

Baan Company's Corporate Web Strategy – An Effort To Reach Main Street

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Abstract	<p>During the 1990s Baan Company became a market leader in the enterprise applications industry. Its mission was to become an independent software manufacturer, serving a global market. To speed up growth, Baan developed its Baan Web strategy which implied a far-reaching renewal of its corporate strategy. Burgelman and Grove (1996) define the moment of choosing a new strategy as a strategic inflection point. Their framework named "Dynamic Forces in Firm Evolution" explains that successful development and implementation of a new corporate strategy is a process of aligning five dynamic forces. The focus of this study is on the vital role of the internal selection environment. This force regulates the allocation of the company's scarce resources – cash, competences/capabilities and senior management attention – to strategic action. It is the crucial force in the continuing alignment processes that have to take place. Every company has a unique combination of distinctive competences (Burgelman) or dynamic capabilities (Teece). The study explains that to execute a new strategy successfully new competences/capabilities have to be developed based on existent ones. The development of Baan's corporate strategy is analyzed and discussed with reference to the Technology Adoption Life Cycle (Moore). The study concludes with the management implications of a strategic inflection point.</p>	
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BAAN COMPANY'S CORPORATE WEB STRATEGY – AN EFFORT TO REACH MAIN STREET

Henk A. Post and Harry R. Commandeur (February 2004)

For several decades, the information technology industry is characterized by a high degree of innovation, accelerating change and turbulence. New products take the lead. Standards disappear and market dominance fades away. Under these circumstances companies can evolve fast.

During the 1990s Baan Company¹ became a global vendor of enterprise applications, called ERP systems.² With a strong technology drive this firm strove for competence building right from the start. Its mission was to become an independent software manufacturer, serving a global market. The company was successful in leveraging its competences (Post 1997a). Modularity and componentization of its product architecture became a characteristic feature in developing and implementing Baan's competence-based strategy (Post 1997b). One of the elements of this strategy was the firm's software implementation competences (Post 1997c). In general, competition increasingly takes on the character of a contest to identify, create, and leverage new competences. This requires changing both the knowledge base within a firm and the way the firm uses its existing knowledge to compete more effectively and to retain or improve its competitive position (Sanchez and Heene 1996). To leverage its existing and to build new competences, Baan developed its Baan Web strategy in the years 1996-1998 which implied a far-reaching renewal of its corporate strategy.

Burgelman and Grove (1996) define the moment of choosing a new strategy as a strategic inflection point (SIP). To analyse and discuss the Baan Web strategy we exploit their framework named 'Dynamic Forces in Firm Evolution.' Our paper is an extension to their work. The case we examine is an example of not only a success but also a failure. And we discuss some additional aspects of a theoretical nature. As a result of that we formulate the management implications. Our extension compared to Burgelman and Grove comprises a discussion of:

1. the concept of 'dynamic capabilities' as introduced by Teece et al. (1997) instead of 'distinctive competences' used by Burgelman and Grove
2. the impact of the process of standardisation – the circumstance that the development and execution of a new corporate strategy takes place in a 'winner takes most' business
3. the high relevance of determination of the business domain and of defining the focus.

From bowling alley to main street

To explain the industry situation, we make use of the insights of Moore (1995) about "the landscape of the technology adoption life cycle" and "value disciplines and the life cycle". Since 1994, Baan found itself in the *bowling alley*. This is a period of niche-based adoption in advance of the general marketplace. The phase between this one and the *main street* phase is the *tornado*, a phase of mass-market adoption when the general marketplace switches over to the new infrastructure paradigm.

Insert figure 1: Value Disciplines and the Life Cycle (1995: 176)

The period 1990-1993 can be identified as the early market. The customers were the early adopters among enterprises. Baan Company accomplished going through the chasm phase in 1993-1994. The customers helped Baan to cross the chasm and to reach the bowling alley. An example was Boeing Aircraft Corporation that concluded in 1994 an agreement with Baan Company to implement the biggest ERP system up to now. In 2003 it consisted of more than 40,000 users. Baan developed a vertical market approach, driven by compelling customer needs – such as those of Boeing in the aerospace market segment. Characteristic for Baan's strategy was striving for product leadership and working on customer intimacy. Definitely, in specific market segments the company was a product leader. As a result, at the end of the first half of the 1990s Baan had built up a strong competitive position.

In the beginning of 1996 Baan's Board concluded that the mainstream market was not easy yet with the available ERP solutions. The top management of Baan decided to aim at reaching the main street. Industry analysts expected that the market of enterprise applications would grow from 1.049 million seats (= users) in 1995 to 12.730 million seats in 2000. To capture this market opportunity, the company defined a new corporate strategy in 1996. Particularly the huge market of medium-sized companies had not yet adopted the new generation of enterprise information systems. The reason was that the available ERP products were much too costly and the implementation of it needed considerable resources from service providers. The mid-market was waiting for an attractive offer. This required severe changes in product packaging, distribution model, services model, and pricing model. A period of unparalleled growth was open to Baan if it was able to catch the opportunity of the mid-market.

The corporate strategy had to change substantially however. As Moore explains, the forces that operate in the bowling alley argue for a niche-based strategy that is highly customer-centric. Those in the tornado push in the opposite direction toward a mass-market strategy for deploying a common standard technology and product package. Essential for the tornado period is operational excellence. At that moment Baan had the reputation of a visionary company that was not so strong in execution.

The challenge of alignment beyond the strategic inflection point

In an extremely dynamic industry, it is a real challenge to clearly perceive the winning strategy, or new technological regime, which looms beyond a SIP. A company that changes its official corporate strategy should align again corporate strategy and strategic action. If the alignment process fails a company is confronted with manifestations of strategic dissonance. Burgelman and Grove develop a framework that gives an explanation of how corporate strategy and strategic action are related to each other.

