firms. No difference in the patterns of implementing change could be realized in this respect, perhaps with a small reservation for the strong focus on customer-interaction capabilities shown in the successful Aktia case. Probably such dedication to this single capability would not be as successful e.g. in a manufacturing company, where the systemic interdependence between the relationship, transformative, generative, and integrative capabilities may be more important than for service companies. Future research might examine to what extent such a difference between manufacturing and service firms exists.

The conceptual framework was developed based on a general process model of business model renewal. The actual empirical test of the model was conducted by studying the specific process of implementing customer orientation. However, the results could be generalized also for other change processes than implementation of customer orientation. The same patterns of interdependence of the source of change, organizing of change process, and implications on competence building should also be applicable in other processes of changing the business model. For example, acquisitions are similar processes, where the outcome has to result in a new way of designing and producing offerings. In such a case the source of change is external, and the implementation is naturally through reorganization. The results from this study may also provide insights into the necessary capability-development activities needed by the managers in charge of a post-merger process. The initially unsuccessful post-merger process of FFS when acquiring HBA provides an example of a case where the model here developed might have been useful, and might have ultimately improved the quality of the decision making.

The time period of study covers both periods of recession and periods of a buoyant economic climate. The findings showed that the principles for the change process and the competence implications did not differ depending on the market conditions surrounding the firm.

As this study primarily addressed a quite broad research question, many phenomena related to the research question could not be investigated in great detail. And, at the same time, the model for competence implications from implementation of a customer-oriented business model may also be applicable, with minor modifications, for other types of business model renewal. These reflections would suggest the following possibilities for further research:

- an in-depth study of how different capability-building activities change the business processes of the firm, and how rapidly these changes result in new offerings; for managers the speed of introducing new offerings is a key factor when deciding on entering a change process;
- developing tools for management to articulate the offering vision before any possible change in business models; this is a very important success factor as it will have a decisive impact on how the change process should be organized;
- expanding the study to cover other renewal processes than just implementation of customer orientation;
- deepening the study into understanding the interdependence between external and internal factors prior to and during the change process, and how management can monitor changes in these factors properly and adjust the change process accordingly.

In addition to the questions specifically addressed by the research model and the hypotheses, there is one question that was deliberately left outside the research model, but which has a strong managerial interest. This is the question of how the initial idea of increasing customer orientation emerged within the firms investigated. The reason for not addressing this question in this particular study is that the author normally became involved in the change process after the idea had been generated, and from a methodological perspective it seemed questionable whether the author would have been able to make some firm statements on this specific matter. However, in this final part of the discussion, some speculative thoughts can be presented. These thoughts would then also generate some additional ideas about future research around the subject of increasing customer orientation.

In three of the cases: Finnish Fur Sales, Metsä-Serla, and Tamrock, the individual in charge of the change process (Mr. Moisander, Mr. van Niftrik, and Mr. Jakobsen, respectively) had a strong personal interest in customer orientation. In Aktia, the idea of customer orientation was strongly recommended by an outside consultant, even if the new CEO, Mr. Horelli, actively adopted the idea. In the case of ABB Fläkt the initiative came from the corporate headquarters, but here as well management was actively supported the idea once it was embraced within the company.

However, in spite of the above-mentioned externally observable indicators of the initiation of increased customer orientation, one has to further deepen the understanding of this question. What was the ultimate reason for allocating resources to increase customer orientation and which competing resource allocation alternatives did the executives consider? This question will remain unanswered in this study, as the author never approached the mentioned individuals with this question. For managers considering increasing customer orientation this will remain an important question. The capability development options within a business model are constantly competing for management attention. How managers prioritize resource allocation between alternatives could be studied in a longitudinal research project. Such a project would probably benefit from having an explicit research agenda up front, whereby the behavior of the managers could be compared based on similar data collection procedures.

# 7 SUMMARY

This study was originally initiated to more deeply understand the concepts of product and product strategy. As the research process proceeded, it became evident that this objective required a more profound investigation of the dynamics of the firm.

In the final phase of this ten-year research project, the research problem was explicitly defined to *better understand the interrelationships between the adoption of a more customer-oriented business model and competence building*. This in turn was broken down into two parts. The more behavioral part looked into *the patterns in the decision-making and implementation processes related to the adoption of a more customer-oriented business model*. The more normative part addressed *the impacts of the adoption of a more customer-oriented business model on competence building*.

The literature review provided the foundation for the conceptual part of this study. To develop a comprehensive framework, this study has been grounded in a model of the firm as an open system developed within the competence-based strategic management school of thought. The framework additionally draws on findings from the fields of interactive strategy and relationship marketing.

The second purpose of the literature research has been to support the formulation of the tentative conceptual model of the study. The model is developed in a step-wise manner, starting from a quite comprehensive discussion on the subject of the firm as an open system. Based on this perspective a model of business model renewal is developed. This model is thereafter further specified for the particular situation of increasing customer orientation as business model renewal. The theoretical model developed this way is then used to generate the hypotheses of the study. The first set of hypotheses addresses the impact of the cause of change of business model and the change approach, suggesting either a derivative or a proactive approach. The second set of hypotheses focuses on how the change approach affects the implementation strategy. And finally, the third set of hypotheses connects the implementation strategy with competence building.

The formal research model and the hypotheses derived from this model was made explicit only during the final phase of the research process. The research model was not specified a priori, but it was an outcome of the study. The explication of the empirical findings of the study is therefore to be seen as a result of combining the insights derived from the clinical case studies with the gradual development of hypotheses.

All in all, seven cases of implementing a more customer-oriented business model were analyzed. The case material was collected longitudinally for several years in each particular case.

The empirical part of the dissertation shows some evidence that firms apply different approaches when increasing customer orientation. The cause for change could be broadly divided into two categories: change driven by a strong vision of some future offerings, and change entered in a more subtle, emergent way. Depending on the cause for change, management tends to apply a derivative or a proactive approach to the change process. In the derivative mode the reason for change is communicated in terms of clearly identified gaps between the present and future states of the firm. In the proactive mode management presents more of a long term direction of the firm as the reason to enter the change process.

Two different ways to manage the implementation was identified. In ordinary management, appropriate when the vision is clear and the firm adopts a derivative mode of change, the change process is primarily aimed at creating convergence to the envisaged future configuration. Extraordinary management, appropriate when the vision is not yet crystallized and the process proceeds proactively, is more useful for developing new paradigms and frame-breaking ideas. One finding of the study is that in the final phase of the change process, any implementation of customer orientation would benefit from applying ordinary management.

The competence building implications of increasing customer orientation used the notion of capabilities to operationalize the term “competence”. A change process proceeding according to extraordinary management would ask for building capabilities relating to customer relationships and designing new offerings. When entering the ordinary mode, initially there would be a need for building capabilities in the higher-order management processes to secure that the organization as a whole was aware of the intentions of the managers forming the decision-making coalition. Once the prerequisites for developing the business processes existed, capability building would then focus on capabilities to generate new offering elements and possibly to integrate the resources of the firm with other firm-addressable resources.

The case material included seven cases, of which five were clearly successful, and two at least partly unsuccessful. The model could well be applied to explain both the successes and the failures.

