



# UNDERSTANDING STRATEGY OF BMW GROUP

By

.....

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of the requirements for the degree of

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## Table of Contents

Part 01: Analysis of strategic options .....	4
A.What is a strategy? .....	4
B. Strategic analysis for the external environment .....	6
C Other Strategic Tools .....	12
Part 02: Business Strategy Learning Log and Reflective Statement .....	19
A. Business Strategy Learning Log .....	19
B. Reflective Statement .....	20
References .....	21

## Part 01: Analysis of strategic options

### A. What is a strategy?

Gerry Johnson and Kewan Scholes, (1998, p.18) find that the concept;

*“Strategy is the direction or scope of an organization in the long term which achieves the advantage for the organization through its configuration of resources within a challenging environment in order to meet the needs of the market and to fulfill stakeholder expectations”*

By analyzing the above definition, it can clearly identify that there are few components of a strategy.

- Strategy is something that the organization is trying to achieve in the long run
- Strategy deals with the markets in which the organization is expecting to be operated
- Strategy shows how the organization outperforms its competitors within the market
- Strategy will tell what external environmental factors would have an impact over the ability of the organization to compete in the environment
- Strategy will set out what are the underlined values and expectations of the organization

These levels can be divided into three major categories based on the different levels of an organization as follows.

- **Corporate level strategies**

These are the strategies that deal with the highest level of decision making. Most of the time top management will involve in this level of strategies. These strategies will generally deal with the areas such as decisions on long term direction of the organization, decisions on acquisition and mergers, allocating resources and coordinating activities of different strategic business units of the organization.

- **Business level strategies**

These types of strategies can be seen in the organizations which carry out its activities under different strategic business units (SBU). These SBUs are separate units that are focused on a particular/independent segment in the market. These strategies will answer the areas such as developing objectives for separate SBUs, allocation of

resources among the SBUs and coordination of the activities among the SBUs. This business level strategy is something that further explains the corporate level strategy.

- **Functional level strategy**

As described by its name, functional level strategies deals with the functions such as production, marketing, finance and human resource management within an organization. These strategies are restricted to a certain function and issues associated with that function.

This theoretical aspect of strategy can be explained in relation to a real world organization, *The BMW Group*, one of the Germany's largest industrial companies founded in 1916.



(<http://www.bmwgroup.com>)

services in the financial market.

In 2007, *The BMW Group* adopted a new strategy, “*Strategy Number One*”. This strategy was focused on providing a new strategic direction to the organization by having a greater emphasis on profitability and long-term value enhancement. Accordingly, *The BMW Group* is mainly focused on its premium segment, International Car Market. Here, the mission statement of *The BMW Group* for year 2020 has been set as follows;

*“World’s leading provider of premium products and premium services for individual mobility”*

The mission of *The BMW Group* is then further explained by the objectives of the organization and those short term objectives are further divided into several strategies that the organization is trying to achieve.

Here, *The BMW Group* has come up with a strategy called “*Strategy Number One*” which is focused on increasing profitability and increasing long term value in terms of change.

The major objectives embedded in the strategy of *The BMW Group* are

- Striving for ecological and social sustainability along the entire value-added chain
- Taking full responsibility for its products
- Giving an unequivocal commitment to preserving resources

As a result of these high-end objectives, *The BMW Group* has identified as the most sustainable company in the automotive industry (*World's Most Sustainable Car Company in 2012; Dow Jones Sustainability Index*).

## B. Strategic analysis for the external environment

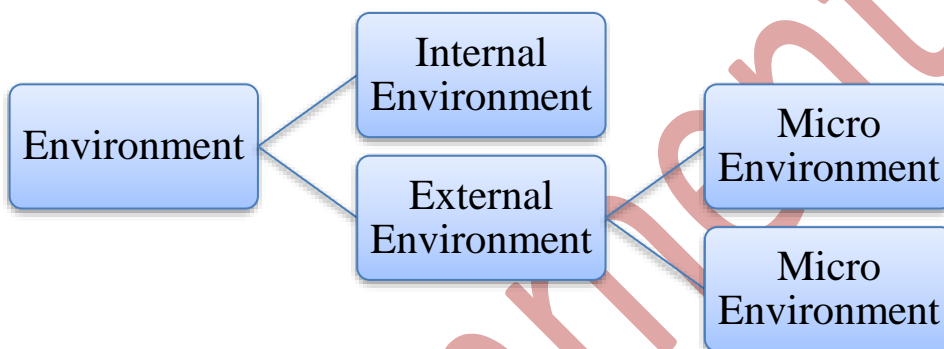


Chart 1.1- Environmental Factors

Michel Porter (2008, p.24) find that the concept any kind of an organization is unable to operate in alone. It will influence and be influenced by the environmental factors. This environment can be divided into two categories as follows.