Insert figure 2: Dynamic Forces in Firm Evolution (Burgelman and Grove 1996)

This framework consists of five dynamic forces that shape a company's evolution and the alignment of strategic action with corporate strategy. The first force is the company's official corporate strategy that reflects top management's beliefs about the basis of the firm's current success and anticipated changes in the familiar environment. The second force – strategic action – is what the company actually does. The third of the five forces – the basis of competitive advantage in the industry – is determined by the industry factors identified by Michael Porter (1980) as key determinants of the attractiveness of an industry: the bargaining power of customers and suppliers, the nature of the rivalry among incumbents, and the threat of new entrants and of substitution. Technological change, legislation, or government

regulation can affect each of these elements and their relative importance. The fourth force involves the company's distinctive competences: the competences that have made it possible to develop a competitive advantage and to survive. Finally, the fifth force concerns the company's internal selection environment that mediates the link between corporate strategy and strategic action and the link between distinctive competence and the basis of competitive advantage. Especially, it is the role of the internal selection environment to achieve alignment between the dynamic forces of a firm's evolution. It regulates the allocation of the company's scarce resources – cash, competences and capabilities, and senior management attention – to strategic action. The internal selection environment comprises administrative elements (e.g., resource allocation rules) and cultural elements (e.g., norms governing internal communication). It is recognized in the management accounting and control functions and procedures.

Baan's new corporate strategy: the Baan Web strategy

Baan's new corporate strategy to pass the tornado and to achieve main street consisted of several sub-strategies, a 'business web' strategy, a 'beyond ERP,' and a mid-market distribution strategy. As, in the phase of the strategic action, all strategies were included in the first one, we name the new corporate strategy the Baan Web strategy. It implied several far-reaching changes. The company made the choice to replace the existing technological regime – the ERP footprint – by a new one – the extended enterprise footprint, called 'beyond ERP.' To achieve this expansion of the technology platform and product offering Baan would develop and implement an acquisition and partnership strategy – with partnerships in the field of technology, software applications, marketing and distribution, and implementation services. To achieve leadership in the mid-market a mixed channel strategy would become highly important. A variety of indirect channels of independent distributors would have to guarantee an effective worldwide marketing and sales process and system implementation process.

An essential element of the new corporate strategy was the business web. The concept was developed by the Board assisted by McKinsey consultants serving Baan. These advisers were inspired by authors as Brian Mc Arthur and Hagel.³ It was expected that extending and intensifying Baan's business web would strengthen its competitive position and accelerate the growth. Expansion of the web would make the company more attractive for customers and partners. For customers, because it would mean a reduction of the risk of making a wrong choice. If the number of installed software products would increase, the Baan Web would become more allure to technology and software development partners. As a result, customers would be attracted by a broader product offering, which would eventually lead to additional sales. Et cetera.⁴ The shaper of the platform of the Baan Web was Baan by its ownership of the core technology and core applications. The co-shaper of the web by developing complementary technology products and applications was Vanenburg. This enterprise positioned itself as the growth accelerator. Baan and Vanenburg had a common owner, a foundation of the Baan family, named Oikonómos. The elements of the Baan Web were, in addition to Baan Company and Vanenburg, the customers, technology partners, application development partners, distribution partners and services partners.

It is essential for a web that partners collaborate on a shared platform: architecture, tools, applications and brand name. If a partner joins the platform, it enters a growth cycle. At the same time, the platform is reinforced. Revenues will increase and the web will become more attractive to existing and new partners as well as customers.

As a result, the share of the web-builder in the web revenues will reduce. In 1996, Baan's revenues were more than \$400 million and the Web around it had total revenues of approximately \$800 million. A year later, Baan's revenues increased to almost \$700 million, and that of the Web partners to more than \$1,300 million. In January 1998, the president of Vanenburg, Sharman, announced: 'our goal is to reduce our own share in the total value of worldwide Baan installations to about 20 percent.'⁵ For 2000, Baan's aim was \$2 billion revenues for the company itself, and between \$8 and \$10 billion for the Baan Web partners.

'Beyond ERP'

From 1996 on, Baan developed a strategy that was called 'beyond ERP.' The company wanted to extend its product offering across the ERP footprint. A first step was extending ERP to the complete value chain by integrating SCM (Supply Chain Management). With the in 1996 acquired software company Berclain, Baan entered this field of SCM.

A next step of extending ERP to the complete value chain was by integrating CIS (Customer Interaction Software), later called CRM (Customer Relationship Management). Baan acquired two firms. Together they became the front-office division of Baan. The take-overs placed Baan ahead of its ERP competitors. The intention was to integrate ERP systems with CIS. From the end of 1997 Baan would release this new type of products.

BOX: BEFORE AND BEYOND THE TORNADO: BAAN INSIDE

Industry watchers and analysts were positive on Baan's new strategy. For example, February 1998, the prominent American analyst Cowen & Company published an analysis about Baan with a 'strong buy rating with a target price of \$52 (55 x 1999 EPS of \$ 0.95).' As one of the key points it mentioned: 'Venture activity in Vanenburg is building the Baan Web around Baan Company.' They further explained:

'Seeing powerful leverage of Vanenburg – 40% of Baan is held in a foundation (Oikonómos) that funds Vanenburg, a broad set of activities that benefit the company and the stock. Activities from Vanenburg have been targeted to recruit and train new employees around the world, build new business process models for the DEM (the implementation product suite Orgware), kick start the mid-market channel worldwide, and to create (>40) VARs (value added resellers). The investments are clearly aimed at growing the Baan Web, Baan's family of partners. These investments are supposed to make a profit for Vanenburg over a delineated time frame, much like venture capital. Whether or not the returns to Vanenburg are competitive, Baan is surely gaining strategic advantage from activities that don't appear on the company's financial statements.'