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# APPENDICES

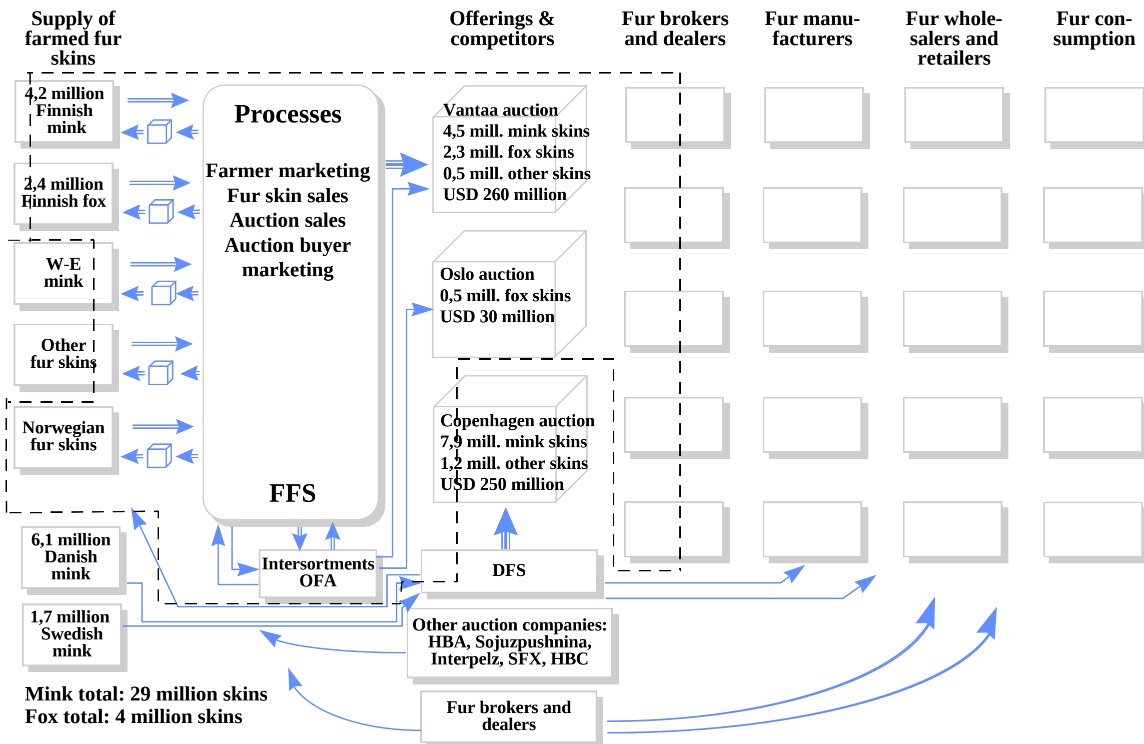
## Appendix 1

### AUCTION COMPANY TURNOVERS 1981/82 (MUSD)

| Auction Company | Mink | Fox | Karakul | Others | Total | % |
|---|---|---|---|---|---|---|
| **Finnish Fur Sales** | 95,3 | 114,0 | - | 9,6 | **218,9** | 20,8 |
| **Hudson's Bay, London** | 82,4 | 44,2 | 30,9 | 35,1 | **192,6** | 18,3 |
| **Danish Fur Sales** | 127,3 | 3,1 | - | 9,3 | **139,7** | 13,3 |
| **Hudson's Bay, Toronto** | 36,0 | 12,7 | - | 51,3 | **100,0** | 9,5 |
| **Sojuzpushnina, Leningrad** | 36,9 | 11,1 | 14,2 | 22,7 | **84,9** | 8,1 |
| **Hudson's Bay, New York** | 73,6 | 0,9 | - | - | **74,5** | 7,1 |
| **Oslo Fur Auctions** | 18,4 | 37,3 | - | - | **55,7** | 5,3 |
| **Interpelz, Leipzig** | 13,6 | 10,7 | 4,7 | 12,4 | **41,4** | 4,0 |
| **Nordic Fur Auctions** | 29,1 | - | - | - | **29,1** | 2,8 |
| **Seattle Fur Exchange** | 24,0 | 1,6 | - | 2,0 | **27,6** | 2,6 |
| **Ontario Trappers** | 1,1 | 2,4 | - | 19,6 | **23,1** | 2,2 |
| **Eastwood & Holt, London** | - | 4,2 | 13,3 | 2,9 | **20,4** | 2,0 |
| **Japan Auctions** | 17,3 | 0,7 | - | - | **18,0** | 1,7 |
| **Minneapolis Fur Exchange** | 14,0 | 0,9 | - | 1,8 | **16,7** | 1,6 |
| **Amerimink, New York** | 7,1 | - | - | - | **7,1** | 0,7 |
| | | | | | | |
| **Total** | 576,1 | 243,8 | 63,1 | 166,7 | **1049,7** | 100 |
| **%** | 54,9 | 23,2 | 6,0 | 15,9 | **100** | |

# Appendix 2

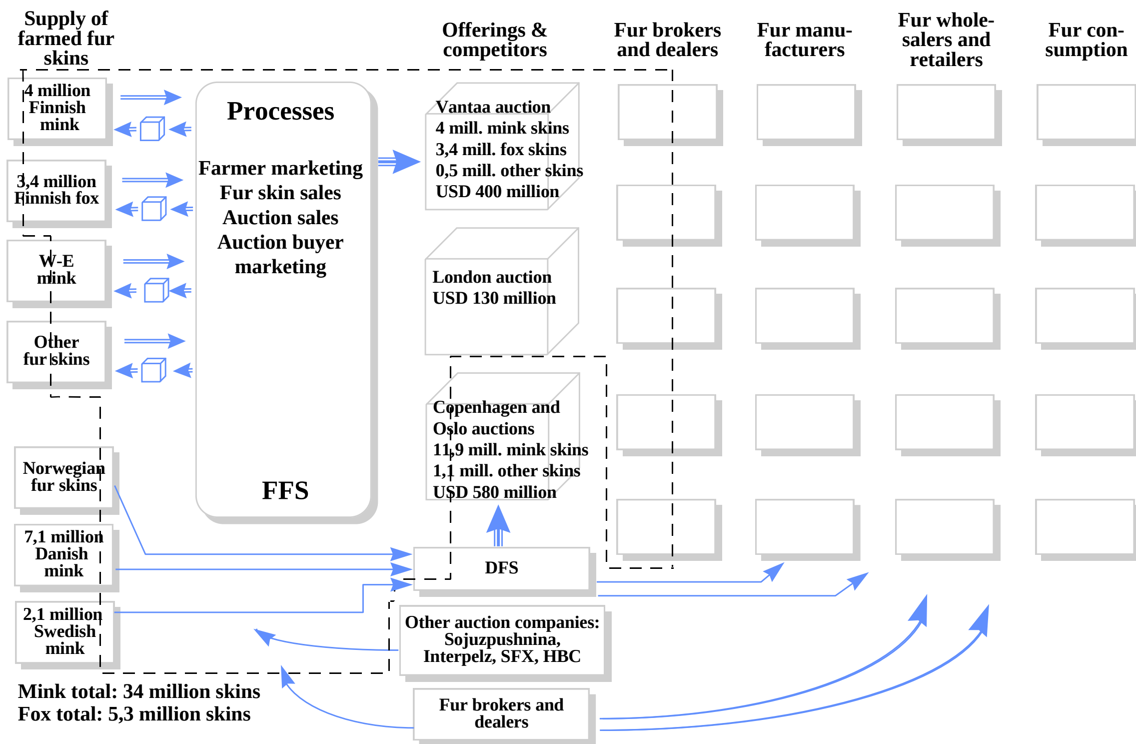
## FFS COMPETITIVE POSITION 1983/84




(dotted area = FFS value constellation)

# Appendix 3

## FFS COMPETITIVE POSITION 1986/87 (including HBA)



## Appendix 4

## FFS SALES AND FINANCIAL RESULTS 1986 - 1998

| | 1.12.85-30.11.86 | 1.12.86-30.11.87 | 1.12.87-31.5.89 | 1.6.89-31.5.90 | 1.6.90-31.7.91 | Total |
|---|---|---|---|---|---|---|
| Sales, million skins | 8,9 | 11,5 | 19,7 | 6,3 | 5,6 | **52** |
| Sales, MFIM | 1580 | 2400 | 2600 | 526 | 605 | **7700** |
| Turnover, MFIM | 99,7 | 165,3 | 216,0 | 74,7 | 78,3 | **634** |
| Net margin, MFIM | 21,5 | 35,6 | 0,6 | -12,7 | 17,0 | **62** |
| Depreciations, MFIM | 10,3 | 24,4 | 43,2 | 23,2 | 25,7 | **127** |
| Profit | 9,9 | 14,5 | -48,1 | -55,9 | 17,0 | **-63** |
| Personnel, end of period | 142 | 305 | 183 | 132 | 98 | |
| Average personnel | 370 | 584 | 616 | 320 | 199 | |

