Exploring the directions and methods of business development

A comparative multiple-case study on Ikea and Vodafone

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Abstract

This study looks at business development as one of the many strategic management areas and aims to provide an overview about the available business development directions and methods, together with elements which play a significant role in deciding which of those directions and methods should be exploited. To provide a better insight on these decisions, a multiple-case study is also exploited at the end of this project.

Therefore, this research exploits the deductive approach and starts by theoretical discussions which are then tested and explored also in practise, and for the analysis of the two cases, secondary data are exploited. The systems methodological approach used for the study means that the options related to business development are not only studied in relation to various influencing elements, but also these elements are studied in relation to each other.

In the theoretical part of this paper, various business development directions such as consolidation, market penetration, product development, market development, integration, and diversification are explored, and so are the various business development methods such as internal, external, or joint development. Based on these discussions, the study presents a system of options and influencing elements which all need to be taken into consideration when deciding the most optimal business development path.

At the end of the study, the multiple-case study analysis on Ikea and Vodafone brings further exploration of the studied area and highlights the fact, that the development of various companies could have similar patterns, as well as contrasts, based on the differences of the variables of the system.

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1 Introduction

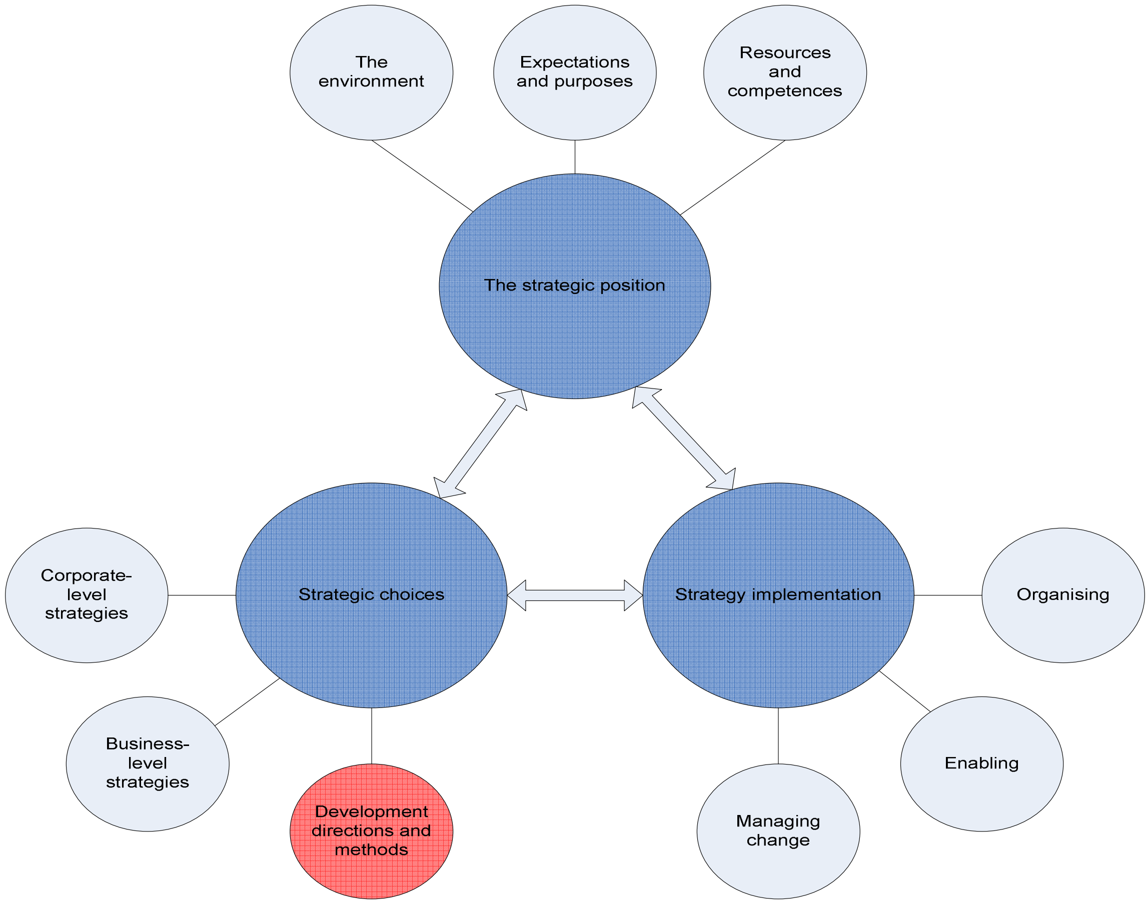
> ***The survival and success of organisations are influenced by their ability to respond to the competing pressures… changes in the business environment… strategic capability of an organisation – its resources and competences… and the cultural and political context – the expectations and purposes.[1]***

It is the end of 2008, and the world faces many important changes. Climate is more inscrutable and powerful causing numerous disasters, natural resources such as oil or land are on shortage causing the raise of their price, technology is moving incredibly fast ahead causing shortening of the life cycle of many products and merging of various industries together, environment awareness is increasing causing that governments and companies establish various environment-friendly strategies, and political and economical structures are opening causing increased opportunities for cooperation and movement, but also for competition for people and businesses all over the world. This is just a short list of some of the main challenges the world faces nowadays, but it is introductive enough to see which environment factors and changes businesses all over the world have to consider in their business activities.

Faced with such changes in the environment, businesses have to continuously adapt their current operations, strategies, capabilities and positions, and consider changes and developments in order to secure and improve their current positions and long-term competitiveness. Such decisions and analyses are usually made within the strategic management team of the company. As management means planning, deciding, organizing, leading, co-ordinating, and controlling, and strategic means long-term and well planned, strategic management could be defined as a continuous planned process of understanding the company's current position, its long-term opportunities, and deciding how to exploit and implement them. The core elements of strategic management could be viewed in the following figure.

[1] Johnson & Scholes (2002, p. 361)

Figure 1.1 Elements of strategic management



Source: Johnson and Scholes (2002, p. 17)

Let us start exploring strategic management issues right from the beginning. At first, companies need to analyze and understand their current positions in the marketplace, i.e. what changes are happening in the environment and how they affect their activities, what are the important resources and competences of the company and how they add value to their current position, and what expectations and influences have various stakeholders of the company. Companies also need to know which strategic choices into the future are opened to the organisation in terms of corporate and business strategy and business development. Lastly, strategic management also deals with organizing and implementing individual strategies, and enabling and managing various changes.[2]

In this study, it is not the aim to fully explore and discuss all elements of strategic management issues; the focus is rather directed towards one specific issue, which is

[2] Johnson & Scholes (2002, pp. 16-21)

highlighted in the previous figure by red colour. The figure shows that we will closely look at one of the three elements of strategic choice decisions, which deals with decisions about the organisation's future and the way it could compete and develop their strategic position. Such element is strategic management issue concerned with the choice for directions and methods of business development.

Business development may well be defined as the management of growth and competitiveness of an economic enterprise. In addition to corporate strategy choices which deal with decisions about the business units' portfolio and their value adding benefits, and business strategy choices which deal with decisions about ways of meeting corporate and customers' expectations in a competitive way, managers who deal with strategic issues also face decisions about the way such strategies are developed in terms of products, markets, and competences. In order to succeed, all the three strategic choices, i.e. corporate strategic rationale in regards to business units, business competitive strategy, and business development directions and methods followed, must be consistent with each other.[3]

The strategic choice concerned with directions and methods for business development deals with strategies related to the ways in which businesses could further develop. Should they expand, diversify or consolidate to improve their current market position, get further resources or capabilities, adapt to the environment, and meet the stakeholders' expectations? And how this development should be done – internally, externally, or through cooperation? All these issues will be the focus of this study.

1.1 Aims of the study

The first aim of this study is therefore to look more closely at directions of business development. The specific directions that are available for business development are numerous, but could be broadly explored based on three major factors: markets, products, and competences. That is whether the company chooses to stay within their current markets or enters new markets, if the company chooses to exploit their current products or develop

[3] Johnson & Scholes (2002, p. 263)

new products, and whether the company focuses on their strong competences or chooses to acquire new ones. Such discussions were firstly initiated by Ansoff, one of the most significant authors of strategic knowledge, and therefore the discussions related to directions for business development will be centred on the framework published by Ansoff.

In addition to discussion related to business development directions, the study will closely follow by looking at methods available for such development directions. Here, the main question is whether the development direction that the company has chosen to follow should be carried out internally, by cooperation with another organisation, or acquired externally. The discussions in this part will be therefore centred on the decision of "make, cooperate, or acquire".

All these decisions in regards to business development directions and methods are influenced by many various factors which are discussed and explored by several theories and frameworks which will be further explored in the next part of the study.

The main rationale for the research is inspired by contingency theories of organisational behaviour and decision making, which say that there is no universal best way of leadership or decision making style, as some styles which could be effective in some situations, may be unsuccessful in others. Therefore, the optimal decision in regards to various strategic management styles or strategies is always dependent on and needs to fit the various internal and external constraints from the environment. That is why the research in this study aims to reveal the different options and strategies opened to organisations in close relation to numerous internal and external factors, which have an influence on the final decision of specific companies. From such discussion is obvious, that final decisions of various companies in terms of business development directions and methods could be different from each other even if only one of the influencing internal or external factors varies among the companies.[4]

Within contingency models, we can identify two groups of frameworks: the more conceptual frameworks focused on how to think about a specific phenomenon, which do not make conclusions based on certain facts, but rather look at the phenomenon from a broad perspective identifying all factors that need to be taken into account for such decisions, and

[4] Tosi & Slocum (1984, p. 9), 12 Manage, Hahn (2007)

the more decisive frameworks that, based on several elements, do suggest certain behaviour. In this study, the focus will be laid out mainly to the first category of frameworks, as it is the aim to provide rather broader perspective on the studied system of decisions together with the influencing factors.

With such discussions in mind, the study will lastly look at two specific companies with international activities and critically discuss, evaluate and compare the directions and methods both companies have chosen in their development activities. The companies analyzed here will be IKEA, a world-known leader in home furnishing products, and Vodafone, the world leader in telecommunication.

To sum up the main aims of this study, the following pages will focus on answering the following questions:

1. **What are the main directions and methods for business development available to organizations and under what conditions could be such directions and methods followed?**
2. **Which elements do influence such business development decisions ?**
3. **Which directions and methods of business development were exploited by IKEA and Vodafone in their development processes and why these were chosen?**

1.2 Structure of the study

Following the introduction which explored the main aims of the study, the paper will continue by discussing methodology approach and methodics that will be applied in order to obtain knowledge necessary to answer the three above stated questions.

Having decided on the appropriate methodological approach that best fits to the problem and assumptions of the author, the study will continue by two chapters, each of them comprising theoretical discussions related to the two main focuses of this study: directions and methods of business development. While the first will explore the available directions for business development and reveal conditions under which such directions should be considered to be pursued, the second will put emphasis on available methods, and reveal factors that influence the decision making process related to business development methods.

Based on these two chapters and the strategic management system showed in Figure 1.1, the following chapter will bring the discussions in relation to various elements that influence the business development decisions and reveal all the significant influencing elements, together with several theories and frameworks which could be exploited for such decisions.

The next chapter will then synthesize all the previous discussions and draw a system in which all decisions regarding business development are made. The system will comprise not only the options in relation to business development directions and methods, but also all the significant influencing elements together with their interconnections, which do play an important role in the business development decisions.

Based on the presented system, the next chapter will look at IKEA's and Vodafone's business development process and critically evaluate, compare, and contrast the directions and methods exploited by both companies in their business development activities.

At the end of the study, the conclusion will present the main findings on the three investigated areas, and all will be finalised by the perspectives and reflections of the author which will be continuously created and modified during the whole research, which structure is presented in figure 1.2.

Figure 1.2 Structure of the study

2 Methodology

Different methodological approaches make different assumptions about their subject area(s). This means that when people apply the different approaches in practise, they have to proceed differently when trying to understand, explain, and improve business, depending on the approach being used.[5]

There are many various methodological ways in which business studies could be done. But, as with strategic management decisions, the most optimal way of approaching a specific business research area will be dependent on several factors which need to be considered. For such discussion, the author has chosen to combine the extensive works of Arbnor and Bjerke, and Bryman and Bell, as they present, explain, and understand a very comprehensive variety of methodological approaches.

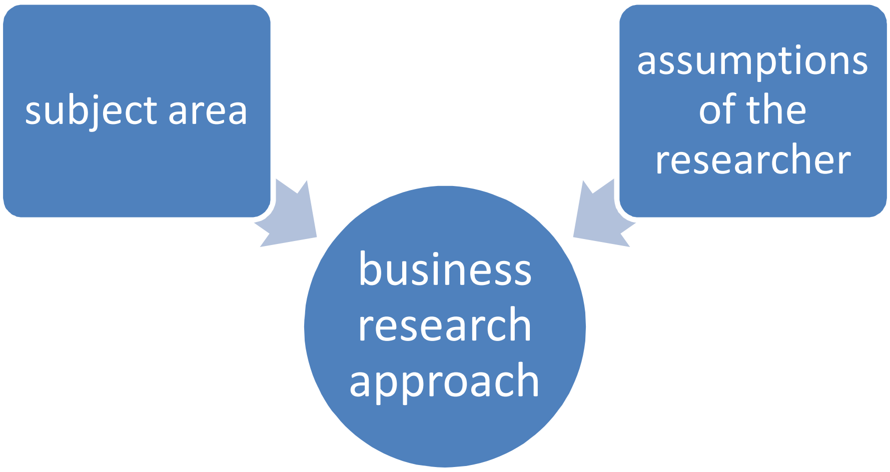
According to Arbnor and Bjerke[6], the choice of the most appropriate research approach for a specific study is dependent on two major factors: assumptions of the researcher about the reality in which he aspires to acquire and create new knowledge, and the subject area in focus. Therefore to choose the right research method and technique, it is necessary to make sure that the approach fits both the problem under study and the ultimate presumptions of the researcher.

Bryman and Bell agree with Arbnor and Bjerke that the most appropriate research approach depends on the study area and the beliefs of the researcher himself about the reality, but add that the choice is also influenced by the relationship formed between the theories and research, and philosophical stance of the researcher in regards to whether natural science methods could be used for social science research, and whether reality is seen as objective or dependent on the actors.[7] The last two factors could, however, be incorporated into the views of the researcher about the reality in Arbnor and Bjerke's discussion, and the two various views on factors influencing the choice of the most appropriate research approach are then similar, each stating that the research approach choice must be consistent with

[5] Arbnor & Bjerke (1997, p. 2)
[6] Arbnor & Bjerke (1997, p. 2)
[7] Bryman & Bell (2003, p. 27)

both the philosophy of the researcher in regards to reality and knowledge creation, and the study area, as it is showed in figure 2.1.

Figure 2.1 Factors influencing business research approach



Source: inspired by Arbnor and Bjerke (1997) and Bryman and Bell (2003)

It is not necessary to elaborate on the fact that the research approach must fit to the problem of investigation first. There will be a different approach to studies which aim to statistically explain certain behaviour than to studies whose main aim is to get understanding of motives for certain decisions. While some studies require starting from theories in order to test these theories in practise (these are called deductive studies), others start contrastingly by observations or statistical surveys and try to generate theories from such findings (these are called inductive studies). In between of these two, there exist studies which require continuous interchange between theories and practise and such studies are called abductive or iterative.[8]

On the other hand, assumptions of the researcher about the reality and knowledge creation are more philosophical in nature and require further elaboration on the differences between the various stances. To begin with, there are two main views on whether the social world could be studied by the same methods as are used for natural science research. While

[8] Bryman and Bell (2003, pp. 7-12), Svane (2006)

positivists believe that the methods for natural science research could be also used for social science research, i.e. generation of theories which allow explanations of certain laws is possible based on gathering of objective data, researchers following interpretivism trust that the subjects of social sciences, i.e. people and institutions, are fundamentally different from the subjects of natural sciences, and therefore studies of social world require different logic of research.[9] The second issue in which philosophical stances in regards to views on reality differ is the objectivity/subjectivity of reality. Whereas one part of researchers believe that social entities, i.e. people or organizations, are objective and the reality happening around them is independent of the actors in the entity, others do not share such opinion and state that the reality around social entities is always built around actors, who construct the reality which is therefore subjective and dependent on the actors.[10]

2.1 Social science paradigms

As already stated, there are many ways of approaching a problem, and thus carrying out a research, and these are based, in addition to subject area under study, on the starting presumptions of the researchers about the reality. Even though the number of different views and perceptions about the reality could be very high, social scientists have developed concepts which describe similar views about the reality, and such concepts are called paradigms. These paradigms, summarised by Arbnor and Bjerke[11], could be lined up and compared together in the two views discussed above, i.e. views on objectivity of the reality and on the extent to which natural science approaches could be used for social science research.