In 1998, Tom Tinsley, then CEO of Baan Company, wrote a memo to the leadership team about the positive impact of the Baan Web. He explained that Baan was aiming at reaching 'Main Street' (Moore, 1995):

'Our philosophy has been for some time that there are between about 55 and 65 million seats available in the market for us to go after and anywhere from sixty to seventy percent of those seats are economically available to us by going to an indirect channel. So we began initiatives twelve, eighteen months ago with Baan Business Systems and beyond that we now have

created Baan Midmarket Solutions which will effectively be the arm of the Baan group that offers the Baan product into our indirect channel partners. (BMS was owned by Vanenburg (80%) and Baan Company (20%), authors). As we expand the technology footprint we are also expanding the way customers can receive the product whether it comes through a direct sales process or through an indirect channel partner or through a service bureau offering.'

Serious crisis

In the last quarter of 1998, Baan Company faced a serious financial and management crisis. An early indication of this crisis came when the figures of the first quarter of 1998 were postponed because of adopting changed accounting directives of the American stock market supervisor SEC. It was no longer allowed to include the sale of products that had not yet been invoiced to a customer but only to a distributor. That put pressure on Baan's profit. Then the second quarter figures were disappointing as well. In addition, Baan was criticized by American securities houses for its accounting behavior. In their view, the extent to which the listed company Baan and Vanenburg were interwoven was not acceptable. Analysts doubted whether the money flows between the various elements in the Baan Web were transparent enough. Claims were made about conflict of interest and insider trading between the public and the private Baan businesses. To provide the desired clarity, founder Jan Baan and his brother Paul retired in July 1998 from the operational and supervisory management of Baan Company. Jan gave up his position of chairman, Paul his position of chairman of the supervisory board. October 1998, CEO Tinsley had to issue a profit warning. As far as the investors were concerned, the statement issued by Baan got a cold reception. The company blamed the overall economic situation in the world as well as the millennium, which was said to cause companies to refrain from investing in software. Baan's share price dropped by 30%. And this was by no means the end of the company's troubles. That same month, Baan announced a large-scale reorganization. About 20% of the jobs had to disappear and a considerable number of offices would be closed. Losses over 1998 totaled \$315 million. The Baan Web strategy was broken off.

END OF BOX

To pass the tornado phase Moore mentions two criteria: 1.) product leadership and 2.) operational excellence. Based on these criteria we can conclude that the Baan Web strategy was broken off by the end of 1998 because of missing both characteristics. The Board was not able to restructure the company in a sustainable way when the demand for ERP decreased in 1998. Baan was far from operational excellence. During 1999 and 2000 it became clear that Baan had lost its product leadership too. Rapid growth was crucial for Baan to pass the tornado phase. The danger is that growth will overstretch corporate resources and lead to insufficient customer support. This happened to Baan (Hochberg 2000).

Analysis of Baan's dynamic forces

1. Official corporate strategy

The official strategy was to develop the business web, to extend the ERP footprint and to become number one in the mid-market.

The evolution of the Baan Web was quite successful. Between 1996 and 1998, Baan acquired a large number of companies and entered into a broad variety of strategic alliances. Its partner

Vanenburg set up a large variety of businesses. The revenues of the web were growing fast in 1996 and 1997. The web strategy was broken off as a result of four causes. First, the founder Jan Baan lost the confidence of the shareholders and the Board of Baan in 1998. As a consequence he left the Board of Baan and joined his brother Paul in giving leadership to Vanenburg. Baan and Vanenburg were no longer close partners. Second, a result of the drop in Baan's stock price was that Vanenburg was nearly bankrupt by the end of 1998. It had invested heavily in start-ups, financed with bank loans. Baan shares were the pledge. The banks started selling these shares in October 1998 after the stock crashed. Vanenburg had to downsize its activities dramatically. So Baan lost its key partner in a period that it could not afford this. Third, Baan aimed at extending the ERP footprint. With that it was visionary and early. However, extending the footprint was not a competitive advantage at that time. On the contrary, it confused the market and weakened the position in each of the separate markets of ERP, SCM and CRM. Fourth, in the late second half of the '90s, several new players entered the mid-market with an ERP product. Compared with Baan, these products had a poor functionality but their price/performance ratio was attractive for medium-sized companies. Baan's strategy to extend the ERP footprint and to target the high-end of the market conflicted with the strategy to conquer the mid-market. Until mid-1998 the take-off phase of the web strategy was a well-going process. It was stopped not because of competitive actions or changing market circumstances but Baan's own inability of execution.

2. Strategic action

The business web came into existence quite successfully. This was the only prosperous element of the Baan Web strategy. The company's top management failed to integrate the acquisitions and as a result activities were spread out thin. The company did not deliver what it had announced, and thus damaged its credibility in the market. Developing the technology to realize an integration of ERP, SCM and CRM took much more time than expected. It was not available before the end of 1999, and that was too late.

Baan's decision to enter the mid-market through partners and product bundles was challenging. But in practice there was often channel conflict between Baan and its distribution partners, even between Baan and Vanenburg. Also, Baan made serious mistakes in the way that it structured its financial relationship with its master distributor. In 1998, Baan had to restructure its relationships with other companies in its channel and restate the revenues it had previously declared.

Baan was not successful in offering an attractive product for the mid-market. An important reason was that Baan did not change its business model. It still focused on the large customers, both from a marketing and distribution as from a product development perspective. The company did not develop the competences to successfully attack the mid-market competitors and did not develop the right product and services offering.

3. Basis of competitive advantage in the industry

Baan reached the bowling alley because of its dedication to manufacturing companies in specific vertical markets. Moving to main stream it lost this focus. In targeting the Fortune 500 market segment it was in a weak position to SAP because it had no good finance application and because it did not have a strong relation with consulting firms as Arthur Andersen which introduced SAP to their clients.

In the mid-market there was no market leader yet. By the end of the 1990s Microsoft would enter this market by acquiring some young players. Baan had a reasonable chance to become the market leader if it had aimed on that. Developing the distinctive competences for competitive advantage, the choice of the mid-market conflicted with both 'beyond ERP' and 'beating SAP.'