*The development of FFS sales and financial results 1986-1991 (source; annual reports)*

| | 1.8.91-31.7.92 | 1.8.92-31.7.93 | 1.8.93-31.7.94 | 1.8.94-31.7.95 | 1.8.95-31.8.96 | 1.9.96-31.8.97 | 1.9.97-31.8.98 | Total |
|---|---|---|---|---|---|---|---|---|
| Sales, million skins | 4,3 | 5,7 | 5,2 | 6,2 | 6,5 | 6,6 | 7,8 | **42,3** |
| Sales, MFIM | 550 | 750 | 1230 | 1260 | 2020 | 1660 | 1900 | **9370** |
| Finnish | 390 | 510 | 900 | 970 | 1450 | 1250 | 1320 | **6790** |
| Other | 160 | 240 | 330 | 290 | 570 | 410 | 580 | **2580** |
| Turnover, MFIM | 61,5 | 85,3 | 102,0 | 113,0 | 155,7 | 146,3 | 150,6 | **814,4** |
| Net margin, MFIM | 10,7 | 29,7 | 48,1 | 49,2 | 69,3 | 43,7 | 43,7 | **294,4** |
| Depreciations, MFIM | 7,6 | 6,4 | 5,5 | 5,1 | 7,0 | 6,6 | 9,6 | **47,8** |
| Profit | -2,3 | 12,4 | 50,1 | 54,3 | 85,8 | 57,8 | 46,5 | **304,6** |
| Personnel, end of period | 93 | 92 | 92 | 92 | 93 | 100 | 100 | |
| Average personnel | 181 | 194 | 192 | 211 | 216 | 268 | 289 | |

*The development of FFS sales and financial result 1991-1998 (source; annual reports)*

# Appendix 5

## THE NEW OFFERINGS OF FFS IN 1983

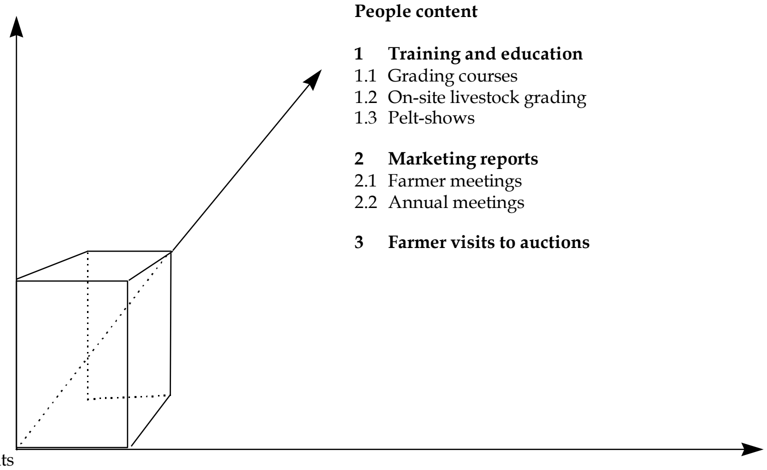
**Service content**

**1 Logistics services**
1.1 Transport from farm
1.2 Receiving of goods
1.3 Checking and counting
1.4 Sizing
1.5 Grading
1.6 Bundling
1.7 Exhibition
1.8 Selling
1.9 Storing
1.10Shipping

**2 Financial services**
2.1 Breeding finance
2.2 Advance payments
2.3 Auction payments
2.4 Deposits
2.5 Live stock insurances

**3 Information services**
3.1 Direct mail
3.2 Telephone services
3.3 Individualised auction accounts and statistics

**4 Fur marketing services**
4.1 SAGA
4.2 IFTF
4.3 Pro-fur activities



**People content**

**1 Training and education**
1.1 Grading courses
1.2 On-site livestock grading
1.3 Pelt-shows

**2 Marketing reports**
2.1 Farmer meetings
2.2 Annual meetings

**3 Farmer visits to auctions**

**Physical content**

**1 Packaging and identification materials**
1.1 Boxes
1.2 Packaging lists
1.3 Identification tags

**2 Price levels**
2.1 Auction commission
2.2 Prices of additional services

*FFS' offering to fur farmers in 1983*

**Service content**

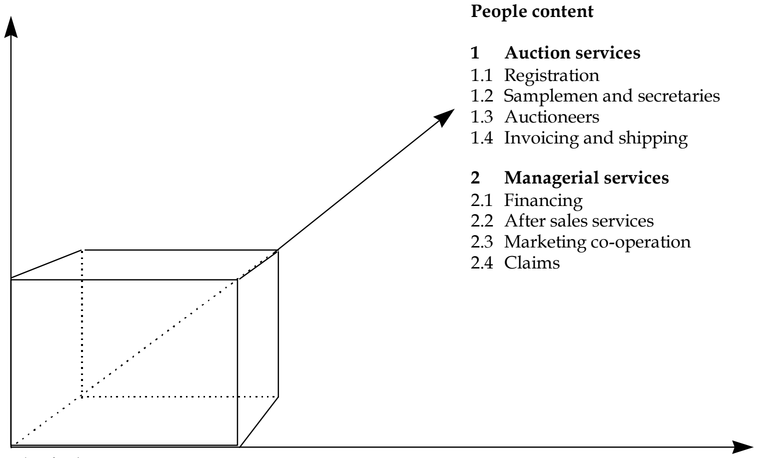
**1 Logistics services**
1.1 Packaging of fur lots
1.2 Warehousing
1.3 Special deliveries
1.4 Insurance

**2 Financial services**
2.1 Multi-currency invoicing
2.2 Alternative payment methods
2.3 On-site bank

**3 Information services**
3.1 Direct dialling
3.2 Teletext
3.3 Reuters
3.4 Auction price break downs
3.5 Auction statistics
3.6 News services

**4 Restaurant services**
4.1 Free of charge
4.2 Fully licensed
4.3 Ethnic food
4.4 Continuously open

**5 Third-party services**
5.1 Dressing companies
5.2 Forwarding agents
5.3 Travel agents
5.4 Airlines
5.5 Hotel transports
5.6 Collaborative hotels



**People content**

**1 Auction services**
1.1 Registration
1.2 Samplemen and secretaries
1.3 Auctioneers
1.4 Invoicing and shipping

**2 Managerial services**
2.1 Financing
2.2 After sales services
2.3 Marketing co-operation
2.4 Claims

**Physical content**

**1 Fur collections**
1.1 Quality of individual skins
1.2 Homogeneity of skins within lots
1.3 Variety of fur qualities within fur types
1.4 Variety of fur types within auction collection

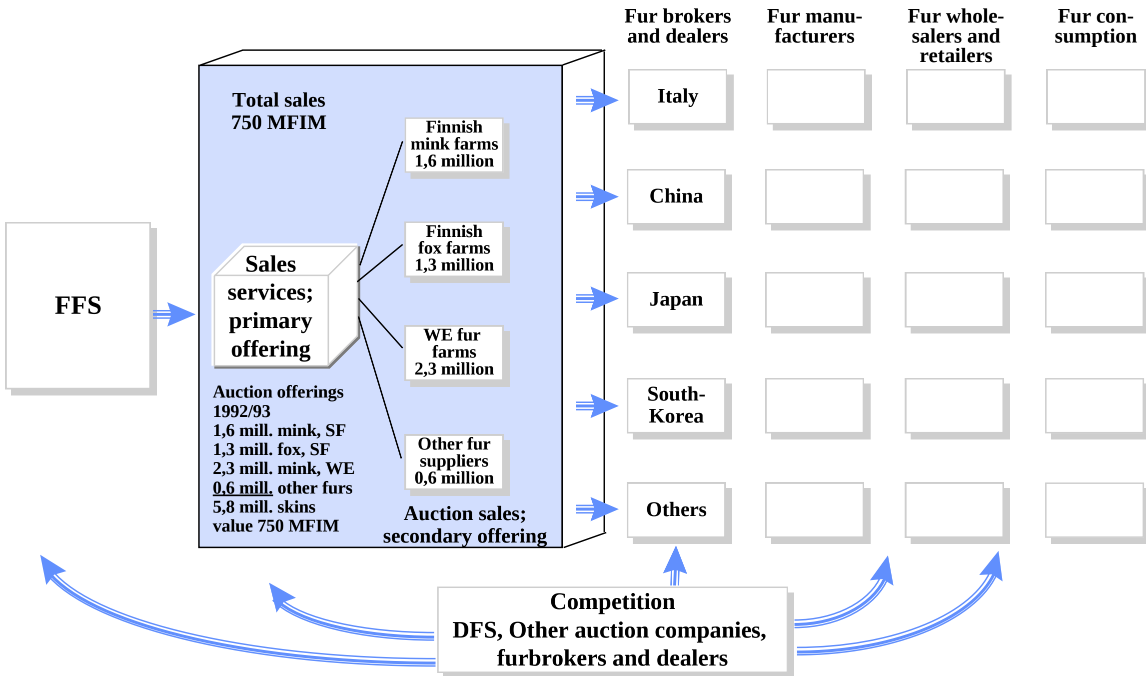
**2 Price levels**
2.1 Prices of fur lots
2.2 Auction commissions
2.3 Prices of additional services offered by fur auction company
2.4 Prices of third party services

