

Baa strategic management issues



**ASSIGN
BUSTER**

BAA Strategic Management Issues BY Altogether 1. Introduction The following report has been undertaken to evaluate the strategic management issues concerned with the British Airport Authority (BAA). " Strategic management is concerned with the overall direction of the whole organization. " (Finial, 2000). With the aid of a provided case study the strategies which are currently in place have been recognized and evaluated and the evidence has been used along with research carried out in textbooks and online Journals and the internet.

The models provided by strategic management theorists have enabled possible future strategies to be valuated by showing a range of strategic options and how they will be best suited to a large organization in their industry. The report has been split into subsections due to the complex nature of BASS operations and because of the many different internal and external factors which can affect the organization. The first section of this report gives a general introduction to the BAA company with an evaluation of their mission statement and the various stakeholders involved.

The second section concentrates on an internal evaluation of the environment and identifies the strengths and nakedness of the organization. The corporate culture is outlined and the resources are analyses by evaluating the company against models such as Porter's Value Chain and the Cultural Web. Once an internal analysis has been carried out it is necessary to undertake an external analysis which constitutes the next section of this report.

An external analysis is concerned with the environment in which BAA is operating, and therefore it is inevitable that the airline industry as a whole is evaluated. Porter's five forces are used to analyse the competitive environment and the industry life cycle is valued in order to help suggest possible strategies to keep the organization from going stagnant. The final section of the report looks at developing strategies and the problems associated with implementing these strategies.

SAFE analysis is used and proven to be a vital way of developing effective strategies. Issues of control are also examined. 2. Purpose of the organization 2. 1. Mission evaluation A majority of BAA's essentially use an organizational balloons Ana Nilsson to establish the general direction of the firm with organizational objectives focused to define more specific targets. It seems that it may be too complicated for BAA to draw up a mission statement as need get all their stakeholders together, besides they also do not know what the future holds.

The fact that there is no mission statement enables things to be more flexible and also can be changed. The downside however would be critical. Overall the key major stakeholders could be considered as the highest players in this organization, yet BAA tends to be moving on regardless not it cannot be static. BASS values are considered in terms of how the organization is run and include: To assess environmental impact on surrounding communities

To provide a health and safety environment To achieve excellent value for their stakeholders and passengers To assess economic benefits and create

employment for the local communities To inspire their team, encourage teamwork, sharing learning and open communication BAA continue to state that the way in which the organization run is much more than just simply hitting targets and profit margins and it has certain responsibilities to society that they take very seriously suggesting each our their directors, employees and suppliers strive to meet its core commitments. . 2. Stakeholder analysis Stakeholders are those individuals or groups who depend on an organization to fulfill their own goals and on whom, in turn, the organization depends'. Monsoons, etc. , 2006) It is important to understand expectation of all groups in detail, and how they are likely to seek influence over an organization's mission and strategies. Monsoons, etc. , 2006) Stakeholder mapping could be used to identify stakeholder expectations and power.

It underlines the importance of two issues: how interested each stakeholder group is to impress its expectations on the organization's purpose and choice of pacific strategies, whether stakeholders have the power to do so.

Monsoons, etc. , 2006) Figure 2. 1 The power/interest matrix The figure 2. 1 power/interest matrix shows managers and major shareholders are key players, have both high power and high level of interest. Employees, local communities, minor shareholders are keep informed groups, suppliers, media and aircraft manufacturers are keep satisfied. 2. 3.

Corporate Social Responsibility Corporate social responsibility is identified as ' a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' by Green Paper presented by European Commission in July 2001. (Cited in Holey, etc. 2008) Strength in corporate social

<https://assignbuster.com/baa-strategic-management-issues/>

responsibility may bring competitive advantage. (Branch & Rodriguez, 2006, cited in Holey, etc. , 2008) Questions of social responsibility are increasingly significant, posing both risks and opportunities. 3. Internal environment analysis 3. 1 .

Resource Analysis When assessing BASS overall situation, the identification of the strengths and weaknesses its internal environment was an important element. The functional area f the organization was considered when auditing the resources, as this is where resources become deployable. In terms of its Physical resources BAA currently own and operate seven I-J airports and also have stakes in eleven airports outside the I-J. With air travel demand now forecast to double, the company plan to invest E billion in South-east airports, IEEE million in Scottish airports and include a fifth terminal for Heathers, yet owe E. Billion in debt and are facing a ' credit crunch', so in terms of Financial resources they have none. The Intangible resources could include reputation through brands such as popular airports, established relationships with travelers as are surveying 70, 000 passengers to get views each year and also the local community. BAA also has a reputation of its products and services the firm own, for example retailers, world duty-free, and other luxury brands they own.

