

Organisational culture and its impact on strategy business essay



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A distinct characteristic of a successful organisation is clarity over what is to be achieved. A clear purpose can enthuse employees, managers and senior managers due to the similar values they may share (Scott & Jaff, 1993). A vision is the desired state the organisation aspires to accomplish, values are the core principles of an organisation and the mission gives reason to why an organisation exists (Kaplan et al, 2008). They need to be clear and concise and easily understood by all levels of the firm.

Carpenter et al () emphasised three reasons why clarity of the vision and mission are important; employees who have a better understanding of the mission and vision are able to have a greater awareness of the organisations strategy and how it is implemented. Secondly an explanation is given of how strategy helps achieve the vision and mission of the organisation. Finally they offer guidance to strategy development as they guide the strategy which guides the organisation. Values create the foundations of an organisation, what the company promotes within their working culture can greatly influence decisions on every level thus a company's strategy for the future will be formed around these core concepts and beliefs. They allow the formation of the organisation's purpose; the fundamental reason for existence.

Case example; Virgin Atlantic versus Ryanair

Virgin Atlantic and Ryanair are successful airline companies who have contrasting strategies and consequently have very different purposes.

Ryanair is a concentrated, low cost airline who offers a no frills service to customers. The strategy of Ryanair is cost efficiency and low fares partnered with fast turnaround times of aircraft in order to maximise profit;

Vision, Value and mission of Ryanair

Vision

To offer low fares that generate increased passenger traffic while maintaining a continuous focus on cost-containment and operating efficiencies.

Values

Cost efficient = low fares & low costs.

Mission

To firmly establish itself as Europe's leading low-fares scheduled passenger airline through continued improvements and expanded offerings of its low-fares service.

Source: <http://www.ryanair.com/doc/investor/Strategy.pdf> (2013).

The purpose of Ryanair is therefore to provide a cheap, no frills flight service that is profitable.

Virgin Atlantic is a leisure airline that is able to diversify into unusual leisure routes. A different demographic is targeted which means their vision, values and mission are opposite to those of Ryanair;

Vision, Value and Mission of Virgin Atlantic

Vision

The success of our three year strategy requires us to build on these foundations by focussing on the business and leisure markets and driving efficiency and effectiveness.

Values

Caring, honest, value, fun, innovation.

Mission

To grow a profitable airline where people love to fly and people love to work.

Source: <http://www.virgin-atlantic.com/en/gb/allaboutus/ourstory/forstudents.jsp> (2013)

The overall purpose of Virgin Atlantic is therefore to grow a profitable airline, focussing on business and leisure markets, where people love to fly and people love to work.

The above examples show how the visions, value and mission of organisations are catered to an organisations needs enabling a strategy to be shaped to achieve the organisations purpose and vision aligning with core values of the given organisation. Each company achieves there strategies in different ways which will be discussed further on in the essay.

Strategy formation; Mintzbergs 10 schools

The schools of thought are based on the assumption that organisations resources are homogenous and highly adaptable within the market (Porter

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1981). Mintzberg (1988) built upon this assumption and investigated the process of forming a strategy where he concluded that a generic process could not be identified.

Mintzberg developed a framework to categorise approaches to strategy based on how people think and communicate illustrating the contrasting approaches to strategy formation pulling all the various views of strategy into one simple view (Kippenberger, 1998). The 10 schools of strategic thought can be used to explain what strategic thinking is and how it can be improved.

There are two main approaches to forming a strategy; planning and learning. Planning is the oldest but more rational approach where analytical tools and techniques are vital to the analysis of the resources and capabilities of an organisation as well as the external environment. Planning is based on the assumption that an organisation can predict and control performance by formulating and implementing rational strategies. Learning is a more holistic approach and assumes strategy is an emergent process as no clear direction is provided for an organisation and is reliant on the unpredictable nature of strategy formation.

The framework is separated into three groups based on how the school approaches strategy. Prescriptive schools are concerned with how a strategy is formed; design, planning and positioning schools. The descriptive schools are not focussed on how strategy should be made but concentrate on the process of strategy formation where focus lies on organisational learning; entrepreneurial, cognitive, learning, power, cultural and environmental

schools. The integrative group holds one school, configuration, and looks at strategy as a form of transformation from one decision to another.

As a framework it is not focussed on which organisations use which school but shows how each school can be used. (See appendix for brief overview of each school.)

Ryanair; strategy as a position;

Ryanair made the decision to expand its services into Southern Europe. It did not take on competing airlines head on, instead they analysed where the secondary airports in Southern Europe were and set up business there. It positioned itself away from the competition where it Ryanair could still offer the same value to its consumers without having to outdo competitors. In selecting secondary airports Ryanair offer transport to popular destinations, avoid the congestion of major airports which furthermore allow Ryanair to provide a higher rate of on time departures, faster turnaround times and fewer delays therefore it creates competitive advantage on being on time for flights scheduled to depart or arrive.

Virgin Atlantic; strategy as a visionary process;

Through the mind of Richard Branson the strategy of the Virgin group has always been a vision of the founder. He has a reputation for being a risk taker, and relies on intuition, judgement, wisdom, experience and insight drawing upon the visionary school.

Organisational culture and its impact on strategy;

Schein (1988) defined organisational culture as the pattern of basic assumptions that a given group has created with learning to cope with its problems of internal integration and external adaptation. Culture is created through actions of senior management/ directors regarding what they place focus on, how they reward or punish certain behaviours and how they allocate resources. In a basic sense Schein's definition can be shortened to 'the way things are done around here' regarding to values and beliefs. Hall (1993) suggested culture can be viewed as an intangible resource that can be classified as an asset or competency contributing to an organisation's sustainable competitive advantage where an organisation is able to consistently deliver products/services desired by the majority of customers in their target market.