Paradigm is a set of certain views on reality, which influences the way we approach problems. It is a bridge between the starting presumptions held by the researcher and the methodological approach, and therefore, such concepts need to be understood in order to

[9] Bryman and Bell (2003, pp. 13-16)
[10] Bryman and Bell (2003, pp. 19-20)
[11] Arbnor & Bjerke (1997, p. 25)

understand the research process. According to Arbnor & Bjerke, there are six main groups of social science paradigms.[12]

Some people look at reality as external and objective phenomenon which could be accurately measured and observed.[13] From their point of view, subjects react to stimuli in the environment always in a predictable way and therefore, in their research, researchers use the stimulus-response models.

Others look at reality as an organically evolving process, in which the environment both influences and is influenced by humans.[14] As researchers want to understand the patterns happening over time, their research is mostly based on carrying out interviews and analyzing documented material.

The third group of researchers views reality as constantly changing, where people and organizations evolve together with the environment, and in which the members continuously adapt to information from the environment.[15] Here, the researchers do not look at cause-effect relations or differentiate between the object and the environment, but rather look at the adaptation of the whole system of relations.

According to the next group of researchers, the reality is created on the basis of human actions and interactions, and because different studies derive from different situations or start in different context, the results will be also relative and specific for the particular situation.[16] However, as some situations might evolve into similar responses, more generalized theories could be also formulated.

The fifth category of researchers looks at reality as a social construction, one that is subjectively given.[17] Here, in order to undertake research, people must understand the process and methods through which the subjective reality is created.

The last main group of researchers goes even further with their view on reality as subjectively given.[18] They consider world to be created by individuals, who are intentional

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[12] Arbnor & Bjerke (1997, p. 25)
[13] Arbnor & Bjerke (1997, p. 26)
[14] Arbnor & Bjerke (1997, p. 28)
[15] Arbnor & Bjerke (1997, pp. 29-31)
[16] Arbnor & Bjerke (1997, p. 31)
[17] Arbnor & Bjerke (1997, p. 34)

and control their own reality. As the reality is highly individual based, the research must be done very inter-subjectively.

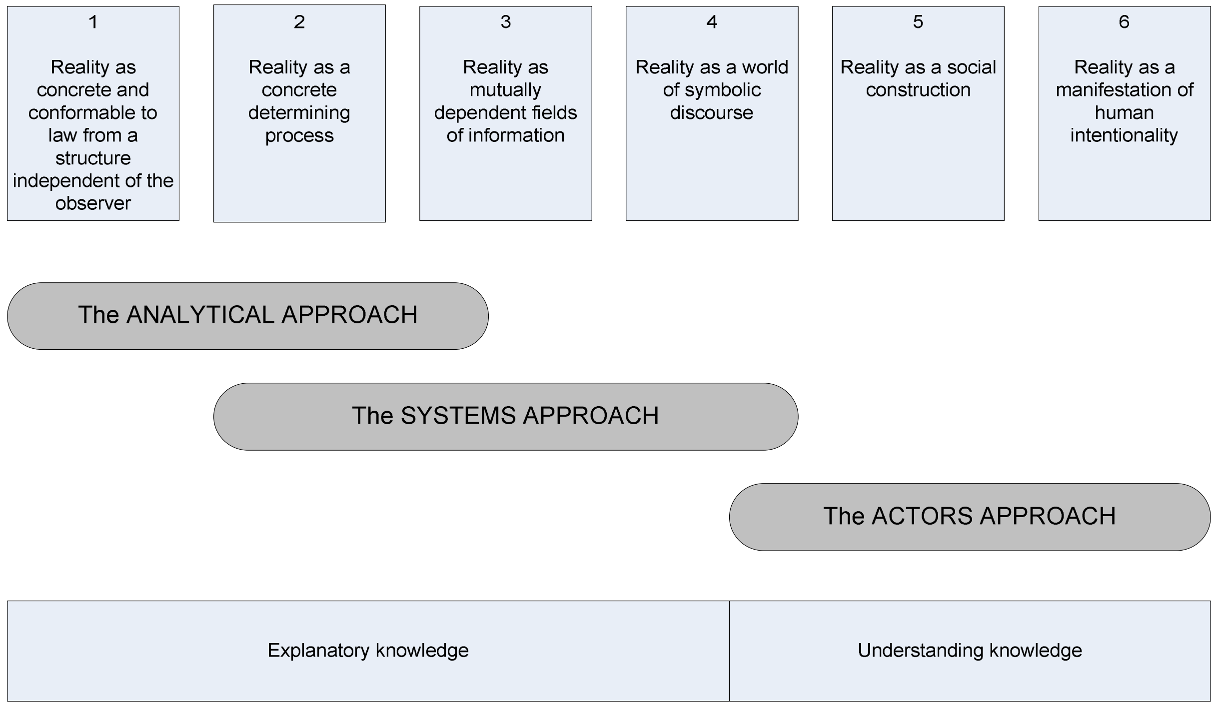
Researchers under these various paradigms have different views on reality. Some of them consider reality as objective and rational, whereas others think that reality is subjective and relative.[19] Those who consider reality as objective aim to provide explanations, and therefore look for generalized empirical results from their research. On the other hand, researchers who consider reality as subjective aim to achieve understanding, and therefore look for results which are specific and concrete. When looking at the main six groups of paradigms again, it could be seen that as we go further from the first category to the last sixth one, the views on reality become more subjective and specific and so are the studies.

2.2 Methodological approaches

Based on the similarities among the six different paradigms introduced above, Arbnor and Bjerke classified three methodological approaches for carrying out business research that could be used. These are called the analytical approach, the systems approach, and the actors approach.[20] All three approaches could be related to previously stated paradigms and differ from each other in the way they look at objectivity/subjectivity of the reality, dependency/independency of the created knowledge, and the search for explanations/understanding. Such relations could be seen in Figure 2.2.

[18] Arbnor & Bjerke (1997, p. 35)
[19] Arbnor & Bjerke (1997, pp. 36-37)
[20] Arbnor & Bjerke (1997, p. 49)

Figure 2.2 The three methodological approaches



Source: Arbnor & Bjerke (1997, pp. 44-46)

2.2.1 The analytical approach

The analytical approach is historically the first methodological approach used in business research/consultancy and therefore is still the main present in previous business studies or literature. Researchers following this approach believe that reality is objective and therefore the knowledge developed from the research is independent of the observer.[21] They believe that in order to get an overall picture of the reality, researchers should get to know all the parts of the whole first and then add them together. They are inspired by positivism and exploit mainly quantitative research strategies which enable reliable statistical analysis and conclusions.[22]

[21] Arbnor & Bjerke (1997, pp. 50-54)
[22] Bryman & Bell (2003, p. 573)

2.2.2 The systems approach

On the other hand, the systems approach is the most frequently followed methodological approach nowadays. Here, the researchers do not believe in totally objective reality, but state that reality could be objectively accessed.[23] In contrast to the analytical approach, researchers following the systems approach do not look only at the parts of the whole, but they also look at relations between the parts, as they believe that such relations add to or take value from the whole. Therefore the knowledge created through the systems approach is dependent on the specific system.

2.2.3 The actors approach

The third methodological approach that could be used for business research is called the actors approach. It differs from the two previously stated approaches in the fact that knowledge created through this approach is subjective and dependent on the actors, because the reality is intentionally created by the people involved, and therefore the results would be different from each other from case to case and can not be generalized.[24] Researchers following this approach are inspired by social constructivism and use mainly qualitative research strategy in their studies which allows uncovering motives and attitudes but offers limited reliability.[25]

2.2.4 Comparison of the three approaches

Figure 2.2 shows that all the three methodological approaches seek for different outcomes. While the analytical approach seeks for valid objective knowledge that could be generalized using natural science methods, and looks for explanations of the whole through the analysis of the parts, the actors approach seeks for subjective knowledge and understanding of the

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[23] Arbnor & Bjerke (1997, pp. 50-54)
[24] Arbnor & Bjerke (1997, p. 52)
[25] Bryman & Bell (2003, p. 573)

whole by the characteristics of its parts, and for this, it must use other methods than are used by natural scientists.[26] The systems approach, in contrast, focuses on getting objectively accessed knowledge that could be used for a specific case, and is looking for either/and explanation or understanding of the parts through the characteristics of the whole.

2.3 Applied methodological approach

The choice of the appropriate research approach for this study must be based on the previous discussions. The approach needs to fit both the study area, which is strategic management choice related to business development, and author's paradigm. As some of the author's presumptions about the reality are that if the reality is not objective on its own, it could be at least objectively accessed, and when carrying out the research, we need to study not only specific components of the whole, but also relations among them, the systems methodological approach seems to fit the best to these presumptions. In addition, it also fits the study area, as business development decisions, philosophically based on contingency theories, are based on a system of different factors which need to be considered and the relations between them need to be understood. Therefore, the systems approach will be applied through this project and the following paragraphs provide a deeper insight into its main rationale.

The system concept originated in 1970s and has influenced many of the studies and theories created that time including the theories regarding marketing and culture.[27] It brought reorientation of thinking that meant that researchers not only looked at various components of the whole, but also at their interaction with each other. Moreover, the various components also needed to be put into context, in other words environment, in order to explain them or understand them.[28] The environment lies around the system and includes factors that are important for the system but are not possible to control.

[26] Arbnor & Bjerke (1997, pp. 50-52), Bryman and Bell (2003, pp. 13-20)
[27] Arbnor & Bjerke (1997, p. 110)
[28] Arbnor & Bjerke (1997, p. 112)

In previous studies in which systems approach has been applied through the research, different kinds of systems have been recognised.[29] Some systems were found closed, static, and not possible to learn, while others were found open, dynamic and possible to learn and adapt to the environment. The most complex systems that have been recognised in previous studies are systems that are open, learning, structurally changing, and where the individuals who are a part of the system are able and interested to take an active role in learning and changing the structures of the system. This is a very complex system where researchers need to investigate also the culture in the environment of the subject studied as it influences various decisions.

When working with the systems approach, researchers could have different interests.[30] Some researchers could only try to describe the real system including the internal and external factors that influence it, without trying to change the system, while others, after describing the system with its environment, could aim to construct a new potential system. The highest interest that researchers could have is to create a systems theory which means to come up with a system model that is valid for more than one real case.

Having said that, it could be seen that researchers who follow the systems approach start their research by determining the type of the system under study. This enables them to describe the system with its all components, to determine relations between them, and to look at the systems environment, and based on that, to design the rest of the study.[31] From such system description, it is then possible to carry out studies with even higher levels of ambitions which include forecasts and guides.

Before we move our attention to methodical procedure and methodics appropriate for this study, it is interesting and appropriate to stress again that researchers following the systems approach could be either explanaticists, i.e. those who look for explanations, or hermeneuticists, i.e. those who look for understanding. While explanaticists assume that people and their actions are influenced by the system, hermeneuticists assume that people look for meaning in their actions and tend to interpret themselves what is happening around them. Therefore, as we can see, the main rationale of the systems approach could be

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[29] Arbnor & Bjerke (1997, pp. 121-125)
[30] Arbnor & Bjerke (1997, p. 119)
[31] Arbnor & Bjerke (1997, pp. 149-150)

applied by researchers with different assumptions, whose approach will differ by putting more attention to various components of the system.

2.3.1 Advantages of the applied approach in comparison to others

Even though the author is mainly inspired by positivism which views the world as objective and independent, the analytical methodological approach will not be used in this study for a specific reason. This study area can not be explained purely based on numbers and quantitative results and therefore the systems approach, which considers all relevant factors and influences and also the environment in which such decisions take place, fits the study area and presumptions of the researcher better. In other words, we would like to consider a set of factors that influence decisions related to business development choices and explain the choice that has been made by specific companies.

The same could be said if we compare the systems approach to the actors methodological approach. For an interpretative study that would aim to get understanding for decisions made by a specific company, we would need to focus on qualitative data which would require getting a full cooperation from the company's side. That is not the case with this study which bases their discussions on secondary data and starts by theoretical discussions which enable later to explain the particular cases.

Therefore, positioned in between of analytical and actors approach, the systems methodological approach used in this study will be based on secondary data, provide discussions regarding business development choices and the environment, and such choices will be then used to explain the specific cases, business development decisions made by Ikea and Vodafone.

2.4 Research strategy

The applied methodological approach, the systems approach, largely influences the decisions connected with consequent methodical procedures for collecting and analysing data during this research, the research strategy. There are two contrasting strategies researchers could use in their studies: quantitative and qualitative. Whereas quantitative strategy employs many natural scientific measurements in which it views the world as objective and external to actors, and uses mainly deductive approaches, i.e. focuses on testing the theories in practise, qualitative strategy, on the other hand, does not focus on measurements as it views the reality as highly dependent on interpretations of various actions, and emphasizes inductive approach which focuses rather on generating theories than testing them.[32]

As the systems approach lies somewhere in between of these two contrasting strategies, it should include issues from both types of strategies and data collection and analysis procedures: quantitative and qualitative. In terms of data employed, the research should use both extensive secondary data accessed from external and internal sources to the company, and primary data which could be acquired from the people in the company. In terms of relationship between theories and practise, the study will follow the deductive approach, as it will start by theory discussion and move to the practical considerations at the end of the study. Therefore, it is not the aim of this study to create new theories, but rather to synthesize some of the knowledge to draw a system, which could be tested and discussed on specific cases to show similarities and difference in business development path. Based on the previous discussion, it is obvious that the author does not necessarily disregard interpretative philosophy, but rather, being limited by research possibilities, incline to use more secondary data. However, if primary data were gathered, it would enable to explain also the motives and specific choices made by the studied companies more in-depth.

[32] Bryman and Bell (2003, p. 25)

2.5 Research design

Having decided the methodological approach and research strategy for this study, we have to reveal also the design for the study. There are five main research designs one can choose from: experimental, cross sectional, longitudinal, case study, or comparative.[33] Studies that are designed as experimental are based on extensive primary data collection and provide strong internal validity. Cross sectional studies are designed to gather both quantitative and qualitative data at a single point in time on numerous cases in order to detect patters of associations between various variables. The same could be said about studies with longitudinal designs, but these are carried out regularly to show changes in between of the points in time of the two or more studies. Numerous studies are also designed as case studies, which focus on detailed and intensive analysis of a single unit rather than on statistical reliability with multiple cases. The fifth main research design used in social science research is a comparative study which aims to compare two or more cases in relation to several issues.

In this study, the research is designed to be a mixture of the latter two possibilities as the study will be a multiple case study that will allow us to compare two different cases on directions and methods for business development. Such choice will not only enable us to get deeper understanding of the influence of various factors in strategic management decisions in relation to business development directions and methods, but also draw attention to the differences in development of the two studied cases. This design has been chosen for this study particularly for the two stated benefits even though it has some disadvantages and risks as are put forward for example by Dyer and Wilkins[34] who say that such studies might, on the other hand, bring attention from the specific context of the study more to the comparisons. This will be, however, continuously reviewed as not to get out of the main aim of the study.

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[33] Bryman and Bell (2003, pp. 39-60)

[34] Dyer and Wilkins (1981) in Bryman and Bell (2003, p. 60)

2.6 Research methodics

The term research methodics is, in contrast to the previously discussed terms related to methodology, mostly related to practicalities of the research. Based on the research philosophy, strategy, and design, how will the study acquire the necessary information and in which order? These are the questions which the next paragraph will answer.

The study, approached by a systems methodological approach, would, in the best possible conditions, require gathering both quantitative and qualitative data on theories and frameworks of business development and also on motives and attitudes of the companies under study in relation to various directions and methods used. This would be very beneficial for the comparative part of the study and also for critical discussions of the frameworks. However, the study bases the discussions and comparisons mostly on secondary qualitative and quantitative data that could be obtained from external sources.

Therefore, in pace with deductive approach, the study will firstly review the theoretical foundations for business development directions and methods, and reveal factors that influence the whole system of decision making process related to business development management. These frameworks and theories will be then tested in practise on the two studied cases, in which the obtained secondary data in connection with the frameworks will enable to see to which extent are these frameworks successful in explaining the differences in business development among the two studied organizations.

2.7 Limitations of the research

For higher reliability of the research and better understanding of the differences in the path of business development, qualitative interviews with key managers of the two studied companies would be beneficial. But the question is to which extent would be such cooperation opened as the interviews would dive into strategic management issues that are mostly discussed only internally, or could be even tacit, i.e. not strategically planned and prepared, or secret. In that case, and mainly for current and future developments, secondary data could bring almost similar reliability.

The second limitation of this study is its own large breadth of the research, as it does not allow to research into the specific development options and methods more in depth, for example where the company should expand, which products to develop etc., which would be very beneficial to get deeper understanding for the various decisions involving them. But the decision between depth and breadth is always an issue and for the reason of getting better overview about the whole system of the decision making process in relation to business development, such choice has been made.

Also, most of the studied theories and frameworks in this study focus on developments from a downstream perspective, i.e. in relation to markets and customers, and do not elaborate much on the sourcing development paths of companies. The integration of such concepts and theories to this study would therefore also add value to the discussions and findings of the study.