- **Internal Environment-** This is the environment the management of the organization can't control. This is also referred as the task, immediate environments. This environment will normally consist with the parties such as managers, employees, owners, organizational resources, organizational structure, organizational culture etc. For analyzing the internal environment, it can use the tools such as *Resource audit*, *SWOT analysis* and *value chain analysis*.
- **External environment-** This is the environment that the organization has a less or no control. This can be further divided into 2 categories namely;

— **Micro environment-** This environment will include the factors that are outside the organization and these are the factors that create the industry of the organization

Some of the examples for the parties in this environment are customers, employees, suppliers, shareholders, media and competitors.

For analyzing the micro environment, it can use *Michel Porter's five forces analysis, Critical Success Factors, Benchmarking and core competencies so on.*

— **Macro environment-** This will include the factors that are out of the control of the organization and have a far influence to the organization. This will consisted with the major environmental forces. Economical environment, social environment, technological environment, ecological environment and legal environment are some of the factors/forces that come under macro environment.

For analyzing the macro environment, it can use *tools such as PEST.*

According to the above classification, it can use *Michel Porter's Five Forces Analysis* for analyzing the micro environment and *PEST* for analyzing the macro environment in relation to the selected organization *The BMW Group.*

### PEST analysis

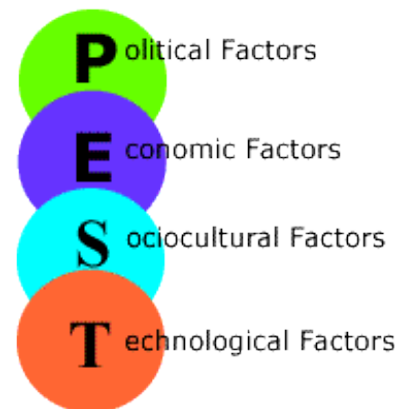
PEST analysis can be identifies as a major tool that is used in analyzing the macro environmental factors of an organization. The Term PEST represents the variables which are analyzed.

**P-** Political Environment

**E-** Economical Environment

**S-** Social Environment

**T-** Technological environment



## PEST variations

Most of the time, this term PEST/STEP is extended by adding some other environmental forces

- **STEP** = PEST in more positive approach.
- **STEEP** = PEST + Ethical Environment
- **SLEPT** = PEST + Legal Environment
- **PESTEL** = PEST + Environmental + Legal Environment
- **PESTELI** = PESTEL + Industry analysis
- **STEEPLE** = PEST + Environmental + Legal Environment + Ethical Environment
- **STEEPLED** = STEEPLE + Demographic Environment
- **PESTLIED** = PEST + Legal Environment + International Environment + Environmental + Demographic Environment
- **LONGPEST** = Local Environment + National Environment + Global factors + PEST

In relation to *The BMW Group*, the PEST analysis can be done as follows.

- **Political Factors**- This will include the legal rules and regulations which will have a considerable impact over the organization

With respect to *The BMW Group*, the following can be identified;

- Taxes and foreign policies of the government will have a significant influence over both the internal activities and exports of *The BMW Group*.
  - New rules and regulation related with the environmental issues associated with the automobile industry will compel the organization to modify its production activities in order to be in line with those environmental regulations
  - Rules and regulations on pollution norms in European and US markets
- **Economical factors**- These factors will be related with the areas such as exchange rates, economic growth rate, and inflation and so on.

With respect to *The BMW Group*, impacts of following economical factors are highly important.



