A Value Discipline-Based Strategy Design Method

By
F.A. TE PAS

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Student identity number 0551848

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Supervisors:
Prof.dr. L.H.J. Verhoef, TU/e, ITEM
Dr. M.M.A.H. Cloodt, TU/e, ITEM
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Management summary

This project is in partial fulfillment of the requirements for the degree of Master of Science in Innovation Management. It is a research project in the field of entrepreneurship.

This research project is about designing a new method for companies to define a focused strategy that supports them in making trade-offs. Porter (1996; p. 68) defines such a strategy as “the creation of a unique and valuable position, involving a different set of activities. This strategic position is not sustainable unless there are trade-offs with other positions.”

The proposed design method is based on existing academic literature and is tested in practice on case-specific problems.

Proposed design method

At the basis of a strategic focus lies a value discipline. The concept of value disciplines is proposed by Treacy and Wiersema (1993). Value disciplines can be considered generic strategic directions that define the overall focus of an organization’s strategy. Only one value discipline should be picked and vigorously pursued in order to obtain the focus required to gain and sustain value leadership. However, still of key importance is to meet industry standards in the other two, to avoid being too focused. The initial three value disciplines proposed are those by Treacy and Wiersema (1993):

- Operational excellence: this value discipline focuses on optimizing the production and delivery of products or services. This results in products or services that are reliable as well as competitively priced and delivered with minimal difficulty or inconvenience (Treacy & Wiersema; 1993).
- Product leadership: a product leader focuses on offering leading-edge products and services to customers that consistently enhance the customer’s use or application of the product, thereby making rivals’ goods obsolete (Treacy & Wiersema; 1993). It has to be creative and open-minded to new ideas and be quick in commercializing them.
- Customer intimacy: companies focused on customer intimacy segment their target markets precisely and subsequently tailor their offerings to closely match the demands of those niches. Companies focus on long-term relationships with its customers instead of customer transactions. Therefore customer satisfaction is crucial.

A fourth value discipline has been derived by linking the original three value disciplines to the framework of Quinn and Rohrbaugh (1983) and discovering that this framework suggests a fourth value discipline:

- Supply comport: a concept proposed by Kellogg and Chase (1995). Companies pursuing supply comfort are not so much focused on the products they are selling but on the configuration of services around the product. The focus lies on customers who seek comfort and customers who feel urgency.

To link the value disciplines to the business model, the business model framework of Osterwalder (2004) has been proposed. This framework consists of ten business model building blocks that cover both the value creation and value capturing aspects of a company (as shown in Figure 1). These aspects lead to a value proposition and a change in the company’s financial situation.

Each of the value disciplines has its own effect on where the focus lies in the business model framework and in each of the business model building blocks. The focus of each value discipline lies on a specific
business model building block on either the value creation or value capturing side of the business model. This focus influences the focus of all other building blocks so that a reinforcing fit between building blocks is created.

Initially, the company has to decide upon which of the four value disciplines it is pursuing. This can be determined by an analysis of its current business model and strategy. Based on the value discipline and on the business model framework focused on that particular value discipline, the company can redesign its current business model into one that has a reinforcing fit with the value discipline it is pursuing. Based on the company’s new business model, on its current external and internal environment, and on its current strategy, a new and more focused strategy can be proposed.

![Figure 1 Business model based on customer intimacy](image)

### Conclusions

The underlying and recurring notion this research project is based on is the need for a company, independent of size or form, to pursue a focused strategy. Even though it is noticed that there are many ways to approach strategy, the need for focus has widely been preached in academic literature. Focus helps companies to create a unique mix of values, which subsequently allows the company to head into a distinctly different direction than its competitors. A reinforcing fit between a company’s activities further strengthens its focus.

The contribution to academic knowledge that emerges from this research is a value discipline-based business model framework for each of the identified value disciplines. Extensive relationships between theories have been found, in particular the finding that each value discipline focuses on one business model building block and thereby affecting all of the other building blocks.

Whether a company has not yet defined a strategy and wants to create one or already has a strategy defined but wants to evaluate it, the design method emerging from this research helps companies in defining a more focused and internally consistent strategy and thereby becoming more successful.
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I hope you can use this master thesis to your advantage.

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1 Project definition

This project is in partial fulfillment of the requirements for the degree of Master of Science in Innovation Management. It is a research project in the field of entrepreneurship.

Recent developments in the globalization of the market space and in the rise of new economies, such as in China and India, are leading to an increasingly competitive market space. Not only is the number of organizations increasing, but also their ability to operate and compete globally. Companies of all kinds will find themselves in an increasingly fierce competitive environment. Running a business successfully is crucial and requires not only a clear strategy, but also a strategy that focuses on what the company does best.

Companies of all sizes often have an inadequately defined strategy that does not provide a clear direction the company as a whole is heading towards. Sometimes companies do not even have a defined strategy at all.

This common diagnosis of a company’s strategy is also extensively covered in academic literature. Porter (1996; p. 75) wonders: “Why do so many companies fail to have a strategy? Why do managers avoid making strategic choices? Or, having made them in the past, why do managers so often let strategy decay and blur?” He observes how companies find trade-offs frightening; many companies succumb to the temptation to chase “easy” growth by adding hot features, products, or services without screening them or adapting them to their strategy, and how in many companies leadership has degenerated into orchestrating operational improvements and making deals.

This research project is about designing a new method for companies to define a focused strategy that supports them in making trade-offs. Porter (1996; p. 68) defines such a strategy as “the creation of a unique and valuable position, involving a different set of activities. This strategic position is not sustainable unless there are trade-offs with other positions.”

The proposed design method is based on existing academic literature and is tested in practice on case-specific problems.

In the remainder of this chapter the research objectives and questions are defined and an overview of the research methodology used and the report structure is provided.

1.1 Research objectives

A widely recognized theory of coming to a focused strategy is proposed by Treacy and Wiersema (1993) and revolves around value disciplines. The authors define three value disciplines – operational excellence, product leadership, and customer intimacy – and explain that a company’s focus should be on only one. In this research their framework is extended by a fourth value discipline – supply comfort – proposed by Kellogg and Chase (1995).

Another relevant concept in the strategy research field is that of the business model. Where strategy is about what differentiates the company in the eyes of the customers and gives it competitive advantage, the business model describes how the pieces of a business fit together (Harvard Business Essentials; 2005). To come to a truly focused strategy, the pieces of the company have to form a reinforcing fit. Therefore, the business model is a key aspect in designing a focused strategy.
The design method proposed in this research is therefore based on both value disciplines and the business model and translates the company’s goals into a focused strategy based on its internal and external environment.

In conclusion, this research has the following key objective:

- To contribute to academic literature by proposing a design method that is based around value disciplines and the business model and which companies can use to become more successful by pursuing a focused strategy.

1.2 Research questions

To effectively approach the research objectives defined in Chapter 1.1, they are further defined into research questions for the purpose of guiding the research project.

1. What are the value disciplines that are the basis for the proposed design method?

2. How do the value disciplines relate to the business model concept?

3. What does the design method look like that can be used by organizations to become more successful by pursuing a more focused strategy?

In the concluding chapter (Chapter 3) of this research report the answers to the research questions are provided.

1.3 Research methodology and report structure

The research project is approached by following a process for the scientific testing of practical propositions, referred to as the reflective cycle (Van Aken; 2004). The reflective cycle consists of six steps. The fourth step, “Planning and implementing interventions”, is replaced by the regulative cycle of Van Strien (1997) that describes the process of this step in greater detail. The steps of the research process used are described below. With each step is described where the information related to that step can be found in the report.
1. Problem: earlier on in this chapter a set of distinctions was used to diagnose a class of situations and to define a class of problems. This class of problems is related to companies having an unfocused strategy.

2. Design method: a practical method is defined to provide a general solution to the class of problems. This design method is described in Chapter 2. This design method is based on strategy concepts (Chapter 2.1), value disciplines (Chapter 2.2), and business model concepts (Chapter 2.3).

3. Choose case: the design method has been tested on several cases.

4. Regulative cycle: to test the cases, regulative cycle has been used.

5. Reflecting on results: in this step, the results of the case are reflected on. This is done in the concluding chapter of this research, Chapter 3.

6. Developing design knowledge: in the final step of the reflective cycle the reflection of the results leads to the development of the design knowledge (in other words, knowledge we can use in designing solutions to the class of problems [Van Aken; 2004]). This design knowledge may lead to improvements in the method, to alterations in how we diagnose the class of situations, or to changes in the way the problem is defined (Andriessen; 2004). Hence the arrows to previous steps. These results are also shared in the conclusions of this research (Chapter 3).
2 A value discipline-based strategy design method

In this chapter a new design method for defining and refining a company’s strategy is proposed, based on four value disciplines defined by Treacy and Wiersema (1993) and Kellogg and Chase (1995) and on the business model framework by Osterwalder (2004).

First the concept of strategy is explored after which the framework of the four value disciplines is discussed. In order to define a company’s strategy based on these four more generic strategic directions, the concept of business models is introduced. Explored are the effects of a particular value discipline on a company’s business model and the relationships between a business model and strategy. Based on these outcomes, a new process for defining and refining a company’s strategy is proposed.

