Strategy-making for high-performing VET organisations

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Background

This paper reports on aspects of the evaluation of Reframing the Future’s sub-program on Strategic Management and Change Management in 2001-2002. Reframing the Future is a national staff development and change management program that supports the implementation of the National Training Framework (NTF). Three project teams were involved in the sub-program—the Institute of TAFE Tasmania, TAFE NSW’s North Sydney College and a Victorian private provider, MEGT.

John Mitchell from John Mitchell & Associates undertook the evaluation, in collaboration with the project mentor, the National Project Director of Reframing the Future, Susan Young. The full report on the evaluation, The never-ending quest: effective strategy-making and change management for high-performing organisations, is available at <www.reframingthefuture.net>.

The VET industry experienced substantial change after the introduction of the National Training Framework (NTF) in 1996, not just because of the NTF and its components such as competency-based training and the introduction of Training Packages. Changes in the VET industry were also brought about by external forces such as changes to industry and consequent changes in clients’ expectations and training demand. Markides (2001) notes that in this environment, strategies need to be constantly updated:

Changing industry conditions and customer needs or preferences, counter-moves by competitors, and a company’s evolving competencies give rise to new opportunities and the potential for new ways to play the game. A strategy adopted a decade ago on the basis of prevailing industry conditions is certainly not a guaranteed game plan for the future. (p.246)

Mitchell & Young (2001) argue that, in responding to changing industry conditions and to become high-performing, VET managers need to develop new skills, including

- the capacity to change directions to meet market requirements;
- an ability to function effectively in a competitive training market;
- an ability to establish and maintain training arrangements with industry;
- the retraining of tenured staff to meet new training demands;
- an ability to appropriately manage sessional staff;
- a competence in marketing to overseas students. (Mitchell & Young, 2001).

The managers in the three RTOs in the Reframing the Future sub-program responded to the
opportunity to fine tune the types of skills identified above, to respond to their unique contexts. Each of the managers faced different strategic contexts and organisational challenges, and hence provided a useful, if small, sample of RTOs, for evaluation purposes. Some introductory comments on the three Registered Training Organisations (RTOs) illustrate their different strategic contexts:

- **The Institute of TAFE Tasmania (ITT)** is a State-wide RTO with nearly 1,000 staff and it is significant that it was a recent (2000) winner of the Australian Training Provider of the Year Award. To have a Training Provider of the Year willing to participate in the program and hence declare that it wanted to continue to improve, is a great credit to the ITT and an encouragement to all other RTOs to always aspire to new heights. ITT is conscious that the number and intensity of its competitors are growing.

- **MEGT** is a small, progressive, not-for-profit private provider with over 100 staff, with ten branches in Melbourne, one in Sydney and one in Newcastle. MEGT also delivers training in South Australia. MEGT has decided not to be a ‘one-stop shop’ for all training in fields such as apprenticeships. Instead, it actively seeks to form partnerships with other training organisations. MEGT experiences the same challenges and opportunities as many other private providers, such as needing to comply with Government regulations as well as needing to be dynamic and innovative. A feature of MEGT is that almost all of its training is delivered on-the-job, not in MEGT classrooms.

- **TAFE NSW’s North Sydney College** has a staff of 565, including full and part-time teaching staff and administrative and support staff. It not only services students in the local neighbourhood: the senior staff members have Institute-wide responsibilities. For instance, Nigel Howard manages the Business Studies program and Keith Maidment manages the IT program across this huge Institute, which stretches from the North Shore to Palm Beach. The Institute area also takes in the heart of the IT industry in Australia, from North Sydney to Ryde. The pressure on businesses in this area to remain on the cutting edge is intense and North Sydney College needs to be on the pace in servicing local industry-client demand.