2.8 Summary

This chapter revealed that business development, as the main focus of this study, will be here approached from the systems perspective, meaning that we will not only reveal and discuss the possibilities in terms of business development, but also reveal the internal and external factors that play a significant role in the whole decision making process related to business development path, together with the whole interconnectedness of the system.

The study will follow the deductive approach and will start by theoretical foundations in the field which will then enable to test and discuss these in practice, namely by carrying out a multiple case study which will not only provide deeper understanding for the various possibilities, but also show the influence of the system on different development paths followed by the two studied companies.

The study should, in its full extent, base its findings on both primary and secondary quantitative and qualitative data, but here, the study will be mainly based on secondary data of both types. In addition to this limitation, the large breadth of the research does not allow for extensive exploration of each possibility, and it must be taken rather as an overview in the field. Lastly, the mostly downstream orientation of the study is to a large extent influenced by the theories chosen which do not put so much attention to developments on the sourcing side of companies.

3 Directions for business development

> *In the present business environment, no firm can consider itself immune to threats of product obsolence and saturation of demand. As a minimum, firms in all industries need to make regular periodic reviews of product-market strategy.* [35]

It has been one of the two most significant authors of strategic management knowledge who firstly developed a framework which is now broadly used for decisions related to business development options. Indeed, Igor Ansoff's growth vector matrix is together with Michael Porter's Five Forces framework and generic competitive strategies' framework extensively used by managers dealing with strategic decisions.

In his initial work[36], Ansoff focuses mainly on major changes in the product-market orientation of companies and states that companies could grow in four possible directions. Firstly, companies could focus on their current markets and increase sales and market share of their current products' portfolio. Such direction is called market penetration. Second option by which companies could grow is to take their current products on new markets, either geographically, or to new segments. Such option is called market development. Thirdly, companies could increase their sales by developing and selling new products to their existing customers. This direction for business development is called product development. Last option, and also the most difficult and risky to pursue is to enter new markets with new products, and such direction is called diversification. All the four possible business development directions that arise based on the work of Ansoff could be seen in Figure 3.1.

[35] Ansoff (1965, p. 125)
[36] Ansoff (1965, p. 109)

Figure 3.1 Product-market growth matrix

	Existing products	New products
Existing markets	MARKET PENETRATION	PRODUCT DEVELOPMENT
New markets	MARKET DEVELOPMENT	DIVERSIFICATION

This matrix has been revised and further elaborated on by other authors from the time it has been published. Probably the most extensive and complex discussion is provided by Johnson and Scholes[37] whose ellaboration will be used for further discussions related to this matrix.

3.1 Product-market growth strategies

Based on the introductive discussions related to the product-market growth matrix published by Ansoff, there are 4 main directions in which companies could develop. They could protect and build positions of their current products or services on current markets, enter new markets with current products, develop new products and offer them on current markets or both activities together, i.e. enter new markets with new products.

[37] Johnson and Scholes (2002, pp. 361-373)

3.1.1 Business development options on current markets with current products or services

The first option available to organizations wishing to develop and improve their competitiveness is to gain further market share, in other words penetrate the market further. However, the extent to which such option could be easily followed depends on several factors. Most importantly, it is the nature and state of the market. It is much easier to gain further market share on growing markets than on static markets where the demand is already met by current providers. In addition, companies wishing to gain further market share need to have additional resources for such developments and this can provide barriers mainly to smaller companies.[38]

In addition to the path of market penetration presented by Ansoff, there is also an alternative option for companies. When the competition on current markets is high or some of the company's activities inefficient, companies may, instead of getting further market share, consider reshaping or downsizing some of the firm's activities in order to improve their competitiveness. In that case, companies need to review exploitation of their resources, and when they cannot secure their positions with their products or on their markets, or competitive strategy, they should consider withdrawing such cases from the company's portfolio. This is because resources are limited and should be exploited rationally where the firm can make best value added.[39]

3.1.2 Business development options on current markets with new products or services

The second way in which businesses could develop is by coming up with new or modified products or services offered to their current customers. These activities are often influenced by changes in the environment that create demand for new products or services, or by the characteristics of the industry and length of the life cycle of the product or service in the specific industry. In some industries, such as electronics or software, fast product

[38] Johnson and Scholes (2002, pp. 367-368)
[39] Johnson and Scholes (2002, p. 365)

developments are necessary to survive. In order to develop new successful products, companies need to assure high-quality information about changing customer needs and need to focus on developing new competences.[40]

However, developing new products is risky and expensive because of R&D expenditures and companies are never sure if all the new developments will be attractive enough to pay off the costs. Therefore such activities are more opened to larger companies with high market share who could spread the risks by testing several possibilities.

3.1.3 Business development options on new markets with current products or services

Another way how businesses could further develop is to take their current products or services and, in addition to their current markets, offer them to new segments or on new geographical areas. Drivers for market development could be many: globalization, opportunity to reach similar segments with similar needs elsewhere, internationalization of customers, business partners or competitors, or development of new uses for existing products. All this leads into the possibility to increase market coverage and number of segments, areas, or countries the company wishes to supply with their existing products or services.[41]

3.1.4 Business development options with new products or services on new markets

Whereas the first three business development options, excluding consolidation and withdrawal, are defined by Ansoff as expansion strategies, the fourth one, which includes reaching new markets with new products, is defined as diversification. Such strategy takes

[40] Johnson and Scholes (2002, pp. 368-369)
[41] Johnson and Scholes (2002, pp. 370-371)

the company away from its current markets and products or services and puts the firm into a different area. [42]

Companies could have different motives for such developments, e.g. exploiting their competences in new arenas, spreading the risks, or getting synergy effects from acquiring new capabilities. Diversification strategy could be also followed when objectives of the company could no longer be met by any of the three expansion strategies, i.e. market penetration, market development, or product development.[43]

Within the broad strategy of diversification which includes reaching new markets with new products, several possibilities exist. Companies could diversify horizontally, which means to make a move within the economic environment of the diversifying firm to get for instance a marketing or technology synergy. In order to reach new markets with new products, they could also integrate their activities with some of their suppliers' or customers'. Such move is often called as forward or backward integration. Lastly, companies could follow concentric or conglomerate diversification path, where they add new related, respectively unrelated products to their portfolio.[44]

3.2 Types of business development strategies

In close relation to the work of Ansoff and writings of Johnson and Scholes is an alternative view on business development strategies published by David. According to him, all business development directions available to organizations could be divided into four types of strategies: integration, intensive, diversification, and defensive strategies.[45] Integration strategies are built on the idea to grow the business by gaining control over other parties, e.g. distributors, suppliers, or competitors. Intensive strategies, on the other hand, develop business activities by intensive internal effort of the company itself. This includes market penetration, and market and product development paths. Diversification strategies, as already said, enable the firm to develop their activities by getting access to completely new

[42] Johnson and Scholes (2002, p. 373)
[43] Ansoff (1965, p. 132)
[44] Ansoff (1965, p. 132)
[45] David in Polyakov (2004, lecture 16), Machková (2006, pp. 74-76)

products and markets. Defensive strategies, also an additional point to the Ansoff's matrix, are in contrast to other three strategies focused on protecting the company's current position and operations. Although David talks about similar business development directions as Ansoff, he uses another factor to divide and describe the directions than Ansoff, who divides the possibilities in terms of products, markets, and competences. The combination of both approaches will therefore give us better overview on all business development directions which are available to organizations.

3.2.1 Integration business development strategies

Integration strategies for business development enable companies to develop by gaining control over the firm's distributors, suppliers, or competitors. Integrations could be threefold: forward, backward, and horizontal. Forward integration appears when company gains ownership or increased control over its distributors, retailers, or customers and such strategy may be followed especially when the current distributors are expensive, unreliable, incapable, have high profit margins, or when the industry is expected to grow markedly. Backward integration appears when a firm gains ownership or increased control over its suppliers. This might be a good idea when the conditions with suppliers are similar to those described above for distributors, i.e. expensiveness, unreliability, high growth of industry, or high profit margins of the suppliers. Horizontal integration appears when a firm seeks ownership or increased control over its competitors. This could be followed mainly if the company wants to get a higher share in the market but is sure that such activities will not be challenged by the government. Such a move can provide increased economies of scale, better managerial expertise and also access to additional resources.[46]

[46] Polyakov (2004, lecture 16)

3.2.2 Intensive business development strategies

In contrast to integration business development strategies, intensive business development strategies are built on the idea that all expansion of the company's activities is done solely based on their own intense operations. Within intensive strategies, we can count market penetration, market development and product development.

Market penetration could be reached on not saturated markets by greater marketing efforts which do not only bring more customers, but also more usage per customer. Market development activities, i.e. introducing current products or services into new geographical areas or to new segments, could be exploited when there are cheap, reliable and good quality distribution channels to use, when the firm posses significant competitive advantage, has excess capacity and necessary capital and human resources to manage expanded operations. It is almost a necessity for industries that are becoming global. Product development strategy seeks higher sales by developing new or improving current products. This strategy should be followed mainly if the products of the company are in maturity stage of their life cycle, when the company operates in an industry full of technological changes, when major competitors offer better quality products or when the company has strong research and development capabilities.[47]

3.2.3 Diversification business development strategies

Diversification strategies which bring new products and also access to new markets are divided by this typology into three types: concentric, conglomerate, and horizontal diversification. While concentric diversification is defined as a strategy that adds new, but related products or services to the company's offering, conglomerate diversification adds unrelated new products for different customers. Concentric diversification strategy which brings new related products is often used to increase the sale of the current products that could be in decline stage of the life cycle. For such strategy, however, company must have a very strong management team. Conglomerate diversification which brings unrelated

[47] Polyakov (2004, lecture 16)

products is often pursued when there is a financial synergy between the acquired and acquiring firm, or when existing markets for present products are saturated and the annual sales are declining. Horizontal diversification, which means adding new, unrelated products or services for present customers, should be considered when revenues from current products or services would significantly increase by adding the new unrelated products and also when there are present distribution channels that can be used to market the new products to current customers. A strong motive for horizontal diversification is also when the new products have counter cyclical sales patters compared to existing products, which helps to even the total sales to the whole sales period.[48]

As diversification is the most risky strategy, companies wishing to pursue any of the diversification business development strategies need to consider if the target area in which the firm wants to diversify is attractive enough to out weight the costs of entry and whether the company can gain competitive advantage by value that was added by the new products or services.

By diversifying into related products, companies could get better access to industry information, profit from economies of scope, develop new skills and know how and optimize the company's resource capacity. By diversifying into unrelated products, on the other hand, companies spread the risks by putting "eggs in more baskets". All in all, diversification brings the company into a different area and the decision to diversify must be always built on present successes or failures and market opportunities.[49]

3.2.4 Defensive business development strategies

When the firm is one of the weaker competitors, has failed to meet its objectives, but still has distinctive competences, retrenchment strategy, which consists of regrouping through cost and asset reduction, can reverse the declining sales and profits. In case retrenchment has failed, or the division does not fit to the organization and is responsible for the firm's overall poor performance, divesture must be considered, i.e. selling the division or part of

[48] Polyakov (2004, lecture 16)
[49] Polyakov (2004, lecture 16)

the organization. The only other defensive option which could be considered when retrenchment and divesture failed is liquidation of the whole company, but this is a step which companies consider when all other business development directions failed.[50]

3.3 Business development directions available to organizations

Based on the previous discussions centered on the product-market growth matrix published by Ansoff, and the division of the development strategies formed by David, it is possible to show the main available options for business development directions that are opened to organizations. These will be summed up below.

- **Defensive directions:**
  - **Consolidating or downsizing the current business activities**

  This could happen when there is a strong competition and the company cannot secure the necessary competitiveness alone or with their current portfolio of products and activities. Such direction could lead into retrenchment, i.e. cost and asset reduction, divesture of some of the activities, or liquidation of the whole business unit or company.

- **Expansion directions:**
  - **Increasing market share on current markets**

  This could be viable when the market is still growing and not saturated and when the company has necessary resources for increasing marketing efforts.

[50] Polyakov (2004, lecture 16)

- **Developing new products**

Product development as a mean to grow the business may be a significant requirement in some industries that are full of technological changes, and the life cycles of the products or services are short. Demand for new products is rapidly changing based on the change in consumers' needs. For pursuing this development direction, businesses need to ensure getting high quality information about the changing needs, and enough financial resources that could be put into the research and development activities.

- **Entering new markets**

Entering new markets could be a necessary business development direction, especially when customers, partners or competitors of the company are internationalizing. It could also be an opportunity for the company to reach segments with similar needs, or areas with similar habits and culture. It should be considered when the company has cheap and reliable distribution channels, strong competitive advantage, excess capacity and necessary resources that will need to be invested on the new markets.

- **Integrating activities of others**

Business could be also developed when firm integrates with distribution channels, suppliers or competitors and take them under one roof. Integration with distribution channels or suppliers is viable when their activities are expensive, unreliable, have high profit margins and the industry is expected to grow significantly. Integration with competitors does not bring only elimination of competition, but also higher market share, economies of scale and access to additional resources.

- **Diversification directions:**
    - **Diversification**

    Diversification, i.e. a move into totally new markets and products should be considered when it enables to spread the risks of the company and achieve synergy effects. Companies consider diversification also when they cannot further develop by expansion and when they can further utilize their competences. They can either diversify into related products which can increase the sale of current products or into unrelated products which is pursued for financial synergies and increased profits. The related diversification should be also considered when there is a trend of convergence between various areas of activities.

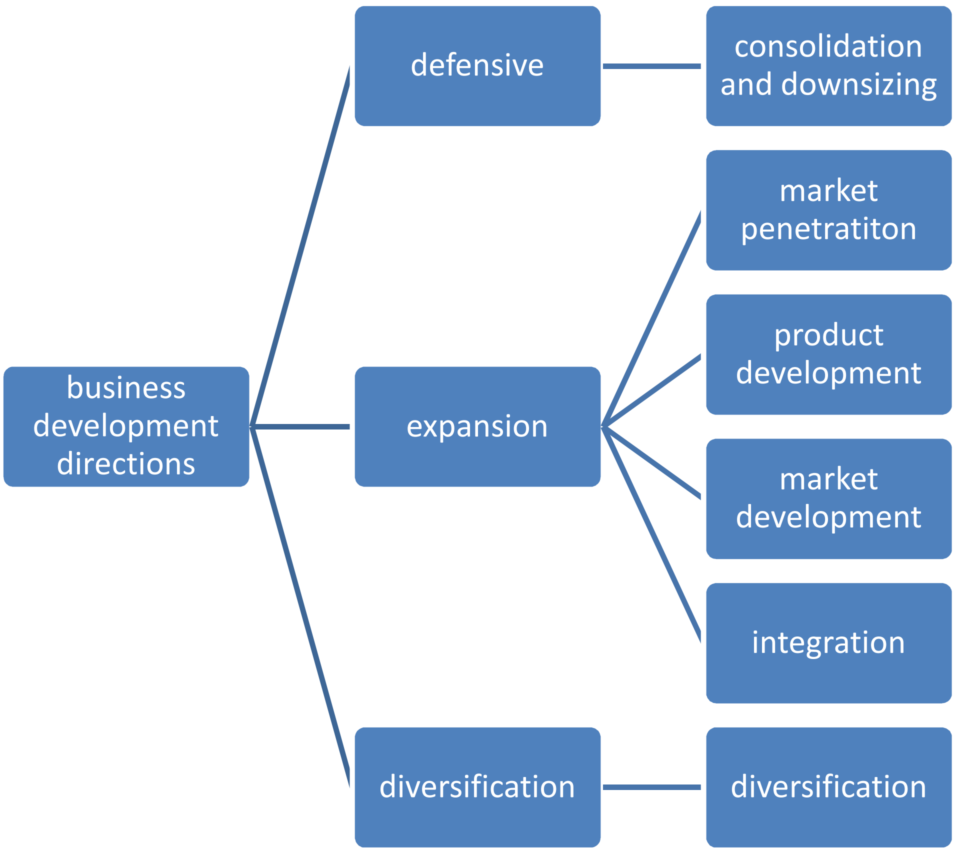
3.4 Summary

This chapter looked at two frameworks on business development directions and strategies which might be followed by any organization. First, it looked at Ansoff's product-market growth matrix which identified development directions in terms of product, market, and competences. Secondly, it looked at various development strategies which might be pursued and which closely complement the original work of Ansoff.

Such a combination enabled us to identify three major broad types of development – defensive, expansion, and diversification. Whereas defensive type includes consolidation of the company's activities and portfolio, which needs to be considered in conditions of ineffectiveness and high competition, expansion offers many various directions which might be followed. Firstly, increasing market share on current markets with current portfolio, a direction to be followed in case of growing and not saturated market and when the organization has necessary resources to invest. Secondly, developing new products or services, a direction which might be a necessity in industries full of change, competition, and when current products or services are in a maturity stage of their life cycle. Thirdly, entering new markets, a direction which is usually based on the competitive advantage, level of production, globalization of the market and players, and accessibility of distribution channels. Lastly, expansion may be also reached by integration with suppliers, distributors or competitors which might not only serve as a defensive step, but also give the company a better market power, economies of scale and new capabilities. In addition to various defensive and expansion development directions, companies could also diversify, which could deliver them strategic and financial synergies, and spread of risks. Diversification could be also followed, when any of the previously stated business development directions could no longer bring the company further increases in competitiveness and profits.