- Because of the credit crunch in USA and in other countries, there is a decrease in the demand for the automobiles.
- Recent emergence of the developing countries such as China and India and their increased purchasing power
- **Social factors-** This deals with the social factors such as culture, social norms and other demographic variables. With regarding to *The BMW Group*, there are some clearly identifiable features in the social environment as follows
  - People are tend to focus on green/eco-friendly automobiles than before
  - Harmful impacts upon the buying pattern/purchasing power of the customers because of the economic downturn.
  - Increasing the level of awareness and consideration of the people about environmental issues and harmful gas emissions of automobiles.
- **Technological factors-** These factors relates with the technology which is used by the industry or the organization.  
Followings are some of the concerns of *The BMW Group* in relation to technological environment
  - Movement towards the technologies that are eco-friendly and reduce the emission of harmful gases and other chemicals
  - Widely spreading trend of using technology as a way of getting competitive advantage in the automobile industry
  - Innovations based of new energy sources (Solar power)
  - Sophisticated designs of automobile designs with increased safety and comfort

### **Michel Porter's five forces analysis**

The forces which are in the micro environment will make the industry of an organization. The impact of these factors can be analyzed by using the *Michel Porter's five forces analysis*.

Here, the main focus of this 5 forces analysis is focused on identifying the relative attractiveness of a certain industry. Generally, the analysis under five forces strategies is done

from an existing player's point of view, but still it can be done in relation to a new entrant's point of view also.

*Michel Porter's five forces analysis* will consist with five major components as follows.



*Chart 1.2- Major components of Michel Porter's five forces analysis*

Each of these factors can be explained as follows.

- **Threat from new entrants-** This will deal with the potential threat from a new entrant to the industry. If a new player enters into the industry, it will bring extra capacity and more competition to the industry. Therefore in order a certain industry to be attractive, there should be a lower level of threat from new entrants.

In relation to *The BMW Group*, it can identify that there is a lesser threat from the new entrant. This is because that the industry in which *The BMW Group* operates is something that requires huge capital investment and specialized knowledge. At the same time *The BMW Group* has created a very strong brand position in the market which is invaluable. But in relation to a new entrant, it will not possess such capacity or knowledge and therefore there is a less threat for new entrants for *The BMW Group*.

- **Threat from substitutes-** This involves the products produced by other competitors that gives the same benefit. The level threat from substitutes will be depend on the following facts.
  - Consumers propensity to buy the substitute

- Buyer's switching cost
- Number of substitute products available

An industry to be attractive, this threat from substitutes should be in a lower level.

In relation to the motor vehicles provided by *The BMW Group*, the automobiles produced by the companies such as Ford, Mercedes, General Motors and Toyota can be identified as the major substitutes.

- **Bargaining power of the customers-** This deals with the customers' ability to bargain over the products. Generally, customers prefer to have a higher quality product at relatively a low price. This bargaining power of the customers will be depended on the facts such as;
  - Customer's frequency of buying
  - Customers' switching cost
  - The extent to which the quality of the product is important to the customers
  - The extent to which the product is standardized
  - Purchasing skills of the customer

If there is a lower level of bargaining power from the customers', then such industry will be treated as attractive.

In relation to *The BMW Group*, customers have a lower level of bargaining power, because of the reasons not having an alternative for a vehicle with well-established brand like *BMW*. At the same time available substitutes are very low for a car of *The BMW Group*.

- **Bargaining power of the suppliers-** This explains the power of the suppliers for earning higher prices.

This will also depend on several factors.

- Number of suppliers in the industry
- Number of other customers that the supplier has outside the industry being considered
- Importance of supplier's product to the customer
- Whether the supplier's product is a standardized one or not
- Switching cost of the customer.

If all these factors are in a lower level, then that industry is to be said as attractive.

With respect to *The BMW Group*, there are few suppliers in the industry such as *Ford*, *Volvo* etc; therefore there is a moderate level of bargaining power for the suppliers.

- **Rivalry among the existing players-** This is the level of intensity of competitive rivalry among the players in the industry. This will depend on the several factors mentioned below.
  - Growth in the market
  - Cost structure (Proportion of fixed cost)
  - Switching cost of the consumers
  - Ability to change the capacity with the intention for making a considerable impact on price
  - Whether the strategic objective of the rivals is success or growth
  - Barriers for exit from the industry

If the rivalry among the existing players is in a lower level, then such industry is treated as attractive.

In relation to *The BMW Group*, there is a moderate level of rivalry since there are only few players such as *Ford*, *Mercedes* and *General Motors*. On the other hand, there is a high fixed cost associated with the industry; therefore existing players will highly compete on increasing contribution the short run. At the same time, this higher level of fixed cost already incurred will make existing players difficult to leave the industry.