While the strategic context for all RTOs includes external factors such as changes in technology or in the economy, the above thumbnail sketches show that the strategic contexts for the three RTOs who participated in the Reframing the Future pilot activities in 2001-2002 are very different, requiring different strategies. Viljoen (1997) comments:

> …strategies cannot simply be copied from other organisations, whether in the same or a different industry. Every organisation is unique in terms of its skills, resources, objectives, competitors and external operating environment. Every strategy, therefore, should be unique, if not in concept, then at least in the way it is implemented by an organisation. (p.6)

RTO managers need continuously to develop new and customised strategies for their organisation to stay effective in business.

**Methodology**

A participative evaluation methodology was used to conduct the evaluation of the three RTOs’ use of strategic management. Following Parlett & Hamilton (1975), participative evaluation aims primarily to illuminate the processes and settings for the benefit of the participants in the pilot projects and to optimise the possible benefits for the personnel undertaking the pilot projects. This illumination was achieved by focusing on the pilot projects as whole: the rationale, processes, values, operations, achievements and difficulties. The participative evaluator set out to understand and describe the complex interplay of factors affecting each pilot project and to feed this analysis back to the mentor and to the project teams. The evaluator sought to illuminate...
issues such as various understandings of the term ‘high-performing organisation’ and the value of strategic management strategies for RTOs developing a high-performing organisation.

To encourage the use of strategic and change management skills by the project teams, specific interventions were made by the mentor and evaluator, including the convening of two full-day Forums at the start of the project in early October 2001 and in late November 2001; recommending selected texts on change management and strategic management; conducting a visit to the ITT project team during their two-day residential conference, two visits to MEGT’s headquarters and three visits to North Sydney College of TAFE; and occasional teleconferences with each project coordinator. Each team was given feedback on their Strategy Analysis paper and on their written responses to questions issued at the mid-point of the sub-program.

The evaluator and mentor proposed to the three pilot teams that they individually work through a four-stage sequence for strategic planning developed by Viljoen (1997), beginning with a strategy analysis stage where they analysed their external environment, analysed their customers’ needs and analysed their internal resources. Each team produced a Strategy Analysis paper and made a presentation of their analyses to the CEO of ANTA, Moira Scollay, in late November 2001. The pilot teams were then encouraged to work through the next three stages of strategic planning: formulating strategic directions, evaluating and selecting strategic alternatives and finally strategy implementation.

**Findings**

Strategy-making emerges from the evaluation of the 2001 Strategic Management and Change Management sub-program as one of the most important activities undertaken by the project teams. Strategy-making, or forming strategies, is a dynamic, ongoing activity in organisations, requiring a range of skills, ideally drawing on both the planned approach to strategy formation and the intuitive, unplanned approach. RTOs need to constantly develop and implement and review their strategies, structures and cultures—the never-ending quest for successful strategies (Cusumano & Markides, 2001, p.4). This theme is reinforced by Browne et al (1999), who argue the following:

> Although structures, cultures and strategies may be more or less formal and visible, they will always be present, always in change or flux. The question therefore is not whether organisations need a strategy, as they will have one whether they like it or not, but whether the strategy they have … is the one they really want. (p.408)

This Reframing the Future sub-program enables participating VET organisations to review whether the strategy or strategies they have are the ones they really want, given the imperative for VET organisations to operate effectively within a national training system and a changing industry.

**What is strategy?**

Before analysing the strategy-making of the three RTOs involved in this project, a brief discussion is needed of the concepts of strategy and strategy-making.

Following is a selection of definitions of strategy, showing the diversity of interpretations of this single word.

Firstly, Eisenhardt (2001) provides a very brief but compelling definition:

> To use a simple but powerful definition from The Economist, strategy answers two basic questions: ‘Where do you want to go?’ and ‘How do you want to get there?’ (p.85)

Secondly, Markides (2001) suggests that strategy involves making tough decisions:

> Strategy involves making tough choices on three dimensions: which customers to focus on, which products to offer, and which activities to perform. Strategy involves choosing, and a company will be
successful if it chooses a distinctive strategic position that differs from those of its competitors. (p.231)

Browne et al (1999) provide a third and alternative definition:

