

Chapter 1

Introduction

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1.1 Introduction

What is Strategy?

This book helps you to understand and appreciate some key concepts in strategy, which we call “basic strategy”. Strategy is the discipline that seeks to explain why organisations do what they do, and how they can be changed to achieve a purpose (such as make profits or survive). Although strategy concepts are typically concerned with firms, they can also be applied to individuals undertaking small-scale businesses, and groups of firms that are linked to each other. Strategy is also a field where there are well-defined principles of thinking, and some critical concepts. These are the subject of this textbook and will receive deeper coverage in Chapter 2. However, as we are dealing with basic strategy we make no claim that there is any great difference between other published offerings and our coverage of strategic concepts. A major difference between this work and others is found in our placing real world cases at the core of each chapter, and then tightly linking the strategy concepts and the case together. For this reason we address in some detail below the importance of cases to this book and also to you as the reader.

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Why Do We Use Cases?

Although the core ideas of strategy are simple, the world of business is complex. In most disciplines theory tends to be very general; and its application requires linking mechanisms. In physics, Newton's law of force and motion is simple yet the application of this theory by NASA to develop a rocket to reach the moon was complex, required much work in laboratories and test sites and relied heavily on the use of "documented experience" of other rocket devices.

In business studies, such experience is documented in "case studies"; careful accounts of a single firm's experience in the real world. Good cases, such as those that appear in this book, are written by experienced teachers and researchers to illustrate a single issue or series of issues. Writing these cases typically takes many months and involves interviewing those who work in the firm, as well as observers, examining internal and external documents. It also involves asking management to check the final document to see if it represents the situation correctly. Cases illustrate links between the way managers see problems, the way they act on the problems they see, and where possible the consequences of their actions.

Cases play a key role in helping students understand strategy concepts. Not only are cases places where theories and concepts are illustrated, more importantly they are places where ideas are demonstrated. Working through cases allows you to gain a deeper understanding of the concepts, what they mean and how the ideas can be applied. Cases are to strategy what a laboratory is to physics or the model organism is to biology. They are a critical counterpart to the study of concepts and theories, a necessary part of pedagogy, at all levels.

Of course cases are supplemented by real world experience. But unlike the laboratory, in real life it is hard to participate in more than a very few experiments. And since the world is complex, these experiments will be limited to a modest range of circumstances. Cases supplement real world experience in important ways; they allow the student/manager to see many more circumstances than might be possible via "experience". So, whether you are an undergraduate (or post-graduate) student studying management for the first time, or an experienced manager who wants to understand strategy better, you will realise that working with cases will provide a richer and deeper understanding of basic strategy concepts.

Cases also play a critical role in understanding the limits of strategy concepts, and where they cannot be applied. Using economics as an analogy, where the theory of perfect competition is offered as an approximation to price-setting mechanisms in many real world situations where there are many firms. Yet, where an industry contains just a few firms, cases can illustrate the limitations of competition theory, and how price setting works. Likewise in the business context, cases can show just how much strategy concepts can be stretched. The resource-based view of the firm tells us that the resources that a firm "owns" determines its success, but cases on the networked firm show us that if relationships between firms are strong, ownership may not be necessary to access resources. Partners linked through a network may "lend resources" to partners on a voluntary or semi-contractual basis (Chapter 3, Carlo Gavazzi Space case). Thus, cases provide both the illustrations of the concepts, as well as demonstrate the way they work in a richer set of middle level theories of strategy. Just as the simple Newtonian laws of mechanics have to be enriched (but not violated) to understand how rockets move forward, so the simple concepts and theories of strategy need to be enriched (but not violated) if they are to be applied to explain how the world of business works.

Using cases can prepare you to be a more effective manager, consultant or entrepreneur. Constant exposure to cases leads to better understanding of theory and concepts that should improve action. The objective of this book is to help you, the student, acquire knowledge by working with both theory and application.

One of the challenges of studying social sciences, as opposed to natural sciences, is that the theories that relate to human behaviour may not apply evenly in all circumstances and often need modifying. Nor are social science theories capable of reliably producing dependably exact outcomes. When a rolling billiard ball hits another, it moves in a predictable direction at a predictable speed, but (as David Hume explains) add a human or humans to the equation and the predictability is weakened. Business strategy is classified as a social science. It is social because it involves humans that are interacting sometimes rationally and sometimes illogically. It is a science because rational logic is applied using measurement and theories for prediction. In all sciences and social sciences, deviances from theory are inevitable, and cases help us appreciate where there is fit, how this fit occurs and when there is a lack of fit, between reality and theory.

Exceptions are to be expected, sometimes at extremes. A well-known book by Oliver Sacks¹ describes a psychologically disturbed New Yorker who mistook his wife for his hat, and so engaged in some rather bizarre behaviour. Now, most people would immediately know that the wife was a human and the hat was hanging on the cloak stand. His behaviour has to be accounted for even if it seems strange. In business, the unexpected happens, and sometimes it is very unexpected (as for instance the depth of the banking crisis of 2008–09). The application of strategy has to take into account the possibility of these exceptional occurrences. Cases help us appreciate these possibilities and how to deal with them (see for instance the Shell Brent Spa case, Chapter 5).

In each chapter, we move between cases and theory or concepts; and each chapter contains a case and a mini case, where a mini case is an abbreviated case that focuses on a single issue in a very condensed form. We typically start the chapter by introducing some theories or concepts, and you will always find a mini case immediately afterwards followed by a short discussion that explains how these ideas operate inside the mini case. You are then asked to examine the longer case, and to explore how the concepts and theories work in this longer case. The cases are selected not only to help highlight the ideas, but also to give you an understanding of how the ideas act in practice. And by asking you to take on the role of one or more of the actors in each case and by giving questions at the end of each case we hope that you will understand the ideas and their uses.