## C Other Strategic Tools

### Michel Porter's generic Strategies

Michel Porter (2008, p.24) find that the concept Generally, a competitive advantage is something that differentiates a certain organization and gives an edge to the organization than its competitors in the market. According to Michel Porter, an organization should adopt a business strategy/competitive strategy that will give a competitive advantage for the organization being considered. Accordingly, competitive strategy means taking an offensive

or defensive moves in order to create a dependable position in the industry by successfully competing with the rivals and create competitive advantage over the competitors.

Michel Porter (2008, p.24) find that the concept there are two major competitive strategies that an organization can adopt.

- **Cost leadership**- Under this strategy, the organization is trying to be the lowest cost producer in the market and thereby achieve a cost advantage and then competitive advantage than the rivals.
- **Differentiation**-Here, the organization will offer a product or service that has unique characteristics than those of the competitors and thereby achieve a competitive advantage over the competitors.

Bourgeois & Jay, (1985, p.52) find that the concept Both of these cost advantage/leadership and the differentiation strategy can be applied either in a narrow or broad scope. Here, the narrow scope means that the organization can either apply cost leadership strategy of differentiation strategy in a segmented or Niche market. Under the broader scope, the organization will adopt either cost leadership or differentiation strategy in the mass market.

This can be illustrated as follows.

		Scope	
		<i>Broad Scope/Mass Market</i>	<i>Narrow Scope/Niche Market</i>
Competitive Strategy	<i>Cost Leadership</i>	Cost Leadership	Cost Focus
	<i>Differentiation</i>	Differentiation	Differentiation Focus

*Table 1.1 - Major competitive strategies*

- **Cost leadership**- Here the organization will focus on the entire/mass market and try to be the lowest cost producer in the market.
- **Cost Focus**- Here, the organization will focus only on a selected segment of the mass market (i.e. Niche market) and try to provide the goods at the lowest cost/cost leader.

- **Differentiation-** Under this strategy, organization try to offer its products to the mass market with unique features that will give a competitive edge to the organization than the competitors.
- **Differentiation focus-** Here, the organization will select only a selected segment out of the entire mass market and try to offer products with unique features and apply the differentiation strategy in that selected segment/Niche

In relation to *The BMW Group*, it applies the focus differentiation strategy. *The BMW Group* is highly focused on offering its products by focusing the needs of the *Premium Customer Segment*. At the same time, it has differentiated its products with specific customizations of that customer segment. *The BMW Group* has differentiated its products than those of the competitors under several ways as follows.

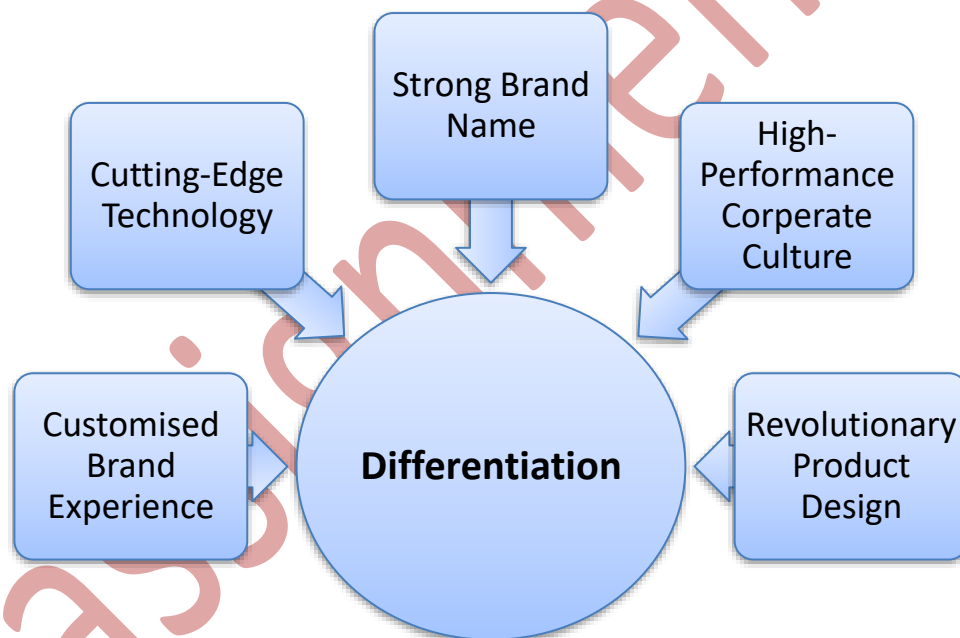


Chart 1.3- Differentiation of the BMW Group

When considering about the business activities of *The BMW Group*, it seems that it has created a competitive advantage over its competitors in several ways.

