



Programme: Master of Business Administration

Module: Strategic Management

Module code: LCMB7003

**Title: Strategic Analysis of Rolls-Royce: Evaluating Competitive
Position and Performance**

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Word Count: 5401

Submission Date: 01st May 2026 by 2PM

Executive Summary

This report critically analyses strategic position of Rolls-Royce based on strategic management frameworks like PESTEL, VRIO, Balanced Scorecard, SWOT and Matrix of Ansoff. The analysis reveals that Rolls-Royce has a powerful competitive stance with high-levels of engineering capacity, long-term service contracts and brand name. Nevertheless, this strength is not entirely safe as the firm is very vulnerable to civil aerospace demand cycles, high research and development expenditures and mounting sustainability pressure.

One of the most significant insights is that the financial recovery of Rolls-Royce has enhanced its ability to survive in the short term, yet the ability to minimise the over-reliance on civil aerospace and continue to invest in innovation is the determinant of competitiveness in the long term. The defence diversification, power systems and small modular reactor has a significant strategic opportunity, but all these directions need close development and financial management.

The most important recommendation is that Rolls-Royce should seek to diversify towards sustainability, and reinforce digital maintenance and cost discipline. This would facilitate competitive advantage because it would enhance resilience, minimise volatility of revenue, and position the company in line with the future aerospace and energy market needs.

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1. Introduction

Strategic management is not all about environmental cognition but it is also about critically analysing whether companies can remain advantaged in uncertainty. Barney and Hesterly (2015) explain that strategy is a collection of activities that helps a firm to enhance its performance and beat competition.

This report takes a critical approach as opposed to a pure descriptive approach by assessing not only the ways in which Rolls-Royce attains competitive advantage but also whether this advantage can be maintained in the face of ever-increasing environmental, technological, and economic pressures. This is in line with the modern strategic management theory that focuses on adaptability and dynamic capability as crucial success factors in long-term performance (Teece, 2018). This report critically evaluates whether Rolls-Royce's current strategy is sustainable under increasing technological, financial, and environmental pressures.

2. Organisational Context and Overview

2.1 Company Background and Evolution

The Rolls-Royce is a British multinational corporation that was started in 1906, and that initially produced luxury automobiles. The firm evolved over the years and today it is a major world supplier of power systems, especially in the aerospace, defence and energy industries. This change underlines the significance of strategic renewal in ensuring long-term competitiveness (Johnson et al., 2017).

2.2 Mission, Vision and Strategic Objectives

Rolls-Royce is specialised in the provision of power solutions that are high in performance and innovation. Its strategic goal is to achieve long-term value through investing in advanced technologies, enhancing efficiency, and a good customer relationship. Sustainability is another consideration of the company, which seeks to minimise carbon emissions and cleaner energy solutions.



Figure 1: Rolls-Royce Logo (Reuters, 2025)

Strategically speaking, a clear mission and vision can be used to direct the decision-making process and to make sure that all the activities are geared towards long-term objectives (Lynch, 2018). The emphasis of Rolls-Royce on innovation and sustainability is a reflection of the tendencies in the contemporary world of business.

2.3 Business Model and Value Proposition

Rolls-Royce has a service based business concept, particularly in the aerospace department. The company does not just sell engines, but offers long-term service contracts, like the Power by the Hour where the customer pays through engine utilisation. The model establishes consistent revenue sources and forms good relations with the customers.

High-quality engineering, reliability, and unremitting innovation are the value propositions of the company. Through product-service differentiation, Rolls-Royce stands out among other market participants and develops a competitive edge in the market (Wheelen et al., 2018).

2.4 Industry Overview, Key Competitors and Market Position

The global aerospace and defence industry that Rolls-Royce operates in is very competitive and needs a lot of investment in research and development. Big rivals are General Electric (GE Aviation) and Pratt & Whitney. The entry barriers in the industry are also high because of the capital requirements, complexity in technology and the stringent regulation.

These barriers usually lead to a high level of competition in such industries and low rates of new entrants (Johnson et al., 2017). The company is a formidable player in the wide body aircraft engine market, however, it has been challenged with the increasing cost, environmental laws and technological discontinuity. Although Rolls-Royce maintains a strong position in the wide-body aircraft engine market, this dominance is not fully secure. The company primarily competes with General Electric (GE Aviation) and Pratt & Whitney, both of which continue to invest heavily in next-generation engine technologies. Rolls-Royce holds a significant share in wide-body aircraft engines, particularly through programmes such as the Trent engine family, while GE Aviation has historically led the market in total engine deliveries and installed base (Rolls-Royce Holdings plc, 2026; Reuters, 2025).

This indicates that while Rolls-Royce has a competitive presence, it operates in a highly concentrated and innovation-driven market where technological advancements and long-term service performance determine market share. Therefore, its current position should be viewed as competitively strong but strategically vulnerable unless continuous innovation and performance improvements are maintained.

3. External and Internal Environment Analysis

3.1 External Environment (PESTEL Analysis)

The strategic decisions in highly regulated industries like aerospace are not only directed by external forces but also tend to be limited due to their effect on strategic decisions. In the case of Rolls-Royce, the international aerospace and defence market is exposed to especially high external forces.



Figure 2: PESTEL Analysis (SpringWorks, 2021)

Government defence procurement policies and regulations are a critical component of Rolls-Royce's strategy, as its Defence segment generated £4 billion of revenue in 2025, revealing its reliance on UK and US defence contracts (Rolls-Royce Holdings plc, 2026). This poses a risk to its strategy, as changes in geopolitical conditions or defence spending can impact its financial performance. At the same time, the certification process by regulators (EASA, FAA, etc.) raises the cost of development and slows down the product introduction, but it also increases the barriers for new entrants, thus protecting Rolls-Royce's market position (David, 2017).