This chapter has therefore revealed the main six specific directions for business development which could be exploited by companies, and several conditions under which these developments might be considered. The six business development directions are showed in Figure 3.2.

Figure3.2 Business development directions



4 Methods of business development

Companies that are searching for avenues for expansion can use internal or external resources to reach their growth and business expansion goals. [51]

The previous chapter revealed that companies can pursue various business development directions: from consolidating their current activities through expansion by market penetration, market or product development, or integration, to diversification into different markets and products. For any of the discussed directions, there are different methods companies can use to execute their development strategies. These range from internal development, when the organization builds up its own resources and competences itself, through joint developments, when the organization shares the resources, activities and risks with other firms, to acquisitions, by which organizations gain further resources and competences by taking over another company.[52] All the three main methods by which companies can develop differ from each other in numerous important factors, such as control over the operations, risks, costs, and speed, and the rationale for each of the methods will be therefore explained in the following paragraphs.[53]

4.1 Internal development

The first possible method how to pursue expansion or diversification strategies is to build up further resources, competences and activities internally. This method is called internal or organic development. In terms of speed, developing and building further competences and resources on its own is slow and therefore such method is not appropriate for developments in a rapidly changing and competitive environments in which all steps need to be taken fast. On the other hand, developing all activities internally means having all activities under control. Costs of such developments are high as the company needs to invest for instance

[51] Parmerlee (2000, p. 110)
[52] Johnson and Scholes (2002, pp. 374-378)
[53] Ansoff (1965, p. 197), Lascu (2006, pp. 192-193)

into product development, new facilities, management etc. and so are the risks involved as R&D expenditures and new geographical areas do not always bring the money back to the company.[54]

Even though developing new business activities internally is slow, expensive and risky, high level of control brings many advantages. For new market development, direct involvement means getting full understanding of the market which could be a competitive advantage over organisations without direct involvement on that market. Also, for product developments of especially highly technical products in design or manufacturing, internal development enables to acquire the necessary competences to compete successfully. When considering the high costs of internal development activities, these are however spread to longer time period and therefore represent more realistic expenditures.[55]

When deciding on the most appropriate development method, companies might not even have other options than to develop all activities internally. This might be a case for example when the organisation is the first in the field or market and there are no partners or competitors which could be exploited for joint or acquisition activities.

4.2 Acquisitions and mergers

In contrast to expansion or diversification internally, external development of resources, competences and activities which could be achieved by acquisitions or mergers provide faster development possibilities. Both acquisitions, i.e. takeovers of other companies, and mergers, i.e. voluntary fusions of companies, may provide to firms access to resources, products, services, competences, and knowledge that were not available internally. Because developing such competences or products internally would require additional time and costs, acquisitions and mergers are useful mainly in very competitive, globalised, or

[54] Ansoff (1965, pp. 197-198), Johnson and Scholes (2002, p. 374), Lascu (2006, pp. 192-193)
[55] Johnson and Scholes (2002, pp. 374-375)

technologically changing industries such as information, media, telecommunication or leisure, and they tend to go in ways.[56]

There has been a wide discussion whether acquiring or merging with a firm is cheaper or not than developing all activities internally. When a company chooses to acquire or merge with another firm, it needs to pay the price for the development activities of the other firm too, but on top of that, it also pays a premium for the risks involved. The risks need to be also considered for internal development option, and the two sums might be then compared. What is certain is that acquisitions require high initial expenses in comparison to internal development costs which are more spread.[57]

When considering the risks and control over the activities gained by acquisitions or mergers, the highest risks with such methods arise with post acquisition or merger management. As two or more different companies with various cultures clash, there is always a problem how to divide and manage various tasks by people and communicate in a newly created organization. This is especially true for international acquisitions and mergers.[58]

It has been already stated that acquisitions and mergers are a good method to get access to complementary resources and competences, thus creating strategic and financial synergies. Firms can also get access to new ideas that might be exploited elsewhere. It is also an appropriate method of overcoming entry barriers to specific markets or accessing new steady markets where it would be very difficult to build own position internally. Moreover, when markets are fragmented, e.g. after deregulation, mergers and acquisitions are a good method of how to quickly penetrate the market and increase the market share. One of the motives for acquisitions and mergers could be also eliminating competition or getting access to distribution channels or suppliers that might be taken over by other competitors.[59]

But accessing additional resources, competences, products or services externally, i.e. by acquisitions or mergers, could have also many disadvantages and potential problems and risks. Firstly, acquisitions are rather expensive and companies need to invest high amounts into buying another company, and these investments can make considerable benefits in a

[56] Johnson and Scholes (2002, p. 375)
[57] Ansoff (1965, p. 197)
[58] Polyakov (2004, lecture 17)
[59] Johnson and Scholes (2002, pp. 375-376), Polyakov (2004, lecture 17)

very long time period, and therefore such developments must be agreed by influential stakeholders. The clash of various companies and cultures could also mean that the expected synergistic effects might not be realised in full potential because of difficult post acquisition management.[60]

4.3 Joint developments

In between of the two discussed methods of business development, i.e. internally or externally through acquisitions or mergers, there is a method which seems to be more and more welcomed by organisations now. This method is a joint development where two or more organisations share resources and activities together to pursue common goals and strategy. Indeed, in the complex environment, firms cannot always secure the necessary skills, ideas, technology or market knowledge themselves, and cooperation with another company can help them significantly.[61]

There are a number of reasons why companies should cooperate with other firms. Firstly, they can focus on the activities they are good at and leave some of the other activities on the other firm, if the other firm has better skills, resources or knowledge to undertake them.[62] By joint development, companies can also get access not only to complementary resources and competences, but also to complementary products or services, which can improve the sales of both firms' products and decrease the costs. By working closely in a relationship with other organisations, companies can learn very quickly from their partners and exploit that knowledge later in their internal development activities. This is very important as many of the joint developments result in an acquisition or merger activities which bring the company more control over all activities. Joint developments can be also used to avoid or counter competition moves of other organisations.[63]

In markets with slow market cycles, joint developments are mostly used by firms to gain access to steady or restricted markets, to overcome trade barriers, by cooperation with local

[60] Johnson and Scholes (2002, p. 377), Polyakov (2004, lecture 17)
[61] Johnson and Scholes (2002, p. 378)
[62] Johnson and Scholes (2002, p. 378), Polyakov (2004, lecture 20)
[63] Johnson and Scholes (2002, p. 382)

partners. On the other hand, in markets with fast market cycle, joint developments are mostly used to speed up new product or market entry or to share and reduce costs and risks.[64]

Joint developments can have many various forms and these are usually lined up by various authors from loose arrangements which the companies exploit either sometimes or secretly, to much formalised, long-term arrangements.[65]

The less connected, loose forms of joint developments are network of organisations or tacit collusion. When organisations choose to collaborate through a mechanism of mutual advantage and trust without any formal relationship, these joint developments are referred to as networks. There might be many various organisations in the network, each of them for example providing different products or services, but each of the partners in the network has a specific role, resource or competence which is in favour of the common goal of the whole network. Increasingly, some industries are now characterised by the competition of the whole networks rather than competition between various companies. One of the examples could be automotive industry. A secret network among organisations, called tacit collusion, is sometimes also formed for competition and price reasons, as cooperation between the firms can assure certain prices for products of all of members of the tacit collusion. These networks, even though legally banned, are often formed between the competitors in specific industries.[66]

Strategic alliances, as another form of joint developments, are frequently referred to as partnerships between firms in which the firms combine their resources, capabilities, and competences to pursue common goals and interests either in developing, manufacturing, or distributing goods or services. In comparison to networks, strategic alliances are announced, which brings the assurance of cooperation for a certain time, although it is usually short-term in nature. They are often used also for outsourcing arrangements for various activities that are not core for the company.[67]

[64] Polyakov (2004, lecture 20)
[65] Vodáček and Vodáčková (2002, p. 13), Polyakov (2004, lecture 20), Johnson and Scholes (2002, p. 380)
[66] Johnson and Scholes (2002, p. 381), Polyakov (2004, lecture 20)
[67] Lascu (2006, pp. 202-204), Polyakov (2004, lecture 20)

At the other side of the line, there are arrangements that are more formalised. These are called joint ventures. In joint ventures, two or more organisations which are independent set up a new organisation together and this organisation is jointly owned by the parents and the profits are shared. As with networks, the partners for a joint venture also bring complementary knowledge and competences. Joint ventures are mostly used for international expansion to more risky or unexplored markets, where a foreign company sets up a joint venture with a local firm, foreign firm providing the necessary know how, finance, or brand name, and the local partner mostly providing physical infrastructure and local market and legal expertise. Into joint venture developments, we can also count consortia, which are joint developments focused on long-term civil engineering or R&D projects.[68]

In between of joint ventures and loose arrangements such as networks are the intermediate joint development methods in which one company gives the right to manufacture or operate under their brand name to other companies, and by this, companies can increase the presence and share of their services and products on different markets and increase the brand awareness. Among those development possibilities are franchising and licensing. Franchising is based on the cooperation of a strong, well experienced firm with a certain concept and competitive advantage (franchisor) with a local partner (franchisee) that can undertake specific services on the stated market under the name of the franchisor. While the franchisor is usually responsible for brand name, concept, marketing and training, the franchisee undertakes all the operating activities and gives a certain proportion of the profit back to the franchisor. This form of cooperative development is advantageous for both partners, as the franchisor gets a fast speed access to different markets without any substantial financial investments, and the franchisee significantly reduces the risks connected with the business, as the original concept and strategy of the company is already successful on different markets. While this form of joint development for services is called franchising, for products, it is defined as licensing. However, the idea behind the cooperation is the same as with franchising, i.e. exploiting the success of the products or services of a specific company on other markets by contracts with local firms. Such development method is not only faster and cheaper than internal development, but also less risky as most of the financial and market investments are undertaken by local firms. All these intermediate joint

[68] Johnson and Scholes (2002, pp. 380-381), Lascu (2006, pp. 197-198)

development methods such as franchising and licensing are mostly contractual in nature, but do not involve ownership, as happens with joint ventures.[69]

The discussion about the various forms of joint developments revealed numerous motives for why these methods may be pursued by companies. Firstly, it is an enormous speed by which companies can internationalize and grow their activities by joint developments, especially true for joint developments with international partners. Secondly, because of the cooperation with the local firm, firms do not only share costs and risks with that company, but also learn new skills, access critical external resources and get access to local market knowledge.[70]

On the other hand, joint developments do not provide companies as much control over all activities as internal development, but the control may be increased later by acquiring the local partner or setting up a market presence internally for which they can use the knowledge gained through the joint development project. Joint developments can also slow down the decision making process of the unit as there exists multiple decision making process. In addition, such partnerships require trust and clear objectives and if these are not present, the partnership can result in a bad way.[71]

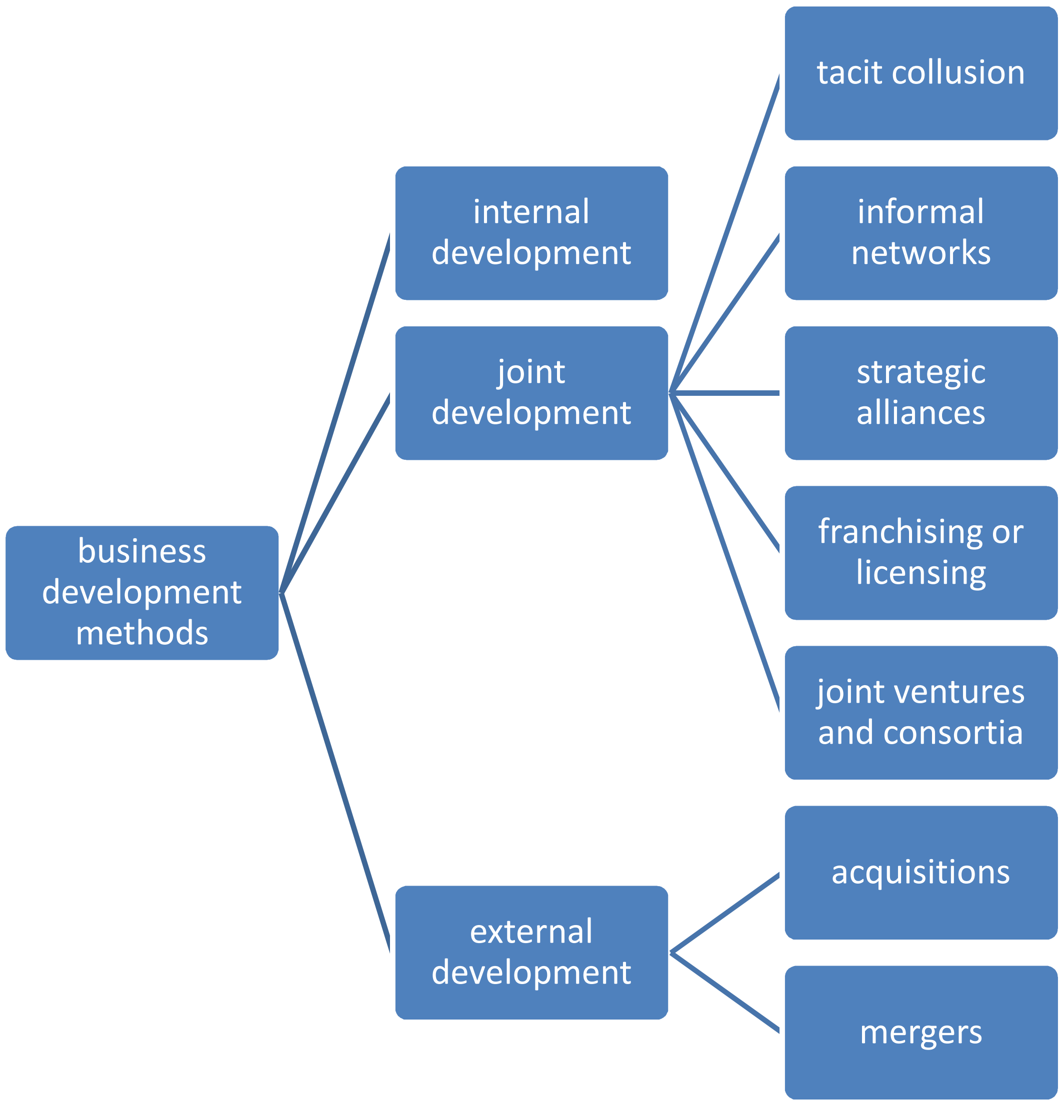
4.4 Business development methods available to organizations

As the previous paragraphs declared, companies could develop their activities by three broad different methods: internally, externally and jointly. Internal development takes more time and brings more risks to the company, but also represents higher control over the activities. In terms of costs of internal development, these are high but tend to be spread into longer-time period than in case of acquisitions. When companies do not choose to develop internally, they could either fully acquire or merge with other organisations or set up cooperation with another organisation. Acquisition of other companies means faster development but also high costs and risks associated with the post merger or acquisition

[69] Lascu (2006, pp. 194-196), Johnson and Scholes (2002, p. 381)
[70] Polyakov (2004, lecture 20), Johnson and Scholes (2002, pp. 382-383), Amit and Zott (2001, p. 493), Hakansson & Sharma (p. 110)
[71] Polyakov (2004, lecture 20), Johnson and Scholes (2002, pp. 382-383)

management. Cooperative arrangements between various companies represent another alternative which could be used by companies to develop their activities. There are many forms of cooperative arrangements, from the loose, market ones, to the more formal relationships. Cooperative arrangements enable decreased risks and costs for each of the involved companies and relatively fast access to other resources and capabilities. All the discussed methods of business development are showed in figure 4.1.

Figure 4.1 Methods of business development



4.5 Summary

This chapter provided a broad view on the three basic types of business development methods: internal development, joint development, and acquisitions and mergers, together with the most significant motives for pursuing such methods.

Internal development offers high control over all activities, with better understanding for the specifics of the market and products or services, but as it is slow, it is not an appropriate long-term development method for rapidly changing and competitive environments. Also, it is more risky and involves higher costs, and for such reasons, other two methods may be pursued instead.

Acquisitions and mergers, at the other side of the line as an external development method, bring faster access to new markets and products and such methods are appropriate mainly in very competitive, globalised and technologically changing industries, in which they can quickly acquire critical capabilities or competitors. Mergers and acquisitions also bring high costs as internal development, but provide access to complementary resources, products and services, and capabilities, and could be one of the few methods how to access the markets which are steady and have high entry barriers. Also, mergers and acquisitions are a perfect method for accessing deregulated markets and by that, increasing their market share and presence. On the other hand, the risks mostly associated with mergers and acquisitions are related to post deal management, which is especially true for international deals.