Cases are not reality but represent reality by giving an account of a real business taking decisions in a real life context. They are packed with information, some is relevant and some irrelevant. Continued exposure to cases will help you master the difficult skills of selecting relevant material in real life. Cases also do not contain all the information you would like. This is true of life in general, so making educated assumptions then documenting and weighing them is another positive learning skill arising from frequent usage of cases. Real life managers do not have all the information they might feel they need to make effective decisions; they then face a trade-off. They either have to seek more information which is costly in time and effort or they have to make do with what information they already possess. Seeking more information runs the risk of decreasing returns to the search, each further unit of information is harder to find and may be less useful anyway. Information in cases comes in the form of facts and opinions of the participants. Remember, we are dealing with humans who may have only partial access to information, and may have strong prior beliefs about what is important and what sort of actions are legitimate.

In short, in this text we offer cases integrated into the text because we believe that cases play a vital role in developing understanding of business strategy. The study of real life cases, such as those in this book, will help you become a better European manager, entrepreneur or consultant. This is a major differentiation between this

¹Sacks, O. (1986). *The Man who Mistook his Wife for his Hat* (NY: Picador Paperback).

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textbook and others. The authors have worked in the world of practice, as managers, consultants and even as (part-time) entrepreneurs. We have also taught students at all levels, undergraduate, postgraduate and senior executive, and we know that cases help students learn.

Why European Cases?

But what cases did we choose for our book and why? Our main audience is the European undergraduate student, although we hope that the book will also be used by European postgraduate students or even European managers, so we have chosen European cases. The European context is filled with very successful firms, and importantly from a learning point of view, some that were not so successful. More important still, the European environment is rich and heterogeneous, whereas it can be argued that the USA has a relatively homogeneous environment. Many strategy books are filled with US cases, not so here: we have more than 25 European cases, as well as a few US ones and some from Asia. Studying exclusively US cases will not prepare you so well for European management tasks as studying European cases. Europe and the USA both exhibit a wide diversity of firm situations: high technology and low technology, small start-up firms, larger national firms and big multinational firms, locally focused utility industries as well as internationally open industries, and firms that operate autonomously as well as those that adopt a networked approach. Europe and the USA have leading edge firms that can act as exemplars. But European cases can demonstrate more effectively the difficulties and opportunities of operating in a multicultural environment: one where there are perhaps 250 million people with dozens of cultures, and even more subcultures.

Most Europeans live under the influence of the European Union (EU), which seems to have as its objective the creation of greater homogeneity. Yet Europe as a whole is moving towards increasing complexity and diversity. Supporters of globalisation and European homogeneity trumpet the benefits of converging culture, standardised purchasing behaviour, and an accepted set of common languages as is found in the USA, which they feel is an inevitable consequence of increasing international trade and travel, rising wealth and increasing cross-border links. However, trade statistics point out that much of this extra purchasing power is not spent on global or pan-regional standard goods and services but rather on inter-EU trade.

We also know that Europe contains diverse cultures and diverse institutional contexts that are here to stay: France is different from Germany, and both are different from the UK, eastern Europe and southern Europe. It is apparent that employees and entrepreneurs differ across borders and even across groups within a country, and they cannot be managed with simple homogeneous approaches.

Examining the standards debate in the EU that surrounds working rules and consumer product offerings illustrates this point. Those who push forward European rules aimed at reducing product variation and working practice homogenisation (often cloaked in quality arguments) have been met by increasingly vehement and widespread opposition; consumers, workers and industrial users often value variety and have differing views about what is quality and why it is valuable. “Think global, act local” is a catchy strategic management phrase that resonates with a wide audience. Many Europeans feel at a very deep level that acting locally is a necessary and laudable course of action.

So we have chosen cases that stress the value of diversity in firm culture as well as diversity in products and services. Why? Because many believe that much of European society values the local differences and expects them to be honoured. What has this got to do with strategic management? As stated in the opening sentence, we believe heterogeneity is here to stay even if one does not agree with it, and no matter what your beliefs, diversity has to be

understood and where relevant exploited. When applying your skills you can use this inbuilt European bias in favour of diversity to gain advantage in the marketplace. For example, if your competitors feel employees and customers in Finland and Greece can be treated in the same way and you disagree, then acting in an opposite fashion may be rewarding. Your customers hopefully will perceive your product to be better; you will obtain at a minimum a perceived differentiation and if your costs are kept under control you will achieve above average profits. Cases within this book (e.g. Chapter 8, Ryanair, or Chapter 2, Fionia Bank) allow you to see how such strategies work in practice.

Europe exists in a wider global context; and many firms span continents. Our cases are not restricted to Europe alone; we have cases that look at America and Asia. In addition, some of our cases look across continents. In summary, our cases and discussions cover the following differing levels:

- Global level, touching on such overall topics as globalisation, including advances in technology and their speedy acceptance; trade groupings like the EC and NAFTA or even global supply groupings like OPEC.
- National level, encompassing national culture and social issues; governmental or legal influence, e.g. anti-trust laws.
- Industry level, where we see the interconnectedness or cross-influence between the various players. Besides competitors we have various suppliers, the industrial labour force and last but not least the customers.
- Firm level, where employees, both as individuals and team members interact with managers within the firm's culture.