4. Distinctive competence of the company

By the mid-1990s Baan was the market leader in several vertical markets. The Baan Web strategy implied that the company broadened its product offering and lost its market leadership in specific markets. The effort to develop the competences to extend the ERP footprint conflicted with that to build up the distinctive competences for the mid-market. In the end the company failed at both fronts.

When the Baan Web strategy fell through, strategic dissonance was larger than ever in Baan's history. In general, the most fundamental source of strategic dissonance derives from a divergence between the changing basis of competition in the industry and the firm's distinctive competences, the latter becoming less relevant for competitive advantage (Burgelman and Grove 1996). At Baan, it was just the other way around. Baan destroyed its distinctive competences in its effort to change the competitive game. It lost a major part of its product leadership because of its acquisition strategy and failing integration efforts. Moreover, it had deprived of its lean organization and its entrepreneurial spirit. The top management of Baan failed to match dynamically firm-level distinctive competences and the basis of competition in the ERP industry. The company was not able to deliver in time the products that it promised the market. It was not a matter of being too late with developing the competences but of becoming an unreliable business partner.

5. The crucial contribution of the internal selection environment

As a company moves through a strategic inflection point, according to Burgelman and Grove, the old and the new basis of competition, the old and the new distinctive competence, the old and the new strategy, and the old and new strategic action are all in play together. Seeing, imagining, and sensing the new shape of the company is only one step. Getting there requires more wrenching actions. These moves, the strategic actions, involve (re)assigning resources in order to pursue the new strategic intent. Baan's top management did not accomplish this process. We agree with this statement of Burgelman and Grove: 'Clearly, the wisdom necessary to guide a company through transformational changes cannot, as a practical matter, reside only in the head of the CEO. If it did, he or she would have guided the company through those changes in the first place.' Moreover they state: 'If, on the other hand, the CEO comes from the outside, chances are he or she does not really understand the evolving subtleties in such situations.'

In the face of a SIP, a company's internal selection environment is important (Burgelman 1991). Its role is a two-directional one. Its share is to regulate the allocation of the company's scarce resources to strategic action. The other aspect is that the internal selection processes lead up to the formulation of new strategic goals. However, this critically depends on top management's strategic recognition capacity. A crucial type of this involves top management's ability to recognize the strategic importance of actions by middle-level managers that tie a new business initiative to the corporate strategy or that injure the execution of the corporate strategy. Obviously, the strategic recognition of Baan's top

management failed. After the launch of Baan's web strategy the internal selection processes did not succeed in reformulating the strategic goals in a way that the concord between the five forces was restored. What could have been the reason for that? We touch on some issues.

The top management team

Right from the start of the year 1996, Baan Company got a new president and COO (chief operating officer), Tom Tinsley. When he joined Baan, he had worked at McKinsey for 18 years, recently as a managing partner. As a consultant he had served EDS and Compaq. He had no experience in the role of an executive. Exactly two years later, he was appointed as CEO (chief operating officer) while the founder Jan Baan held the position of chairman. The founder resigned from that position July 1998, and from that moment Tinsley was president, CEO and chairman. He was the deviser of the Baan Web strategy.

Another crucial role was that of the chief financial officer (CFO). Baan was confronted with the leaving of two CFOs in the years 1996-1997. With respect to designing and implementing the administrative rules and norms the CFO was an influential executive. After that, the CFO role was fulfilled by an executive with a general management background who was at the same time COO. We suppose that these changes did not have a positive influence on the reporting and budgeting capability.

Baan's CEO introduced in 1997 a new go-to-market strategy which was criticized fearfully internally because it created a complicated organization structure with double or even three-double reporting lines. If we may believe the critics, this organization structure hindered the execution of the corporate strategy and contributed to a poor strategic alignment. It influenced the communications between top and middle management in a negative way.

From 1995 Baan had dual headquarters in the Netherlands and the U.S. When Jan Baan was succeeded by Tom Tinsley as CEO Tinsley strengthened the American influence in Baan's top management. However, Tom Tinsley's office was located in the Netherlands just as Jan Baan's. This was until 1998. Then he moved to the U.S. and expanded the staff at the American headquarters considerably. In the Netherlands this evolution was experienced as an americanization of the company.

'The Dynamic Forces in Firm Evolution' framework suggests that there is never one reason to detect when a new corporate strategy fails. The authors of this paper think that Baan's official corporate strategy was an ambitious and risky one. Developing and implementing the strategy the company was dominated by a top-down force. What Baan was missing was that the top-down force and the bottom-up force were both strong at the same time. Especially, the contribution of the middle management was missing in aligning strategy and action. This case stresses the vital influence of middle management in successful execution of a strategy. As a result of the failing alignment process, the execution of the strategy failed. Apparently, Baan lost the balance between both forces in the second half of the 1990s. Especially in high-technology industries it is desirable that both forces are strong at the same time because of the multitude of uncertainties. Baan weakened its capability of making – and accepting – clear decisions that the entire organization was capable and/or willing of supporting.

Baan's poor performance in aligning strategic intent and strategic action in the years 1996 to 1998 certainly had to do with the corporate identity and management style built up throughout the 1980s and the first half of the 1990s. It was a pioneering organization. The transformation

in the second half of the 1990s to an organization with a professional management style and a global organizational structure was not achieved satisfyingly. An important reason was that the emphasis on license revenues in combination with high market growth suppressed sound business principles. (Licenses have an extremely high contribution margin of more than 90 %.) Moreover, the top management changed the corporate strategy too fast and too far-reaching, at least in a way that stretched beyond what the company was capable of doing. The ambitious strategy of the company's leadership team required the development of new innovative and managerial capabilities while at the same time the demands of the industry and the shareholders required major changes of the organization to achieve sustainability. The company could not do both and its strategic goals thus created enormous, top-driven dissonance within the organization.