2.1 Strategy

Strategy provides insights into how a business differentiates itself and what its competitive advantage is. “Strategy is a deliberate search for a plan of action that will develop a business’s competitive advantage and compound it. The differences between you and your competitors are the basis of your advantage” (Harvard Business Essentials; 2005). Porter (1996) also defines competitive strategy as being different and deliberately choosing a different set of activities to deliver a unique mix of value.

Different kinds of strategies can be distinguished and grouped into a hierarchy that flows from a corporate strategy (intentions concerning the portfolio of a business), to a business strategy (intended positions on specific product-markets), to functional strategies (include marketing strategies, new product development strategies, human resource strategies, financial strategies, legal strategies, supply-chain strategies, and information technology management strategies) (Mintzberg; 2000). Drucker (1954) proposes an additional level of strategy, namely the operational strategy which is very narrow in focus and deals with day-to-day operational activities.

There is an important difference between operational effectiveness and strategy. Whereas operational effectiveness means performing similar activities better than rivals perform them, strategic positioning means performing different activities from rivals’ or performing similar activities in different ways (Porter; 1996). So activities involving tools and techniques such as outsourcing, partnering, benchmarking, and total quality management contribute to operational effectiveness, but are not strategy.

Much has been written about strategy – in business literature as well as academic literature. Mintzberg and Lampel (1999) attempt to provide an overview of the evolution of the field by categorizing it in terms of ten “schools”. These schools represent fundamentally different processes of strategy making, as well as different parts of the same process.

These ten “schools of thought” are grouped into three categories:

- Prescriptive or normative group: consists of the information design and conception school, the formal planning school, and the analytical positioning school (includes such concepts as generic strategic positions, strategic groups, value chains, and game theories).

- Category consisting of schools that are more concerned with how strategic management is actually done rather than prescribing optimal plans or positions. Consists of six schools, namely the
entrepreneurial school, cognitive school, learning school, power school, culture school, and environmental school.

- Configuration school: this school represents the third category and is a hybrid of the other schools. It integrates the claims of the other schools and applies them based on the configuration of an organization.

The significant differences between the schools suggest that there is no one right way to create strategy. Mintzberg and Lampel (1999) consider strategy creation to be judgmental designing, intuitive visioning, and emergent learning which can include aspects of different schools. They notice that “the greatest failings of strategic management have occurred when management took one point of view too seriously” (Mintzberg and Lampel; 1999; p. 26).

The strategy creation field has moved from planning, to positioning, to learning as its prominent school out of the ten schools listed above (Mintzberg and Lampel; 1999). Core concepts of these schools are described in the remainder of this chapter.

2.1.1 Strategic management

To gain further insights into strategy, this segment gives an overview of the field that is related to managing it. Strategic management can be defined as “an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly (i.e. regularly) to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.” (Lamb; 1984; p. ix)

This definition suggests that strategic management can be split into three main processes: strategy creation, implementation, and evaluation. Figure 3 (Harvard Business Essentials; 2005) provides a graphical overview of the strategy process. The three processes are described in more detail below:

- Strategy creation follows from the mission of the company in which its purpose and what it aims to do for its stakeholders is defined.

Goals as well as strategy creation should be based on the company’s internal and external environment. These environments can be analyzed through conducting a SWOT analysis.

The SWOT analysis is used to identify the key internal (strengths and weaknesses) and external (opportunities and threats) factors that are important to achieving a particular objective. Therefore if a SWOT item generates no strategies relevant to the objective, it is not important.

When evaluating a company’s strengths and weaknesses only those resources and capabilities should be included that would be recognized and valued by the customer. Opportunities and threats only
exist in the outside world, the things a company proposes to do about them are its strategies (Piercy & Giles; 1989).
The SWOT analysis should not only be used during strategy creation, but a company should always go back and see how the new situation it is building changes the SWOT model.

The overarching company strategy can be translated into implementation tactics (which is the next step, as shown in Figure 3). To obtain optimal results, operating units should be involved when defining implementation tactics (Harvard Business Essentials; 2005).

The final step in the strategy process is performance measurement (see Figure 3). Based on measuring performance, the perception of the company’s internal and external environment is adapted which could have consequences for the company’s goals and strategies. Performance measurement influences the implementation tactics as well.

- **Strategy implementation**: Strategy creation is about doing the right things, strategy implementation is about doing things right (Harvard Business Essentials; 2005). A popular implementation method is the strategy map and the balanced scorecard (Kaplan & Norton; 1996). By 2004 an estimated 57% of global companies use the method (Balanced Scorecard Institute; 2009).

- **Strategy evaluation**: strategy is developed and evolves over time to meet the changing conditions posed by the external environment and internal capabilities (Kaplan & Norton; 2004). Therefore it requires evaluation which involves measuring the effectiveness of the organizational strategy. Johnson et al. (2008) propose three key success criteria that can be used to assess the viability of strategic options:
  
  o **Suitability**: relates to whether the strategic option fits with the strategic direction or value discipline chosen.
  
  o **Acceptability**: is concerned with the expected performance outcomes and whether they are aligned with the expectations of stakeholders.
  
  o **Feasibility**: is concerned with whether the company has the capabilities to make the strategy work in practice.

### 2.1.2 Strategic focus

Various authors in academic literature denote the importance of a focused strategy. The essence of strategy is choosing what to but also what not to do (Porter; 1996). Focus helps companies to create a unique mix of value which makes it different from its competitors (Porter; 1979). The more an organization has the discipline to stay within its area of focus, with almost religious consistency, the more it will have opportunities for growth (Collins; 2001).

Not having a focused value proposition but trying to be all things to all customers confuses employees in their day-to-day operations because they have to make decisions without a clear framework (Porter; 1996). It creates a company that does not go into any direction at all and that gets surpassed on all sides by competitors who do focus and provide customers with a more appealing value proposition.

Academic literature proposes various ways of bringing focus into a company’s strategy. Porter (1980) in his early work proposes generic strategies – cost leadership, differentiation, and focus – to represent the
alternative strategic positions. Porter (1996) proposes further bases for positioning by distinguishing varieties based, needs based, and access based positions. Treacy and Wiersema (1993) propose similar concepts, referred to as value disciplines, namely operational excellence, customer intimacy, and product leadership. These concepts and the reasons for including them in this research are described in more detail in Chapter 2.2. Prahalad and Hamel (1990) propose that companies should focus on what their core competencies are, described in more detail in Chapter 2.1.4.

2.1.3 Strategic fit

Not only focus (as discussed above) but also fit is a key aspect of strategy. Both aspects are interrelated in that if the activities of a company fit with each other, the company’s direction becomes even more focused. Therefore the most valuable fit is strategy-specific because it enhances a position’s uniqueness and amplifies trade-offs (Porter; 1996). This enhanced a company’s competitive advantage since it will be much harder for the competition to imitate its strategy. The strategy namely involves an entire system of activities, and fit amongst these activities creates a chain that is as strong as its strongest link (Porter; 1996).

When activities fit, it means they do not contradict each other. Porter (1996) defines three different kinds of fit. First-order fit involves simple consistency between each activity and the overall strategy. Second-order fit occurs when activities are reinforcing each other. Third-order fit is referred to as optimization of effort which goes beyond activity reinforcement. These types of fit are not mutually exclusive.

2.1.4 Core competencies

A concept related to strategic focus and fit is that of core competencies, described by Prahalad and Hamel (1990). A core competency is defined as a competence that should provide potential access to a wide variety of markets, should make a significant contribution to the perceived customer benefits of the end product, and should be difficult for competitors to imitate. It’s a particular strength relative to other organizations in the industry which provides the fundamental basis for the provision of added value. Examples are Sony’s capacity to miniaturize, Philips’s optical-media expertise, and Honda’s ability to build engines and power trains.

Many authors emphasize the importance of core competencies. Since it is the bases for providing added value they should be developed continuously. Therefore a company should be focusing on and creating a reinforcing fit around developing its core competencies (Osterwalder; 2005).

2.1.5 Organizational growth

As a company grows, its strengths, weaknesses, opportunities and threats change (Figure 10). Therefore its strategy has to be adapted to the new situation. Greiner (1972) proposes a model that describes the growth of an organization and identifies moments in an organization’s life (referred to as a revolution or crisis) that require a change in management style. A graphic overview is provided in Figure 4. The phases between revolutions are characterized by a dominant management style and are referred to as evolutions.
Greiner (1972) distinguishes five phases of evolution. In order to grow into the next phase, a revolutionary period has to be overcome that is characterized by a dominant management problem that must be solved. The first phase is the creativity phase. As the organization grows the founders are not capable of managing it themselves anymore which leads to a leadership crisis. By hiring strong management to lead the organization, it enters the direction phase which leads to a crisis of autonomy since a centralized hierarchy is not appropriate anymore for controlling a larger, more diverse and complex organization. By delegating and decentralizing, the organization enters the delegation phase. This phase ends with a control crisis that can be overcome by implementing more formal management systems. The coordination phase has been entered. A red tape crisis will occur when the organization has become too large to be managed by formal management systems where bureaucratic procedures take precedence over problem solving. The fifth and final phase is driven by collaboration, where social control and self-discipline take over from formal control.