**3 Auction premises**
3.1 Auction room
3.2 Inspection halls
3.3 Restaurants
3.4 Restrooms
3.5 Offices for hire
3.6 Sauna and swimming pool
3.7 Indoor golf
3.8 Gymnasium
3.9 Aesthetic appearance

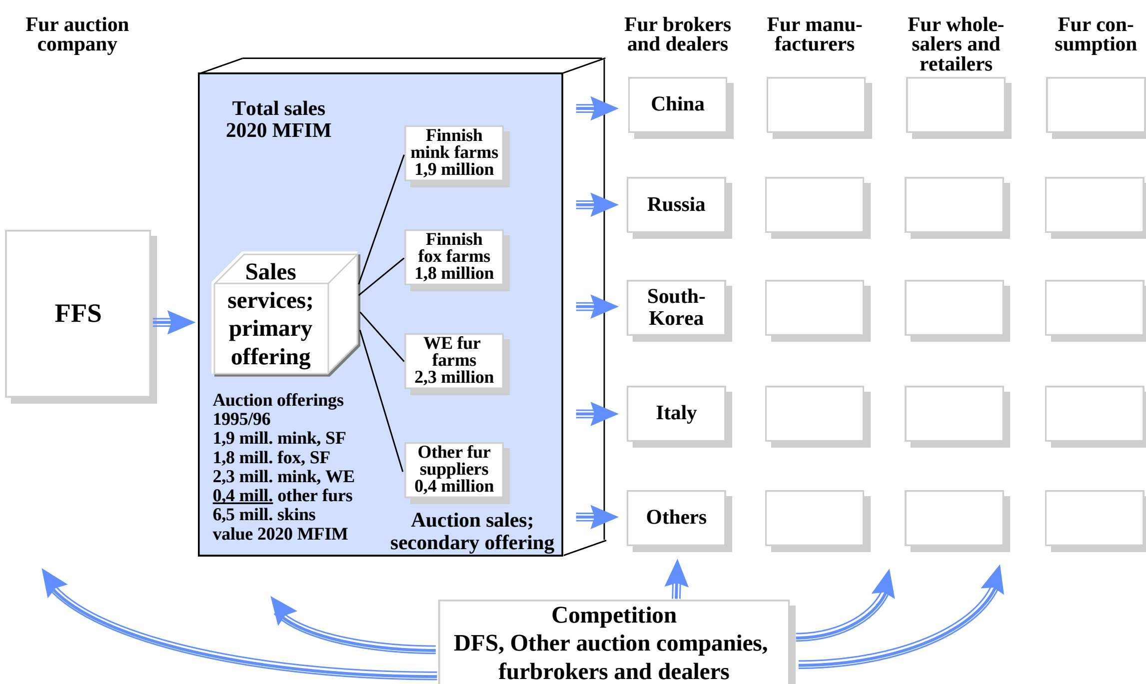
*FFS' offering to auction buyers in 1983*

# Appendix 6

## FFS' VALUE CONSTELLATIONS




*FFS value constellation 1992/93*




*FFS value constellation 1995/96*

## Appendix 7

### THE CUSTOMER BASE MANAGEMENT PROJECT WITHIN THE INDUSTRIAL DIVISION OF ABB FLÄKT

| | | |
|---|---|---|
| **1.** | **Planning** | **september - october 1991** |
| **2.** | **Kick-off meeting**<br>• **Principles of Customer Base Management**<br>• **Exercise: customer types**<br>• **Homework: charting of customer data** | **14.10.1991** |
| **3.** | **I seminar**<br>• **Identification of key accounts**<br>• **Strategic position of ABB Fläkt**<br>• **ABB Fläkt's business potentials in a 3 - 5 years' perspective**<br>• **Customers' view on ABB Fläkt**<br>• **Definition of key account criteria (team work)**<br>• **Homework: gathering of key account data** | **18. - 19.11.1991** |
| **4.** | **II seminar**<br>• **Presentation of rolling sales forecasts and discussion**<br>• **Importance of key account projects to Fläkt's key customer working**<br>• **Demolition of homework: going through key account data**<br>• **Key account oriented programme for project working in 1992**<br>• **Homework: key accounts and key projects** | **6. - 7.2.1992** |
| **5.** | **III seminar**<br>• **Work on key customers (team work)**<br>• **Work on key projects (team work)**<br>• **Information sourches for key account management and organizing data gathering**<br>• **Coordinating customer contacts of different levels** | **9. - 10.4.1992** |

## Appendix 8

## THE ABB FLÄKT OY CORPORATE KEY ACCOUNT MANAGEMENT PROJECT

| | | |
|---|---|---|
| **1.** | **Planning** | **December 1992 - January 1993** |
| **2.** | **Kick-off meeting**<br>• results from CBM project<br>• principles of customer orientation<br>• start-up of customer research | **11.1.1993** |
| **3.** | **I seminar**<br>• top management's view on customer base management<br>• team work: business areas' views on customer base management<br>• survey on key account reports<br>• principles of the key account organization, preliminary ideas | **11.2.1993** |
| **4.** | **II seminar**<br>• evaluation of results from key account research (case by case)<br>• team work: key account working models for each business area<br>- character of current business relations<br>- cooperation possibilities between different divisions<br>- ABB key account, Fläkt key account or divisional key account?<br>- resources needed to carry out key account relations<br>• specification of the last phase of key account research | **10.3.1993** |
| **5.** | **III seminar**<br>• key account management and ABB Fläkt's strategy<br>• key account management and information systems<br>• presentation of key account reports (12)<br>• objectives for implementation of key account management<br>- selection of key accounts<br>- customer-specific targets<br>- customer-specific organizations<br>- management and control systems<br>• concluding discussion | **16.4.1993** |

## Appendix 9

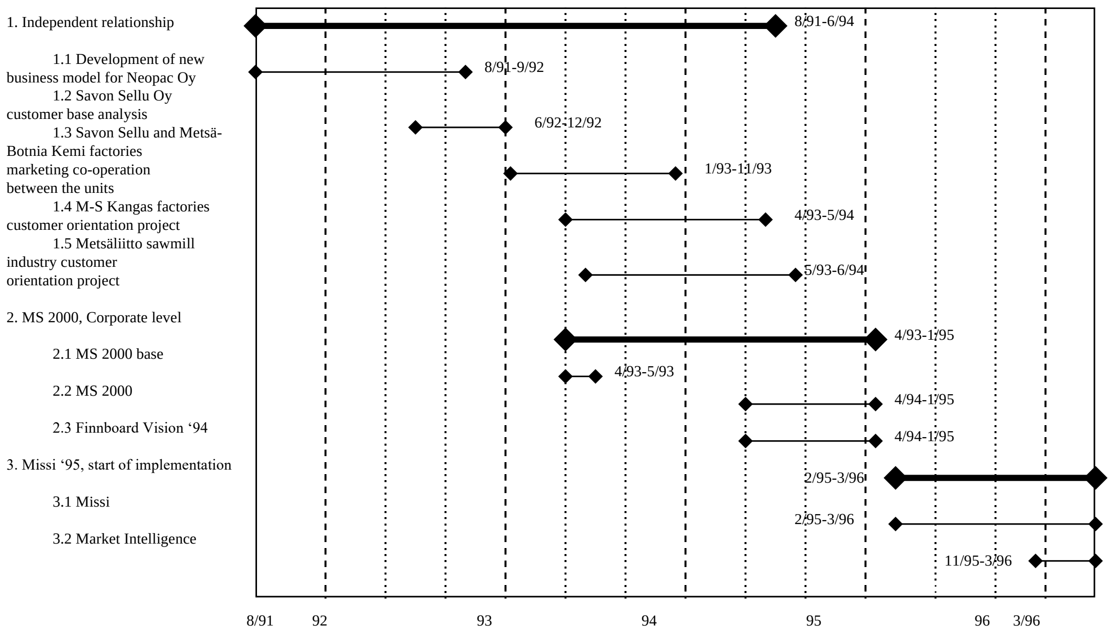
**METSÄ-SERLA IN FIGURES 1990-1997 (source: annual reports)**