Rolls-Royce's revenue is also highly sensitive to air travel because its "Power by the Hour" business model is based on the flying hours of its engines. In 2020, engine flying hours dropped by over 40%, which led to a decline in service revenues and forced the

company into loss-making (Rolls-Royce Holdings plc, 2026). While the company has recovered and delivered an operating profit of £3.5 billion in 2025, this demonstrates that its business model remains vulnerable to global air travel demand and that the company's financial performance is tied to the recovery of air travel (Hitt et al., 2020).

The increase in climate awareness among the masses and the international net-zero efforts is creating a demand towards greener aviation. Regulators and governments are setting more stringent goals in the emissions, and aerospace companies are now forced to speed up the development of sustainable aviation fuel and electric propulsion. These investments are in line with future market expectations but they are capital intensive and risky in terms of technology (Schilling, 2021).

The core of the competitive position of Rolls-Royce is technological factors. The industry requires unceasing breakthroughs in technology and output. Although the company maintains its leadership through heavy investment in research and development, there is always a risk of disruption by faster technological change in the case of competitors coming up with better solutions. Technology is then a significant opportunity and a threat.

Table 1: PESTEL Analysis with Strategic Implications (Rolls-Royce)

Factor	Industry Evidence	Strategic Risk	Strategic Response
Political	Defence segment revenue ~£4bn (2025), dependent on UK/US contracts	Budget cuts or geopolitical shifts reduce revenue stability	Diversify into power systems and energy (SMR)
Economic	Engine flying hours dropped >40% during COVID	Service revenue highly exposed to airline demand cycles	Strengthen non-civil aerospace revenue streams
Social	Growing demand for sustainable aviation and net-zero pressure	Pressure on traditional jet engine demand	Invest in SAF-compatible engines and low-emission tech

Technological	High R&D spending (~5–7% of revenue)	Innovation failure or lag vs GE & Pratt	Focus on UltraFan, digital maintenance systems
Environmental	Net-zero targets by 2050 across aviation sector	High cost of compliance and transition	Develop sustainable propulsion and energy solutions
Legal	Strict FAA/EASA certification requirements	Delays and high development costs	Maintain compliance advantage and quality leadership

The data presented in Table 1 is based on Rolls-Royce annual reports and industry sources (Rolls-Royce Holdings plc, 2026; Reuters, 2025).

This creates a strategic dilemma where Rolls-Royce must balance regulatory compliance with financial sustainability.

3.2 Industry and Competitive Environment

The structure of the industry may facilitate or limit profitability, by the way companies react to competitive forces. According to Porters Five Forces model, competition is determined by various factors such as rivalry, buyer power and entry barriers (Porter, 2008).

The competition in the aerospace engine market is stiff but focused on a handful of large firms, such as Rolls-Royce, GE Aviation and Pratt & Whitney. This brings a lot of strategic competition, as companies are forced to innovate constantly, in order to stay ahead (Grant, 2019). These obstacles secure the current companies but also imply that there is high competition among the current players. The buyer power is high as airlines are large and negotiating power is high. They require cost effectiveness and dependability, which restricts the freedom of pricing.

Table 2: Porter's Five Forces with Strategic Insight (Rolls-Royce)

Force	Strength	Evidence	Strategic Impact
Rivalry	High	Rolls-Royce competes directly with GE Aerospace and Pratt & Whitney in wide-body engine programmes such as Airbus A350 and Boeing aircraft platforms	Intense competition based on technology, reliability, and long-term service performance
New Entrants	Very Low	Engine development (e.g. Trent programme) requires billions in R&D and 10–15 years of certification and testing	Strong protection of market position; limits new competition
Buyers	High	Airlines sign long-term service agreements (Power by the Hour), linking payments to engine performance and flying hours	Reduces pricing power and shifts risk to Rolls-Royce during low demand periods
Suppliers	Medium	Dependence on specialised aerospace components (e.g. turbine blades, advanced materials) and global supply chains	Supply disruption or cost increases can affect production and margins
Substitutes	Low (rising)	Emerging technologies such as hydrogen propulsion and electric aircraft under development	Long-term risk to traditional jet engine demand

The analysis is based on Rolls-Royce annual reports and aerospace industry evidence (Rolls-Royce Holdings plc, 2026; Grant, 2019).

This means industry structure alone cannot guarantee profitability without continuous strategic adaptation.

3.3 Critical Success Factors and Strategic Challenges

Rolls-Royce's critical success factors relate to both competitive advantage and risk. It spends 5-7% of turnover on R&D to stay ahead in technology, but this places financial constraints on the company due to the lengthy time and cost to develop new products (Rolls-Royce Holdings plc, 2026).

It's service model also offers a steady cash flow with long-term service contracts, but income is tied to engine hours flown, which fell over 40% during the COVID-19 pandemic. This indicates its success factors are also risks, and the company needs to manage innovation, cost and demand.

Table 3: Critical Success Factors and Challenges

Success Factor	Strategic Importance	Challenge
Engineering expertise	Ensures high performance (Trent engine programmes)	High cost and technical risk
Innovation (R&D ~5–7%)	Maintains competitiveness	Financial pressure and uncertain returns
Service contracts	Provides stable income (Power by the Hour model)	Revenue depends on flying hours (-40% during COVID)
Partnerships	Expands market access	Exposure to external shocks
Sustainability	Meets regulatory demands (net-zero targets)	High investment cost

(Source: Rolls-Royce Holdings plc, 2026)

3.4 Internal Environment Analysis

Competitive advantage is an important source of internal resources and capabilities. Rolls-Royce has both strong tangible (manufacturing facilities) and intangible (brand reputation and engineering expertise) resources.

Table 4: Internal Resources and Strategic Value

Resource	Type	Strategic Role
Manufacturing facilities	Tangible	Supports global production
Brand reputation	Intangible	Builds trust and differentiation
Skilled workforce	Human	Drives innovation
Service model	Capability	Creates recurring revenue

Source: Author's own, based on Rolls-Royce Holdings plc (2026)

Core Competencies

Advanced engineering, innovation and service delivery are some of the key competencies of Rolls-Royce. These competencies enable the firm to compete based on differentiation and not on cost efficiency (Hitt et al., 2020).