We also pick our cases to represent a wide variety of industry contexts which include: the production and distribution of consumer goods (both basic goods and fashion goods), engineering products (including automobiles), and high technology products, as well as services such as banking and financial services, retailing, and transportation. Some of the firms are start-ups, many are going concerns owned either privately or publicly, and a few are state owned. The list of cases and context can be found in Table 1.1.

Table 1.1 Range of cases in this book: company, country, scale and scope

<i>Case name</i>	<i>Country</i>	<i>Chapter</i>	<i>Type of firm and industry</i>	<i>Type of case</i>
Abrakebabra	Ireland	1	Start-up – fast food	Full case
Mannesmann	Germany	2	Large engineering firm	Mini case
Fionia Bank	Denmark	2	Domestic bank	Full case
Railtrack	UK	3	State-owned railway	Mini case
Gavazzi Space	Italy	3	High technology network	Full case
José Bové – McDonald's	France	4	Multinational food company	Mini case
Your Cup of Tea	Hungary	4	Start-up service	Full case
Shell Brent Spar	UK	5	Multinational oil	Mini case
DaimlerChrysler	Germany-USA	5	Multinational autos	Full case
M. Andreasen	EU	6	EU commissioner	Mini case

(continued overleaf)

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Table 1.1 (continued)

<i>Case name</i>	<i>Country</i>	<i>Chapter</i>	<i>Type of firm and industry</i>	<i>Type of case</i>
Shell-Reserves Scandal	UK-NL	6	Multinational oil	Full case
Samsung Motors	Korea	7	Automobile industry	Mini case
GKN-Westland	UK	7	National aerospace firm	Full case
Swatch	Switzerland	8	Fashion and technology company	Mini case
Ryanair	Ireland	8	Major airline	Full case
PUMA	Germany	9	Sports company	Mini case
Chiquita	USA	9	Multinational commodity	Full case
Siemens-Singcontrol	Singapore	10	Merged business unit in engineering	Mini case
Santander-Abbey	Spain-UK	10	International bank	Full case
Nick Leeson	Singapore-UK	11	Individual and finance	Mini case
Abrakebabra – franchising	Ireland	11	Fast food franchising	Full case
Siemens Share	Germany	12	Financial services	Full case
Unilever	EU	13	Multinational consumer goods	Mini case
UniBrew	NL	13	Multinational consumer goods	Full case
Starbucks	France	14	International coffee chain	Mini case
Wal-Mart	Germany	14	International retailing	Full case
Cartier	France	15	Fashion jeweller	Mini case
Nissan	France-Japan	15	Global auto firm	Full case
Samsung – worldwide	Korea	16	Global electronics	Full case

What are the Topics Covered in This Book?

This book has six core themes that run as a thread through all the chapters. These themes are:

- What is strategy, and how is it made?
- What are resources, how are they built and leveraged?
- How does the firm deal with the environment?
- How is change managed at the level of the firm?
- What are the information and control systems available to the strategist and how do they work?
- What is the role of luck and how are opportunities made as well as taken?

These themes map loosely onto the topics of each chapter and are designed to develop understanding of these issues in different contexts (country, industry, type of firm, age of firm, etc.). The first six chapters introduce all the themes, and the remaining chapters create a deeper understanding and awareness. Below we outline what each chapter is about and mention the cases therein (see the list in Table 1.1).

In this opening chapter our case concerns an Irish entrepreneurial start-up in the fast food industry and introduces the idea of strategy fitting with resources and the environment. The chapter also asks to what extent success is related to luck or is made by grasping opportunity.

Chapters 2 to 5 develop an understanding of “what is strategy” and “how the firm deals with the internal and external environment”. Chapter 2 deepens our understanding of strategy by examining a mini case of a German engineering company and a full length case of a Danish bank. Chapter 3 introduces the idea of examining resources and the internal environment cautiously, using a mini case on the UK rail company Railtrack and a full length case on Carlo Gavazzi. Carlo Gavazzi is especially interesting because it has responded to the challenges of limited resources to compete internationally in a high technology industry by adopting a network approach to building its company. Chapter 4 examines how to deal with the external environment that extends well beyond simple notions of competition. In our mini case we see how a spirited individual – José Bové – altered the course of a major multinational, McDonald’s; we also see how a start-up firm “Your Cup of Tea” can harness a hostile environment to build a successful small business. Chapter 5 focuses on the particular concerns of stakeholders and corporate governance, a major issue for European firms small and large. We introduce ideas with the mini case on Shell-Brent Spar, and deepen understanding with the DaimlerChrysler case involving a transnational merger.

Chapters 6, 7 and 8 deepen our understanding of the same issues. Chapter 6 deals with ethics, and uses a mini case on Marta Andreasen, the EU commissioner and a whistleblower fighting bureaucracy. The main case is on Shell and scandal of misreported oil reserves. Chapter 7 deepens understanding of strategy for the multi-business situation. After a mini case that looks at Samsung’s diversification into automobiles, we examine GKN and its diversification decisions. Chapter 8 deepens our understanding of positioning strategy, looking at “low cost–differentiation–focus” with a mini case on Swatch and a full length case on the well-known low cost airline Ryanair.

Chapter 9 introduces change which is a core theme of the book. It looks at basic change models through a mini case on Puma (the clothing business) and Chiquita Bananas (a major American multinational). Chapter 10 deepens our understanding of change issues by looking at mergers and acquisitions; using a mini case on a merger undertaken by Siemens and a full length case on the successful acquisition and integration of Abbey National Bank by Banco Santander of Spain, one of Europe’s leading banks.