| **MS-GROUP** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|---|---|---|
| Group turnover | 8737 | 7737 | 7752 | 9169 | 9477 | 13321 | 14930 | 19182 |
| Operating profit | 461 | 391 | 718 | 1011 | 926 | 2387 | 902 | 2016 |
| Personnel | 10522 | 10522 | 9384 | 9047 | 9061 | 10106 | 11947 | 13458 |
| **PAPER** | | | | | | | | |
| Turnover | 1718 | 2342 | 2467 | 2953 | 3329 | 2747 | 4098 | 6909 |
| Operating profit | N/A | N/A | N/A | N/A | n/a | 194 | 10 | 292 |
| Personnel | 1830 | 2179 | 2129 | 2125 | 2179 | 1701 | 2894 | 3431 |
| **PACKAGING** | | | | | | | | |
| Turnover | 1981 | 2057 | 2340 | 2833 | 2785 | 4034 | 5025 | 5840 |
| Operating profit | N/A | N/A | N/A | N/A | N/A | 526 | 561 | 654 |
| Personnel | 3173 | 3144 | 3053 | 2981 | 3058 | 3743 | 4505 | 5002 |
| **PULP (& sawmills)** | | | | | | | | |
| Turnover | 2619 | 2502 | 2307 | 2029 | 2453 | 2571 | 1829 | 2635 |
| Operating profit | N/A | N/A | N/A | 214 | 488 | 1473 | 220 | 804 |
| Personnel | 1742 | 1484 | 1449 | 1422 | 1554 | 1807 | 1608 | 1883 |
| **TISSUE** | | | | | | | | |
| Turnover | 1563 | 1632 | 1509 | 1690 | 1542 | 1753 | 1789 | 1882 |
| Operating profit | N/A | N/A | N/A | N/A | N/A | 102 | 170 | 174 |
| Personnel | 2620 | 2272 | 1632 | 1732 | 1690 | 1675 | 1688 | 1725 |
| **MARKETING** | | | | | | | | |
| Turnover | N/A | N/A | N/A | N/A | N/A | 1375 | 1466 | 1754 |
| Operating profit | N/A | N/A | N/A | N/A | N/A | 62 | 45 | 118 |
| Personnel | N/A | N/A | N/A | N/A | N/A | 598 | 656 | 1152 |
| **CHEMICALS** | | | | | | | | |
| Turnover | 310 | 429 | 449 | 549 | 602 | 615 | 704 | |
| Operating profit | N/A | N/A | N/A | N/A | N/A | 42 | 102 | |
| Personnel | 255 | 308 | 370 | 354 | 348 | 353 | 330 | |

Turnovers & operating profits in million FIM. Personnel is average personnel per annum. n/a = not available

# Appendix 10

## THE METSÄ-SERLA CUSTOMER ORIENTATION PROJECTS



## Appendix 11

### AKTIA IN FIGURES 1990-1997 (source: annual reports)

| **P&L** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|---|---|---|
| Interest income | 934,4 | 991,4 | 926,6 | 702,0 | 553,0 | 551,9 | 503,5 | 507,5 |
| % Interest expense | 692,8 | 758,9 | 710,0 | 454,0 | 270,4 | 307,3 | 243,2 | 214,8 |
| **Net interest income** | **241,6** | **232,5** | **216,6** | **248,0** | **282,6** | **244,6** | **260,3** | **292,7** |
| Other income | 218,0 | 152,5 | 313,2 | 170,5 | 159,9 | 171,8 | 194,7 | 191,8 |
| % Other expenses | 342,5 | 351,5 | 419,1 | 327,3 | 314,7 | 314,1 | 317,2 | 329,5 |
| % Credit losses | 38,6 | 70,9 | 188,2 | 187,0 | 156,7 | 58,9 | 57,2 | 32,3 |
| **Net margin** | **78,5** | **-37,3** | **-77,6** | **-95,8** | **-28,9** | **43,4** | **80,6** | **122,7** |
| %Deprecations | 25,1 | 14,4 | 96,2 | 66,3 | 121,9 | 28,1 | 28,0 | 55,3 |
| **Profit from operations** | **53,4** | **-51,7** | **-173,7** | **-162,1** | **150,8** | **15,3** | **52,6** | **67,4** |
| +/- Extra ordinary items | -21,5 | +23,2 | +82,1 | +1,7 | +0,5 | +2,4 | -5,2 | +2,5 |
| +/- Tax | -14,7 | -4,4 | -2,5 | -1,5 | -0,2 | -0,2 | -3,2 | +0,3 |
| **Profit/loss** | **17,2** | **-32,9** | **-94,1** | **-161,9** | **-150,5** | **17,5** | **44,2** | **70,2** |
| **BALANCE** | | | | | | | | |
| Deposits | 5998,8 | 6192,6 | 6263,5 | 6239,3 | 6301,9 | 6663,5 | 7208,8 | 7954,8 |
| Loans | 5932,7 | 5902,2 | 5462,2 | 5138,3 | 4924,8 | 5053,5 | 5708,5 | 6733,4 |
| Total assets | 9498,7 | 9696,5 | 8727,9 | 8307,0 | 8349,0 | 8652,8 | 10297,7 | 11226,9 |
| **PERSONNEL** | | | | | | | | |
| Full-time | n/a | 684 | 591 | 501 | 509 | 511 | 498 | 516 |
| Bank personnel | n/a | 773 | 650 | 584 | 590 | 579 | 578 | 592 |
| Total personnel | n/a | 923 | 740 | 652 | 637 | 638 | 621 | 645 |

Turnovers & operating profits in million FIM. Personnel is average personnel per annum. n/a = not available

**Appendix 12**

**TAMROCK IN FIGURES 1990-1997 (source: annual reports)**

| | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** | **1996** | **1997** |
|---|---|---|---|---|---|---|---|---|
| **Tamrock** | | | | | | | | |
| Group turnover | 2084 | 1865 | 2006 | 2096 | 2070 | 2965 | 3691 | 5143 |
| Operating profit | 39 | -104 | 27 | 128 | 193 | 194 | 254 | 247 |
| Net profit | N/A | N/A | -135 | 60 | 107 | 123 | N/A | 296 |
| Personnel | 4025 | 2950 | 2574 | 2472 | 2592 | 3311 | 4365 | 5164 |
| **Tampella** | | | | | | | | |
| Group turnover | 6841 | 7151 | 6534 | 4083 | 3282 | 4460 | 4520 | n/a |
| Operating profit | -222 | -225 | 157 | 95 | -166 | -115 | 199 | N/A |
| Net profit | -192 | -940 | -726 | -337 | -199 | -434 | 65 | N/A |
| Personnel | 11712 | 10239 | 8840 | 5477 | 4447 | 5284 | 4768 | N/A |

Turnovers & operating profits in million FIM. Personnel is average personnel per annum. n/a = not available

## Appendix 13

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, FFS CASE 1970-1983

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | FFS management and board explicitly made the decision to resume auctions in Finland, one reason for the decision was to better serve the customers. | Customer orientation case | 8.1981 |
| Cause for change | The above-mentioned decision was foregone by activities by FFS management to prepare the soil within the board and in the business orientation. | Emerging opportunity | 1970-1981 |
| Explication of change approach | The idea to bring back the auctions to Finland was originally the one of Messrs. Jalanka and Moisander. | Proactive | 1970-1981 |
| Implementation management | The ambitions to strengthen FFS and the Helsinki region within the Finnish fur breeding community was creating tension within the board; Mr. Moisander emerged as the champion for the endeavour. | Extra-ordinary management | 1970-1981 |
| Implementation management | Once the decision was taken the implementation became very goal-driven, aiming at developing the new offering. | Ordinary management | 1981-1983 |
| Success of imp-lementation | The decision 8.1981 changed the business model permanently and the management praised the change subsequently, the offering mix changed, and the financial outcome after the change was positive. | Highly successful | 1983 |