In the middle of the spectre of methods lay joint development methods which enable the companies to share costs and risks, get access to complementary resources or capabilities, learn from each other, and, by cooperation, to focus on their strong activities and capabilities. The specific methods range from the loose forms of tacit collusion, a legally banned cooperation, and informal networks, through strategic alliances and intermediate contractual forms of licensing and franchising, to more formalised agreements as joint ventures and consortia. All these methods have the basic advantages of joint developments discussed above and it depends on the specific company which of the forms of joint developments it prefers. Informal networks bring mainly cooperation on product developments and market penetration, strategic alliances may bring also cooperation on market development, and licensing, franchising, and joint ventures bring the company the possibility to enter other markets with less risk.

5 Elements influencing the business development decisions

> ***There is no best way to organize a corporation, to lead a company, or to make decisions. An organizational decision making style that is effective in some situations, may not be successful in other situations. The optimal style depends upon various internal and external constraints.***[72]

The previous discussions related to strategic management, and the specific options available for business development directions and methods revealed several important elements that need to be considered within the decision making process of business development. Firstly, the Figure 1.1 and the corresponding discussions showed that any of the decisions must be based on the current strategic position of the company within the economic and competitive environment. Here, the focus must be directed towards the state and trends in the environment of the company, which consists of macro and micro environments, the expectations of the stakeholders, and resources and capabilities of the company. Also, the same figure showed that all business development decisions must be consistent with both the corporate and business level strategies. Lastly, there is also an implementation issue for the chosen strategies which need to be considered.

Many of those elements were already introduced in the previous two chapters when speaking about the specific options for business development, and conditions under which these might be followed, but the next paragraphs will provide an overview about all these elements systematically, with the theories and frameworks that could be used to study the individual elements and options.

5.1 External environmental elements

Speaking about environment, we have to make a difference between the macro environment, which consists of general trends and changes happening in the world

[72] 12 Manage

generally, and micro environment which consists of trends, structures and powers within the environment specific to industries and sectors. More in depth, we could also continue to slice this down even further to explore the changes among the closest competitors, but this will be further explored in the part reviewing competitive strategies.

For assessing the macro-environment, and its influence on the various development options, managers need to continuously analyze the trends happening around the world. These changes are related to political, economical, social, technological, environmental, and legal issues and such analysis is often called the PESTEL analysis.[73] The most important point here is to identify which of the macro-environmental factors have the most significant influence on the success of organization and analyze the changes in relation to these factors on a continuous basis in order to adapt to the new trends. From political factors which influence mostly the markets served, it could be necessary to keep an eye on government stability, taxation policy and foreign trade regulations of specific countries. The changes in any of the countries might drive the company's activities to different countries. From economic factors, which do have an influence on the level of demand, labour possibilities and also on the opportunities for sourcing, it is necessary to analyze for example the GNP[74] trends, inflation, and unemployment. As far as social trends are concerned, lifestyle changes, population demographics, and attitudes to movement could influence the market opportunities for various products and services, both in terms of the amount and geographical distribution of demand. Technological changes and government investments into research have a very significant influence on the level of product development. Environmental considerations such as energy consumption or waste disposal could also play a significant role in product development or entering new markets with different restrictions. The legal factors do not only defend competition, but also provide requirement for various product developments. As it can be seen, the changes and trends happening in these areas play a very important role in business development decisions as they influence the choice of market to enter,

[73] the name PESTEL comes from the initial letters of the six types of issues: Political, Economical, Social, Technological, Environmental, and Legal
[74] Gross National Product – the cumulative expenses of the economics by individuals, firms, and government

characteristics of the products developed, growth of various markets, and competition moves.[75]

In addition to macro-environmental factors, managers also need to analyze the specific trends, structures and powers existing in their specific industries. The level of competition based on the amount and power of competing rivals and substitutes, the quality and power of distribution channels and entry barriers to the industry all influence the possibilities for business development directions and methods. For analysis of these elements, Five forces framework developed by Porter could be exploited. The framework looks at characteristics of various elements which altogether form the level of competition in a specific industry. These elements are the threat of entry to the industry, the threat of substitutes, competitors, and the power of buyers and suppliers of the company. High entry barriers such as necessary economies of scale, capital requirements, experience, access to distribution channels, or legislation actions could all slow down the possible development pace in the industry helping the companies inside against the possible new comers. The more substitutes the products and services have, the more dynamic is the industry and managers need to put a lot of emphasis to analyze the trends happening in the macro-environment, but also changes happening in other industries as these might lead into the development of direct and indirect substitutes. For reaching effective and economical operations, the power of the organization against its suppliers and buyers is also important, as their quality, amount, concentration, cost, and fragmentation all influence the possibilities for market penetration, market development or integration development directions. The quality, amount, competitive advantage, and balance of the various competitors in the industry also influence possibilities for directions and methods for business development, as they represent possible integration, merger, or joint development partners, or acquisition targets.[76]

At this point, the integration of life-cycle model suggests that competition will change in the industry according to the stage in which the product or service is. In the development stage of life cycle, market is usually covered only by early leaders, who invested into product developments and whose demand is increasing with the amount of buyers. Later, in growth

[75] Johnson and Scholes (2002, pp. 98-105)
[76] Johnson and Scholes (2002, pp. 110-118)

stage, when the demand increases and new competitors come, there is usually a strong orientation towards defending and increasing the market share on the growing current and new markets. Later, some of the competitors are shaked out or acquired and the companies on the market try to increase market share by either acquisitions or new product developments. In the maturity stage, the only possible directions in which companies might further expand are by acqusitions, mergers or continuous product development on current markets or entering new markets.[77]

When accessing possibilities for developments for companies in a specific market position and stage, we could explore the Grand strategy matrix that describes the most appropriate development paths for specific market positions and market stages. The framework illustrates that companies with a strong competitive position on a market with a rapid growth could follow any of the previously stated directions for business development, except from consolidation and conglomerate diversification as these do not build on the current success. On the other hand, weak competitors on a market with slow market growth do follow more defensive strategies such as consolidation or retrenchment, conglomerate or horizontal diversification, or even liquidation. For companies with strong competitive positions, but operating on markets with slow growth, diversification strategies to more promising growth areas are followed, as against companies with weak position in markets with rapid growth, who develop their competitiveness by further market penetration and development, or horizontal integration.[78]

In addition to this perspective, business development is also largely dependent on the competitive positions of firms. Whereas companies which are market leaders tend to focus on protecting their market share by continuous innovations, and increasing it by further expansion, companies in the position of market challenger could have different aims. Either challenging the market leader, which is risky, or focusing on outperforming other firms in the industry or local markets. Other firms usually just follow the trends from other firms but on a much smaller scale, or focus on a very specific market in which they do not need to compete with the leading firms.[79]

[77] Johnson and Scholes (2002, pp. 118-119)
[78] David (2007)
[79] Kotler and Armstrong (2005)

At the end of the discussions about the characteristics and changes happening in the industry, we have to stress that the boundaries of specific industries might be changing and converging between each other because of the technological or social trends happening in the macro environment, and therefore, it is necessary for companies to analyze the trends happening also in the industries very closely related to the industries in which they operate, as these might have a big influence on possibilities for product developments, integrations or joint developments.

5.2 Internal elements of the company

The next influencing element which has been identified through the previous discussions is related to resources and competences, and experience of the company. The discussion about resources and competences has to begin by identification of the firm and its activities. It was Coase, who firstly developed a model of the firm in which he defined the nature and boundaries of the firm. Based on that, there have been two main streams of focuses in research: one that is strategic and focuses on the firm's resources, capabilities, and competences, and one that is economic and focuses mainly on transaction costs of various activities.[80] Even though both approaches can provide understanding to the choice of business development method, this study will focus its discussion mainly towards the strategic approach, i.e. it will look more closely at resources, capabilities, and competences of the company, which could also explain options related to business development directions. However, to compare such view with the economic approach, transaction cost rationale will be also put in discussion in certain points, where it is appropriate.

The resource-based view, the dominant theoretical foundation in strategic management formulated firstly by Penrose, views the firm as a portfolio of resources and capabilities.[81] It says that a combination of certain complementary and specialized resources and capabilities can lead to a competitive advantage for the company.[82] The firm needs to exploit such

[80] Montresor (2004, p. 409), Garrouste & Saussier (2005, p. 179)
[81] Prahalad and Hamel (1990) in Arya and Lin (2007, p. 698), Amit and Zott (2001, pp. 497-498), Stieglitz and Heine (2007, pp. 1-2)
[82] Amit and Zott (2001, pp. 497-498)

resources and capabilities while, at the same time, it needs to develop new, for future business opportunities.[83] As Kuada says, however, no single company has in the fast changing environment all the resources and capabilities which are necessary to sustain the competitive advantage over a long time.[84] In that case, companies can form cooperative arrangements or corporate networks with other organizations, or acquire such resources and capabilities by acquiring or merging with another firm.[85] When translating these paths into business development directions, we are speaking mainly about possible forward, backward, or horizontal integration, or concentric diversification strategies. Therefore, in addition to internal resources and capabilities of the company, firms might get access also to external or network resources.

The network theory therefore represents an essential complementary perspective to resource-based view, as it says that organizational competitive advantage may be formed not only by internal resources, but also by getting access to external shared resources of other organizations.[86] This view elaborates on the initial resource-based assumption of firms as independent entities, that only a complete control or ownership of resources will lead to competitive advantage.[87] By cooperative arrangements, companies may get access not only to complementary resources, but also to resources that are not tradable or imperfectly mobile, i.e. less valuable to users other than the owner firm.[88] Firms can therefore extend their resource and capability base not only by extending corporate boundaries by internal development or acquisitions, but also by cooperative agreements on the market.[89]

Cooperative agreements enable the companies to link their own core competences with the core competences of other firms. Firms get access not only to complementary resources and competences, and new information, but also share risks, generate economies of scale and scope, and most importantly, share knowledge and facilitate learning.[90] This is a very important point, as companies, in their business development activities, need specific

[83] Stieglitz and Heine (2007, pp. 1-2)
[84] Kuada (2006, p. 7)
[85] Stieglitz and Heine (2007, pp. 1-2)
[86] Arya and Lin (2007, p. 698)
[87] Arya and Lin (2007, p. 698), Lavie (2006, p. 638)
[88] Barney (1991) in Lavie (2006, p. 643)
[89] Silverman (1999) in Espino-Rodriguez and Padron-Robaina (2006, p. 52)
[90] Amit and Zott (2001, p. 498)

knowledge and their steps are influenced on the knowledge acquired and their experience with certain business activities. If these are not created internally, they may be acquired externally or by cooperation with other organizations. Kuada stresses that there is a different pattern in knowledge acquisition for generally easy identifiable and substitutable resources and capabilities, and those that are intangible in nature. While a firm that lacks the first category of resources or capabilities might acquire those on the market and then perform them internally, it is much more difficult with the latter category, which must be usually gained through collaboration.[91] For example, when companies are internationalizing their activities, they tend to enter countries and use methods which bring the least risks based on the experience of the company.[92] This means that they will tend to enter the most psychologically closest markets and use methods that require small resource commitment. Later, when the experience and knowledge of the firm in relation to the market increases, and the risks decrease, the firm will start to gradually increase their commitment and internationalization activities.

Another view on resources, capabilities and cooperative arrangements is presented by the Value Chain model that has been conceptualized by Porter. He defines the firm as a set of primary and support activities which need to be managed effectively.[93] But organizing and managing all the primary and support activities in an affective manner is very difficult, and some organizations might realize that cooperation with partners who can provide higher value or lower costs than the focal firm for some of the activities is very valuable. To provide the best value and lowest costs, companies may need to outsource some of their activities or acquire new skills to enhance their core competences.

When we incorporate also the transaction cost view, an economical point of view, into this discussion, we will see that cooperative arrangements have also many disadvantages. While such cooperation is formed for the mutual interest, both parties have their individual goals which might later evolve into opportunism. Such behaviour can be minimised by legal contracts.[94] From the transaction cost view, firms would prefer to undertake all activities internally due to risks of uncertainty and opportunism, but in case such internal

[91] Kuada (2006, pp. 7-8)
[92] Sharma and Johanson (1987, pp. 21-23)
[93] Kuada (2006, p. 2)
[94] Hakansson and Sharma (p. 112)

development requires huge investments, they might choose to enter the markets by other methods, such as contractual cooperative arrangements. These could be later, when the risks decrease and the frequency of transactions increase, transformed into internal activities. Transaction cost view, however, when compared to resource-based and network views, looks at the issue from negative and economic, rather than positive and strategic angle, which is the main view also in this study. Nevertheless, transaction cost view could be for example used to explain vertical integration strategies, when partners from the supply chain are integrated due to their costs, frequency of the activities, and also to minimize the potential risks of opportunism.[95]

The decisions in regards to specific cooperative methods of business development are also guided by the strategic and operational importance of the resources, the focal firm wishes to access. Whereas for accessing resources that are both strategically and operationally important, long term strategic relationships such as strategic alliances will be formed, for resources that are on one side strategically important, but operationally not as important as the first category, the firm will tend to pursue mostly contractual arrangements such as licensing or franchising.

Based on the financial and other resources, capabilities, and experience, the company will also decide the most appropriate development directions to be followed. Some directions as product development, or new market development tend to require extensive financial expenses and experience, and in case these are not present, the company may either choose to cooperate or decide to follow different development direction. All those internal factors such as resources, capabilities, experience, but also the size of the company influence the business development decisions, and complement the external factors from the environment.

[95] Montresor (2004, p. 424)

5.3 Competitive strategy

In addition to external and internal environment of the firm, a significant role in the business development decision system will be also played by the competitive strategy of the firm, which must not only be adapted to and based on the external and internal constraints, but also in close fit with both directions and methods of business development the company follows.

The overall competitive strategies are discussed by Porter, who says that companies can achieve competitive advantage by three different paths: they can focus on having the lowest possible costs, thus achieving the price leadership, they can focus on providing a special value to customers by differentiating their products or services, or they can focus on a very specific small market which is not supplied by other companies due to their specificity. Whenever a company that chooses to compete on the base of price considers possible development directions and methods, these must be chosen as not to raise their costs significantly. Rather, they should be directed towards decreasing the costs. The same rationale must be exploited by companies focused on differentiation. For instance, when a company competes on the base of differentiation in design, it must consider how to most effectively achieve that position, and this could include for example integration with other designing studios. As has been said, cost leadership, as one of the three main competitive strategies, can result in different development directions and methods than if the company competed on the basis of differentiation. Whereas cost leadership requires well-functioning supply chain, economies of scale through integration with competitors or large market share, differentiation will focus on product or service development and integration or cooperation with organizations that can further enhance the value of their products or services.

In addition to the Porter's model, there have been also identified several intermediate competitive strategies which are sustainable in the long term period. Even though these competitive strategies are also based on cost and differentiation level, they bring also the parameter of segment to the discussion. According to Bowman[96], there are five main ways of

[96] Bowman and Faulkner in Johnson and Scholes (2002, p. 320)

sustainable competitive advantage. These start from strategies which focus on cost leadership on the whole market, or in a specific segment, through hybrid strategies that are based on differentiation combined with low price, to differentiation strategies for the whole market, or to a specific segment. Each of these strategies have different rationale and require different methods and processes of activities, and therefore the specific competitive strategy that the firm follows will have an impact on the decisions regarding business development.