The Resource Based View of Strategy;

Porter (1985); Value chain

The value chain was first characterised by Porter (1985) and is a chain of activities that group together the main value adding activities of an organisation and can be used as a strategic planning tool. Porter (2007) described an organisation as a compilation of individually distinct, interrelated, economic activities which include both primary and secondary activities. The value chain serves as a guide for identifying the key activities within an organisation which make up the value chain that have the potential to create a sustainable competitive advantage. The competitive advantage emerges from the ability of the organisation to perform identified activities in the value chain in a superior way to competitors.

Source: reference

The value chain is divided into primary activities and secondary activities which need to be linked together strategically across the organisation so resources can be optimised and coordinated in a way to sustain competitive advantage.

Schein (1988) : 3 levels of culture;

Hatch (1993) described the levels of culture as a conceptual framework for intervening and analysing internal organisational culture. Schein (1988) described culture as 3 levels categorised into Artifacts, Espoused Values and Basic Underlying Assumptions which shows how deep the values and beliefs are embedded into an organisation. The model shows the degree to which culture is visible to an organisation and brings about understanding of culture and what can be done to aid change in an organisation. It is used as a diagnosis of organisations cultural characteristics which can then be used to develop or maintain a strategy or strategic advantage. Below is a visual summary of Schein's (1988) three levels of culture;

Artifacts; Most observable part of culture; can be business processes, how people look or organisational structures. All are visible indicators of culture but difficult to interpret.

Espoused Values; Underlie and to some extent determine behaviour but are not directly observable; can be strategies, goals & objectives or philosophies

Basic Underlying Assumptions; Assumptions that are unconscious and often stem from values until they are taken for granted and become an unconscious process;

Source: reference lecture

Value chain; Ryanair

Three levels of culture; Ryanair;

The culture of Ryanair is cost efficiency which is reflected in their values, vision and mission where they create their main competitive advantage of being a low cost, frill free airline. Using the three levels of culture, a diagnosis can be made of how the culture of Ryanair is formed and how this contributes to their competitive advantage. Using the three levels of culture we can identify the characteristics of Ryanairs culture;

Artifacts;

Ryanair offer no complementary services which is a reflection of their cost efficient culture. They sell secondary services on flight (food, entertainment, travel insurance.)

Head office staff have to supply own pens and are not allowed to charge their phones at work in the office

Employees pay for their own training and uniforms

The subsidiaries he obtains from using local airports so he can pass the savings onto customers.

Espoused Values;

The policies enforced at Ryanair are a reflection of the managers thoughts. For example, the policy that head office staff have to buy their own pens is an example of a policy that promotes cost effectiveness.

Basic underlying assumptions;

The espoused values relate to the underlying assumptions as they are embedded guidelines within Ryanair of how staff and employees deliver a fair, cost efficient service to passengers. Passengers also know / assume that they are literally getting a frill free flight where the expectation is to have to pay for the secondary services that are complimentary on other flights.

The three levels of culture displays how cost efficient is embedded into Ryanairs organisational culture which enables them to have sustainable competitive advantage.

Virgin atlantic: An airline where people love to work, and people love to fly;

Virgin Atlantic have focussed on building an airline with a reputation for looking after both customers and employees, being seen as both affordable, but enjoyable allowing Virgin Atlantic to sell themselves based on their indisputable reputation.

Bradley (1997): VRIO framework

Bradley (1997) described strategic resources as; valuable, rare, inimitable and organisable. The VRIO framework is a tool an organisation can use to examine its internal environment and views organisations as bundles of
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resources. If these resources are correctly used then an organisation can gain competitive advantage over competitors depending on the four characteristics identified by Bradley (1997) and determines whether the advantage is temporary or sustainable.

Four questions need to be asked when identifying resources and their capabilities (O’riordan 2006);

How valuable is the resource?

How rare is the resource?

Can the resource be imitated?

Is the resource organised in an efficient manner?

If the answer is ‘ yes’ to the above questions then the resource offers a competitive advantage over competitors.

When analysing an organisations resources one of the following answers occur;

If an organisations resource is not valuable then the firm can expect to be at competitive disadvantage

If the resource is valuable but not rare competitive parity is reached

If the resource is valuable but not rare a competitive advantage is reached but it may only be temporary.

If a firm's resources are rare, valuable but not costly to imitate then temporary competitive advantage results.

If the resources of an organisation are valuable rare and costly then a sustained competitive advantage will result if the resources are organised properly.

VRIO framework of Virgin Atlantic

VRIO Framework of Virgin Atlantic

Resource

Value

Rarity

Inimitability

Organised

Competitive Implications

Virgin Brand

Y

Y

Y

Y

Sustained competitive advantage

Finance

Y

Y

Y

Y

Sustained competitive advantage

Reputation

Y

Y

N

Y

Temporary Competitive Advantage

Customer Service

Y

Y

N

Y

Temporary Competitive Advantage

Geographic location

Y

Y

N

Y

Temporary Competitive Advantage

Technology

Y

Y

N

Y

Temporary Competitive Advantage

Human resources

Y

Y

N

Y

Temporary Competitive Advantage

Source:

The VRIO framework for Virgin atlantic shows that Competitive advantage is found, from there resources from the Virgin brand name, and the ability the name has to raise finance due to its reputation. However, it must be said that although the brand name of virgin cannot be copied Virgin must work to uphold the brands reputation and the way customers/ potential investors and business parnters see the name. Technology, the location of where they fly from and to, and the organisational structure of Virgin are all resoruces that can and do create competitive advantage. However, they are imitable by competitors.

CONCLUSION.