Chapter 11 introduces the last major theme, that of control and how strategic control is developed and deployed. Here we use a mini case on control failure at Barings Bank followed by a full case that looks at how franchising works in fast food. Chapter 12 deepens the theme by looking at the flip side of control, which is learning. We use the “beer game” to show that simple single loop learning is dangerous, and Siemens ShareNet to show how an organisation can develop a sophisticated knowledge sharing system.

Chapter 13 picks up the theme of entrepreneurship that has already been introduced in Chapters 1 and 4; but it extends the idea of entrepreneurship within the organisation. This makes an obvious connection to Chapter 9 on change, and so can be seen as a deepening of that chapter as well. We have a mini case on Unilever and a full length case on innovation in PET bottles at UniBrew.

Chapters 14 and 15 deepen previous understanding. Chapter 14 looks again at culture, a factor that influences all European firms one way or another. Using cases of Starbucks in France and Wal-Mart in Germany, we show the

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perils and opportunities facing multinationals that attempt to spread themselves across the complex European landscape. Chapter 15 deepens the theme of change introduced in Chapter 9, by looking at leadership. In the mini case we examine the role of Alain Perrin in driving change at Cartier, and in the main case we examine how Carlos Ghosn led change in Nissan-France, a Japanese/French joint venture of great cultural complexity.

Chapter 16, on Samsung, represents a final chapter that can be used to wrap up the book. We have deliberately chosen an Asian case, even though this is a European book, because we feel that Europeans have much to learn from examining this highly successful and very differently organised firm.

All chapters are valuable to a better understanding of strategy, but we recognise that many students will be limited in time, and so only able to study a few chapters. We suggest to instructors and students alike that the following chapters could serve as a shorter course:

Chapter 1: Introduction with methodology and mini case to show methodology

Chapter 2: What is strategy? Intended vs emergent

CASE: Fionia Bank. Mini case: Mannesmann

Chapter 3: Analysing the internal environment. Resources, competencies, stakeholders

CASE: Gavazzi Space. Mini case: Railtrack

Chapter 4: Analysing the external environment. SWOT and PEST

CASE: Your Cup of Tea. Mini case: José Bové and McDonald's France

Chapter 5: Stakeholders, corporate governance

CASE: DaimlerChrysler. Mini case: Brent Spar

Chapter 9: Change

CASE: Chiquita. Mini case: PUMA

Chapter 16: Combination of all topics

Integrative case: Samsung

1.2 For the Student: How to Use the Book

How should you use this book? Having decided that arguing about the relative importance of theory or reality is counterproductive, we place the case first and theory second, but compromise by leading off with a short preliminary concepts section. By using this atypical sequencing for a book, the student is allowed time to develop a *Gestalt* (an overview) of the topic area and is thus ready to involve critically with the main body of theory which follows the full case.

Links from the cases to theory are highlighted in this book; for every one link, there are usually countless different links to other theories or even the same one. What is more important, the real world behaviour or the theory? This book is full of cases describing real world behaviour because we believe that reality is the best teacher. The theory and concepts are useful for analysing the behaviour, maybe predicting future behaviour, or generally easing the decision-making process for managers. So theory and concepts are also important and thus the question of importance of behaviour or theory is rather irrelevant. The great economist Alfred Marshall, when asked what was

more important, supply or demand, replied: which edge of a pair of scissors cuts, the top or the bottom? Exactly, both are needed; so also for theory and reality!

As we have already attempted to emphasise, the cases are the stars of the show in this book. Immediately jumping into the case can be too confusing, so each chapter starts with an introduction learning objectives agenda. A brief synopsis of the theory to be covered is then inserted, complemented by a short mini case. After the mini case an example of analysis is offered. Then follows “the” case, where the first reading should be thought of as an introduction to the topic.

This first chapter has an opening case that is intended to draw you into the style of the book: the case is called *Abrakebabra* and is about a start-up venture serving fast food in Dublin, Ireland. We suggest that you read the introductory notes that outline the learning issues about planning. We then suggest you read the case to capture the “story”, without any pressure to make notes, i.e. leave your yellow marker in your pocket, you can use it on a second reading. This case, like most of the other cases in the book, is an interesting story and so the first reading should be an armchair introduction to a ripping yarn; to paraphrase the Nike slogan: “just read it!” By starting the sequence in this way, you obtain a feel for the case, which can be fleshed out later.

When you have done this, we recommend moving back to the theory section of the chapter and working through each part of the model and discussion, and trying to link this to the case you have read. You can see how this is done with the questions at the end of the chapter. Here you will find the concepts repeated and coded links between the concepts in the theory section and the case you have read.

If you follow this work plan, then you will see how the theory topic works in practice. By the end of each theory chapter you will have been led through a series of theory-to-case connections. At the very end of each chapter, further student activities will challenge you to find non-highlighted links between the objective and an example from the case.

In all the chapters just such questions are posed for you at the relevant point. We actually provide student tasks highlighted in italics to help you remember to test your understanding. This is a difficult exercise and you may not be able to find additional links; do not despair, the attempt will have forced you to hone your analytical skills and help digest the points covered. Some suggested answers are provided at the end of the chapter, but try first, check later!

Most students have to pass examinations that typically test knowledge and understanding. We realise that you may have an exam to pass and to help you in times of revision we listed above where within this book the traditional topics and applications to the various cases are shown. Additionally, the standard preliminary concepts of each chapter will provide a useful review listing before an exam.