A company has to adapt its strategy based on the phase it finds itself in. Only if the strategy fits the organizational situation the crises can be overcome and the organization can continue to grow (Greiner; 1972).

### 2.2 Value disciplines

Because of the importance of a focused strategy, the concept of value disciplines, introduced by Treacy and Wiersema (1993), is further explored in this segment. Value disciplines can be considered as generic strategic directions that define the overall focus of an organization’s strategy. Based on the value discipline an organization is pursuing, its strategy can be defined in more detail.

#### 2.2.1 The three value disciplines by Treacy and Wiersema (1993)

Treacy and Wiersema (1993) introduce the concept of value disciplines. They distinguish three value disciplines, namely operational excellence, customer intimacy, and product leadership. Only one value discipline should be picked and vigorously pursued while meeting industry standards in the other two to avoid a focus that is too strong. By doing this, the business focus of a company is being narrowed. This is something that companies that have taken leadership in their industries in the last decade typically have done. It creates a sustainable competitive advantage which makes it harder for the competition to catch up. Therefore, the key to gaining and sustaining value leadership is focus.
As is explained in Chapter 2.2.1 the value disciplines of Treacy and Wiersema (1993) show many similarities to Porter’s (1980) three generic strategies. The reason for building on the value disciplines in this study is that they are a more recent contribution to academic knowledge compared to Porter’s (1980) three generic strategies which date back to 1980. Furthermore the value disciplines of Treacy and Wiersema (1993) are widely acknowledged in academic literature.

The three value disciplines are described below. For each value discipline an example is given.

1. Operational excellence: this value discipline focuses on optimizing the production and delivery of products and services. This results in products and services that are reliable as well as competitively priced and delivered with minimal difficulty or inconvenience (Treacy & Wiersema; 1993). Toyota focuses on operational excellence. In its management philosophy, the Toyota Way, that is the source for its competitive advantage, principles related to eliminate waste, to get it right the first time, and to improve continuously are emphasized (Liker; 2004).

2. Product leadership: a product leader focuses on offering leading-edge products and services to customers that consistently enhance the customer’s use or application of the product, thereby making rivals’ goods obsolete. To be a product leader, companies face three challenges. First, they must be creative and open-minded to new ideas and opportunities that usually originate outside the company. Second, they must be quick in commercializing their ideas. This asks for the company to be organized like a small, entrepreneurial company. And third, they must relentlessly pursue new solutions to the problems that their own latest product or service has just solved. Product leaders are their own fiercest competitors (Treacy & Wiersema; 1993). An example is Apple Computer Inc. Apple is open-minded to new ideas (such as entering the music industry with its iPod and the mobile phone industry with its iPhone), brings these ideas to market quickly, and cannibalizes its own products (by replacing their industry leading products with even more advanced products).

3. Customer intimacy: companies focused on customer intimacy segment their target markets precisely and then tailor their offerings to closely match the demands of those niches. It’s not about the profit or loss of a single transaction but about the profit over the lifetime of the relationship with a single customer. This makes customer satisfaction crucial. Such a company’s organization structure is decentralized so that it empowers the people that are working close to the customers (Treacy & Wiersema; 1993). A well-known example is Dell. Through its website customers have the possibility to fully customize their computer they are about to buy so that it matches their needs.

An overview of the three value disciplines is shown in Table 1.
2.2.2 Fourth value discipline: supply comfort

Although the three value disciplines proposed by Treacy and Wiersema (1993) seem to adequately cover the major strategic positions a company can focus on, the framework for organizational analysis proposed by Quinn and Rohrbaugh (1983) suggests the consideration of a fourth value discipline.

The framework for organizational analysis proposed by Quinn and Rohrbaugh (1983) is based around the concept of three value dimensions that underlie conceptualizations of organizational effectiveness. These value dimensions are:

- Focus: organizational focus can either be internal or external.
- Structure: organizational structure can either be flexible or stable, considering innovation and change versus order and control.
- Means and ends: with means there is an emphasis on important processes (i.e. planning and goal setting) and with ends on final outcomes (i.e. productivity).

The value disciplines proposed by Treacy and Wiersema (1993) apply to the value dimensions of focus and structure as shown in Figure 5. With operational excellence the organization focuses on its internal processes and on control in order to optimize these processes. An organization pursuing customer intimacy has an external look so it can identify and segment its markets and exactly meet the demands of these markets. This requires control in the sense of understanding its target markets. Product leaders focus on opportunities and ideas that are usually outside the organization which requires an external focus. Flexibility is required to quickly commercialize these opportunities and ideas. From Figure 5 can be noted that a value discipline that has an internal focus and a focus on flexibility is not defined.

As is the case for operational excellence the fourth value discipline is focused internally, but in this case the focus is not
related to making products in the most efficient way. The fourth value discipline also focuses on flexibility but not on delivering the best product like product leadership. Therefore the fourth value discipline is not so much about the product but about the configuration of services around the product.

A company pursuing the fourth value discipline is focused internally on being flexible when it comes to configuring an optimal combination of services around an averagely priced averagely performing product they offer. This combination of services is offered at the right place, at the right time. Therefore the focus lies on customers who seek comfort and customers who feel urgency. These customers engage into relationships with the company that are purely transactional which means that even if customers have been helped and are satisfied, they might not return for a long time or at all (as opposed to customer intimacy where customers engage into a long-term relationship with the company).

An overview of the aspects of the comfort supply value discipline mentioned above is provided in Table 2).

Kellogg and Chase (1995) explore this value discipline and refer to it as the supply comfort model. Another reference from academic literature comes from Schneider (1994) who points out the existence of a fourth value discipline and refers to it as enrichment. Even though this term deviates from the term used by Kellogg and Chase (1995), it covers the same concept (Gerstberger; 2007).

Customer contact, which is defined as the interface between the customer and the service provider (Soteriou & Chase; 1998), is a key concept of supply comfort (Scheer & Loos; 2002) since the focus of this value discipline lies on the services that are provided with the product. Kellogg and Chase (1995) propose a model to measure customer contact consisting of three variables: communication, intimacy, and time. Soteriou and Chase (1998) propose a model that link customer contact to perceived service quality. They expressed service quality through five dimensions: reliability, tangibles, responsiveness, assurance, and empathy.

An example of a company pursuing supply comfort is Zipcar. Zipcar is an innovative membership-based car rental company. It provides automobile rental to its members. Zipcar does not offer a competitive price for its cars, nor does it offer a large choice of rental cars. Still, Zipcar is a huge success, not because of the product it offers, but because of the service it provides. Members can rent a car by the hour, conveniently over the internet, iPhone, or telephone. Zipcars are conveniently parked all over big cities in the States so that there is always a car near the location of the renter. Over the internet, the renter can locate the car, based on Google Maps, it would like to rent. After the renter reserved a particular car for a particular timeslot, he/she can conveniently open the car with the credit card (called Zipcard) the renter received when he/she became a member. Gas and insurance are already included in the hourly rate of the car to make the renter’s experience even more convenient.

All four value disciplines are shown in Figure 6.

<table>
<thead>
<tr>
<th>Focus on:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services, not the product</td>
</tr>
<tr>
<td>Optimal combination of services and product</td>
</tr>
<tr>
<td>Offering at the right place, at the right time</td>
</tr>
<tr>
<td>Customer comfort and customer urgency</td>
</tr>
<tr>
<td>Customer transactions</td>
</tr>
</tbody>
</table>

Table 2 Key aspects of supply comfort

An example of a company pursuing supply comfort is Zipcar. Zipcar is an innovative membership-based car rental company. It provides automobile rental to its members. Zipcar does not offer a competitive price for its cars, nor does it offer a large choice of rental cars. Still, Zipcar is a huge success, not because of the product it offers, but because of the service it provides. Members can rent a car by the hour, conveniently over the internet, iPhone, or telephone. Zipcars are conveniently parked all over big cities in the States so that there is always a car near the location of the renter. Over the internet, the renter can locate the car, based on Google Maps, it would like to rent. After the renter reserved a particular car for a particular timeslot, he/she can conveniently open the car with the credit card (called Zipcard) the renter received when he/she became a member. Gas and insurance are already included in the hourly rate of the car to make the renter’s experience even more convenient.

All four value disciplines are shown in Figure 6.


2.2.3 Theories related to the four value disciplines

Various theories are related to the four value disciplines and provide deeper insights into them. These theories are described below. An overview of how these theories relate to the four value disciplines is given in Table 3.

2.2.3.1 Generic strategies Porter (1980)

Porter (1980) distinguishes three different strategies, namely cost leadership, differentiation, and focus. Porter proposes that one of these three generic strategies has to be pursued in order to maintain a competitive advantage (Porter; 1980). Porter’s (1980) three generic strategies are strongly related to Treacy and Wiersema’s (1993) three value disciplines as explained below.

The three generic strategies can be outlined in a schema that includes market scope (that can either be narrow or broad) and competency (distinguished are low cost and uniqueness). The schema is shown in Figure 7 and the three generic strategies are described in more detail below.