Overall is one of the world's leading construction groups who specialist in four strategic lines of business, Airport, Construction, Transport infrastructure and Services. Through its subsidiary Contra, Overall also specialist in the construction ND construction of 20 toll road concessions around the world and are also experience to manage around 250'000 car parking spaces. The Civil Aviation Authority (CA) control all flight paths and <https://assignbuster.com/baa-strategic-management-issues/>

aircraft routes at UK airports, regulates airlines, airports and National Air Traffic Service whereby it could be considered BAA has established relationships with these organizations.

BAA also has an established relationship with the government and a good reputation as the year 1986 saw the Airports Act being passed, authority dissolve as all its property rights and liabilities were passed to them. In terms of assessing Human resources BAA has specialist knowledge of the unique airport environment that allows them to successfully integrate retailing in an balanced, yet BAA has no established culture and with a current clash of culture between Overall and BAA could be the result of the its recent departures.

As result human capital may be affected such as the assessment of skills, knowledge, and decision making abilities, training and expertise of employees, adaptability of employees therefore could affect the level of commitment and loyalty. The revenues from commercial activities in retailing account for a significant proportion of its total revenue, helping BAA maintain some of the competitive charges faced with. The intangible resources over time may become more important than the tangible as they can be the main source for competitive advantage an example of this may be ensuring a good reputation of its products and services are maintained. .

2. Porter's Value Chain When examining the internal environment of BAA it is useful to use Porter's Generic Value Chain (1985). When Porter uses the term Value' its meaning can be defined as follows; Value is measured by the total revenue, a reflection of the price a firm's product nomads and the units it can sell. A firm is profitable if the value it commands exceeds the costs

involved in creating the product. (Cole, 1997). Figure (3. 1) below shows Porter's Generic Value Chain taken from Cole, 1997 and as can be seen it shows that it splits the organization into five different operations, which are categorized as primary activities.

In terms of an organization such as BAA inbound logistics will be the receiving of goods for sale in their retail outlets, bars and restaurants within the airports owned by BAA, and it is possible to count the input of assigners into the airports, as the airports are where these activities take place.

Operations are the activities which occur within the airports and for BAA this will include check in, security, retail, and passport control. The best way to regard outbound logistics for BAA is the successful movement of passengers through the airport and onto their designated flights with the minimum of delays.

Marketing and sales concerns the different operations and services provided by BAA and the different ways in which the products and services can be purchased and inducing the customer to do so. (Cole, 1997). The service section can be described as, " the activities associated with providing service to enhance or maintain the value of the product. "(Porter, 1985). There are linkages between the activities and they are not isolated from one another. One activity often affects the cost or performance of other ones. (Lecture notes, lecture 4).

The support activities which are shown going vertically on the top part of the model are self explanatory, except for the term ' procurement', which in this model can be regarded as the purchasing function. Figure 3. 1 Porter's

Generic Value Chain The BAA case study reveals that; BAA is a complex company and much of our work is done in partnership with other businesses and organizations. This has to be taken into consideration when assessing the company using Porter's Value Chain. A list of services to be included under BASS control include: Airlines.

These are other organizations and would probably be best categorized in both the inbound and outbound logistics sections as they are inputs into the organization and also help carry passengers out of the airports once they have experienced the services on offer. Civil Aviation Authority. A ITIL part of the operation including safety measures which are a primary concern in every organization within the aviation industry, especially in today's climate. Commercial services. Such as catering, shopping, car hire and banking services.

These are operations which are not outsourced and are therefore profitable and add value to the organization. A customer can prepare for his travel within the airport allowing convenience and this adds value to the customers perception of the experience. Immigration National Air Traffic services. Public transport operator. These are extremely beneficial partnerships as they revive customers with easy access into BASS airports and help produce the infrastructure, thus creating great value to the organization.

For BAA, the primary activities are well coordinated between them (infrastructure, operation, outbound, marketing Ana sales, services) Ana contribute to ten Important actively AT Its airports However the new security measures causing flight delays and long waiting time queues can represent

an obstacle for the outbound. Another cause of flight delays and waiting time can also be accredited to the size of infrastructure too small for handling an increasing number of passengers. The infrastructure has been affected by the management of Overall. English managers left since the takeover of Overall. Also the debt of Overall has led to reduce the effective of its employees touching the human resources management. However value can be added in technology development and procurement. The procurement of extra security equipment can help to overcome the problems of delays and waiting time, and therefore improve the operations of BAA.