- *BMW* uses the “BMW i8” concept which is the next evolution in the vision of *The BMW Group*

Under this concept, *The BMW Group* is going to produce sports cars with the *Plug-In Hybrid Concepts* along with *Modified Electric Drive Systems*. In this kind of cars, it will give a acceleration of 0 mph to 62 mph within 5 seconds with its high performing *Three Cylinder Combustion Engine* which produce 164 KWh/220 HP and 300 Nm (221 lb-ft) at its rear. This capability is far beyond the normal capabilities of the comparable cars in the market.

- According to the *Dow Jones sustainability Index*, *The BMW Group* was named as the Industry leader and thereby the *World's Most Sustainable Car Company* in 2012 for the eighth consecutive year. This will also give a competitive advantage for the organization than other rivals in the market. During the past six years, *The BMW Group* has achieved a success in reducing the resource consumption and wastage in a considerable way as follows.

Description	Reduction
Energy Consumption	-26%
Water consumption	-30%
Process waste water	-36%
Non-recyclable water	-65%
Solvent emission	-27%

*Table 1.2 - Reducing the resource consumption & wastage*

- *The BMW Group* has also increased its reputation for the corporate brand in the market. This can be reflected by the increase in share price during the last 5 years.

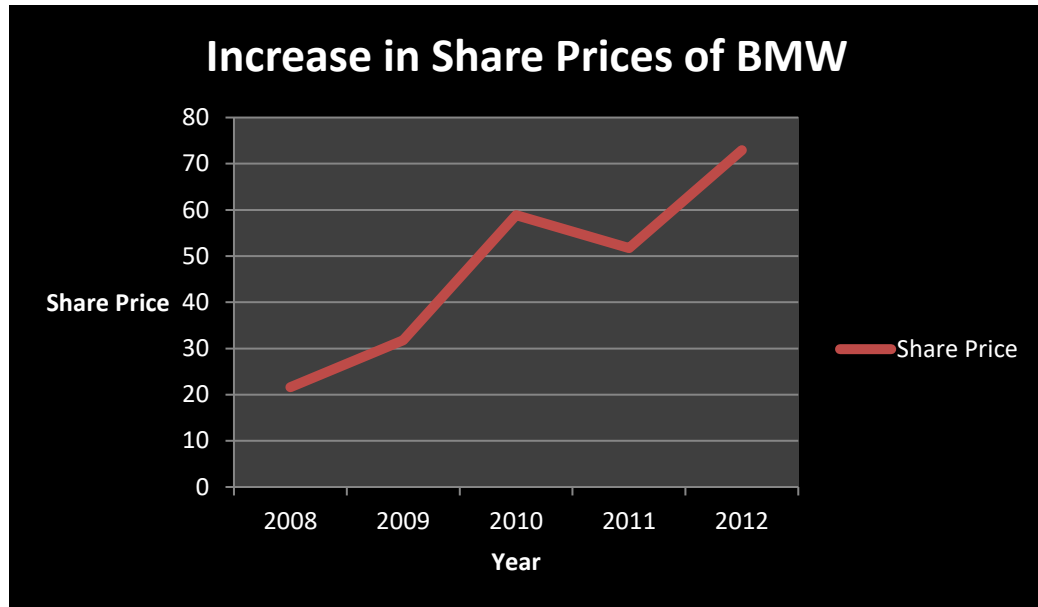


Chart 1.4 - Increase in Share Prices of BMW

By analyzing these factors, it is clear that *BMW Group* has created a competitive edge for the company through the differentiation of its products that those of the competitors.

### Vision, Mission and Objectives

#### What is a Vision?

Bourgeois & Jay, (1985, p.52) find that the concept Vision is the desired/intended future state of an organization. In other words it is the ultimate goal that the organization is trying to be achieved.

In relation to the vision making process of any kind of an organization, there are three major parts involved as follows.

- **Comes up with a mission statement-** Mission will further describes the vision by clearly stating who we are, what we do and where we are now?
- **Defines the future in terms of Vision-** It will define where are we going and draw a strategic path to pursue
- **Communicating the strategic vision-** It should clearly communicate the vision for all the members in the organization in order to create a commitment towards the vision.