- Cost leadership strategy: this strategy is related to the operational effectiveness value discipline and emphasizes efficiency. The key to using the low-cost strategy is to deliver the customer’s expected level of value at a cost that assures an adequate level of profitability (Harvard Business Essentials; 2005). Companies that successfully pursue a differentiation strategy usually have a broad market scope.

- Differentiation strategy: the differentiation strategy is related to the product leadership value discipline. It is aimed at a broad market and is about developing a product or service that is perceived throughout the respective industry as unique. Differentiation only matters to the extent that customers value the difference. If this is the case they will select your offering over those of others and/or are willing to pay a premium price for what you offer (Harvard Business Essentials; 2005).

- Focus strategy: this strategy is related to the customer intimacy value discipline and is also called segmentation strategy or niche strategy. It is about focusing on a select few target markets and tailoring your offering to the specific needs of those markets (Harvard Business Essentials; 2005). Because of this narrow market focus the company is less vulnerable to competition.

2.2.3.2 Models of effectiveness criteria Quinn and Rohrbaugh (1983)

Quinn and Rohrbaugh (1983) propose four models of effectiveness criteria based on the value dimensions as shown in Figure 5, namely: the human relations model (flexibility and internal focus), the open system model (flexibility and external focus), the internal process model (control and internal focus), and the rational goal model (control and external focus). Note that the human relations model is focused internally, therefore it refers to cohesion and morale of employees as well as human resource development (Quinn and Rohrbaugh; 1983).
These four models are related to the four value disciplines because they are based on the same value dimensions.

### 2.2.3.3 Strategic orientations Hardjono (1995)

Hardjono (1995) proposes a model to analyze the present organization and to determine what the organizational control points and interventions must be in relation to its strategy. This model is called the Four-Phase Model.

The Four-Phase Model is based on a two dimensional orientation layer. The four organizational orientations – external orientation, internal orientation, orientation on control, and orientation on change – are based on the value dimensions proposed by Quinn and Rohrbaugh (1983) (except they refer to change as flexibility) (see Chapter 2.2.2). Therefore the organizational orientations are also related to the four value disciplines.

Based on the four organizational orientations, four strategic orientations are defined. A market orientation is directed towards increasing effectiveness, a productivity orientation is directed towards increasing efficiency, an orientation towards making organizations lean is directed at increasing flexibility, and an orientation towards innovativeness is aimed at the creativity of an organization (Hardjono; 1995). Based on these four strategic orientations, guidelines for a program of organizational change are provided but are not further relevant to this research. They could be relevant for future research, as described in Chapter 3.4. Therefore more information about the Four-Phase Model is provided in Appendix 5.1.

In addition, Hardjono (1995) identifies four core competencies, namely the material competency, the commercial competency, the socialization competency, and the intellectual competency. In Chapter 2.6 the relationships between these four core competencies and the strategy creation process are described.

<table>
<thead>
<tr>
<th>Value Discipline</th>
<th>Generic Strategy</th>
<th>Model of Effectiveness Criteria</th>
<th>Strategic Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Excellence</td>
<td>Cost leadership</td>
<td>Internal Process Model</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Product Leadership</td>
<td>Differentiation</td>
<td>Open System Model</td>
<td>Creativity</td>
</tr>
<tr>
<td>Customer Intimacy</td>
<td>Customer Relationship</td>
<td>Rational Goal Model</td>
<td>Effectiveness</td>
</tr>
<tr>
<td>Supply Comfort</td>
<td></td>
<td>Human Relations Model</td>
<td>Flexibility</td>
</tr>
</tbody>
</table>

Table 3 Theories related to the four value disciplines

Table 3 provides an overview of the theories related to each of the value disciplines. Whereas the definition of the generic strategies by Porter (1980) are closely related to the value disciplines, the other theories are related to the value disciplines in that they are based on the same value dimensions. The related theories provide further insights into the focus of each of the value disciplines. These insights are used as the value disciplines are integrated into the proposed design method (Chapter 2.5 and Chapter 2.6).
2.3 Business model

A business model is related to strategy, but it is not the same thing. Business models describe how the pieces of a business fit together but does not factor in competition. That’s where strategy comes in (Magretta; 2002). Because a business model is strongly related to strategy, it is explored in more detail in this segment. The relationship between a business model and a strategy is described in more detail in the first part of Chapter 2.5.

2.3.1 Business model definitions

Over the past few years the concept of business models gained significantly in popularity, especially in the mid 1990’s when “dot-com” firms pitched business models to attract funding. Since then businesses in general started to rely increasingly on the concept. For example, approximately 27% of the Fortune 500 firms used the term in their 2001 annual reports (Shafer et al.; 2005).

The main conclusion that can be drawn about how academic as well as business literature defines the concept of a business model is that definitions and proposed components of a business model vary greatly and that business models are still relatively poorly understood (Linder and Cantrell; 2000).

In research from Osterwalder et al. (2005) participants were asked to give a definition of what they understand is a business model. Answers from 62 respondents resulted in 54 different definitions. 55% of the responses were related to a more value/customer-oriented approach while the other 45% leaned more towards an activity/role-related approach.

As therefore a clear definition of the concept cannot be given here, an overview of some of the most prominent definitions in academic literature is provided and conclusions are drawn.

Magretta (2002) writes that business models are stories that explain how enterprises work. She describes a business model as some variation of the value chain that supports every business. This value chain has two parts, namely one that includes all the activities associated with making something and another that includes all the activities associated with selling something.

Osterwalder et al. (2005; p. 3) define the term business model based on the separate meanings of the term “business” and “model” which lead them to defining a business model as “a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm. Therefore we must consider which concepts and relationships allow a simplified description and representation of what value is provided to customers, how this is done and with which financial consequences.”

Chesbrough and Rosenbloom (2002; p. 532) consider a business model to be “a description of how your company intends to create value in the marketplace. It includes that unique combination of products, services image, and distribution that your company carries forward, it also includes the underlying organization of people, and the operational infrastructure that they use to accomplish their work.”

Morris et al. (2003) conducted research on definitions of business models as well and defined three categories in which these definitions fall. They are labeled economic, operational, and strategic. Based on these definitions and the categories identified, they give their definition of a business model, which is: “a concise representation of how an interrelated set of decision variables in the areas of venture strategy,
architecture, and economics are addressed to create sustainable competitive advantage in the defined markets” (Morris et al.; 2003; p. 727).

Based on 12 definitions proposed by academic literature Shafer et al. (2005; p. 202) define a business model as “a representation of a firm’s underlying core logic and strategic choices for creating and capturing value within a value network.”

The essence of these definitions all seem to evolve around “how you get paid” or “how you make money” (Chesbrough & Rosenbloom; 2002) or “What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?” (Magretta; 2002; p. 4). Based around this core concept the various definitions connect components to it in order to specify the business model concept in more detail. Below both definition and components of the business model are placed in a hierarchy that provides a complete view of the various ways to think about a business model.

### 2.3.2 Business model concept hierarchy

When people mention business models they often refer to various things, such as parts of a business model, types of business models, real word business models, or concepts. Osterwalder et al. (2005) provide a hierarchy (Figure 9) that attempts to clarify the different ways people think and write about business models. In this hierarchy, three categories can be distinguished as outlined below.

1. Authors that propose overarching definitions of the business model concept as well as the elements that belong into a business model. An overview of these overarching definitions is given in Chapter 2.3.1. In Chapter 2.3.3 insights are given into the elements of a business model that various authors propose.

2. Authors proposing abstract types of business models as a way to categorize businesses with common characteristics. Various authors propose ways to categorize business models. For example, Timmers (1998) based architectures for business models on value chain de-construction and re-construction to come to 11 possible architectures of e-business models. Chesborough (2006) distinguishes open and closed business models. With a more open business model, open innovation offers the prospect of lower costs for innovation, faster times to market, and the chance to share risks with others. Below further examples of more general categories to distinguish business models are given:
   - Subscription business model: rather than selling products individually, a subscription sells periodic use or access to a product or service.
Razor and blades business model: the concept of either giving away a sellable item for nothing or charging extremely little in order to generate a continual market for another, generally disposable, item.

3. Authors describing the business models of real world companies. Frequently cited models in academic literature are those from Dell, Nucor, Wal-Mart, IKEA, and Walgreens (Morris et al.; 2003). For example, the model Dell created is well known: while other personal-computer makers sold through resellers, Dell sold directly to end customers. That not only cut out a costly link from the value chain but also gave Dell the information necessary to manage inventory better than any of its competitors (Magretta; 2002).

2.3.3 Business model components and frameworks

Not only is the diversity in available definitions of the business model concept vast, so are the unique building blocks or elements proposed by different authors a business model consists of.

A business model framework widely referred to is proposed by Chesbrough and Rosenbloom (2002) and is based on 35 case studies. It consists of six different functions. These functions are: to articulate the value proposition, to identify a market segment, to define the structure of the value chain, to estimate the cost structure and profit potential of producing the offering, to describe the position of the firm within the value network, and to formulate a competitive strategy.

Many other authors have proposed similar frameworks which lead to research analyzing and comparing these various perspectives. Based on those results further frameworks are proposed. Insights into this research and the frameworks it resulted in, are discussed below.