3. 3. Cultural web

The cultural web identifies 6 interrelated elements that help to make up what Johnson and Scholes call the paradigm of the work environment. BAA has no established culture.

However BAA should be also confronted with Overall since this last one can have influence on the company. Since the takeover, BAA is under a strict control. This has provoked some clash and English managers dissatisfied with the new rules of Overall, left. Also the debt of the company has led to redundancies within the company and Overall is accused to be only cost driven. The group is not popular with the media either. There is evidence that BAA is reluctant to the new management of Overall and in the paradigm we can therefore mention a clash of cultures.

Figure 3. 2 Culture Web Figure 3. 2 Culture Web helps to identify the strengths and weaknesses of a company. It can make realism that sometimes corporate culture can be elusive: the intentions of a company are different from the reality. The cultural web can be used to correct this gap by taking each element aside and compare after the reality with what the

company wants as for its culture. Henceforth, the company knows more precisely what aspects need to be changed. For BAA, there is some evidence showing a gap between strategic intent and reality.

For example in the statement, BAA says “ it is ITIL that we engage our stakeholders in open and honest discussion” implying that they have good relations with them. However, more recently the relations with stakeholders have been affected especially with the media, politicians and regulators. Most of company’s statements are too idealizes. It is not really about what people (employees or customers) experience daily and does not really consider the real values and practices of the company. What can be questioned in the cultural web is the control.

Overall imposed its rules without adapting to the English market. This effected the relations with shareholders and the management structure of BAA as English managers left. It was in the interest of Overall to keep these managers as they had more experience of running a company like BAA and knew the English market better. A strategy more appropriate for the company would have been to adopt a participative leadership (Liker, 1961). It meaner for the company working in cooperation with its employees by taking account of their ideas and suggestions.

Even if at the end the company makes the decisions, they remain open to new ideas. 34 cultural lopes Another important and useful way of analyzing the internal sectors of the organization is to look at the cultural types that exist within BAA as an organization. In order to do this the report looks at three different models. Firstly, BASS strategies will be compared against the

Mingling and Wolfe model (1989), and this is shown below in figure (3. 2).

Figure 3. 2. The Mingling and Wolfe Model. On the model above two crosses have been plotted.

The first cross at the bottom of the model marked BAA indicates what the authors believe where BAA would put themselves with known cause and effect relationships and a dynamic approach to environmental change. However, it is thought that the environmental change will be more stable than BAA would portray themselves. This is because any reduction in carbon dioxide emissions will easily be outweighed by the annual increase in air travel through their airports. It is also going to have to expand into green environments for their expansions such as terminal 5 at Heathers.

Therefore, the second cross, which lies in the computational planning style/analytical decision making indicates a more realistic position for them to lie. Greenly (1989), describes a computational style as; based on an ideal model of planning using a rational approach, where perfect knowledge of the environment leads to an analysis which can result in decision making which is devoid of irrational behavior. It assumes a long-term rationale of profit mastication and assumes that the personal aims of managers coincide with company objectives. Greenly, 1989). The second model to be used is a more simplistic approach to cultural types within an organization and is illustrated below in figure (3. 3). Figure 3. 3. Classification of generic cultures, Deal and Kennedy (1982). Once again the same principal has been used where two crosses have been plotted onto the chart. This model is done by analyzing the degree of risk the organization is willing to take against the speed of feedback given to the company.

The cross labeled BAA is where the authors believe BAA would put themselves, but the cross in the process culture is the more likely position with a slower speed of feedback and a lower degree of risk taken than BAA would make out. The result of this model, the process culture seems to be similar to the results of the Mingling and Wolfe model, which showed analytical decision making. The last model to be used is the Miles and Snow (1978) who identify here dominant organizational cultures; The defender culture which view change as threatening, this is not possible in the airline industry as changes happen rapidly.

BAA has also shown evidence that they are prepared for change with the implementation of new technology and the expansions in progress.