1.3 For the Lecturer: Resources

We expect many of the students using this book to be the European undergraduate student studying for a degree in business management and taking a strategic management course. We especially had in mind students studying in continental European universities, hence the emphasis on European cases. Our goal in this area is to help the student acquire grounding in the wide-ranging theories of strategic management. Strategic management is usually taught in the final year of a business bachelor degree and is seen as bringing together all the diverse business topics studied previously, so elements of marketing, finance, accounting, logistics, HRM, etc. are present in many of the cases. Strategic management theories are wide-ranging because of this cross-boundary coverage of topics. We expect that our book will be attractive to postgraduate students and to managers too. The cases are lively, the concepts simply explained, and the whole should be very motivating.

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Please make use of the free lecturer's manual in which we provide PowerPoint slides, suggested discussion questions, and links to parallel concepts. To help in structuring your course, the guide also provides recommendations about the choice of the relevant case in conjunction with the topic(s) of the meeting day.

We believe this book differs vastly from other books in the field.

The first two differentiating aspects have been discussed for the students above.

- The audience is very specific – undergraduate business students, who in continental Europe are now studying for only three years under the changed rules of the Bologna agreement. We even provide a strategy-light option whereby we have chosen necessary chapters for the really compressed course, see page 8.
- The book should be attractive to postgraduate students and executives as well, if they are interested in a rich case textbook.
- The tight link from theory to case with highlighted connections and example answers is infrequent and even if present is usually banned from an instructor's manual and then hidden from the real audience, the students themselves; see 1.5 and 1.6 below.

The third differentiating aspect from competitive offerings is the strong overarching theme and major focus – how can firms be successful in our complex and diverse evolutionary society? As previously stated, the cases have been grouped around six questions, and in light of this structure, the distance between our treatment and those from standard offerings in other works is made clear; see Table 1.2.

As mentioned above, to help the lecturer choose the relevant case in conjunction with the topic(s) of the meeting day, we include in the accompanying instructor manual a listing of the main cases and their applicability to the above topics at each level of analysis, and also a link between the traditional topics of a strategy course and each case.

Table 1.2 Differentiation from other texts in strategy

<i>Topic</i>	<i>Many other textbook views</i>	<i>Our view</i>
What is strategy?	Planning is supreme. The firm is the focus.	Multiple views of strategy coexist. Focus on differing levels affected by and affecting strategy.
What are resources?	Discussed at the level of the firm and then internally.	Discussed at multiple levels and can be borrowed when not internally available.
The environment	The “positioning school” rules.	The environment is complex and changeable making positioning a craft.
Management tools including information systems (MIS)	MIS-based competition.	MIS-based competition is a zero sum game. Winning here can include value chain network control.
Building understanding	Theory matters more than application.	Theory has to be contextualised to improve understanding.
Luck	Out of your control	Make your own and lever it.

1.4 Introductory Case: Learning Goals and Objectives

To ease you into the format of upcoming chapters we will start with a trial case on Abrakebabra (a Dublin-based Irish fast food restaurant) in this introductory chapter. A follow-on discussion of this case will appear in Chapter 11. As mentioned above in our note to students, this opening case will allow you to practise reading cases and linking cases to concepts. We will show you how the layout of the book links cases to theories and concepts. Typical links, as shown below, will couple theory and practice. The case context is important: Ireland is a typical European economy; the fast food industry is an important ubiquitous industry and we are looking at a start-up situation.

1.5 Preliminary Concepts

Firms have an evolutionary lifecycle; they are born, grow, mature and die. However, this natural evolutionary course can be influenced by the actions of managers, who can speed up or slow down the process. In psychology, the merits of nature (genes) versus nurture (experience) are heavily debated. Likewise, in management theory the common lifecycle of the firm can be compared with nature and the actions of management can be looked at as nurture. In psychology, both elements are in play at the same time producing differing human personalities and behaviours. In business, the evolutionary cycle of the firm is redirected by management strategic actions and thus we see differences in firms even in the same industries. The differences might mean success or failure; examples of each are supplied in our cases. We, however, highlight throughout the book that many factors seemingly causing success or failure during the case turn out to be just temporary correlations not causalities.

Notwithstanding the importance of contextual factors that influence success or failure, effective management is critical. Effective strategic management is a creative process, requiring skills and ability. In our cases we will study how managers can and/or do act, thereby witnessing whether the skills applied bring success. An example of creativity at play in management is the breaking of norms in an industry. These norms are sometimes called the industry recipe; we have a typical example of this creativity in our opening case of a fast food start-up. The founders broke the industry mould by doing things differently. We take up the same issue in Chapter 2 and many of the other chapters in the book.

So what do you have to do to be a successful manager or entrepreneur? One way to think about this issue is to look at how managers define management and create strategy.

Management is defined as the attainment of organisational goals in an effective and efficient manner through the four functions of planning, organising, leading, and controlling organisational resources (POLC).

Planning: The defining of goals for future organisational performance and taking decisions regarding the tasks and use of resources needed to achieve these goals.

Organising: The activity that follows planning to try to accomplish the planned goals by assigning resources between, and tasks within, departments.

Leading: Using influence to motivate employees to achieve the goals.

Control: The monitoring of resources, before, during and after usage, to ensure the achievement of the goals. A lack of control can lead to organisational failure; see a later mini case about the trader who broke the bank.