At the moment that Baan's technology and software products would have become an undisputed standard, the web strategy would have succeeded and Baan would have passed the strategic inflection point. Mid-1998 Baan's market position was not far from that. To build up the web, a cycle of increasing returns had been started that was feasible for continuation. The growth of the total web revenues in that period illustrates the initial success of the strategy.

Baan Company executed quite an aggressive acquisition strategy to contribute to it. Next to this it concluded a large number of alliances agreements in the fields of technology and product development and of system distribution and implementation. In collaboration with Baan, Vanenburg had the role of making available the remaining important components to realize a distinctive competitive advantage. This all worked out fairly well.

Points of attention for theory

In the context of the framework of Burgelman and Grove applied in high-tech markets we ask attention for three issues of a theoretical nature.

1. Dynamic capabilities

Teece et al. (1997) give a concise and insightful explanation of several strands of strategic management. The structure-conduct-performance paradigm emphasizes the action a firm can take to create defensible positions against competitive forces. If it does not possess the requisite assets it can buy these. The process involves nothing more than choosing rationally among a well-defined set of investment alternatives.

From the resource-based perspective firms are heterogeneous with respect to their resources and capabilities. Business development is viewed as an extremely complex process. Firms lack the organizational capacity to develop new competences quickly. The ability to achieve new forms of competitive advantage is called by Teece et al. 'dynamic capabilities.' Dynamic capabilities are the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments – given path dependencies and market positions (Teece 1997: 516). This approach places emphasis on the internal processes that a firm utilizes, as well as how the capabilities/competences are deployed and how they will evolve (1997: 529).

Teece et al. stipulate that competences/capabilities are embedded in distinct ways of coordinating processes and combining resources. This may explain how and why seemingly minor technological changes can have devastating impacts on a firm's capabilities to compete.

Productive systems display high interdependency. Organizational and managerial processes shaped by a firm's asset positions and molded by its evolutionary and co-evolutionary paths, explain the essence of the firm's dynamic capabilities and its competitive advantage (Teece 1997: 518). By 'paths' they refer to the strategic alternatives available to a firm, and attendant path dependencies. The importance of path dependencies is amplified where conditions of increasing returns to adoption exist.

2. Standardisation

Baan's web strategy was based on the belief of 'a winner takes most' business. Essential for this type of business is the increasing returns mechanism which results in a process of standardisation. A firm that controls a technology that becomes established as a standard can have an extremely profitable market position (Besen and Farrell 1994). A standard is a technology or product that the majority of users in a specific market have adopted. A standard is not only valuable for the vendor but also for customers. It reduces the risk of buying a product that is not adopted by the market and as a consequence has a short life cycle (Katz and Shapiro 1986, Shapiro and Varian 1999). Important to note is that the availability of complementary components may have a strong influence on potential customers to become a participant of the web and adopt the technology and the product of the web shaper. This availability is crucial for becoming a standard. To be a market leader with a superior product is not only important for the firm itself and its customers. It has its impact on the competitors. They have to play a subordinate role as a consequence of the market leader's dominance and they have to adapt themselves.

Standardisation belongs to the basis of competitive advantage and thus to the third of the five forces in the framework of Burgelman and Grove. It emphasizes the actions a firm can take to create defensible positions against its competition. If a certain product becomes a standard this has severe impact on competitors. It raises the entry barrier. For the market leader the intensity of rivalry decreases but for the remaining players it increases. For example, Baan's acquiring of a number of companies belongs to this. This is true because they took over potential competitors, but also because they prevented these acquisitions by other ERP vendors.

3. Business domain

Baan was operating in a turbulent environment in the 1990s. In such an environment, better performance will result if an organisation's business definition is narrowly defined. A narrow business domain definition can best leverage the company's technological competences (Sidhu, Nijssen and Commandeur 2000). This suggests that Baan's performance would decrease when enlarging its business domain. The factual results from 1998 on confirm this.

Baan's change of corporate strategy into the Baan Web strategy implied a redefinition of its business domain. The company's business domain was quite narrowly defined using its internally developed technological competences as the reference point for such a definition. With the change of the corporate strategy the company's business domain was defined more broadly using the underlying customer needs being served as the reference point for such a definition. This was the need of an extended enterprise information system. Teece (1997) stresses that focus needs to be defined in terms of distinctive competences or capability, not products. Products are the manifestation of competences.

Management implications

Based on the foregoing discussion of theory and analysis of the Baan Web strategy we formulate the next conclusions and guidelines.

Conclusions

A major source of strategic dissonance is a divergence between a firm's changing basis of competition in the industry and a firm's distinctive competences, the latter becoming less relevant for competitive advantage. In 1996, Baan was confronted with such a situation. In the high-end market Baan had focused on, the limits to growth became visible. The company had to find new growth opportunities. Dynamically matching firm-level distinctive competences and a changing basis of competition is a tough management challenge.

A second major source of strategic dissonance originates in the divergence between corporate strategy and strategic action. Inertia in corporate strategy will lead to change that is too slow. However, in many other cases, top management changes the corporate strategy too fast – in ways that stretch beyond what the company is capable of doing or the market is ready to accept. As a consequence, the new corporate strategy will create top-driven dissonance within the organization. The latter was true to Baan.

The top management must formulate new strategic intent based on strategic recognition. A company is in the need of leadership to develop a new roadmap for the firm that makes sense and that is feasible in the eyes of the internal stakeholders, as well as the external ones. Baan's leadership team did formulate a new strategic intent and developed a new corporate strategy. It failed in the execution of it. The effective functioning of the internal selection environment is really crucial in passing the strategic inflection point. In the face of a SIP, a company's internal selection environment is even more important for survival than its stated strategy. The reason of this is that the role of the internal selection environment is to regulate the allocation of the company's scarce resources and to deploy and redeploy these assets under changing market conditions.