3.5 VRIO Framework Evaluation

The VRIO framework assesses the sustainability of competitive advantage of resources (Barney and Hesterly, 2015).

Table 5: VRIO Analysis

Resource	Valuable	Rare	Inimitable	Organised	Outcome
Engineering expertise	Yes	Yes	Yes	Yes	Sustained advantage
Brand reputation	Yes	Yes	Yes	Yes	Sustained advantage
R&D capability	Yes	Yes	Difficult	Yes	Core advantage

Manufacturing scale	Yes	No	No	Yes	Competitive parity
Service model	Yes	Moderate	Moderate	Yes	Temporary advantage

Source: Author's own, based on Rolls-Royce Holdings plc (2026) and Barney and Hesterly (2015)

The VRIO analysis indicates that Rolls-Royce's engineering and research and development is a significant competitive advantage as it is valuable, rare, hard to copy and supported by long-term organisational support. For instance, engine development like the Trent XWB engine requires time, money and expertise, which can't be easily replicated.

But this could be a temporary advantage. Other companies, such as GE Aerospace and Pratt & Whitney, are also investing in these technologies, and so technological advantages can diminish over time. By contrast, Rolls-Royce's service strategy, such as long-term service contracts, is not as rare and can be easily replicated by competitors, so it is more a transient advantage. Therefore, ongoing improvement and innovation is needed.

3.6 Linking Internal Strengths to Competitive Advantage

The Rolls-Royce company adheres to differentiation strategy based on innovation, quality and long-term service relations. This is in line with the theory of strategic management that focuses on value creation by means of specialised capabilities (Porter, 2008).

Table 6: Strength to Advantage Mapping

Strength	Competitive Advantage
Advanced R&D	Technological leadership
Brand reputation	Premium positioning
Service contracts	Stable revenue
Skilled workforce	Continuous innovation

Source: Author's own, based on Rolls-Royce Holdings plc (2026) and Porter (2008)

The analysis reveals that competitive advantage of Rolls-Royce is mainly resource-based. Nevertheless, external forces like environmental control and economic instability are putting this advantage under strain. To be competitive, the company needs to keep investing in innovation and increase cost efficiency and adjusting to the sustainability needs.

4. CSR and Sustainability Objectives

4.1 CSR Strategy and Ethical Responsibilities

CSR within the aerospace sector is not a decision, but rather structurally integrated because of safety, regulation, and pressure by stakeholders. The CSR strategy of Rolls-Royce is based on ethical business conduct, safety and responsible supply chain management. Safety in the aerospace sector is not only a legal issue, but also a moral issue, since its breakdown may lead to severe consequences. It implies that the CSR of Rolls-Royce is closely associated with risk management and trust building (Carroll and Brown, 2018).

However, the strategic importance of CSR is based on performance. Rolls-Royce aims to reach net-zero carbon emissions by 2050 and is focusing on the development of sustainable aviation fuel and low carbon technologies such as Small Modular Reactors (SMR). These investments are capital intensive and unless they provide long-term financial and operational benefits, they could increase costs in the short term instead of providing immediate competitive advantages (Rolls-Royce Holdings plc, 2026).

4.2 Sustainability and Green Strategy Alignment

Rolls-Royce has made sustainability a key element of its long-term plan. The company is also investing in low carbon technologies such as sustainable aviation fuel and electric propulsion systems. This is an indication of growing institutional pressure and not necessarily strategic decision.

Elkington (1997) says that organisations need to strike a balance between economic, environmental, and social objectives commonly known as the triple bottom line. This is the same approach adopted in the strategy of Rolls-Royce, which seeks to be profitable and less harmful to the environment. Nevertheless, such a change is costly and is accompanied by risk, which causes temporary financial strain.

4.3 Strategic Value of CSR in Competitive Advantage

The issue of CSR and sustainability can give competitive advantage when these are not considered as isolated activities but they are part of core strategy. In the case of Rolls-Royce, sustainability programmes help to position long-term by enhancing brand reputation, fulfilling regulatory needs, and appeal to environmentally conscious clients.

Porter and Kramer (2011) claim that shared value creation enables firms to create economic advantages and at the same time solve social problems. This concept is echoed in the investment of green technology by Rolls-Royce, which seeks to achieve business value and environmental impact.

Nonetheless, CSR strategic value is pegged on successful implementation. Unless sustainability initiatives can bring about quantifiable benefits, they can become a cost that is not offset by competitiveness. That is why Rolls-Royce should make sure that its CSR strategy should not only be ethical but also economically feasible.

5. Comprehensive Organisational Performance (Balanced Scorecard)

The Balanced Scorecard offers a systematic approach to assess Rolls-Royce in the financial, customer, internal and learning areas. It shows how financial recovery is enabled by revenues from services, efficiency and innovation. This model highlights that the business strategy is not driven by one factor, but by a combination of performance measures (Kaplan and Norton, 2004).