Having a well-established vision will give many advantages for an organization. Some of them are as follows.

- Act as a road map for the organization
- Act as change agent and drive the change
- Energize and encourage people (When there is a vision, people are clear what they are going to achieve and how to achieve it)
- Facilitate recruiting talented people (Most of the people prefer to work under a organization with a well-established vision)

### **What is a mission?**

Mission will describe the reason for existence. In other words, it will explain the basic functions of the organization within the society in terms of products and services it produce.

The mission will give an own identify for the organization and will differentiate the organization those of similar.

The basic characteristics of a mission are as follows.

- Defines the current business activities of the organization in terms of products and services it offers.
- Highlights the current boundaries of the organization
- Conveys;
  - Who we are
  - What we do
  - Where are we now
- Specific to the company/organization (Not generic or common)
- Defines the values and culture of the organization

The mission statement of *The BMW Group* is as follows.

*“World’s leading provider of premium products and premium services for individual mobility”*

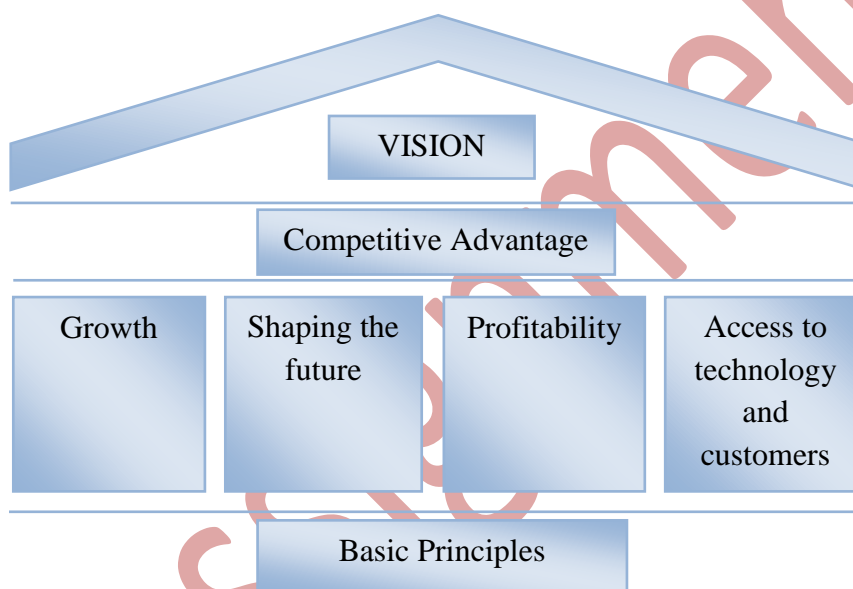
The mission of a certain organization is then further explained by the objectives of the organization and those short term objectives are further divided into several strategies that the organization is trying to achieve.

In the present time, *The BMW Group* is operating with its newest strategy which is called as *Strategy Number One*. Under this strategy, it focuses on two major aspects to be addressed as follows.

- ✓ To be profitable
- ✓ To enhance the long term value in terms of change

*The BMW Group* has identified four pillars on which its strategy is depended on. They are as follows;

- ✓ Growth
- ✓ Shaping the future
- ✓ Profitability
- ✓ Access to technology and customers



Here, the vision is based on the mission that is focused on creating a competitive advantage for the organization through differentiating the organization from those of rivals. The mission is again based on the strategy which is depended upon the four pillars growth, shaping the future, profitability and access to technology and customers. Then these four pillars of strategy are based on the basic principles and policies of the organization.

In summary, the hierarchy of this vision, mission and objectives can be illustrated as follows.



Chart 1.5 - vision, mission and objectives

## Part 02: Business Strategy Learning Log and Reflective Statement

### A. Business Strategy Learning Log

Topic Area	Activity Undertaken	What I have learned as a result	How this could be used in my assignment or organizational practice
Strategy	Referring books with relevant theories and real world organization <i>BMW Group</i>	Process of strategy formulation, levels of strategy	How to identify an organization in terms of its strategy
Organizational environment	Referring books with relevant theories and real world organization <i>BMW Group</i>	Classification of environment, components of each category	How to identify the relative attractiveness of an industry
Stakeholders	Referring books with relevant theories and real world organization	Who are the parties that will influence over the organization	How to deal with different types of stakeholders and their conflicting objectives
Vision, Mission and	Referring lecture notes, books with relevant	How to develop a mission, vision,	How to differentiate one organization from