The implementation of a new strategy is viewed by some as driven by the strategic intent of the CEO who sets ambitious targets, relentlessly develops the firm's capabilities and transforms the basis of competition in the industry to the firm's advantage. In practice, it doesn't work in this way however. Extensive communications between top and middle management are required. Top management has to respect and to appraise the opinions and insights of middle management while at the same time guiding the alignment processes.

If a company is dominated by the top-down force, there is a chance that it will efficiently march in lockstep toward an important strategic intent. Especially under highly turbulent circumstances, it is of utmost importance that the top management carefully balances the top-down and the bottom-up forces. The knowledge and experience of middle management is indispensable to developing a sustainable corporate strategy. The top management has to encourage the internal debate in that phase. After closing the debate it has to make clear decisions which the entire organization is capable of executing. At this point, Baan's top management fell through. It failed to listen carefully and to take the necessary decisions. For example, the go-to-market structure introduced in 1998 was criticized fiercely by middle management. Moreover it did not enable the making of sound business decisions. It is crucial for top management to have a communication and reporting structure in place that meets its

own needs but also the needs of middle management. This structure facilitates the crucial balance between top-down and bottom-up forces in the organization.

A comparison of the competitive forces approach (third of Burgelman's five dynamic forces in firm evolution) and the distinctive competences approach (fourth of the five forces) may be revealing for the failure of the Baan Web approach. From the first perspective, the process of identifying and developing the requisite assets is not particularly problematic. From the distinctive competence perspective, this is more complicated. Resource endowments are 'sticky:' at least in the short run, firms are to some degree stuck with what they have and may have to live with what they lack. Teece et al. (1997) state that generally distinctive competences and capabilities cannot be acquired, but must be built. This is contrary to the acquisition and partnership strategy Baan implemented in the years 1996-1998.

Baan did a number of acquisitions with as the official reason to acquire new competences. Firm-specific capabilities (or competences) can be sources of advantage. The history of Baan from about 1996 on suggests that the Board adhered to shareholder value and to the structure-conduct-performance paradigm. They did not align the third force with the fourth force of the framework and did not balance these two forces. It is the dynamic capabilities approach (Teece et al. 1997) that studies how combinations of competences and resources can be developed, deployed, and protected. It stresses the importance of exploiting existing internal and external firm-specific competences to address changing environments. Developing distinctive competences was undoubtedly a capability of the founder Jan Baan. His successor in the position of CEO made an important contribution to Baan's potential future success by focussing on the basis of competitive advantage in Baan's industry. However, the analysis suggests that this element of the corporate strategy got too much weight and that the alignment with the competencies perspective failed. Perhaps, it was even a conflict between perspectives, between the perspective that economic rents are monopoly rents and that rents accrue to the owners of scarce firm-specific resources.

The analysis of the Baan Web strategy suggests that the path dependencies were favourable to successfully executing a strategy of building new distinctive competences to become a market leader. The top management executing the Baan Web strategy did not realize the path dependencies, at least not satisfactorily. It was responsible for internal and external integration and sourcing. Differences in coordinative routines and capabilities have a significant impact on performance variables as development costs and development lead times. Systems-level or architectural innovations often require new routines to integrate and coordinate engineering tasks. The failure of Baan to introduce new technologies can thus be seen as a consequence of the mismatch that so often exists between the set of organizational processes needed to support the conventional product offering and the requirements of the new (Teece 1997). Baan was not able to achieve the required organizational reengineering. The company was also in the need to reconfigure the firm's asset structure and to accomplish an internal transformation. The top management of Baan missed these dynamic capabilities when executing the Baan Web strategy.

Baan did a number of acquisitions in the years 1996 to 1998. It extended its ERP footprint as a result but it lost its distinctive competence of focus on specific verticals also. The company was not able to accomplish the integration between the original company and the acquisitions to develop the product package that fulfilled the promise of 'beyond ERP' and that would gain Baan the desired strong competitive position. After the acquisition phase Baan Company

became a conglomerate of more or less related companies with their own specific go-to-market approach.

In the period preceding the execution of the Baan Web strategy the company was highly innovative and a first mover in product development in several important respects. The Web strategy had a strong impact on the R&D performance. Too many and partly conflicting challenges resulted in destroying this distinctive competence from Baan.

The mid-market strategy conflicted with the strategy that had made Baan successful. Baan had always been innovative and able to serve specific customers. It wanted to continue this approach while at the same time offering a product for the mid-market. The company did not abandon its old strategy but wanted to do both. As a result the company was not able to launch a successful mid-market solution.

The founder Jan Baan was a born entrepreneur. When he left the Board in 1998, the company lost a vital competence. His successor as CEO was not able to get in place the good procedures and a business development team to absorb this mislaying. The company did a lot of announcements – internally and externally – which were never implemented. For a sustainable business it is crucial to fulfil the promises the company is doing and to give an effective follow-up to its announcements.

The relevant competitive boundaries or business domain issue is extremely important. Differences in the conceptualization of a firm's competitive boundaries before and after developing and implementing a new strategy have a strong influence on the strategic choices made, and definitely on its fortune. A relatively narrow business domain definition based on an organizational's technological competences leads to better performance in the early phases of the technology adoption life cycle. Baan gave up its original business domain with the Baan Web strategy.

Moore (1995) clarifies with his 'landscape of the technology adoption life cycle' that the value disciplines change in the life cycle. Important in the phase of the early market is just product leadership. In the bowling alley the success depends on product leadership and customer intimacy. In the next phase, the tornado, crucial are product leadership and operational excellence. In main street the value disciplines are operational excellence and customer intimacy. The industry analyst Gartner Group uses two dimensions to judge the software vendors. These are completeness of vision – more or less comparable with product leadership – and ability to execute – more or less comparable with operational excellence. Baan was strong on the first dimension and comparatively weak on the second one (see figure 4). The primary reason that the company failed passing the tornado phase, was that it was missing operational excellence. It was really crucial, it was part of the official strategy, but the management did not achieve the execution of it.