An alternative view of strategy is that it is a story, or narrative, which attempts to ‘write’ or account for a whole series of disconnected and emergent elements as they were a unified whole – but more than one such story is possible. These stories then act as guides to action. (p.407)

As the above examples show, there is no one, accepted definition of strategy. The meaning of the word strategy is much debated and the debate has raged particularly over the last two decades after the rigid rational planning approach in the 1970s was challenged in the 1980s by theorists who were sceptical about the benefits of rational planning and who preferred to emphasise planning efforts ‘around turbulent environments using ideas such as corporate culture, vision, mission and transformational leadership’. (Browne et al, 1999, p.367)

Despite the differences in the definition of strategy, most contemporary business theorists agree that strategy is fundamental to being in business. For instance, Kaplan & Norton (2001) believe that strategies are ‘the unique and sustainable ways by which companies create value’. (p.2)

What is strategy-making?

Strategy-making means developing, forming or formulating strategies. Strategy-making can occur in a variety of ways, such as by identifying external and internal factors impacting on the organisation, or by undertaking a SWOT (strengths, weaknesses, opportunities and threats) analysis of the organisation, or by undertaking the ‘blue sky anticipatory exercises involved in scenario planning’. (Browne et al, 1999, p.407)

Kaplan & Norton (1996) believe that strategy formulation involves choosing, identifying and selecting:

…choosing the market and customer segments the business unit intends to serve, identifying the critical internal business processes that the unit must excel at to deliver the value propositions to customers in the target market segments, and selecting the individual and organisational capabilities required for the internal, customer, and financial objectives. (p.37)

Hamel (2001) argues that strategy-making is an activity that organisations always need to undertake, if they are to stay competitive and viable in the future:

In a discontinuous world, strategy innovation is the key to wealth creation. Strategy innovation is the capacity to re-conceive the existing industry model in ways that create new value for customers, wrong-foot competitors and produce new wealth for all stakeholders. (p.182)

Strategy-making emerged from the evaluation of the 2001 Strategic Management and Change Management projects as one of the most important activities undertaken by the project teams; more important than, say, an inert product of planning such as a documented strategic plan, which will need constant review. The documented plan is useful, but it is much more valuable if it is constantly updated by fresh strategy-making.

Institute of TAFE Tasmania: reassessing strategic positioning

The following account by John Smyth, the CEO of the Institute of TAFE Tasmania, of the strategy-making activities undertaken with his senior managers, reinforces the points made by Browne et al (1999) and Mintzberg & Lampel (2001), that strategic management takes place amidst continual and substantial changes in the external environment. In the case of Tasmania, John Smyth points out in Figure 1 below that because the regional economy is undergoing structural change, his organisation is reassessing its strategic positioning in relation to its key stakeholders. He identifies as a major challenge the need to create organisational agility and change strategies to respond to emerging client demands. John Smyth also finds that the linear,
step-by-step strategic management model advocated by Viljoen (1997) does not fit well with his complex external and internal environments.

**Figure 1: Institute of TAFE Tasmania: use of strategic management (John Smyth, ITT Final Report, 2002)**

Regardless of how well you believe that you have positioned the organisation, a strategic analysis inevitably identifies some apparent gaps between customer/client needs and service delivery. In a regional economy undergoing structural change, it has proven invaluable to reassess our strategic positioning in relation to key stakeholders; the challenge is in creating the organisational agility and change strategies to respond to the emerging demands.

Our experience would suggest that while a single cycle (moving through the four-stage cycle of strategy analysis, setting a strategic direction, making a strategic choice, undertaking strategy implementation) may provide a generalisation of the whole organisation’s development, the change forces are better represented through a series of concentric cycles. Our progress in responding to enterprises through Training Packages as a strategic direction is well into the development phase, yet our service culture is not yet a position of choice for every aspect of service by our staff. The inner circles need to click around at a faster rate in order, it seems, to move the outer, embracing one.

The project enabled the management team to invest considerable time in examining the first two phases of the strategic management cycle. While we have generated a strategic option for priority action, we are still actively engaged in the development of our preferred strategies.