## Appendix 14

## OPERATIONALIZATION OF CAPABILITY VARIABLES, FFS CASE 1970-1983

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | No program declaration affecting values. | 0 | 1981-1983 |
| Socialization | No increased efforts to support socialization. | 0 | 1981-1983 |
| Business modeling | Top management perceived that there was limited need to communicate the new business model. Most employees had seen the auctions in Copenhagen, and the task was very straight-forward: copy the Copenhagen concept with some improvements. | 0 | 1981-1983 |
| Change management | The managing director, Mr. Moisander appointed the author to be in charge of coordinating the project to bring the auctions back to Finland. Mr. Moisander was personally involved in the change process. However the change in itself was not the key issue, but the coordination of activities already decided upon. The author had no authority to affect the decision making of the other members of the management team, only to provide co-ordinating support. | 1 | 1981-1983 |
| Constellation management | FFS management did not in the beginning of the 1980s create any tools to get a holistic picture of the value constellations in which the firm is involved. However, the alliance between FFS and the Norwegian fur auction company gradually increased the awareness of this aspect. | 1 | 1981-1983 |
| Internal co-ordination | Developing the new auction concept introduced two new business processes to FFS: auction sales and auction buyer marketing. Designing and implementing these processes was the major capability building effort that took place in the implementation project. The follow up of these activities was top priority for the managing director. | 2 | 1981-1983 |
| Resource integration | The efforts to put together the new auction offering and corresponding offering to the farmers required close co-operation among all units within FFS, as well the support from external actors such as a bank, forwarding agents, airlines, hotels, and especially providers of information technology. | 2 | 1981-1983 |
| Transformative | The auction concept launched in December 1983 was a new offering. This was the outcome of the whole process of business model renewal. | 2 | 1981-1983 |
| Customer intelligence | Market surveys, test auctions and in-depth discussions with both auction buyers and farmers. | 2 | 1979-1983 |
| Customer linking | Invitation for auction buyers to visit the Vantaa Fur Center in May 1980, direct marketing campaigns to both auction buyers and fur farmers. | 2 | 1980-1983 |
| Innovation | The launch of the new auction concept ultimately became a success because of some new innovative offering elements being developed such as the extended services, the new information systems, and the new physical premises. | 2 | 1981-1983 |
| Execution | FFS could display high excellence in execution when the auction buyers and farmers arrived to the Fur Center in Vantaa. | 2 | 12.1983 |

## Appendix 15

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, FFS CASE 1985-1991

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | FFS management and board explicitly made the decision to strengthen the position of FFS internationally to secure continuous high prices for Finnish farmed fur skins. | Customer orientation | 6.1986 |
| Cause for change, phase I | The increased internationalization was initiated to strenghten the market share of FFs. | Emerging opportunity | 1985-1986 |
| Explication of change approach, phase I | The need to strengthen the international presence was strongly argued by the author, then in charge of marketing at FFS; the first phase abruptly ended as Hudson's Bay Company decided to divest it fur activities. | Proactive | 1985-1986 |
| Cause for change, phase II | FFS foresees a new business model, wherein FFS arranges auctions both in London and in Vantaa, but cannot specify the clear offering in respect to how to handle solicitation in Sweden and Norway. | Emerging opportunity | 10.1986 |
| Explication of change approach, phase II | FFS management and the board makes the decision to acquire the European part of Hudson's Bay fur operations. | Derivative | 11.1986 |
| Implementation management | The first implementation phase was characterized by a search for strategy as FFS had to balance its existing cooperative model with the new challenges related to the competitive solicitation activities. | Extra-ordinary management | 1987-1989 |
| Implementation management | Once the decision to close the London auctions was taken the implementation became very goal driven, aiming at reducing costs and consolidating the operations. | Ordinary management | 1989-1991 |
| Success of implementation | The decision 11.1986 changed the business model permanently. In the short-term perspective the financial outcome deteriorated. FFS management had considerable difficulties in integrating the two operations and as late as 6.1991 Mr. Moisander considered the takeover as a mistake. | Not successful | 1986-1991 |
| Success of implementation | If the perspective is longer than three years after the decision, e.g. ten years, the take over of HBA could be considered as a success as the financial results over a ten-year period improved, the consolidation was completed in 1991, and management continuously stresses the importance of international solicitation. | Successful? | 1986-1996 |

## Appendix 16

# OPERATIONALIZATION OF CAPABILITY VARIABLES, FFS CASE 1985-1991

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | The immediate post-acquisition phase was one of lost direction within FFS and HBA. The EU case combined with the strong competitive reactions from the other Nordic fur auction companies put FFS into a situation where there was immense pressure to withdraw from its strategy of building an independent international auction house. | 0 | 1987-1991 |
| Socialization | As neither the board nor the management could provide clear guidance, there was no ground for any socialization activities. When the market collapse came in October 1987 the situation worsened further. | 0 | 1987-1991 |
| Business modeling | FFS was in a process of searching for its business model for two years after the acquisition. Not until April 1989 was a decision made to clarify this situation. A lot of efforts were made in order to build the foundation for the business model. Conceptualization was an issue that during 1988 became one of the key activities going on both within FFS and HBA. | 1 | 1987-1991 |
| Change management | The issue of change management was never addressed properly within FFS in respect of the take over of HBA. There were two reasons for this. First, FFS management had quite a lot of respect for HBA with its traditions dating back to 1672. Second, the HBA acquisition was regarded as something new and exciting within FFS management, and it was felt that everybody should be allowed to bring his or her contribution to this new development. Occasionally the author was seen as the person in charge, but each management team member had full authority in his or her own area of responsibility. The introduction of Mr. Henry Eklund into the HBA management together with the fact that the author started to get more authority in 1988 gradually strengthened the change management efforts. | 1 | 1987-1989 |
| Constellation management | Constellation management was the main issue for acquiring HBA. For FFS constellation management meant handling the relationships in the value constellation including FFS, HBA, the other fur auction companies in Europe, the individual fur farmers and their associations, the international fur auction buyers, and the staff in Vantaa, London, Holland, and Scandinavia. Ultimately, FFS was able to maintain its strategy and also maintain fairly good relationships with all its stakeholders, except for its main competitor DFS. In this area FFS management developed a high level of capability during the process. | 2 | 1987-1991 |
| Internal co-ordination | FFS did not have the necessary capabilities to handle the post-acquisition control. Results were disappointing, and this also made decision making even more difficult. The administrative control in respect to ongoing transactions and business relationships worked reasonably well, but regarding financial results FFS was constantly taken by surprise. | 0 | 1987-1989 |
| Resource integration | The speed with which different activities were integrated between FFS and HBA was, considering the circumstances, fairly high. FFS could transfer the whole business from London to Finland within three years. | 2 | 1987-1991 |
| Transformative | The auction concept launched in Helsinki-Vantaa in December 1983 had been a big success. The original idea with the HBA acquisition was to repeat this process. The previous success was one of the reasons why the new situation was not easily addressed in a different way. It could be argued that the previous success formula had become a core rigidity (Leonard-Burton, 1992). FFS had been praised by the auction buyers for having the best fur auctions in the world. The buyers expected FFS to make the same magic for London as a fur auction venue, as FFS had done in Vantaa. FFS had fallen into the trap of customer obsession. FFS management was restricted in respect to designing new offerings to cope with the new situation. | 0 | 1987-1989 |
| Customer intelligence | The unclear direction immediately after the acquisition combined with the impact of the market deterioration starting from October 1987 meant that FFS had almost no sense of how the market would develop. | 0 | 1987-1989 |
| Customer linking | The relationships between FFS and the auction buyers worsened as FFS management had to prioritize activities based on a cash flow perspective, and this in turn meant reduced services and less time to develop relationships. | 0 | 1988-1990 |
| Innovation | The work behind the scenes to handle all the issues relating to the day-to-day work of FFS and HBA continuously required new solutions from FFS. Skin quantities grew, sorting had to be spread to different places, new computer programs were needed, skins were offered and sold in London but shipped from Finland etc. However, these requirements could all be handled with existing capabilities. | 0 | 1987-1991 |
| Execution | FFS continued to show its excellence in execution. In spite of cost saving-measures, both the basic old services and new required services were handled with high quality. But all these capabilities existed prior to 1986. | 0 | 1987-1991 |

## Appendix 17

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, ABB FLÄKT INDUSTRIAL DIVISION 1991-1992

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | Percy Barnevik declares "Customer Focus" as one of the most important processes for ABB. The Industrial Division first Finnish pilot. | Customer orientation case | 9.1991 |
| Cause for change | Mr. Hietaluoma of the Industrial Division sees a need to clarify the business model of the unit and uses the opportunity offered. | Emerging opportunity | 1991 |
| Explication of change approach | Mr. Hietaluoma decides to have an open-ended process and wait for the results. | Proactive | 9.1991 |
| Implementation management | The process develops as an interactive dialogue between the sales force and the ABB Fläkt management, and as the results emerge, the need to reconsider the objectives becomes clear. | Extra-ordinary management | 1991 |
| Implementation management | Once the results get clearer the Division starts to focus more on exports and applies for corporate support. | Ordinary management | 1992 |
| Success of implementation | The project changed the business model permanently and the management subsequently praised the change , the offering mix changed, and the financial outcome after the change was positive. | Moderately successful | 1992- |