A related issue is whether a company is able to change from value disciplines going through the phases of an adoption life cycle. The capabilities that result in product leadership are completely different from those that result in a combination of operational excellence and customer intimacy. The necessary changes in value disciplines imply transformations of the capabilities. Baan had to make this transformation process within a period of five to seven years. The risk of failure of it is high. This could be reason for the management of a company to decide not to enter the tornado phase and to strive for reaching main street but to start again

to develop a product for the early market and to sell the product and the customer base to another company that has experience in serving a mass-market.

To summarize, the Baan Web strategy is a case of the challenge to pass the strategic inflection point in a highly turbulent industry. We can learn of it the necessity of alignment between the five forces in firm evolution. This case gives an in-depth insight in the effort to be accomplished to travel the journey from the early market via the chasm and the tornado phase to the main street. Here a company will meet undoubtedly a new strategic inflection point.

Guidelines

In a situation of a strategic inflection point the top management has the primary responsibility for a new corporate strategy. Our guidelines are:

1.
Successful development and implementation of a new corporate strategy is a process of aligning the five dynamic forces of firm evolution. Pay careful attention to the internal selection environment that is the crucial force in the continuing alignment processes that have to take place. The execution of a strategy requires that the internal selection environment functions in a proper way. It has to facilitate the alignment processes on the two axes – corporate strategy / strategic action and basis of competitive advantage in the industry / distinctive competences.
2.
Develop a new strategy balancing top-down and bottom-up forces. Be aware of the crucial role of middle management. Maintain or develop clear communication lines. Make sure that decisions made by top management are executed by middle management.
3.
Changing a corporate culture may be a requirement for a successful execution of a new corporate strategy. This may be a risky objective however, because it influences the functioning of the internal selection environment. Do not change the corporate culture when the distinctive competences and the critical success factors are in change already.
4.
Every company has its own dynamic capabilities which result in a specific competitive advantage. Be aware that new distinctive competences are not for sale but have to be developed based on existent competences. A company has a unique combination of distinctive competences. Changes in it will only work if they improve the competitive advantage. Building up a new set of distinctive competences can harm existent competences. If you don't want this, develop another approach.
5.
The personalities and the capabilities of the members of the top management are really vital for successful development and execution of the corporate strategy. A balance is required between entrepreneurship and management and between cognitive and hands-on capabilities. Extensive experience of the business is indispensable too.

6.

The business domain choice has a strong impact on the profitability of the firm. Define a narrow focus and accept/reject business opportunities dependent of conformity with this definition. When redefining the business domain, take care of not losing focus. This will weaken the competitive position. Define a focus in terms of competences or capabilities rather than in terms of products. Primarily the capabilities are crucial for success in the marketplace.

7.

Passing the phases of the technology adoption life cycle requires changing the value disciplines. If you are not willing or able to implement such a change process, do not enter a next phase but start again with the phase that fits the best.

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1. Baan Company was founded in 1978 to provide financial and administrative consulting services. In 1979, Baan developed its first financial software package. Since then it introduced several new generations of software products and expanded its operations to encompass most major markets around the world. In the 1990s, Baan became a world leader in enterprise-wide business software applications – called ERP systems – and consulting services for companies in the manufacturing, automotive, electronics, process, and heavy equipment and project services industries. *Insert figure 3: Revenue Baan Company 1978-1999*. The Gartner Group continually carried out research on the competitive landscape of the ERP market, and evaluated the vendors on their vision and their ability to deliver. *Insert figure 4: ERP large users matrix*. In May 1995, Baan was officially listed at NASDAQ and the Amsterdam Stock Exchange. Within a year after the IPO, Baan's stock exchange value placed the company among the Fortune 500 in America. The company's high price/earnings ratio allowed it to make acquisitions if it wished to do so.
2. Enterprise Resource Planning (ERP) software was a new generation of software products that was introduced by the end of the 1980s and in the first half of the 1990s. It was a real technology paradigm shift because of a combination of reasons. First, it made use of a new type of system structure, named the client/server architecture that was also an open system architecture. Second, it was the first generation of integrated enterprise systems. It was a back office system that offered integration from software functionalities in the areas of manufacturing, logistics, procurement, finance and human resources management. A major difference with the past was that ERP systems consist primarily of off-the-shelf standard software and not of proprietary software. As a consequence of various differences with former types of information systems the price/performance ratio was much more favourable and influenced the demand for it in a positive way.
3. See Brian Mc Arthur (1990, 1996), Hagel (1996), Hagel and Armstrong (1997), Hagel and Singer (1999).
4. See for instance Shapiro and Varian (1999a). They summarize this phenomenon with: "The old industrial economy was driven by economies of scale; the new information economy is driven by economics of networks. The key concept is positive feedback." Increasing returns are a result of: 1.) economies of scale at the supply side (Shapiro and Varian (1999a)); 2.) dynamic learning effects (Chandler (1990), Arrow (1962)), including economies of scope; 3.) network effects in the industry (Katz and Shapiro (1985, 1986, 1994), Farrell and Saloner (1986)); 4.) self-reinforcing expectations of participants in the value system (Arthur (1996), Hill (1997), Shapiro and Varian (1999)).