By the end of the project we have a guiding rather than strong coalition of managers moving into the implementation phases of a number of change processes - given that they are accepted as a series of concurrent drivers. This will lead to refinement of the organisational structure, particularly to enhance the ability of particular managers to effect change by bringing into their responsibility common areas in which we prioritise change – in particular relating to external service.

Within the management group there will be greater commitment to corporate strategic direction, and higher levels of interpersonal support – particularly from their peers for those managers who are leading change in their own areas of responsibility.

The emphasis by the Institute of TAFE Tasmania on strategic positioning is similar to an approach advocated by Williamson (2001), who argues that successful strategy-making must combine both planning and opportunism:

> Planning builds new capabilities and augments knowledge of new, potential markets and customer behaviour. Because investing in these options costs money, however, the number of strategic options must be optimised and managed. Actively managing a portfolio of strategic options allows a company room to manoeuvre and reposition. Short-term opportunism must determine which precise option a company chooses to exercise. (p.177)

In undertaking strategy-making, the Institute of TAFE Tasmania is effectively balancing planning and opportunism.

**MEGT: using Porter’s model to develop competitive strategies in the VET industry**

After the first two months of the project, following Viljoen’s framework, MEGT prepared a comprehensive strategic analysis of their external and internal environments and their clients’ needs. One of the conceptual frameworks the senior staff used in their strategic analysis was Michael Porter’s (1980) Five Forces Model of industry. Porter’s model is useful in dissecting aspects of the external environment, as it shows how the structures of industries influence the competitive strategies of enterprises and their profitability. A portion of the MEGT analysis follows:

The RTO-industry environment is changing rapidly in the following ways:

- Industry rivalry. Intense rivalry exists due to low entry barriers, lack of product differentiation and low switching costs for buyers. Price competition not likely to be sustainable for smaller
RTOs in marketplace in fee for service courses. Large RTOs are pressured to find new revenue streams to survive or risk being forced to merge with others by State Governments.

- Substitute products. Traditional class room type delivery mode have progressively shifted toward on-the-job delivery mechanism. Technological advances are creating pressure for RTOs to move toward e-learning model using internet web-based technology to satisfy employers demand in the marketplace. Early adopters of this delivery mode are likely to increase their market share and to enjoy the benefits of both economies of scale and scope.

- Suppliers. Trend in marketplace for smaller RTOs hiring a larger proportion of sessional trainers to reduce labour costs as a key driver to improve operating margin.

- Buyers. Competition is strong in marketplace especially in delivery of retail and office administration Training Packages. Buyers in these packages can exercise choice particularly in forcing small RTOs to lower their prices for their fee paying existing workers.

- New entrants. Potential market entrants have low entry barriers. Government registration process is relatively simple and inexpensive compared to other industries such as banking and telecommunication. (MEGT Strategy Analysis, December 2001)

Guided by Porter (1980), who encourages the development of strategies that will enable MEGT to prosper in the VET industry, MEGT formulated these bold and conservative strategic options:

The following are some of the strategic options that have been identified as a result of the foregoing external and internal analyses:

**Bold Strategic Options**

1. Acquisitions/Takeover. Pursue takeover of other smaller competing private RTOs in Melbourne to consolidate our position as a leading privately owned RTO in the marketplace

2. Industry skill centre. Establish an industry skill centre focussing on carpentry and joinery, plumbing and electrical courses to complement growth in Group Training division

3. Specialist content provider. Become a specialist content provider in marketplace

4. Fee for service. Intensify marketing of fee for service activities in targeted areas including call centre and popular short business courses

5. Strategic alliances. Develop strategic alliances with industry associations to develop more customised training packages

**Conservative Strategic Options**

1. Flexible learning model. Implement flexible-learning model to complement on-the-job training model for students

2. Scope of registration. Expand scope of registration of training packages that is related to mission of company

3. Strategic and change management. Conduct in-house strategic and change management programs with an emphasis on promoting a flexible learning model

4. Strategic alliances. Develop strategic alliances with industry associations to develop more customised Training Packages.