These competitive strategies must be followed on the level of business unit, but when large corporations have several business units operating in various industries or contrasting markets, we need to consider also their corporate strategies in relation to managing the various business units. Whereas most of the corporations manage various business units for their strategic synergy, some could have them mainly for financial, reconstructive or speculative reasons. For each of those strategies, corporations would consider different directions for development. For example, the corporations which focus on managing various business units for financial, reconstructive or speculative reasons would tend to follow diversification strategies more often than companies focused on synergy effects.[97]

5.4 Other elements

In addition to external macro and micro environmental constraints, internal constraints and competitive strategies, companies need to pay attention also to several other factors which do have an influence on the business development decisions. Firstly, these are expectations of the most influential stakeholders of the company, which need to be taken into account when deciding on the most appropriate direction and method to follow. As some of the directions or methods, such as diversification, integration, or acquisitions tend to bring increased risks and costs of the development, some of the influential stakeholders might not be in favour of such risks and decrease in short-term profit. Therefore, the choice for directions and methods will be also dependent on the approach of the influential

[97] Johnson and Scholes (2002, pp. 273-281)

stakeholders to risks and profits, and also on the current financial situation of the company, which as a resource, was already discussed in the previous parts.[98]

The concept of culture must be also brought into the discussion here, as the interplay of national or regional, industrial, organisational and functional identities of the people involved in the decisions, together with the most influential stakeholders, represent a great array of different backgrounds with different experience and attitudes to certain strategies and activities. People with different backgrounds and attitudes for example to long term investments, cooperation, or risks would prefer different directions and methods than people from backgrounds and cultures with contrasting attitudes and views.[99]

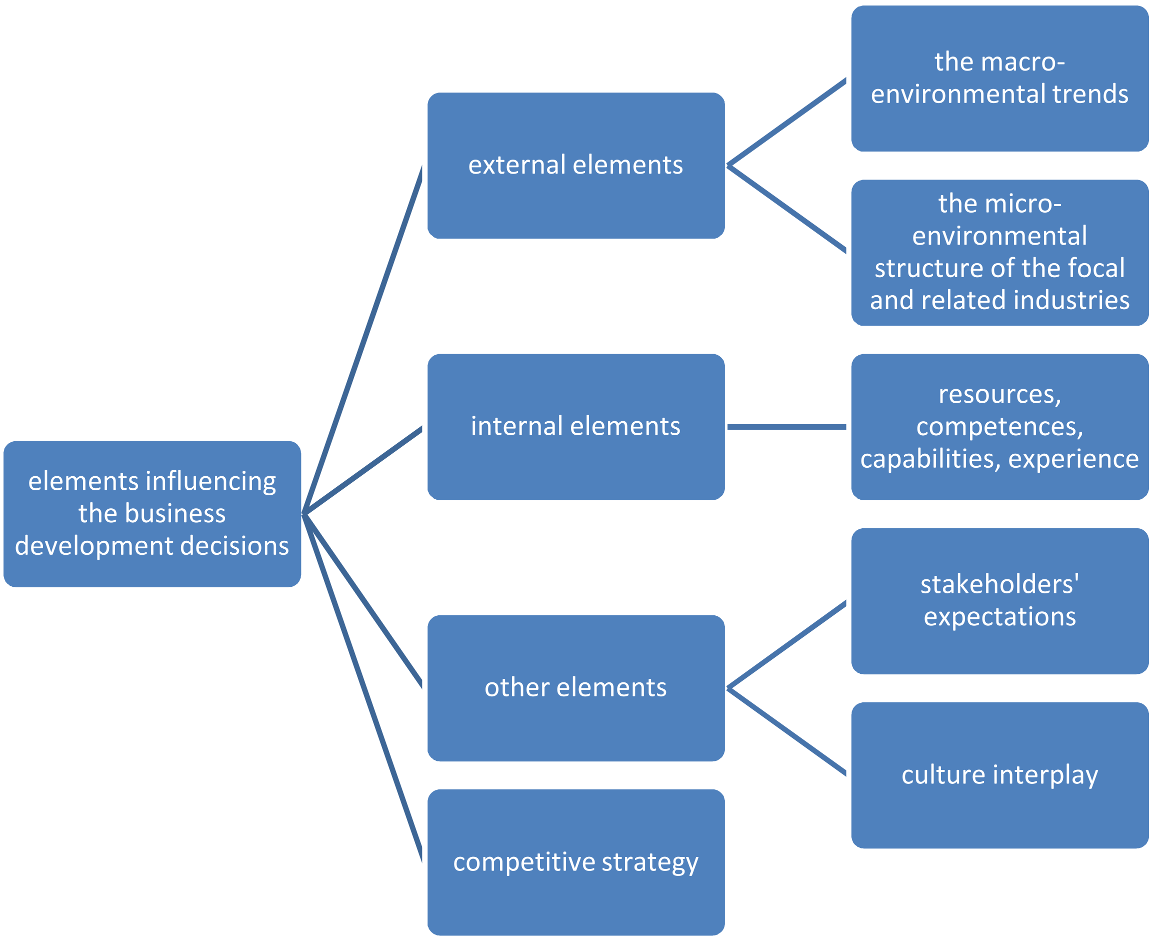
5.5 Summary

This chapter revealed the important elements which play a significant role in the decision making process related to business development. Firstly, we can identify external elements, comprising of trends and changes happening in the macro-environment, and structure, competition and powers in the specific industry, i.e. micro-environment. For specific industries, based on the technological and social changes in the macro environment, it is also necessary to review the structures and changes happening in the related industries. For assessing these elements, various concepts and frameworks could be exploited, such as the PESTEL framework, the Five Forces framework, the Life Cycle model, or the Grand Strategy matrix. In addition to external elements, companies must review their internal constraints such as resources, competences, capabilities, experience and size, which do have a very significant influence on the business development decisions too. For assessing these elements and possible development options, resource-based theory, network theory, transaction cost theory or the Value Chain model could be exploited. Thirdly, specific competitive strategies of the focal company must be identified, and additional factors, such as stakeholders' expectation and the interplay of culture background also considered. All

[98] Johnson and Scholes (2002, pp. 18-19)
[99] Johnson and Scholes (2002, pp. 221-230)

these elements, highlighted in Figure 5.1 play an important role in business development decisions.

Figure 5.1 Elements influencing the business development decisions



6 Towards the business development decision system

Performance is a consequence of the fit between several factors.[100]

With reference to the contingency models this study has chosen to approach the strategic management decision process in relation to business development, previous three chapters revealed options opened to organizations in terms of business development directions and methods, also with the elements and concepts that underlie their choice. It has been discussed that companies have six general paths in which they can develop: they can consolidate and downsize their current activities, further penetrate the market, enter new markets, come up with new products, integrate with some of their supply chain partners or competitors, or diversify into totally different markets and products. For such directions, companies have three major development methods: they can carry out everything internally, acquire it on the market, or choose to cooperate with other organizations.

Throughout the discussions in previous three chapters, and also in accordance with figure 1.1 which showed main concerns of strategic management, many various constraints which influence the choice of the optimal direction and method for business development prevailed and these need to be highlighted. Firstly, there is external environment, consisting of characteristics of the general economic, social, political, legal, technological and environmental changes, e.g. the extent to which there are globalization tendencies and technological changes, and also the characteristics of the particular industry in which the company operates, e.g. the existence of competitors and availability of suppliers and distributors. Also, companies need to be aware about the state of other related or unrelated industries; as such information could be used for their diversification or other development possibilities. In addition to this, there are also internal constraints which need to be considered: strategic or financial resources, capabilities, experience and size. However, there are also other factors which need to be considered, and these are a competitive strategy of the firm, expectations of influential stakeholders and culture.

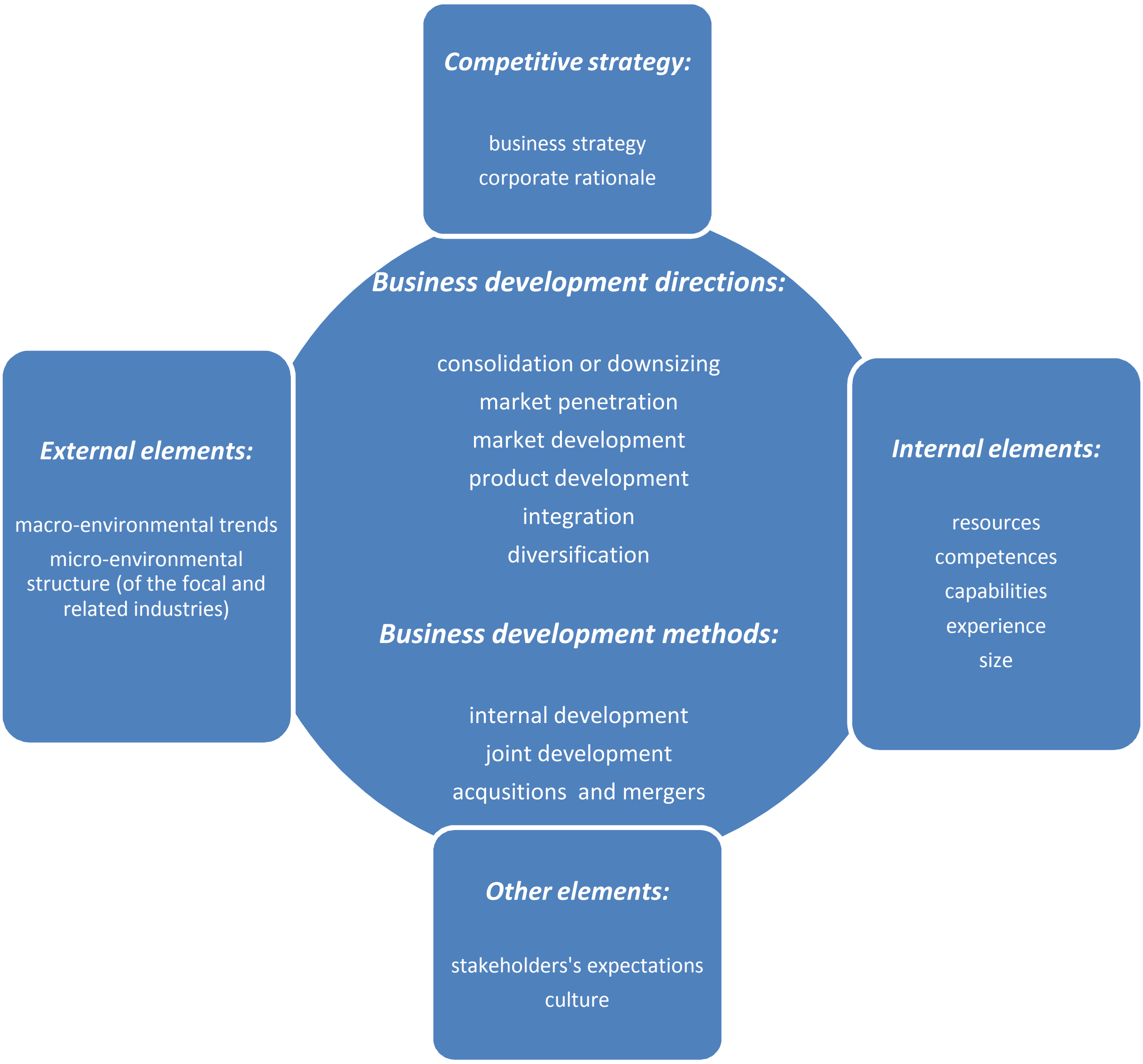
[100] 12 Manage

As far as experience with business development is concerned, it has been discussed in previous chapters, that companies prefer the lowest possible risks. For entering specific risky markets or developing new technical products, they tend to cooperate with other organizations to learn from them and acquire knowledge which could be later used for their own internal activities. When such knowledge is acquired and can be used also in other cases, then companies decrease the risks for such operations and do not consider such directions and methods as risky as previously. The tendency to prefer higher risks also depends on the size of the firm. Smaller firms do not have so many other chances to compete than to undertake higher risks in comparison to larger organizations that tend to prefer options with lower risks.[101]

Having considered all the relevant strategic issues in relation to business development options, we can now synthesize these into a system, which shows all the various options available to organizations in terms of business development directions and methods, and also all the influencing factors that need to be considered as they influence the choice of the optimal decision for companies. The business development decision system could be seen in figure 6.1.

[101] 12 Manage

Figure 6.1 Business development decision system



Such system is not only consistent with all relevant discussions provided in previous paragraphs of the study, but also, it is related to the strategic management system which was showed in figure 1.1. Here, in contrast to figure 1.1, the main focal point of the system is the choice of the direction and method for business development, but as we can see, the consistency with other influencing factors is conserved. The strategic position, on which development choices must be based, is here represented by both external and internal factors. But as these are changing through time, the system here is more dynamic than the one presented in figure 1.1. Also, consistency with other strategic choices is conserved through the close relationship of the decision to competitive strategy of the firm. In terms of strategy implementation, the business development decision system also shows that all possibilities are also compared in financial costs, and size and level of experience of the company. Therefore, the above presented system consists of all relevant constraints that need to be further elaborated on in order to show the interdependence of the whole system.

6.1 The interdependence of the elements and choices

6.1.1 Macro-environment

The importance of macro-environment has been already revealed in previous discussions. Figure 1.1 and the connecting discussions showed that macro-environment influences the strategic position of the company and therefore, companies need to continuously review all changes happening in the environment. These changes are related to social, economical, political, environmental, technological and legal issues, which all influence the possible business development direction, which might lead to the best adaptation to such changes.

The changes happening in the macro-environment influence not only the state and competition in the particular industry in which the firm operates, but also other industries which the company needs to continuously review for possible business opportunities.

However, macro-environment changes have a big influence also on the internal factors within companies. Economic cycle, politics or environmental policy could have enormous influence on the extent of financial resources of the company. Similar changes together with changes in demand could lead into the change in the size of the firm, which could either become larger under good conditions or smaller under bad conditions. Certain export or R&D policy could also help companies to gain access to various business development bodies that have experience and capabilities for certain activities which would be otherwise very risky for the companies.

The macro-environment also to a large extent influences the possible ways in which companies could compete in their specific industries. When economic conditions are good, there will be higher chance to compete on the basis of differentiation than in times of bad economic conditions.

As it can be seen, macro-environment plays a very important role in selecting the most optimal business development direction. However, it also influences the selection process in relation to business development methods, as political and economical changes influence for example the extent to which companies can cooperate with or acquire other businesses.

6.1.2 Micro-environment of focal industry

Being influenced by the macro-environment, industry characteristics, in other words micro-environment, also plays a significant role within business development decisions. The extent of competition and relations within the supply chain open some business development directions that might lead to a better position in the industry. For example, high competition could be defended by vertical or horizontal integration activities or consolidation of the weaker activities. The focal industry also operates with a certain influence of other industries which need to be reviewed.

As with macro-environment, industry characteristics also influence the possible competitive strategies, the financial and other resources of the company and the size of firms. Some industries tend to be consisted of several larger organizations, whereas others might be full of smaller companies each differentiating their offer. The extent to which there are competition moves and demand changes also influence the experience and capabilities of the company, as in high competition industries, the companies which want to survive need to adapt to the many pressures and therefore tend to undertake more and quicker activities than companies in more stable industries.

The extent of competition and quality of the supply chain also influences whether the company will choose to develop certain activities internally, acquire it on the market or undertake them in close relationships with other companies.

6.1.3 Other industries

Companies need to analyze not only their focal industries, but also, based on the changes happening in the macro-environment, state of other industries which might be of interest to them. This is not only for possible diversification strategies, but also for outsourcing activities which might downsize some of the poor activities of the company to save resources on the more effective ones. Also, with certain technological innovations, several types of industries might tend to merge together.

The activities happening in other industries, the resources and capabilities of the firms in such industries might also play a significant role in deciding whether some of the business development directions will be followed solely internally or by acquisition, merger or cooperation with a company from a different industry.

The competition and activities happening in other industries also indirectly influence the resources and size of companies in the focal industry, as there is no industry that could operate without being dependent on the services and products of other industries.

6.1.4 Resources, capabilities, experience, and size of the company

Financial and other resources of the company must be deployed effectively. Whereas for some directions, the company could have enough resources, for others, it may not. Therefore, the resources of the company have a big influence on the ways in which the business could further develop. If the company wants to increase their financial resources, it must increase their revenues or decrease their costs. Increased revenues could be achieved for example by accessing more markets, or increasing the product portfolio, however, such developments also require additional costs, which might be against the stakeholders' expectations. If the company wants to get access to further physical resources, it must spend some of their financial resources. Therefore, resources of the company will play an important role in deciding on the most optimal business development direction.

Resources are to a large extent dependent on the size and experience of the company in relation to business development. The larger the organization is and the more experienced, thus more developed, the company is, the more resources it will usually have and vice versa.

Based on the resources and capabilities of the company, the competitive strategy of the firm and the position in the industry is also formed.

The extent of financial resources and their overall resource base will also influence whether companies would tend to carry out business development directions internally, externally, or by cooperation with other companies. As has been already said, internal development provides the best control over the activities but also low speed of actions, whereas external development through acquisitions or mergers provides high speed, but also high initial costs. In between of these two methods are joint developments which provide shared costs and risks, but also medium control and speed.

The size of the company is closely related to the extent of resources held by the company, and is influenced by the extent to which the macro-environmental factors, industry characteristics and the competitive strategy of the firm fit together. Whereas larger firms, due to their better financial stability, could carry out several business development directions in the same time, smaller firms might need to focus only on one or two as they do not posses enough physical, financial, or human resources to follow all desired actions. Also, smaller firms are usually not in a position to acquire larger organizations, and therefore they must develop all activities internally or through a joint cooperation with other companies. On the other hand, larger organizations have better possibility to acquire skills and knowledge on the market as they could acquire or merge with other organizations more frequently.

Through the time, companies build certain capabilities and obtain experience with their business activities, including business development directions and methods. While in the beginning of their existence, companies might need to learn many different skills and capabilities and therefore are faced with many various risks, these might lower in time as they acquire the necessary knowledge, and become larger with more markets and products or services covered. This means that while in the beginning of their presence or in new activities, companies tend to cooperate with other organizations, later or when they have the necessary experience and capabilities, they choose to carry out the activities internally or through acquisitions or mergers.

Also, in terms of business development directions, businesses tend to get a significant role on the home market with current products before they consider accessing also additional markets, developing new products or diversifying.