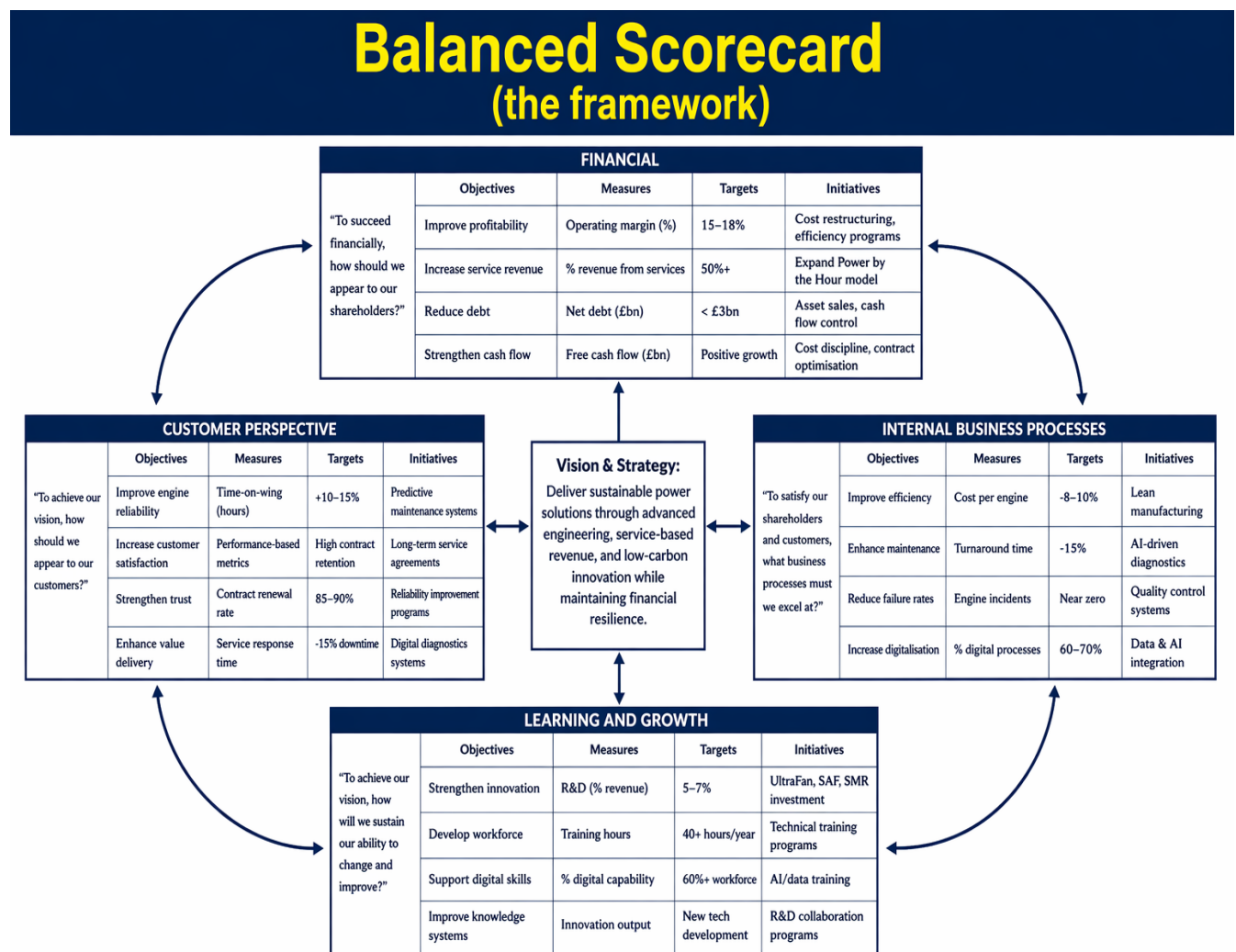


Figure 3: Balanced Scorecard Framework for Rolls-Royce

Source: Adapted from Kaplan and Norton (2004) and Rolls-Royce Holdings plc (2026)

The diagram illustrates how Rolls-Royce's financial performance (with operating profit at £3.5 billion, and margin improvement) depends on customer satisfaction via long-term service contracts. This is driven by internal process efficiency, including predictive maintenance and digital technologies, leading to less downtime and enhanced reliability. Simultaneously, learning and growth through innovation and R&D investment of 5-7% of revenue enables future technologies, such as UltraFan and low carbon technologies. But the diagram also shows an important issue: the balance between short and long term financial performance and investment in innovation and sustainability. Failure to do this could reduce its competitive edge.

5.1 Financial Perspective

The financial perspective of the Balanced Scorecard measures profitability, cost efficiency and financial stability. Rolls-Royce's operating profit in 2025 was £3.5 billion with a margin of 17.3%, compared to the much lower figures during the pandemic (Rolls-Royce Holdings plc, 2026). This return to profitability is within the target of 15-18% and is due to better performance efficiency and service revenue growth.

But the business is still heavily reliant on demand for civil aerospace and engine flying hours, suggesting the financial outlook is vulnerable to external factors. So, though the short-term financial perspective has improved, the long-term perspective requires sustaining service revenue growth, debt reduction and optimising cost control while investing in innovation.

5.2 Customer Perspective

From the customer point of view, the business is based on performance relations rather than selling products. Rolls-Royce's "Power by the Hour" business model is based on long-term service contracts, in which airlines pay for engine performance and hours flown. This means value for the customer is based on measures of reliability, like time-on-wing and maintenance effectiveness, which means operations are critical to customer retention (Hitt et al., 2020).

In the COVID-19 crisis, engine hours fell by over 40%, leading to a loss of service revenue and showcasing the firm's reliance on airline operations (Rolls-Royce Holdings plc, 2026). This highlights the trade-offs between long-term relationships that generate revenue stability and strong customer loyalty, but also operational risk for

Rolls-Royce. As such, customer value is not just about satisfaction but also about the technical efficiency and responsiveness to demand (Hitt et al, 2020).

5.3 Internal Business Processes

Rolls-Royce concentrates on the development of the efficiency of operations, decreased production costs, and improved maintenance processes.

One of the strategic initiatives in it is the digital transformation. Data analytics and artificial intelligence can enable the company to anticipate engine service requirements, which minimises downtime and enhances the efficiency of services. This correlates with the current theory of strategy, which stresses innovation of processes as a competitive edge (Bititci et al., 2012).

Meanwhile, quality control is essential. There is no room to fail in the aerospace industry, and this fact implies that the operation problems may have significant ramifications. Safety and competitive positioning are therefore vital to standards that are maintained.

5.4 Learning and Growth

The learning and growth perspective emphasises long-term capability building, including innovation, skills and digital capabilities. Rolls-Royce spends 5-7% of its turnover on research and development, focusing on the development of new product technologies like UltraFan engines, compatibility with sustainable fuels, and digital maintenance systems. This helps future competitiveness by improving efficiency and emissions, and enhancing service delivery.