Therefore, the defender culture can be discounted. Prospector cultures thrive on change with flexibility in management. BAA does not show much evidence of flexible management and therefore leaves the last culture, which is the analyses culture, which matches the results of the other two models used. Miles and Snow (1978) describe the analyses culture as “ those that seek steady growth in the market through very detailed planning and control systems. (Lecture 3) 4 External Environment Analysis Analysis of the operating environment helps to identify current and potential strategic position. The macro-environment analysis consists of broad environment factors that impact on all organizations, which provided by the PEST framework to identify. Then the five forces framework would be used to understand how the competitive dynamics within and around an industry are changing. 4. 1 . PEST Model It is important to build up an understanding of how changes in the macro- environment are likely to impact on individual

organization. Monsoons, etc. 2006) The PEST framework would be used to identify how future trends in the political, economic, social and technological environments might impinge on BAA. It helps managers consider how strategies might need to change depending on the different ways in which the business environment might change. There is PEST analysis as following which show some of the main factors influence the organization. These factors are not independent of each other, may are linked. Political Air Transport white paper in December 2003 and Follow-up report in 2006 by the government set out the Auk's policy for sustainable aviation industry.

Air transport portal of the European Commission adopted a communication in September 2005 setting a strategy for reducing the climate change impact of aviation. EX. Emissions Trading Scheme introduces the policies across Europe to tackle emissions of carbon dioxide and other greenhouse gases. The new ELI-US Air Transport Agreement takes effect on 30 March 2008. European airlines can fly without restrictions from any point in the EX. to any point in the US. This policy will bring more competition, but also security and environment issues.

Economic factors In 2001, aviation contributed ?→13 billion to I-J GAP which is 2% of total GAP. The UK aviation industry directly employs about 200, 000 people. Aviation's provision of transport infrastructure on which many other parts of the economy depend. Airlines and airports invest around ?→2. 5 billion a year. Socio-cultural factors There is more traveling by flight nowadays on both leisure and business purpose. Aviation has now replace shipping as the primary meaner of transport for high-value, internationally competitive goods and services.

Technological factors Government's Transport White Paper in July 1998 clears out the future technology will take-up in the I-J. Technologies predicted to enter service before 2030 with developments in the 5 to 10 years time period and potential to substantially enhance capacity and mitigate environmental impact. Technological advance will be fundamental to introducing substantial capacity improvements, such as Wake Vortex technologies, sophisticated management systems and data link technologies

Training of Aircraft Maintenance Engineers trained aircraft maintenance engineers to meet he needs.

New aircraft A-380 reduces noise, only as 25% of 747 competitive environment o e P art or's Have Forces This tool was created by Harvard Business School professor, Michael Porter, to analyze the attractiveness and likely-profitability of an industry. Since publication, it has become one of the most important business strategy tools. Buyers Buyers are the customers of BAA, including passengers, airlines, retailers and other tenants. As BAA is dominant in the I-J market, Buyers have limited choice for other supply sources. Also BAA is an international company meaning that they are dealing tit passengers from all over the world.

Therefore Buyers are not just located on one place, they are not concentrated. This aspect limits the power of Buyers. Substitutes Substitutes for BAA are the other airport companies in I-J, Manchester Airport Group, Barbers, Peel Airports. Substitutes are not a real threat for BAA. BAA deals with 147, 6 million passengers and the second bigger group coming after BAA, which is Manchester Airport Group deals only with 28, 3 million of

passengers. These figures show the dominance of BAA. Suppliers Suppliers include retail suppliers, equipment suppliers and construction suppliers.

Not enough information was provided on the suppliers. Services from suppliers should be really in demand from BAA, as they have an important activity and they generally invest huge amounts in construction but also in security. Threats of entrants To enter this market, an industry needs huge capital requirements. Therefore economies of scale are extremely important as a company needs to spread the cost over the market. As well, government policies do not facilitate the entrance to the market as they already restrict airports expansion for existing companies. This market is subject to strict regulations.

Competitive rivalry This can be a synthesis of the previous aspects seen before. There are high barriers to entry the market. As well the power of buyers, suppliers and substitutes are limited. Competition between carriers will intensify across the Atlantic as US and European airlines open now, unrestricted, routes. BAA is not subject of real competition as they dominate the market and their dominance in the market is now being questioned by the OFT (Office of Fair Trade) as passengers will not benefit from lower charges and the potential benefits of the Open Skies agreement will be insisted. . 3. Industry Life Cycles Industry life cycles comprising four phases of an industry, which are introduction, growth, maturity and decline.