1.6 Trial Case: Abrakebabra



Summary: Growing Pains in a Fast Food Restaurant Chain²

In the early 1980s Dublin city lacked the restaurant culture of other European cities. Instead Dublin's social life centred on a vibrant pub culture, with bars focusing on drinks sales, rather than offering food to customers. So, on leaving a pub after an evening's drinking, Dubliners had few options for late night eating. For one 22 year old, Graeme Beere, this problem represented a business opportunity. In 1982 Graeme, with the help of his brother Wyn, opened a new fast food restaurant targeted at Dublin's pub-going population. The offering was new for Dublin: a product mix of kebabs, burgers and chips; late night opening; and the option to "eat in". Making a play on the word "kebab" and Steve Miller's number one hit song "Abracadabra", Graeme called his new restaurant "Abrakebabra".

Abrakebabra expanded rapidly during the 1980s and 1990s. Graeme and Wyn adopted a franchise growth strategy in the mid-1980s – a strategy common in the USA but largely unknown in Ireland at the time. Abrakebabra expanded from one owner-operated fast food restaurant in 1982 to 60 outlets by 1997 – 12 company-owned restaurants and 48 franchised restaurants. However, by 1997, this period of sustained growth was leading to strategic and organisational problems. Graeme and Wyn began to question the sustainability of the dual growth strategy.

The Starting Opportunity

In the early 1980s Graeme Beere finished off a typical night out in Dublin city centre hungry but with little choice of food. He therefore asked himself "what food is available to people like myself – young image-conscious people on a limited budget?" Graeme's answer was to create a new concept in fast food – Abrakebabra.

The Abrakebabra Concept

Graeme's concept was a fast food restaurant that would offer a menu and physical layout that would appeal to his generation – an exotic menu such as kebabs as well as the "old reliables" of burgers and French fries, and a design

²Copyright © Rosalind Beere, Peter McNamara and Colm O'Gorman, 2004, UCD Business School.

that was trendy. He sought to differentiate his restaurant concept from his rivals (the traditional chipper) in two additional ways: the first was in terms of opening hours, he would open for longer; the second was to offer an “eat-in” option by having seating.

Graeme realised that choosing the right location was key so that this new venture would work (*see question 2*). The restaurant needed to be situated close to pubs and in an area where his target market lived and socialised. Wyn Beere (Graeme’s brother) found suitable premises in Rathmines that were adequate in size, inexpensive to rent, and were located close to several pubs, nightclubs and within minutes of an abundance of shared accommodation, apartments and flats. Wyn also helped Graeme acquire the necessary planning permission needed to open a restaurant. Once this was completed Graeme could go about turning his concept into a reality.

Having obtained a suitable location for his first restaurant, the next important issue for Graeme was design (*see question 2*). Graeme sought help from a friend, Donald McDonald, a Dublin designer. Searching for a name for his venture Graeme chose a play on words: a mix of the name of the then number one hit by Steve Miller, “Abracadabra”, and the name of the core product, “kebab”. Hence, Abrakebabra.

For both the logo and restaurant interior and exterior Graeme chose bright colours: green, red and white. Green was chosen to evoke a patriotic feeling among Irish customers; red was chosen for its vibrancy; and white was chosen to create a feeling of cleanliness. The logo was designed to be eye-catching and exotic. Graeme chose two palm trees on either side of the word “Abrakebabra” (see the logo above).

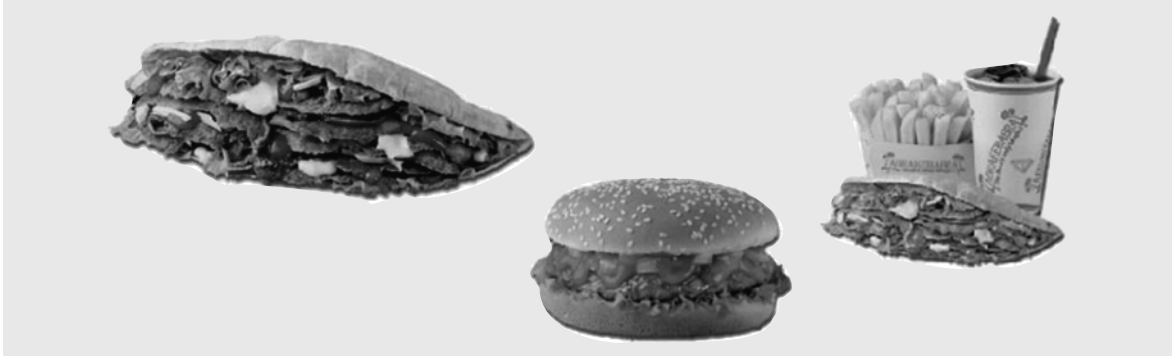
Graeme used the latest in 1980s fast food décor. The floors and walls were all tiled: this was for practicality, for image, and for cost reasons. The white tiles were easy to clean, they promoted a modern and hygienic atmosphere, and they were cheap. Graeme put modern artwork on the walls, something that had never been used in an Irish fast food outlet before. The lighting of the restaurant was bright and the music was trendy and loud. This combination of design (seating, lighting and music) was attractive to his target customers. Pictures of the exterior and interior of a typical Abrakebabra are presented in Exhibit 1.1, while some of the foods are shown in Exhibit 1.2.

EXHIBIT 1.1 Examples of interior and exterior of a typical Abrakebabra



Source: <http://www.abrakebabra.net>

EXHIBIT 1.2 Product offerings: a kebab, a burger, chips



Source: <http://www.abrakeabra.net>

The First Abrakeabra Restaurant

In the spring of 1982, Graeme had fitted the premises in Rathmines and was ready to open his first restaurant. He financed this restaurant with his own money, being possibly the only option for Graeme as access to bank debt was very difficult and expensive in Ireland in the 1980s. Closing time was 4am, catering both for people leaving the pub at 11pm and for those who ‘partied’ until 2am in the local nightclub. Graeme priced Abrakeabra’s products so that they were competitive with “chippers”.