But this also poses a challenge. Strategic R&D investment places pressure on the bottom line and provides uncertain and long-term returns. In dynamic capability terms, ongoing investment is needed to keep pace with technological and environmental shifts, but the heavy investment in future innovation could affect short-term financial results (Teece, 2018). Thus, Rolls-Royce needs to balance investment and financial constraints for competitive advantage.

Critical Evaluation

The Balanced Scorecard shows that Rolls-Royce's strategy is strongly interconnected across all four perspectives. Financial recovery depends on customer satisfaction, which depends on internal efficiency and innovation capability.

However, a key challenge is balancing short-term financial pressure with long-term investment in sustainability and technology. If the company reduces R&D spending to improve short-term profits, it may weaken its future competitive position. Therefore, strategic alignment across all perspectives is essential for long-term success.

6. Strategic Choices and Implementation

6.1 Business-Level Strategy (Cost Leadership vs Differentiation)

Rolls-Royce does not pursue a cost leadership or pure differentiation strategy. It leverages a differentiation strategy with cost discipline. Rolls-Royce focuses on its engineering expertise, quality and long-term contracts such as "Power by the Hour", rather than cost leadership.

But cost efficiency is still sought due to the company spending heavily on research and development (typically 5-7% of revenue). This places financial constraints on the company, and therefore efficiency and cost reduction are critical to profitability.

Hence, Rolls-Royce's approach is high value differentiation and cost efficiency. This enables the company to retain its high value position in a risky, capital intensive and competitive industry (Porter, 1985; Grant, 2019)

6.2 Corporate-Level Strategy (Diversification and International Strategy)

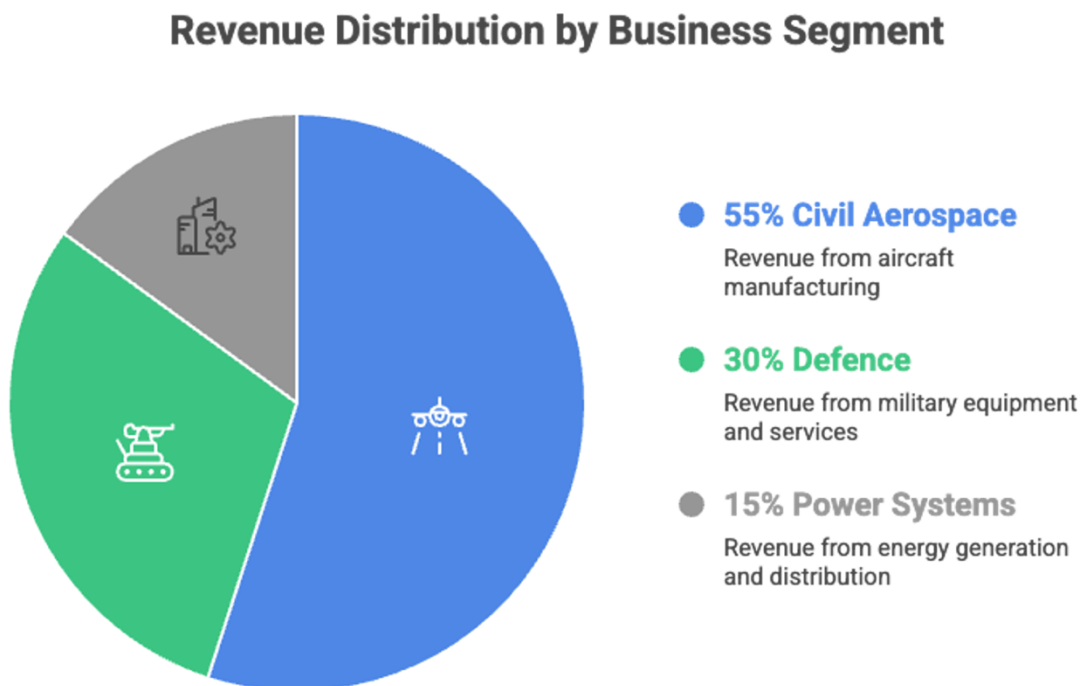
On the corporate level, Rolls-Royce pursues a similar diversification policy, as it is engaged in civil aerospace, defence, and power systems. These business units have similar engineering capabilities and therefore, the company can form synergies and mitigate risk. This diversification assists the company in equalizing revenues, especially when one of the sectors is in low periods.

The company also operates under a powerful international strategy, in which it operates in various international markets. This international distribution enables Rolls-Royce to tap into a broad market and enjoy international demand. Nonetheless, it also puts the company at risk of geopolitical risks and foreign exchange. As pointed out by Ghemawat (2007), global strategies should be integrated and responsive to the local environment and this is a challenge that Rolls-Royce has been grappling with.

Table 7: Corporate Strategy and Risk Balance

Strategy Type	Practical Example	Strategic Benefit	Strategic Risk
Diversification	Aerospace, defence, power systems	Revenue stability	Operational complexity
International Expansion	Global airline and defence markets	Market growth	Political and economic uncertainty

Source: Author's own, based on Rolls-Royce Holdings plc (2026) and Ghemawat (2007)

**Figure 4: Revenue Distribution by Business Segment**

Source: Author's own, based on Rolls-Royce Holdings plc (2026)

The pie chart reveals that Rolls-Royce gains the greatest percentage of its revenues because of the civil aerospace and that indicates a great degree of reliance on the aviation industry. Diversification in defence and power systems but the company is

sensitive to fluctuations in airline demand. This underlines the significance of diversification as a strategic priority.

6.3 Evaluation of Strategic Options

The SAFe framework can be used to evaluate the strategic options (Johnson et al., 2020). In terms of suitability, diversification into defence, power systems and low-carbon technologies is a good fit with industry issues such as the need for sustainability and vulnerability to the civil aerospace market. Rolls-Royce Defence revenue was approximately £4 billion in 2025, which evidences that diversification can mitigate the impact of the airline business cycle (Rolls-Royce Holdings plc, 2026).