(Haberdasher & Ripple, 2001) The authors point out the industry life cycle is a simplification of reality that glosses over a lot of exceptions. Figure 4. 3

Industry life cycles Figure 4. 3 shows the aviation industry is in the growth phase, when the industry becomes established and the number of firms and

<https://assignbuster.com/baa-strategic-management-issues/>

sales of the product grow rapidly. There may be some improvements in the industry and in the process technology used.

In the growth phase, there are still enough customers to go around, so competition is unlikely to be fierce. 4. 4. Evaluation of opportunities and threats Evaluation of opportunities and threats is the final stage of external audit. The key opportunities Include: Growth of aviation industry and growth of airport capacity provide development capacity. New technologies, such as new aircraft could reduce noise. Potential new market outside the UK The key treats include: Capacity However, expedition of Heathers airport also is a treat, more capacity meaner more difficult on operation, required experiences staff.

Security issue is still one of major problems for BAA in the future.

Environment issue is another threat for BAA, limit environment effect is the)
ϰflam's social responsibility. Figure 4. 4 below shows classifying the opportunities using measures of probability and internal capability. New technology in quadrant Exploit with maximum interest, both potential international market and growth of industry are in quadrant Investigate, with great potential for BAA, but low internal capability, which meaner further investigation. Figure 4. Evaluation of opportunities Figure 4. 5 shows the evaluation of threats. Two major threats in quadrant Prepared, BAA has greater capability to deal with such probable threats, thus are prepared. Environment issues is in quadrant Monitor, that is more uncertain, although this threat are currently unlikely, it may became so in future and thus BAA must monitor it. Figure 4. 5 Evaluation of threats The aviation industry is

facing significant technical and practical capacity constraints and due to long-term nature has been slow to address these.

Environmental and security issues are exerting strong pressures on the industry and its ability to grow. 5. Developing and implementing strategy 5. 1 . Recommend future strategies and evaluation of strategies The Info product/ market growth matrix (figure 5. 1) provides a simple way of generating four basic alternative directions for strategic development. It explicitly considers growth options. Product development and market development could be the two better way for BAA future strategy. Figure 5. Info product/market growth matrix BASS existing strategy of airport development may now well be broken. The plans over the next 10 years airport expansion, however The Competition commission are owe deciding whether their dominance of the market translates into distortion of the market, or winter proper long-term planning can De leaver Dye a large, stable, well regulated group. Britain's Office of Fair Trading (OFT) argues that the competition between airports is much more critical at the moment, as they believe the barriers to entry that hamper the market.

There were factors taken into account when selecting a strategic route forward for BAA in terms of its Suitability, Acceptability and Feasibility and tools and approaches were also used to help select the correct strategic group. 5. 1 . 1. Development of Airports Suitability Suitability is concerned with whether a strategy addresses the key issue relating to the strategic position of the organization. BASS plan for airport expansion over the next ten years is appropriate to the product life cycle and the relative position of the firm within its competitive environment.

Reasons for this include the fact that they are in a dominant competitive position and are in an industry that is in the growth stage. BAA is also strong in terms of its competitive position as they are able to attain cost leadership and are able to be defended. The proposed strategy of airport expansion will eventually generate more passengers that will allow an increase in consumer spending, for example, retail accommodation. The organization is prepared to handle capacity in terms of no. of passengers, therefore service quality should improve, which in turn may create a demand for airport usage by airline companies.

The reinforced linkages in the (internal) value chain from the strategy of airport expansion will create an opportunity to improve its competitive position and boost the linkages in the value chain, so could allow them to increase prices in its products as overall passenger service should provide value for money. Acceptability Airport expansion is likely to satisfy key stakeholders, for example, shareholders, employees, managers, customers, however may have an effect on local communities, pressure groups.

The fact that there is a 'credit crunch' is not going to eliminate any financial risk to the company and due to such developments there is no guarantee of their being service quality as reasons for this may include BASS human capital not being used to its full advantage to enable retailing to be integrated in a balanced way that supports efficient airport operations, enhances the traveler's experience and make the most of the commercial opportunities available.

Feasibility BAA has an experienced security and fire service yet there is no established culture which may affect its human capital as may not be able to enable integrated retailing in a balanced way that supports efficient airport operations. As a result it could affect the assessment of skills, knowledge, and decision making abilities, training and expertise of its employees, adaptability of employees therefore could affect the level of commitment and loyalty therefore may not have the resources required to sustain a competitive advantage.