This business model was quite different from traditional offerings in Dublin, where food was either served at the table, or customers waited passively in line and had food handed to them in a paper bag by a cashier (as in the case of a “chipper”).

Expansion: the Second, Third and Fourth Abrakeabra Restaurants

Graeme’s judgement proved correct, with Abrakeabra being popular with customers. About a year into the running of the restaurant in Rathmines, Graeme realised that this concept could work elsewhere. The search for new attractive locations became a pressing concern (*see question 3*). Graeme turned to Wyn to help him manage and develop this new business venture (*see question 4*). Graeme offered Wyn a 50% stake in the company. Wyn accepted, and thus the brothers’ business partnership began with the founding of Abrakeabra Limited.

The brothers as partners now set about making a second restaurant a reality. Wyn located and secured a site on Baggot Street, an area in south Dublin that is similar to Rathmines, surrounded by many pubs and clubs. Together Graeme and Wyn operated Abrakeabra as owner-managers. They worked long hours to address the constant flow of problems and issues involved in running what was proving a highly lucrative (*see question 1*), though labour intensive, business. In terms of division of responsibility, Graeme oversaw the management of staff and the operational running of the restaurants, while Wyn was in charge of the property and financial side of the business. Together, they oversaw the hiring of all staff. In practical terms, the brothers decided that Graeme was to run the Rathmines location and Wyn was to oversee the Baggot Street restaurant.

Two members of staff who proved to be good managers were promoted to the level of restaurant manager. This allowed Graeme and Wyn to spend time opening a third and then a fourth restaurant. By 1984 they had opened a restaurant in Donnybrook (an area like Rathmines) and a restaurant at O’Connell Bridge (a site overlooking Dublin’s main street). Both of these new properties were located close to a number of pubs and a significant passing trade from nearby clubs. “The turnover in those early days was around IR£10 000³ a week, which was enormous. O’Connell Bridge was one of the most successful shops.”⁴

However, growth problems began to arise amidst this early success. With four highly successful shops came a barrage of management and staffing problems. The brothers were experiencing problems managing the four existing restaurants and they couldn’t physically devote the necessary time to each of the outlets. By the time they had opened the fourth restaurant Graeme and Wyn believed that there was no tenable way to continue to expand. They believed that they lacked the management staff to operate more restaurants. The brothers faced a dilemma – the restaurants were highly profitable (*see question 1*) and they wanted to open more Abrakeabra restaurants, but how could they as they were working “flat out” operating the existing four restaurants?

Franchising: A New Growth Strategy

Graeme and Wyn decided that the solution to these growth problems was to franchise (*see questions 4 and 5*). They had seen the unrivalled success of McDonald’s in the USA. To the brothers, McDonald’s was a testimony to the power and efficiency of franchising and they used McDonald’s as the model to copy. “So it was basically a method of growth and expansion.”⁵

Abrakeabra chose the business format franchise model (the model used by McDonald’s). They would sell an entire business package and concept to a franchisee. Abrakeabra offered their franchisees certain key elements: the Abrakeabra brand, product and service trademarks, and the rights to operate in a specific location. The company found that franchising was an excellent way of expanding rapidly as it solved two key problems – cash flow and management capacity. Franchisees brought capital investment and management capacity in that they undertook the responsibility of running their own restaurant on a day-to-day basis (*see question 5*).

The first Abrakeabra franchised restaurant (the fifth Abrakeabra restaurant) opened in 1985 in Crumlin in Dublin. For the brothers this was a huge success and from this point forward they used franchising as the principal strategy for further expansion.

Rapid Growth: Abrakeabra Becomes a Fast Food Empire

The period strategy from 1985 to 1987 was one of very rapid growth. The brothers used a dual strategy to drive growth. That is, they expanded using the franchise strategy and by opening company-owned restaurants. Fifteen years after the opening of the first Abrakeabra restaurant in Rathmines, Abrakeabra had restaurants

³This is an annual turnover of IR£520 000 or approximately €660 000. The average industrial wage in 1984 was IR£8000 or approximately €10 000 per year.

⁴Interview with Wyn Beere, founder and retired director and company secretary.

⁵Interview with Wyn Beere, founder and retired director and company secretary.

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in every large town or city in Ireland. By 1997, Abrakebabra had 60 restaurants, 12 company-owned restaurants and 48 franchised restaurants. The logic of this dual strategy was that by franchising, Graeme and Wyn could expand Abrakebabra quickly as franchisees provided capital and management. The larger the chain became the greater the brand recognition; the greater the brand recognition, the easier it was to attract franchisees. The success of the franchised stores provided the resources to fund company-owned restaurants. And so the cycle continued.

Attracting potential franchisees was done through advertising in local media and by approaching locals who might be interested in an Abrakebabra franchise. Often individuals would see an advert in a local newspaper and contact the Abrakebabra head office in Dublin to arrange a meeting. Sometimes Graeme and Wyn would approach an established local fast food restaurant and ask the proprietors if they would be interested in converting to an Abrakebabra restaurant. Sometimes potential applicants would simply telephone the head office unprompted and enquire about becoming a franchisee without any particular location in mind.