## Appendix 18

## OPERATIONALIZATION OF CAPABILITY VARIABLES, ABB FLÄKT INDUSTRIAL DIVISION, 1991-1992

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | Mr. Hietaluoma himself encouraged critical and spontaneous discussions around the topics on the agenda. As the organization was quite small, the need for formal program declarations was not that relevant, as word of mouth communication ensured that everybody was aware of what was going on. | 2 | 1991-1992 |
| Socialization | During the seminars a large part of the sales force met. These seminars were designed to provide opportunities for informal discussions and socialization. | 2 | 1991-1992 |
| Business modeling | The outcome of this project was a new view on the business model. The original idea was to strengthen the relationships with existing customers through competence building. During the project it was realized that the business potential for existing customers was restricted. Instead the division chose to focus on competence leveraging and finding new customers for its existing competence. | 2 | 1992 |
| Change management | Mr. Hietaluoma himself was the driver of the project. He also actively communicated the efforts and the results within the ABB Group. | 2 | 1991-1992 |
| Constellation management | Constellation management meant in this project which customers and cooperation partners to prioritize. In this respect a clear shift in focus was the result of the project, with increased emphasis on cooperation with the Finnish industrial project export companies Ahlström and Tampella. | 2 | 1992 |
| Internal coordination | The conclusions from the project were based on both inputs from participants and customer interviews, and on close follow-up of actual sales and sales forecasts. The process was also guided with real-time feedback information from the market place, which enabled a faster response to the environmental changes. | 2 | 1991-1992 |
| Resource integration | The Industrial Division switfly changed its priorities, applied for support for investments in Eastern Europe, and initiated closer cooperation with Ahlström and Tampella. | 2 | 1992 |
| Transformative | The outcome of the project meant only limited new elements in respect of offerings. For its export business the Industrial Division had to improve its offering design and combine elements from several suppliers. | 1 | 1992 |
| Customer intelligence | The entire sales organization got involved in extensive fact finding regarding the most important customers, which influenced the future decision making. | 2 | 1991-1992 |
| Customer linking | The fact-finding activities themselves involved visiting customers and discussing with customers, which was perceived by the customers as something that strengthened the relationship. | 2 | 1991-1992 |
| Innovation | The project did not identify any major area were the Industrial Division should initiate new activities to develop new offering elements. | 0 | 1991-1992 |
| Execution | The project did not address any major sources for improvements in the execution capability of the division. | 0 | 1991-1992 |

## Appendix 19

## OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, ABB FLÄKT GROUP 1992-1994

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | ABB Fläkt management continued the efforts for "Customer Focus" based on the positive experiences from the Industrial Division project. | Customer orientation case | 1993 |
| Cause for change | There was a need to reconsider the business model, and the opportunity provided by the "Customer Focus" program was felt to be adequate. | Emerging opportunity | 1993 |
| Explication of change approach | Mr. Launonen opted to take the same approach that had already been tested in the Industrial Division. | Proactive | 1993 |
| Implementation management | Customer interviews and analyses initiated the discussions about the appropriate organizational structure for ABB in Finland. | Extra-ordinary management | 1993 |
| Implementation management | Once the project was finalized the organization was restructured and ABB Installaatiot formed. | Ordinary management | 1.1994 |
| Success of implementation | The business model was completely changed, the management subsequently praised the change , the offering mix changed, and the financial outcome after the change was positive. | Highly successful | 1993 |

## Appendix 20

## OPERATIONALIZATION OF CAPABILITY VARIABLES, ABB FLÄKT GROUP, 1992-1994

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | Mr. Harri Launonen, the CEO, personally took a very active role in the implementation of the Key Account Management project. | 2 | 1993 |
| Socialization | The project itself was organized in a similar way to the previous Customer Base Management project within the Industrial Division. Socialization and extensive discussions among the participants were an essential part of the workshops arranged in conjunction with the project. | 2 | 1993 |
| Business modeling | The outcome of this project was the reorganization of the Finnish ABB Group. In this respect the project supported the implementation of a new business model. | 2 | 1993 |
| Change management | The role of Mr. Launonen as a "change agent" also affected the formation of ABB Installaatiot Oy. The change was quite radical, and it was implemented rather smoothly. | 2 | 1993-1994 |
| Constellation management | Constellation management concerned how the ABB Fläkt units could be best integrated with the rest of the ABB Group in order to become more competitive. This issue was explicitly addressed in the workshops, and the customer interviews aimed at bringing more clarification into this question. | 2 | 1993 |
| Internal coordination | The conclusions from the project were based on both inputs from the participants and the customer interviews, and on close follow up of actual sales and sales forecasts. The process was also guided with real-time feedback information from the market place, which enabled a faster response to the environmental changes. | 2 | 1993 |
| Resource integration | The integration efforts resulting from this project were implemented when the ABB Group restructuring took place in the beginning of 1994. In this respect only limited development of resource-integration capability took place during this project. | 0 | 1993 |
| Transformative | The outcome of the project was a more comprehensive view on how to handle customer relationships within ABB. Among other things the role of the people element of the three-dimensional offering was emphasized. In this respect the project contributed to a new view on the offering, and hence provided capability-building efforts in respect to the transformative capability. | 2 | 1993 |
| Customer intelligence | The entire sales organization got involved in extensive fact-finding regarding the most important customers, which influenced the future decision making. | 2 | 1993 |
| Customer linking | The fact-finding activities themselves involved visiting customers and discussing with customers, which was perceived by the customers as something that strengthened the relationship. | 2 | 1993 |
| Innovation | The project did not identify any major area where the ABB Fläkt Group should initiate new activities to develop new offering elements. | 0 | 1993 |
| Execution | The requirements from some customers that ABB should merge their forces on a customer's site addressed the execution capability of the whole ABB Group, ABB Fläkt included. | 1 | 1993-1994 |

## Appendix 21

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, METSÄ-SERLA 1991-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | Metsä-Serla management felt that there was a growing importance of development based on customer needs. | Customer orientation case | 1991 |
| Cause for change | Mr. van Niftrik took command of individual business unit level customer-orientation projects. | Emerging opportunity | 1991-1994 |
| Explication of change approach | The individual projects were sold to the units one at a time, with the support of Mr. van Niftrik. | Proactive | 1991-1994 |
| Implementation management | The individual business unit projects were all conducted following a pre-designed open-ended process. Based on the outcomes from one project, the activities of the next step were decided. | Extra-ordinary management | 1991-1995 |
| Implementation management | The consolidation of the forest industry escalated. Metsä-Serla had to protect its future interests. Reorganization. | Ordinary management | 1995-1996 |
| Success of implementation | The business model was changed permanently and the new management recognized the change. The offering mix changed, and the financial outcome after the change was positive. | Highly successful | 1996- |

# Appendix 22

## OPERATIONALIZATION OF CAPABILITY VARIABLES, METSÄ-SERLA, 1991-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | The Metsä-Serla process of implementing customer orientation followed the existing culture of decentralization and low visibility from the top. The leading actors did not take any strong position on the issue of customer orientation. | 0 | 1991- |
| Socialization | No explicit efforts were initiated to create an increasing amount of socialization. | 0 | 1991- |
| Business modeling | One of the outcomes of this process was the reorganization of the whole Metsä-Serla Group. The new business model was carefully investigated and considerable research was done to evaluate the elements of the new model. However, not until the new management took over was there a force decisively pursuing the implementation of this new business model. | 1 | 1994-1996 |
| Change management | Engaging an outside consultant to support the implementation of customer orientation  was an indication of top management's awareness of the need for change. At the same time, however, there were many other initiatives going on in the group. Customer orientation did not receive all the support that would have been needed from top management. | 1 | 1991-1996 |
| Constellation management | Constellation management in the first phase concerned the sales cooperatives, Finnpap and Finnboard. In 1995 the focus was more and more on establishing a vision of what Metsä-Serla itself wanted to achieve. In this respect the process generated a lot of new insights in respect of the value constellations in which Metsä-Serla was active, and these insights also guided investment decisions. | 2 | 1993-1996 |
| Internal coordination | Metsä-Serla initiated customer-based budgeting and reporting as tools to support its efforts to increase customer orientation. In the individual units key account management was also introduced as a way to further emphasize the focus on important customers. | 2 | 1991-1996 |
| Resource integration | The integration efforts internally in Metsä-Serla were very much the focus of the MS-2000 and MISSI-95 initiatives. At the same time they also included external integration around the sales cooperatives, which later resulted in the alliance with Myllykoski and the acquisitions of Kyro and Simpele. | 2 | 1994-1996 |
| Transformative | The Kangas paper mill case was an example of how new offerings were developed for specific customers. Similar cases could be found in other units too. The whole issue of "Competence driven and customer oriented" emphasized that Metsä-Serla should fully exploit all three dimensions of the offering in order to not only be regarded as a supplier of bulk products. | 2 | 1991-1996 |
| Customer intelligence | The multitude of customer interviews enhanced the listening capability of Metsä-Serla. | 2 | 1991-1996 |
| Customer linking | The customer interviews and the development of specific action plans for individual customers also improved the customer linking of Metsä-Serla. | 2 | 1991-1996 |
| Innovation | The increased interaction between Metsä-Serla and its customers supported specific product development efforts within the group. For example the Kangas Paper Mill investment was at least partly motivated by the needs that had been identified jointly with Canon representatives. In a similar way the KIRI project had right from the start good support from the major coated paper customers with whom Metsä-Serla worked very closely. | 2 | 1993-1996 |
| Execution | Some efforts were made to increase the process efficiency, e.g. the combination of the handling of the mutual customers of Savon Sellu and Metsä-Botnia Kemi. | 1 | 1993-1996 |