6.1.5 Competitive strategy of the company

In addition to external and internal environment of the firm, a significant role in the business development decision system will be also played by the competitive strategy of the firm, which must not only be adapted to the external and internal constraints, but also in close fit with both directions and methods of business development the company follows. As has been said, cost leadership, as one of the three main competitive strategies, can result in different development directions and methods than if the company competed on the basis of differentiation. Whereas cost leadership requires well-functioning supply chain, economies of scale through integration with competitors or large market share, differentiation will focus on product or service development and integration or cooperation with organizations that can further enhance the value of their products or services.

6.1.6 Stakeholders' expectations and culture

The expectations of the influential stakeholders, which affect the business development choice, are to a large extent dependent on the current trends happening in the environment, but also on the extent of the internal resources. The interplay of various cultures which change in time with the experience and size of the company also influence the stakeholders, but also the managers of the company, who make the decisions based on several discussed factors.

6.2 Summary

The discussion revealed that the choice of the most optimal direction for business development will be influenced by many various factors. Firstly, by external factors from the macro-environment, such as social, political, economical, legal, environmental, or technological trends, micro-environment, such as the level of competition and quality of supply chain in the specific industry, and also by trends happening in other industries; secondly, by internal factors such as resources, size, capabilities and experience of the company; and lastly by competitive strategy the firm pursues, its stakeholders' expectation and the interplay of the various levels of culture.

The interplay of all stated factors must be therefore analyzed in order to choose the most optimal business development direction. The choice of the direction will also directly influence the possibilities for methods for such business development. Whereas less risky developments, such as market penetration is usually carried out internally or through acquisition of the competitor, more risky developments such as product or market development could be carried out through cooperation with other organizations, if the company does not have enough knowledge and financial resources, and wants to share the risks of the development.

The chosen development direction and method, in turn, influences all the previously stated factors, both in external and internal environment. As the firm develops, and how the firm develops its activities significantly influences the competition and relations within their industry. When diversification direction or cooperative methods are followed, the business development could also influence relations, competition and trends in other industries. This could also all lead into several macro-environment changes, for example posed by governments or legal entities. The choice of business development direction and method also, in turn, influences the resources, size and experience and capabilities of the company. As it could be seen, the elements of the system are changing and therefore the decision in relation to business development directions and methods might vary considerably in time.

7 IKEA's and VODAFONE's case

Having explored the system in which decisions about the business development path of companies are made, we can now focus on exploiting the system to reveal, discuss and evaluate the development paths which have been chosen by two specific companies: IKEA and VODAFONE.

7.1 IKEA

> ***Trends come and go, but combining a low price with good design and function never goes out of style.***[102]

IKEA started with Ingvar Kamprad's early business activities when he, as a teenager, started to sell pens, Christmas cards and seeds around the neighbourhood. After a couple of years, he added also furniture to his offerings and from that moment, IKEA continuously developed to its current position of the leading home furnishing brand in the world, that serves 30 markets through more than 235 stores and the Internet.[103]

7.1.1 Concept

Today, IKEA focuses on offering a wide range of well designed functional home furnishing products at prices so low that as many people as possible will be able to afford them.[104] This means focusing on continuous product developments, in which design, unique techniques of manufacturing frequently taken over from other industries, and high volumes purchases of raw materials secure the necessary low cost for their products. That is also secured by all the processes that have been established by IKEA on the way to final customer, e.g. the self pick-

[102] www.ikea.com
[103] www.ikea.com, IKEA facts and figures 2007
[104] www.ikea.com

up service and assembling concept. In order to serve as many people as possible, IKEA established its presence on numerous markets and also built the opportunity to shop on the Internet. However, the today's concept of IKEA required many significant steps in the company's history, which will be explored further.

7.1.2 History

IKEA started in 1943 in a small village of Sweden. During the next years, Ingvar continuously offered more and more products, and 5 years later, he added furniture to its range of products. After a few advertisements for his business, he could no longer meet all demand by individual sales calls. Therefore, he introduced catalogues and became a mail-order company which also established a show room in which customers could compare functions, quality and prices of the furniture presented in catalogues.[105]

In 1955, IKEA started to design its own furniture. As Ingvar aimed to focus on young couples who were looking for new but not expensive furniture, and the cartels and agreements on the market that time kept prices of such furniture high, he thought he could build on that conditions and design and develop all furniture internally better and more effectively. He introduced several innovations in the industry which were aimed to decrease the cost of its products. These were for example the concept of self-assembly of the furniture by customers, and flat packages in order to reduce transport and damage costs, which were all introduced in the very first store opened in 1958 which was accompanied by a restaurant to increase the shopping environment convenience.[106]

Until 1960s, all supplies to IKEA have been from suppliers located in Scandinavia; however, as the price of pine in Scandinavia rose, IKEA was forced to look for other sourcing possibilities elsewhere. The first non-scandinavian suppliers were therefore found and contracted in Poland and former Czechoslovakia, and this step meant not only a significant

[105] www.ikea.com
[106] www.ikea.com, Centre for Management Research

change and development in international sourcing, but also a step which meant access to lower cost supplies.[107]

In 1960s, further furniture products were introduced and the company opened other two stores in Scandinavia. But, as 1970s brought stagnation on the Swedish furniture market, IKEA started seriously to look for opportunities to expand internationally. Therefore, first stores were opened also in Switzerland and Germany.[108] 1980s saw a rapid increase in demand for office furniture and IKEA responded to the trend by offering a complete range of office furniture products.

In 1991, IKEA had to respond to the changes happening in Eastern Europe, and as it did not want to loose its suppliers from the area, it had to establish a Swedwood Group which looked after the suppliers, took part in the privatization process, and later established, built, and acquired other suppliers from all over Europe for IKEA's activities. This step significantly increased IKEA's production competences and capabilities.[109]

1990s saw further expansion of stores to other countries, product range developments to include new series focused mainly on meeting the trends in the environment, i.e. people more and more working from home and the demand for special safe furniture for children. Also, IKEA joined the Internet in 1997, and in addition to providing information on their product range, it started to sell some of their products online as well a few years later.[110]

Now, as has been said, IKEA has over 235 stores in 30 different countries and planed to open 25 new stores in 2008. In addition to that, IKEA also wants to increase its online presence to reach more customers and enable them to shop online for certain products in certain markets. Product development still remains extensive, with around 3000 new products this year to join the current amount of 9500. In order to secure low prices, IKEA, through Swedwood, continues to build long-term relationships and contracts with all of their suppliers who became part of the IKEA concept. As IKEA highly responds to social and environmental issues, all their over 1300 suppliers from 53 countries must meet IKEA's code

[107] www.ikea.com
[108] www.ikea.com, Centre for Management Research
[109] www.ikea.com, www.swedwood.com
[110] www.ikea.com

of conduct of business, which focuses on sustainable forestry, good working conditions, and improving energy efficiency.[111]

7.1.3 Business development directions

The previous discussion revealed that IKEA has exploited many of the various business development directions. In his initial activities, Ingvar Kamprad focused on extending the range of products that he sold on a very limited small market. But when he added also furniture to his offerings, and carried out first advertisements, he increased the market share and started to serve greater market with his products.

The most significant step in the history of IKEA was when IKEA focused their activities solely on furniture and home furnishing products, established stores functioning as show rooms, and started to design the furniture itself. This step was based on the conditions on the furniture market where IKEA's business strategy combining high quality, fine design and low cost of products differentiated its offering from all other competitors. Such strategy was supported by innovative manufacturing processes, design capabilities, low cost supplies, and customers' part in the whole shopping, distribution and assembly process.

As the company grew, and acquired further competences and finances, it started not only to continuously bring new products and product ranges on the current market, but also to access other markets in Scandinavia. However, the stagnation of the demand for furniture products especially in Sweden motivated IKEA to enter also other European markets, firstly Switzerland and Germany.

In the same time as the company became closer to other European markets, IKEA needed to ensure low cost and sustainability for their supplies and therefore formed a vertically integrated network with its suppliers, who became a part of the IKEA organization Group. The amount of suppliers was increasing, as IKEA wanted to exploit each innovative solution from other industries for furniture products, and suppliers from low cost countries were preferred.

[111] The IKEA way on purchasing home furnishing products, IKEA facts and figures 2007

As furniture industry was one of the most fragmented industries in the world, IKEA wanted to exploit its competences and experience, business strategy, and financial strength to enter other European and world markets. In 2000s, IKEA also started to sell certain products of their range on the Internet in specific markets, which were ready for online shopping from the customers' and distribution point.

In a summary, we could say that IKEA started with product developments, and when it chose to consolidate and focus its activities solely on home furnishing products and build a sustainable competitive advantage, it started to penetrate the market with extensive product range highly demanded due to the company's business strategy that enabled customers to get access to high quality, well designed, new furniture at low prices. As product range significantly increased, and so did the experience, size and finances of the company, the company started to go international, not only by setting up new stores around the world due to decreased demand in Scandinavia, but also by long-term low cost sourcing from international or local suppliers who could deliver better prices than suppliers in Scandinavia. And this path is further followed by IKEA nowadays as it offers the company to capitalize on its experience, business model, and brand.

7.1.4 Business development methods

In terms of business development methods, IKEA exploited mainly internal (organic) growth, where all activities were built up continuously on the basis of experience with the past activities of the company. Slow internal development is generally associated with low risk, and due to the fact that furniture industry was both locally and internationally highly fragmented and not filled with big competitors, IKEA could exploit such method of development. Secondly, as the IKEA concept and business strategy was closely linked to the entrepreneurship of the founder, Ingvar Kamprad, internal development seemed to be the best way how it was possible to secure the long-developed culture, processes and innovativeness.

However, in addition to internal development, IKEA also exploited other methods of business development. Firstly, these were joint developments with suppliers, who formed an informal network with IKEA. For suppliers, this meant to meet the codes of conduct of IKEA and deliver low cost manufacturing processes in exchange for long-term prospective partnership with IKEA which led into growth of the supplier together with the IKEA Group. Later, when Swedwood Group has been established, these informal networks have been more formalised and now Swedwood looks after all the suppliers' network. Swedwood also formed and built new factories, made new deals with suppliers and also acquired prospective suppliers on various markets. All these developments were made in order to form a very effective and cooperating network of supply chain, which would enable IKEA to live its business concept.

Even though IKEA entered most of the developed markets internally by setting up its own store and online presence, the way it has been chosen to enter the more risky markets was by franchising. Here, for markets in which IKEA did not have its own store yet, IKEA enabled to sell a franchise licence to an experienced local partner who could build significant local position and protect an important market share on the market. Such step meant lower risks for the company, while still capitalising on its brand and concept. And furthermore, increased sales meant higher purchases on the supply side which could push the prices even lower.

As we can see, IKEA focused on its own core competence and business model, and built most of the activities internally, however, to stick to its vision to serve as many people as possible and offer them high quality, well designed, and low cost furniture, the company had to exploit also other methods of business development: informal networks, strategic alliances and acquisitions on the side of supply, and joint developments through franchising to enter the more risky countries.

7.2 VODAFONE

> ***Mobile is always at the heart of what we do, but now we are moving into integrated mobile and PC communication services.***[112]

Vodafone started as a subsidiary of Racal Electronics Plc, but after a couple of years it became an independent company focused solely on mobiles, which developed significantly through mergers, acquisitions and joint developments to its current position of the world's leading mobile telecommunications company that has a major presence all over the world and serves more than 269 million customers. Through the years, the company's activities and offerings developed significantly and now, the Vodafone Group Plc successfully combines the communication possibilities of mobiles and the Internet.[113]

7.2.1 Concept

As Vodafone aims to be the communications leader in an increasingly connected world, it has always responded to the current trends and needs in communication. Firstly, it responded to the need of mobile communication, in contrast to fixed land lines, in an international scale, and developed an international network of own subsidiaries and network partners who used Vodafone brand and offered the company's services, which were continuously developed to offer the most current possibilities of communication. Later, it saw the convergence of the Internet and mobile industries and started to form strategic alliances with Internet communication companies which enabled the company to offer all the communication possibilities of mobiles and the Internet together to their customers. Such development still sticks to the main rationale of the company when it was established, to offer VOice and DAta over the phone (FONE), which formed also the name of the VODAFONE brand.[114]

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[112] Vodafone: About Vodafone
[113] Vodafone: About Vodafone
[114] Wikipedia: Vodafone, ComputerWeekly.com (2007)

7.2.2 History

As already stated, Vodafone began as a subsidiary of Racal Electronics Plc in 1984 and was known that time as Racal Telecom Limited. However, in 1991, the subsidiary fully demerged from the parent company and became an independent company called Vodafone Group Plc that was solely focused on mobile telecommunications. That time represented the beginning of the success period for Vodafone, based in the UK.

In 1990s, 1st generation of mobiles, which were built into cars and operated on the analogue technology was changed by the 2nd generation, as the Global System for Mobile Communication (GSM), which was based on digital technology, enabled to transmit data along with voice, and the first access to the Internet via mobiles was offered, via WAP (Wireless application protocol).[115]

Following this technology developments, Vodafone started to make its first moves to increase their market power and customer base, both nationally and internationally. In 1999, Vodafone merged with AirTouch Communications Inc. and set up a joint venture with Bell Atlantic to form Verizon Wireless, which both made a significant step to access the US market. From that time, the US market is served through the brand of Verizon Wireless. These steps also brought Vodafone a 35% stake in Mannesmann, one of the most prospective telecommunications providers in the world that time, based in Germany.[116]

In 2000, Vodafone became the biggest mobile phone company in the world, as it developed its 35% stake in Mannesmann into an acquisition of the whole company. The Indian Express predicted that such a move between the two of Europe's most dynamic telecommunication companies would create enormous synergies as Mannesmann operated an extensive network of fixed land-lines and Vodafone was the leader in mobile ventures.[117] The acquisition was also carried out as a defensive step as Mannesmann bought Orange in the UK a year before.[118] The acquisition certainly meant a significant change in competition on the telecommunication market, with Vodafone becoming an international leader, who made

[115] Vodafone: About Vodafone
[116] Vodafone: About Vodafone
[117] Indian Express (1999)
[118] BBC News (2000)

a more aggressive climate for other companies. Following the acquisition, Vodafone also announced that it looks for new opportunities for acquisitions, mainly in Asia, and talks about possible alliances with some of the Internet and content providers.[119]

Therefore, the next years represented further international developments, with acquisitions in Ireland, Romania, the Czech Republic, Turkey, Italy, and some other European countries, and India to name the most important.[120] Each of the moves were based not only on the market possibilities in the particular market, but also on the consistency of the target with the long-developed and managed corporate responsibility strategy and culture of Vodafone, comprising for example environmental regulations, local supply chain, corruption, business ethics, and company's existing CR policies.[121]

In addition to acquisitions of local companies, Vodafone has built an extensive network of Partners and affiliates who work closely with Vodafone, share their best practices and corporate responsibility, and develop, market and advertise international communication services under the dual brand name. Furthermore, Vodafone made several strategic alliances for cooperation, the most interesting being made with China Mobile Ltd.[122]

From 2000, the transition into 3rd generation mobile phones which enabled even higher speed, video calling, downloads and mobile TV, and international coverage and cooperation through own subsidiaries, network partners and affiliates made it possible to introduce many innovative and interesting communication developments, such as instant messaging, roaming calls, global mobile payment systems, live portals for consumers and businesses, mobile TV and Radio DJs. All the activities were also supported by global marketing campaign aimed to present Vodafone as a trusted communication partner who wants to care for the society and environment and who has a clear pricing system.[123]

In last years, the company focuses, in addition to further development of its international presence and network of partners and affiliates, on consolidation of their IT costs and strategic alliances with the most demanded entertainment and content Internet providers.