In terms of acceptability, this diversification is likely to be acceptable to stakeholders due to increased stability and less revenue fluctuation. But the company spends 5-7% of its revenue on R&D, which places financial strain on the company and may impact short-term earnings, thus risking investor acceptability based on future earnings. From a feasibility perspective, Rolls-Royce has the engineering expertise and experience with complex systems (Trent engines and UltraFan). But this is constrained by high capital needs and past financial challenges. So the strategy is acceptable, and justified, but its implementation requires careful planning and control.

6.4 Change Management and Implementation Effectiveness

Rolls-Royce needs to be able to implement its strategy in a complex, capital-intensive industry like aerospace. Rolls-Royce's post-COVID strategy is an excellent case study of large-scale change, and can be assessed against the SAFe framework, Kotter's change management model and the McKinsey 7S framework.

The SAFe framework can be used to evaluate the suitability, acceptability and feasibility of Rolls-Royce's strategy. The strategy is suitable as it addresses the external drivers, including the volatile demand for civil aerospace and growing sustainability concerns, through diversification into defence and power systems, and low-carbon technologies. It is also acceptable as enhancing financial performance and diversifying away from civil aviation increases stability. But acceptability is limited by the level of investment required, especially as the company continues to invest 5-7% of its turnover in R&D (Rolls-Royce Holdings plc, 2026). In terms of feasibility, Rolls-Royce has engineering expertise and a global presence, but significant capital requirements and previous financial volatility constrains the pace of change.

Kotter's (1996) change model also helps to understand how Rolls-Royce has approached change. After COVID-19, there was a sense of urgency as a result of the loss of revenue and the disruption of operations. It initiated significant restructuring, such as cost and staff reductions of more than £1 billion and 9,000 staff respectively (Rolls-Royce Holdings plc, 2026). Senior management emphasised a return to profitability and efficiency, which minimised uncertainty. These measures increase short-term profitability but the long-term challenge is to embed innovation and employee engagement in the midst of change.

But while the SAFe and Kotter frameworks explain the strategy and the change process, they do not fully analyse internal alignment to the strategy. As such, the McKinsey 7S analysis is used to assess internal alignment.

Table 8: McKinsey 7S Analysis of Rolls-Royce

Element	Evidence (Rolls-Royce)	Critical Alignment Analysis
Strategy	Focus on civil aerospace, defence diversification, and low-carbon technologies (e.g., SMR and sustainable aviation fuel)	Strategically relevant but highly dependent on civil aerospace demand, increasing vulnerability
Structure	Divisional structure (Civil Aerospace, Defence, Power Systems)	Enables diversification but creates coordination complexity across business units
Systems	"Power by the Hour" service model and digital maintenance systems	Strong revenue model but highly dependent on engine flying hours, creating volatility
Skills	Advanced engineering capability and continuous R&D investment (5–7% of revenue)	Strong competitive advantage but places pressure on financial performance
Staff	Highly skilled workforce, but workforce reduced by ~9,000 employees post-COVID	Cost reduction improves efficiency but may weaken long-term innovation capability

Style	Leadership focused on cost discipline and operational recovery	Supports short-term turnaround but may limit innovation if overly cost-focused
Shared Values	Emphasis on safety, reliability, and sustainability (net zero by 2050)	Strong alignment with industry expectations but requires high investment to achieve

(Source: Author's own, based on Rolls-Royce Holdings plc, 2026)

The McKinsey 7S framework reveals that Rolls-Royce is internally aligned to some extent. It has excellent engineering, service and sustainability goals to support its long-term strategy. But there are obvious internal contradictions. Cost-cutting measures enhance financial resilience in the short run but lower innovation capabilities in the long run. Further, over-dependency on civil aerospace is an issue despite diversification.

Overall, Rolls-Royce is good at implementation, in terms of short-term recovery and restructuring. But its success in the long term relies on ensuring fit between strategy, structure and capabilities and on balancing cost, innovation and sustainability. Without this, the company will eventually lose its competitive edge.

7. Strategic Evaluation and Recommendations

7.1 SWOT Analysis

SWOT can only be useful when it is applied based on actual organisational circumstances and by being made critically, as opposed to being made based on general observations (Gürel and Tat, 2017).

In the case of Rolls-Royce the SWOT analysis is an expression of the strong technological potential as well as the structural problems of the aerospace industry.

Table 9: SWOT Analysis of Rolls-Royce

Strengths	Weaknesses	Opportunities	Threats
Advanced engineering capability and strong brand reputation in aerospace	High dependence on civil aerospace revenue linked to flying hours	Growth in defence sector (approx. £4 billion revenue in 2025) provides diversification	Intense competition from GE Aerospace and Pratt & Whitney
Long-term service model (“Power by the Hour”) creates stable recurring revenue	High R&D expenditure (5–7% of revenue) creates financial pressure	Expansion into low-carbon technologies (SMR, sustainable aviation fuel) aligns with net-zero trends	Volatility in global air travel demand directly affects service revenue
Strong position in wide-body aircraft engines (Trent engine family)	High debt levels and past financial instability post-COVID	Increasing demand for sustainable aviation and clean energy solutions	Increasing regulatory pressure on emissions and sustainability

Global operations and diversified segments (Defence, Power Systems)	Cost restructuring (e.g., ~9,000 job cuts) may impact long-term capability	Digital maintenance and predictive analytics improve efficiency and reduce downtime	Technological disruption and rapid innovation by competitors
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(Source: Author's own, based on Rolls-Royce Holdings plc, 2026)

SWOT analysis shows that the strengths of Rolls-Royce are tightly coupled with its weaknesses, especially when the innovation is the source of competitive advantage and at the same time financial risk, which forms a structural strategic tension. To illustrate, excessive investment in R&D promotes innovation but also puts a strain on the budget. Likewise, the dependence on civil aerospace offers potential growth but puts the company at risk of economic fluctuations.