Shafer et al. (2005) found 42 different business model components based on 12 definitions. Based on the number of times these components appear in the definitions, four major categories of business model components are proposed: strategic choices, creating value, capturing value, and the value network. Taken together, these four categories contain a total of 20 business model components.

A similar kind of research was conducted by Morris et al. (2003) who compared 19 frameworks proposed by different academic sources (including the framework by Chesbrough and Rosenbloom [2002] described above) in order to come to consensus on the key components of a business model. A total of 24 different items are mentioned as possible components, with 15 receiving multiple mentions. Based on this analysis an integrative framework is proposed consisting of six key questions a well-formulated model must address. These questions are: how do we create value? Who do we create value for? What is our source of competence? How do we competitively position ourselves? How do we make money? What are our time, scope, and size ambitions?

The research by Osterwalder (2004) analyses the business model contributions of 14 authors. From this analysis, a new model consisting of nine building blocks is constructed that covers all business model components mentioned by at least two authors.

The business model framework by Chesbrough and Rosenbloom (2002) mentioned earlier is also analyzed in the research by Osterwalder (2004). He concluded the business model misses critical components, namely distribution channel, customer interface, capability, and revenue model.

The aim of the research by Osterwalder (2004) was not only to propose a business model that integrates existing work but also to conceptualize every single element and subsequently integrate them into a whole.
His business model framework is based on four pillars that are divided into nine building blocks. Table 4 describes the business model ontology in more detail, while Figure 10 visualizes the model.

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Business model building block</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Value proposition</td>
<td>A Value Proposition is an overall view of a company's bundle of products and services that are of value to the customer. Described in more detail in Chapter 2.4.</td>
</tr>
<tr>
<td>Customer interface</td>
<td>Target customer</td>
<td>The Target Customer is a segment of customers a company wants to offer value to.</td>
</tr>
<tr>
<td></td>
<td>Distribution channel</td>
<td>A Distribution Channel is a means of getting in touch with the customer.</td>
</tr>
<tr>
<td></td>
<td>Relationship</td>
<td>The Relationship describes the kind of link a company establishes between itself and the customer.</td>
</tr>
<tr>
<td>Infrastructure management</td>
<td>Value configuration</td>
<td>The Value Configuration describes the arrangement of activities and resources that are necessary to create value for the customer. Described in more detail in Chapter 2.4.</td>
</tr>
<tr>
<td></td>
<td>Capability</td>
<td>A capability is the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>A Partnership is a voluntarily initiated cooperative agreement between two or more companies in order to create value for the customer.</td>
</tr>
<tr>
<td>Financial aspects</td>
<td>Cost structure</td>
<td>The Cost Structure is the representation in money of all the means employed in the business model.</td>
</tr>
<tr>
<td></td>
<td>Revenue model</td>
<td>The Revenue Model describes the way a company makes money through a variety of revenue flows.</td>
</tr>
</tbody>
</table>

Table 4 The business model building blocks by Osterwalder (2004)

This research builds on the business model framework of Osterwalder (2004) since it describes the business model concept in great detail and is a more recent contribution to academic literature. It builds
on a number of well established studies that are also used to validate the elements his business model framework consists of. Osterwalder (2004) furthermore explicitly linked the business model framework to strategy – one of the key concepts in this research – in that its four pillars can be compared to the four perspectives of Kaplan and Norton’s Balanced Scorecard approach for implementing strategy (Kaplan & Norton; 1992) and to Markides’ business strategy recipe (Markides; 1999).

The Balanced Scorecard approach was mentioned in Chapter 2.1.1. Markides (1999) defines strategy as looking at the “who”, the “what”, and the “how” of a business.

Figure 11 gives an overview.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Innovation and learning perspective</td>
<td>What?</td>
</tr>
<tr>
<td>Customer interface</td>
<td>Customer perspective</td>
<td>Who?</td>
</tr>
<tr>
<td>Infrastructure management</td>
<td>Internal business perspective</td>
<td>How?</td>
</tr>
<tr>
<td>Financial aspects</td>
<td>Financial perspective</td>
<td></td>
</tr>
</tbody>
</table>

Figure 11 The link to strategy

### 2.4 Aspects of value

Value is a central concept in the business model and strategy literature. For reasons of clarification an overview of the key aspects of value in this field of research is listed below.

- Value capturing: capturing value by looking at the market and finding ways to capture value and to generate profit (Shafer et al.; 2005).

- Value chain: first described and popularized by Porter (1980). A value chain is a sequence of activities. Products go through the value chain and each activity adds value to the product. The chain of activities gives the products more added value than the sum of added values of all activities. Porter (1980) proposes a framework that categorizes the generic value-adding activities of an organization. The primary activities include: inbound logistics, operations, outbound logistics, marketing and sales, and services. The support activities include: administrative infrastructure management, human resource management, information technology, and procurement. Organizations can use this framework by determining the value they add at each of these activities.

- Value configuration: the value configuration is part of the business model framework of Osterwalder (2004) and is based on Porter’s (1980) value chain.

- Value creation: refers to value that is created by organizational members (Bowman & Ambrosini; 2000). From success within the organization, firms can create substantial value by doing things in ways that differentiate them from the competition. Value can be created by developing core competencies (described in Chapter 2.1.4), capabilities, and positional advantages that are different from those of competitors (Shafer et al.; 2005).

- Value dimension: Quinn and Rohrbaugh (1983) introduce the concept of value dimensions that underlie conceptualizations of organizational effectiveness. Described in more detail in Chapter 2.2.1.

- Value discipline: the concept of value disciplines, introduced by Treacy and Wiersema (1993), has been explored in Chapter 2.2.
- Value network: a value network generates economic value through complex dynamic exchanges including customers, suppliers, partners, distribution channels, coalitions and the community. Through the value network the company’s own resources are extended (Allee; 2000) (Shafer et al.; 2005).

- Value proposition: Kaplan & Norton (2004, p. 40) define the value proposition as “the company’s strategy for the customer by describing the unique mix of product, price, service, relationship, and image that a company offers its targeted group of customers. The value proposition should communicate what the company expects to do for its customers better or differently than its competitors.” It is the core of any business strategy (Kaplan & Norton; 2000). Osterwalder (2004) refers in his business model framework (Chapter 2.3.3) to the value proposition.

### 2.5 Value discipline-based business model framework

As noted earlier, a company’s business model and strategy are related to each other. The difference is that the business model is more about the mechanisms through which a company produces and delivers a product or service, whereas the strategy is about what differentiates it in the eyes of customers and gives it competitive advantage (Harvard Business Essentials; 2005).

Osterwalder (2004) considers the business model to be the strategy’s implementation into a conceptual blueprint of the company’s money earning logic. It translates the company’s mission and strategy (as shown in Figure 3) into value propositions, customer relations and value networks. Figure 12 provides an overview of the dynamics between strategy and business model.

In this segment a value discipline-based business model is proposed that defines detailed relationships between business model and strategy by linking the four value disciplines discussed in Chapter 2.2 to the business model framework of Osterwalder (2004). Basing the components of the business model framework on a specific value discipline creates not only focus but also fit amongst the business model components.

Since each value discipline is based on different value dimensions (Figure 6) each value discipline focuses on different parts of the business model framework. To identify relationships across models, the value dimension that defines internal focus relates to business model building blocks that are grouped under infrastructure management. Both of these concepts are about creating value. A focus on capturing value relates to a focus on the external value dimension and a focus on the customer interface side of the business model framework. As noted earlier (Chapter 2.2.1) and in Chapter 2.7, if for example an organization focuses on value creation, based on the value discipline it is pursuing, it does not mean it should ignore the value capturing aspect of its business. Capturing value is crucial, too, but in this case the focus lies on creating value.
Not only can be distinguished whether the value disciplines focus on either value creation or value capturing, the focus of a value discipline can even be further defined by linking it to a specific business model building block. Figure 13 provides an overview.

The focus of a value discipline on a specific building block affects all other business model building blocks. The focus of each building block changes according to the value discipline applied to the business model, which results in a strong focus on the aspects of the particular value discipline that really matter and in a strong fit amongst business model building blocks. Focus and fit, as noted earlier, are key aspects of strategy.

In the following sections the building blocks on which the value disciplines focus are defined in more detail and the four value discipline-based business model frameworks are proposed. These sections are primarily based on the research of Treacy and Wiersema (1993).

### 2.5.1 Customer intimacy

The customer intimacy value discipline is externally orientated which means it is focused on the value capturing side of the business model. In order to best understand the needs of the target market so that products and services can be adapted accordingly and to create long-term relationships with customers, the focus lies on the relationship building block of the business model. A strong relation with the customer is crucial to successfully pursue this value discipline.

It adds to the strong relationship if there are as few different company representatives as possible that interact with the customer in order to build a more meaningful and personal relationship between the customer and the company. These representatives have to get in touch with the company relatively frequently to ensure the customer is satisfied.