## Appendix 23

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, AKTIA 1994-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | Keeping existing customers and further developing these relationships was chosen as the key element for the Aktia business model. | Customer orientation case | 6.1994 |
| Cause for change | Aktia had reached a situation where there was only limited room to manoeuvre. The competitive situation was interpreted, in consensus, to favor customer focus. | Clear vision | 1994 |
| Explication of change approach | The recommendation to the board was given by outside consultants. | Derivative | 1994 |
| Implementation management | The managing director was changed. A new management structure was embraced. New control systems. | Ordinary management | 1994 |
| Success of implementation | The business model was changed permanently and the new management praised the change. The offering mix was changed, and the financial outcome after the change was positive. | Highly successful | 1996- |

## Appendix 24

## OPERATIONALIZATION OF CAPABILITY VARIABLES, AKTIA, 1994-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | Mr. Horelli involved himself personally in the change process, and created an open door policy which was symbolized by having a telephone hour every week, when he expected anyone within the organization to call him. | 2 | 1994- |
| Socialization | Mr. Horelli initiated the "tertial" meetings (every fourth month) to enable the 30-40 top managers to regularly meet, also under more informal circumstances. | 2 | 1994- |
| Business modeling | The consulting project established a quite detailed design for the new business model. Specific targets were set on all major areas. Milestones were defined for the steps to be taken. This program was further improved and updated by Aktia management during the second half of 1994 and the whole of 1995. | 2 | 1994-1995 |
| Change management | Aktia mangement took a very active role in the change management efforts. The tertial meetings were continuously following how the change process progressed, and different campaigns were initiated in order to make sure that the interest and motivation of the organization was maintained. | 2 | 1994- |
| Constellation management | Aktia identified its most important segments among both private customers and corporate customers. Sales and marketing activities were focused on different customer groups at different times. At the same time the activities of the competitors were closely followed. | 2 | 1994- |
| Internal coordination | Aktia developed its own quite sophisticated performance measurement tool, which tracked how the change process progressed. | 2 | 1994- |
| Resource integration | Aktia was able to increase the cooperation between different units within the bank. The cooperation with Swedbank did not give the results that originally had been expected. Neither did Aktia immediately find the right form of cooperation with its IT-alliance partner, Samlink. | 1 | 1994- |
| Transformative | Some new offerings were launched by Aktia, most notably the new telephone- and Internet-concept, Aktia 7. The major offering development concerned the way the front line branch personnel proactively approached the customers. This strengthened the relationships with customers, which also resulted in improved customer satisfaction ratings. | 1 | 1995- |
| Customer intelligence | To be able to intitiate its customer-specific marketing activities, considerable analyses were carried through in order to better understand the value-creating potentials within the customer base. | 2 | 1995- |
| Customer linking | For the top 10,000 customers there were specifically defined activities to be carried out, also by top management the managing director included. | 2 | 1995- |
| Innovation | The new Aktia 7 concept included some genuinely new offering elements related to the call center application attached to the service. In this area Aktia did, however, only offer a limited amount of genuinely innovative new solutions. | 1 | 1995- |
| Execution | Aktia was able to improve its execution capability. The more decentralized organization was in this respect highly instrumental. | 1 | 1995- |

## Appendix 25

### OPERATIONALIZATION OF NON-CAPABILITY VARIABLES, TAMROCK 1994-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Increasing customer orientation | Ole Jakobsen felt that there was a need to initiate a new corporate-wide program to maintain the motivation once the turnaround was completed. | Customer orientation case | 1994 |
| Cause for change | The ideas put forward by Mr. Jakobsen were not yet formalized into concrete suggestions about how the future new offerings should look. | Emerging opportunity | 1994 |
| Explication of change approach | Mr. Jakobsen hired consultants to support the efforts to establish the Preferred Supplier initiative. | Proactive | 1994-1995 |
| Implementation management | The first activity decided by Mr. Jakobsen was to reorganize; the business sector organization was put in place. | Ordinary management | 1995 |
| Implementation management | When Mr. Jakobsen left, the new management was not able to bring Preferred Supplier forward in the same way. | Extra-ordinary management | 1996 |
| Success of implementation | The ownership of Tamrock changed. The new owners raised the short-term profitability requirements, which took away the attention from the more long-term efforts to increase customer orientation. | Failure | 1996- |

## Appendix 26

## OPERATIONALIZATION OF CAPABILITY VARIABLES, TAMROCK, 1994-1997

| Variable | Explanation | Value | Timing |
|---|---|---|---|
| Role modeling | Mr. Jakobsen initiated several activities around the Preferred Supplier initiative during autumn 1995. However, once it became clear that Mr. Jakobsen was to leave the company, these activities faded away. Without Mr. Jakobsen there was nobody that could carry on and personify the new way of working. | 0 | 1995- |
| Socialization | As long as Mr. Jakobsen was in charge he actively engaged a large number of managers around the Preferred Supplier initiative. But as he announced his decision to leave these activities disappeared. | 1 | 1995 |
| Business modeling | The goal setting in relation to the new business model remained incomplete, as there was not enough perseverance in the top management after Mr. Jakobsen to pursue the priorities related to Preferred Supplier. | 0 | 1995-1996 |
| Change management | Mr. Jakobsen was the champion of the Preferred Supplier, but once he left, nobody was able to take over this responsibility. The strong decentralized culture was counteracting the coordinating efforts needed to pursue Preferred Supplier. | 1 | 1995-1996 |
| Constellation management | New operational routines were established to follow the development of customer relationships and the competitive position of Tamrock. Even after Mr. Jakobsen left, these routines were maintained. | 2 | 1995- |
| Internal coordination | Tamrock developed tools for customer-based budgeting and customer-based reporting. The monthly management reporting document also included customer-based elements, and in this respect the new business model initiated a permanent change in the administrative routines of Tamrock. | 2 | 1995- |
| Resource integration | Tamrock engaged in a number of activities with suppliers and alliance partners to further develop its offerings according to the Preferred Supplier initiative. | 1 | 1995- |
| Transformative | There were explicit communication within Tamrock that the ambition of Preferred Supplier was to develop new offerings to support the new initiative. Quite extensive efforts were put into finding ways of developing e.g. the service offerings, but relatively little concrete results were achieved. | 1 | 1995-1996 |
| Customer intelligence | The efforts to build the Preferred Supplier concept was foregone by some customer studies. The appointed key account managers also had as one of their responsibilities to continuously gather customer data. | 1 | 1995-1996 |
| Customer linking | The Preferred Supplier process initiated efforts among the sales organizations to increase the interactions between Tamrock and its customers. Global key customers and local key customers were targeted based on their potential in respect of both sales and as partners in competence building. The actual implementation of the practices remained, however, half-hearted. | 1 | 1995-1996 |
| Innovation | Very limited new innovative offering elements emerged as a result of the Preferred Supplier initiative. | 0 | 1995-1996 |
| Execution | Considerable process improvement efforts were undertaken, but the success of these was not undisputable. | 1 | 1996-1997 |