5. The quote is from: Hoch, Detlev J., Cyriac R. Roeding, Gert Purkert, Sandro K. Lindner, *Secrets of Software Success* (1999), Boston: Harvard Business School Press, page 179-180. They mention that two months later, before 3,500 Baan customers, Bill Gates promises that together, Baan, Microsoft, and their partners will create 'a digital nervous system' for the world's business. Sharman explains: 'In this industry, you do not simply deliver a product yourself to the customer. You deliver a product together with two or three other parties. And together, the group determines whether the product will ultimately be useful to customers. Partnering is absolutely fundamental to the success of a software company.'
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Biographies

Dr. Henk A. Post carried out his Ph.D. research on internationalization of professional service firms in the years 1991-1994 holding a position as a professor in strategic management at the Tilburg University. As a part of this project, he started his research on Baan Company in 1993. During 1994 till 2003 he held executive positions at Baan Company (1994-1997) and the affiliated Vanenburg Group (1997-2003). He wrote a book on Baan and several papers. To write these publications he did a large number of interviews with Baan and Vanenburg executives and analysed available written documents and industry analysis reports. The interviews about the Baan Web strategy took place in the periods 1995-1999 and 2001-2003.

Prof. dr. Harry R. Commandeur is a professor of Industrial Economics and Business at the Rotterdam School of Economics, Erasmus University Rotterdam and a professor of Economics of Increasing Returns at Nyenrode University. His research interests include the relationship of market structures, corporate strategy and firm performance. He publishes in journals such as *Journal of Product Innovation Management*, *Journal of Management Studies*, *Long Range Planning*, *Industrial Marketing Management* and *Journal of Business Logistics*.

Research methodology

Interviews 1993-1998:

Jan Baan: Founder and CEO Baan Company (1978-1998), CEO Vanenburg Group (2000-today): circa 5 interviews in both periods

Tom Tinsley: COO (1996-1998), CEO Baan Company (1998-1999): circa 3 interviews in this period

Paul Baan: President (until 1997), Chairman of the Supervisory Board of Baan Company (1996-1998), CEO Vanenburg Group (1996-1998): circa 4 interviews in this period

Graham Sharman: Member of the Advisory Board of Baan Company (1996-1998), President Vanenburg Group (1997-1998): 2 interviews in this period

An important internal document source has been formed by several series of power point slides used for leadership meetings and for meetings with analysts and investment bankers.

An important external information source has been formed by articles in the financial press.

Figures

Figure 1:

Value Disciplines and the Life Cycle (Moore 1995)

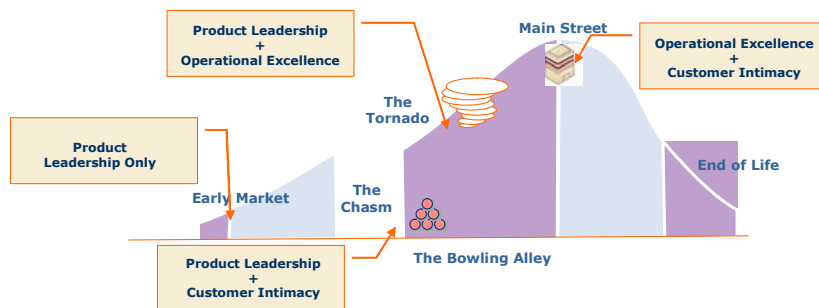


Figure 2:

Dynamic Forces in Firm Evolution (Burgelman and Grove 1996)

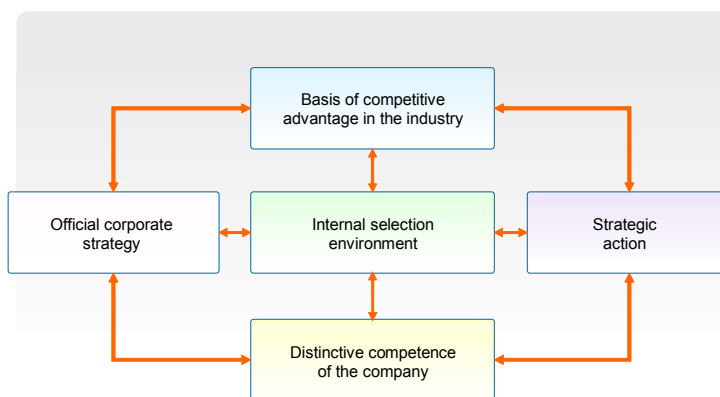


Figure 3:

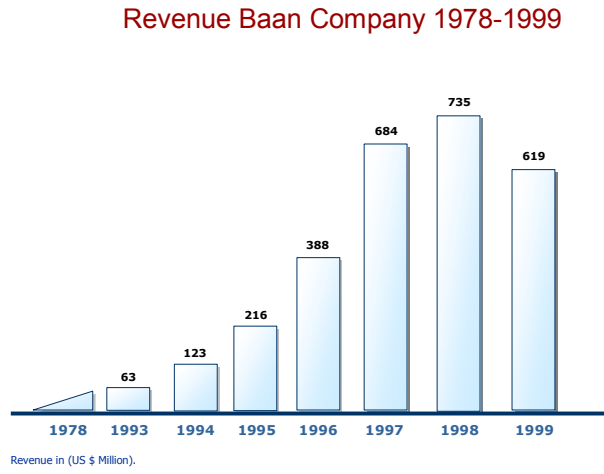
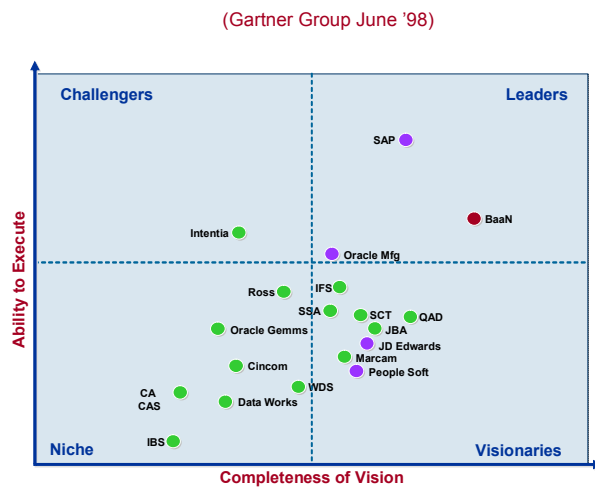


Figure 4:



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