To closely manage the relationship with its customers, a customer relationship management (CRM) system is beneficial in which all interactions with the customer are registered. This way, the company has detailed information about its customers’ backgrounds. Therefore this building block affects all other building blocks. All of the remaining building blocks should contribute to strengthening the relationship with the customer which creates a strong fit in the business model. The focus of each business model building block is influenced by the importance of the relationship with the customer and is defined below:

- **Value proposition:** the focus should lie on providing the customer not just with a product but with a solution that closely meets the demands of the customer. Therefore products have to be customized to the specific customer segments. It is the relationship that matters. The company creates a relationship with the customer, makes sure the customer is satisfied and thinks with the customer to solve its problems with the goal for both company and customer to succeed.

- **Target customer:** in order to be able to fully understand the needs and requirements of the target customers, they have to be carefully segmented. Key is to target a market that is not too broad since it will then be more difficult for the company to tailor its offerings to the specific customer requirements.

- **Distribution channel:** since the focus lies on the relationship with the customer, the company has to get in touch with the customer in a more personal way. An ad in a paper will be relatively less effective.
effective to establish a long lasting relationship with a customer compared to a direct sales team that gets in touch with its customers several times over a longer period of time. Because of this close relationship with its customers the company has deep insights into the customer requirements and can therefore suggest to the customer to up-sell (upgrade the product) and cross-sell (add a different product). This binds the customer to the company even more.

In case of corporate clients, it is furthermore crucial to approach the right people within the organization in order to make a sale. Six roles can be distinguished, namely: initiator, user, decider, influencer, buyer and gatekeeper (West; 1999).

- Value configuration: in order for company representatives to stay in good relationship with the customer, they require a relatively high amount of freedom. This is only possible if the company can successfully run a decentralized organization. Because customer requirements and domain knowledge are such crucial aspects of the value creation process, it should be driven by the people who know best about these aspects. The value creation process has to be customer oriented.

- Capability: a core capability is to really understand the customer requirements. This is not only important during customer acquisition but also to keep customers satisfied and to maintain the relationship. It is not enough to know what customers in a market segment want, it is also crucial to truly understand this market segment and be able to identify what the market benefits from. Therefore deep domain knowledge is required. Since the company has to deliver products customized to relatively many different customer requirements, one of its core capabilities should be to customize products.

- Partnership: the focus on partnerships should lie on finding partners that have extensive knowledge about (parts of) the target market of the company. With help from partners like these, the company will be more capable of creating products that the customers value. Furthermore these partners might already have a strong relationship with the target segment and knows how to reach it.

- Cost structure: generally speaking, the company should not focus on a single transaction but on the customer relationship when it comes to costs. For example, the costs of acquiring a customer could be very high, but the costs of keeping a customer could be very low. Most costs are involved in establishing and developing a strong customer relationship. For example, a direct sales team that spends a relatively long amount of time with potential customers to win them and with existing customers to develop the relationship is very costly.

- Revenue structure: as explained above, the revenue has to be considered that results from a long-term relationship, not single transactions. By focusing on the relationship and customer loyalty, long-term relationships will result in reoccurring revenue flows. Since the products and services are tailored to the customers’ demands they are willing to pay more for it, which covers the costs of establishing and developing a for the company costly relationship. Further revenue streams can come from additional products and services that complement the customer solution.

When pursuing the customer intimacy value discipline, the company has to focus on the proposed aspects mentioned above. A graphic overview of what such a business model looks like is given in Figure 14.
2.5.2 Product leadership

The product leadership value discipline is externally oriented which means the focus lies on the value capturing aspect of the business model. The focus of this value discipline lies on the distribution channel, which describes how the company gets in touch with its customers. Product leadership is about consistently enhancing the products and services it offers to its market. It is about staying ahead of the competition and about discovering new ideas and opportunities in the market. All of these aspects cannot be optimally managed if the company does not constantly stay in touch with its market. This outward focus on the staying in touch with its market has a strong effect on all other business model building blocks. Where the focus lies in each of the other business model building blocks, is described below:

- **Value proposition**: it is all about providing the customer with the best products and services even if this means the company cannibalizes its own offerings. Since there is a focus on quick commercialization, the company should be (amongst) the first to offer such a product.

- **Target customer**: when segmenting, the customers that are most interesting are those interested in having the best product. These customers will be interested in the company’s enhanced products even if they recently bought a similar product from the competition or the company itself.

- **Relationship**: the focus lies on understanding customer requirements in order to discover new opportunities and in order to understand what the customers think of the company’s products and their competitors’ products. Based on this understanding the company’s products and services can be further enhanced and new opportunities can be explored.

- **Value configuration**: in order to be flexible and optimally facilitate the capabilities mentioned above, bureaucracy should be avoided. Therefore the company has to focus on creating an entrepreneurial environment.
• Capability: in order to develop the best product, the company has to be focused on embracing new opportunities and ideas in the market, even if the ideas are not theirs and even if it means the company cannibalizes its own products.

In order to be able to optimally benefit from these new opportunities and ideas, the company needs to be able to commercialize them quickly before the competition does. Therefore the organization has to be flexible. In order to develop the best product, the company has to focus on research and development (R&D). Research focuses on keeping an eagle eye on competitors and customers in order to keep pace with modern trends and on analyzing the needs, demands and desires of their customers. Key capabilities furthermore evolve around innovation and creativity.

• Partnership: often good ideas and opportunities cannot be found within the company. Therefore the focus should lie on finding partners that have ideas or represent opportunities that fit with the company’s direction. These partners may have capabilities that are required and through partnerships commercialization can be sped up.

Furthermore in order for the company to develop the best product expertise in general could require involvement from partners.

• Cost structure: spending should be focused on R&D to identify opportunities and ideas and to develop the best product, quickly.

Other costs that incur are the costs involved when the company cannibalizes its own products by launching new ones that replace them. These costs have to be taken into account.

• Revenue structure: since the products and services developed by the company are amongst the best, a premium price can be asked. Research has to be done on what the target market is willing to pay.

An overview of the aspect a company has to focus on when pursuing product leadership is given in Figure 15.

![Figure 15 Business model based on product leadership](image-url)
2.5.3 Operational excellence

Pursuing the operational excellence value discipline means having an internal focus. Therefore the focus lies on value creation. Since operational excellence is about being efficient and providing customers with the best total cost, the focus lies on controlling the internal processes. Therefore the focus in the business model lies on the company’s capabilities where the company tries to optimize the ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer. In order to increase efficiency, quality and reliability of the product, these capabilities have to be optimized. The focus on the capability building block affects all other building blocks, as described below:

- **Value proposition:** the focus lies on providing the customer with products having the best total cost. This means the focus lies not only on production but also delivery. Best total cost not only includes a competitive price, but also a high reliability, and a high level of convenience when it comes to delivery.

- **Target customer:** since producing most efficiently usually includes producing high volumes and since prices are competitive, margins are low. Therefore a broad target market has to be defined. This target market consists of potential customers that do not care so much about the best product but look for the best total cost.

- **Distribution channel:** since the company usually targets a broad market the focus has to lie on reaching many potential customers at low costs. The processes required have to be optimized.

- **Relationship:** the relationship between company and customer is transaction based. The focus lies on making transactions with the customer as efficient as possible. These transactions include sales transaction but also service transactions. Since for the customer it is about best total cost, the company has to focus on providing optimal service.

- **Value configuration:** if the company wants to develop reliable products at minimal costs, not only should the capabilities be optimized but also the ways they are used and linked. Therefore the focus lies on optimizing the whole production and delivery process by integrating the various value adding activities with the goals of increase efficiency and quality and eliminate waste.

- **Partnership:** companies pursuing the operational excellence value discipline generally partner with companies who can perform a certain capability at a better total cost than they can themselves. Not only should the company focus on whether the partner can deliver the capability and a better total cost, but the partner has to be integrated in the value adding process for efficiency reasons.

- **Cost structure:** providing customers with the best total cost products forces the company to focus on minimizing costs. The focus of the business model points towards the company’s capabilities since they have to be optimized in order to reduce the costs. Investments should focus on optimizing the company’s capabilities. These investments should not only focus on reducing costs but also on increasing quality and reliability.

- **Revenue structure:** because the company optimizes its capabilities and reduces costs it can offer competitive prices. Since therefore margins are low, the company has to focus on selling large quantities in order to generate significant revenue streams.
A graphical overview of the aspects to focus on in each business model building block in order to create a strong fit is shown in Figure 16.

Figure 16 Business model based on operational excellence

### 2.5.4 Supply comfort

The supply comfort value discipline is focused internally and therefore on creating value. It does not focus on the best products like product leadership and it does not focus on the best total cost like operational excellence. Supply comfort is focused on change when it comes to configuring a set of services around an averagely priced, averagely performing product they offer. Therefore the focus of supply comfort in the business model framework lies on the value configuration building block. A company pursing supply comfort sets itself apart by a unique set of activities that creates value for the customer. To ensure a reinforcing fit in the business model, the focus of the other building blocks is influenced by the focus on the value configuration. This is described below:

- **Value proposition:** the power of the supply comfort value discipline is not so much in the products the company offers. The products usually do not belong to those most competitively priced or to those that lead the market. It’s about the services around the product that make it more attractive for the customer to purchase the product. These services, that meet customer demands when he or she experiences a sense of comfort or urgency, are the ones the company has to focus on.