Growing Pains: Strategy, Structure and Management Issues at Abrakebabra

The company reached its peak of 60 restaurants in 1997. This far exceeded the brothers' original expectations of growth. However, this rapid growth was not without problems. Increased competition and management and organisational pressures raised serious questions about the sustainability of the dual growth strategy.

Increased Competition

Abrakebabra competes with its rivals on two different levels, one is competition for customers and the other is competition for competent franchisees. At start-up, Abrakebabra's main competitors were local "chippers". However, during the 1980s Abrakebabra faced increased competition from international fast food restaurant chains such as McDonald's and Burger King and from the Irish-owned Supermacs.⁶ The rival fast food chains also chased promising franchisees.

By 1997, Graeme and Wyn faced significant management, organisational and strategic challenges. These issues were how to manage both the company-owned restaurants and the franchised restaurants: "...what was happening was 80% of management's time was being taken up dealing with their own shops...the franchises were largely being ignored".⁷

The Future

Graeme and Wyn face a number of difficult choices. They must decide about the identity of the firm. Can Abrakebabra continue to function effectively with a split focus – that is both as a franchiser and a restaurateur?

⁶Supermacs is a large Irish-owned fast food restaurant chain operating throughout Ireland.

⁷Interview with Dominic Kelly, company financial accountant.

1.7 Keyed Links Between Case and Example Answers

The purpose of this section is to demonstrate links between questions and the relevant portions of the case. Notice that the question is always highlighted in *bold italics* as is the link inside the text, and the link discussion or example answer is in *italics*.

We start off with the existential questions of survival and profit – success as we have branded it.

Question 1: Is Abrakebabra successful using our definition of survival and profit?

If we return to the italicised link on page 14 we find the business described as highly lucrative, that means profitable. This point is emphasised on the next page “– the [4] restaurants were highly profitable...” In these early days of the firm’s expansion there is little hint of a survival crisis although rising competition may well reduce profits and eventually (as we will learn in Chapter 11) internal events may challenge survival.

Although Graeme at least was a newcomer to managing an organisation, the case shows some typical applications of basic management skills, summarised as planning, organising, leading and controlling (POLC). We have chosen to use general management theory here because of the book’s emphasis on the link of management actions. What constitutes management actions? The answer is a mixture of POLC.

Question 2: Give an example of planning (P)

For someone with little management background, Graeme showed he was aware of the necessity not just to muddle into the project but sequentially and in advance to think of the most important success factors. Planning is the definition of future goals and the determination of the tasks and resources needed to achieve them.

The case notes that Graeme actively planned the location and premises design necessary to achieve his goal of providing late night dining with a difference.

Question 3: Give an example of organisation (O)

Organising is the allocation of the tasks and resources, mentioned under planning, with the aim of reaching the aspired goals. An interesting example from the case is the inclusion of brother Wyn in the project. Graeme realised he was too stretched and so extended the resources available by bringing in his brother.

Question 4: Give an example of leading (L)

Inside a firm the concept of leadership means influencing the behaviour and attitudes of employees and managers to achieve the company’s goals. Leadership is especially important when reacting to changed circumstances, e.g. by rallying the necessary support to move in a different direction. The decision by the brothers to entertain the concept of franchising as a way of continuing growth but releasing themselves from the time-consuming grind of day-to-day operational management of company-owned businesses shows leadership. The goal of growth remained but the methodology of achieving it was changed and the brothers seem to have carried the rest of the staff with them on the new course. There is no talk of staff strikes as they saw the potential that their status might change from employees of Abrakebabra to working for an unknown franchisee.

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Question 5: Give an example of control (C)

Firms can spin away from the goals and objectives they wish to achieve. The concept of control is to introduce monitoring to track the performance towards the goals and take action if the firm is drifting off course. The case of Abrakebabra has been chosen as the main control case for this book, see Chapter 11. Rather than subtracting from the fun of analysing the whole case at a later stage, we will only mention at this early point that the brothers were very quickly overstretched. Four restaurants was the maximum they could handle given their limited time and energy. Why is this so? The answer lies in the nature of control. Monitoring people and resources are two different aspects of control. The concept of span of control relates to the number of subordinates a manager can effectively monitor. Interestingly, there seems to be a generally agreed answer – seven! As soon as the company-owned restaurants employed too many people to be effectively monitored by the two brothers (14 if the previous logic is correct), then either more supervisors were needed or a switch to process-driven control of resources was necessary. The brothers moved to the franchising system whereby the people control was performed by the franchisee and the brothers could concentrate on process controls, sales, cash and quality monitoring. So the answer to questions 3 and 4 is the same.

Student task: In this discussion question assume you are Graeme Beere; what other alternatives could Graeme have chosen when he realised that four company-owned restaurants was the maximum possible with the chosen model of operations?

Check your answer with the actual outcome shown in the full case in Chapter 11.

References

Sacks, O. (1986). *The Man who Mistook his Wife for his Hat* (New York: Picador Paperback).

Recommended Further Reading

The title of this book is *Basic Strategy in Context*. We have kept the concepts simple in line with the perceived needs of undergraduate business students in Europe. Further deepening of your understanding comes from literature aimed at a more advanced level.

A classic in the strategy field and also from the Blackwell stable is Grant, R. *Contemporary Strategy Analysis*.

Another extremely well-structured standard European text is Johnson, G. and Scholes, K. *Exploring Corporate Strategy*.

There is nothing to beat going to the original articles, although they take more skill and effort in understanding. We will highlight throughout this book our preference for the academic journal *LRP: Long Range Planning*.