5. Marketing. Restructure to create a dedicated marketing role to intensify marketing initiatives
to grow customer base and to become closer to existing customers in terms of understanding and meeting their needs innovatively.

In using Porter’s model, MEGT demonstrates the value of rigorous strategy-making, enabling MEGT to find positive ways to flourish in the face of competitive forces. Figure 2 shows that MEGT translated the Porter model into practical achievements.

**Figure 2: MEGT’s use of strategic management (MEGT Final Report, 2002)**

MEGT reached the stage of strategy implementation during their project. The IT workshop was completed and major issues are now being addressed. Other planned workshops on flexible learning and action learning did not proceed as intended due to adequate knowledge and understanding gained by our staff from other facilitation strategies

The factors that helped them reach this stage included:

- The MEGT IT strategic planning day
- Staff attendance at IT/Flexible learning seminars/ACPET E-Learning breakfasts
- Awareness of competitors’ progress in the implementation of flexible learning.
- Implementation of ‘Learningfast’ within the Training Centre: An online ICT skills program aimed at improving the trainers’ confidence and skill levels. All trainers are participating.
- Reframing the Future project discussions.

We had a few problems with the implementation of Learningfast, due to network difficulties. This took about a month to rectify. As a result, the staff lost momentum and will need to be encouraged to pick up where they left off.

From our strategic analysis undertaken during this project, we identified a key skill gap in marketing. To address this critical issue, our CEO decided recently to trial a newly created corporate marketing and sales role to support training division initially. Over time this role is expected to support marketing of other divisions of MEGT. This was a major unexpected result from our strategic analysis completed in December 2001.

The development of a marketing role within MEGT was a strategy not expected before the strategic analysis was undertaken. MEGT went beyond using Porter’s structured model of an industry, and was creative and divergent in its strategy-making.

**TAFE NSW - North Sydney College: crafting a successful, new strategy**

Strategic management needs to be supported by senior management, who often need to frame and implement the strategies. Fortunately, the project team at North Sydney College was the College Executive. However, it was a new team and for the first three months of the project the team consisted of only three substantive members. The team was conscious that two more members were to be recruited, and that any strategic activity had to include them and their respective roles within the College.

Strategic management needs to be open to modification when new information is found about the external or internal environment or about client needs. The North Sydney team undertook an extensive analysis of its external environment, its internal skills and resources and its clients’ need. The project began very optimistically, with an end in mind, but ‘was reshaped and refocused in order to be able to implement a strategy which was part of daily routine and management’. (North Sydney College Final Report, 2002) The reshaping was due, in part, to the detailed analysis of the internal skills and resources, which influenced the rethinking of the possible strategies.

The following excerpt from the North Sydney College Final Report details the team’s strategy-making, the unexpected results and the factors that helped or hindered them. The excerpt is an indication of the breadth of strategic management needed, just for one initiative involving
the development of rapid response teams.

**Figure 3: North Sydney College’s use of strategic management (North Sydney College Final Report, 2002)**

Strategic management strategies used by North Sydney to assist the implementation of the National Training Framework included:

- an analysis of internal and external environment
- an analysis of VET/industry sectors
- an evaluation of employee readiness for project strategies
- the use of a cross-sectional team strategy for one of the central project strategies
- an implementation strategy designed to be part of day-to-day management and grounded in the work of the target group.

North Sydney’s undertaking of a strategy analysis (i.e. a consideration of external environment, customer and client needs and your internal skills and resources) provided the following unexpected results:

- the level of target group readiness was below the expectation of the project team
- there was a mismatch between internal and external environment
- indicated the need to start with the simple and basic and relate very strongly to the work of the target group
- project team had to modify the strategy and it own expectations.