- **Target customer:** customers who seek comfort or experience urgency and are therefore interested in the unique value configuration the company offers form the market that has to be targeted. Market segmentation is influenced by the fact that the need for comfort and/or sense of urgency changes with people depending on the situation.

- **Distribution channel:** the means of getting in touch with the customer is again influenced by the company’s unique value configuration. The company has to focus on getting in touch with the customer at times they are interested in the company’s products because they feel a need for comfort and/or sense of urgency.

- **Relationship:** the company has to focus on making sure the relationship it has with its customer fits in its unique value configuration. Depending on this value configuration, a specific form of customer...
contact is optimal, which is discussed in Chapter 2.2.2. For example, Soteriou and Chase (1998) propose to vary the communication time and intimacy of the contact depending on how the company defines service quality.

- **Capability**: with supply comfort it is not so much about being able to develop the best products but the focus has to lie on those capabilities that are key to delivering the optimal combination of products and services at times potential customers are most interested in them.

- **Partnership**: partnerships interesting to companies who pursue supply comfort are those that can provide services/products that can enhance the unique value configuration offered to the customer. Examples are partners that can provide unique locations for the company where potential customers are most interested in the company’s offering.

- **Cost structure**: the company has to focus on investing in those services that make the product offering unique. Since the combination of the combined products and services is usually relatively unusual, the company has to ensure an optimal fit within its combined offering of products and services.

- **Revenue structure**: when pursuing supply comfort the company the main revenue streams will generally not come from the product (since it is not the best product and not a best cost product) but from the service. While the products are usually charged for averagely, the significant revenue streams come from the additional premium-priced services.

Figure 17 provides a graphic overview of the business model framework based on the supply comfort value discipline.

![Figure 17 Business model based on supply comfort](image)

### 2.6 Proposed strategy creation process

In Figure 3 the generic strategy process is proposed. The value discipline-based business model framework fits in this process through which strategy is managed.

Based on its external and internal environment, the company defines the value discipline it will pursue. A company rarely changes its value discipline since its organization is built around it in order to create a
reinforcing fit. Furthermore the company’s core competencies are developed based on the focus on a certain value discipline. Changing value discipline would devaluate these core competencies.

A company can decide to change its strategy based on its internal environment and its external environment. A company’s business model represents a part of its internal and external environment. Another key element of the company’s external environment is competition (Magretta; 2002). The value discipline-based business model framework proposes to the company what parts of its internal and external environment would look like if a pure form of the respective value discipline is pursued. By taking into account this framework, defining/refining a company’s strategy leads to a focused strategy that creates a reinforcing fit around the company’s activities.

When (re)defining a company’s strategy, the four core competencies as defined by Hardjono (1995) have to be taken into account (see Figure 18). It is an organization’s goal to grow these four core competencies:

1. **Material competence**: this competence is reflected in the balance sheet. Changes in cash flow and profit show whether or not this competence increases. The various elements of the business model framework by Osterwalder (2004) (Chapter 2.3.3) form the material aspects of an organization.

2. **Commercial competence**: this competence is reflected by the ability to have access to and to act on markets and the skill to execute commercial transactions. This competence is described by the value discipline-based business model framework (Chapter 2.5).

3. **Socialization competence**: this competence represents the development as a group and acting as a group. It can be measured in the presence of clear goals, understood and accepted hierarchy, organizational cohesion and entrepreneurship. This competence refers to the way the company develops itself as a unique entity and refers to the instance level of a business model as described in Chapter 2.3.2.

4. **Intellectual competence**: this competence reflects the learning capability of organizations and the capacity, which is based on the collective intellect of the members of organizations. This competence makes an organization absolutely unique and cannot be captured in models.

When (re)defining a company’s strategy, Hardjono’s layers of core competencies have to be taken into account since the first two layers refer to the business model concept and the value discipline concepts explored in this report (as explained above). How to further growth the third and fourth core competence cannot be described for the company since these depend on its unique situation. The company has to decide for itself how to further (re)define its strategy to ensure growth in its third and fourth competency.

### 2.7 Strategic focus across value disciplines

As already explained in Chapter 2.1.2, it is crucial for a company to pursue a focused strategy that leads the company into a unique direction different from its competitors. At the basis of a strategic direction lies a value discipline. As described in Chapter 2.2.1 a company should only pick one value discipline and vigorously pursue it (Treacy and Wiersema; 1993). By not choosing a dominant value discipline the company will head into multiple directions of which none can obtain the company’s full devotion. These
multiple directions often do not fit (Chapter 2.1.3), can even be contradictory, and are suboptimal to developing the company’s core competencies (Chapter 2.1.4). As a result the company is likely to get surpassed on all sides by competitors who do focus and provide customers with a more appealing value proposition (Porter; 1996).

Even though a company should generally focus on only one value discipline, it should still meet industry standards in the other three (Treacy and Wiersema; 1993). If too much focus is put on only one value discipline, other important aspects of the company are being neglected. Therefore while a company should choose one value discipline-based business model framework, it should consider aspects from the other frameworks to obtain a focused but balanced strategy. The complementary aspects that should be included depend on the unique situation of the company, as explained in step three and four of Chapter 2.6.

Academic literature explores the possibility of pursuing more than one value discipline. Treacy and Wiersema (1993) mention that in rare situations, exceptional companies master two value disciplines. This can either be achieved by basing two strategies on two completely separate business models, or by creating an overlap between the two business models to take advantage of synergy effects. A negative consequence of the latter is product cannibalization. An example of an overlap between business models can be found at Toyota that not only successfully pursues the operational excellence strategy but is moving ahead as a product leader as well for its breakthroughs in automobile technology, such as its hybrid engine. In this case, Toyota has to take product cannibalization into account as well. For example, an increase in sales of hybrid cars might lead to a decrease in sales of its conventional cars. The possibility of pursuing a hybrid strategy in certain situations has also been explored. A hybrid strategy is a strategy consisting of more than one value discipline. A combination of cost leadership (operational excellence) and differentiation (customer intimacy) is a hybrid strategy commonly mentioned (Kim et al.; 2004).
3 Conclusions

This chapter provides the conclusions of the research project. The research questions initially proposed are answered. This chapter ends with limitations of this research and suggestions for future research.

3.1 Answers to research questions

Below, the answers to each of the research questions proposed in Chapter 1.2 are provided.

1. What are the value disciplines that are the basis for the proposed design method?

The initial three value disciplines proposed are those by Treacy and Wiersema (1993):

- Operational excellence: this value discipline focuses on optimizing the production and delivery of products and services. This results in products and services that are reliable as well as competitively priced and delivered with minimal difficulty or inconvenience (Treacy & Wiersema; 1993).

- Product leadership: a product leader focuses on offering leading-edge products and services to customers that consistently enhance the customer’s use or application of the product, thereby making rivals’ goods obsolete (Treacy & Wiersema; 1993). It has to be creative and open-minded to new ideas and be quick in commercializing them.

- Customer intimacy: companies focused on customer intimacy segment their target markets precisely and then tailor their offerings to closely match the demands of those niches. Companies focus on long-term relationships with their customers instead of customer transactions. Therefore customer satisfaction is crucial.

A fourth value discipline has been derived by linking the original three value disciplines to the framework of Quinn and Rohrbaugh (1983) and discovering that this framework suggests a fourth value discipline:

- Supply comport: a concept proposed by Kellogg and Chase (1995). Companies pursuing supply comfort are not so much focused on the products they are selling, but on the configuration of services around the product. The focus lies on customers who seek comfort and customers who feel urgency.

2. How do the value disciplines relate to the business model concept?

To link the value disciplines to the business model, the business model framework of Osterwalder (2004) is proposed. This framework consists of ten business model building blocks that cover both the value creation and value capturing aspects of a company. These aspects lead to a value proposition and a change in the company’s financial situation.

Each of the value disciplines has its own effect on where the focus lies in the business model framework and in each of the business model building blocks. The focus of each value discipline lies on a specific business model building block on either the value creation or value capturing side. This focus influences the focus of all other building blocks so that a reinforcing fit between building blocks is created.

3. What does the design method look like that can be used by organizations to become more successful by pursuing a more focused strategy?
The design method primarily consists of the four value discipline-based business model frameworks that propose the aspects on which companies have to focus per building block, based on the value discipline they are pursuing.

Initially, the company has to know which of the four value disciplines it is pursuing. This can be determined by an analysis of its current business model and strategy. Based on the value discipline and on the business model framework focused on that particular value discipline, the company can redesign its current business model into one that has a reinforcing fit with the value discipline it is pursuing. Based on the company’s new business model, on its current external and internal environment, and on its current strategy, a new and more focused strategy can be proposed.

3.2 Conclusions

To begin with, this work provides a comprehensive overview of strategy and the key concepts around it. Deeper insights into the field are provided by connecting various theories and proposing a new framework.

The underlying and recurring notion this research project is based on is the need for a company, independent of size or form, to pursue a focused strategy. Even though it is noticed that there are many ways to approach strategy, the need for focus has widely been preached in academic literature. Focus helps companies to create a unique mix of values, which subsequently allows the company to head into a distinctly different direction than its competitors. A reinforcing fit between a company’s activities further strengthens its focus.