7.2 Strategy Evaluation (Ansoff Matrix Application)

Ansoff Matrix is a model to consider the growth strategies in terms of products and market (Ansoff, 1957). Rolls-Royce does not just aim at penetrating the market but majorly more on product development and diversification.

Table 10: Ansoff Matrix with Strategic Depth

Strategy	Rolls-Royce Application	Critical Evaluation
Market Penetration	Expansion of service contracts with existing airlines	Low risk but limited growth potential
Product Development	Development of fuel-efficient and low-emission engines	Necessary but costly and risky
Market Development	Expansion into emerging markets (Asia, Middle East)	Growth opportunity but exposed to economic risk
Diversification	Power systems and energy solutions	Reduces dependency but increases complexity

Source: Author's own, based on Ansoff (1957) and Rolls-Royce Holdings plc (2026)

Although there are growth opportunities presented by market development and product innovation, it also exposes more money, and strategic expansion has to be well balanced with risk management.

7.3 Critical Evaluation of Current Strategy

The existing strategy of Rolls-Royce is highly rooted in the differentiation based on high-level engineering and innovation. This generates competitive advantage over the long run but also brings financial and operational difficulties.

The long-term service contracts of the company enhance the stability of the revenues, but the contract form also connects performance with the airline activity. Service revenues diminish greatly during low air travel periods. That means that the business model is an innovative one but not entirely shielded against external shocks.

Moreover, sustainability pressures demand speedy technological metamorphosis. Although Rolls-Royce is making investments in green technologies, the investments make the company more uncertain and might not yield immediate benefits. Grant

(2016) states that companies operating in technology-intensive sectors have to constantly change their strategies in order to stay competitive.

7.4 Strategic Recommendations

The analysis suggests Rolls-Royce should prioritise improving its competitive advantage by diversifying, expanding services and controlling costs. The following recommendations aim to enhance financial stability while staying ahead in technology.

Table 11: Strategic Recommendations

Recommendation	Action	KPI	Timeline	Expected Impact
Expand defence and energy segments	Increase investment in defence contracts and Small Modular Reactors (SMR)	% revenue from non-civil aerospace (>40%)	3–5 years	Reduces dependence on civil aerospace demand
Strengthen service-based revenue	Expand “Power by the Hour” contracts and digital maintenance systems	Service revenue growth (%)	2–3 years	Improves recurring income and customer retention
Improve cost efficiency	Continue cost restructuring and operational efficiency programmes	Operating margin (15–18%)	1–2 years	Enhances profitability and financial stability
Invest in low-carbon innovation	Increase R&D focus on UltraFan, SAF, and low-emission technologies	R&D (% revenue 5–7%)	3–5 years	Supports long-term competitiveness and sustainability compliance

Enhance digital transformation	Expand AI-driven diagnostics and predictive maintenance	% digital processes (60–70%)	2–3 years	Reduces downtime and improves service performance
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Source: Author's own, based on SWOT and Ansoff analysis (Rolls-Royce Holdings plc, 2026)

The recommendations make clear that Rolls-Royce needs to trade-off short-term financial returns with investment. Diversification and innovation are essential to minimise risk and maintain competitiveness in the ever-evolving aerospace industry, but such strategies require large capital investment.

7.5 Justification Using Theory and Evidence

SWOT and Ansoff's Matrix can be used to evaluate the recommendations. In terms of SWOT, Rolls-Royce's strengths include its engineering capabilities, long-term service contracts and technological know-how, but its weaknesses are high R&D spending and a reliance on civil aviation. These strategies address these weaknesses by encouraging diversification and enhancing sustainability.

In terms of Ansoff's Matrix, growth in the defence and energy segments is a diversification strategy while enhancement of service revenue is market penetration in existing markets. These strategies are suitable as they help stabilise revenue and leverage current strengths. For instance, the Defence segment achieved revenue of £4 billion in 2025, suggesting diversification is already a growth opportunity (Rolls-Royce Holdings plc, 2016).

But these approaches are risky. Diversification and low-carbon innovation have the long-term effect of requiring high capital investment, and that the payback may take some years. As such, the recommendations reflect sound strategic objectives, but depend on gradual action, financial management, and a balance of short- to long-term performance.