The factors that helped the North Sydney team contain and manage their strategic management activity included:

- the need to keep the project manageable internally
- the need to relate the project to actual work and program delivery outcomes
- the need to link it with the Northern Sydney Strategic Business Plan
- the requirement to link it to staff development; i.e. capability enhancement
- resource limitations
- the needs of the senior management team within the College
- the outcomes of the College Business Action Plan

Factors that hindered the progress of the strategic management in the project included the delayed implementation of the Institute’s Human Resources Design and industrial relations issues, for example, the Teachers’ Award.

The team at North Sydney College has reached Stage IV in terms of Viljoen’s steps. We are undertaking a progressive rolling out of the strategy and will record results and progress over a significant period of time.

The North Sydney College team believes that the strategy being implemented as a result of the project is only a beginning in terms of influencing the culture of the organisation and in building a high-skilled, high-performing VET organisation. The team estimates that over a period of at least the next two years, given the current culture, the age of the workforce and the possible and expected external and internal influences, change can only be developmental, not transformational. The team considers it is ‘building a foundation, from which managers will challenge, innovate and grow the business and enhance their own individual professional development and the staff they lead’. The North Sydney College team echoes the advice of Cusumano & Markides (2001) who suggest that if strategists ‘understand the building blocks of successful strategies, they are more likely to craft a successful strategy when their current approach runs its course.’ (p.5)

**Discussion**

The findings from this evaluation study of three pilot RTOs in the vocational education and
training (VET) sector in 2001-2002 amplify insights from contemporary literature on strategy-making. For example, the evaluation study supports the position of Cusumano & Markides (2001) who argue that:

- Designing a successful strategy is not a science: it is an art
- Both rational planning and intuition are valuable in developing strategies
- It is possible for a company to design a superior strategy; and it is possible for others to learn the art of crafting superior strategies
- Strategies need to be developed in response to a company’s stage of evolution
- Strategies need to be developed to fit an organisation’s current and future context
- Effective strategic thinking is a process of continuously asking questions and thinking through the issues in a creative way
- Designing successful strategy is a never-ending quest. (pp.1-6)

Similarly, Mintzberg & Lampel (2001) argue that effective strategy-making draws on both major schools of thought about strategic management: the prescriptive or planned approach and the descriptive, emergent approach. Mintzberg & Lampel (2001) also suggest that strategy-making is influenced by a wide range of influences, such as the following very different factors:

- New kinds of strategies emerge from collaborative contacts between organisations. Firms can’t avoid learning and borrowing when they trade and work together.
- The evolution of strategy is also pushed along by competition and confrontation.
- New strategies are often a recasting of the old.
- Strategy is pushed along by the sheer creativity of managers, because they explore new ways of doing things. (p.51)

Kaplan & Norton (2001) add an important qualifier to this focus on strategy-making. They stress that strategies on their own are not enough and that the strategies must be implemented:

A study of 275 portfolio managers reported that the ability to execute strategy was more important than the quality of the strategy itself. These managers cited strategy implementation as the most important factor shaping management and corporate valuations. (p.1)

The three RTOs involved in the pilot project in 2001-2002 identified their unique external environments, client needs and internal resources. The three RTOs also demonstrated an understanding of the point made by Cusumano & Markides (2001): ‘Companies need strategies and capabilities that are appropriate for their current environment while remaining flexible enough to respond (or even create) changes in their environment’. (p.5) However, Cusumano & Markides (2001) note that it is easy to talk about being flexible, but explaining it is more difficult:

But what does it mean when we say that a firm ‘must remain flexible’? The trouble is that managers do not know for sure how the environment will change or when. How, then, can they prepare for the unknown in advance? (p.5)

One way to prepare for the uncertain future, as demonstrated by the three RTOs in the pilot sub-program, is to continually refine management capability in strategy-making.

The findings from this evaluation reinforce a position taken by Markides (2001):

…designing a successful strategy is never-ending. A company needs to continuously revisit and challenge its answers to the who-what-how questions in order to remain flexible and ready to adjust its strategy if feedback from the market is unfavourable. (p.246)
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