Based on the identified relationship between the value disciplines of Treacy and Wiersema (1993) and the framework of Quinn and Rohrbaugh (1983) a fourth value discipline – supply comfort (Kellogg and Chase; 1995) – is proposed. This fourth value discipline contributes to a more comprehensive framework of value disciplines.

The contribution to academic knowledge that emerges from this research is a value discipline-based business model framework for each of the identified value disciplines. Based on the available academic knowledge on value disciplines and related theories, the identified value disciplines were applied to the business model proposed by Osterwalder (2004).

Since value disciplines define a particular focus and the business model framework outlines the various aspects of a business, the value discipline-based business model framework identifies on what aspects a business should focus when pursuing a particular value discipline. Extensive relationships between these theories have been found, in particular the finding that each value discipline focuses on one business model building block and thereby affecting all of the other building blocks.

3.3 Research limitations

As with most research, this research, too, has a number of limitations. The main limitation of this research is related to the justification of the proposed research method. The research method has only been tested on a limited amount of cases.

Furthermore, the research counts only one investigator. The investigator might be biased in one way or another, which negatively influences the reliability of the study. However, much attention has been
devoted to maximizing the reliability of the research by maintaining a chain of evidence and creating a case study database.

3.4 Future research

From this research various possibilities for future research emerge. The main ones are outlined in this section.

First, only one of the proposed value discipline-based business model frameworks was tested on only a limited amount of cases. Future research would enable further validation of the proposed design method by testing it on more case studies so that at least all four frameworks would have been tested. The more test cases the design method is being applied to, the greater the validity of the model becomes. The model can be compared with existing case studies, but the more effective case studies will be the ones that are specifically designed around testing this design method.

The design method can also be further validated if new academic research studies are being published that are related to aspects of the design method, such as the four value disciplines.

In this research the framework of value disciplines proposed by Treacy and Wiersema (1993) has been extended with a fourth value discipline, namely supply comfort. Although, there exists some academic literature that supports the existence of this fourth value discipline (mainly the work of Kellogg and Chase [1995] and Schneider [1994], as described in Chapter 2.2.2), future research that would further validate current propositions and reveal deeper insights regarding this value discipline is advised.

Two models that are related to the value discipline-based business model framework and are relevant for potential future research are the model of organizational growth by Greiner (1972) (described in Chapter 2.1.5) and the Four-Phase Model by Hardjono (1995).

The relationship between the value discipline-based business model framework and the Four-Phase Model has been explained in Chapter 2.2.3.3. A fundamental difference between the two theories is that a company rarely changes value disciplines (as explained in Chapter 2.7), whereas the Four-Phase Model prescribes a company to change phase every few years. So where a company would generally stick to one value discipline, it would regularly switch between phases to ensure that the company focuses on all aspects that are key to its success. Focusing on one phase for too long results in negative effects (for example, focusing for too long on creativity leads to hobbyism [Hardjono; 1995]). More information about the Four-Phase Model can be found in Appendix 5.1.

The model of organizational growth and the Four-Phase Model have in common that each describes phases of an organization and how an organization can get to the next phase in order for it to grow. One essential difference is that the phases of the Four-Phase Model are reoccurring while an organization goes through the phases of the model of organizational growth only once.

Adapting the four value discipline-based business model frameworks to the two models discussed above can be considered for future research. The key question one would ask is how each of the different phases influences the focus of each of the business model building blocks. For example, is the focus of a business model building block different for a company in its first phase of growth and in the effectiveness phase than for a company in its fourth phase of growth and in the creativity phase?

Since these two models together account for a relatively large number of different phases and combinations of phases that have to be taken into account, the choice can also be made to research the relationships of only one model with the value discipline-based business model framework.
The research mentioned above relates to the change of focus within business model building blocks. A final aspect relevant for future research is a change of focus between different building blocks, in other words, a company that changes value discipline. The model of organizational growth by Greiner (1972) could be included in the search for what causes an organization to change its value discipline. Clear is though that there is no direct link between a company changing into a higher phase and therefore changing its value discipline, since the model of organizational growth applies to all organizations, but relatively rarely do organizations switch value discipline.
4 References

Books


Heene, A. (2004), Practice Book Strategy, Lannoo NV.


Articles


Websites

5 Appendices

5.1 Summary of the Four-Phase Model

The whole concept on which the Four-Phase Model is based, is that organizations are striving to increase the total competencies in a continuous process of exchanging one competence for another.

The Four-Phase Model Hardjono (1995) consists of four layers which are described below.

1. The four basis core competencies

In order to understand what drives organizations or what they are striving for.

- **Material competence:** reflected in the balance sheet. One way to measure this competence is by looking at the change of cash flow and profit.

- **Commercial competence:** the ability to have access to and to act on markets and the skills to execute commercial transactions. Reflected in the growth of market share and the growth of experience.

- **Socialization competence:** the ability to motivate and inspire people on one hand and to accept the conditions under which they have to do their work.
  For the individual member: working atmosphere, collegiality and mutual trust and safety.
  Can be measured in the presence of clear goals, understood and accepted hierarchy, organizational cohesion and entrepreneurship.
  Increase of this competence can be measured how well the goal of the organization is understood or the corporate sense is more present.

- **Intellectual competence:** reflects the learning capability of the organizations and the capacity, which is based on the collective intellect of the members of organizations.
  Can be measured in the presence of strategic plans, synergy, norms and behavioral codes and inventiveness.
  The growth of these elements determine the increase of the intellectual competence.

2. The organizational orientations

Two dichotomies: orientation and control and change. Emphasis can either lay on internal OR external orientation and on either control OR change.

Interventions belonging to an orientation:

- **External orientation:**
  - Material competence: producing
  - Commercial competence: generating demand
  - Socialization competence: anticipating on the social environment of the organization
  - Intellectual competence: anticipating on the intellectual environment of an organization

- **Orientation on control:**
  - Material competence: the emphasis on payoff
o Commercial competence: planning
o Socialization competence: structuring
o Intellectual competence: predicting

- **Internal orientation:**
o Material competence: looking to the financial structure
o Commercial competence: the gaining of knowledge and/or technologies, which make the organization more attractive as a commercial partner
o Socialization competence: the development of organizational values, developing the internal social system
o Intellectual competence: self-analysis, resulting in self-knowledge

- **Orientation on change:**
o Material competence: re-evaluation of the material competence
o Commercial competence: discovering opportunities in the market
o Socialization competence: development of new ideas with which everyone can identify themselves
o Intellectual competence: capacity to reflect, putting evaluation into focus

Eight interventions form the basis of actions in their respective quadrant with its own specific goal:

- **Market oriented:** external focus – focus on control. One concentrates on better control of the market. Commercial competence gets most attention. Directed towards **effectiveness**.

- **Productivity oriented:** Internal focus – focus on control. One focuses on better control of productivity. Material competence gets most attention. Directed towards **efficiency**.

- **Lean:** Internal focus – focus on change. Refers to the capacity of an organization to change and renew itself. Customer desires a maximum of service most. Socialization competence gets most attention. Directed towards **flexibility**.

- **Innovativeness:** External focus – focus on change. Refers to the creative powers of the organization: being able to produce new products and services and finding, even creating, new markets. Intellectual competence gets most attention. Directed towards **creativity**.

### 3. The strategic premises and performance criteria

Ideally, an organization should keep all four goals in balance at the same time. Balance can only be reached by shifting the attention in time from one goal to another with a certain rhythm. Therefore choose one of the strategic orientations for a certain period, being either effectiveness, efficiency, flexibility or creativity.

1. **Effectiveness:**
o Material competence: activities that are directed towards generating cash flow and increasing the turnover
o Commercial competence: markets have to be conquered to gain market share
o Socialization competence: set targets to give the organization direction
o Intellectual competence: strategy development is essential, this will create the foundation plans for the future
Staying too long in this phase leads to a tunnel vision or marketing myopia.

2. Efficiency:
o Material competence: control of costs, measured in the profit of the organization
o Commercial competence: increase in experience and consequently routine in the organization
o Socialization competence: allocation of the tasks, responsibilities and authorizations, leading to a certain hierarchy
o Intellectual competence: insight and self-knowledge lead to co-operation, leading to further synergy of this competence
Staying too long in this phase leads to bureaucracy.

3. Flexibility:
o Material competence: re-allocation of budgets
o Commercial competence: redesigning processes, leading to new working methods
o Socialization competence: will be strong when the organizational goals are derived from the shared values of the employees, reflected in the mission statement. This should lead to a strong group feeling.
o Intellectual competence: the limits for the change are defined by the mission statement, which is formulated on the level of this competence
Staying too long in this phase leads to anarchy.

4. Creativity:
o Material competence: a creative company will generate or attract new means, by seeing new profitable opportunities to sell
o Commercial competence: creativity will lead to the design of new products that are attractive for (potential) customers
o Socialization competence: best served with a form of entrepreneurship, which requires room to take risks
o Intellectual competence: lateral thinking is important to be inventive
Staying too long in this phase leads to hobbyism.

4. The dynamics of organizational change

An organization has to shift attention from one strategic orientation to another with a certain rhythm. The other orientations should not be neglected, they receive some attention, but more in the background of the dominant orientation.