[119] BBC News (2000)
[120] Vodafone: About Vodafone
[121] Stratos: Vodafone – Sustainability integration case study
[122] Vodafone: About Vodafone, Vodafone: Corporate Responsibility Report 2008
[123] Vodafone: About Vodafone

Firstly, to rationalise the number of its suppliers, decrease the costs of development and maintenance of several not strategic IT systems, and raise their quality, the company has chosen to consolidate these activities and outsource them to specialist IT companies with international scale, IBM and EDS.[124] Secondly, to respond to the convergence of the Internet, media, and mobile industries, Vodafone has chosen to cooperate with several Internet application and content providers, such as Google, Yahoo!, MySpace, eBay, or YouTube and offers such services through their mobiles in order to mobilise the Internet and provide its customers all the communication possibilities.[125]

Now, Vodafone integrates fixed and mobile services to both consumers and companies, and mobile and PC offerings to give them a consistent communication experience whether they are at home, in the office or on the move.[126]

In order to support the development process of various communication and content application, Vodafone has established an Internet lab where it encourages researchers, developers and testers to interact with the early adopters of several new possibilities.[127]

In terms of future business plans, Vodafone aims to expand in emerging markets such as Africa and India, but such a move requires not only to change the business model for these markets which demand low cost and simple to use mobiles, usually resold from western developed markets, but also to protect the climate and environment on which such expansion could have an enormous influence. Therefore, Vodafone has established a strong Corporate Responsibility department which looks after all responsibility concerns including recycling and reuse of mobile phones, emission decrease, child protection, and health protection.[128]

As the mobile data segment continues to grow strongly, the firm has to ensure continuous listening to the comments of their customers about their Internet experiences, such as confidentiality, and use of certain applications, and the firm's extensive network of own

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[124] The Inquirer (2006), ZDNEt.co.uk: *Vodafone outsources application development,* ComputerWeekly.com (2007)
[125] Vodafone: About Vodafone, ComputerWeekly.com (2007)
[126] Vodafone: About Vodafone
[127] Betavine
[128] Vodafone: About Vodafone

subsidiaries, network partners, and affiliates represent a significant chance where to get such feedback.[129]

7.2.3 Business development directions

When looking at possible development directions, based on the above discussions, we could say that Vodafone Group Plc has been exploiting all the six discussed directions for business development. Firstly, it started with product developments on their current market which enabled them to increase the quality and range of their services and increase their market share against the competitors who were not that dynamic in terms of developments. Later, the company saw that in the current interconnected world, communication needs to have international services and therefore, the company started to enter new markets through own subsidiaries, affiliates and network partners. For accessing new markets, Vodafone used mainly horizontal integration strategy by which it erased some of their most challenging competitors in different markets who operated also mainly in mobile communication, but it used also related diversification strategy to get access not only to different markets, but also to complementary services, as happened for example with the merger with Mannesmann, which brought extensive fixed land-lined network.

This was a significant step which brought the company not only leading market power internationally, but also significant synergies from complementary services and economies of scale. Also, the company doubled its size and got extreme portion of experience both from within Vodafone and the newly acquired Mannesmann. This move, which happened quickly after acquisition of AirTouch Communication, changed the competition level not only in Europe, but in the whole world. As we can see, Vodafone, after getting first international experience and growing bigger, followed quite quick and active development path, which other communication companies needed to take into account.

Also, the developments in other industries such as the Internet and media, and the convergence of these industries changed the conditions on the market, and Vodafone had to

[129] Vodafone: Corporate Responsibility Report 2008

respond to these changes in the environment by further product developments enabled by diversification into related technologies.

Now, Vodafone continues to increase the market share on their current markets, together with continuous product developments enabled by cooperation with companies from related industries, and continuous international expansion into prospective emerging countries, especially in Asia and Africa. This is done mainly by integrations and co-operations with local competitors. In addition to that, Vodafone also decided to consolidate its own IT activities, and outsource some of them to big international IT companies, who could not only decrease costs but increase the quality and consistency of all non-strategic IT systems used in Vodafone. Such step enabled Vodafone to reach better effectiveness and focus on their core business, which is communication through voice and data.

7.2.4 Business development methods

As telecommunication industry is currently one of the most dynamic industries in the world facing quick changes mainly in customers' needs and technology, Vodafone would not develop in the same way as it did, if all the developments were made only internally, by organic growth. That would mean not only presence on fewer markets, but also not that many product developments, as many of those were delivered by the Group companies. Therefore, internal development activities could be seen mainly in the early years of the company, when the mobile telephony was just starting.

Later, the company understood that if they want to become the leader in communication worldwide, they have to offer the best services and offer them in an international scale. As reaching this goal as quickly was not possible internally, the company decided to make significant acquisitions, mergers and joint developments which would enable the company to get presence on the most important markets. Firstly, the company carried out several joint ventures, mergers and acquisitions, such as of Bell Atlantic, AirTouch Communication and Mannesmann, to defend its position to the most challenging competitors who could have an influence on the international scale. These moves meant big expenditures on one hand, but better market power, higher economies of scale and scope, and increased brand awareness through the world on the other hand, and therefore such steps were also supported by the most influential stakeholders of the company.

After these moves, with the leading position on the worldwide telecommunication market, the company chose to carry out mainly joint development projects, and established an extensive network of partners and affiliates who developed and marketed the services with Vodafone, which further increased the Vodafone customers' base and brand awareness. In addition, Vodafone also signed strategic alliances with partners on key strategic markets, such as with China Mobile.

From time to time, the company also set up a joint venture with some of the local European competitors, who were later acquired and an own subsidiary of Vodafone was established. However, for acquisitions that time, only specific local companies, whose strategy, quality of service and corporate responsibility were consistent with the Vodafone strategy and culture, were chosen.

Last years also saw several strategic alliances formed between Vodafone and successful Internet and media application providers such as Google, Microsoft, Yahoo!, YouTube, MySpace and others, as the company needed to respond to the trend of combining the communication possibilities of mobiles and the Internet.

Having said that, the company combined a wide variety of business development methods, ranging from internal developments happening mostly at the beginning of the company's history, through mergers and acquisitions carried out in order to access strategic markets and defend against possible rivals, to joint development methods, which were used mainly for further business expansion and development by cooperation with non-competitive partners.

7.3 Comparison of the development paths

Before we move our attention to discussing significant points, similarities and differences in the development process of Ikea and Vodafone, it might be interesting to review some of the basic facts about both companies. These are provided in the following table.

Table 6.1 Basic facts about Ikea and Vodafone

	IKEA	VODAFONE
Industry	Home furnishing	Communication
Vision	To create a better everyday life for the many people by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them	To be the communications leader in an increasingly connected world by offering integrated mobile and PC offerings to give its customers a consistent experience whether they are at home, in the office, or away
Founded	1943	1984 (as a part of Racal Electronics Plc)
Current position	International leader	International leader
Competitive strategy	Hybrid, combining differentiation with low cost	Global leader in innovation, service range and coverage
Key resources and capabilities	Global long-term sourcing, concept for keeping prices down (design, customers' part in the process), continuous innovations, IKEA's culture based on Ingvar Kamprad's rationale, financial strength, brand, corporate responsibility	Global presence, financial strength, strategic alliances with key future markets, innovativeness through its network and through its alliance partners from IT sector, brand corporate responsibility

Both companies are currently international leaders in their industries, and both have very similar strategies as they combine a wide range of high quality, innovated products and services for as many customers as possible. Low cost for their products and services are supported by their global presence bringing economies of scale, and long-term partnerships and deals with network members and suppliers. However, whereas in Ikea, low cost is one of the two main focuses of the company which drives all their activities and processes, in

Vodafone, on the other hand, low cost of their services come mainly indirectly through their global presence and economies of scale and scope.

Both companies also pay a big attention to corporate responsibility issues, and they do many activities which are directed towards helping the society and the environment. In Ikea, for example, they protect children, forests and use less and renewable energy. This is also pursued by Vodafone, which also helps emerging markets to develop, and supports responsible use of communication devices.

But the two companies operate in various industries which provide different conditions and trends, and therefore the particular developments of the two firms were much different from each other. While Ikea had 65 years to develop into its current position, Vodafone has a much shorter history, as it operates only 24 years. The following paragraphs will therefore present the most interesting similarities and differences in the development path of both companies.

7.3.1 Similarities

Speaking about similarities in the development of both companies, we have to start by highlighting the fact that the success of the current business and competitive model of both companies started couple of years after their origins by building on the macro-environmental changes happening in the environment, and the capabilities and experience of the company. For IKEA, it started with social changes in living, economic conditions on the market, and also with weak competition in the industry. For Vodafone, it started by technological changes in telecommunication and also political and social changes increasing interconnectedness of the world.

Both companies also continue to respond to environmental changes actively, and build strategies and cultures that support responsible social, legal, economical and environmental conditions.

When considering the various business development directions, we could also see that the development paths of the two companies followed a very similar pattern. Firstly, after the consolidation or demerger, the companies started by market penetration and extensive product developments which led into increasing their brand awareness, innovative capabilities, and power. Later, they started to penetrate also other markets, the more risky ones by joint developments, and the less risky by internal or external developments, and built extensive networks of partners which now cooperate on innovations, product developments, and market penetration.

As far as capabilities, financial strength, size and experience of the company is concerned, these progressed with the amount of their activities, and now, both companies have extensive experience with various business development activities that could be exploited for their further developments.

As already presented, both companies have also very similar competitive strategies as they are international market leaders focused on serving as many customers as possible, and provide high quality products and services. In that way they also developed as they continuously expanded, protected their business and challenged the industry trends.

7.3.2 Differences

The main differences in the business development paths that have been followed by Ikea and Vodafone are based on the structures, competitive powers, and changes happening in the micro environment of both companies. Whereas Ikea operated in an industry which has been characterised by fragmentation, not big competition, and local operations, and was more a stable industry, Vodafone operated in an industry full of technological and social change, competition, and convergence with other industries. Therefore, the development pace happening around Vodafone was much quicker than developments around Ikea, which is also highlighted by the length of history of both companies.

Because Ikea started their operations in non-internationalised, low competition market, it could develop most of their activities internally, as it had the necessary time for such developments. Such method also enabled Ikea to manage better its culture and competitive advantage through long-term planning. On the other hand, Vodafone faced much more aggressive climate, which forced it to exploit more of the external and joint development methods, such as mergers, acquisitions, or joint ventures which enabled faster developments and also defence against the rivals.

With the convergence of mobile, Internet, and media industries, Vodafone also had to continuously innovate and develop new services, and for such aims, numerous strategic alliances had to be formed. At some points, Vodafone also had to diversify into complementary services.

With such financial investments, and quick developments, Vodafone also had to continuously review the expectations of its influential stakeholders, and some of the activities, such as the acquisition of Mannesmann brought Vodafone long and difficult decision management.

When speaking about market development and internationalization of the activities of both companies, we could also see differences in the way they developed. Whereas Ikea went out of Scandinavia due to limited local demand, and started entering the most psychologically closest markets which represented low risks, Vodafone started by aggressive moves into the most strategic markets and defended against the most prospective competitors, and when its international leading position was established, then it started to follow the more slow organic growth to similar markets.

7.4 Summary

This chapter explored the specific business development paths of Ikea and Vodafone, the two international leaders in their industries. It revealed that both companies exploited most of the development directions and the pattern in such developments was quite similar. After consolidation and focus on its main prospective portfolio, both companies started with extensive product or service developments and increased their market share on current markets. Later, with coming macro and micro environmental changes, both companies went international and entered other countries where they formed a large network of partners and suppliers which do all cooperate on continuous innovation and cost management.

For the international developments, Ikea, as it was not operating on a very dynamic and globalised market, followed mainly internal development activities to which it added several acquisitions and joint ventures on the supply side and contract agreements through franchising on the demand side. Vodafone, on the other hand, had to face much more competitive, globalised and technologically changing industry, and it started its international activities by large mergers and acquisitions, which provided the company not only access to other strategic markets and complementary services and resources, but also a defence against other competitors. Despite the different development, both companies are now enjoying high success as international leaders that build on the competitive position built over time.

8 Conclusion

Exploring the directions and methods of business development in this study enabled to get a very valuable insight into decision making process related to business development. Firstly, the business development directions and methods available to organizations were revealed together with conditions under which these might be followed. But, with accordance to the rationale of this research which stressed that there is no universal best way of development, such discussion was closely followed by reviewing all significant elements which do play an important role in the decision making process. These theoretical discussions which enabled to draw a system, in which all decisions in relation to business development take place, were in turn exploited to evaluate, discuss and compare the business development paths being exploited and followed by Ikea and Vodafone, the two leading international companies in their industries.

Beginning by business development directions, the study showed that companies could follow three broad strategies: defence, expansion, and diversification. Defensive strategies are exploited under conditions of high competition, ineffectiveness, or low profitability of the industry, and include consolidation, withdrawal of some of the activities, or even sales of some of the ineffective business units, or liquidation of the whole company. For expansion, companies can choose from many various directions: from further market penetration, through market or product development, to integration with other parties. Further market penetration could be achieved on markets which are not saturated and growing, where companies have reliable distribution channels, and when companies have necessary financial resources for the increased marketing expenditures. Product development is a direction which is usually carried out continuously due to product life cycles, but for some industries which are very dynamic and full of technological changes, regular innovations and product developments are a prerequisite for survival. However, regular product developments need appropriate experience, capabilities and finances, and when these are not available inside the organization companies tend to cooperate with other organizations. As far as market development is concerned, companies tend to think about entering the markets, in which they have similar segments to serve, reliable distribution network, and which are easy to access. While some companies do enter foreign markets due to limited demand at home, other start internationalizing due to globalization and internationalization of their customers, partners, or competitors. Expansion could be also achieved through integration with competitors, suppliers, or distributors. While horizontal integration with competitors reduces the competition and provide economies of scale, vertical integration with either distributors or suppliers bring better quality or less costs for the supply chain. All integration activities are directed towards increasing the market power in the industry. In addition to defensive and expansion strategies, companies could follow also diversification development direction. This could be pursued for strategic or financial synergy, spread of risks, or due to convergence of some industries.

There are also three main methods, which companies could exploit for pursuing any of the development directions. When operating in a stable slow market, and having all the necessary resources and capabilities, companies could develop further activities internally bringing higher control over the activities. However, in fast pace industries full of changes and competition, most of the developments have to be made quick and therefore external developments through mergers or acquisitions might be necessary. They do not only eliminate potential competition, add new resources, capabilities and products or services, but mainly provide high speed access to strategic markets. But, as these developments require extensive investments, and bring risks with the post deal management, they are highly controlled by the stakeholders who must be taken into account. In between of internal and external development methods is an array of joint development possibilities which are highly favoured mainly to access new markets or industries, to develop new products or services, and to build extensive networks of partners. These range from the more informal networks and strategic alliances which include cooperation on specific tasks and activities, through contract arrangements such as licensing and franchising that are exploited to market development activities, to more formalised cooperation, such as joint ventures or consortia, which are used by the companies to carry out long-term projects.

The discussions related to business development directions and methods enabled to reveal the most significant elements influencing the business development decisions which must be taken into account by companies. From external elements, there are three main important areas to focus on. Firstly, which changes are happening in the macro-environment in relation to technology, environment, society, policy, law, and economy and how can these changes influence the future activities and position of the company. Also, companies need to continuously review the structure, competition, and powers in their industry to see the potential threats and opportunities on the markets. The same could be also said about some of the other industries, which might be important to those companies, due to changes in the macro-environment causing convergence of some of the industries. In addition to external forces, companies are guided in their decisions also by their internal constraints such as resources, capabilities, size, and experience with various development paths. These build up in time, and so do the expectations of the most influential stakeholders of the company, which need to be considered as well, as they might be in favour of certain development in contrast to others. Competitive strategy of the firm must be based very closely on the external and internal constrains of the company and therefore it also influences the various decisions related to business development, as companies following different competitive strategies will tend to focus on different developments. Lastly, the decisions are also influenced by the interplay of the various levels of culture around and inside the company, with which all decisions must be consistent.

The theoretical discussions revealing available business development directions and methods, together with the influencing factors which play an important role in the business development decision process provided a basis, which enabled to look at the business development process of Ikea and Vodafone. The analysis, evaluation and comparison of the two cases revealed that whereas some parts of the development process of both companies were quite similar and certain patterns could be identified, other parts were much different, based on the differences in forces influencing their decisions. Both companies followed almost all available development directions, starting by market penetration and product development, and continuing by market development and integration. However, the more dynamic external conditions for Vodafone resulted in the fact, that the company not only also diversified, and integrated with their competitors, but also all the development directions took a much faster pace than in the Ikea case. The same differences in conditions in external environment also caused that while Ikea expanded mainly by internal efforts, supported by franchising exploited for some market developments and strategic alliances and acquisitions on the supply side, Vodafone had to exploit mainly joint development methods and mergers and acquisitions, which enabled the company faster developments.

9 Perspectives and reflections

This study facilitates to get a broad overview about the whole business development decision making system together with the various business development options available to organizations at various stages of their development, but readers are encouraged to pay attention to three issues, which do influence the explanatory power of the findings.

Firstly, as limitations of this research already declared, the studied business development options here were mostly downstream oriented and as such they need to be considered.

Secondly, despite using the cases of international companies, the study does not provide discussions related to spatial dimensions of the development, i.e. into which countries companies tend to go. Therefore, when analysing the Ikea and Vodafone development paths, the analysis here does not consider such issues, but the international dimension was certainly taken into account by the companies when deciding on their development path. Therefore, adding also such dimension into the analysis would provide more reliable findings.

The third issue is related to the type of data used for the analysis. As already stated, the analysis has been based on extensive array of secondary data, but to provide more reliable findings, using primary data, mainly to acquire motives for certain developments, would be also beneficial.

All in all, the findings of this study could be further elaborated and developed by incorporating also upstream development oriented literature, the spatial dimension of international activities, and also primary information that would reveal the specific motives for certain developments. Based on that, this study should be therefore taken as a broad overview of the area which could be further understood when looking more in-depth on the studied developments.

As the last point, the author would like to stress here that the various business development directions and methods are not usually followed separately in different time, but tend to be carried out simultaneously, which also creates a more complex system to analyse and understand.

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