objectives	theories and real world organization <i>BMW Group</i>	objectives and what is the relationship among them	another based on the vision and mission
Competitive advantage	Referring lecture notes, books with relevant theories and real world organization <i>BMW Group</i>	What is competitive advantage and sources of competitive advantage	How an organization outperform its rivals in the market
Alternative development strategies	Referring lecture notes, books with relevant theories	What are the methods available for achieving the growth of a an organization	How to achieve the growth in an organization by using different strategies
CSR	Referring books with relevant theories and real world organization <i>BMW</i>	What is meant by CSR, its aspects and importance to the organization	How real world organizations practice CSR
Strategizing	Referring lecture notes, books with relevant theories and real world organization <i>BMW Group</i>	What is meant by strategizing, who are the parties involved and how to strategize a business	How the strategizing and decision making is done in a real world organization

### B. Reflective Statement

Goodwin, Paul, and Wright, George, (2001,p.62) find that the concept upon the successful completion of the module, It was able gain a wider range of both theoretical knowledge and practical implication of the theories in the practical business world in relation to number of real world examples. At the same time it was able gain a descriptive knowledge in relation to the real world application of the theories discussed in the class because of the successful involvement in the assignment along with a real world organization *The BMW Group* which is one of the most successful organization in the automobile industry all over the world.

Accordingly, it was able to identify how an organization is operating in the real world context and what are the threats and opportunities that will come from the external environment and how the dynamic nature of the environment affect on those threats and opportunities. At the same time, It was able to identify how an real world organization cope up with these threats and opportunities as a result of my scrutinizing regarding the *BMW Group* under my assignment.

In relation to the stakeholders of an organization, it was able to get a proper understanding about the areas such as who are the stakeholders of an organization, what are the reasons they have a stake on the organization, what are the different objectives or stakes that they have on the organization, how to deal with those conflicting objectives while achieving a trade-off among those conflicting objectives.

At the same time, it was able get a clear understanding regarding the areas such as what an organization is trying to achieve in the very long run, how to divide those long-term expectations into short term objectives and how to achieve those objectives through a collaborative approach within the organization.

Since the assignment was done in relation to the real world organization *BMW Group*, it was able to identify what is meant by the competitive advantage, what are the sources available for an real world organization for achieving the competitive advantage, how such strategies are applied in the real world and what are the constraints in applying such.

Under this module and the practical assignment we were asked to complete, it was able to get a proper understanding regarding the areas such as *Corporate Social Responsibility (CSR)* which is one of the emerging trend and an emerging ethical aspect of the modern businesses.

Accordingly, it can conclude that the study of this module gave a wider range of both the theoretical and practical aspects of organizations in a descriptive and interesting manner.

## **Conclusion**

When any kind of an organization is operating in the society, it may be either profit oriented or non-profit oriented organization. Whatever it is, there are set of objectives that it intends to achieve in the short run as well as in the long run. These long-term intentions of an organization will be mainly described by the organizational vision and then it will be further

described by the mission of the organization. After that that mission will be divided in to several objectives and again into several short term strategies which are practiced by the organization in its day to day activities. Therefore, it is clear that the long term success of any organization is highly depended upon how such organization set its strategies and how it achieves those strategies. This will illustrate how strategies are critical for the success of an organization.

Accordingly, it is clear that when determining these strategies as well as the vision, mission and objectives of the organization, it should pay a considerable attention over both the internal and external environment. In relation to the external environment, it should consider both the Micro and Macro environmental factors which will have a reasonable impact over the organizational success.

At the same time, any organization should determine how it is going to compete with its rivals and create a unique place in customer's mind an in the market in order to gain a competitive advantage for the organization over its rivals. In this context, organization should understand which strategy it can use for make the organization's product a differentiated one in the market. Here, it can use either cost leadership strategy or differentiation strategy according to *Michel Porter's Generic Strategies*. At the same time, organization should clearly understand whether it is focusing on the entire mass market of a selected Niche of the market.

In addition to the external environmental analysis, an organization should also pay a considerable attention on determining its strategies. In relation to this context, there are number of internal environmental analyzing tools also.

If an organization is better in analyzing both internal and external environment correctly and adjust the business activities in accordance with the dynamic requirements of those environments, then the successful achievement of the goals of such organization will be inevitable.

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