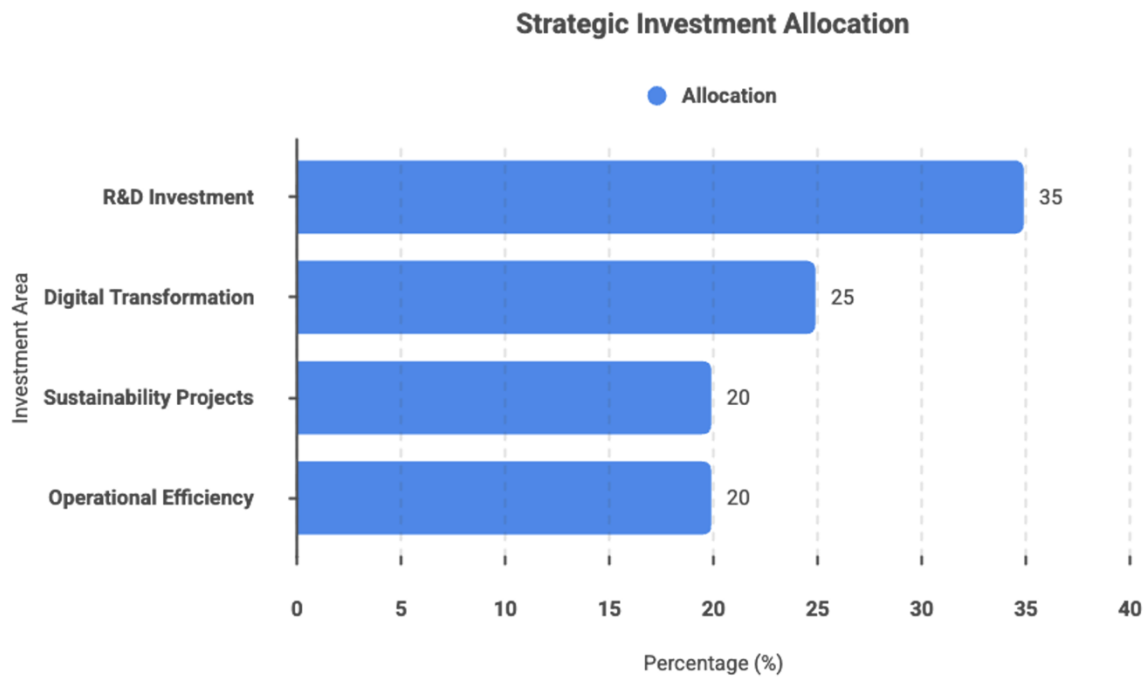


Figure 5: Strategic Investment Allocation

Source: Author's own, based on Rolls-Royce Holdings plc (2026)

The bar chart shows that Rolls-Royce prioritises research and development, which supports its differentiation strategy. Nevertheless, reduced investment in operational efficiency can put pressure on cost. A less risky investment strategy would help enhance financial results without compromising innovation.

8. Reflective Practise Using Gibbs Cycle

Reflective Cycle is a systematic method of reflection that is offered by Gibbs (1988) and involves six steps: description, feelings, evaluation, analysis, conclusion, and plan of action (Gibbs, 1988). This section provides a reflection on how this strategic management assignment on Rolls-Royce was done.

8.1 Description

In this assignment, I needed to use the theory taught on the module and relate it to the real world business.

In the process, I collected information using lecture materials and academic sources and attempted to arrange them into a structured report. I was also keen in connecting various parts including relating external analysis and in-house capabilities and strategic suggestions. This assignment involved theoretical knowledge and practical skills in applying the concepts of strategy.

8.2 Feelings

At first, I was confused and a little overwhelmed as there were numerous frameworks to be used, and I was not aware of how to relate them to each other. I learnt the theories one at a time, but it was difficult to apply them to a real company.

But as time went on, I began to feel better. I understood that the frameworks are not tools that exist on their own, but are interrelated. To illustrate, PESTEL analysis assisted me to know the external pressures, whereas VRIO assisted me to examine internal strengths. This helped to make the assignment more meaningful.

At the conclusion of the process I was satisfied, as I was able to form a more precise idea about strategic management.

8.3 Evaluation

This evaluation has helped me gain insights into the application of strategic management models in the real world. At first, I adopted a more descriptive approach, in that I explained the models PESTEL, VRIO and SWOT without in-depth analysis of their strategic impact. But this experience helped me to connect theoretical ideas with empirical data, and assess their effects on performance.

I also enhanced my critical thinking skills by recognising not only the advantages, but also the threats and challenges in Rolls-Royce's strategy. For instance, I realised that factors like R&D spend and revenue from services can be beneficial and potentially constraining, depending on the circumstances. This allowed me to recognise the need to balance short- and long-term priorities. For future projects, I will be more concerned with utilising data to support analysis, and ensuring that all points effectively communicate the strategic implications. In general, this assessment has improved my critical and analytical skills in applying theoretical concepts to real-world business situations.

8.4 Analysis

In a learning sense, I learnt during this assignment that strategy is not merely a process of applying frameworks but also a process of creating bridges between frameworks. Moon (2004) argues that reflection enables the learners to transcend a mere description to some deeper insight. My experience taught me that external and internal analysis should be interconnected to formulate valuable strategic knowledge.

I also learnt that strategic management is about dealing with trade-offs and uncertainty. To illustrate, Rolls-Royce should strike the right balance between innovation and financial stability. This made me realise that the real-world strategy is not simple and that like any other thing, it has no easy answers.

In addition, the assignment enhanced my skills in applying evidence and substantiating arguments based on academic theory. According to Schoen (1983), reflective practise also assist in enhancing levels of professional judgement that I encountered in this process.

8.5 Conclusion

To sum up, it was a learning experience that helped to enhance my knowledge of strategic management. I have learned to use theoretical frameworks in real-life contexts and to become more critical of business strategy.

Nevertheless, I also found things to work on, especially on how to become more critical and how to fit words appropriately. On the whole, this experience has allowed me to have a more solid basis in my future academic and professional practise.

8.6 Action Plan

In order to enhance my performance in the future, I will do a few things. First, I will work on enhancing my critical thinking by training myself on analysing, as opposed to describing. This translates to the question of why is this important and what is the impact when writing.

Second, I will enhance my academic writing capabilities by analysing high quality journal articles and understanding the ways in which arguments are organised. This will assist me in writing better and in a professional manner.

Third, I will work on better time management and planning. This will make me plan my work ahead of time so that there will be a balanced distribution of words in sections.

Lastly, I will also maintain the use of reflective practise to review my learning and enhance continually. According to Kolb (1984), the process of learning is a cycle and reflection plays a significant role in this cycle.

This action plan will help me not only to achieve better academic results but also to develop as a strategic thinker and apply this skill to real-life scenarios.

9. Conclusion

This report has critically assessed the strategic position of Rolls-Royce based on key strategic management frameworks. The analysis shows the competitive advantage of the firm is mainly due to differentiation which takes the form of advanced engineering, innovation, and long-term service contracts. Nevertheless, this is not a completely safe benefit. The company has a high reliance on the civil aerospace sector, which is sensitive to economic fluctuations, and extensive investments in R&D and sustainability put financial strain on the company. This demonstrates an organisational conflict between innovation and fiscal wellness. This means that success in the long run will be determined by the capability of Rolls-Royce to strike a balance between technology and cost management and strategic diversification. In the absence of this balance, its existing competitive edge can be undermined. Finally, long-term competitiveness will be based on the constant adaptation to the external uncertainty and the changing needs of the industry.

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